

Dead calm

NZ Q4 HLFS employment **-0.5%q/q**, unemployment rate **6.8%**

- A very weak labour market result.
- The labour market effectively stalled at the end of 2010.
- The RBNZ likely to sit on its hands till later this year.

Key results

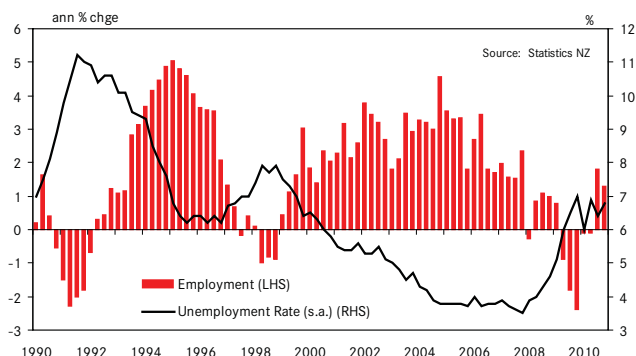
	Q3 2010	Q4 2010	Westpac forecast
Employment %q/q	1.1	-0.5	0.1
Unemployment rate %	6.4	6.8	6.4
Participation rate %	68.3	67.9	68.2
Hours Worked s.a %q/q	0.3	0.2	0.0

Today's Household Labour Force Survey (HLFS) came out very weak, and together with Tuesday's Quarterly Employment Survey (QES) suggests that last year's economic slowdown has had rather more of an impact on labour market activity than we might have thought.

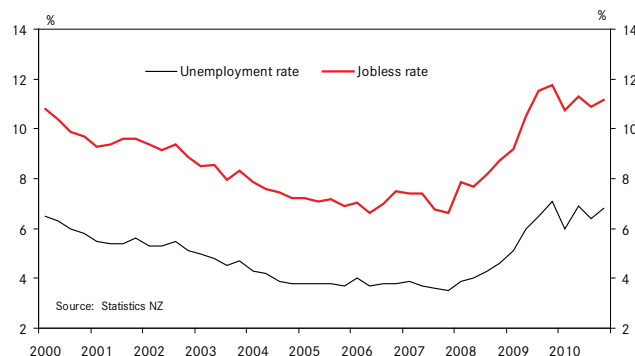
Granted, the HLFS has been frustratingly volatile over the past year (which would tend to make us discount some of the increase in the unemployment rate). And most of the fall in employment this time was in part-time jobs, which have accounted for a lot of the swings in employment growth over the past year - full-time employment growth was mildly positive, at 0.3%. But there was a pervasive sense of gloom in the latest survey:

- The number of people lining up for work (the labour force participation rate) fell along with employment. This is historically normal and suggests that this increase in the unemployment rate was a sign of genuine weakness.
- The total jobless rate also rose, from 10.9% to 11.2% (seasonally adjusted). The jobless rate includes anyone who is either available for work or actively seeking work, whereas to be counted as unemployed you need to be both at the same time. The jobless rate thus avoids awkward classification issues (potentially particularly relevant for part-time workers who are more likely to move in and out of the active workforce) which can lead to artificial swings in the unemployment rate.

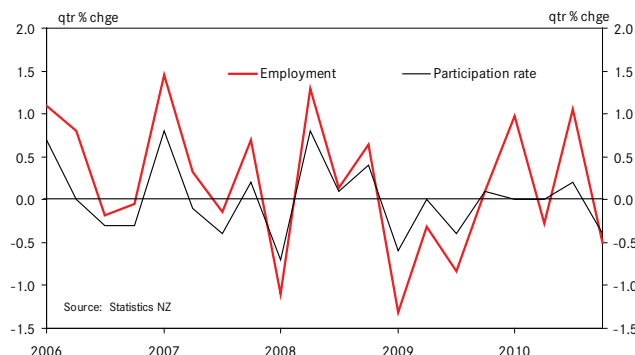
Household Labour Force Survey



Jobless rate vs unemployment rate



Employment vs participation rate



For further information, questions or comments contact Brendan O'Donovan, telephone (04) 470 8250, email brendan_odonovan@westpac.co.nz

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- Looking beyond narrow indicators of labour market tightness, growth in actual hours worked slowed to a feeble 0.2%, pointing to very weak economic growth in the December quarter.

