

Economic Update

Employment stable, unemployment not.

Household Labour Force Survey (HLFS) – Q4 2009

- The unemployment rate surprisingly jumped to 7.3%, much higher than expected.
- Employment, however, has now roughly stabilised.
- RBNZ comfortable with “middle of the year” rate hike stance.

The headline unemployment rate of 7.3% for Q4 2009 was surprisingly weak. The market expectation was centred on a lift to 6.8% from Q3's 6.5% rate. The disappointing result was largely because of a sharp lift in numbers seeking employment. The variables which go into the unemployment rate calculation, combined with seasonal factors can lead to surprises in the headline unemployment rate. It is important to highlight the stabilisation in the number of people working. A total of 2.152 million people are employed in New Zealand – only 2,000 less than in the previous quarter. The next step is for the economy to start creating jobs, and we expect this to start to happen over the course of 2010. The implications of the early rise in job seekers are a greater than anticipated degree of slack in the labour market and, hence, potential for wage growth to remain subdued for longer than would otherwise be expected. From an activity point of view the implications for the RBNZ's outlook are less negative: employment was in line with RBNZ expectations though hours worked were a touch softer. The data will continue to make the RBNZ comfortable with its “around the middle of 2010” signalling for starting to lift the OCR. Our view is for a 0.25% April hike, timed after key GDP, CPI and business confidence releases. However, the HLFS data do skew risks to the June MPS.

Key highlights of the release:

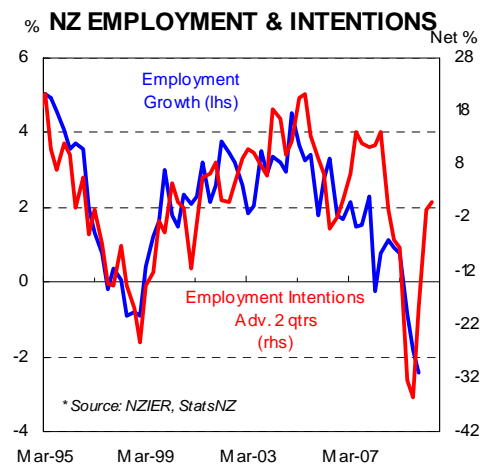
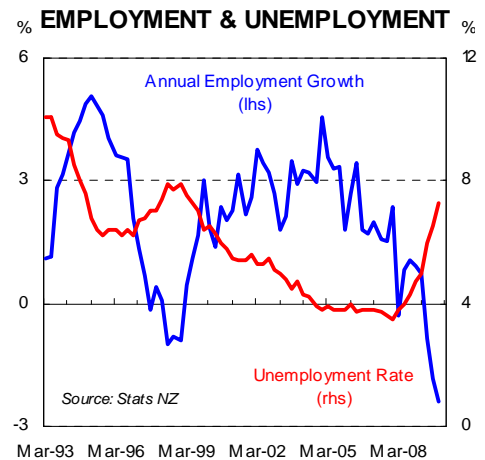
- Q4 employment decreased by 2,000, or -0.1% compared with Q3. (Our forecast was flat, and the market expectation was centred on -0.1%).
- Employment is down -2.4% on year-ago levels.
- The working age population rose 14,500, or 0.4% in the fourth quarter
- The labour force participation rate rose to 68.1% (matching market expectations) which saw the labour force rise by 16,000 or 0.7%.
- The unemployment rate rose to -7.3% from 6.5% (we expected 6.7%, market 6.8%).
- Total hours worked decreased by 0.4% during Q4, the 6th consecutive quarterly decline.

[\[Link to Statistics NZ release\]](#)

Job seekers swell unemployment

Employment was broadly stable but there was a big jump in the number of people seeking work. The working age population lifted 0.4%, or 14,500 people. Stats NZ noted that the increase was partly due to net migration, which was up nearly 7,000 over the quarter. The participation rate (the percentage of the working age population working or available for work) lifted to 68.1%, slightly higher than most expected. The result was a 16,000 lift in the labour force (those with work or actively seeking work), which was a bigger lift than we expected.

Number employed stabilising.



General Advice Warning

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

The widespread job losses seen in previous quarters have definitely slowed as the economy has recovered (24,000 jobs were lost in Q1 2009 alone, and 53,000 less people are working at the end of 2009 compared with the end of 2008). However, the 2,000 jobs lost, combined with the 16,000 person increase in the labour force meant the number of unemployed lifted by 18,000. This was behind the surprisingly high unemployment rate.

Youth unemployment increases further.

Youth continue to struggle to find work.

Unemployment amongst youth remained high, with the number unemployed increasing by 6,200 for 15-19 year olds and 3,800 for 20-24 year olds over the December quarter.

These increases took the unemployment rates to 26.5% and 12.2% for the respective age groups. This contrasts to rates between 3% and 4.7% for all age groups over 35 years.

Over the past year, the unemployment rate has increased across all age groups but was most severely felt amongst those aged 15 to 24 years. This reflects the lack of work experience hindering the chances of young job seekers in an already tough labour market. In addition, the abolition of the youth minimum wage reduces the incentive to hire young workers, and may have steered employers towards hiring older and more experienced workers.

In the December quarter, male employment was flat, while female employment decreased by 0.3%. The male unemployment rate rose to 7.2% while the female unemployment rate rose to 7.3%. Both male and female unemployment stood at 6.5% in Q3.

Many would prefer more work.

Underemployment

Despite the sharp increase in unemployment, the rate of *underemployment* (proportion of part-time workers who would prefer to work more hours) fell slightly. However, the number of underemployed workers remains at higher than pre-recession levels, providing further evidence of slack in the labour market.

