



Government of the  
Cook Islands

# Labour Market and Business Confidence Report

8 November 2019



Prepared by the Economic Planning Division, Ministry of Finance and Economic Management.  
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## Table of Contents

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1	Introduction.....	4
2	Labour Market and Business Confidence Survey .....	5
3	Employment Characteristics in the Cook Islands .....	7
4	A Healthy Workforce? .....	12
5	Cost of Running Business and Business Confidence Outlook.....	14
6	Conclusions .....	16
Appendix 1	Business Confidence Survey Questionnaire .....	17

# 1 Introduction

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The Cook Islands has experienced significant economic growth over the past few years. The growth was primarily a demand driven phenomenon centered in the tourism sector, stemming from higher tourism arrivals.

While the economic growth has resulted in benefits in income and wealth for the Cook Islands', the growth has created some bottlenecks in the economy, such as long-term affordable housing and availability of labour force, and has put strain on the islands' resources such as water, electricity and other public services.

A Labour Market and Business Confidence Survey was undertaken in August 2019 to analyse major supply shortages, particularly labour, and to understand the impact of these on business confidence. This paper summarizes the results of the survey, including approaches to the current labour shortages, and identifies several areas where the shortages are particularly acute.

The data this paper analyses relates primarily to Rarotonga, from where the greatest number of survey responses came, nevertheless, the analysis is applicable to other islands in the country to a large extent. Where available the paper supports its findings with data from the National Statistics Office as well as the IMF reports.

The figures and the tables in the paper come from the survey, unless indicated otherwise.

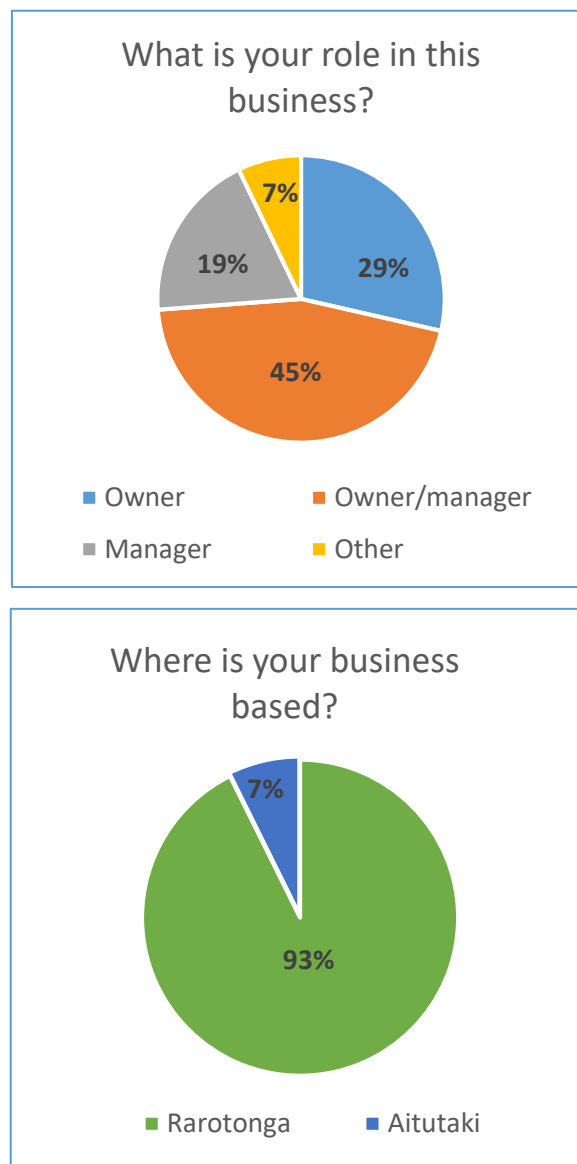
## 2 Labour Market and Business Confidence Survey

The data analysed in this paper comes from the Labour Market and Business Confidence Survey designed and implemented by MFEM in August 2019.

The survey consisted of 32 questions centred on topics of business environment and labour supply. The survey was sent to business owners around the country and 42 responses were received over the period of August and September 2019. The survey's questions are listed in Appendix 1.

Figure 1 below encapsulates the characteristics of the survey respondents. Of the 42 respondents 74 per cent were business owners of which almost two-thirds were actively working as managers of their businesses. An additional 19 per cent of respondents were managers (not owners) and only 7 per cent played another role in their businesses.

Figure 1. Characteristics of the Survey Respondents.

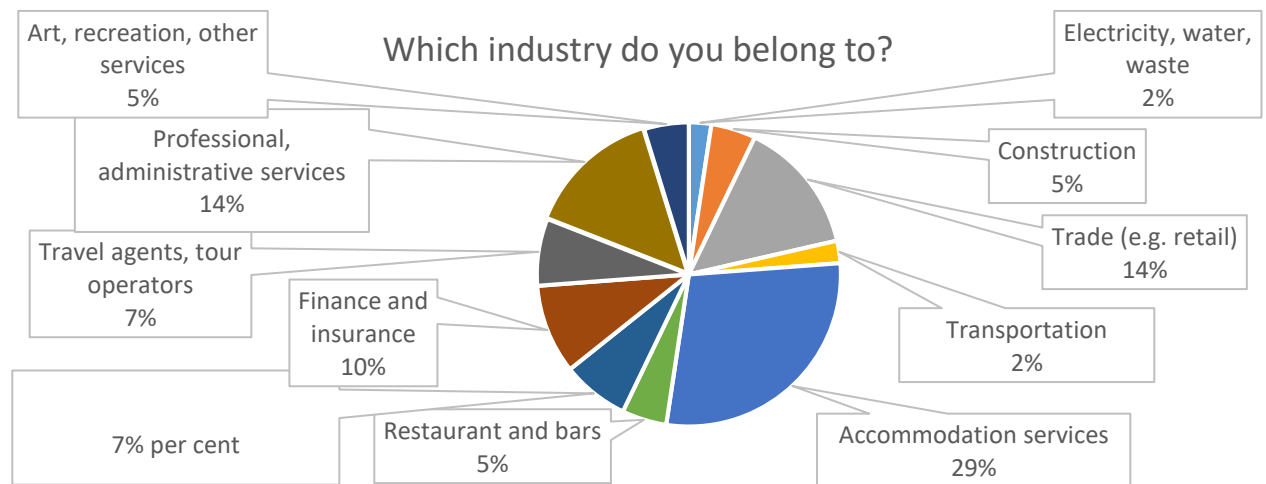


An overwhelming majority of the responders were from Rarotonga (93 per cent) while the remaining 7 per cent were from Aitutaki.