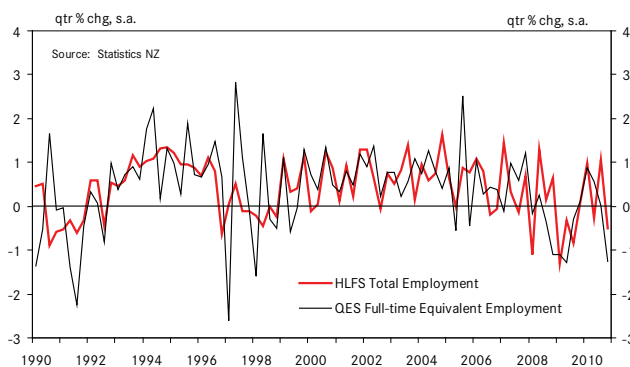
The Q4 weakness in the HLFS may have been exacerbated by ongoing disruption following the Christchurch earthquakes. Certainly, the unemployment rate rose disproportionately in the Canterbury region – seasonally adjusted, from 4.9% back to its late 2009 peak of 6% - relative to the other large cities. Indeed, in Auckland the seasonally adjusted unemployment rate was flat at 7.9%. Overall, the labour market picture remains noticeably more positive in the agri- and export-oriented South than in the manufacturing and commercial centres of the North Island.

Key results

	Q3 2010	Q4 2010	Westpac Forecast
LCI – All sectors ex overtime	0.5	0.5	0.5
LCI – Pvt sector ex overtime	0.6	0.6	0.6
QES wages – All sectors	1.0	0.5	0.6
QES wages – Pvt sector	1.0	0.6	0.5

Today’s result confirms the weak picture that emerged from Tuesday’s Quarterly Employment Survey. The QES has less coverage than the HLFS (it does not include farmers or the smallest self-employed businesses) and, as an employer-based survey, measures jobs rather than persons employed. However, that survey’s measure of full-time-equivalent employment supports the picture of a labour market slowing sharply in the second half of last year, stalling in the September quarter and falling 1% at the end of the year.

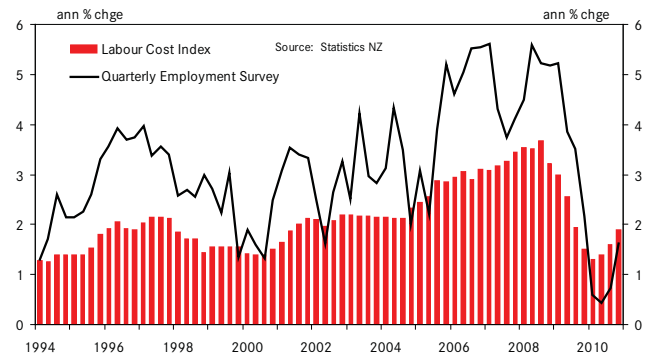
QES and HLFS Employment



Despite disappointingly weak labour market activity, the wage data were in line with our expectation of a gradual grind higher in wage inflation. That said, pretty much all of the increase in wages was due to an increase in the proportion of people getting a wage increase, rather than an acceleration in wages as such. Given the amount of slack in the labour market, we are unlikely to see further acceleration in wage inflation beyond what we have already seen.

To the extent that we are still seeing it, an absorption of labour market slack is mainly occurring through higher utilisation of existing workforce – as can be seen in the increase in actual hours worked (including overtime) relative to usual hours (which fell 0.2%), and the fact that total wages (including overtime) have been rising at a faster clip than ordinary wages.

Private Sector Earnings and Labour Costs



Implications

Our expectation continues to be for a recovery in economic activity this year – and the labour market should gradually follow suit. Overall, we interpret the latest HLFS data as showing a labour market which improved in the first half of the year, and then slowed following the mid-year stalling in economic activity. It now looks as if that slowdown was more severe than we expected. But that deterioration in the economic climate was exacerbated by a number of temporary factors, including a drought in the June quarter, the global mid-cycle slowdown, and the Canterbury Earthquakes. In addition, recent data are pointing to a stabilisation in the housing market. While the Quarterly Survey of Business opinion had pointed to an increase in firms’ employment intentions at the end of last year, it may take another few months for those intentions to show up in reality.

The RBNZ had signposted an expected Q4 unemployment rate of 6.4% in its December Statement. In its latest policy statement on 27 January, the Bank emphasised the positive run of forward indicators, including very high commodity export prices and continued growth in the global economy. But taken together with the decline in GDP in the September quarter, the latest labour market data (from both the HLFS and the QES) underscore the substantial amount of slack in the economy, and would deter the Bank from removing stimulus any time soon. We continue to expect a rate hike in September this year at the earliest.

While the markets were well attuned to the possibility of an increase in the unemployment rate – signalled as it was by the QES employment data – a result quite this bad was still a shock. The exchange rate fell half a cent, and two year swap rates fell 8 basis points. The markets are now pricing in a rate hike no sooner than September.

Brendan O’Donovan, Chief Economist, Ph: (64-4) 470 8250
Felix Delbrück, Senior Economist, Ph: (64-4) 381 1407