

A 'Caramello' labour market

NZ Q4 Household Labour Force Survey: employment 0.1%q/q, unemployment rate 6.3%

- A firm headline, but today's labour market report was soft in the middle.
- Despite the mixed messages, overall today's data suggests little in the way of improvement in the labour market late last year.
- We suspect the RBNZ won't be changing its benign assessment of labour market conditions.

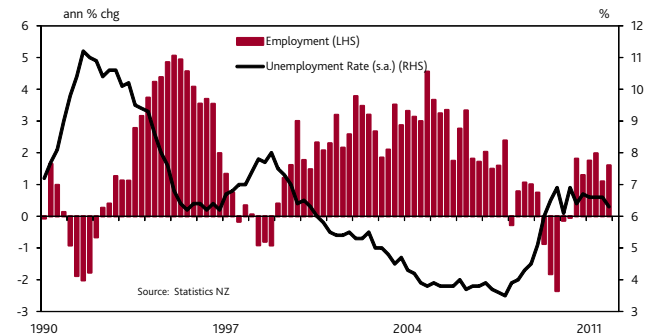
Key results

	Q3	Q4	Q4 expected	
	2011	2011	Westpac	Market
Employment %q/q	0.2	0.1	0.5	0.4
Unemployment rate %	6.6	6.3	6.6	6.5
Participation rate %	68.4	68.2	68.6	68.5
Hours worked s.a. %q/q	0.8	-1.4	-0.1	

An unexpected drop in the unemployment rate headed up what was an otherwise pretty soggy December quarter labour report. Our final take on these mixed messages is that they don't sway our view of the labour market much in either direction, and we suspect the RBNZ would agree. Both we and the central bank were expecting the labour market to remain soft at the end of 2011, and the overall tone of today's numbers suggests that this is what we got.

That might surprise some readers, given that our usual advice is to focus on the unemployment rate – which was clearly below what we were expecting. But as we detail below, the details of today's report were so pervasively soft that we struggle to call it positive news. And there were oddities in the unemployment numbers as well: for example, the fall in the unemployment rate was caused by an unusually big drop in female unemployment, which had risen unexpectedly three months ago. The fairest read of the numbers is that there was not much real pickup in labour market momentum late last year – and nor would we have expected any, given how soft the economy was in the middle of 2011.

Employment and Unemployment



Details

The unemployment rate fell from 6.6% to 6.3%. A similar drop was seen in the 'jobless' rate, which on our seasonally adjusted estimates fell from 11.1% to 10.7%. (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.)

But most other aspects of today's report were weaker than expected. Not only was employment up a paltry 0.1% – just enough to keep pace with population growth – but this was purely due to a 3% pickup in volatile part-time jobs. Full-time employment was down 0.8%, the first drop since late 2009. Labour force participation dropped, from 68.4% in September to 68.2%. Hours worked were down 1.4%. Some of the fall in hours is probably payback for a pre-Rugby World Cup boost (hours worked had risen a total of 2.4% over the June-September period). But 'usual' hours worked (which one would expect to strip out short-lived factors such as the Rugby World Cup) were also down 0.9% over the quarter, after rising just over 0.2% over the previous half year.

Oddly and unusually, the main reason for the fall in the unemployment rate was a big drop in female unemployment, which has been a lot less volatile than for males over the past few years. Whereas male unemployment ticked up from 6.3% to

For further information, questions or comments contact Dominick Stephens, Chief Economist, Ph: (64-9) 336 5671, email dominick_stephens@westpac.co.nz

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6.4%, female unemployment plunged from 7.0% to 6.3%, after having risen from 6.7% in June. Females also saw strong jobs growth this quarter (0.7%), after seeing jobs fall the previous quarter. We think this volatility may be evidence that some of the drop in the unemployment rate that we saw this quarter was statistical rather than real. That means that an average of the last two quarters (around 6.5%) may be closer to the truth.

Dominick Stephens, Chief Economist, Ph: (64-9) 336 5671

Felix Delbrück, Senior Economist, Ph: (64-9) 336 5668

Regional, industrial and demographic breakdowns

The breakdowns of the HLFS are even more vulnerable to sampling error than the totals, and don't always add up (either mathematically or in terms of the story). So they need to be taken with a pinch of salt. The regional breakdown does show that localised labour shortages appear to be emerging in Canterbury - on our estimates unemployment in the region is now sitting at 5%, down from 5.5% in September and 6.1% in March. Unemployment also continued to fall in Auckland. By contrast, the unemployment rate rose sharply in Wellington (where public sector cutbacks are biting) and the Bay of Plenty (a region that has taken a battering from the PSA blight, a still weak construction sector and plunging consumer confidence).

The employment breakdown by industry obscured as much as it illuminated - particularly when read against the Quarterly Employment Survey's regional jobs figures earlier this week. But what both surveys do show is that there was a significant pickup in construction sector hiring in the second half of last year, albeit with different timing (the HLFS showed a whopping 5.5% increase in September, whereas construction jobs in the QES didn't pick up till December, when they rose 2.8%). Elsewhere there wasn't a lot of consistency. Whereas the QES had shown jobs growth was especially weak in manufacturing, and particularly strong in property and real estate related work, the Household Labour Force Survey showed the reverse - employment in manufacturing grew strongly, but fell in property and business services. And while both surveys showed strong jobs growth in the transport and accommodation sectors, it's hard to relate this to anything obvious like the tail end of the Rugby World Cup, as the QES wasn't sampled till mid November.

The age breakdown shows the problem of youth unemployment persisting. By age, unemployment remains unusually high for teenagers (24%, on our seasonally adjusted estimate), and picked up sharply for 24-24 year olds (to 13%, up from under 12% half a year ago). Statistics NZ has begun reporting details of the education and training status of unemployed youth. The numbers show that while the unemployment rate for teenagers is much higher than for those in their early 20s, a majority of teenagers out of work are in education, whereas two thirds of unemployed in their early 20s aren't in education or training.

Market reaction

The NZ dollar initially lurched higher in response to the lower than expected unemployment rate, before quickly absorbing the weaker details.