Encouragingly, the survey respondents represented a broad, reasonably representative sample of the businesses in the country (Figure 3), including accommodation services (29 per cent), trade (14 per cent) and professional and administrative services (14 per cent).

The average number of years that respondent businesses have been operating is just over 21 years, which strengthens the robustness of the answers, given the longer-term perspective of the respondents.

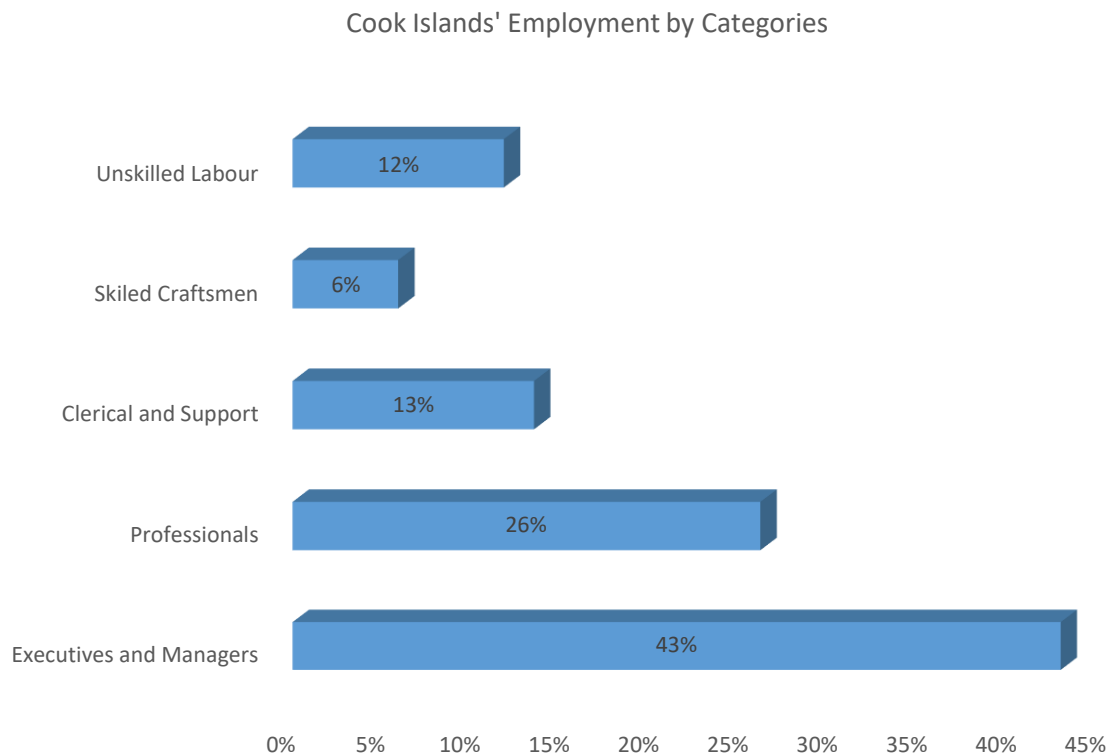
Figure 2. Characteristics of survey's businesses.



### 3 Employment Characteristics in the Cook Islands

The survey data sheds light on the major employment positions represented in the sample of survey respondents as shown in Figure 3.

Figure 3. Employment in the Cook Islands by Category.

