

Game on

Preview of 2011 Q3 employment data (3 Nov) and wage data (1 Nov)

- The economy slowed mid-year, as did businesses' reported hiring. On its own, that suggests at best moderate employment growth in the September quarter.
- But monthly jobs data are pointing to a stronger quarter, possibly related to hiring for the Rugby World Cup (RWC).
- The RWC effect makes Q3 employment even more uncertain than usual. But the impact on unemployment and wages should be more limited – and as a temporary fillip it shouldn't affect our or the RBNZ's longer-term outlook.

March quarter Household Labour Force Survey expectations

	Quarterly % change		Annual
	Previous	Westpac	Westpac
Employment growth	0	0.8	1.8
Unemployment Rate %	6.5	6.3	
Hours worked %	1.6	1.4	2.8
Participation Rate %	68.4	68.7	

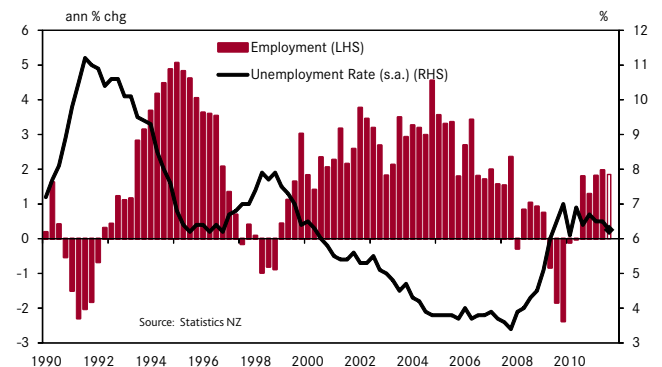
March quarter wage expectations

	Quarterly % change		Annual
	Previous	Westpac	Westpac
LCI – All sectors ex overtime	0.5	0.6	1.9
LCI – Pvt sector ex overtime	0.5	0.6	2.1
QES wages – All sectors	1.1	0.9	2.8
QES wages – Pvt sector	1.2	0.8	2.9

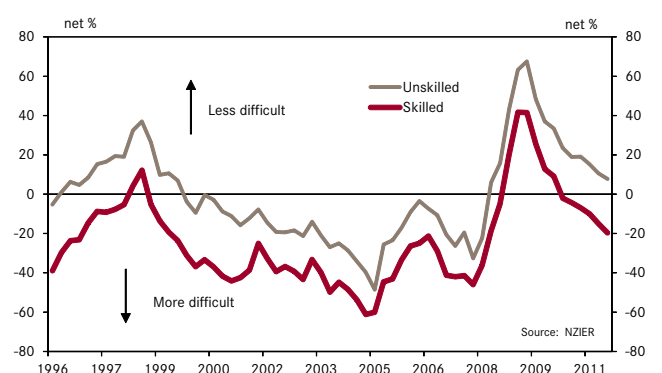
The New Zealand recovery was surprisingly patchy through the middle of this year, and there have been additional signs of slowing momentum in the past couple of months. At the same time, businesses' reported hiring dropped back to around average rates in the June and September quarters, after a bit of a lift at the start of the year.

That suggests at best moderate employment growth in the September quarter, and unemployment (now at 6.5% for two quarters) continuing to track at elevated levels. However, there are reasons to think the surveys aren't fully capturing the impact of the RWC on hiring in the quarter, and recent monthly jobs data suggest that impact could be quite large. It's in recognition of this

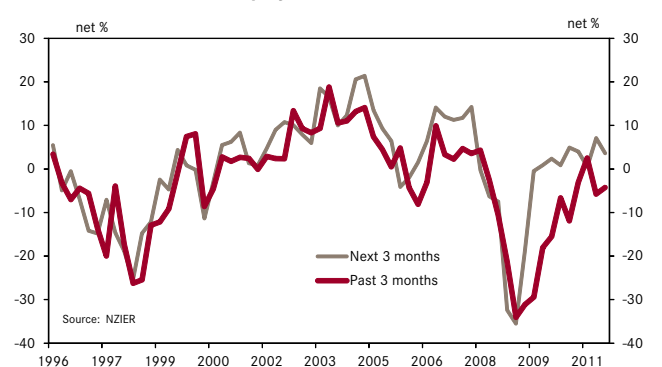
Household Labour Force Survey



Firm's difficulty in finding labour



Employment intentions



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that we're picking 0.8% employment growth over the quarter, and a dip in the unemployment rate to 6.3%.

As we explain below, the difficulties of quantifying a RWC effect (and anticipating the many ways in which it could affect the labour market) make the labour data even more uncertain than usual this time. A big jump in employment could well see a market response. However, we'd note that any RWC effect would be temporary, and as such has little bearing on the longer-term outlook for the labour market or the economy. We continue to expect a gradual decline in the unemployment rate from current high levels over 2012 as construction ramps up.

