NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 127 (August 2011)

Commentary

Youth unemployment

Summary

Youth unemployment is finally getting some traction on the political agenda. It is a big reason for unemployment remaining high: 44 percent of unemployed people are under 25. So far National has announced one policy, which it says is the result of Welfare Working Group recommendations, that would put about 2,600 young people who are receiving a benefit onto an electronic card which tries to limit their spending to necessities, and proposes a privatised form of social welfare to get them into work, education or training. Regardless of its merits, the policy caters for a very small portion of the 65,700 unemployed 15-24 year olds. Meanwhile, ACT is continuing to push youth rates as if it was the silver bullet. This ignores the fundamental starting point: youth unemployment is a complex issue which cannot be reduced to simplistic slogans such as youth rates, or short sharp shocks to “get them on the right path”.

We look at three pillars of a sound policy. First, youth unemployment cannot be solved without substantially reducing general unemployment, which government policies have so far failed to do. Second, there need to be clearer school paths to vocational education and work based training. As well as an overall strategy which is currently lacking for the large number of different programmes available, trainees need much better recognition in their pay for gaining qualifications. Finally, youth employment programmes should be expanded, while recognising that they largely move people around in the job queue rather than shorten it. There is simply not enough being spent on helping young people get jobs.

Rather than cutting youth wage rates, for which there is scant evidence of employment benefits, we should be improving education, training and employment pathways and the rewards for attaining qualifications.

Youth unemployment is finally getting some traction on the political agenda. It is a big reason for unemployment remaining high: 44 percent of unemployed people are under 25. The government is busy looking at options, among them the reintroduction of a lower youth minimum wage. In a welcome sign of realism, the Prime Minister has shown reluctance to reduce youth rates on the sound ground that it gives a bad message about wages. It’s a pity he doesn’t think the same about other policies of the government.

So far National has announced one policy, which it says is the result of Welfare Working Group recommendations, that would put about 2,600 young people who are receiving a benefit onto an electronic card which tries to limit their spending to necessities. In a privatised form of social welfare, private agencies will be paid to get them into work, education or training, with bonuses for success. The positive side of this is mentoring for at-risk young people, but the arrangement risks excessive pressure being put on them to take steps they are not ready for. It encourages agencies to go for bonuses and further contracts rather than for the best outcome for their clients.

Regardless of its merits, the policy caters for a very small portion of the 65,700 unemployed 15-24 year olds (at June 2011) and similar numbers not in employment, education, training or care-giving ("NEET"). The government says it is focussing what it says are 8,500 to 13,500 NEET 16-17 year olds. About 1,600 of the 2,600 will be in that age group. Other announcements so far include 7,500 places next year under its Youth Guarantee policy (though the majority of these are reclassified Youth Training places), and a $55 million youth employment package providing 13,500 places over four years (about 3-4,000 a year). The $42 million skills package for trades training for the Canterbury rebuild is an opportunity to provide skills and jobs for young people that should not be missed.

Meanwhile, ACT is continuing to push youth rates as if it was the silver bullet. This ignores the fundamental starting point: youth unemployment is a complex issue which cannot be reduced to simplistic slogans such as youth rates, or short sharp shocks to "get them on the right path". Youth have many choices including staying at school, tertiary education, workplace training, employment, raising a family, travel, and doing nothing, with or without financial support from family or the state. The paths they take will depend on their family circumstances, their parents' income and education, education from early childhood onwards, experience of school and post-school education, availability of jobs, physical and mental health and other factors. Youth issues have complex causes that extend well beyond work and in many cases are known to increase with income inequality or are most effectively addressed in early childhood.

With this in mind, the following pillars are a good basis to address the issues.

1. Youth unemployment cannot be solved without substantially reducing general unemployment

Rising unemployment can be thought of as lengthening a queue for jobs. People who are perceived by employers – for good or bad reasons – to be less attractive employees are towards the end of the queue. When unemployment rises, they are less likely to find jobs and more likely to be laid off. To the extent that this due to age, race, sex or other discrimination they should be addressed as human rights matters, not pandered to in lower wages or reduced employment rights. To the degree employers are making a justifiable choice, reducing the job queue is the single best way to increase the chances of young people to find a job. That was clearly shown from 2000-2008 when low general unemployment (falling to 3.4 percent in December 2007) was accompanied by lower youth unemployment (12.9 percent for those aged 15-19 years and 5.2 percent for 20-24 years in the same quarter) at the same time as all wages, and particularly youth wages, were increasing in real terms.

