3 May 2012

Westpac Institutional Bank

Cross-currents

NZ Q1 Household Labour Force Survey: employment 0.4%q/q, unemployment rate 6.7%

- **The labour market has yet to stage a convincing recovery.**
- **A lift in construction-related employment is underway, but still outweighed by weakness in other parts of the domestic economy.**
- **Today's report is consistent with weak economic growth in early 2012, and adds to the run of recent data pointing the RBNZ in a dovish direction.**

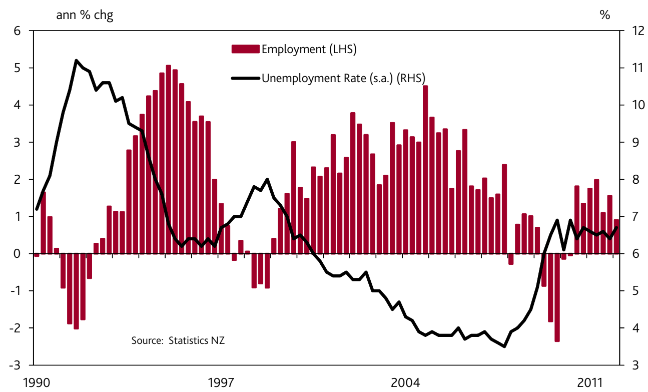
Key results

	Q4	Q1	Q1 expected	
	2011	2012	Westpac	Market
Employment %q/q	0.2	0.4	0.5	0.3
Unemployment rate %	6.4	6.7	6.2	6.3
Participation rate %	68.2	68.8	68.3	68.3
Hours Worked s.a %q/q	-1.2	0.1	0.8	

In contrast to three months ago, both the headline and the details of today's labour market report were disappointing. Along with the weak jobs and hours data coming out of Tuesday's Quarterly Employment Survey, they add to the evidence that GDP growth is likely to have been pretty soft in the March quarter. While parts of the labour market have definitely come back to life, notably in the construction and real estate related sectors, employment conditions in other parts of the domestic economy, such as retail, remain soggy. Over time, we expect the boost to jobs from construction activity and a strengthening housing market to get stronger, leading to a fall in unemployment and contributing to rising inflation pressures. However, we clearly aren't there yet.

Today's data were also on the weak side of the RBNZ's expectations. On its own that wouldn't necessarily be of consequence, as the labour data can be volatile on a quarter to quarter basis. But when combined with further falls in NZ commodity prices and a stubbornly high exchange rate, a weak labour market outturn increases the risk that the RBNZ could cut the OCR this year. That said, we still regard that risk as less than 50%. Our central expectation remains for the OCR to stay on hold till March 2013.

Employment and Unemployment



Details

The unemployment rate rebounded to 6.7%, from an upwardly revised 6.4% in December. As such it's now back around levels we saw in the first half of last year. A similar rebound was seen in the 'jobless' rate, which on our seasonally adjusted estimates rose back from 10.8% to 11%. (The jobless rate supplements the officially unemployed with those who are available for work but not actively looking, and those who are looking for a job but not currently available. By doing so it avoids some awkward classification issues that can lead to extra volatility in the measured unemployment rate.)

In some ways this rebound in unemployment was as puzzling as December's decline. The drivers were a jump in the female unemployment rate – which has now see-sawed violently and unusually for the past three quarters – and a surprisingly large lift in the labour force participation rate (the proportion of the population ready and able to work). Both of these could reverse (and Statistics New Zealand cautioned that the seasonal patterns around female participation in particular have been changing). We wouldn't therefore go so far as to say that the labour market is back on a deteriorating trend. But at the very least, it's hard to see any evidence that the labour market has picked up in any meaningful sense over the past year.

That sense of sogginess pervades the rest of the report. For example, while employment grew modestly, as expected, this was entirely due to another bumper month for part-time employment (up 2.5%), while full-time jobs were weak for a second quarter, falling 0.2%. Hours worked (both actual, and the 'usual' measure that excludes things like temporary disruptions and overtime) were both effectively flat, rising just 0.1%. And even if we regard recent movements in the female unemployment rate with some skepticism, the male unemployment rate has been essentially flat over the past year – no improvement there either.

Regional and industrial breakdowns

Breaking the employment data down by industry shows that jobs have been growing strongly over the past year in a range of construction and housing market related industries: employment in the construction sector itself was up 6% over the past year, real estate related jobs were 11.9% higher, finance and insurance rose 10.7%, and professional and technical services were up 2.6%. However, this has failed to outweigh ongoing weakness in other parts of the domestic economy such as retail trade and accommodation (down 3.1%), education (down 1.7%), and health care (down 0.8%). Public sector cutbacks are also starting to weigh on availability of jobs, with employment in public administration 0.8% lower than a year ago. And lower employment in the agricultural sector (down 3.2%) and wholesale trade (down 14.6%) may reflect that the export tide has started to turn.

The regional breakdown can be harder to interpret, as it's affected by regional population movements. That's notably been the case in Canterbury, where employment is still 1.8% below March 2011 levels, but the unemployment rate is back down to the kinds of levels seen before the September 2010 earthquake (on our seasonally adjusted estimates it's sitting at 5.2%, up just a touch from 5.1% in December).

The seasonally adjusted data showed Canterbury employment rising in the quarter, for the first time since late 2010 (the working age population in the region also rose for the first time in a year). That's encouraging, but the quarterly movements in the regional breakdowns need to be taken with an even larger grain of salt than the nationwide figures (for example, they also showed a big drop in Wellington unemployment, which we find hard to believe). We'll also note that some of the reconstruction activity in Christchurch won't show up in the Canterbury employment and unemployment figures, to the extent that it gets done by people not usually resident in the region.

Market reaction

Within the hour interest rates responded to the surprise roughly as one might expect, falling 4 basis points, but the NZ dollar was more resilient, falling just 20 points.

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