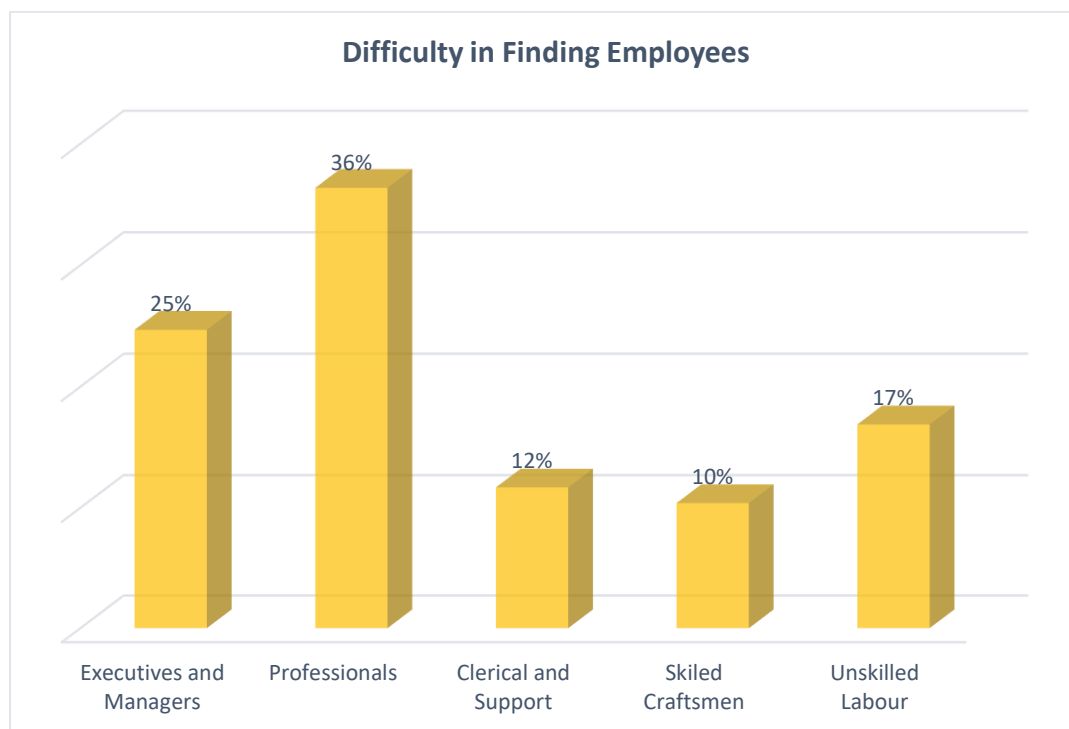


Executives and managers constituted the largest category of the employment professions (43 per cent). The second most numerous group were professionals (health professionals, science and engineering, finance, sales and marketing, ICT, legal and creative professions). Together they constituted 26 per cent of employment positions represented in the survey. Clerical support (13 per cent), skilled craftsmen (6 per cent) as well as unskilled labour (12 per cent) represented the remaining positions.

According to the survey, there is a significant number of vacant job positions in the economy and they are difficult to fill. Over 42 per cent of survey respondents indicated that their businesses had current vacant positions, and more significantly, among the business that did have vacant positions, over 46 per cent of those vacant positions were unfilled for more than 3 months.

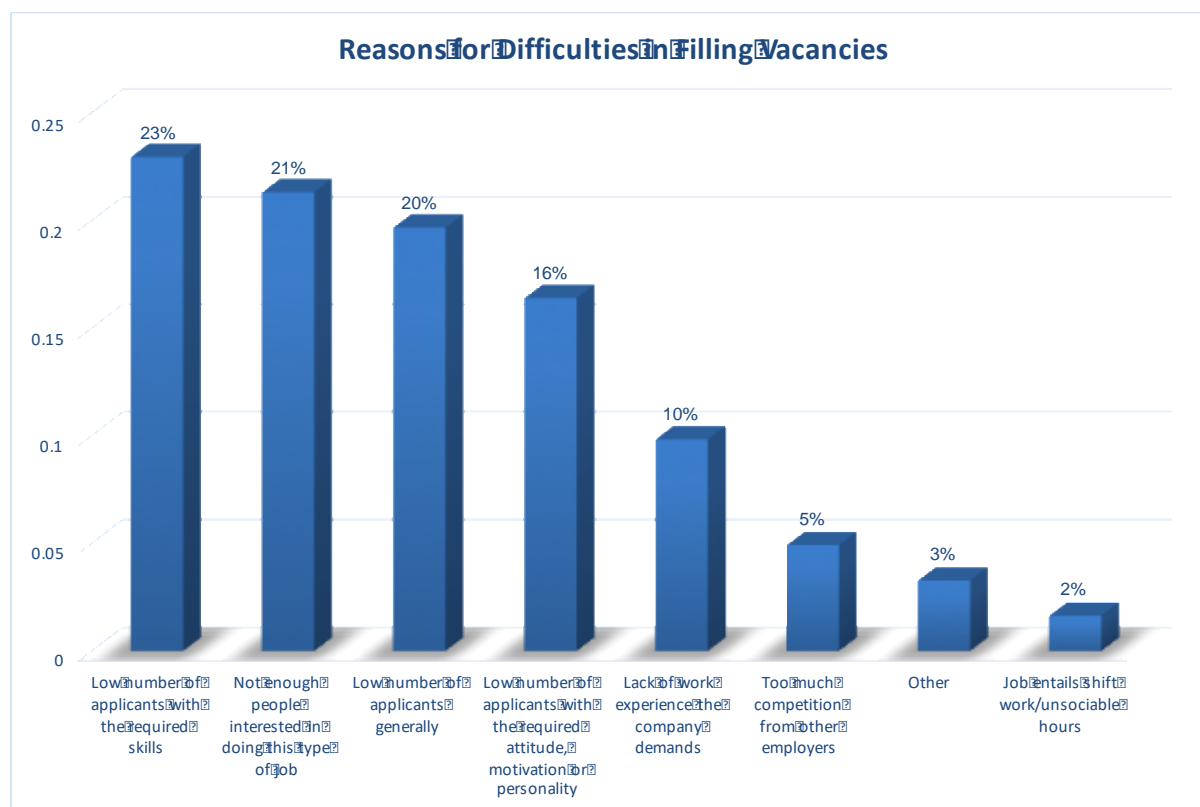
When asked about the difficulties in filling vacant positions, the answers (Figure 4) suggest that the employers have the greatest difficulty in filling positions for professionals – 36 per cent of survey respondents indicated this job category as difficult to fill, followed by executives and managers' category (25 per cent) and unskilled labour (17 per cent).

Figure 4. Employers' Difficulties in Finding Employees.



The sources of difficulties in filling vacancies hint at a structural labour market inefficiency. Figure 5 illustrates the reasons the employers provided.

Figure 5. Reasons for Employers' Difficulties in Finding Employees.

