

Jobs: the next casualty

2009Q1 employment and wage data preview

- **Employment to contract 1.2% after a 0.9% rise last quarter.**
- **Unemployment to push higher to 5.3% with upside risk.**
- **Wage growth to decelerate in line with reduced labour demand and lower inflation expectations.**

Unemployment: onwards and upwards

The March 2009 quarter Household Labour Force Survey will be released on Thursday 7th May. We expect the data to show a labour market downturn in full swing.

Recent labour indicators have been nothing short of horrendous. The March 2009 Quarterly Survey of Business Opinion revealed that a net 35% of firms shed staff in the March quarter the highest ratio since September 1991 (a net 36% intend to shed staff over the next three months). Moreover, firms reported that the ease of finding labour, both skilled and unskilled, is now the highest in more than 30 years. Add to that the sharp decline in the latest Westpac McDermott Miller employment confidence survey, and the picture becomes pretty clear. Labour demand has shut down.

These indicators build on what was already a rapidly deteriorating labour market outlook at the end of 2008. Nevertheless, the HLFs surprised us in the December quarter, posting a 0.9% lift in employment. We put much of that increase down to data volatility and, as such, expect some pay back in 2009Q1. Our pick is for a fall of 1.2% in the quarter, and perceive the risk to that forecast to be on the downside.

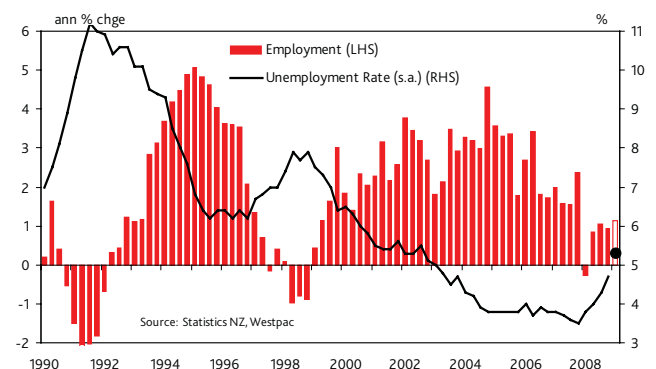
The supply side of the labour equation is a little more complicated. Over the past year, participation has become extremely fickle, dropping abruptly in one quarter and recovering entirely the next, largely in tandem with the volatility in the employment figures.

In the December 2008 quarter, participation surged to a record high 69.2%, from 68.6% in the September 2008 quarter. For

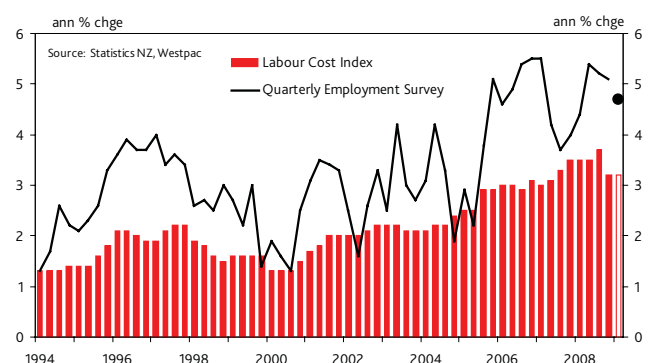
March quarter labour market expectations

	Quarterly % change		Annual Westpac
	Previous	Westpac	
LCI – All sectors	0.7	0.5	3.1
LCI – Pvt sector	0.7	0.5	3.1
LCI – Pvt sector all	0.7	0.6	3.1
QES wages – All sectors	0.9	0.7	4.6
QES wages – Pvt sector	0.8	0.7	4.7
Employment growth	0.9	-1.2	
Unemployment Rate %	4.7	5.3	
Participation Rate %	69.2	68.7	

Household Labour Force Survey



Private Sector Earnings and Labour Costs



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the March 2009 quarter, we have assumed that participation largely unwinds that increase, dropping back to 68.7% as discouraged workers move out of the labour force, particularly those in the under 25 and over 55 age groups. But with labour demand falling faster than labour supply, the unemployment rate rises to a hefty 5.3%.

The risk is that participation does not fall as much as we expect. These are unusual times, and as we have seen in other economies such as the US and Australia, participation has been holding up. This is especially the case in the 55+ age group where workers have seen their retirement funds slashed as asset prices have fallen. In many cases, these workers are finding themselves in a position where they either have to stay in or return to work – the so called 'desperate' worker effect. If participation holds up more than we expect, the unemployment rate will rise further. Indeed, if participation is unchanged from the December quarter, then all else equal the unemployment rate would reach 6.0% this quarter.

Wages: no longer a threat

New Zealand's collection of wage data is released on Wednesday 6 May. Wage growth has been very strong in recent years, but slipped off its highs (in annual terms) on most measures last quarter. We expect wage growth to continue to slow in earnest through 2009 in line with the dramatic easing in labour demand pressures and reduced inflation expectations.

The most important wage data is the Labour Cost Index. The key measure to focus on is the private sector all salary and wage rates (i.e. includes overtime wages). This is the series forecast (and preferred) by the RBNZ. Last quarter this series registered an increase of 0.7%, to be up 3.2% on a year ago. We expect growth of 0.6% this quarter, bringing the annual rate to a 2-year low of 3.1%.

The unadjusted LCI (released concurrently) tends to be more sensitive to the economic cycle. It jumped a record 1.5% in the December 2008 quarter, but this quarter the increase is likely to be far less spectacular. We expect 0.9% in March, which will see the annual rate drop from 5.4% to 5.1%.

Finally, the Quarterly Employment Survey is also fairly responsive to the economic cycle, but it is extremely volatile meaning it is hard to read much into a single quarterly outturn. We predict 0.7% quarterly growth in private sector average hourly earnings. Over the course of the employment downturn we expect annual growth in average hourly earnings to drop from 5.3% to 1.5%. QES hours paid also gives a hint about the state of economic activity in the first quarter, and may generate some market movement. We expect it will be well below zero.

Market Implications

Of the two wage surveys released on Monday, private sector all salary and wage rates in the LCI is the one to watch. Our forecast of 0.6% matches the RBNZ and is in line with the market median. Market reaction to the wage data is usually fairly limited, given the pending release of the HLFS data and we expect this quarter to be little different. Inflation concerns are off the radar at present.

On the HLFS, our employment forecast is on the soft side of the -1.1% median expectation. The range is -2.3% to +0.2% (a reflection of just how volatile this series has become). Given the volatility in the employment and participation data in the past year, we suggest the unemployment rate is the better gauge of the true state of the labour market. Our forecast is bang on the median expectation at 5.3%, however, our fear is that the outturn is worse. The range of forecasts is from 4.8% to 5.5%.

All up, we expect the suite of labour market data to reinforce our view that the labour market has become the next victim of the current downturn.

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