As the International Labour Organisation and International Monetary Fund have said, "a recovery in aggregate demand is the single best cure for unemployment, and fiscal and monetary policies should, to the extent possible, remain supportive of such a recovery". The IMF listed New Zealand among the countries best placed financial to do so. It has noted that "some of the largest increases in the unemployment rate have occurred in Spain, the United States and New Zealand" [1].

[1] "Discussion Document: The Challenges of Growth, Employment and Social Cohesion; Joint ILO-IMF conference in cooperation with the office of the Prime Minister of Norway", IMF and ILO; "Cross-Cutting Themes in Employment Experiences during the Crisis", IMF, 8 October 2010.

The steep rise and continuing high levels of unemployment suggest that there have been problems with the nature of the government's stimulus to the economy and that the spending cuts heralded over the next few years endanger recovery in employment. Yet the IMF is again calling upon governments to avoid cut backs in spending in the light of the ongoing turmoil in the world economy.

2. Clearer school paths to the transition to vocational education and work based training

As the New Zealand Institute has reported recently2, while New Zealand youth perform well in education, our youth unemployment is well out of step with comparable OECD countries. Both the New Zealand Institute and the Industry Training Federation have targeted the transition from school to work as a fundamental problem for young people who are likely to do well in vocational post-school education but too frequently end up out of work. While pathways are clear for university education, those for industry training and vocational tertiary education are undefined or confusing not only for trainees but also for many teachers and employers.

Many young people leave school too early, often without the prerequisites for these vocational pathways, and do not successfully make the transition to work. The New Zealand Institute says that New Zealand has the lowest median leaving age from initial education in the OECD – around 18.5 years old compared to the OECD average of about 20.5, 21.5 in Germany and 22 in the Netherlands. The result is one of the highest proportions of 15-19 year olds in the workforce in the OECD. "Most of these OECD countries are protecting their youth from unemployment by keeping them in secondary and tertiary education", says the Institute. The proportion of 15-19 year olds in the labour force has been falling – it was 59 percent in June 1990, 52 percent in June 2000, 48 percent in June 2010 and 45 percent in June this year. That may be a good thing if it means more of them are in education and training.

Surprisingly, the actual number of unemployed 15-19 year olds rose more slowly between June 2008 and June 2011 than other age groups: by 47 percent compared to 82 percent. The unemployment *rate* (now at 27.6 percent) rose more quickly because it is equal to the number of unemployed as a proportion of the shrinking 15-19 year old labour force which fell by 31,500. Many of these young people have stayed in school or gone into tertiary education. Secondary school rolls rose (contrary to Ministry of Education forecasts) as did 18-19 year old participation rates in tertiary education.

There are many transition programmes including STAR, Gateway, Youth Guarantee, Youth Apprenticeships, Modern Apprenticeships, school based apprenticeships, trades academies, services academies, tertiary high schools with other options and new programmes, but no overall coherent strategy. There needs to be an intensive and well resourced focus on youth transitions and measures to enable young people to move successfully from school into work and tertiary education. Useful work going on in the Ministry of Education to develop better vocational pathways from school into work should be linked to a broader strategy. We need to review whether caps on tertiary enrolments and policies discouraging tertiary institutions from increasing their level 1-3 certificate enrolments are disadvantaging young people. We need to consider whether the right attention is being given to young Māori and Pacific peoples.

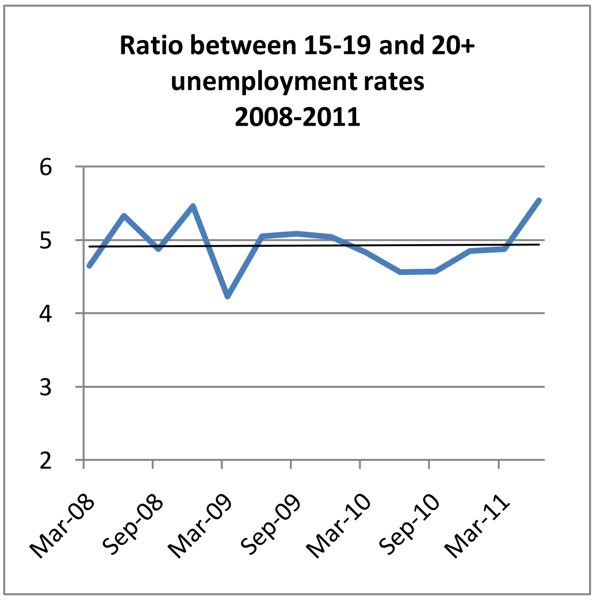
A significant reason for young people turning away from the potential of vocational pathways is that employers frequently do not recognise such qualifications and subsequent experience on the job sufficiently in better wages. For example a 2009 study of earnings resulting from workplace-based

