

A clean sweep

NZ Q2 Household Labour Force Survey: Employment 0.0%q/q, unemployment rate 6.5%

- **Employment was flat and the unemployment rate was 6.5%, in line with market expectations.**
- **The labour market is gradually improving in the early stages of a vigorous economic recovery.**
- **To date that recovery is largely occurring outside Canterbury, where the labour market was hit hard by the February earthquake.**

Key results

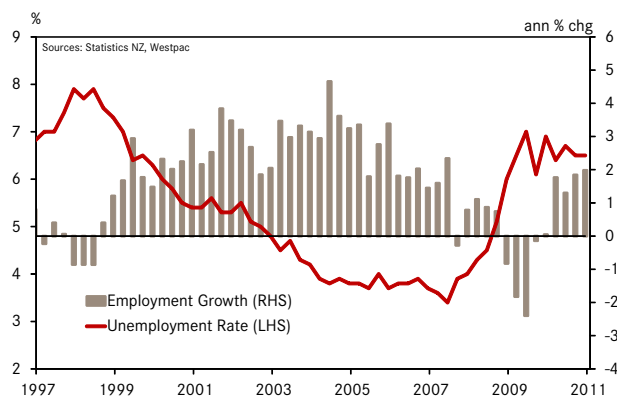
	Q1		Q2		Q2 Expected	
	2010	2011	WBC	Mkt		
Employment %q/q	1.3	0	-0.2	0		
Unemployment rate %	6.5	6.5	6.6	6.5		
Participation rate %	68.6	68.4	68.3	68.4		
Hours Worked s.a %q/q	-0.2	1.6	1.8			

The only thing surprising about today's labour market data was that they were so comprehensively unsurprising. After a year of highly volatile employment figures and amid all the uncertainty around what the impact of February's Christchurch earthquake would be, it's quite remarkable. The headline numbers were bang in line with the market, just a touch stronger than our own expectations, and a mite softer than the Reserve Bank's.

Certainly, an unemployment rate at 6.5% will do nothing to dissuade the Reserve Bank from its plan to unwind the 50 basis points of 'insurance' cuts it made after the Christchurch earthquake back in March (the RBNZ's forecast had been for 6.4%). And along with Tuesday's fairly muted wage report, today's HLFS is likely to reassure the RBNZ that the current state of the economy allows room for growth without generating inflation. The RBNZ is probably of the view that its existing plans for additional rate hikes next year are broadly appropriate.

The numbers are showing a labour market that is continuing to gradually improve in the early stages of a pickup in economic momentum. Getting a sense of this is complicated a little by the fact that the March quarter survey didn't

Employment and Unemployment



include quake-hit Christchurch (residents in some of the worst hit areas of Christchurch, accounting for about 6% of Canterbury households, are still missing from the July survey, but most of the city, including some designated 'red' zones, is back in the sample). That makes the March numbers look stronger than they really were, and the June quarter numbers correspondingly weaker. But the improvement is clear if we focus on the change since last December: the unemployment rate is down from 6.7% to 6.5%, and employment is up 1.3%. (At this early stage, a lot of this employment growth has been in part-time employment, which is up 3.7% since December, but full-time employment is gradually inching up as well.)

The HLFS also offered yet more evidence that the economic recovery is in full swing. Hours worked, which tend to reflect changes in economic activity sooner than employment or unemployment, are up a hefty 1.4% since December. That hints at another decent quarter of economic growth in Q2.

Regional and industrial breakdown

Today's data also confirm that this growth largely occurred outside Christchurch itself. That's consistent with other data we have - while economic confidence in Christchurch has rebounded strongly, actual activity (retail spending, for example) remains well below pre-quake levels. The Christchurch labour market has been hit hard. On our seasonally adjusted estimates, Canterbury employment was down 3.1% (and is now more than 4% below December

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levels). Hours worked are still down more than 3.5% than in December. The unemployment rate in Canterbury is a touch lower at 5.9% but that's only because so many Cantabrians have left the workforce. And compared to before the first, September quake, Canterbury's unemployment rate is about 0.9% higher.

Canterbury aside, the regional split between the North Island and South Island continues (with unemployment still a lot higher in Northland and Auckland than in Otago or Southland, for example). But Auckland, where a lot of the economic momentum that we've been seeing has occurred, is the only region to have shown consistent consecutive employment increases over the past year, and its unemployment rate is slowly inching down (currently at 7.3%, down from over 8% a year ago).

By industry, employment growth this year has generally been strongest in primary industries such as mining and agriculture, and in communication, financial and other business services. The impact of the Christchurch earthquake can be clearly seen, even at a national level, in employment in wholesale and retail trade (down 5.3% in June, seasonally adjusted) and accommodation services (down 7.1%, probably reflecting the quake's disruptive impact on tourism). In this release, Statistics New Zealand included industry-level employment growth for the Canterbury region, and it shows particularly large hits to accommodation and retail trade (where the number employed is 16% lower than a year ago), IT and communications (down 21%), and professional services (down 11%). Unsurprisingly, the earthquake also boosted employment in some sectors, such as public administration and safety (up 18% over a year ago) and health services and social assistance (up 3%). But signs of significant employment increases in the construction sector have yet to come through.

Market reaction

With today's data so close to consensus forecasts, there was little market reaction. In the immediate aftermath of the release the NZD/USD moved 10 pips higher while 2 year swaps edged up 1 basis point.

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