NEW ZEALAND ECONOMICS
Household Labour Force Survey – September 2011 quarter

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NOT AS BAD AS IT LOOKS

KEY POINTS

- The Q3 labour market data was weaker than market expectations, but the detail was not as bad as the headlines suggest.
- The unemployment rate increased slightly to 6.6 percent, whereas a fall to 6.4 percent had been expected. Employment rose only 0.2 percent in the quarter, exactly in line with our expectations but considerably weaker than expected by the market. However, excluding Canterbury, employment was up a decent 1.0 percent in the quarter.
- Also on a stronger note, hours worked increased a seasonally adjusted 1.0 percent, following on from a strong increase last quarter as well. However, some of the strength in hours worked may be related to the Rugby World Cup and hence unlikely to persist beyond Q4.
- Even with another sharp rise in hours worked, hours per worker remain well below historical averages. There is therefore still scope to increase production through increasing hours rather than taking on new workers.
- A volatile and stubbornly high unemployment picture is partly symptomatic of deep structural changes the New Zealand economy is undergoing. These forces will be with us for some time.
- The divergence in the labour market data between Canterbury and non-Canterbury will make life challenging for the RBNZ. Signs of labour market strength outside Canterbury mean that the RBNZ must be attuned to the potential for the Canterbury story to turn quickly, as this could have sharp ramifications for the unemployment rate. However, at present, the labour market is not looking like the catalyst for hikes.

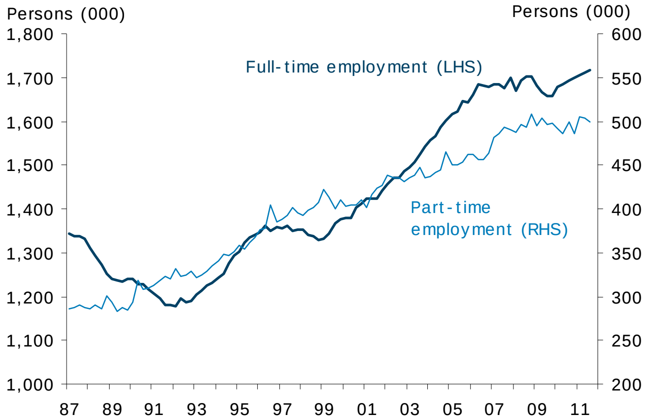
	Total Employed (%)		Hours worked (%)		Participation Rate (%)	Unemployment Rate (%)
	QoQ	YoY	QoQ	YoY		
Jun-09	-0.2	-0.9	-1.8	-3.6	68.4	6.0
Sep-09	-0.8	-1.8	-0.9	-3.3	68.0	6.5
Dec-09	0.2	-2.3	0.2	-2.7	68.2	7.0
Mar-10	0.7	-0.1	1.3	-1.1	68.0	6.1
Jun-10	-0.1	0.0	0.9	1.6	68.1	6.9
Sep-10	1.1	1.8	0.4	2.9	68.3	6.4
Dec-10	-0.3	1.3	0.0	2.6	68.0	6.7
Mar-11	1.2	1.8	-0.2	1.1	68.6	6.5
Jun-11	0.0	2.0	1.5	1.7	68.3	6.5
Sep-11	**0.2**	**1.1**	**1.0**	**2.3**	**68.4**	**6.6**
ANZ	***0.2***	***1.2***	***1.2***	***2.5***	***68.3***	***6.4***
Market	*0.6*	*1.6*	*–*	*–*	*68.5*	*6.4*

DATA REVIEW

COMMENT AND ASSESSMENT

The weak growth in employment in Q3 was in line with our prediction but considerably weaker than the market consensus. Full-time employment rose 0.4 percent, but this was largely offset by a 0.6 percent fall in part-time employment.

Full and part-time employment

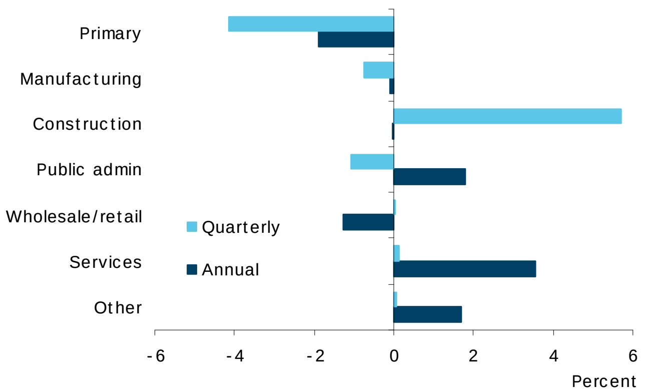


Sources: ANZ, National Bank, Statistics NZ

The slight increase in the unemployment rate was a worse outcome than what we and the market consensus was expecting. The working age population increased 0.2 percent in the quarter, with the increase in the labour force reinforced by a small rise in the participation rate from 68.3 to 68.4 percent.