[2] "More Ladders, fewer snakes: Two proposals to reduce youth disadvantage", New Zealand Institute, 2011.

industry training by Statistics New Zealand and the Department of Labour[3] showed that the earnings of 15–19 year old males rose just 11.3 percent as a result of obtaining a Level 4 qualification, 3.6 percent for a Level 3 qualification, and zero for lower levels. Even worse, 15–19 year old females benefited by just 6.8 percent from a Level 4 qualification, 9.7 percent for a Level 3 qualification, and no increase for lower levels. The increases were even less for older participants, and the study warned that the results for 15-19 year olds were overestimated. There is little incentive on young workers to make the effort to gain these qualifications – or to take a vocational training pathway in the first place – when rewards are so poor. Pay recognition for qualifications gained and for skills developed on the job should be a condition of subsidising industry trainees taken on by employers. Unions can take an active role in supporting this, including collective bargaining coverage for trainees.

3. Expand youth employment programmes

Those young people who are still without work need expanded programmes that assist them into work, recognising though that these tend to move them up the queue rather than shorten it. The Government should expand the skills investment subsidy and 'straight to work' payments to encourage employers to take on workers and establish more schemes like Enhanced Task Force Green. While there are some good programmes, the scale of them is quite inadequate. The Youth Connections Programme as proposed by the Mayors' Task Force for Jobs should also be adopted.



Youth unemployment and wages

It should now be obvious that wages can play at most a small part in this complex situation. In any case, the research evidence (summarised here) simply does not give any confidence that reducing young people's wages would increase employment. Another experiment with youth wages would simply drag down wages at a time when we should be trying to boost wages and encouraging employers to invest in raising productivity. We cannot raise New Zealand's wage levels by cutting them. It would penalise many young people – for some, making it harder to support themselves while studying – with no resolution to the youth employment problem. There is little logic in blaming the abolition of youth rates in 2008 for continuing rises in the youth unemployment rate three years later. (As the graph shows, on the whole 15-19 year old unemployment has risen rose only as fast as the unemployment rate for the rest of the labour force, but over the last year has continued to rise while other employment has fallen slightly.)

Rather than cutting youth wage rates, for which there is scant evidence of employment benefits, we should be improving education, training and employment pathways and the rewards for attaining qualifications.

Bill Rosenberg

[3] "Does Workplace-based Industry Training Improve Earnings?", by Sarah Crichton, Statistics New Zealand and New Zealand Department of Labour, September 2009.

