

Through a glass, darkly

NZ Q1 HLFS employment 1.4%q/q, unemployment rate 6.6%

- Employment rose strongly and the unemployment rate edged down.
- Today's numbers don't include earthquake-disrupted Christchurch.
- They give further support to our view that the economy was picking up pre-quake. Market reaction was positive but short-lived.

Key results

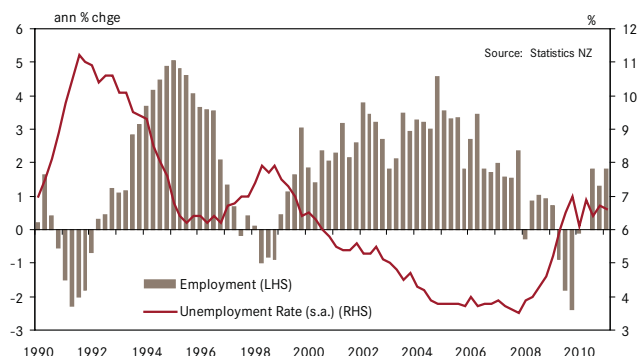
	Q4	Q1	Q1 Expected	
	2010	2011	WBC	Mkt
Employment %q/q	-0.4	1.4	0.7	0.6
Unemployment rate %	6.7	6.6	6.7	6.7
Participation rate %	67.9	68.7	68.1	68.1
Hours Worked s.a %q/q	-0.1	-0.9	0.4	

The key message from today's otherwise murky Household Labour Force survey is that the labour market was improving before the 22 February Christchurch earthquake, and outside the quake affected regions – but with unemployment still lingering at 6.6%, we are still well short of the types of conditions that could generate wage and inflation pressures. This message is in keeping with Tuesday's wage and Quarterly Employment Survey data, and with a range of other evidence we have seen in recent months.

This HLFS tells us little if anything about the impact of the earthquake on the labour market. The survey is based on interviews conducted throughout the quarter, but Statistics New Zealand have advised that Christchurch was excluded from the sample after the 22 February quake – indeed, no interviews were conducted in the entire South Island in the week following the quake.

We would also caution against over-excitement about the strength of today's employment numbers. Granted, employment growth, at 1.4%, was much stronger than we or the market had expected. And strength had been foreshadowed by Tuesday's Quarterly Employment Survey. But New Zealand's employment

Household Labour Force Survey



data are notoriously volatile. Even without an earthquake, given the degree of see-saw over history we would expect today's employment figure to be followed by a weak June quarter.

Reasons for taking the employment number with a grain of salt include the fact that the spike was concentrated in volatile part-time employment (full-time employment grew a much more modest 0.5%), and the potential for seasonal factors to lead seasonally adjusted estimates astray around this time of year. The March quarter labour data are heavily seasonal, as this is when summer jobs and the holiday retail period come to an end, and unadjusted employment grew just 0.3%. It may be no coincidence that last March we saw a similar spike in seasonally adjusted employment which turned out to be temporary.

Volatility in employment tends to coincide with similar movements in labour force participation (the number of people in the market for paid work), and the effect on the unemployment rate washes out. That happened this time, with the participation rate spiking to 68.7. This may represent a return to more stable unemployment numbers than in 2010, where this relationship broke down and we saw huge and confusing swings in the unemployment rate.

While the data do not tell us about Christchurch after the earthquake, there are in fact some hints in today's data of the quake's impact, suggesting that this extended beyond the immediate boundaries of the Christchurch/Selwyn districts

For further information, questions or comments contact Dominick Stephens, telephone (09) 336 5671, email dominick_stephens@westpac.co.nz

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(wider Canterbury was reintroduced into the sample in the month of March). Most notably, hours worked nationally fell 0.9% in the quarter, while outside Canterbury, hours worked rose 1.4% - and usual hours worked (which one would expect to be less affected by immediate quake-related disruption) were up 1.2% nationally.

Traces of the earthquake can also be detected in the regional and industry breakdowns. On our estimates, seasonally adjusted employment fell 3.5% in the Canterbury region. But Canterbury was also the only region in which the participation rate declined, leaving the regional unemployment rate just a little higher than in December, at 6.2%. By industry, this quarter saw particularly strong employment growth in accommodation, transport, communication, whereas employment fell more than 3% in manufacturing and construction. Canterbury aside, the regional breakdown continues to show a North-South split - our estimates of seasonally adjusted unemployment are much lower in the South Island (Northland continues to top the list, at 9.5%).

Looking ahead

We expect unemployment to rise in June, once the impact of earthquake disruption fully comes through in the data. But by 2012, reconstruction is likely to lead to unemployment falling more rapidly.

There is still a lot of uncertainty around the magnitudes. The limited evidence we already have suggests that the negative impact in the near term may be limited. In particular, the monthly NBNZ business survey showed Christchurch employment intentions bouncing back in April (and remaining reasonably resilient nationally).

Experience from other countries varies widely, but in many cases - the recent Queensland floods, the 2010 Chile earthquake, and the 1995 Kobe earthquake are examples - the disruption was also localised and short-lived. In Queensland and Chile, employment fell during the worst disruption, but bounced back the following month - and national unemployment continued to fall through the period as the commodity boom outweighed disaster. After the Kobe earthquake, unemployment rose in Japan's Kinki region, but then it was already on an upward trend given Japan's weakening economy at the time.

On the other end of the scale, Hurricane Katrina flooded 80% of New Orleans for weeks in 2005 and caused a huge population exodus. Unemployment shot up to over 10% in late 2005 and it took more than two years for the number of employed to reach pre-flood levels. We don't see this as a realistic scenario for Christchurch, but the slow pace of reconstruction suggests that unemployment could remain high until later this year. Even in Louisiana, though, there was a rapid tightening in the labour market following the first few months of the disaster - largely due to a shrinking in the Louisiana labour force after the initial post-disaster period. Two years after the floods Louisiana's unemployment rate had fallen well below 5%.

Implications

Because they exclude quake-damaged Christchurch, today's data offer little guidance to an RBNZ looking forward to when Christchurch shifts from disruption to reconstruction mode. But they support our growing view of an economy gathering momentum off a low base in the first few months of the year. And given that they show an economy with the capacity for growth, but with little in the way of inflation pressures, they should be comforting to a Reserve Bank inclined to sit on its hands until it sees cranes on the Christchurch skyline.

Markets initially reacted positively to the surprise employment jump - the NZD rose 45 pips, and 2-year swap rates rose 3 basis points. However, that response was soon pared back.

Dominick Stephens, Chief Economist, Ph: (64-9) 336 5671

Felix Delbrück, Senior Economist, Ph: (64-9) 336 5668