

# Between the cracks

## NZ Q3 Household Labour Force Survey: Employment 0.2%q/q, unemployment rate 6.6%

- Employment rose just 0.2% in the September quarter, and the unemployment rate inched back up to 6.6%.
- Underlying softness in the domestic economy is weighing on the labour market, with a smaller than expected boost from the Rugby World Cup.
- Weakness was concentrated in the Canterbury region, suggesting earthquake disruption is continuing to dampen economy activity.

### Key results

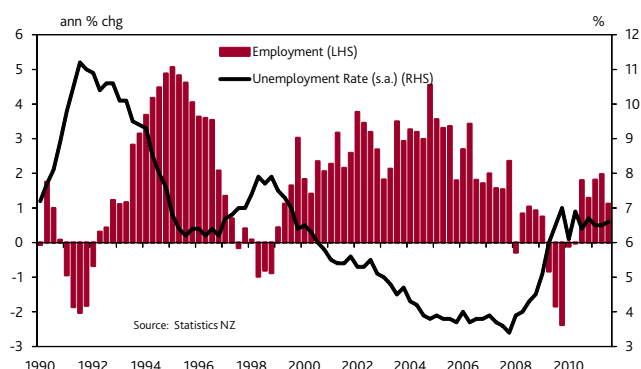
	Q2	Q3	Q3 Expected	
	2011	2011	Westpac	Mkt
Employment %q/q	0.0	0.2	0.8	0.6
Unemployment rate %	6.5	6.6	6.3	6.4
Participation rate %	68.3	68.4	68.7	68.5
Hours Worked s.a %q/q	1.5	1.0	1.4	

Employment and unemployment were rather weaker than expected in the September quarter, bolstering the evidence that the New Zealand economy has endured a soft patch through mid-2011. This will further reduce short-term pressure on inflation, allowing a Reserve Bank anxiously watching global developments to delay OCR hikes beyond the March start date it previously indicated.

Today's employment result was always going to be difficult to gauge in view of strong opposing forces. On the one hand the underlying signals were weak – economic momentum has been slowing and business surveys hadn't been suggesting a lot in the way of a pickup in hiring. But there was also the likelihood of a temporary bounce, both from the statistical saw-tooth pattern of the employment data, and a possibility of an extra boost to hiring from the Rugby World Cup.

In the event we got the underlying weakness, but the Rugby World Cup appears to have largely been a damp squib as far as jobs are concerned. Employment grew just 0.2%, well below our expectation of 0.8% and the consensus of 0.6%. That, and a lift in the participation rate, was enough to cause unemployment to rise back up to 6.6%.

### Employment and Unemployment



As we explain below, the details of the report suggest a key reason for this weakness: economic life in the Canterbury region remains significantly disrupted in the aftermath of the Christchurch earthquakes, and as yet activity in the rest of the country, and the very early beginnings of Christchurch reconstruction, haven't been sufficiently strong to compensate. Christchurch reconstruction is likely to become a much stronger driver of economic growth come next year, but we're not there yet.

### Details

The underlying state of the labour market may not be quite as bad as the headline numbers suggest: the weakness in employment was concentrated in part-time jobs (down 0.6%), while full-time employment was up 0.4%, broadly the rate at which full-time jobs have been growing over the past year. That's certainly not stellar growth, but it's fairly consistent with what businesses' hiring reports had been telling us.

But equally, the fall in part-time jobs pretty much puts paid to the hypothesis that the Rugby World Cup boosted short-term jobs in the quarter. It does look as if existing staff may have worked longer hours during the Cup boost – actual hours worked jumped 1%, while usual hours worked fell 0.2%, another sign of underlying softness.

The weakness in the national employment numbers was largely due to a sharp fall in employment in Canterbury. On our seasonally adjusted estimates, employment in the region

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fell more than 3%, a similar fall to what we saw in June, and the fourth consecutive decline. Ex-Canterbury, employment rose 1% over the quarter.

Most of that fall in Canterbury employment reflects a population outflow from the region to other parts of the country. Again on our seasonally adjusted estimates, Canterbury's employed fell by about 21,000 people over the past two quarters – roughly the same as the decline in the region's working-age population over that time. But Canterbury's labour force participation rate has also fallen sharply (from over 70% pre-quake, to 67% currently), suggesting that it's the working people who have been leaving the region, while non-working people have been more likely to remain. That exodus has kept the Canterbury unemployment rate contained – but it's now clear that to date not all of those leaving have found jobs elsewhere. Ex-Canterbury, the unemployment rate has risen to 6.8% from 6.6%, despite that 1% lift in employment, as the number of people looking for work has increased even more than the number of jobs.

In fact, in the rest of the country, the jobs market continues to look fairly mixed. Over the past year Auckland has been the standout region of jobs creation in the country and that continued to be true in the September quarter, with the region showing the strongest employment growth of all, at over 4.5% on our estimates. Agricultural exporting regions Taranaki and Southland also saw robust jobs growth this quarter. By contrast, Wellington and much of the rest of the North Island saw declines. But even in Auckland the population has been growing at least as fast as the number of jobs, and unemployment there remains well above the national average.

Compared to a year ago, the sectoral breakdown of the employment data reveals 4.5% fewer jobs in accommodation, cafes and restaurants, and 1.3% fewer in 'other services' which include arts and recreation. (The weakness in those sectors is testament both to the ongoing disruption of those parts of the Christchurch economy, and to the limited compensating impact of the Rugby World Cup in the September quarter.) Meanwhile manufacturing and retail trade have remained pretty stagnant over the past year. The standout industries for jobs growth have been communications, media and finance, while real estate has also started to lift a bit as the housing market has bottomed out. While employment in the construction sector lifted sharply this quarter (by a whopping 5.8% seasonally adjusted), at this very early stage of the Christchurch reconstruction process it's still well below year ago levels.

### Market reaction

After Tuesday's fairly soft Quarterly Employment Survey, markets were broadly priced for weakness and reaction was limited. The NZD fell 40 points, and the 2-year swap rate fell only two basis points.

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