NEW ZEALAND ECONOMICS
Household Labour Force Survey – June 2011 quarter

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INCREASE IN HOURS WORKED CONFIRMS LABOUR DEMAND IS STRENGTHENING

KEY POINTS

- The Q2 labour market data was in line with market expectations. The unemployment rate was unchanged at 6.5 percent, following a slight downward revision to the Q1 unemployment rate. Employment was also unchanged in the quarter. On a stronger note, however, hours worked increased a seasonally adjusted 1.6 percent. The labour force participation rate eased to 68.4 percent.
- Despite the rise in hours worked, hours per worker remains below historical averages, with more capacity in the labour market than implied by the unemployment rate.
- The number of people unemployed was unchanged at 155,000 persons s.a., in contrast to the 5,500 fall in the numbers of persons collecting the unemployment benefit.
- Regional divergences were apparent, with strong employment growth in Auckland (up 5.4 percent y/y), contrasting with a 3.7 percent y/y fall in Canterbury. Our seasonally adjusted estimates suggest employment outside of Canterbury rose 0.4 percent q/q in Q2.
- The strong increases in hours worked is consistent with other evidence suggesting the demand for labour is strengthening. Falls in the unemployment rate over the rest of the year are in prospect. Domestic considerations continue to present a strong case for removing the March insurance cut. Abstracting from a global meltdown, we expect the RBNZ to raise the OCR by 50 basis points in the September MPS.

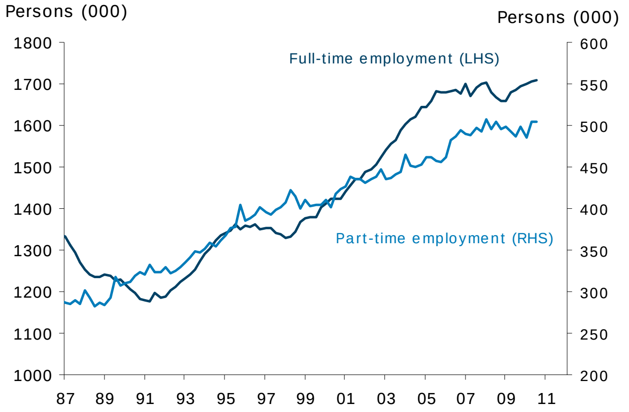
	Total Employed (%)		Hours worked (%)		Partici-pation Rate	Unemploy-ment Rate
	QoQ	YoY	QoQ	YoY	(%)	(%)
Mar-09	-1.5	0.7	-0.3	1.1	68.4	5.1
Jun-09	-0.2	-0.9	-1.8	-3.6	68.4	6.0
Sep-09	-0.9	-1.8	-0.8	-3.3	68.0	6.5
Dec-09	0.2	-2.4	0.1	-2.7	68.2	7.0
Mar-10	0.7	-0.1	1.3	-1.1	68.0	6.1
Jun-10	-0.1	0.0	0.9	1.6	68.1	6.9
Sep-10	1.0	1.8	0.5	2.9	68.2	6.4
Dec-10	-0.3	1.3	-0.1	2.6	68.0	6.7
Mar-11	1.3	1.8	-0.2	1.1	68.6	6.5
Jun-11	**0.0**	**2.0**	**1.6**	**1.8**	**68.4**	**6.5**
ANZ	***0.3***	***2.3***	***1.1***	***0.4***	***68.6***	***6.4***
Market	*0.0*	*2.0*	*-*	*-*	*68.4*	*6.5*

DATA REVIEW

COMMENT AND ASSESSMENT

The unchanged Q2 reading for employment was in line with the consensus. Full-time employment rose 0.2 percent, but this was offset by a 0.1 percent fall in part-time employment.

Full and part-time employment

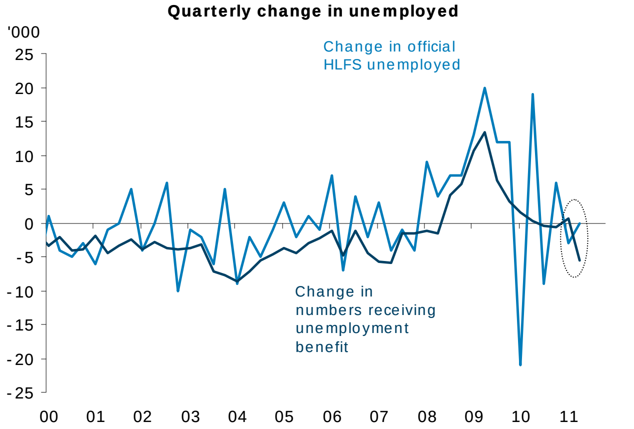


Sources: ANZ, National Bank, Statistics NZ

The unchanged unemployment rate was also consistent with the market consensus. With working age population increasing 15,000 persons in the quarter, a declining labour force participation rate contributed to the size of the labour force being broadly unchanged from Q1.

