

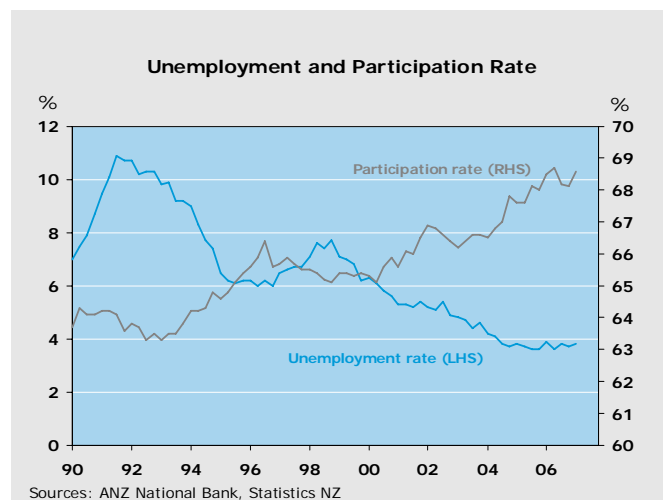
HOUSEHOLD LABOUR FORCE SURVEY – MARCH 2007

Key points

- Employment growth rebounded strongly in the first quarter of 2007, driven by growth in part-time employment.
- Despite the strong employment number, the unemployment rate rose slightly to 3.8 percent from 3.7 percent in the previous quarter. This reflects a rise in the participation rate to its second highest level of 68.6 percent.
- Overall, this is a strong employment report and confirms that the labour market remains tight.
- While today's data will keep the Reserve Bank on alert, it will not be sufficient to force them to hike again.
- Key for the Reserve Bank is how the labour market shapes up in the coming quarters in response to recent tightening in financial conditions. The National Bank *Business Outlook* due on 31 May will provide an early read on this.

The headlines

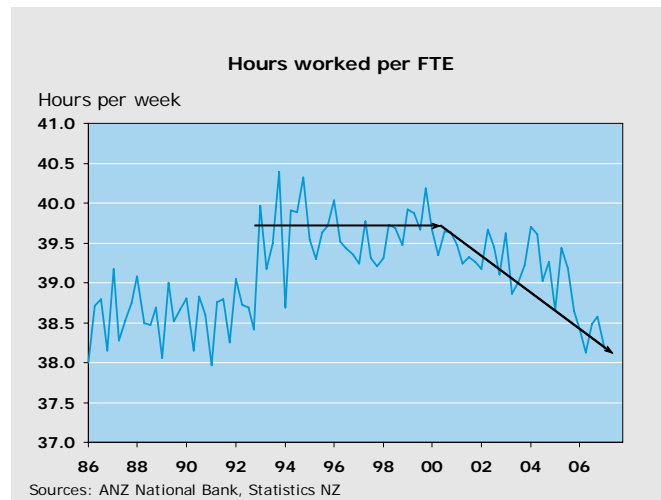
	Employment Growth (%)		Participation Rate (%)	Unemployment Rate (%)
	QoQ	YoY		
Mar-05	-0.1	3.4	67.6	3.8
Jun-05	0.5	3.0	67.6	3.7
Sep-05	1.1	3.2	68.1	3.6
Dec-05	0.1	1.5	68.0	3.6
Mar-06	0.9	2.6	68.5	3.9
Jun-06	0.9	3.1	68.7	3.6
Sep-06	-0.5	1.5	68.2	3.8
Dec-06	0.1	1.4	68.0	3.7
Mar-07	1.2	1.7	68.6	3.8
ANZ	0.8	1.1	68.2	3.7
Market	0.5	0.8	68.0	3.8



- **Employment growth rebounded strongly in the March quarter, rising by 1.2 percent.** The rise in employment growth comes after soft growth of -0.5 percent and 0.1 percent in the September and December 2006 quarters respectively. The seasonally adjusted total number of people employed rose by 25,000 to 2,143,000 - the highest on record. Annual employment growth increased to 1.7 percent in the March quarter, after growth of 1.4 percent in the December quarter. Despite the strong employment growth, the unemployment rate increased by 0.1 percentage points to 3.8 percent courtesy of a large 0.6 percentage point increase in the participation rate to 68.6 percent. This increase in participation was largely driven by more females entering the labour market, and is the second highest level on record.
- **Hours worked fell by 0.4 percent in the quarter, reflecting lower hours worked per person.** The fall in hours worked follows four consecutive quarterly increases, and takes the annual growth to 0.8 percent. While actual hours worked decreased, the number of usual hours worked per week increased by 1.3 percent.
- **The usual industries contributed to the strong employment growth, while regional trends remain mixed.** Employment in the construction sector continues to grow strongly, with annual growth of 6.2 percent, while health and community services also recorded strong growth in the March quarter (7.9 percent in annual terms). Agricultural and the business and financial services industries both recorded a fall in employment over the past 12 months, down 2.4 percent and 2.1 percent respectively. Across the regions, Auckland and Gisborne/Hawke's Bay recorded a rise in their respective unemployment rates compared to a year ago. All other regions experienced either a fall or steady unemployment rates compared with March 2006.

Assessment and implications

- **Despite the slight decline in the unemployment rate, today's HLFS report is strong.** Following a soft second half of 2006, employment growth rebounded strongly in the March quarter. This rebound is consistent with what employment intention surveys have been telling us. The fact that most of the employment growth came from part-timers should not be overplayed. Firms have been reporting increasing difficulty in finding labour over recent quarters, and perhaps part-timers were all they could find in early 2007.
- **The fall in the unemployment rate was due to more people entering the labour force.** After an unexpected drop in the participation rate in the December quarter last year, the participation rate picked up to record its second highest reading in the HLFS history at 68.6 percent. Most of the increase in the participation rate came from females, and it appears most of them found jobs (possibly accounting for the growth in part-time employment). With the participation rate at near record levels, it is difficult for the unemployment rate to rise quickly, given that most people will just move out of the labour force if employment demand softens. This indicates the unemployment rate could remain low for some time.
- **Hours worked fell in the quarter, but Q1 GDP still expected to print strong.** Despite the 0.4 percent fall in hours paid, indicators to date point to a strong Q1 GDP. This suggests a rebound in labour productivity in Q1, though this is more likely due to the quarterly volatility in the data rather than the start of a sustained pick-up. The average hours worked per FTE continues to decline, and we suspect there is a structural element to this. Changes to employment law and the introduction of Working for Families may have encouraged greater part-time work at the expense of full-time, dragging the average hours worked per FTE lower.
- **Today's data confirms the labour market remains tight, and will keep the Reserve Bank on alert.** Any mild comfort that the softer than expected wage inflation report earlier this week may have given the Reserve Bank would have disappeared with this HLFS data. A tight labour market will continue to put upward pressure on wage inflation, which in turn risks spilling over into consumer prices. However, today's data will not be sufficient to force the Reserve Bank to act. How the labour market shapes up in the coming quarters in response to recent tightening in financial conditions will be the Reserve Bank's main focus. Anecdotes are emerging of job losses, particularly in the manufacturing sector. The National Bank *Business Outlook* due on 31 May will be a key read.



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