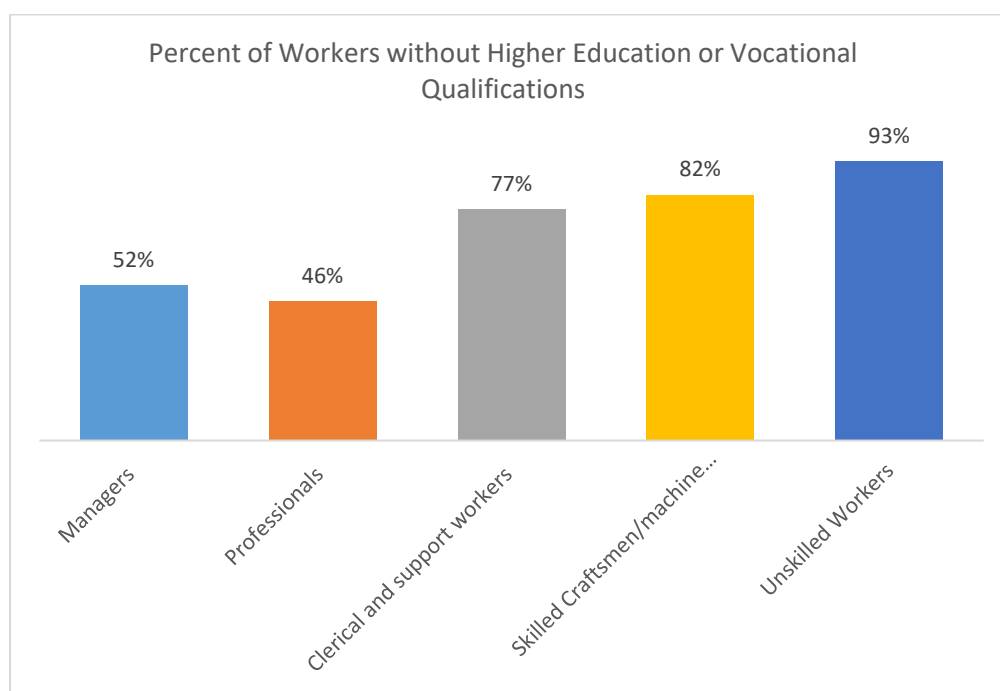




The top reason, as indicated by the employers was a low number of applicants with the required skills (23 per cent of employers indicated it as major difficulty).

The 2016 Census data supports the evidence of the difficulties the employers face with respect to lack of required skills. According to the Census, a large portion of the labour force possesses no tertiary education (university or vocational), with the highest numbers among unskilled positions (Figure 6). Overall the Census reports that 74 per cent of population over 15 years old reports no professional or vocational qualifications.

Figure 6. Educational profile of Cook Islands' workforce



Source: Cook Islands Population Census 2016.

Furthermore, in the survey's answers regarding difficulties in filling vacancies, the second and third most important categories ("Not enough people interested in doing this job" and "Low number of applicants generally") gathered 21 per cent and 20 per cent of employers' responses respectively. These responses reveal the economy operating above its labour market potential – lack of job applicants regardless of job conditions. The data from the Census supports this assessment. As of 2016, the unemployment rate was already low at 5.9 per cent prior to the strong economic growth in 2017 and 2018. While there is no more recent unemployment data, it is likely that the unemployment rate has dropped further since then.

In a well-functioning economy, the law of supply and demand clears the labour market in the long-term through higher wages and salaries and better working conditions, supported by increased labour productivity. The number of job vacancies in the Cook Islands, as well as the length of these vacancies, and the reasons employers give for not being able to find workers suggest a fundamental labour shortage, not easily remedied by domestic worker training and education.

The current situation is forcing local enterprises to cope with the shortages in a variety of ways. When asked about the effects of insufficient labour supply on their business operations the survey respondents identified increasing workload on other staff (55.6 per cent), followed by

delaying the development of new products and services (36.1 per cent) and not meeting quality standards (30.6 per cent) among others. Table 1 illustrates employers' answers.

Table 1. Employers' perceived effects of labour shortages

**Are difficult to fill vacancies causing your business to...**

Increase workload for other staff	55.6 per cent
Delay developing new products or services	36.1 per cent
Have difficulties meeting quality standards	30.6 per cent
Withdraw from offering certain products or services altogether	27.8 per cent
Lose business or orders to competitors	25.0 per cent
None	25.0 per cent
Have difficulties introducing new working practices	22.2 per cent
Experience increased operating costs	19.4 per cent
Have difficulties introducing technological change	19.4 per cent
Outsource work	16.7 per cent
Other	5.6 per cent

An upcoming IMF report corroborates the employment situation in the Cook Islands<sup>1</sup>. Based on the data from contributions to the Cook Islands Superannuation Fund, the IMF report concludes that wages have risen on average about 8 per cent per year from 2015 to 2018. Such high wage growth is indicative of an overheating labour market.

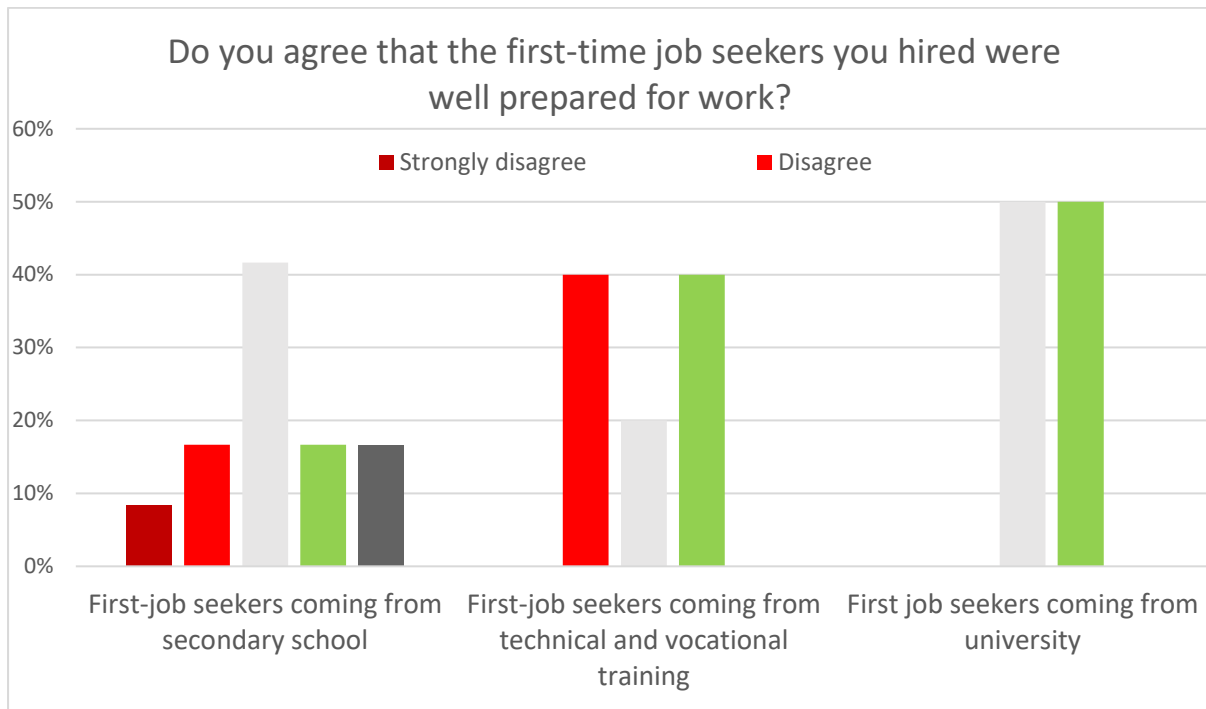
One of the encouraging signs emanating from the survey is that over 67 per cent of employers believe (strongly agree, or agree) that their existing staff are proficient at their jobs, while only 10 per cent believe the opposite to be true.