For its part, the Reserve Bank is firmly keeping one eye on the global situation, and the other on Christchurch reconstruction. Like us, it will be looking through any RWC fillip, and based on this week's OCR Review (and noting that the RBNZ's September MPS pick of an unemployment rate at 6.3% predated the recent weak GDP data and business surveys), we suspect that even a soft underlying picture wouldn't dislodge the RBNZ from its existing plans.

Details

According to the best business survey we have, the NZIER's Quarterly Survey of Business Opinion, firms' hiring slowed in the June and September quarters. The broader economic recovery has also lost some momentum since the start of the year, with June quarter GDP disappointing and signs of the domestic economy entering a soft patch in the past few months. In itself, that suggests at best moderate employment growth in the September quarter, with possibly a bit of a lift after a soft Q2 – simply due to the statistical see-saw pattern that New Zealand employment has been exhibiting over the past decade. The same QSBO showed workers were harder to find than in June – but still a lot of slack remaining, particularly in the unskilled segment. So again this suggests little in the way of decline in the unemployment rate from June's 6.5%.

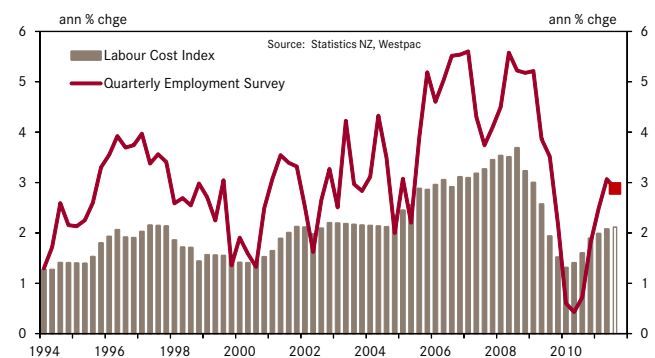
However, the September quarter also included the lead-up to, and first month of, the Rugby World Cup. It may be no coincidence that Statistics New Zealand's new monthly National Employment Indicator (or NEI, based on businesses' tax returns) showed a surge in jobs in the month of August – particularly since Statistics NZ commented that the lift appeared to be due to a jump in short-term employment. We'd be reluctant to pin too much on one month's outturn of one piece of data, but the surprise was sufficiently big that it's either a rogue result, or points to rather stronger employment growth over the quarter than the surveys suggest. We're making conservative allowance for the latter possibility and picking 0.8% employment growth.

One reason the NEI would pick up a burst in RWC-related hiring, more so than the business surveys (which were sampled mid-September) is that the surveys only measure the number of businesses hiring more or hiring less, not how many people a business decides to hire. They therefore wouldn't capture the impact of some employers doing an unusual amount of hiring to ramp up capacity in advance of a big event.

That said, we don't yet know what the NEI did in September (unfortunately we only find out after the official labour data have come out), and there's some reason to think it may be overstating employment growth. In particular, the NEI is really a jobs indicator, not a measure of people employed, and so it would double count one person holding multiple part-time jobs, for example, or switching between casual jobs within in the month.

So there's some uncertainty around what exactly any RWC impact on employment will be – it could be stronger than what we've gone with, but it could also be weaker. But we do expect a quarter of healthy employment growth, and an even stronger burst in hours worked. That will show up in a drop in measured productivity, as we have a pretty good idea that the RWC also displaced economic activity (our expectation for September quarter GDP growth is only 0.5%). The impact on the unemployment rate should be more modest (we're picking a dip to 6.3%, down from 6.5% currently), as the opportunities presented by the RWC are likely to have led to a spike in people looking for work, as well as a spike in labour demand.

Private Sector Earnings and Labour Costs



Wages and earnings

A dip in unemployment to 6.3% probably isn't going to put any significant pressure on wages. We expect growth in the labour cost index to be around average for the September quarter, rising 0.6%, to be up 2.1% for the year. (The lift from June, when it rose 0.5%, is seasonal: many people get their pay reviews in the second half of the year.) Growth in the Quarterly Employment Survey's average wage measure could even be a bit below its September average – we're going for 0.8% growth (and 2.9% growth over the year). That's because the QES doesn't adjust for compositional shifts in the work force, and the RWC is likely to see a boost in jobs at the lower end of the wage spectrum.

The Quarterly Employment Survey's jobs measures – filled jobs and full-time-equivalent employment – will give an additional read on jobs growth ahead of Thursday's Household Labour Force Survey. We'll just note the caveat that the QES measures the labour market over one week in mid-September, not over the full quarter, so again it could overstate any RWC effect on hiring in the quarter as a whole.

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