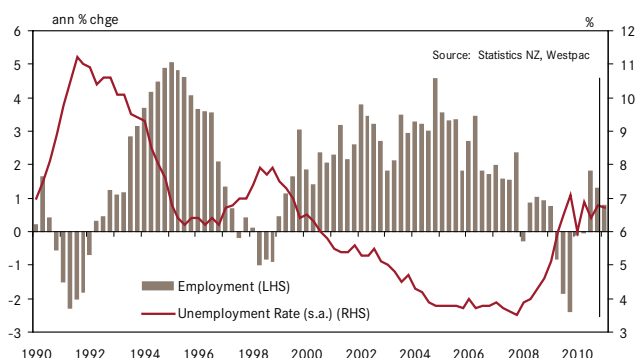


Before the storm

Preview of 2011Q1 employment data (5 May) and wage data (3 May)

- The impact of the Christchurch earthquake on the labour market won't be visible in the March quarter numbers, which either predate the quake or exclude the affected region.
- As such, our picks reflect signs of economic life and improved hiring reports outside Canterbury in early 2011.
- Looking ahead there is considerable uncertainty around how earthquake disruption will affect the labour market mid-year, but we can expect a construction-led spurt in employment, and rapidly rising wage pressures, by 2012.

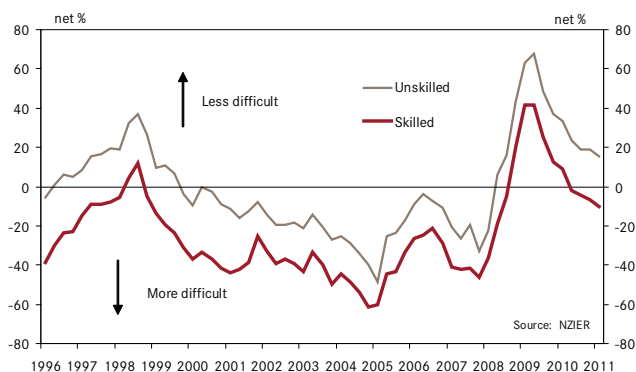
Household Labour Force Survey



March quarter Household Labour Force Survey expectations

	Quarterly % change		Annual
	Previous	Westpac	Westpac
Employment growth	-0.5	0.5	0.8
Unemployment Rate %	6.8	6.7	
Hours worked %	0.2	0.0	2.3
Participation Rate %	67.9	67.9	

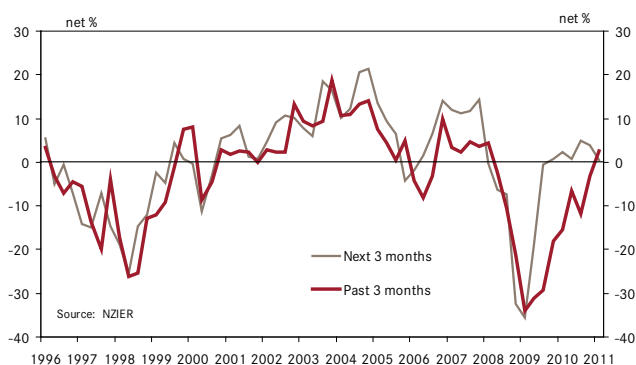
Firms' difficulty of finding labour



March quarter wage expectations

	Quarterly % change		Annual
	Previous	Westpac	Westpac
LCI - All sectors ex overtime	0.6	0.6	1.7
LCI - Pvt sector ex overtime	0.5	0.6	1.8
QES wages - All sectors	0.5	0.9	1.8
QES wages - Pvt sector	0.6	0.7	1.5

Employment intentions



After the labour market stalled in late 2010, signs of life in the economy early this year were pointing to the beginnings of a recovery. The Christchurch earthquake is likely to have interrupted this recovery in the labour market, as in the economy generally.

However, this won't be visible in next week's labour data. The Quarterly Employment Survey and Labour Cost Index predate the earthquake (the sample period was the pay period including

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15 February). And Statistics New Zealand have advised that the Household Labour Force Survey, which is based on continuous interviewing over the quarter, excluded the disrupted regions: no interviews were conducted in the entire South Island in the week immediately following the quake, Canterbury was excluded the following week, and Christchurch was excluded for the remaining four weeks of the quarter.

Still, the best information we have – reported hiring and skill shortages from the NZIER's *Quarterly Survey of Business Opinion* – while obtained in the quake's aftermath, should give a reasonably good steer. The NZIER report that 40% of the worst hit Christchurch firms were unable to participate in the survey, and reported hiring appears to have been dominated by improving conditions outside Christchurch. Given this, and the continued lagged impact from last year's economic weakness, we expect to see a modest improvement in employment and labour force participation, and a mild decline in the unemployment rate, to 6.7%.

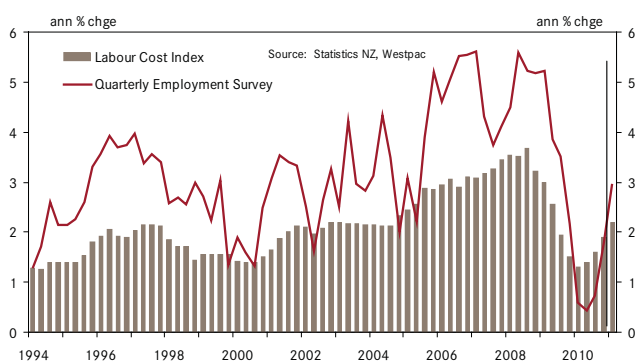
On the earnings front, wage growth was very soft over 2010 but started to pick up near the end of the year. In the March quarter, the Labour Cost Index should be seasonally soft (people tend to have their pay reviews in the second half of the year) but, in view of the evidence of some reduction in labour market slack, continue its slow upward trend. The LCI is a more informative measure of wage pressures than QES wages, which are more volatile and distorted by changes in performance (e.g. promotions) and job mix. Because it doesn't adjust for productivity growth, QES wage inflation is higher on average than LCI inflation, and it also tends to be higher in the March quarter as low-paid summer jobs exit the sample.

Looking beyond March, a construction boom is on the cards by 2012, and we can be fairly confident in the eventual spurt in labour demand, and in rising wage pressures. The short-term impact of the earthquake is harder to gauge, though business surveys and other indicators should give more shape to the near-term outlook over coming months. At this stage we expect a modest increase in unemployment in the June quarter, in line with our expectation of zero growth in the economy early this year.

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Private Sector Earnings and Labour Costs



Implications

Next week's labour market data are to a large extent rendered obsolete by February's earthquake, and as such should see less market reaction than usual (though that market reaction should already be tempered by the volatility seen in the HLFS last year). At the margin, they will give a sense of the degree of resource slack heading into that disaster and, if they come out as expected, add to the body of evidence showing improvement in the economy early this year.