ANZ
Economic Review
NEW ZEALAND
DATE 9 August 2007

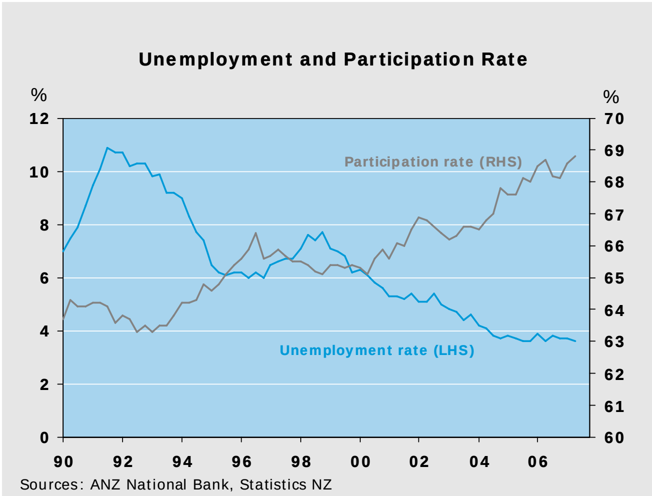
HOUSEHOLD LABOUR FORCE SURVEY – JUNE QUARTER 2007

Key points

- **The labour market tightened in the June quarter, with strong employment growth mainly from part-timers.**
- **Most of the employment growth came from the domestically orientated sectors of the economy, while manufacturing jobs were down.**
- **Today's labour market data indicates that resources are more stretched than what the Reserve Bank initially thought, increasing the risk profile for interest rates.**
- **While continuing to pose a major source of inflationary pressure, the labour market data is unlikely to prompt the Reserve Bank to hike in September. Having moved to a caveated neutral bias in July, the hurdle to a further rate hike remains very high.**
- **Key for the Reserve Bank is whether the housing market and consumer spending is moderating over coming months as the pipeline interest rate effect takes hold.**

The headlines

	Total Employed (%)		Hours worked (%)		Partici-pation Rate (%)	Unemploy-ment Rate (%)
	QoQ	YoY	QoQ	YoY		
Jun-05	0.4	3.0	2.6	2.7	67.6	3.7
Sep-05	1.1	3.2	0.6	3.7	68.1	3.6
Dec-05	0.1	1.5	-1.3	0.3	68.0	3.6
Mar-06	0.9	2.6	0.2	2.0	68.5	3.9
Jun-06	0.8	3.1	0.4	-0.1	68.7	3.6
Sep-06	-0.4	1.5	0.6	-0.1	68.2	3.8
Dec-06	0.1	1.4	0.2	1.5	68.1	3.7
Mar-07	1.2	1.7	-0.5	0.8	68.6	3.7
Jun-07	0.7	1.5	0.3	0.7	68.8	3.6
ANZ	***0.3***	***1.1***	***-***	***-***	***68.6***	***3.8***
Market	***0.3***	***1.1***	***-***	***-***	***68.6***	***3.8***



- **Employment growth in the June quarter was stronger than market expectations at 0.7 percent.** The rise in employment growth comes after a 1.2 percent increase in the previous quarter. The seasonally adjusted total number of people employed rose by 14,000 to 2,158,000 – the highest on record. Annual employment growth eased slightly to 1.5 percent in the June quarter, after annual growth of 1.7 percent in the March quarter. The number of people in the labour force increased to 2,239,000, while the labour force participation rate rose 0.2 percentage points to 68.8 percent - both record highs. This all contributed to the unemployment rate easing by 0.1 percentage points to 3.6 percent - an equal record low since the series began.

- **Part-time employment accounted for the majority of employment growth in the past 12 months.** Part-time employment grew by 1.8 percent in the June quarter, while full-time employment grew a more modest 0.4 percent. Annually, part-time employment grew by 6.2 percent, while full-time employment was basically flat, recording only 0.2 percent growth. This shift from full-time to part-time employment is also reflected in the hours worked data. Seasonally adjusted hours worked grew by a modest 0.3 percent in the June quarter, taking annual growth to 0.7 percent. This is down from annual growth of 0.8 percent and 1.5 percent in the March 2007 and December 2006 quarters respectively.

- **The strongest employment growth over the year was in the wholesale and retail trade industries (up 6.2 percent), with manufacturing employment falling 5.8 percent.** Employment in the construction sector also continues to post solid growth for the year, up 3.8 percent. On a regional basis, the upper North Island appears to have experienced the strongest employment growth over the past 12 months, with Auckland, Waikato and Bay of Plenty posting significant increases.

