

Household Labour Force Survey: September 2008

Key points

- > **Employment growth was flat in the September quarter and has been flat for the calendar year to date - somewhat surprising given the apparent weakness of the domestic economy.**
- > **The unemployment rate rose to 4.2 percent. This is the highest level since December 2003, and is perhaps a better picture of the state of the jobs market.**
- > **Despite being better than expected, today's data does show that the labour market is turning and this represents the next leg of domestic economic weakness.**

Assessment

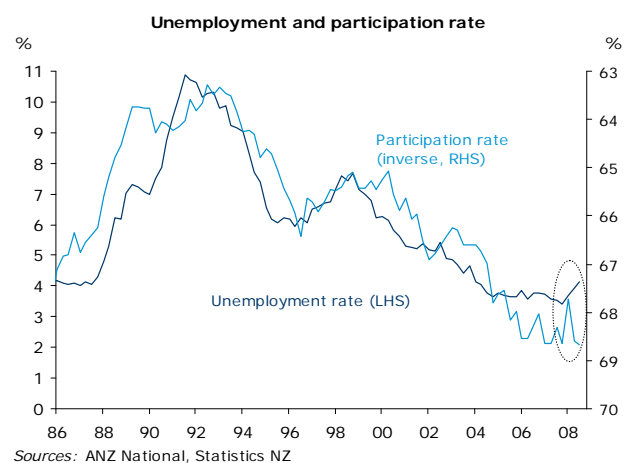
Total employment grew by 0.1 percent in the September quarter, failing to register a pull-back from the June quarter's surprise gain. Full-time employment growth (0.5 percent) was offset by a contraction in part-time employment (-0.5 percent). Annual employment growth is 1.0 percent. Over the quarter however, hours worked fell 0.9 percent. This suggests that although firms appear to be still holding onto staff, the hours those staff are working is reducing – a potential sign that the weaker demand conditions is weighing on businesses' staffing decisions.

For the calendar year to date, employment is also flat. Employment growth has been extraordinarily volatile of late (with a 1.3 percent fall in Q1 fully reversed in Q2). If the level of employment in the September quarter is compared with the level from the end of 2007, it is effectively unchanged. This goes for both full and part-time employment. This dynamic is a slightly surprising one, given the weakness experienced in the domestic economy and the anecdotes received from recent business surveys. It suggests that the labour market isn't quite as weak as initially feared.

Nevertheless, the unemployment rate is the better gauge of the state of play. Despite flat employment growth, increased participation (which rose to a record high of 68.7 percent) saw the unemployment rate rise to 4.2 percent (equivalent to 94,000 unemployed). The unemployment rate is a less volatile and hence "cleaner" measure of the state of the labour market and has now risen to its highest level since December 2003.

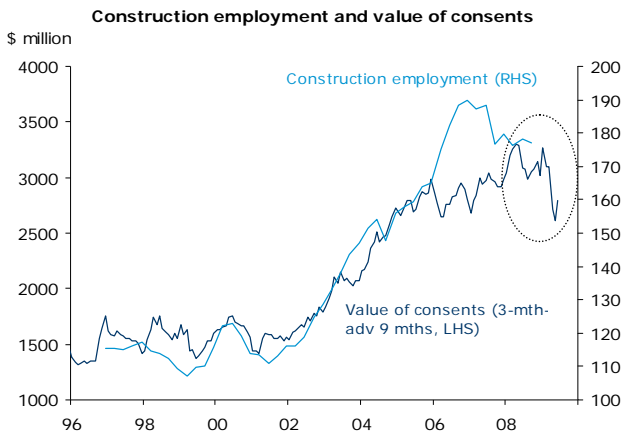
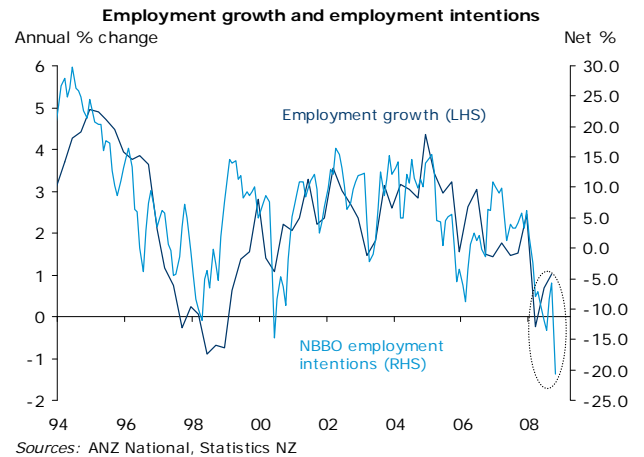
A higher participation rate is a dynamic we expect to continue. We suspect that unlike previous turns in the labour market, which tends to see the participation rate decline (the discouraged worker effect), the participation rate will hold up this time around because higher cost of living

	Total Employed (%)		Hours worked (%)		Participation Rate (%)	Unemployment Rate (%)
	QoQ	YoY	QoQ	YoY		
Mar-07	1.4	1.8	0.5	1.0	68.7	3.7
Jun-07	0.3	1.5	-0.6	0.6	68.7	3.6
Sep-07	-0.2	1.5	0.0	-0.1	68.3	3.5
Dec-07	0.9	2.5	0.6	0.5	68.7	3.4
Mar-08	-1.3	-0.2	-1.6	-1.6	67.7	3.7
Jun-08	1.3	0.7	2.1	1.1	68.6	3.9
Sep-08	0.1	1.0	-0.9	0.2	68.7	4.2
ANZ	-1.0	-0.2	-	-	68.0	4.3
Market	-0.6	0.3	-	-	68.3	4.3



pressures mean more people need to look for work. Given this, we suspect that falling employment (eventually), but higher participation as workers are forced to remain in the labour force or look for second jobs, will lead to a higher unemployment rate going forward. We expect the unemployment rate to continue to rise steadily, reaching 6 percent by 2010. However, the risk - given economic prospects and the fact the labour market data has lagged so far to date - is pointing to a more aggressive rise over 2009 (and potentially even Q4 2008). This represents the next leg of weakness for the domestic economy. Remember, house prices were already falling and retail spending in retreat before the labour market turned.

Looking at the composition of employment growth, the picture is mixed. We have to be careful interpreting sectoral data on a quarterly basis due to volatility. But job losses came through in sectors one would expect. Our seasonally adjusted data shows employment fell for agricultural (potentially drought related), construction, distribution, transport and business and financial services sectors. However, this was offset by solid growth from government related sectors (with education and health employment rising by just under 11k). Weakness in housing related sectors is a dynamic we expect to continue.



Implications

Today’s employment data will not stand in the way of a further aggressive easing by the RBNZ. While the data shows the labour market isn’t as weak as first thought, and bearing in mind this week’s strong wage inflation data, and the high non-tradable Q3 CPI print, the “evidence” of reduced domestic inflation pressures the RBNZ is looking for is not really apparent just yet. Nevertheless, a rising unemployment rate will give the RBNZ confidence that wage inflation will remain contained and that medium-term inflation pressures will eventually fall. Given the lagging nature of the labour market, we still expect weak economic activity to filter through into the employment numbers. We continue to expect the RBNZ to cut the OCR by 75 basis points next month (with the global backdrop dominating) as it looks to get the OCR quickly below 5 percent over 2009.

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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com

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