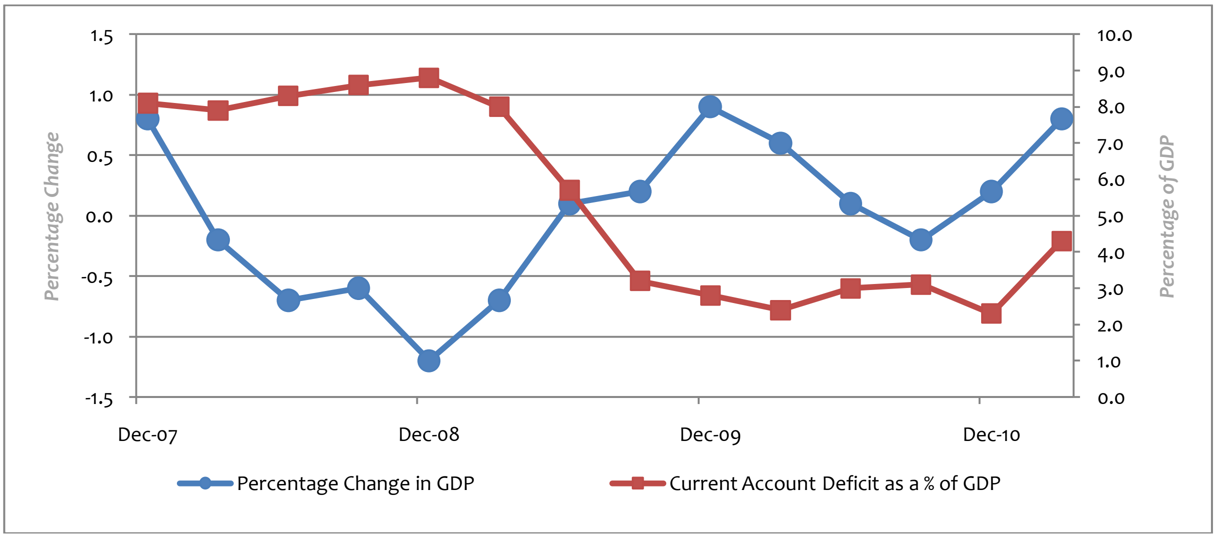
Forecast

This NZIER consensus forecast was published on 20 June2011.

Annual Percentage Change (March Year)	**2010-11**	**2011-12**	**2012-13**
GDP	1.1	2.1	4.0
CPI	4.5	2.8	2.7
Private Sector Wages	1.5	2.9	3.5
Employment	1.7	1.3	2.5
Unemployment	6.6	6.1	5.3

A ★ indicates information that has been updated since the last bulletin.

Economy

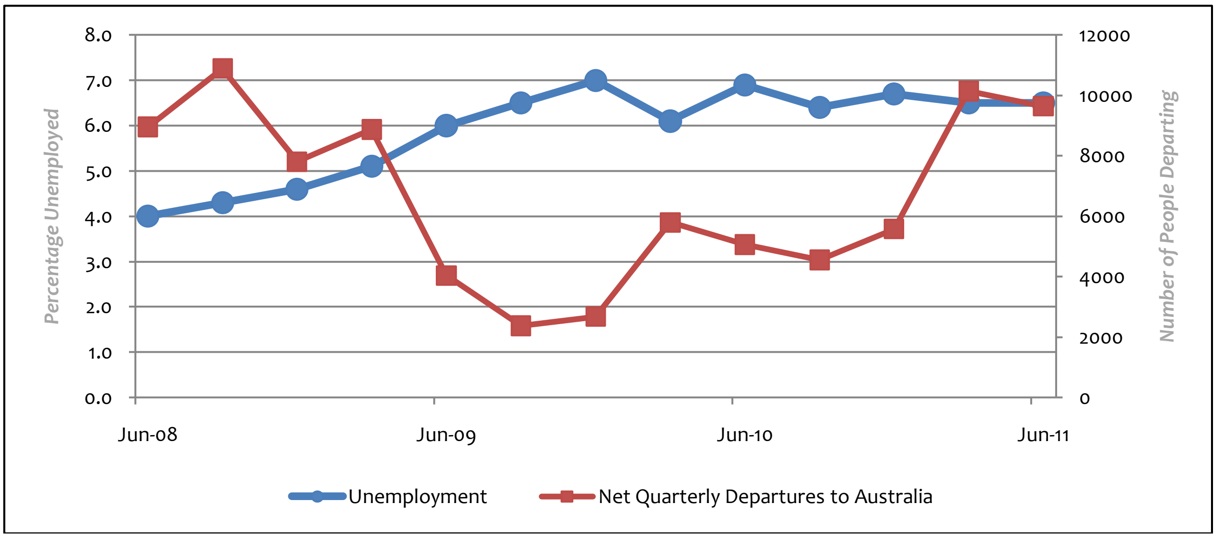


- Gross Domestic Product was up 0.8 percent in the March 2011 quarter, leaving GDP growth for the year to March 2011 at 1.5 percent.
- New Zealand recorded a Current Account deficit of $1.8bn for the March 2011 quarter and a deficit for the year to March of $8.3bn (4.3 percent of GDP). This compares with a current account deficit of $4.5 billion (2.4 percent of GDP) for the year ended March 2010. Statistics New Zealand states that $1.6bn of that difference is due to “unusual banking-sector tax transactions” in 2009-10 year. Without those transactions, the annual deficit is $2.2 billion higher than the previous year, mainly due to increased profits and interest going to overseas investors plus a deficit in services trade and a reduction in non-resident withholding tax received.
- The country’s Net International Liabilities were $148.2bn at the end of March 2011 – 76.2 percent of GDP and $10.4bn less than at the end of December 2010. This was the lowest since 30 June 2007, in part a result of an additional $7.6 billion due for outstanding reinsurance claims from the February earthquake. In all an estimated $11.1 billion is now due from reinsurance covering the September 2010 and February 2011 earthquakes. The government was still not a

contributor to the net international liabilities – it had $3.3 billion more overseas assets than liabilities.