On a sector basis, only three industries recorded a fall in employment on an annual basis (agriculture, forestry and fishing; electricity, gas, water and waste services; and retail and accommodation). We suspect the fall in employment in the agriculture sector will start to turn around given still-high commodity prices and record dairy production this season. The 10,000 decline in those employed in the retail and accommodation sector is no surprise given the tough retailing environment. But the fact that most other sectors posted increases or held their own is pleasing.

Growth in employment by sector
September 2011 quarter and year

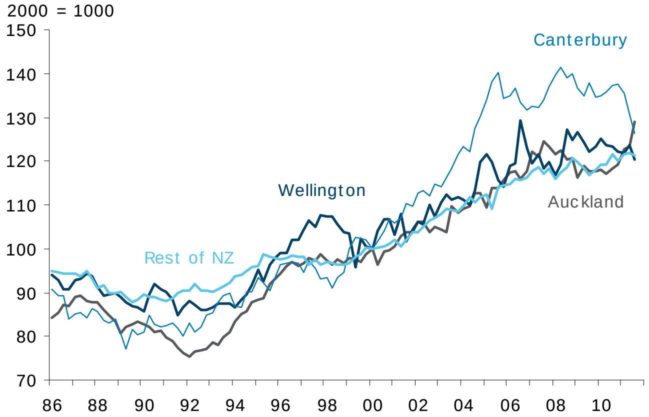


Sources: ANZ, National Bank, Statistics NZ

Notably, construction sector employment was 5.7 percent higher q/q, and while broadly unchanged on a year ago has been steadily picking up since March. This sector is set for a boom, and will be one to watch for wage pressure.

Regional divergences were also apparent. Our seasonally adjusted estimates show employment rose strongly in Auckland (up 4.5 percent q/q, 9.1 percent y/y) but fell in Canterbury (down 3.6 percent q/q, -8.0 percent y/y). Canterbury employment should start to turn around as the rebuild gets underway. Wellington showed the impact of fiscal belt-tightening, with employment falling 2.7 percent q/q (-2.4 percent y/y).

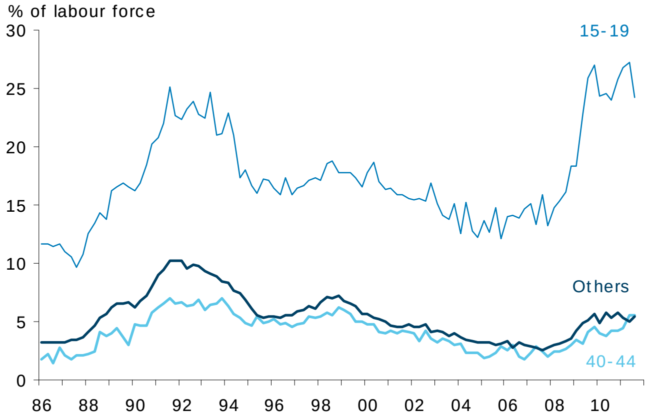
Employment by region



Sources: ANZ, National Bank, Statistics NZ

Trends by age group show a highly segmented labour market. The unemployment rate for those in the 15 to 19 age group fell back from its June quarter historic highs but at 24 percent is still worryingly high, and employment for this group is down nearly 7 percent versus a year ago. By comparison, the unemployment rate for those over 55 is only 2.6 percent.

Unemployment rate by age groups



Sources: ANZ, National Bank, Statistics NZ

On top of a strong rise in Q2 (+1.5 percent), hours worked rose a solid 1.0 percent s.a. With hours worked

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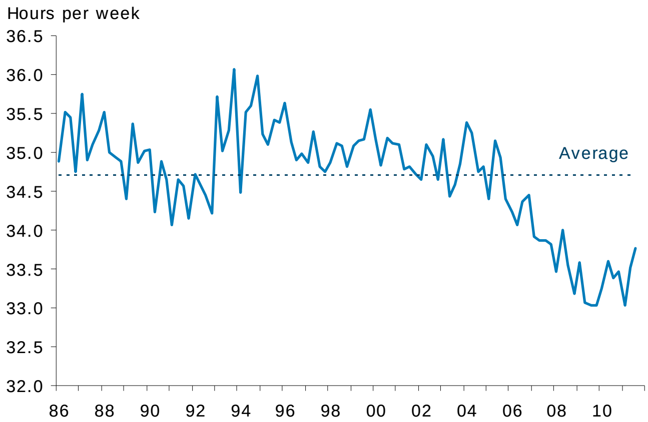
per person still around 0.9 hours below the historical average, there remains scope to meet increased demand by working the existing workforce longer rather than taking on new workers. However, all else equal more hours worked will add to labour incomes and consumer spending power.

