ANZ RESEARCH

NEW ZEALAND ECONOMICS
2011Q4 LABOUR MARKET PREVIEW

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NZ ECONOMICS TEAM

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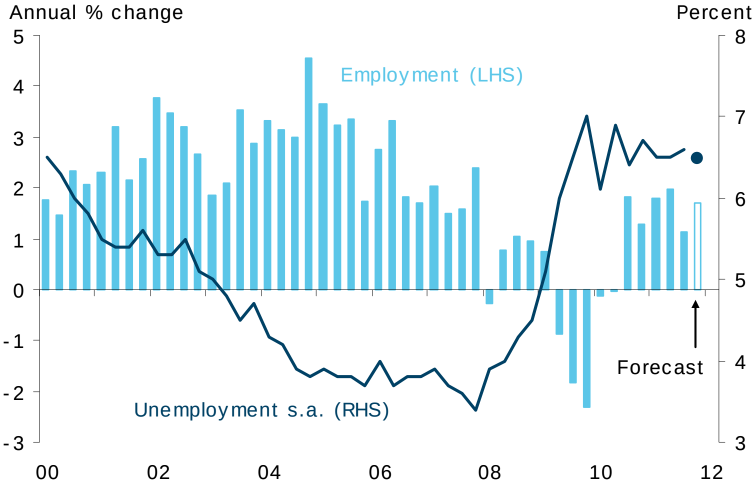
POTTERING ALONG

KEY POINTS

- We expect the New Zealand's labour market statistics to show marginal improvements in Q4. We forecast the unemployment rate to decline from 6.6 to 6.5 percent, with a small increase in employment (0.2 percent, seasonally adjusted).
- When seen in context of a 6.5 percent unemployment rate over most of 2012, then the underlying story is one of lethargy.
- Wage growth is expected to remain moderate, by both the LCI and QES measures.
- It is becoming increasingly clear from the leading indicators that momentum in the labour market is waning. It is probably too soon for this to show up in the HLFS and wage data, but we cannot rule out the possibility.
- We expect the weakness to be arrested, but progress getting the unemployment rate sharply down will be a long grind, similar to the outlook for the general economy. The interaction of numerous shocks is likely to see greater polarisation in terms of labour market outcomes across sectors in 2012.
- With the RBNZ increasingly relaxed regarding the domestic inflation outlook there is unlikely to be anything in the labour market data that will threaten the RBNZ's plan to keep the OCR low for a considerable period.
- Given the weakening lead indicators, a stronger than expected result would likely be quickly discounted by the market. The hurdle to an OCR hike before the end of the year remains high.

New Zealand employment and unemployment



Sources: ANZ, National Bank, Statistics NZ

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LABOUR MARKET – DECEMBER 2011 QUARTER

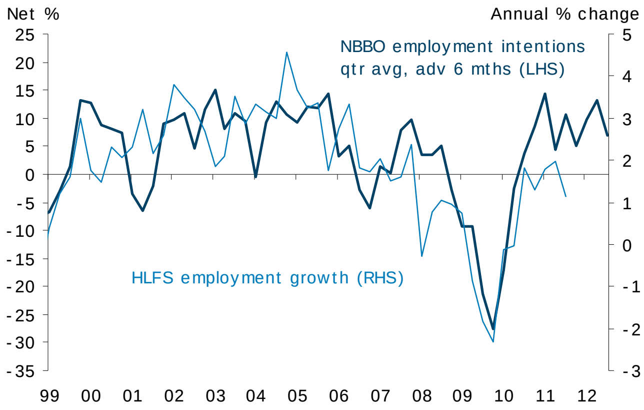
- **LCI / QES:** Tuesday 7 February, 10.45am
- **HLFS:** Thursday 9 February, 10.45am

DECEMBER 2011 QUARTER EXPECTATIONS	Our Forecast
LCI salary and wage ordinary time (private sector)	+0.5% q/q +1.9% y/y
QES salary and wage ordinary time (private sector)	+0.5% q/q +3.2% y/y
HLFS unemployment rate (s.a.)	6.5%
HLFS participation rate (s.a.)	68.4%
HLFS employment growth	+0.2% q/q +1.7% y/y