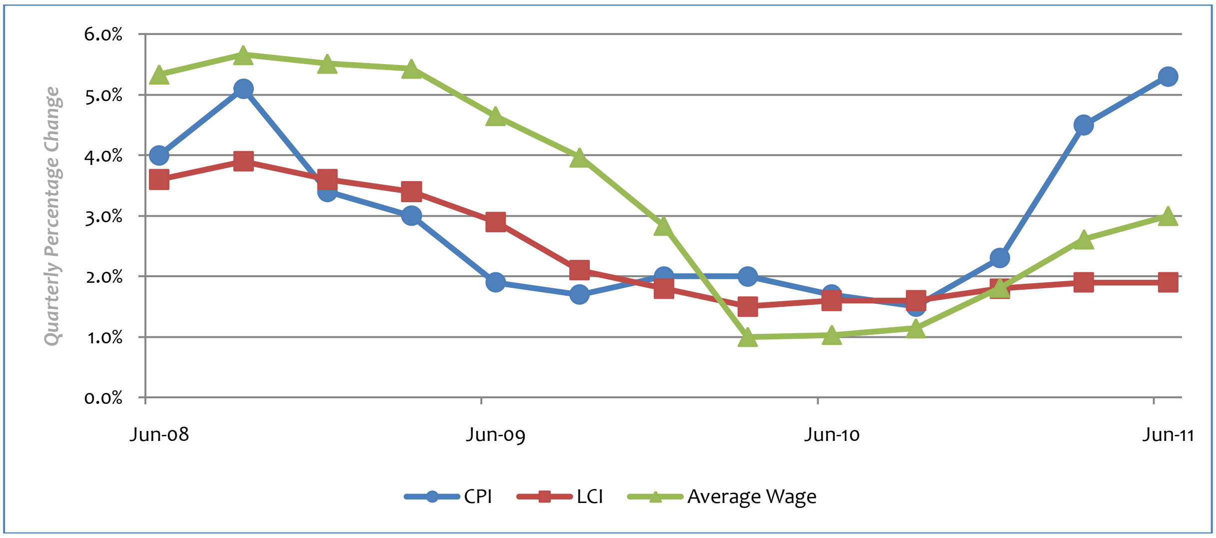
- ★ For July 2011 Overseas Merchandise Trade recorded a $129 million surplus – 3.5 percent of the value of exports for the month and the first July surplus since 1991. For the year to July 2011, New Zealand recorded a surplus of $1.3bn (2.8 percent of exports). Exports of dairy products were up $72m or 9.8 percent and crude oil exports rose $39 million of 22 percent, reflecting prices almost 30 percent higher. Mechanical machinery and equipment exports rose $23 million (16 percent). Imports of processed industrial supplies such as fertiliser were down $88 million, as were imports of processed fuels, lubricants and crude oil and consumption goods, indicating weakness in consumer demand but growing strength in production. Imports of capital goods increased $100 million or 18 percent in July 2011 compared to July 2010, led by an increase in machinery and plant (up $72 million or 14 percent) and transport equipment, up $29 million (41 percent). Looking at trends since October 2009, over 40 percent of the increase in export values have come from milk powder, butter, and cheese, but this was due to rises in price rather than quantities, which are little changed from October 2009. The value of logs, wood, and wood articles is 39 percent higher, but this is driven by both quantity and price, with quantities 30 percent higher. Meat and edible offal quantities have fallen 6.7 percent since October 2009 but values are 19 percent higher. During the three months to July, imports of capital goods decreased 12 percent compared to the April quarter, intermediate goods increased 6.8 percent and consumption goods were down 1.2 percent. Exports increased 6.5 percent in the year to July period. The top four export categories – milk powder, butter, and cheese; meat and offal; logs, wood and wood articles; and crude oil – made up 45.9 percent of exports in the year to July 2010, and 47.7 percent in the year to July 2011.
- ★ The Performance of Manufacturing Index for July 2011 fell to 53.2[1], down from 54.3 in May. However, the employment sub-index continued to rise reaching 52.2, up from 51.7.
- ★ The Performance of Services Index for July 2011 was 54.5[1], down 0.2 from June. The employment sub-index also fell from 50.9 to 48.8.
- ★ The Retail Trade Survey for June 2011 found retail sales were up 0.9 percent by volume and 1.7 percent by value between the March and June 2011 quarters. They were up 1.1 percent by volume and 4.1 percent by value compared to the June quarter in 2010.
- ○ On July 28, 2011 the Reserve Bank left the Official Cash Rate unchanged at 2.50 percent. The next review will be on 15 September 2011.
- ★ The REINZ Housing Price Index recorded a 0.6 percent fall in house prices for the month of July 2011, with the median house price falling $15,000 to $345,000. House prices were down 0.5 percent for the year to July.

