

Economic Review

New Zealand

5 November 2009

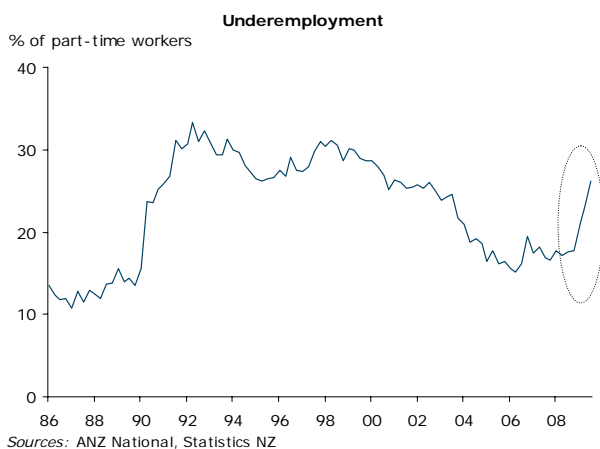
Household Labour Force Survey: September 2009 quarter

Key points

- > **The labour market continues to deteriorate and is consistent with our cautious view on the economic outlook.**
- > **More timely benefit numbers for October still suggest a deterioration, but at a slower rate.**
- > **With a significant amount of labour market slack, there is limited risk of inflation pressures emanating from the labour market.**
- > **The RBNZ is likely to remain comfortable with their “low for longer” view on rates, as do we.**

Assessment

The labour market deteriorated again in the September quarter. In fact, the numbers were weak across the board. Employment fell 0.8 percent – the third contraction in a row – and was driven by falls in both full-time (down 0.5 percent) and part-time (down 1.1 percent) employment. Hours worked fell 0.7 percent and follows a 1.9 percent tumble in the June quarter. The September quarter marked the fifth consecutive quarter where hours worked has fallen. Unemployment rose by 12,000 to 150,000, or 6.5 percent of the labour force, with the latter now at the highest level since the March 2000 quarter. Underemployment – a measure of part-time workers wanting to work more hours – rose to 26.2 percent (seasonally adjusted) and is the highest since March 2001. This suggests, along with the 3.1 percent annual drop in hours worked, that there remains significant capacity within the existing workforce to absorb any improvement in conditions once this transpires.



Looking at some demographic trends, there are some clear dichotomies at present. Across age groups, it is the younger workforce that has faced the biggest deterioration in labour conditions.

The unemployment rate for the 15-19 and 20-24 year old age groups have risen to 25.5 and 11.6 percent respectively, from 15.8 and 8.1 percent respectively a year ago, based on our own seasonally adjusted estimates. This compares with an unemployment rate for 60-64 year olds which has actually fallen to 2.6 percent from 2.8 percent over the past 12 months. It is not surprising then to see that in the past 12 months there has been a 9.3 percent increase in those participating in formal study as school leavers look at other options than entering the labour force. Interestingly, despite these labour market trends, the improvement in consumer confidence we are seeing from the likes of the ANZ-Roy Morgan survey is more pronounced for younger individuals, while older persons are more circumspect. This sort of dynamic highlights that a lot of the improvement in such gauges may well lack substance.

	Total Employed (%)		Hours worked (%)		Participation Rate (%)	Unemployment Rate (%)
	QoQ	YoY	QoQ	YoY		
Mar-08	-1.2	-0.2	-2.2	-1.6	67.7	3.8
Jun-08	1.3	0.8	2.8	1.2	68.5	4.0
Sep-08	0.1	1.1	-1.2	0.0	68.6	4.3
Dec-08	0.7	0.9	-0.4	-1.0	69.1	4.7
Mar-09	-1.4	0.7	-0.2	1.1	68.3	5.0
Jun-09	-0.4	-0.9	-1.9	-3.6	68.4	6.0
Sep-09	-0.8	-1.8	-0.7	-3.1	68.0	6.5
ANZ	-0.2	-1.2	-	-	68.2	6.3
Market	-0.3	-1.3	-	-	68.2	6.4

Dichotomies also exist when looking across regional and industrial trends. There remains a North versus South dynamic. Yes, unemployment rates have risen across the whole country. However, it was really a northern NZ story last year. Now we are seeing this spread further south. In fact, we estimate that Auckland's unemployment rate (seasonally adjusted) fell in the September quarter, while a number of other regions experienced large increases in unemployment. Across the industries,