Of those employees who are not fully proficient the survey respondents identified poor attitude/personality as the most relevant skill missing (62 per cent) followed by lack of technical or job specific skills (48 per cent). The poor attitude/personality missing skills were most often identified for unskilled labourers while the lack of technical or job specific skills - for sales and supports staff. The most common answer for difficulty in filling professional job vacancies was "low number of applicants generally".

The survey also sought information on the 'job readiness' of first-time job seekers. Figure 7 summarizes the responses. Employers were evenly split in their evaluation of skills of first-time job seekers coming from secondary school or vocational training. The only unequivocally positive assessment of the first-time job seekers' skills was for university graduates.

<sup>1</sup> Cook Islands Technical Assistance Report. International Monetary Fund. Upcoming

Figure 7. Job Preparedness for First-Time Job Seekers



In yet another sign of tight job market, although tempered by cultural factors, To address the problem of the skills gap in staff, only 15 per cent of surveyed employers indicated that they resorted to redundancy (Figure 9), while the overwhelming majority used other methods of improving workers’ skills, such as on-the-job training (56 per cent) or self-development encouragement (44 per cent).

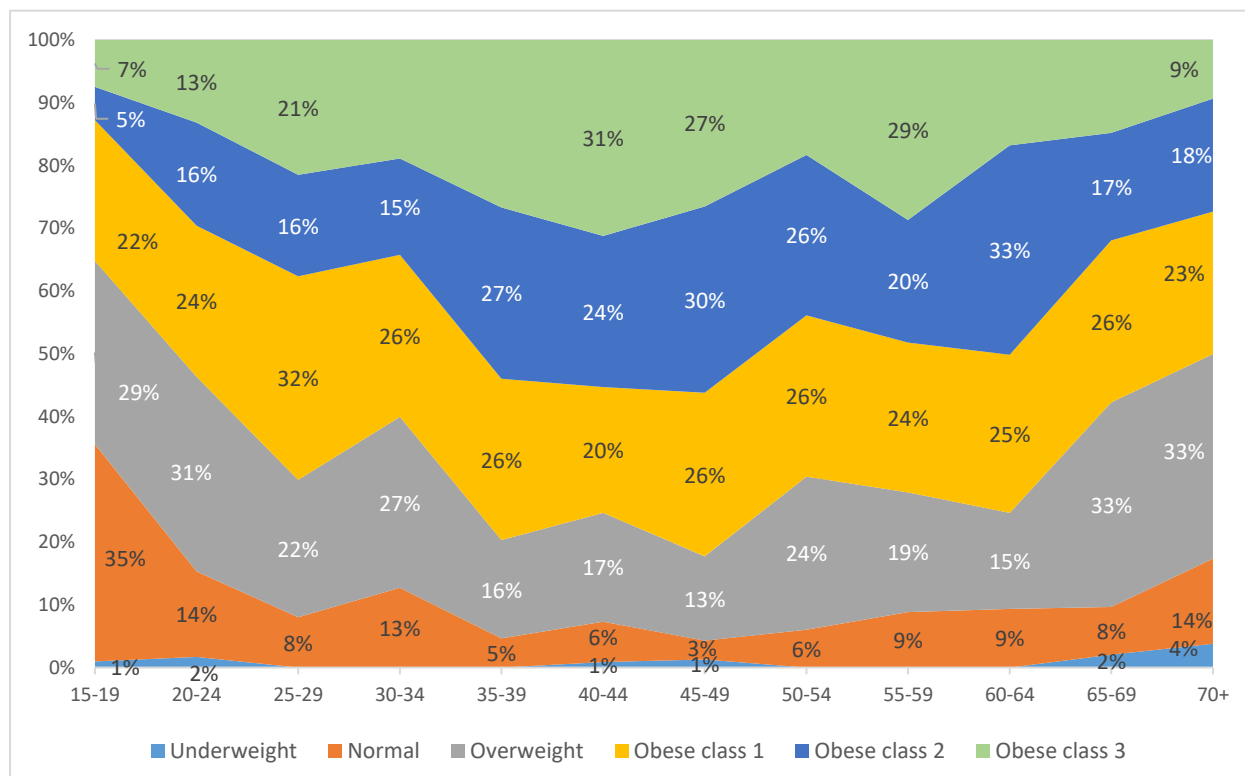
Figure 9. Labour Force Skill Gap Remedies.



## 4 A Healthy Workforce?

While the health of the workforce was not assessed in the Survey, it is important to consider when assessing the labour market. The Household Income and Expenditure Survey 2015-16 reports high obesity rates amongst all age groups of the Cook Island population – which is likely to impact upon both the health system and household productivity.

Figure 10: Distribution of the population aged 15+ by BMI category (6 categories) and age group



Source: HIES 2015-16

On average, 64 per cent of the population aged 15 and over is obese or severely obese, whereas only 36 per cent is considered either normal or overweight. The portion of the population that is a normal weight averages around 10% as shown in Figure 10. This is a national occurrence as the obesity rates are relatively equally distributed between Rarotonga and the Pa Enua.

