

NEW ZEALAND ECONOMICS

Household Labour Force Survey

– March 2011 quarter

5 May 2011

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UNDERLYING LABOUR MARKET IMPROVEMENT EVIDENT IN HLFS FIGURES

KEY POINTS

Today's labour market data was generally stronger than market expectations, with the unemployment rate lower but employment and labour force participation stronger than market expectations.

Given recent volatility care needs to be taken placing too much weight on the data and pockets (i.e. hours worked) remained weak.

We are still taking encouragement from the results.

- A perverse seasonal pattern was less apparent in the seasonally adjusted HLFS figures. The upshot here is that recent quarterly volatility has become somewhat smoother and this makes intra-quarterly movements look more sensible.
- The unemployment rate is falling (slowly) and employment growth fits with the strength we saw in Gross Earnings in Tuesday's Quarterly Employment Survey.
- While employment growth was largely part-time driven, full-time employment has now been positive for five quarters.
- Hours worked outside of Canterbury increasing by a seasonally adjusted 1.4 percent. This adds weight to notions that the aggregate economy pre quake had better momentum and outside of Christchurch the economy is more robust than generally thought.

We are sticking to our view that the March cut in the OCR will need to be reversed before year end.

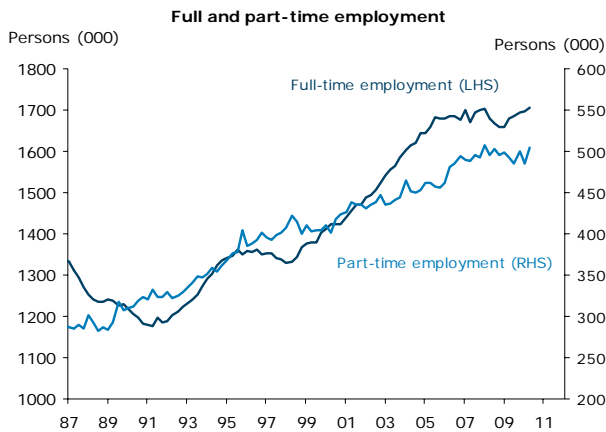
	Total Employed (%)		Hours worked (%)		Participation Rate	Unemployment Rate
	OoQ	YoY	OoQ	YoY	(%)	(%)
Mar-09	-1.4	0.7	-0.4	1.0	68.4	5.2
Jun-09	-0.3	-0.9	-1.6	-3.6	68.4	6.0
Sep-09	-0.8	-1.8	-0.9	-3.3	68.0	6.5
Dec-09	0.1	-2.4	0.1	-2.7	68.1	7.0
Mar-10	0.8	-0.1	1.2	-1.2	68.0	6.1
Jun-10	-0.2	0.0	1.2	1.6	68.1	6.9
Sep-10	1.1	1.9	0.3	2.9	68.2	6.4
Dec-10	-0.4	1.3	-0.1	2.6	67.9	6.7
Mar-10	1.4	1.8	-0.9	0.4	68.7	6.6
ANZ	0.9	1.2	1.0	2.3	68.1	6.5
Market	0.6	0.9	-	-	68.1	6.7

DATA REVIEW

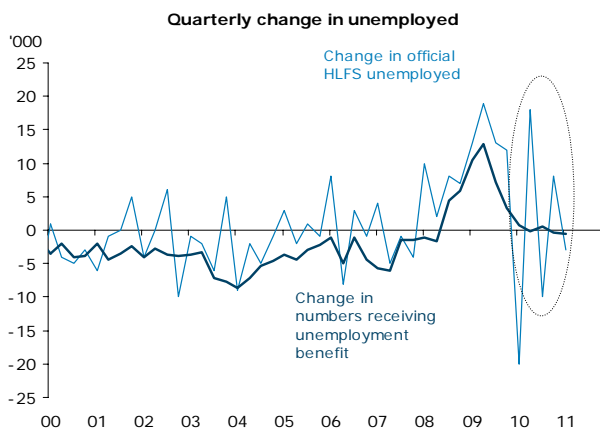
COMMENT AND ASSESSMENT

Employment growth was stronger than the consensus. The rise in employment was driven by a sharp 4.0 percent rise in part-time employment, which offset the 2.8 percent Q4 fall.

Encouragingly, full-time employment increased 0.5 percent, the fifth consecutive quarterly increase.

