

NEW ZEALAND ECONOMICS

Household Labour Force Survey

– December 2010 quarter

3 February 2011

CONTRIBUTORS

Mark Smith
Economist
Telephone: +64 4 802 2199
E-mail: Mark.Smith2@anz.com

Q4 LABOUR MARKET WEAKER BUT THE NEWS IS NOT ALL BAD

KEY POINTS

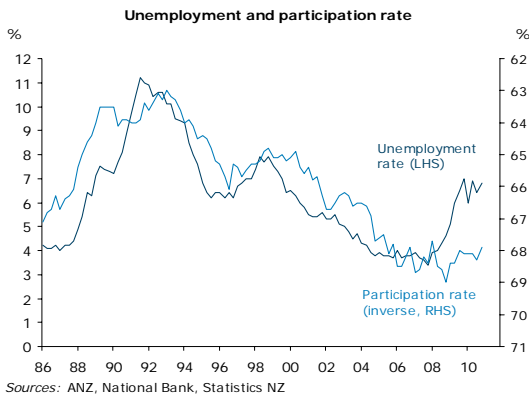
- **The Q4 HLFS labour market data was weaker than market expectations, with the unemployment rate rising to 6.8 percent from 6.4 percent.** The recent extreme volatility in the HLFS data makes interpretation difficult, but **today's data suggests the labour market has not yet turned the corner in a sustainable fashion.**
- **If it were not for a decline in the participation rate, the unemployment rate would have been higher.** There is considerable slack in the labour market, and this is likely to keep wage pressure restrained for the time being. There remains scope to meet increased labour demand by working the existing workforce longer rather than taking on new staff.
- The weakness in employment was driven by a sizeable 2.8 percent decline in part-time employment. **On a more positive note, hours worked rose 0.2 percent and full-time employment growth has been positive for 4 successive quarters.**
- **The Q4 unemployment rate was higher than the December MPS expectation of a 6.4 percent print.** However, the RBNZ are mindful of recent volatility in the HLFS and also regularly monitor a range of other labour market indicators. **The data therefore supports the case for monetary policy remaining on hold until at least the middle of this year.**
- **Nevertheless, the improving economic outlook is a reminder that the OCR cannot remain low indefinitely.** We still expect a gradual series of policy tightenings to commence from June this year. The critical factor remains that we believe the economy is at an inflection point.

	Total Employed (%)		Hours worked (%)		Participation Rate	Unemployment Rate
	QoQ	YoY	QoQ	YoY	(%)	(%)
Mar-09	-1.3	0.7	-0.4	1.0	68.4	5.1
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	0.2	-2.7	68.1	7.0
Mar-10	1.0	-0.1	1.2	-1.2	68.1	6.0
Jun-10	-0.3	0.0	1.2	1.6	68.1	6.9
Sep-10	1.1	1.9	0.3	2.9	68.3	6.4
Dec-10	-0.5	1.3	0.2	2.9	67.9	6.8
ANZ	0.2	2.0	0.6	3.3	68.3	6.6
<i>Market</i>	<i>0.2</i>	<i>2.0</i>	<i>-</i>	<i>-</i>	<i>68.2</i>	<i>6.4</i>

DATA REVIEW

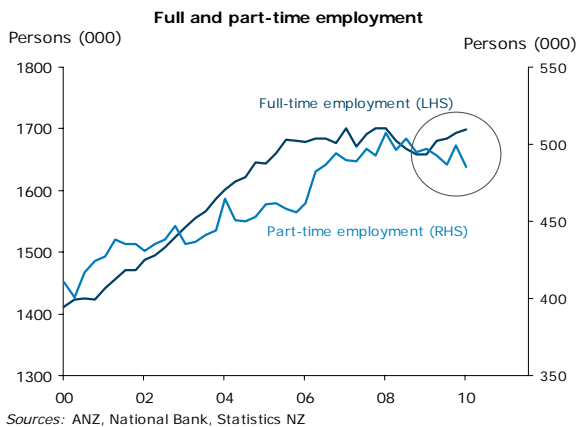
COMMENT AND ASSESSMENT

Today's data was weaker than market expectations, with the unemployment rate rising from 6.4 to 6.8 percent. As foreshadowed by the weak QES report, HLFS employment fell by a seasonally adjusted 0.5 percent (+1.3 percent y/y). Were it not for a decline in the participation rate to 67.9 percent, its lowest level since early 2008, the tick-up in the unemployment rate would have been even higher.

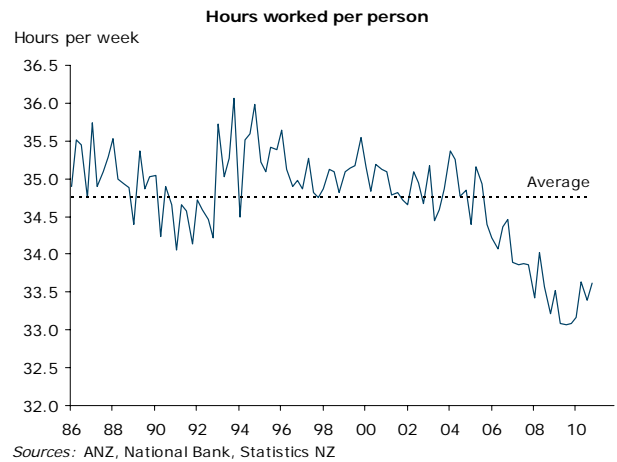


Recent readings from the HLFS have been something of a lottery. Today's data did not disappoint, with quite different impressions depending on what you looked at.