The general consensus across labour market indicators suggests the demand for labour is now weakening. However, given the lags from these indicators to employment, we expect a reasonable Q4, with the weakness turning up in the employment statistics for early 2012. However, **we note the risk that the weakness could turn up earlier than expected.**

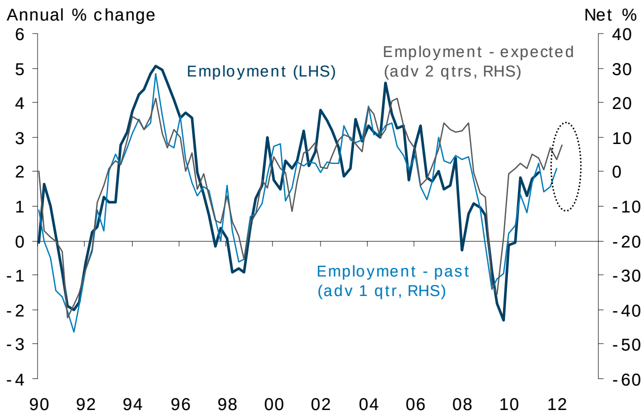
- **Survey measures regarding labour market activity have generally been good.** Seasonally adjusted, past employment from the Q4 QSBO survey rose back into positive territory (just), and firms were still expecting to take on more workers. Employment intentions from the NBBO weakened in the December quarter, particularly in manufacturing, construction, and services. However, the overall level of this indicator remains consistent with robust employment growth.
- **The National Employment indicator fell** 0.2 percent s.a. in October, following a 0.1 percent fall in September. This series does not line up perfectly with either the HLFS or QES employment measures, but is consistent with subdued employment growth in Q4.
- **Job advertising, which recovered strongly in the middle of last year, has been falling since August.** Our composite of internet and newspaper job ads calibrated to best match the unemployment rate fell 7.1 percent s.a. in Q4, after falling 1.6 percent in Q3. Prior to that growth was strong. Given the lag between job ads and employment, this still suggests reasonable employment growth in Q4, but weaker outturns in early 2012.
- **There were more people on unemployment-related benefits in Q4.** Numbers on the unemployment benefit rose by around 2,500 persons between September and December (seasonally adjusted), a decent rise off what had been their lowest level since June 2009. This represents upside risk to our unemployment rate forecast for Q4.

HLFS employment vs NBBO employment intentions



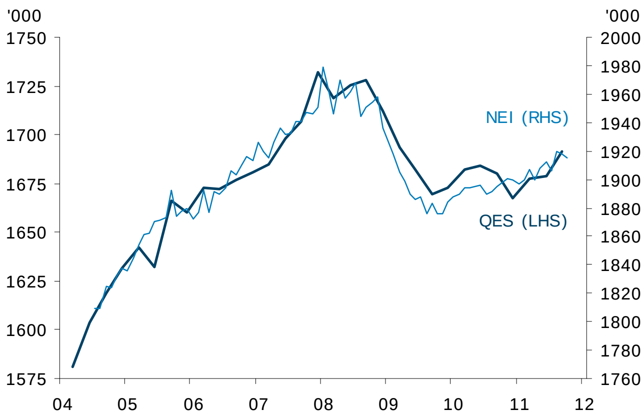
Sources: ANZ, National Bank, Statistics NZ