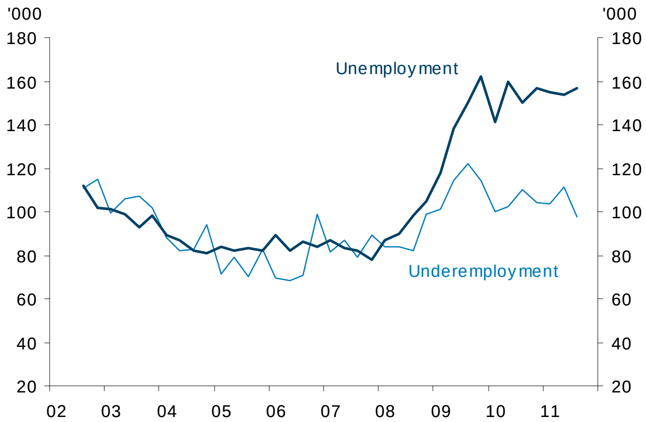
Hours worked per person



Sources: ANZ, National Bank, Statistics NZ

Underemployment (those working part-time but preferring to work more) **continued to decline** from its September 2009 peak, falling 12.5 percent in Q3.

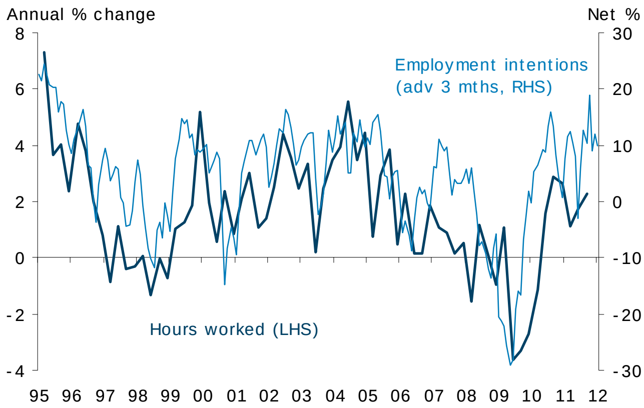
Underemployment vs unemployment



Sources: ANZ, National Bank, Statistics NZ

We expect employment growth to strengthen only modestly over the next 6 months, but to pick up more strongly in the second half of 2012 as the Christchurch rebuild really kicks into gear. Employment intentions have eased but are holding up at solid levels. Job advertisements have fallen back slightly after a sharp rise in the middle of the year. All up, there is solid underlying demand for labour but nervousness regarding the turmoil in our traditional trading partners is likely to see some hiring plans put on hold.

Labour demand and employment intentions



Sources: ANZ, National Bank, Statistics NZ

The volatile unemployment rate picture over the past year is hardly surprising given the barrage of shocks the economy is facing. There are deep structural forces at play. In particular, the need to rebalance the economy towards the productive sector was never going to be a smooth process. **Moving capital and particularly labour between sectors causes frictions** around such issues as retraining and how fast growth opportunities in the tradable sector can be unlocked. This will cause stickiness in the unemployment rate, and pockets of wage pressure that will be unhelpful for the Reserve Bank.

The regional divergence also makes things more challenging for monetary policy. Resilience in labour demand outside of Canterbury means the RBNZ must be attuned to the timing of the Christchurch rebuild, as the aggregate unemployment picture could change quickly. The 5.7 percent increase in construction employment in Q3 (off a low base) coincided with a 3.6 percent fall in Canterbury employment. Things could get interesting when Canterbury construction takes off.

IMPLICATIONS

The HLFS was a mixed bag. The increase in hours worked (stronger than the unchanged QES paid hours) showed labour demand strengthened modestly in Q3, despite the worsening in the headline unemployment rate. Nervousness about the global situation is likely to see a softer patch before the Christchurch rebuild sees firming employment and a decline in the unemployment rate from mid-2012. The labour market is behaving itself and at this stage is not looking like the catalyst for OCR hikes.

We continue to expect the RBNZ to remain on the sidelines until June next year, and even then hikes are conditional on the global situation not having too large an impact on New Zealand. We expect a gradual and path of rate hikes, with pauses along the way and a historically low endpoint.

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