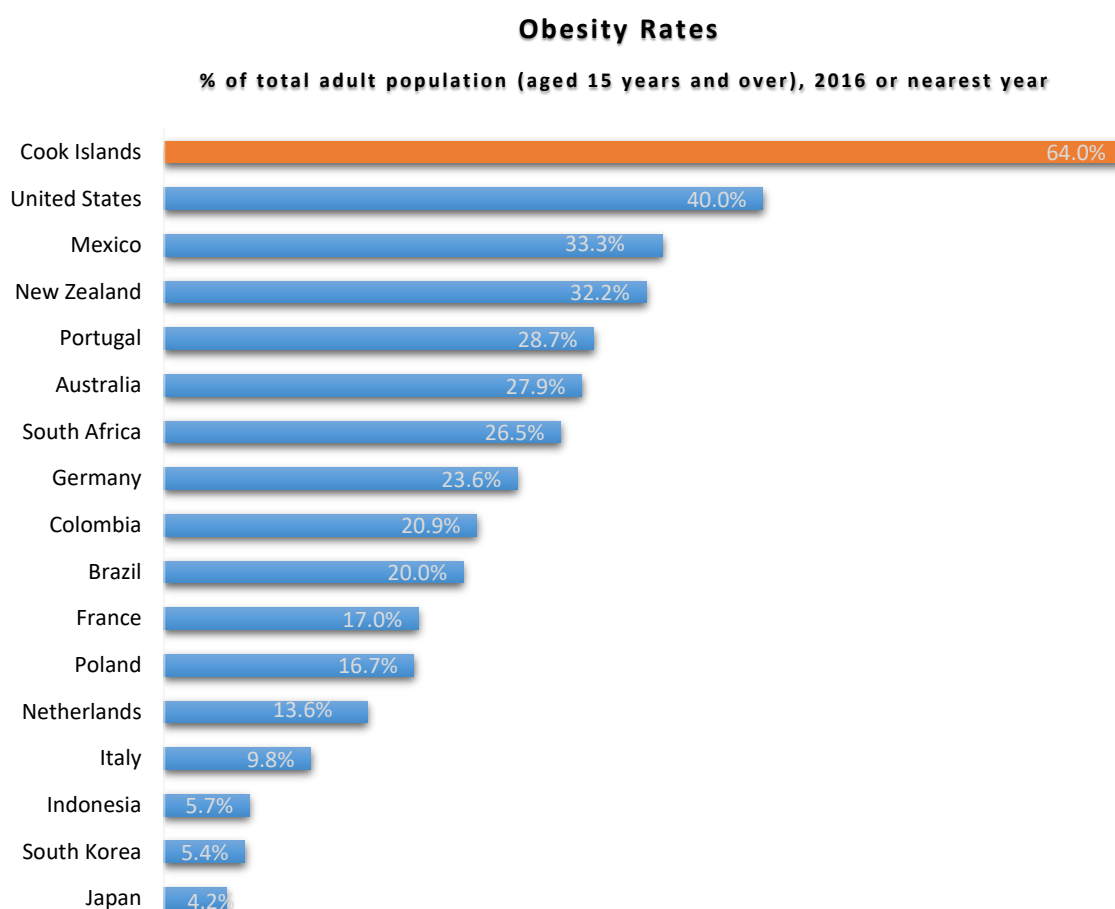
International comparisons of the Cook Islands obesity rates highlight the situation, as seen in Figure 11. The Cook Islands population stands out amongst the OECD nations as one of the least healthy countries in the world.

The health effects of the increased BMI are well documented. BMI is a major risk factor in diseases such as cardiovascular diseases, diabetes, musculoskeletal disorders as well as some cancers.<sup>2</sup> Recent economic studies suggest that obesity has a significant cost on the economy. The impact of obesity is estimated to be 1.8 per cent of global GDP per annum,

<sup>2</sup> <https://www.who.int/news-room/fact-sheets/detail/obesity-and-overweight>

through direct costs (medicines and treatment), and indirect costs, such as lower productivity and absenteeism.<sup>3</sup>

Figure 11: Obesity rates among OECD countries



Source: OECD: OECD OBESITY UPDATE 2017

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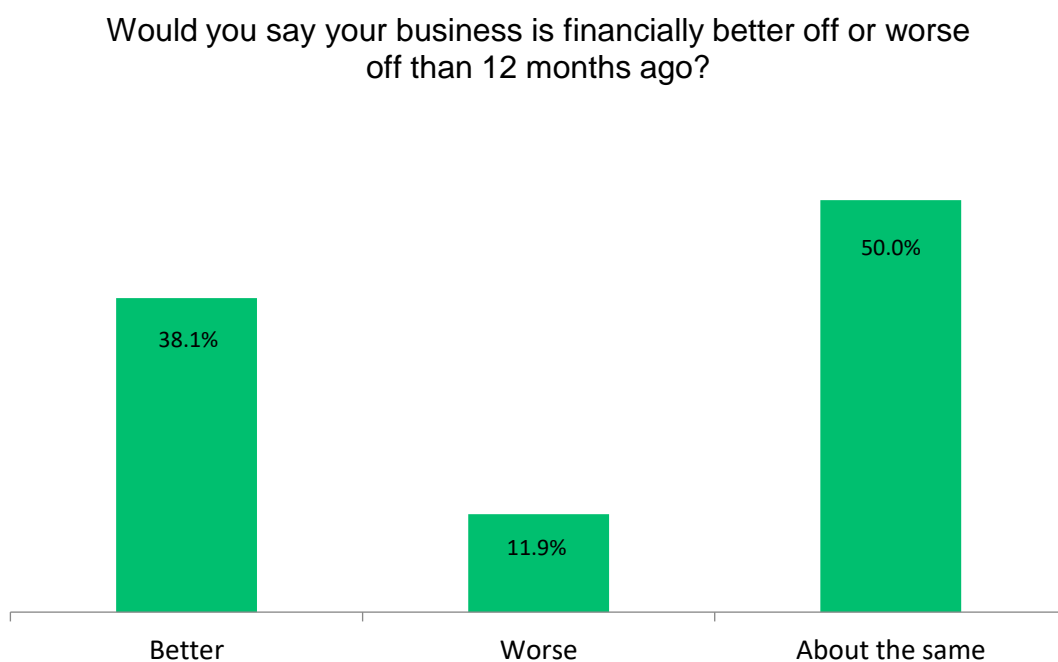
<sup>3</sup> Bommer C Heesemann ECN Sagalova V et al. The global economic burden of diabetes in adults aged 20–79: a cost-of-illness study. *Lancet Diabetes Endocrinol.* 2017; (published online April 26)

