

Household Labour Force Survey: June 2008

Key points

- > **Employment growth rebounds from Q1 weakness. Hours worked also showed a strong rebound.**
- > **But more people looking for work sees the unemployment rate rise.**
- > **Labour market not as weak in H1 as first thought, but still expected to ease over H2.**
- > **September rate cut still in view, though odds of a 50bp move lessens.**

Assessment

March quarter employment weakness completely reverses in the June quarter. We (and the market) were expecting a rebound in employment in Q2 following the 1.3 percent fall in Q1. Yet what transpired was much stronger than expected. Employment grew by 1.2 percent in the quarter, completely reversing Q1 weakness. Hours worked also rose strongly, up 2.3 percent following a 1.7 percent fall in Q1. The HLFS volatility makes interpretation of the quarterly numbers difficult.

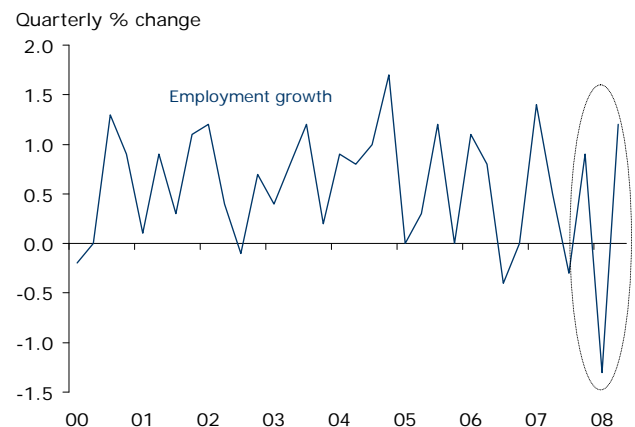
Looking at the first half of 2008 as a whole, employment growth was essentially zero – which is consistent with an economy on a hiring freeze.

We note from the full-time/part-time split, that full-time employment did not fully rebound from the weakness in March, increasing by 1.0 percent from a 1.8 percent fall in Q1, while more part-timers were being taken on (up 1.6 percent in Q2 versus a 1.0 percent fall in Q1). Perhaps this is a sign of firms wanting more flexibility in their workforce arrangements – being more hesitant to employ full-time staff and opting for more casuals in the current uncertain environment. Although again, we note that volatility in the data makes interpretation difficult.

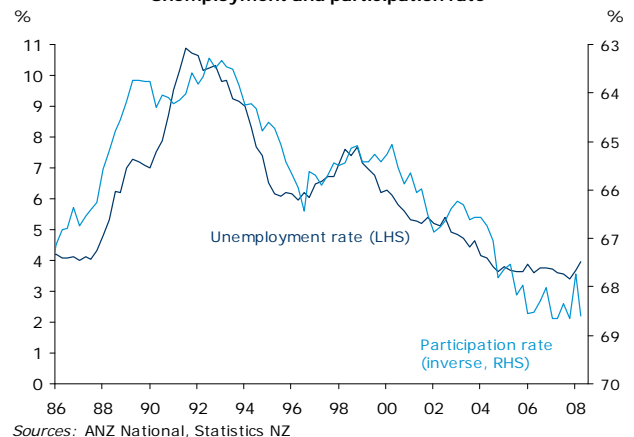
We place more weight on the unemployment rate, which tells us that the labour market is easing. We believe the unemployment rate, which tends to be more stable, provides a better indication of the state of the labour market. The increase in the unemployment rate to 3.9 percent (a 27 month high) from 3.7 percent in the previous quarter suggests the labour market has turned. The rise in the unemployment rate was partly driven by a rise in the participation rate. 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 pressures mean more people need to look for work. Given this, we suspect that falling employment, 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.

