

### Household Labour Force Survey: December 2007

#### Key points

- > Today's Q4 HLFS was strong across the board with employment up, unemployment down, and hours worked up strongly.
- > The labour market remains a key source of late cycle economic support and inflationary risk.
- > For the Reserve Bank, today's numbers reinforce their inflation concern.
- > Interest will now turn to 2008 indicators of momentum, notably for the labour market.

#### Assessment

**Today's HLFS report was strong across the board.** Employment rose by 1.1 percent in the December quarter, easily reversing the 0.3 percent fall recorded last quarter. The strength was entirely attributed to a 1.6 percent increase in full-time employment, with part-time employment falling 0.2 percent over the quarter. Female employment was also strong (rising 2.6 percent) compared with a 0.2 percent fall in male employment. Annual employment growth is now running at 2.5 percent – more consistent with recent employment intentions surveys. The participation rate also rebounded in the quarter, rising to the record high of 68.8 percent (driven by increased female participation). However, this was not enough to offset the strength in employment growth, and the unemployment rate fell from 3.5 percent to 3.4 percent – a record low for this survey. Both Southland and Wellington had sharp falls in their unemployment rates, testament to the powerful forces the dairy boom and government spending are adding.

**Details within the survey point to a tight labour market.** Annual employment growth for workers aged over 60 years was 10 percent in the Q4. This, along with the strong rebound in female employment and participation reinforces that labour supply remains tight. We also note that underemployment (part-timers wanting to work more hours) fell to 15.9 percent, from 16.7 percent in Q3 (s.a.). Employment growth continues to outpace hours worked – which only rose 0.8 percent in the quarter and 0.5 percent in annual terms. We seem to want to earn more, but work less – an unsustainable position in the medium-term, but it's also a sign that employers are having to be "hourly" friendly in order to attract talent. Rather puzzlingly, retailing, construction, and business services led the gain in employment (on a seasonally adjusted basis), although we do need to be careful interpreting such movements intra-quarter.

#### Productivity performance remains poor.

Productivity growth improved in the September quarter but looks like it has not been sustained into December (on the assumption that GDP growth was modest). Strength across employment intentions but weakening investment intentions from the QSBO are a

nasty signal of further productivity trends. Poor productivity growth is exacerbating the Reserve Bank's inflation problem.

	Total Employed (%)		Hours worked (%)		Participation Rate (%)	Unemployment Rate (%)
	QoQ	YoY	QoQ	YoY		
Jun-06	0.8	3.1	0.3	-0.1	68.6	3.6
Sep-06	-0.3	1.5	0.6	-0.1	68.3	3.8
Dec-06	0.1	1.5	0.2	1.5	68.1	3.8
Mar-07	1.2	1.7	-0.2	0.8	68.6	3.7
Jun-07	0.6	1.5	0.1	0.7	68.7	3.6
Sep-07	-0.3	1.5	-0.2	-0.1	68.3	3.5
<b>Dec-07</b>	<b>1.1</b>	<b>2.5</b>	<b>0.8</b>	<b>0.5</b>	<b>68.8</b>	<b>3.4</b>
<b>ANZ</b>	<b>0.5</b>	<b>2.0</b>	-	-	<b>68.5</b>	<b>3.6</b>
<b>Market</b>	<b>0.4</b>	<b>1.9</b>	-	-	<b>68.4</b>	<b>3.6</b>

Employment and employment intentions



Sources: ANZ National, Statistics NZ, NZIER

#### Implications

**For the Reserve Bank, today's numbers reinforce their inflation concern.** If it wasn't for the global backdrop we suspect they'd be tempted to give the interest rate lever another nudge up. Attention will now turn to 2008 indicators of momentum, and notably the labour market. For now we'll retain a late 2008 cut view, largely on our concerns over the credit cycle. If the housing market is already weak, while the labour market is strong, one wonders where the former could end up if the latter turns.

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