

Household Labour Force Survey: March 2009

Key points

- > **Employment tumbles, but workers leaving the labour force limit the rise in the unemployment rate.**
- > **Despite an economy in recession for over 12 months, NZ's labour market remains resilient relative to global counterparts. But we expect further deterioration ahead.**
- > **Nevertheless, today's numbers put less pressure on the RBNZ to ease again – for now.**
- > **We now expect the RBNZ to pause in June, before resuming cutting from September, as signs of green shoots wilt.**

Assessment

The labour market continued to weaken in the March quarter, but was not as weak as had been expected. In seasonally adjusted terms, employment fell by 1.1 percent in the March quarter – the biggest quarterly contraction since the March 1989 quarter. However, volatility in the employment growth measure of late almost makes the quarter-on-quarter movements redundant. Part of the reason for the sharp fall in employment in the March quarter will be an unwinding of the surprising strength in the previous quarter. We instead prefer to focus on the more stable unemployment rate, and while it rose 0.3 percentage points to 5.0 percent, this was not as bad as we had feared. The 0.2 percent rise in hours worked in the quarter also shows some underlying resilience. On the face of it, this is encouraging and needs to be acknowledged.

There are signs of a “discouraged worker effect” developing. The participation rate fell 0.7 percentage points to 68.4 percent in the quarter as 17,000 workers left the labour force entirely, rather than stay and look for work. With part-timers bearing the brunt of the job losses, down 3.1 percent in the quarter, some of these workers may have decided to leave the labour force altogether and this limited the rise in the unemployment rate. There are also signs many are taking the opportunity to up-skill, with the number of workers participating in formal study rising 7.6 percent compared with the March 2008 quarter. However, there are also signs that the part-timers that remain employed would like to work longer hours, with the “underemployment rate” rising to 20.8 percent (in seasonally adjusted terms) in the March quarter.¹ This is up from 17.8 percent in the

December quarter and has been trending higher since 2006.



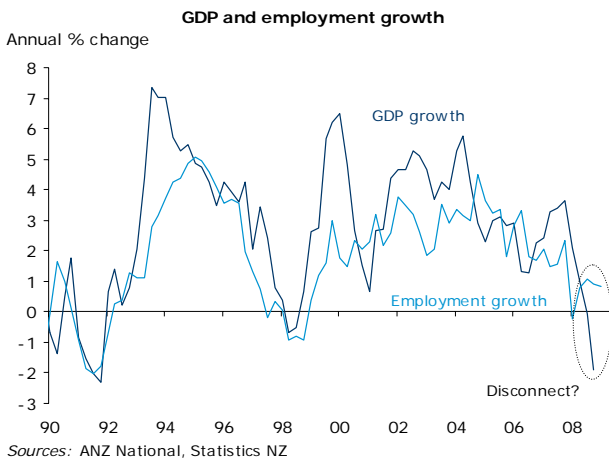
	Total Employed (%)		Hours worked (%)		Participation Rate (%)	Unemployment Rate (%)
	QoQ	YoY	QoQ	YoY		
Sep-07	-0.1	1.5	0.0	0.1	68.2	3.6
Dec-07	0.7	2.3	0.7	0.5	68.4	3.5
Mar-08	-1.0	-0.2	-2.0	-1.5	67.7	3.8
Jun-08	1.2	0.8	2.5	1.2	68.5	4.0
Sep-08	0.2	1.1	-1.2	0.0	68.6	4.3
Dec-08	0.6	0.9	-0.3	-1.0	69.1	4.7
Mar-09	-1.1	0.8	0.2	1.2	68.4	5.0
ANZ	-1.5	0.7	-	-	68.4	5.4
Market	-1.0	1.1	-	-	68.8	5.3

The composition of employment growth is counter-intuitive in some areas. The employment data is notoriously volatile the further down you dig, but looking at annual changes throws up some interesting observations. Employment is falling in most “market” sector industries, with manufacturing down 6.4 percent, transport and communication down 3.4 percent and agriculture down 4.4 percent. However, somewhat surprisingly, construction employment has risen 3.1 percent and employment for business and financial services is up 4.5 percent

¹ The underemployment rate measures the proportion of part-timers who would like more work hours.

