

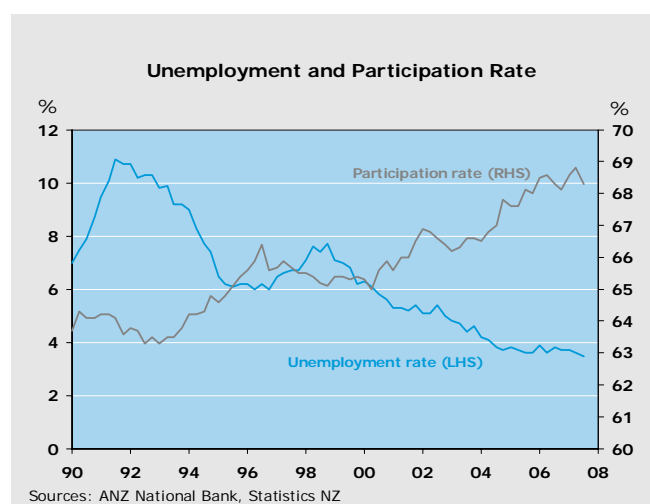
HOUSEHOLD LABOUR FORCE SURVEY – SEPTEMBER QUARTER 2007

Key points

- Q3 labour market data was a mixed bag. The unemployment rate fell, but employment growth was weak and hours worked fell.
- We are not reading too much into the fall in employment growth, which tends to be volatile. The unemployment rate, which is more stable, is a better indicator of the state of the labour market.
- On balance, there is no smoking gun in today's release for the Reserve Bank. But an unemployment rate at historical lows will continue to put upside pressure on wage inflation, and keep the Reserve Bank on alert.

The headlines

	Total Employed (%)		Hours worked (%)		Participation Rate (%)	Unemployment Rate (%)
	QoQ	YoY	QoQ	YoY		
Sep-05	1.2	3.2	0.5	3.7	68.1	3.7
Dec-05	0.1	1.5	-1.3	0.3	68.0	3.6
Mar-06	0.9	2.6	0.3	2.1	68.5	3.9
Jun-06	0.8	3.1	0.4	-0.1	68.6	3.6
Sep-06	-0.3	1.5	0.5	-0.1	68.3	3.8
Dec-06	0.1	1.4	0.4	1.5	68.1	3.7
Mar-07	1.2	1.7	-0.4	0.8	68.6	3.7
Jun-07	0.6	1.5	0.2	0.7	68.8	3.6
Sep-07	-0.3	1.5	-0.3	-0.1	68.3	3.5
ANZ	0.6	2.5	-	-	68.9	3.6
Market	0.4	2.3	-	-	68.8	3.6



- **Employment growth was much weaker than expected in the September quarter**, falling 0.3 percent following growth of 1.2 percent and 0.6 percent in the March and June quarters, respectively. This keeps annual employment growth unchanged at 1.5 percent. The number of people in the labour force fell 8,000 (0.4 percent) and, coupled with a rise in the working age population (0.3 percent), saw the labour force participation rate fall 0.5 percentage points to 68.3 percent. This resulted in the unemployment rate easing by 0.1 percentage points to 3.5 percent – the lowest since the survey began.
- **There has been a major shift from full-time to part-time employment in the past 12 months.** Full-time employment fell 0.6 percent in the September quarter driven solely by a 2.4 percent fall in female employment. The level of full-time employment is now 0.3 percent below the same level from last year. This is the first time since March 1999 where annual full-time employment has fallen. Part-time employment rose 1.3 percent in the quarter, taking annual growth to 8.2 percent. This shift from full-time to part-time employment is also reflected in the hours worked data. Seasonally adjusted hours worked fell 0.3 percent in the September quarter, taking annual growth to -0.1 percent. This is down from annual growth of 0.8 percent and 0.7 percent in the March 2007 and June 2007 quarters, respectively.
- **The strongest employment growth over the year was in the agriculture sector (up 6.1 percent), with construction employment falling 6.4 percent.** Other industries to post solid increases in employment were education (up 5.9 percent) and wholesale and retail trade (up 4.3 percent). On a regional basis, employment increased significantly in Auckland and Waikato over the past 12 months, while it decreased significantly in Wellington and the Manawatu/Wanganui regions.

