Economic Review

New Zealand

8 May 2008

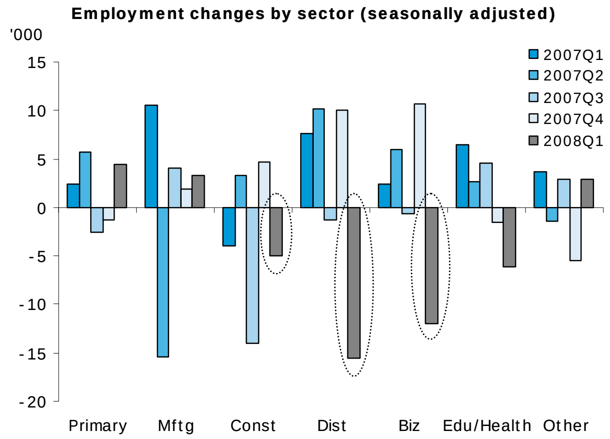
Household Labour Force Survey: March 2008

Key points

- **Today's employment report was weak across the board, even when accounting for quarterly volatility.**
- **Employment and hours worked fell sharply, while the unemployment rate rose.**
- **Q1 GDP growth likely to be negative and prospects for Q2 look no better.**
- **We remain comfortable calling a September easing, but an earlier move in June is now a non-trivial risk.**

Assessment

Today's HLFS report shows that the labour market is turning earlier than expected. Weakness was broad-based, with employment falling 1.3 percent (the biggest quarterly fall since March 1989), total hours worked down 1.9 percent (the biggest quarterly fall since March 1994), and the unemployment rate rising to 3.6 percent, from 3.4 percent in the December quarter. In annual terms, employment is down 0.2 percent (the first time annual growth is negative since December 1998) and total hours worked is down 1.6 percent. The weakness appears to be reasonably widespread, with full-time and part-time employment falling 1.7 percent and 1.1 percent respectively. Given that we typically expect part-time jobs to show weakness first, the considerable fall in full-time employment could be a significant development.



Sources: ANZ National, Statistics NZ

The job losses were in sectors where we would expect. Looking at the sectoral composition of employment growth, our seasonally adjusted estimates show the distribution sector (wholesale and retail) and business/financial services shedding the most jobs in the quarter (-16,000 and -12,000 respectively). The construction sector also shed 5,000 jobs. These losses can be seen as partly pullbacks following strong employment gains in the December quarter last year. Admittedly, the quarterly employment data is highly volatile. But even averaging across the two quarters, the picture remains one of weakness.

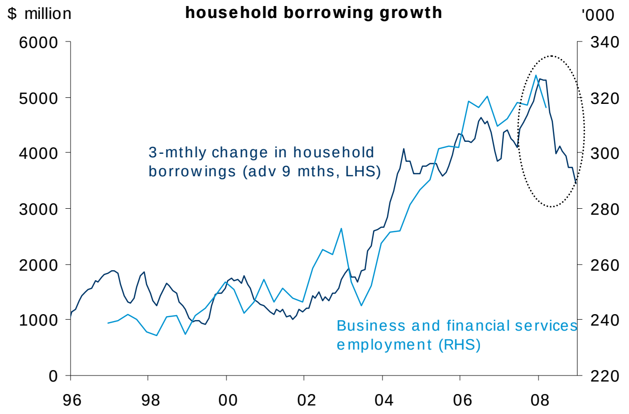
	Total Employed (%)		Hours worked (%)		Partici-pation Rate (%)	Unemploy-ment Rate (%)
	QoQ	YoY	QoQ	YoY		
Sep-06	-0.4	1.5	0.6	-0.1	68.3	3.8
Dec-06	0.0	1.4	0.0	1.5	68.0	3.8
Mar-07	1.4	1.8	0.2	0.9	68.6	3.7
Jun-07	0.5	1.5	-0.1	0.7	68.8	3.6
Sep-07	-0.3	1.6	-0.1	-0.1	68.3	3.5
Dec-07	0.9	2.5	0.6	0.5	68.6	3.4
Mar-08	**-1.3**	**-0.2**	**-1.9**	**-1.6**	**67.7**	**3.6**
ANZ	***-0.2***	***1.2***	***-***	***-***	***68.5***	***3.5***
Market	***0.1***	***1.3***	***-***	***-***	***68.6***	***3.5***