## 5 Cost of Running Business and Business Confidence Outlook

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Despite labour shortages, the overall picture emerging from the questionnaire's second half is that business confidence in the Cook Islands is stable and the business community has a positive outlook. When asked about the financial situation of their business, compared to the previous year, a significant majority of respondents evaluated the situation as either the same or better than year ago (Figure 12).

Figure 12. Business Situation Perspective



When asked about the future costs and profitability, about 50 per cent of business owners responded that they expect slight to significant increases in all major costs: salaries, costs of goods sold and other inputs; while at the same time, the remaining half expect either stable costs or slight decreases in costs.

Despite the expected higher costs, the majority of survey respondents did not foresee decreases in profitability, nor capital investment. Staffing levels are also expected to remain the same or increase (Table 2).

The business owners' declarations of increased capital investments are a notable sign of strong business confidence. Over 46 per cent of the survey's respondents indicated the expectations of slight or significant increases in business investment in the coming year.

Putting these facts together, it is likely that if the higher business costs materialise in the next 12 months, they will be countered with either higher labour or capital productivity, or reflected in higher prices of goods and services sold

Table 2. Employers' expected future business costs and profitability

In your business do you expect changes in the following over the next 12 months:					
	Significant decrease	Slight decrease	No change	Slight increase	Significant increase
Profitability	0.0%	19.5%	34.2%	39.0%	7.3%
Capital Investment	0.0%	5.3%	39.5%	39.5%	15.8%
Staffing Level	0.0%	5.1%	46.2%	43.6%	5.1%

When asked about the biggest challenges faced by their businesses, the challenges most often mentioned were utilities' costs, followed by skills of existing workers and quantity of available workforce (Table 3).

Table 3. Employers' perceived greatest challenges

What are the biggest challenges/threats currently faced by your business? (Please select the top 5 and number by importance, 1 being the biggest challenge/threat, 5 being the least)					
	1	2	3	4	5
Utilities cost (power, telecommunication)	24%	18%	26%	9%	24%
Skills of existing workers	25%	17%	21%	17%	21%
Quantity of available workers	21%	21%	33%	17%	8%
Cost of input materials	13%	17%	29%	8%	33%
Compliance costs/Government regulation	9%	26%	30%	17%	17%
Quality of infrastructure	16%	5%	21%	21%	37%
Cost of finance	17%	28%	28%	17%	11%
Skills and qualifications of graduates	12%	24%	29%	18%	18%
Rental costs	25%	6%	31%	0%	38%
Climate change	20%	13%	7%	20%	40%
Information about market demand	0%	7%	53%	7%	33%
Access to machinery and technology	29%	0%	36%	21%	14%
Access to land	29%	21%	14%	0%	36%
Transportation	8%	8%	46%	15%	23%
Access to finance	20%	20%	30%	0%	30%

A similar question was asked to new businesses, those in existence for less than one year. The question was: "If you are a new business (operating for less than one year) please identify the top 3 challenges that you faced in establishing your business".

The unifying theme in the answers was the quality of the labour force, with answers such as: "honest staff", "staff that turns up" or "skilled workers".

## 6 Conclusions

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Labour shortages and the quality of labour in the Cook Islands present significant bottlenecks to the economic growth. The lack of labour (among other factors) has had the impact of reducing productive capacity in the Pa Enua over the last decade a similar scenario is possible in Rarotonga, the heart of economic activity in the Cook Islands.

The first signals are already visible through the Labour Market Survey – many positions are vacant for long periods of time and employers find it difficult to employ qualified, motivated personnel among the local population.

Given that the country's primary industry is the tourism sector, which has limited productivity growth potential, the likely economic scenario, especially in the short term is challenging. As the capacity for constructing new accommodation on Rarotonga reaches its limits, the wages and salaries will level due to flattening productivity growth in the industry, and the overall economic growth will slow. This might only reinforce labour emigration to New Zealand and exasperate the domestic shortages. This dynamic will likely become self-reinforcing, translating into higher costs for business owners, lower quality of services, and, in turn, diminishing tourist arrivals due to loss of competitive advantage against neighbouring countries.

Future economic growth will depend, as it does in every economy, on a continuously increasing labour productivity. Further, context specific economic analysis, supported by national political consensus needs to be undertaken to provide solutions for increasing national labour productivity.

Against this backdrop, the Business Confidence Survey implies that the local business community is quite resourceful in continuing to prosper despite the labour shortages. While the costs for running business are high, the new infrastructure improvements currently under way, especially in Rarotonga should provide some respite soon.



## Appendix 1 Business Confidence Survey Questionnaire

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### 1. What is your role in this business?