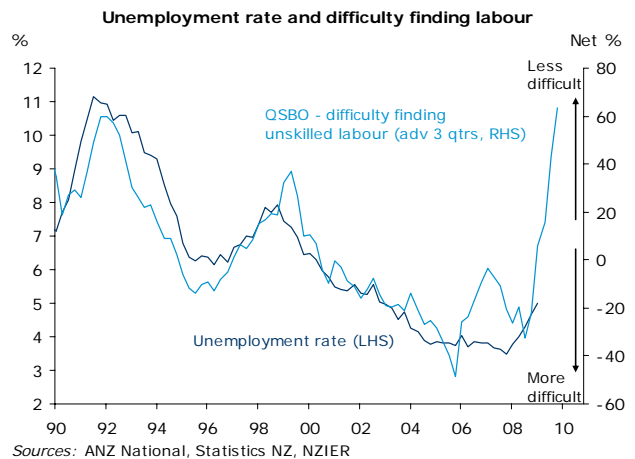
in the past 12 months. Given these two sectors' links with the housing market, these moves seem a little counter-intuitive. "Non-market" employment continues to rise strongly, with education and health and community services employment rising 2.9 and 8.6 percent, respectively. This theme fits with the Quarterly Employment Survey released on Monday.

New Zealand's labour market has not deteriorated as rapidly as those seen overseas. With the NZ economy being in recession since the start of 2008, it is somewhat surprisingly that a larger rise in unemployment (and weaker employment growth) has not been recorded given recent overseas experience. The Australian economy is yet to enter a technical recession (although this is still a possibility) yet their unemployment rate has risen 1.8 percentage points from February last year and is expected to head even higher in data out this afternoon. The US unemployment rate has risen 3.7 percentage points over the same period. This is consistent with the non-systemic nature of NZ's downturn compared to systemic recessions in the Northern Hemisphere. Nevertheless, there is a large disconnect between employment growth and GDP growth, suggesting that firms have been hoarding labour. However, we expect the former to play "catch up" over the coming quarters.



Looking forward, we continue to expect the unemployment rate to rise. While today's numbers were not as bad as expected, it is likely that the unemployment rate will continue to rise as the year progresses. Business surveys and anecdotes have been clear in stating that firms are reassessing their staffing levels. Certainly, recent high profile news about more job losses and the steep rise in the number of people going on the unemployment benefit suggests this could be the case. But should the discouraged worker effect become stronger, this could limit how high the unemployment rate goes. Conversely, we are also aware of the possibility of the participation rate staying higher than in previous economic

slowdowns as the de-leveraging process that households are embarking on forces workers to remain in the labour market.



Implications

While we remain wary of labour market developments - and fully expect the unemployment rate to rise rapidly over the year ahead - we similarly have to respect recent indicators pointing towards stabilisation, with the so called "green shoots" that seem to be sprouting for now. Ultimately, we do not expect those green shoots to take hold, given that the labour market is still set to deteriorate and will be a key barrier to any further resurgence in domestic demand. And despite recent optimism over the global environment, it is still too early to be sure that things are materially on the mend. But clearly forecasting at this juncture contains a heavy element of uncertainty, and we need to respect such uncertainty when we pull together our financial market forecasts.

We now expect the RBNZ to pause in June, before resuming from September as signs of those green shoots wilt. The RBNZ has massively front loaded policy since July last year, with 575bps of cuts to date, hence there is less pressure to act from this juncture, particularly with the OCR at 2.5 percent. As the RBNZ reminded us at their March *Monetary Policy Statement*, "some of the easing was also in anticipation of the future negative effects of the global economy on New Zealand." While we are in no doubt that significant challenges remain, including the currency, and the RBNZ will no doubt be frustrated by the lack of follow through from their 50bp cut in April, the tenor of the dataflow has changed. With policy now in "glide-path" mode (after heavy front-loading), we need to respect the altered nuances. Hence, our expectation now of a pause, before the cycle resumes in September. While some may view this as a reactive rather than proactive policy stance, such is the reality with monetary policy. With the OCR already at 2.5 percent, there is a strong justification for keeping some ammunition in reserve for later should it be required, or at least when policy has better prospects for gaining traction.

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