Total hours worked decreased by 0.4% during Q4, the 6th consecutive quarterly decline. Hours worked isn't always a reliable predictor of GDP growth, but the weakness in this measure is consistent with only modest growth rather than robust GDP growth in Q4 (we currently expect 0.5% quarterly growth).

Manufacturing weakness.

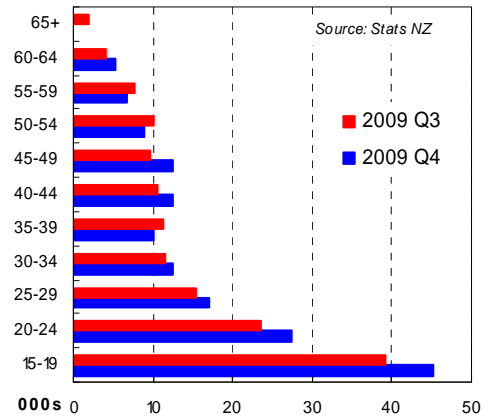
Large falls in manufacturing, services

Declines in employment have centred on the manufacturing, accommodation and retail trade sectors over the past year. This reflects the sharp contraction in manufacturing activity and household spending during the domestic and global slowdown.

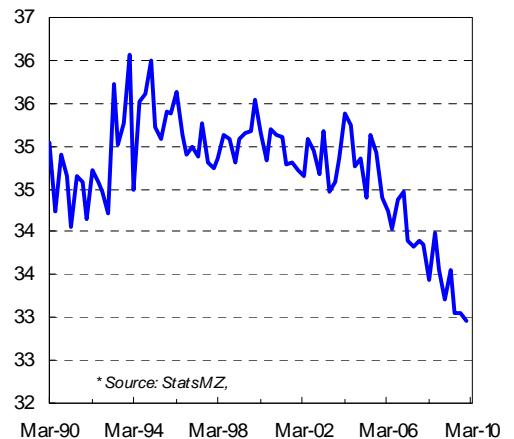
Public sector employment lifted in 2009.

In contrast, employment in the public sector areas such as health care and social assistance increased over the past year.

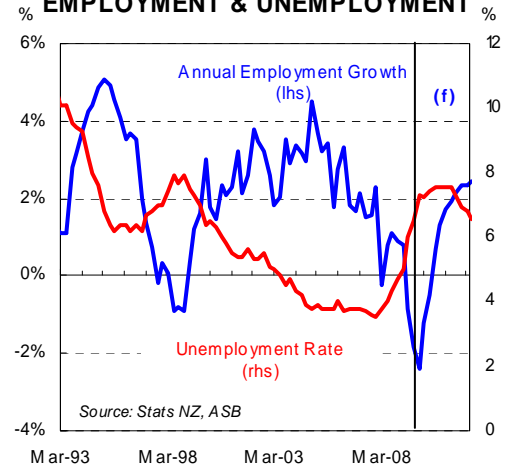
UNEMPLOYED BY AGE GROUP



AVERAGE HOURS WORKED



EMPLOYMENT & UNEMPLOYMENT



Employment outlook

Unemployment rate to rise further, despite employment growth.

We expect employment will start to gradually pick up over the course of 2010, after stabilising in Q4. Business surveys have shown a significant lift in overall confidence when compared with the depths of the recession. However employment and investment intentions remain subdued. Employment intentions turned positive in the Q4 NZIER Quarterly Survey of Business Opinion, with a net 0.9% of firms expecting an increase in the number employed in Q1 compared to Q4. This lift is encouraging after seven consecutive quarters of firms expecting their staff numbers to decline.

However, despite our expectation of employment growth over 2010, the unemployment rate is likely to rise a little further yet. Although we aren't forecasting any further declines in total employment, it will still be a little while longer until the economic recovery starts creating sufficient jobs to absorb the fresh flows of people seeking work. We expect the unemployment rate to peak around 7.5% in 2010, and only gradually fall back towards 6% by 2013. Against this backdrop, we expect wage growth will also remain relatively muted in the short term.

Implications

No smoking gun: RBNZ comfortable on hold.

The headline figures make the employment situation look worse than it is. Unemployment is rising because there are more people looking for work than there were previously (and more than expected at this stage of the economic recovery). In contrast, much of the preceding increases in unemployment came through the shedding of jobs.

Nonetheless, Q4's headline unemployment rate is disappointingly high, and financial markets are focussing on that number. The NZD has dropped over ½ a cent against the USD and AUD. Interest rates have also dipped, particularly short term rates, as the headline weakness fuels thoughts the RBNZ will be in no hurry to raise interest rates.

The RBNZ's December MPS contained a Q4 employment forecast of -2.4% yoy, which is in line with the actual employment outcome. Like us, the RBNZ will have been surprised by the extent of the lift in the labour force and consequent impact on unemployment (the RBNZ's forecast for the March quarter unemployment rate – i.e. the quarter that follows today's release – was 6.6%). The implications are a greater than anticipated degree of slack in the labour market and, hence, potential for wage growth to remain subdued for longer. From an activity point of view the implications for the RBNZ's outlook are less negative: employment was in line with RBNZ expectations though hours worked were a touch softer.

The data will continue to make the RBNZ comfortable with its "around the middle of 2010" signalling for starting to lift the OCR. Our view is for an April hike of 25bp, timed for after the key GDP, CPI and business confidence releases. However, the HLFs data do skew risks to the June MPS as the starting point for rate hikes.

Some background to the data

The Household Labour Force Survey (HLFS) is a quarterly survey that provides a comprehensive range of statistics relating to the employed, the unemployed and those not in the labour force who comprise New Zealand's working-age population. Employment is generally a lagging indicator of growth. It does, however, shed light on the degree of 'stretch' in an economy. Unemployment is typically low in periods of above trend growth and generally increases as growth subsides.

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