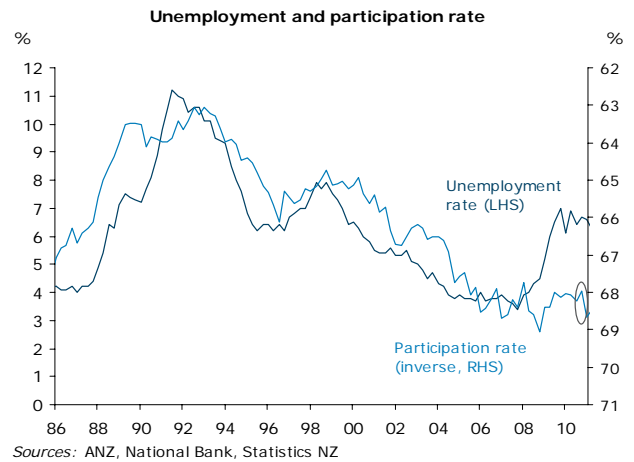


Of late, a seasonal pattern has been apparent in the seasonally adjusted HLFS unemployment rate figures. **Encouragingly, this seasonality is less evident in today's data, which displayed less of a seesaw pattern.** The small fall in HLFS unemployment is more consistent with other signs we have been seeing and is a more reliable barometer of where things are at, with the number of persons on the unemployment benefit also ticking down in Q1.

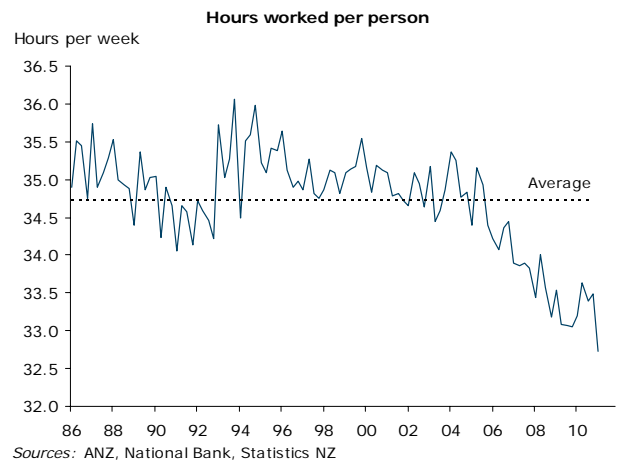


While some of the quarterly volatility appears to have been dampened, there is still the possibility that the unemployment rate could move higher in Q2. The impact of the Christchurch earthquake will become more apparent in the Q2 figure as the usual surveying

activity by Statistics New Zealand resumes. There is also a high probability Q1 will be revised.



Labour force participation moved significantly higher, with the participation rate back to levels where the labour market was in a considerably stronger position. This may just be a statistical quirk and we will closely watch future readings. Evidence of improving labour supply and the strengthening trend in plant and machinery imports are a clear positive for capacity building of the economy. It is early days yet, however.

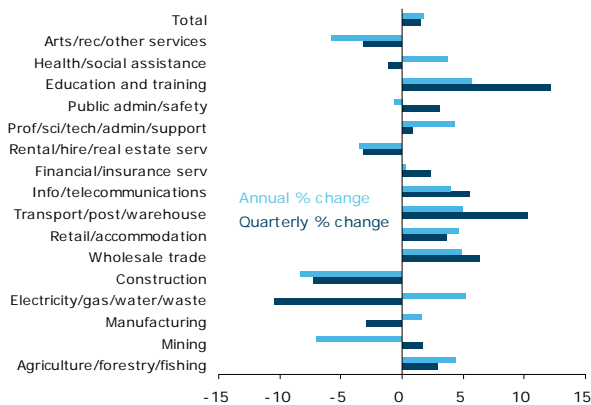


Surprisingly, hours worked declined 0.9 percent. The average hours worked per person are now 2 hours below its historical average, so there remains considerable scope to meet increased labour demand by working the existing workforce longer rather than taking on new staff. **However, disruptions caused by the Canterbury earthquake appear to have had an influence,** with hours worked outside of Canterbury increasing by a seasonally adjusted 1.4 percent. This adds weight to notions that the aggregate economy pre quake had better momentum and outside of Christchurch the economy is more robust than generally thought.

DATA REVIEW

Considering the sizeable disruption caused by the February 22 Christchurch earthquake, the impact on the HLFS could have been much more significant. Statistics New Zealand used pre-earthquake responses from Canterbury to estimate the labour force status of non-respondents (about 36 percent of the Canterbury sample). The data therefore mitigates the quake's impact on employment statistics. Employment outside of Canterbury expanded 1.8 percent q/q, which was even stronger than the nationwide figures.