	Total Employed (%)		Hours worked (%)		Participation Rate (%)	Unemployment Rate (%)
	QoQ	YoY	QoQ	YoY		
Dec-06	-0.1	1.4	0.0	1.4	68.0	3.8
Mar-07	1.4	1.8	0.4	1.0	68.7	3.7
Jun-07	0.3	1.5	-0.5	0.6	68.7	3.6
Sep-07	-0.1	1.5	-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	-1.7	-1.6	67.7	3.7
Mar-08	1.2	0.7	2.3	1.1	68.6	3.9
ANZ	0.2	-0.6	-	-	67.7	3.8
Market	0.1	-0.6	-	-	67.7	3.8

Volatile employment growth



Unemployment and participation rate



Looking at the sectoral composition to see where job growth (and losses) are coming from throws up an interesting (although also confusing) picture.

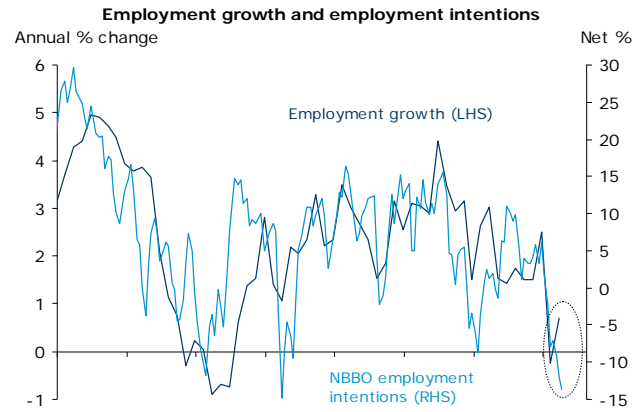
Taking H1 as a whole due to volatility, job losses are coming in the sectors where you would expect - business and financial services, wholesale & retail (not surprising given the sharp drop in consumer spending), construction and manufacturing. But these job losses were offset by increases in government dominated sectors (education and other, which includes central and local govt), and a huge 10k increase in jobs in the transport, storage and communication sector. The latter is a little surprising given high fuel costs, which we would have expected to weigh on jobs growth in the transport industry.

Half-yearly change in employment by industry							
Thousands (s.a.)	H1 05	H2 05	H1 06	H2 06	H1 07	H2 07	H1 08
Ag, forestry and fishing	-9	11	-2	-2	7	-3	0
Manufacturing	-14	4	3	-12	-4	5	-2
Construction	4	5	18	7	-1	-9	-1
Wholesale & retail trade	2	7	-8	11	17	9	-4
Transport, storage & comm	2	-6	0	5	-3	-4	10
Business & financial services	15	0	14	-7	9	10	-10
Education	-4	1	1	-3	5	-1	4
Health & community services	-1	-2	13	-3	3	5	-1
Other/not specified	9	7	-4	-1	4	4	3
Total	4	27	35	-5	37	16	-1

Source: ANZ National, Statistics NZ

The economy's productivity performance looks poor. Averaging over the March and June quarters, hours worked rose by 0.3 percent. Although this is relatively muted, the fact that the economy contracted by 0.3 percent in the March quarter and is expected to have performed even worse over the June quarter, suggests that productivity performance has been poor over the first half of this year. As we have been stating for some time now, the productivity story is one New Zealand needs to get right and will be the source of the next economic upswing. Today's data shows that this is not occurring yet.

Labour market to continue to ease. Looking forward, employment intention readings, with the National Bank *Business Outlook* showing negative reads for six consecutive months, along with the easing in difficulty in finding labour, tells us that employment growth is set to weaken over the second half of this year. We expect the unemployment rate to head towards 4½ percent by the end of the year and towards 5 percent by the end of 2009.



Sources: ANZ National, Statistics NZ

Implications

Today's employment data will not stand in the way of a September easing. The labour market was not quite as weak as first thought, but the rising unemployment rate will give the RBNZ greater comfort that wage inflation will remain contained. Given the lagging nature of the labour market, weak economic activity is still set to filter through into the employment numbers. However, the odds of a 50bp cut have lessened.

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