- Owner
- Owner/manager
- Manager
- Director of Human Resources
- Other (please specify)

### 2. Where is your business based?

- Rarotonga
- Aitutaki
- Southern Pa Eua (excluding Aitutaki)
- Northern Pa Eua

### 3. Which industry do you belong to?

- Agriculture
- Fishing incl pearls
- Mining and manufacturing
- Electricity, water, waste
- Construction
- Trade (e.g. retail)
- Transportation
- Accommodation services
- Restaurant and bars
- Information and communication
- Finance and insurance
- Real estate
- Travel agents, tour operators
- Professional, administrative services
- Public administration
- Education
- Human health and social work
- Art, recreation, other services

### 4. How many years has your business been operating in the Cook Islands?

### 5. Please select the main occupations that your business employs and the number of employees in each role ...

- Occupation 1
- Occupation 2
- Occupation 3
- Occupation 4
- Occupation 5
- Occupation 6
- Occupation 7
- Occupation 8

**6. For each occupation identified in Question 5, what is the average education level of staff in these roles** (Select up to 8 occupations, if an employee has more than one occupation, choose the one that occupies most of their hours)

**7. Do you have any current vacancies? If YES specify the number of vacancies.**

- Yes
- No

**8. If you have vacancies, have any been unfilled for more than 3 months?**

- Yes
- No

**9. In general, if you find recruitment difficult indicate the top 5 occupations that you find difficult to fill and select why**

- Occupation 1
- Occupation 2
- Occupation 3
- Occupation 4
- Occupation 5
- Other (please specify)

**10. If the occupations identified in Question 9 were difficult to fill due to skills gaps, could you please indicate which of the following skills were lacking?**

- Occupation 1 skills
- Occupation 2 skills
- Occupation 3 skills
- Occupation 4 skills
- Occupation 5 skills
- Other (please specify)

**11. Are difficult to fill vacancies causing your business to...** (Please select all that apply)

- Lose business or orders to competitors
- Delay developing new products or services
- Have difficulties meeting quality standards
- Experience increased operating costs
- Have difficulties introducing new working practices
- Increase workload for other staff
- Outsource work
- Withdraw from offering certain products or services altogether
- Have difficulties introducing technological change
- None
- Other (please specify)

**12. Do you agree that your existing staff are fully proficient at their job?**

(Please mark the relevant columns)

*Strongly disagree/Disagree /Neither agree nor disagree/Agree/Strongly agree*

- Managers
- Professionals
- Clerical support workers
- Services and sales workers
- Skilled agricultural, forestry and fishery workers
- Craft and related trades workers
- Plant operators and assemblers
- Unskilled workers

**13. In general, for those not fully proficient, what would you say are the particular skills that are missing?**

- Technical or job-specific skills
- Core/soft skills (e.g. problem-solving, team-working)
- Literary/numeracy skills
- Poor attitude/personality (e.g. poor work ethic)
- Working world/life experience (e.g. maturity, general knowledge)
- English language skills
- Other (please specify)

**14. What are you doing to overcome the problem of skills gaps identified in Question 13?**

- Hiring has increased
- Further training has been provided
- Self-development has been encouraged
- Work practice has been changed
- Staff have been made redundant
- No special measures have been taken
- Other (please specify)

**15. During the past 12 months, how many of your employees have participated in training courses organized and financed by your business?**

**16. In the last 12 months has your company hired any first-time job seekers who came straight from education?**

- Yes
- No

**17. If you responded yes to Q16, do you agree that the first-time job seekers you hired were well prepared for work? (Answer for those relevant)**

*Strongly disagree/Disagree /Neither agree nor disagree/Agree/Strongly agree*

- First-job seekers coming from secondary school
- First-job seekers coming from technical and vocational training
- First job seekers coming from university

**18. Did you identify any skills that first-time job seekers were lacking?**

*(Select all relevant fields for each group)*

- Lacking required technical or job-specific skills
- Lacking required core/soft skills (e.g. ICT, problem-solving skills)
- Literacy/numeracy skills
- Poor attitude or lack of motivation (e.g. work ethic, punctuality)
- Lack of working world/life experience or maturity (including general knowledge)
- Other (please specify)

**19. Looking back 12 months from today, how many staff have ceased working for your business?**

**20. Please provide an estimated percentage breakdown of your total annual expenses.**

*If it has changed, by how much? Enter a whole number from 0-100 to represent a per cent change.*

- Salaries
- Costs of goods sold
- Other expenses (utilities, rent)

**21. Looking back over the last 12 months, has your expenditure on salaries changed?**

- Increased
- Decreased
- No Change

**22. Please indicate the amount you pay monthly for your business telecommunication services.**

- Mobile phone - prepaid
- Mobile phone -postpaid
- Broadband internet
- Landline phone

**23. Do you agree that the telecommunication services meet your business needs?**

*Strongly disagree/Disagree /Neither agree nor disagree/Agree/Strongly agree*

- Mobile phone -prepaid
- Mobile phone - postpaid
- Broadband internet
- Landline phone

**24. Would you say your business is financially better off or worse off than 12 months ago?**

- Better
- Worse
- About the same

**25. Looking forward to the next 12 months do you expect your expenditure on the following to change?**

*Significant decrease/Slight decrease/No change/Slight increase/Significant increase*

- Salaries
- Costs of goods sold
- Other business input costs

**26. In your business do you expect changes in the following over the next 12 months:**

*Significant decrease/Slight decrease/No change/Slight increase/Significant increase*

- Profitability
- Capital Investment
- Staffing Level

**27. What are the biggest challenges/threats currently faced by your business?**

*(Please select the top 5 and number by importance, 1 being the biggest challenge/threat, 5 being the least)*

- Information about market demand
- Utilities cost (power, telecommunication)
- Skills of existing workers
- Access to finance
- Cost of finance
- Cost of input materials
- Compliance costs/Government regulation
- Access to machinery and technology
- Skills and qualifications of graduates
- Quantity of available workers
- Transportation
- Climate change

- Quality of infrastructure
- Access to land
- Rental costs

**28. Do you feel that your business is well prepared for future challenges?**

*Strongly disagree/Disagree /Neither agree nor disagree/Agree/Strongly agree*

**29. If you are a new business (operating for less than one year) please identify the top 3 challenges that you faced in establishing your business**

- Challenge 1
- Challenge 2
- Challenge 3

**30. In general, during the last 12 months, did your business introduce new or significantly improved ways of ...**

- Manufacturing and producing goods or services?
- Distributing, organising delivery of your goods or services to customers?
- New business practices to organise your workplace's main activity
- New methods of working with other firms or public institutions?
- None
- Other (please specify)

**31. Please indicate the percentage of your ownership that is...**

- Local
- Foreign

**32. Please provide any further comments.**