Employment vs QSBO Employment Intentions



Sources: ANZ, National Bank, Statistics NZ, NZIER

QES filled jobs vs National Employment Indicator



Sources: ANZ, National Bank, Statistics NZ

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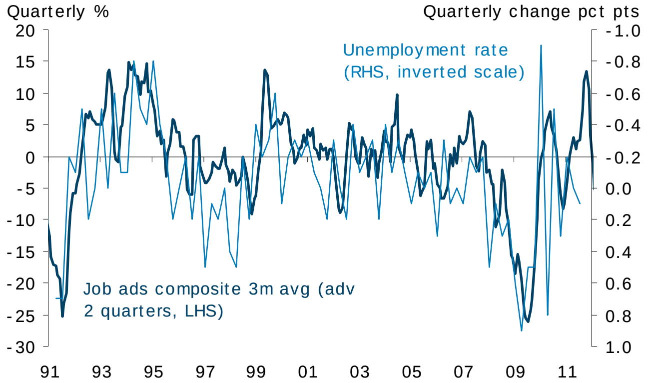
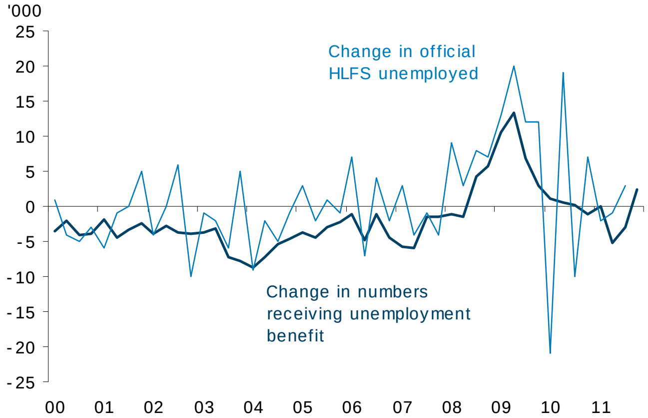
Jobs / internet ads composite and unemployment rate



Sources: ANZ, National Bank, Statistics NZ

Quarterly change in unemployed



Sources: ANZ, National Bank, MSD, Statistics NZ

On the employment front, we expect a 0.2 percent increase in HLFS employment growth. This is quite a volatile series, so a “surprise” wouldn’t surprise us! The unemployment rate is expected to ease to 6.5 percent, following the unexpected 0.1 percentage point rise in Q3. Hours worked per person have been slowly moving up and are expected to continue lifting to historical norms. This week’s Q4 working age population data showed a moderate rate of increase, driven by lower natural increase and a small net emigration outflow.

We expect increasing polarisation in employment across sectors in 2012 as the interaction of the various shocks hitting the economy plays out. Economic rebalancing away from spending means retail employment is likely to remain flat. Construction employment, on the other hand, is set to grow strongly.

The labour force participation rate can be a wildcard that can push around the unemployment rate. We therefore tend to focus on employment growth, even though this is a volatile series itself. It’s a bit of a lottery. For the record, **we are assuming the participation rate will fall very slightly** from 68.44 to 68.37 percent of the working age population. Despite little employment growth in Q2 or Q3, we are assuming that income requirements will be sufficient to keep most job hunters actively engaged in the labour market. However, if more workers become discouraged, this will result in a lower unemployment rate for a given employment growth rate.

Tuesday’s wage data is expected to show moderate rates of wage growth. While increasing skill shortages in some pockets such as construction are expected to translate into higher wage inflation in those sectors, overall the labour market does not appear likely to be a source of inflation concern any time soon. **However, when the economy strengthens and the Canterbury rebuild is at full steam wage inflation will be one to watch.**

We are keeping an eye on gross earnings. **Modest wage growth and modest employment growth imply gross earnings holding up** – certainly not at levels that will drive a spending spree, but sufficient to keep the economic adjustment and deleveraging dynamic across the economy fairly orderly, and consistent with our “grumpy growth” baseline.

All-up, we have a split story: modest growth in the labour market at the end of last year but within the context of a flat unemployment rate for the year and waning momentum thereafter. Job ads have now been declining for six months, and unemployment benefit numbers are rising. There is a definite risk that some of this weakness may impact on the labour market data slightly earlier than expected, but our forecasts assume the usual lags will apply.

MARKET IMPLICATIONS

The Reserve Bank’s eyes are focused offshore, and the market is following their lead. The Reserve Bank has made it clear that the hurdle to either a rate hike or a rate cut in the near term is very high. In this context, a softer than expected labour market print would be unlikely to attract much market attention. A considerably stronger result than anticipated might result in a brief flurry, but given this data tends to lag the real economy, and has been volatile in recent times, **we expect any market reaction would be fairly short-lived.**

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