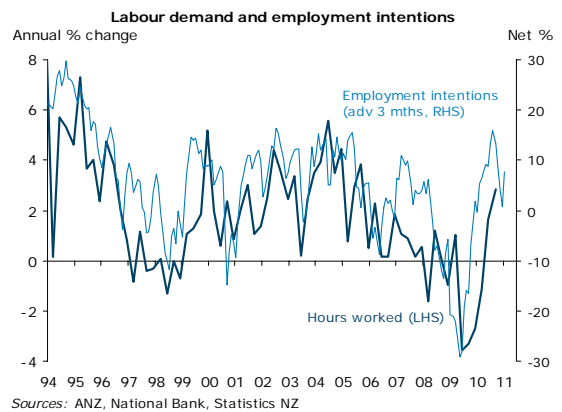
Viewing the detail shows the fall in employment was driven by a 1.1 percent (s.a.) fall in male employment, which partly reversed the 1.8 percent rise in Q3. Female employment has been steadier, rising 0.3 percent in Q4, following a 0.1 percent increase in Q3. Employment fell in most regional centres but actually rose slightly in Auckland and Canterbury. The report also illustrated quite different trends by sector: quarterly employment rose in construction, manufacturing, wholesale trade, financial services, and healthcare, but fell in most other sectors.



The full-time/part-time employment split suggests that the underlying labour market picture is not as weak as the headline implies. The fall in aggregate employment was driven by a sharp 2.8 percent fall in part-time employment, which reversed a 2.5 percent increase the previous quarter. However, full-time employment rose 0.3 percent, continuing the improvement seen since the start of last year. More of the shakeout in the labour market has been in part-time employment, with the level currently more than 4 percent below late 2008 peaks. By contrast, full-time employment is close to historical peaks.



HLFS hours worked were also higher, rising 0.2 percent in Q4. Nothing flash, we admit, but it suggests the demand for labour is stronger than the total unemployment and employment figures infer. Average hours worker per person continue to trend higher, although they remain below historical averages.



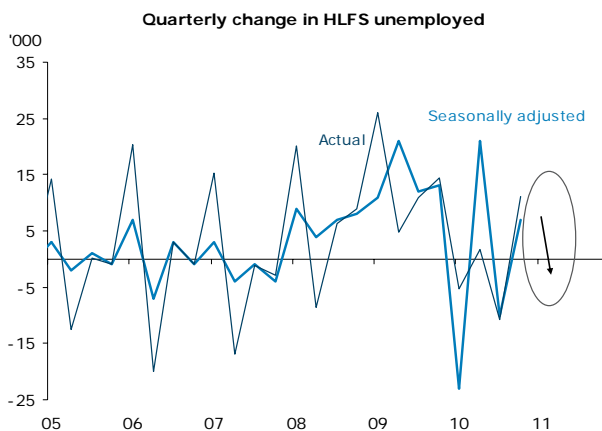
Recent employment intentions surveys have shown some improvement, suggesting a pick-up in employment growth is in the pipeline. But with average hours still low by historical standards, the recovery in labour demand is likely



DATA REVIEW

to be partly met by employers increasing hours of existing staff, with the upshot still being a less employment-rich recovery. Nevertheless, labour incomes are still likely to benefit.

Given the volatility of late there is still the possibility that the unemployment rate could "correct" lower in Q1. The seasonally adjusted quarterly change in numbers of persons unemployed in the HLFS measure has recently displayed a see-saw pattern (and has been far more volatile than the non-seasonally adjusted data) The large overshoot in Q4 implies a risk of a lower unemployment reading in 2011 Q1.



Sources: ANZ, National Bank, Statistics NZ

IMPLICATIONS

Today's data was a negative surprise for the market, and was also considerably weaker than the RBNZ's December MPS projections of a 6.4 percent unemployment rate in Q4.

However, the RBNZ are aware that quarterly movements in the reported HLFS unemployment rate are volatile, and look at other labour market indicators. Nevertheless, the labour market data is consistent with the RBNZ assessment in that household spending growth will remain subdued.

The data therefore supports the case for monetary policy remaining on hold until at least the middle of this year.

However, employment data tends to lag the cycle. The RBNZ tend to be more forward looking and their comment in the January OCR Review of a firming in forward indicators of activity suggests they are detecting signs of a pick-up. With economic activity set to lift 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. **It is a reminder that the OCR cannot remain low indefinitely.**

On the face of it a mid-year start to the tightening cycle looks to be a long-shot. Weak Q4 indicators now mean there is a material risk of a negative Q4 GDP result. Today's numbers were weak, but given the volatility of this survey of late, it's hard to place too much faith in the results. On closer inspection, the report was not a total disaster, with hours worked and full time employment still rising. Risks of a negative Q4 GDP result are clear. However, looking at Q3, employment, hours worked and retailing volumes were good, but GDP came in negative. We may see the reciprocal for Q4 and we continue to have a positive number pencilled in.

For now we're going to keep a June tightening view, despite today's data giving justification to defer till later in 2011. We think the economy is at an inflection point and in handover mode from a weak end to 2010, but prospects for 2011 are looking up. This will take time to manifest itself in sustained robustness in the hard data - about six weeks in our view, before a consistent string of good data. Beyond that, inflation prospects for Q1 and Q2 simply don't look as benign as painted by the RBNZ. We are not talking massive rises in the OCR, but a very gradual process of policy normalisation.

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- 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;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or

IMPORTANT NOTICE

- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

This document is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

UNITED STATES DISCLAIMER

This document is being distributed in the United States by ANZ Securities, Inc. (Member of FINRA [www.finra.org] and registered with the SEC) ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 277 Park Avenue, 31st Floor, New York, NY 10172 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this document. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.