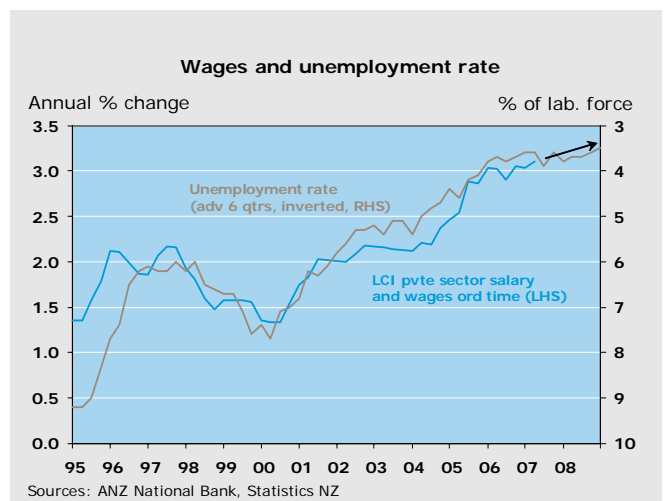
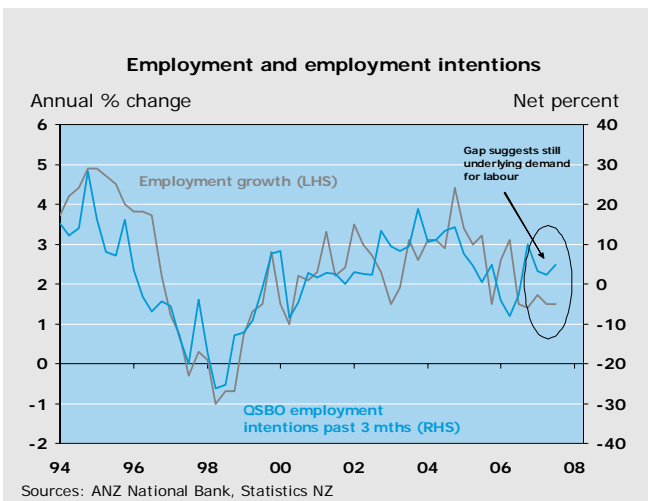
Assessment and implications

Today’s labour market data was a mixed bag. We are not reading the fall in employment growth as an indication that the demand for labour is waning. The quarterly employment growth number tends to be volatile. Certainly, employment intention surveys suggest there is still an underlying demand for workers. The fact that the decline in employment growth was driven mainly by falling full-time female employment, and that they pulled out of the labour force mainly for study or other reasons¹, suggests that the decline may be voluntary. The unemployment rate, which has been more stable and has consistently remained under 4 percent since mid-2004, is a better indication of the state of the labour market. With the unemployment rate at 3.5 percent, which is the lowest unemployment rate since this series began, the labour market remains tight. Consistent with the decline in employment growth, hours worked fell 0.3 percent in the quarter, suggesting that Q3 GDP growth could print on the soft side.

The composition of employment growth is mirroring sectoral fortunes within the economy. The turn in the housing market cycle has seen employment in the construction sector, along with business and financial services, recording falls in annual growth in the September quarter. We estimate that seasonally adjusted construction employment fell 7.2 percent in the quarter. On the other hand, the key support factors for the economy, namely strong commodity prices and fiscal spending, are showing up in the employment figures with agriculture and government-related employment such as health and education up strongly.

The unemployment rate is likely to remain low for some time, keeping upward pressure on wages. Over this latest cycle, the participation rate has increased significantly as more workers were pulled into the labour force. Even though the participation rate has declined in Q3, it remains high by historical standards. Any softness in employment growth will likely see workers withdraw from the labour market, helping to keep the unemployment rate low. This means that firms that are still looking to hire will continue to find difficulty in attracting staff, and this will help keep wage inflation elevated for some time.

There is no smoking gun for the Reserve Bank in today’s release. Though the unemployment rate was marginally lower than what the Reserve Bank was expecting, there is nothing in today’s labour market report that will shift them from their wait-and-see stance. However, a tight labour market will continue to provide late cycle support for the economy and ensure that wage pressures remain elevated. The labour market remains a major source of inflationary pressure that will keep the Reserve Bank alert.



¹ According to Statistics NZ, another significant reason was to stay at home but not to look after children.

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