

Labour Market Data Preview: March 2009 quarter

(QES due 10.45am 4 May, LCI due 3.00pm 6 May, HLFS due 10.45am 7 May)

Summary

- > **March quarter labour market data is expected to show a sharp deterioration in labour conditions. This in turn will significantly cap the economy's potential to recover sharply and reinforce that rates will remain low for an extended period.**

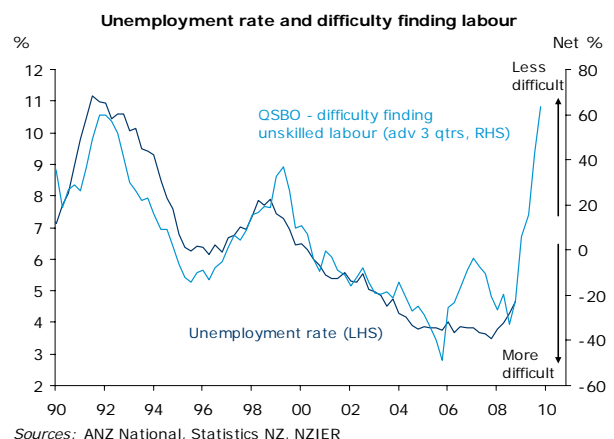
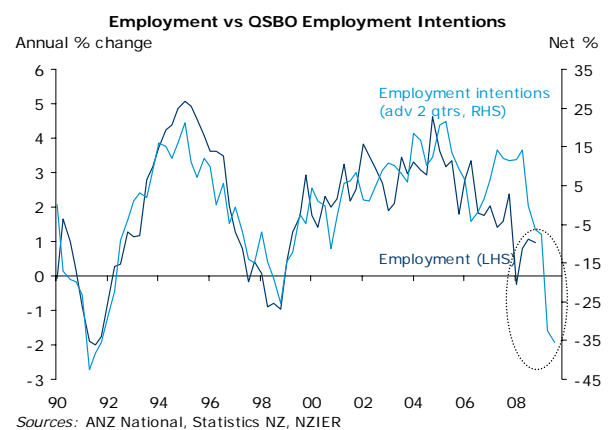
March quarter 2009 expectations		
	ANZ	Market
LCI salary and wage ordinary time (private sector)	0.5% q/q 3.0% y/y	0.6% q/q 3.1% y/y
QES salary and wage ordinary time (private sector)	0.6% q/q 4.6% y/y	0.6% q/q 4.6% y/y
HLFS unemployment rate (s.a.)	5.4%	5.3%
HLFS participation rate (s.a.)	68.4%	68.7%
HLFS employment growth	-1.5% q/q 0.7% y/y	-1.1% q/q 0.8% y/y

Q1 labour market data should be weak across the board. A significant deterioration in labour markets has been a clear trend across the globe. We expect NZ's experience to be no different, particularly given the length of the recession. Readings from skill shortage indicators, employment intention surveys and anecdotes all point to a rapid jump in unemployment. The broad trend in the Q1 numbers will be that wage growth is moderating, firms are shedding staff, and unemployment is rising. The main uncertainty, as always, centres on the extent of any moves. Volatility within the HLFS can make employment movements somewhat of a lottery at times. Because of this, we prefer to focus on the unemployment rate as a more stable gauge of underlying labour market conditions.

In terms of the numbers themselves, we expect the LCI measure of private sector wages (our preferred gauge of wages) to increase by 0.5 percent in the quarter. This will be the smallest quarterly increase since March 2004 and will see annual growth ease to 3.0 percent. From the QES, measures of paid hours and filled jobs should both contract. And from the HLFS survey, employment is expected to tumble by 1.5 percent following last quarter's almost unbelievable 0.9 percent increase. In fact, employment growth has the potential to be nasty given the positive surprise last quarter and volatility of late. We expect the unemployment rate to rise to 5.4 percent – a seven year high.

A weak labour market dominates the outlook. While there are some encouraging signs beginning

to surface that the economy will record positive growth rates over H2 2009, as Dr Bollard stated after the April *OCR Review*, this will not feel like a recovery. Rising unemployment at a time when households continue to de-leverage will significantly restrain any upswing.



Financial market implications

A downside surprise from the HLFS will no doubt intensify expectations for a further OCR cut in June. However, we believe a weak labour market is undoubtedly already factored into the RBNZ's view of the economy. While it may not change the Bank's thinking on changes to the OCR, it will likely alter perceptions in the market. Indeed, we suspect weakness will help reinforce the RBNZ's view (which the market is only partially buying into) that rates will remain low till the latter part of 2010.

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- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
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- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
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- Derivative products including interest rate and currency forward rate contracts and options; and
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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com