

LABOUR MARKET DATA PREVIEW – MARCH QUARTER 2007

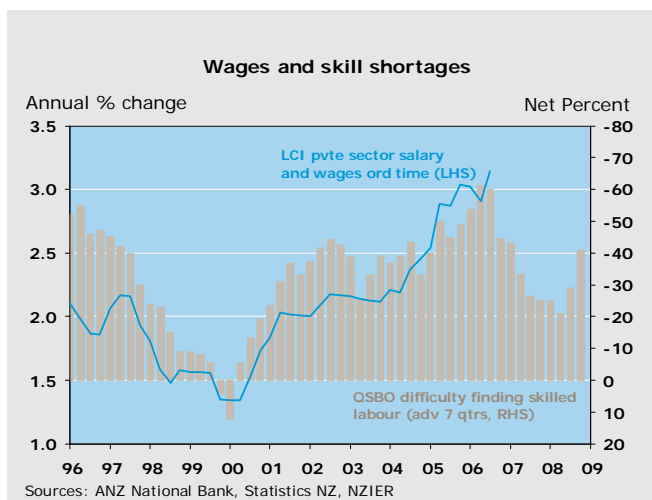
(LCI and QES due 10.45am 7 May, HLFS due 10.45am 10 May)

Key points

- Labour market data due for release next week will join the recent run of data pointing towards a strong Q1 GDP print.
- There will be an element of pent-up demand in the HLFS after two negative quarters of employment growth. We expect employment growth to rebound strongly but the unemployment rate to remain unchanged courtesy of a rise in the participation rate.
- A strong labour market will keep the Reserve Bank on alert, but the key remains where the labour market goes to from here.

Expectations		
	ANZ National	Market
LCI salary and wage ord time (private sector)	0.8% q/q 3.2% y/y	0.9% q/q 3.3% y/y
QES salary and wage ord time (private sector)	0.8% q/q 5.6% y/y	0.9% q/q 5.7% y/y
HLFS unemployment rate (s.a.)	3.7%	3.8%
HLFS employment growth	0.8% q/q 1.1% y/y	0.5% q/q 0.8% y/y

The March quarter wage data on Monday will show wage growth remaining at historical highs. The key gauge to watch is the Labour Cost Index (LCI) measure of private sector ordinary time earnings. This recorded a 1.0 percent increase in the December quarter, which took annual growth to a record high of 3.2 percent. We expect the LCI to record a 0.8 percent increase in the March quarter, keeping the annual figure at 3.2 percent. For completeness, the less reliable Quarterly Employment Survey (QES) wage indicator – which is volatile and influenced by compositional changes – is expected to increase by 0.8 percent in the quarter, taking the annual rate to 5.6 percent. We expect public sector wage growth to exceed those of the private sector, placing further upward pressure on private sector wages.



Wage growth should stay elevated for some time yet given the tight labour market. The fact that firms' hiring intentions have increased recently and businesses have reported increased difficulty in recruiting staff,

points to wage pressures remaining elevated for some time. An increase in the minimum wage – effective from the June quarter – is expected to lead to further wage inflation as employees seek relativity adjustments.

There will be an element of pent-up demand in the HLFS report. After recording falls of 0.5 percent and 0.1 percent in the September and December quarters respectively, we expect employment growth to rebound and record an increase of 0.8 percent in the March quarter. Certainly, this sits comfortably with the strong pick-up in employment intentions from the NZIER *Quarterly Survey of Business Opinion* and the National Bank *Business Outlook*. An expected rebound in the participation rate to 68.2 percent, from 67.9 percent in the December quarter, is enough to offset the gain in employment in the quarter to leave the unemployment rate unchanged at 3.7 percent. Given the volatility in the quarterly employment growth number, we see upside risk to our forecast.

Assessment

A strong employment and wage report will keep the Reserve Bank on alert. The Reserve Bank will be wary of strong labour income growth continuing to sustain the housing market and consumer spending throughout the year, adding further impetus to medium-term inflation.

Where the labour market goes from here remains the key. The labour market has insulated the household sector from the economic slowdown to date, allowing the housing market and consumer spending to remain robust in the face of tighter financial conditions. Although easing in April, employment intentions from the National Bank *Business Outlook* remain elevated and suggest employment growth will remain supported in the near-term. However, we note the recent nuances emerging from the export community in particular about the pressures facing businesses at present. Business profits are under pressure from low labour productivity, higher interest rates and increasing costs. The strength of the NZ dollar is eroding exporters' returns. With labour costs accounting for the majority of total business expenditure, the cost containment spotlight will fall on the workforce, which will eventually lead to a higher unemployment rate. We expect this theme to intensify over the second half of this year.

Important Notice

Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11005 357 522
10th Floor 100 Queen Street, Melbourne 3000, Australia
Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
Minerva House, PO Box 7, Montague Close, London, SE1
9DH, United Kingdom
Telephone +44 20 7378 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)
6th Floor 1177 Avenue of the Americas
New York, NY 10036, United States of America
Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited
Level 7, 1 Victoria Street, Wellington, New Zealand
Telephone +64 4 802 2000

In Australia and the UK, ANZ Investment Bank ("ANZIB") is a business name of Australia and New Zealand Banking Group Limited, ABN 11 005 357 522 ("ANZ Bank"), which holds an Australian Financial Services licence no. 234527 and is authorised in the UK by the Financial Services Authority ("FSA"). In New Zealand, ANZ Investment Bank is a business name of ANZ National Bank Limited WN / 035976 ("ANZ NB").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZSI") (an affiliated company of ANZ Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZSI upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZSI, not its affiliates.

This document is being distributed in the United Kingdom by ANZ Bank for the information of its market counterparties and intermediate customers only. It is not intended for and must not be distributed to private customers. In the UK, ANZ Bank is regulated by the FSA. Nothing here excludes or restricts any duty or liability to a customer, which ANZ Bank may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA. This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy. In addition, from time to time ANZ Bank, ANZ NB, ANZSI, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZ Bank, ANZ NB, ANZSI or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable.

The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. The author's compensation will, be based upon, among other factors, the overall profitability of ANZ, including profits from investment banking revenues.

ANZ Bank, ANZ NB, ANZSI, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation. Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.