There is some evidence of the discouraged worker effect beginning to come through. If not for an unusually large fall in the labour force participation rate in the quarter (from 68.6 percent to 67.7 percent), the unemployment rate would have risen by more. The 0.9 percentage point drop in the participation rate is the largest quarterly decline in the survey's history, and takes the participation rate to its lowest level since June 2005. While we can certainly expect the discouraged worker effect to result in a falling participation rate, such a drop likely overstates the effect. Nonetheless, in all likelihood, it appears that a reasonable proportion of those people who lost their jobs in the quarter left the labour force altogether, rather than trying to look for work elsewhere, although Statistics NZ state that there was limited evidence of this in the results. We will be watching this development closely in coming quarters.

Survey volatility makes it difficult to get the true extent of labour market weakness. The HLFS survey is notoriously volatile and the fall in employment comes off strong growth in the December quarter of 0.9 percent. We note that the response rate for the survey was only 85.5 percent (Statistics NZ target a 90 percent response rate), well below the average over the past four quarters of 88.6 percent, although Statistics NZ did state that it remains within acceptable bounds. There is the possibility that some of the weakness in today's results could unwind in the next quarter. However, even averaging out the quarterly volatility, today's result still paints a weak picture. We are just unsure how weak it really is.

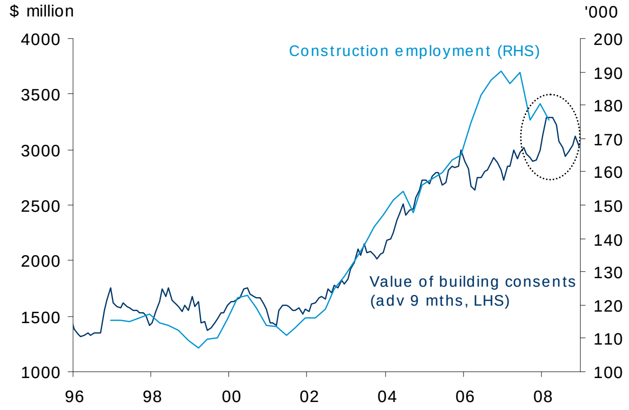
Labour market expected to soften further. The labour market is typically thought of as a lagging indicator. But the fact that it has turned earlier suggests that economic activity is slowing more rapidly than first thought. The largest job losses in the March quarter are in sectors that have been at the front end of the economic slowdown to date. Based on some of the activity indicators for those sectors, the outlook for employment is bleak, with further job losses likely in construction and business/financial services. With recent profit warnings from major listed retail companies, employment in the retail sector could also continue to contract.

Business and financial services employment and household borrowing growth



Sources: ANZ National, Statistics NZ

Construction employment and value of consents



Sources: ANZ National, Statistics NZ

Implications

The economy is slowing more rapidly than first thought. Today's large fall in hours worked suggest that March quarter GDP likely contracted. Prospects for the June quarter look no better. The market has latched on to today's report, with the NZD down by over 100 pips at one stage, and rates rallying hard, with the 2-year swap yield down 19bps.

We remain comfortable sticking with our September quarter easing view, but an earlier move in June is a non-trivial risk. Although inflation pressures remain intense, the *"significant"* downside risks to growth that the RBNZ saw in their April *Review* is starting to become the central case. We have mentioned that a turn in the labour market remains the key to unlocking the easing cycle. Today's data suggests the turn has come, though the RBNZ may still want to wait for further confirmation that this is indeed the case. We continue to see the first easing in September, but the risk is that the easing cycle is brought forward, and a June move is now a non-trivial possibility.

Disclaimer

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