We suspect there is some statistical noise in the data, which raises the strong possibility of a Q3 rebound. Up till the March quarter, a pattern had become apparent in the seasonally adjusted HLFS unemployment rate figures. Encouragingly, this seasonality has been much less apparent over the last two quarters, but is has not disappeared completely. In contrast to the 5,500 fall in the numbers of persons collecting the unemployment benefit, HLFS unemployment numbers were unchanged at 154,000 persons.

Quarterly change in unemployed

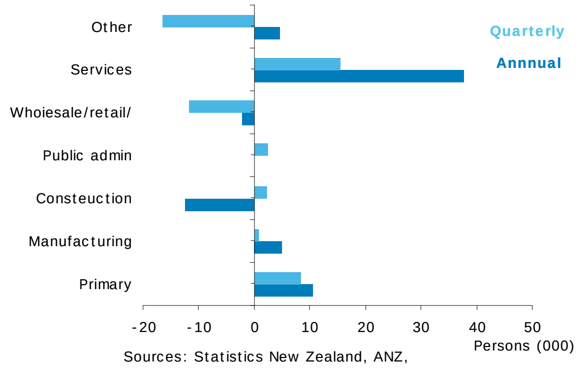


Sources: ANZ, National Bank, MSD, Statistics NZ

With survey evidence and growing anecdotes of improving demand ad skill shortages in some pockets, the strong possibility is for a lower Q3 unemployment rate.

The HLFS revealed differences in sector employment. Services employment remained strong. Strong annual growth in agricultural sector employment suggests the economic rebalancing is taking place, although the high NZD will be doing no favours. Fiscal belt tightening showed through, with public sector administration employment unchanged from a year earlier. Construction sector employment was 6.9 percent lower than 12 months earlier, but is set to pick up strongly towards the end of the year given construction requirements for Christchurch.

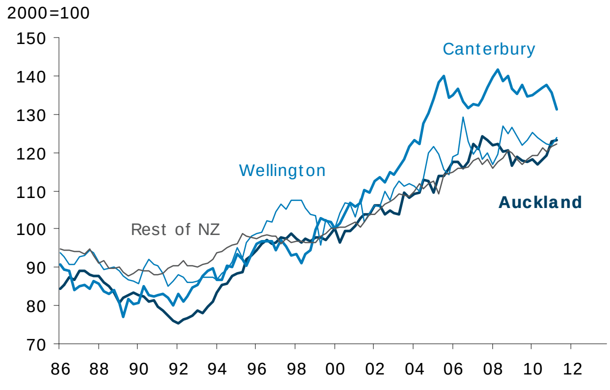
Changes in employment by sector
June 2011 quarter and year



Sources: Statistics New Zealand, ANZ,

Regional divergences were also apparent. Our seasonally adjusted estimates show employment increased in Auckland (up 0.3 percent q/q, 5.3 percent y/y), and Wellington (up 1.5 percent q/q, -0.1 percent y/y), the Waikato, Bay of Plenty, Manawatu and Southland. Employment fell in Christchurch (-3.2 percent q/q, -3.6 percent y/y), Taranaki, Bay of Plenty and Otago. **We expect differences in sector and regional labour market performance will become increasingly evident by the end of the year.**