Today's data was a positive surprise but implications for Q1 GDP are limited. This adjusted March quarter labour market data does not take account of the obvious disruption to economic activity and Statistics New Zealand will make other adjustments to the GDP data. Our core view remains that economic activity declined in the March quarter.

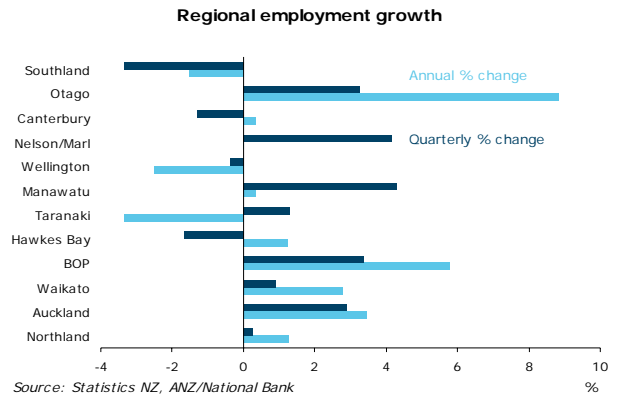


Source: Statistics NZ, ANZ/National Bank

The HLFS revealed differences in sector employment. Strong annual growth in primary sector employment (up 4.5 percent) confirms the economic rebalancing taking place. Fiscal belt-tightening showed through, with public sector administration employment down 0.7 percent. Construction sector employment rose 1.4 percent and is set to pick up strongly towards the end of the year as reconstruction work commences.

Regional differences in employment growth were also evident. Strong increases in seasonally adjusted quarterly employment were evident in Auckland (up 2.9 percent), Manawatu (up 4.3 percent) and the Bay of Plenty (up 3.4 percent), with Wellington employment static (down 0.4 percent). Employment in the South Island was a mixed bag, with lower Canterbury employment (down 1.3 percent) offset by solid climbs in employment in Nelson/Marlborough (up 4.2 percent) and Otago (up 3.3 percent). The relocation of economic activity appears to be benefiting

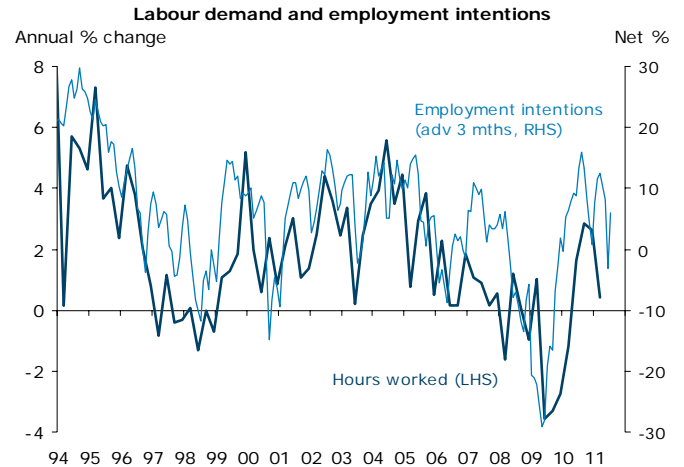
employment in nearby regions. We expect differences in sector and regional labour market performance will become increasingly evident as the year progresses.



Source: Statistics NZ, ANZ/National Bank

The general spirit of our assessment is that a recovery in labour demand is underway.

Recent employment intentions surveys have shown some improvement, which is expected to translate into more demand for labour. Given the high degree of slack within the existing labour force, the unemployment rate look set to remain in the 6 percent range for some time yet.



Sources: ANZ, National Bank, Statistics NZ

IMPLICATIONS

Aspects of the HLFS still leave us scratching our heads. Employment growth was strong, though driven by part-time. The participation rate spiked. Growth in the working age population was quite weak, while hours worked plummeted. That said, the massive growth in employment should not be dismissed. Tuesday's QES survey showed gross earnings were up 4.6 percent on a year ago and today's figures concur with that. This sort of income growth is allowing households to deleverage in an orderly fashion, a precursor to an opened cheque-book.

DATA REVIEW

While there was some market reaction to the stronger than expected HLFS print, the monetary policy implications are limited. The RBNZ are aware of the high degree of seasonal volatility in the HLFS and tend to look at a number of indicators to assess the degree of labour market strength. A range of survey indicators have confirmed that while the labour market is improving, it is likely to be more gradual than suggested by strong increases in HLFS employment.

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 unemployment towards the end of the year. **It is a reminder that the OCR cannot remain low indefinitely and we still expect a gradual series of policy tightening to commence from the December MPS.**

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IMPORTANT NOTICE

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