Employment



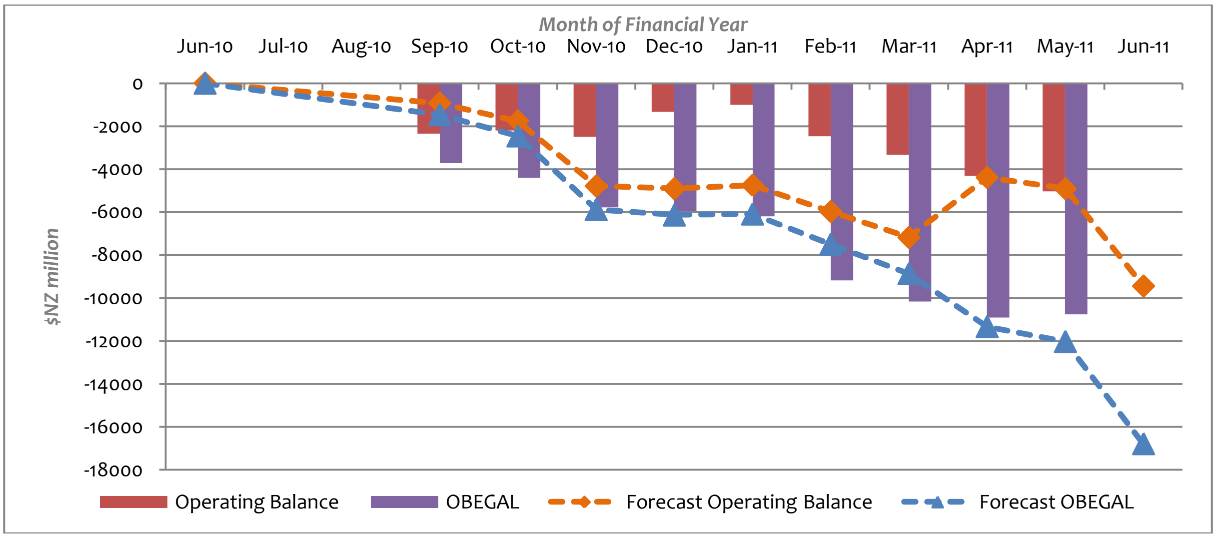
- According to the Household Labour Force Survey the unemployment rate in the June quarter was 6.5 percent, unchanged from a revised figure in the March quarter. The participation rate was 68.4 percent – down 0.2 percentage points on March. There are 154,000 people unemployed. Māori unemployment was 13.7 percent, Pacific unemployment was 13.1 percent, Asian unemployment was 6.1 percent and European/Pakeha unemployment was 4.7 percent. Youth unemployment (15-19 year olds) was 27.6 percent.
- At the end of July 2011 there were 56,579 people on the Unemployment Benefit, a decline of 868, or 1.6 percent, from June 2011. (Quarterly figures on Unemployment Benefit numbers are available from the MSD website.)
- In July 2011 Job Vacancies Online fell by 1.1 percent for all vacancies and did not change for skilled jobs in seasonally adjusted terms.
- International Travel and Migration figures show 5,436 permanent and long-term arrivals to New Zealand in June 2011 and 6,927 departures. Net migration in the year to June 2011 was 3,867 arrivals. Net migration to Australia in the year to June was 29,915 departures.