Assessment and implications

The labour market tightened in the June quarter as firms look to source growth by hiring more people. The rebound in economic activity over the first half of this year has rubbed off on the labour market, as firms sought to take on more staff in order to expand. Most of the job growth in the past year has been in the domestically orientated sectors the Reserve Bank is trying to slow – construction and wholesale and retail trade. The manufacturing sector has shed almost 16,000 jobs in the past year, no doubt impacted by the high currency.

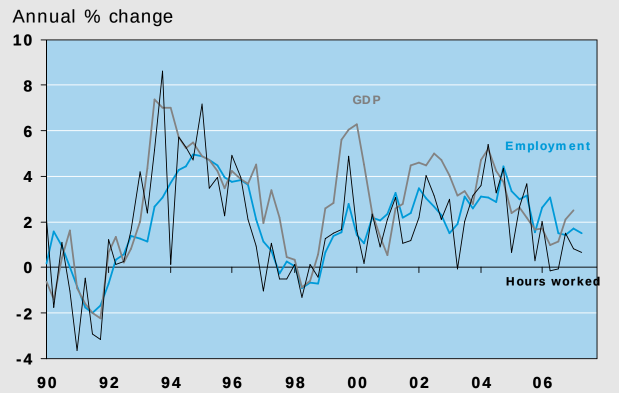
The growth in employment is consistent with surveys of employment intentions, and the drop in the unemployment rate to an equal low is also consistent with firms citing increased difficulty in finding labour over the past few quarters. The fact that most of the employment growth continues to be driven by part-timers is perhaps a reflection of firms having to be a bit more flexible in accommodating new recruits. Indeed, the rise in the participation rate to a new record high suggests that people who would not normally be looking for work have been able to gain employment rather easily.

Growth in hours worked was more modest due to the changing part-time/full-time composition. Despite the 0.7 percent rise in the number of people employed, total hours worked rose by a more modest 0.3 percent. A growing proportion of part-timers in the work force mean the average hours worked is lower. The labour productivity implications of this are mixed. On a per-full-time equivalent (FTE) basis, labour productivity remains sluggish. But on a per-hours worked basis, this is looking better, with year-on-year GDP growth of 2.5 percent coming off a 0.7 percent increase in hours worked. But it is still too early to conclude whether the trend decline in labour productivity we have witnesses since 2000 is starting to turn.

Strength in the labour market will continue to lend support to consumer spending and the housing market. As Monday's wage report and today's employment numbers confirm, strong labour income growth and a record number of people in employment means the housing market and retail spending will continue to have a base level of support in the near-term. Countering this is further increases in the effective mortgage rate that are currently in the pipeline.

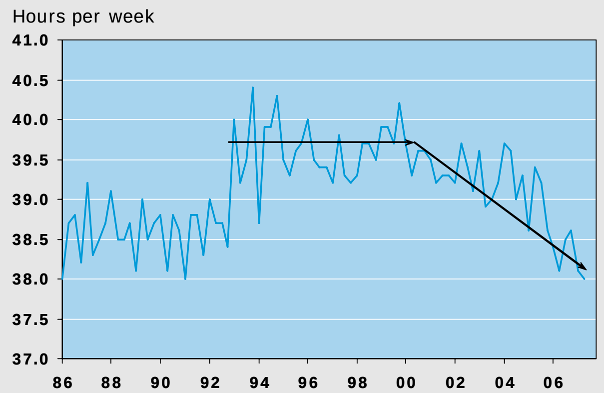
Today's labour market data indicates that resources are more stretched than what the Reserve Bank initially thought. While partly historical and a lagging indicator, today's data nonetheless ups the risk profile for interest rates. Strength in the labour market will continue to be a major source of inflationary pressure in the economy for some time. However, it is unlikely to prompt the Reserve Bank to hike in September. Having moved to a caveated neutral bias in July, the hurdle to a further rate hike remains very high. Key for the Reserve Bank is whether the housing market and consumer spending is moderating over the coming months as the pipeline interest rate effect takes hold. The bias for interest rates remains skewed to the upside, and any easing is still a long way off.

Employment , hours worked and GDP growth



Sources: ANZ National Bank, Statistics NZ

Hours worked per FTE



Sources: ANZ National Bank, Statistics NZ

Disclaimer

ANZ Bank, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-802 2024
http://www.anz.com/nz e-mail ecnmcs@anz.com