Bernard Hickey says a surge of low-skilled migration is frustrating the natural forces of supply and demand that would generate the wage inflation that both the Reserve Bank and the Government need in the long run

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By Bernard Hickey

Normally, strong economic growth starts to generate much stronger wage inflation after a year or two because the supply of labour is not enough to keep up with demand. Economics 101 tells us that prices or wages start to rise when demand outstrips supply.

New Zealand is certainly now getting the economic growth. The Reserve Bank forecast last week that GDP growth would be 3.4% over the next two years. The Government regularly points to record booms in tourism and construction in Auckland, along with plenty of jobs growth, and that's all true.

So where is the wages growth then?

Quarterly Employment Survey and Labour Cost Index surveys for the June quarter showed wage growth slowing despite an acceleration in economic growth. The QES measure of average hourly earnings showed annual wage inflation slowing to 2.1% in the June quarter from 2.8% a year earlier, while the LCI measure showed the Index's annual inflation rate falling to a six-year low of 1.5% in the June quarter. The construction sector's hourly wages grew just 2.1% in the June quarter from a year ago.

So why isn't all this economic and jobs growth turning into wage growth? Reserve Bank Governor Graeme Wheeler is tasked with understanding how supply and demand affect wages and prices in the economy and last week he pointed straight at increased supply of

labour through migration, in particular the 160,000 new migrants who have arrived in New Zealand since 2013 and increased the size of the workforce by 4%.

"That's added some downward pressure on wage outcomes in terms of the expansion in the labour supply," Wheeler said. "And clearly it's added quite a lot of pressure into the housing market as well," he added for good measure.

The Governor said he was particularly interested in the quality of the migration surge, and he's not the only one. Treasury warned the Government in December it was concerned low-skilled migration was dragging on productivity and wages, and may frustrate the Government's push to move beneficiaries into work because lower-end jobs were being scooped up by migrants.

Immigration Minister Michael Woodhouse and Finance Minister Bill English said this week they had not seen evidence yet that the surge in low-skilled migration was suppressing wages and stopping beneficiaries from moving into work, but there are plenty of signs in the statistics.

This week's delayed and revised Household Labour Force figures showed unemployment fell just 1,000 to 131,000 despite a 58,000 increase in the number of jobs in the June quarter. Statistics New Zealand also reported there were 342,000 New Zealanders or 12.7% of the workforce who were 'under-utilised', which is an internationally-accepted standard for measuring the number of people out of work, who want more work or who are not currently looking for work but would take work if it was available.

Overall wage inflation has been weak and falling in the last year, but even areas where jobs growth has been fastest and there is the most pressure in the economy have seen wage growth fall or stagnate. The Quarterly Employment Survey showed retail sector average total hourly earnings growth fell to 3.4% in the year to June from 4.6% the previous year. Wage growth in accommodation and food services fell over the last year to 4.0% from 4.9%. The Labour Cost Index measure of salary and ordinary time wage rates showed annual inflation of agricultural wages fell to 1.5% in the June quarter from 1.7% a year ago, while wages for labourers fell to 1.9% from 2.1% a year ago.

So why not let the market work by letting the stronger demand exceed the local supply and lift wages? Immigration New Zealand awarded 209,461 work visas in the year to June 30, up 23.5% from two years ago. The top 20 occupations for those visas show just four of them were in higher skilled occupations. If those work visas weren't awarded, the market would start to generate some heat and increase wages at the low end.

That would encourage people to move within the economy, either to new regions or into new occupations. It would also encourage employers to find ways make their existing workers more productive to match those wages, including by improving training, management and investing in new technology. That's how an economy gets wealthier in the long run, by improving productivity.

Woodhouse, however, is reluctant to unleash the market.

"If you completely remove the international labour market and have a pure supply and demand model, I think in the short term that could be quite damaging," he said this week.

Damaging for whom? Employers? Workers?

It actually wouldn't be damaging for the Government in the short and long terms, as English himself pointed out this week.

"We look at it both from the point of view of household incomes, which we'd prefer to be rising, and also from the point of view of the welfare liability," he said, referring to the long term estimates of the costs of people staying on benefits and out of work.

The best way for an economy to grow is for the market to allow wages to grow. Enabling a flood of low-skilled migrants is frustrating that market mechanism with the short term aim of keeping wages low for employers. It does nothing to develop the economy and the society in the long term.

Here are the top 20 occupations for work visas in the year to June 30, 2016 year (with numbers in brackets):

Tour Guide (6,248)
Chef (4,218)
Dairy Cattle Farmer (2,253)
Retail Manager (General) (2,369)
Cafe or restaurant manager (2,045)
Carpenter (1,507)
Retail Supervisor (1,693)
Student (1,157)
Aged or disabled carer (1,005)
Deck hand (895)
Dairy Cattle Farm worker (876)
Software engineer (716)
University Lecturer (680)
Cook (543)
Registered Nurse (aged care) (509)
ICT Support Technicians (494)
Developer Programmer (489)
Entertainer or Variety artist (465)
Office Manager (456)
Waiter (452)