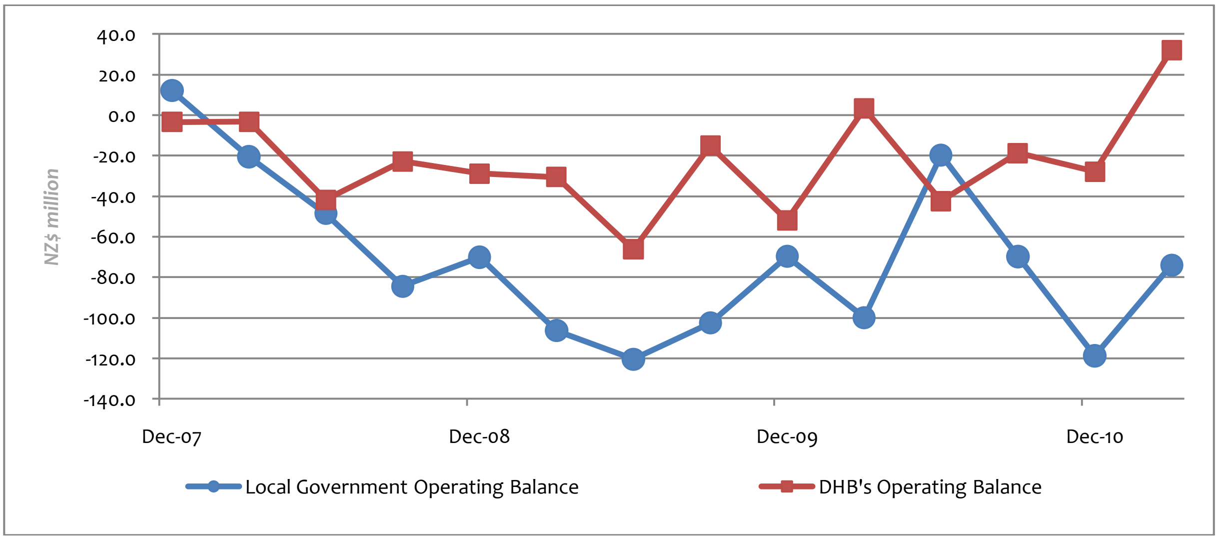
Wages



- ★ The [Labour Cost Index (Wage and Salary Rates)]() (LCI) rose 1.9 percent for the year to June 2011 and 0.5 percent for the June quarter for salary and ordinary time rates. It rose 1.5 percent in the public sector and 2.1 percent in the private sector for the year. For the 58 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.9 percent.
- ★ The June 2011 [Quarterly Employment Survey]() found the average hourly earnings for ordinary-time work was $26.21, up 1.1 percent on the March quarter. The average ordinary-time wage was $24.21 in the private sector (up 1.2 percent in the quarter and 3.1 percent in the year) and $33.23 in the public sector (down 0.7 percent in the quarter and up 2.2 percent in the year). Per hour, female workers earned 87.3 percent of what male workers earned.
- ○ The [Consumer Price Index]() for the June 2011 quarter rose 1.0 percent, and 5.3 percent for the year to June. For the quarter transport costs were up 2.7 percent, food costs 1.1 percent and utility costs 0.9 percent.
- ★ The [Food Price Index]() rose 2.0 percent in the month of July, contributing to a 7.9 percent increase in food prices between July 2010 and July 2011. Between June and July Fruit and Vegetable prices rose 8.9 percent, Meat, Poultry and Fish 3.7 percent, Grocery Food 0.5 percent, Non-alcoholic Beverages fell 0.2 percent, and Restaurant Meals and Ready-to-eat Food prices were unchanged.

Public Sector





- According to Treasury's Month End Financial Statement for the eleven months to the end of May 2011, government revenue was down $295m (0.6 percent) on the forecast in the Budget Economic and Fiscal Update (BEFU) (though tax revenue was up $214m) and expenditure was down $770m (1.2 percent). The operating deficit before gains and losses (OBEGAL) was $10.8bn, $1.3bn better than forecast. The operating deficit was $5bn, $113m worse than forecast. The Government's net debt is 20.4 percent of GDP, 0.1 percentage points better than budgeted in the BEFU.
- District Health Boards recorded an operating surplus of $32.1m for the March 2011 quarter compared to a deficit in the December 2010 quarter of $28.0m. Employment costs were $1.19bn, down 0.8 percent for the quarter, compared to total expenses of $3.18bn, down 1.4 percent.
- Local Government recorded a 1.1 percent increase in income and a 0.4 percent increase in operating costs for the March 2011 quarter, resulting in a deficit for the quarter of $74.0m.

Notes

1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

An online version of this bulletin is available at http://www.union.org.nz/economicbulletin127
For further information contact Bill Rosenberg.