Employment by region

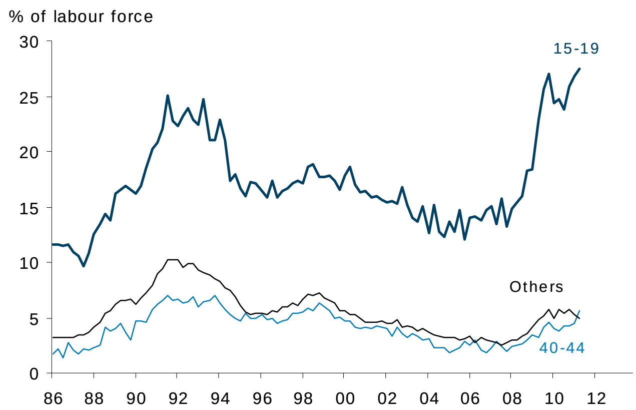


Sources: ANZ, National Bank, Statistics NZ

DATA REVIEW

Viewing trends by age group show a quite segmented labour market. Employment fell 2.5 percent s.a. in the 15 to 19 age group to be 11 percent lower than 12 months earlier. The youth unemployment rate rose to 27 percent, the highest in the history of the HLFS. By contrast, employment for the over 55's rose 0.8 percent to be 4.9 percent higher than a year ago, more than twice the nationwide average. HLFS unemployment rates for the 30+ age group, which now account for nearly three-quarters of the labour force but less than one-half the unemployed, are significantly lower than the under 30s (4.2 percent versus 12.8 percent respectively).

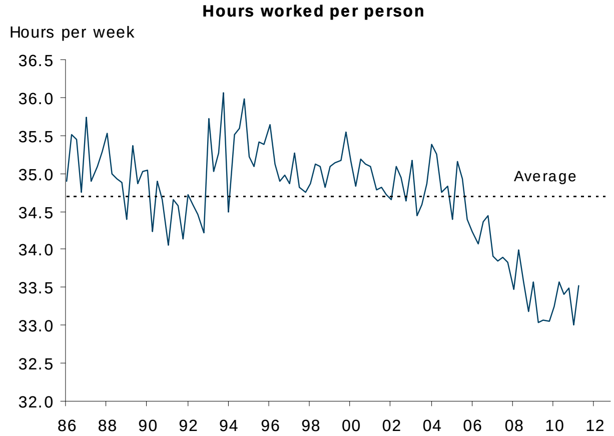
Unemployment rate by age groups



Sources: ANZ, National Bank, Statistics NZ

Following the large fall in Q1, hours worked rose 1.6 percent s.a. With hours worked per person still around 1.2 hours below historical averages, there remains considerable scope to meet increased labour demand by working the existing workforce longer rather than taking on new earnings and spending power. With gross average earnings running at a 4.7 percent annual clip (more staff which will alleviate pressures on capacity. More hours worked, however, will add to labour incomes and consumer spending power.

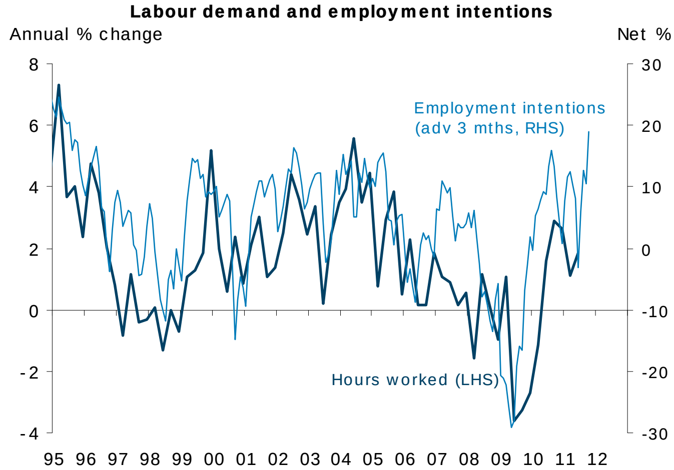
Hours worked per person



Sources: ANZ, National Bank, Statistics NZ

We continue to expect employment growth to strengthen over the remainder of the year. With the NBBO and QSBO showing improvements in hiring intentions, and with job advertisements rising a massive 22 percent in the June quarter (admittedly off a low base), the demand for labour is picking up as the economy strengthens. There is the strong possibility of a statistical bounce in Q3 employment considering other labour market indicators have strengthened of late.

Labour demand and employment intentions



Sources: ANZ, National Bank, Statistics NZ

IMPLICATIONS

The increase in HLFS hours worked (and the increase in QES paid hours shown on Tuesday) showed labour demand is strengthening. With economic activity set to pick up strongly over the second half of 2011, we expect the increasing demand for labour will flow through into firming employment and a decline in the unemployment rate towards the end of the year.

Absent of a significant deterioration in the global economy, we expect the improving domestic economic and labour market outlook will prompt the RBNZ into removing the March quarter insurance cut. We continue to expect a 50 basis point increase in the OCR at the September MPS. Given the weaker external outlook, high NZD, and ongoing domestic fiscal consolidation, we expect a very gradual path of tightening thereafter, with a number of pauses along the way.

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