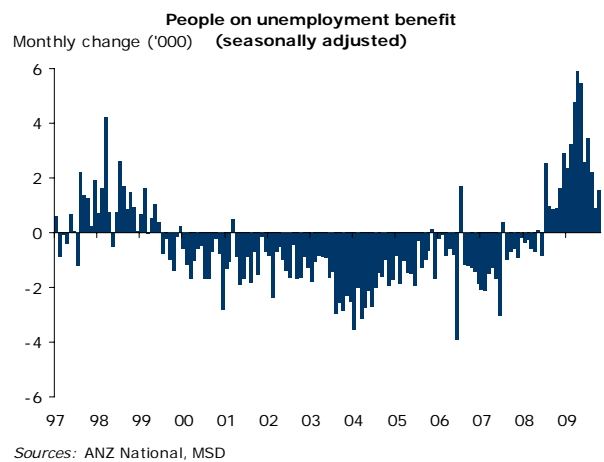
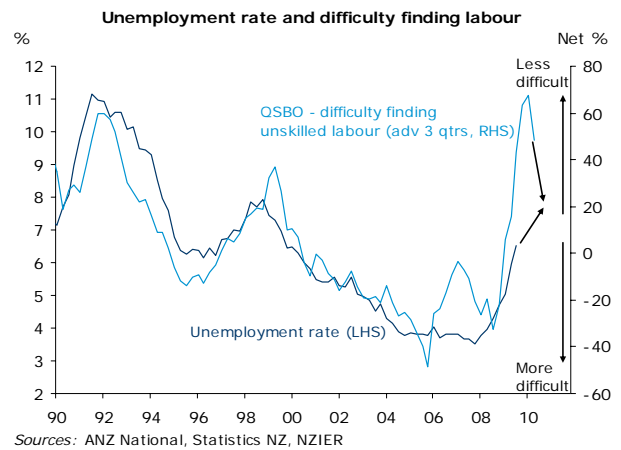
most of the job losses over the past year have been in the private sector, with manufacturing (-27K), retail trade and accommodation (-12K), and construction (-10K) the hardest hit. Employment in the government sector however, bucked the general trend with rises in healthcare and social assistance (+10K) and public administration and safety (+10K).

Seasonally adjusted unemployment rates (%)			
	Sep-09	Jun-09	Sep-08
Northland	8.1	9.0	6.3
Auckland	6.9	7.0	4.6
Waikato	6.8	6.7	4.8
Bay of Plenty	8.0	6.6	4.2
Hawke's Bay	9.2	8.4	6.1
Taranaki	4.3	4.1	3.7
Manawatu/Wanganui	5.9	4.5	3.9
Wellington	6.2	5.4	3.9
Nelson/Marlborough	4.3	3.2	3.4
Canterbury	6.1	4.7	3.4
Otago	5.9	4.6	2.9
Southland	3.6	3.6	3.1

It is these dichotomies that help highlight the current inflection point we face in the economic cycle, but also the mixed messages that are being received. Positive economic developments certainly exist, such as the strong gains in dairy prices of late and the continual recovery in the housing market. But the weakness in the labour market is a reminder that for every positive development, there are also negatives and we expect such a theme to continue over the coming months. To us, it remains consistent with our reasonably circumspect view on the economic outlook. This economic cycle is "different" in the sense that households need to de-leverage. So while we respect the lagging nature of employment figures we must also be mindful of the reality that a weak labour market will present challenges to how de-leveraging takes place.

Looking forward, the unemployment rate looks set to continue rising but at a slower rate. There has been a notable improvement in employment intentions from recent business surveys (from very negative to neutral or slightly positive) and this may see employment begin to expand again over the coming quarters. However, we suspect it will not be enough to absorb new entrants into the workforce. This will see the unemployment rate continue to rise even though the economy is looking to regain forward momentum. On this point, we note that the Minister of Social Development and Employment released the latest unemployment benefit numbers for October and these showed a fall from 60,660 to 59,955. But based on our own seasonally adjusted estimates, there was a 1.6K increase. This monthly rise in well down on prior months, so on face value implies the labour market is not weakening as rapidly, but still weakening nonetheless. With hours per full time equivalent at historical lows,

there is considerable slack that currently exists within the workforce, which will be able to absorb any improvement in labour demand initially.



If there is a positive slant to put on today's data it is that productivity growth is improving. The 0.7 percent fall in hours worked in the September quarter suggests momentum remains weak although, other indicators suggest positive GDP growth will be recorded. All up it has all the hallmarks of a statistical recovery. Nonetheless, the sharp improvement in productivity growth over June to September needs to be acknowledged. This will act to suppress inflation, but all recoveries start with improving productivity trends and this is certainly occurring at present.

Implications

A rising unemployment rate suggests limited risk of inflation pressure emanating from the labour market, as the soft wage inflation numbers from earlier this week attest to. While a string of positives is to be acknowledged, and the labour market is lagging, it nonetheless emphasises that the economic outlook remains fraught with uncertainty, particularly given household balance sheets. In this environment we expect the RBNZ to stick to the script and reinforce their stance that rates are on hold until the second half of next year. We remain comfortable with our view of a September start to the tightening cycle but for moves to be in 50 basis point clips initially.



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