

An employers' market, for now

Preview of 2011 Q4 employment data (9 Feb) and wage data (7 Feb)

- We expect employment to rise 0.5% in the December quarter, but unemployment to stay elevated.
- Ongoing high unemployment means wage inflation is likely to be subdued as well.
- Our forecasts are broadly in line with the market. But the HLFs can exhibit large swings, with significant market reaction.

December quarter Household Labour Force Survey expectations

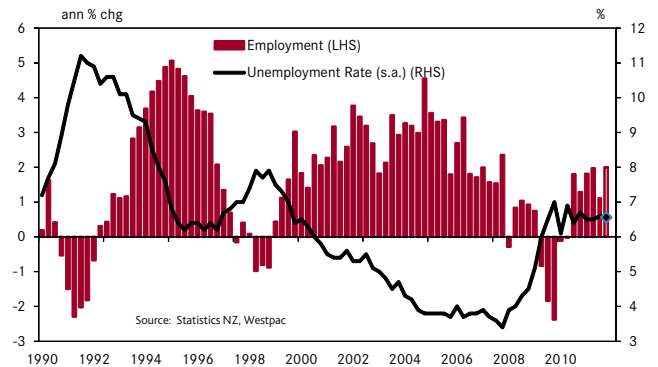
	Quarterly % change			Annual
	Previous	Westpac	Market	Westpac
Employment growth	0.2	0.5	0.4	2.0
Unemployment rate %	6.6	6.6	6.5	
Hours worked	1.0	-0.1		2.2
Participation rate %	68.4	68.6	68.5	

December quarter wage expectations

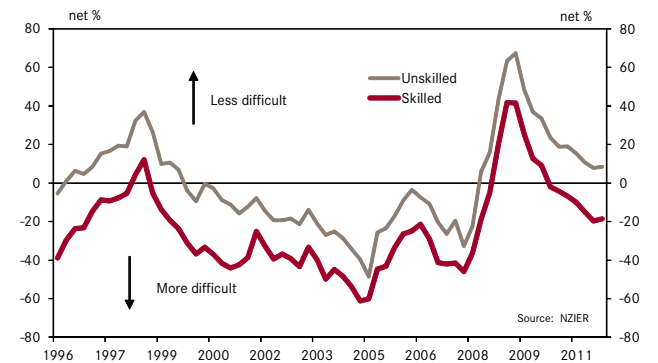
	Quarterly % change			Annual
	Previous	Westpac	Market	Westpac
LCI - all sectors	0.6	0.5		1.9
LCI - pvt sector	0.5	0.5	0.5	1.9
QES wages - all sectors	1.2	0.3		3.1
QES wages - pvt sector	1.3	0.3	0.5	3.0

The labour market recovery to date has been disappointing. Employment just barely eked out growth in the six months to September, and the unemployment rate inched back up to 6.6% as jobs growth failed to keep up with growth in the labour force. That's likely to change over the coming year as we see a recovery in the construction industry. But here and now, we don't expect next week's labour market reports to look much rosier than three months ago. Indications are that jobs growth probably firmed in the December quarter, but not by enough to bring unemployment down from September levels. If anything, surveys suggest that labour market conditions softened. Continued high unemployment means that wage growth should remain subdued for now, as well.

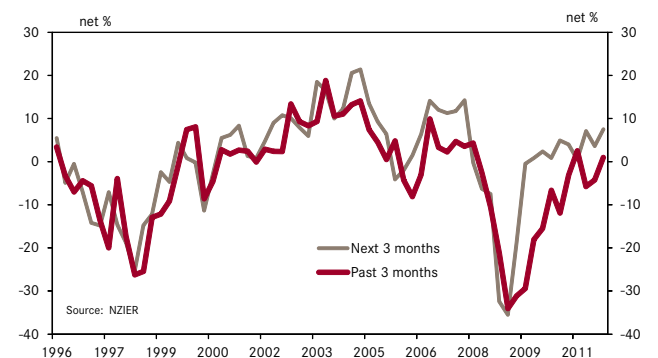
Household Labour Force Survey



Firm's difficulty in finding labour



Employment intentions



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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Employment and unemployment

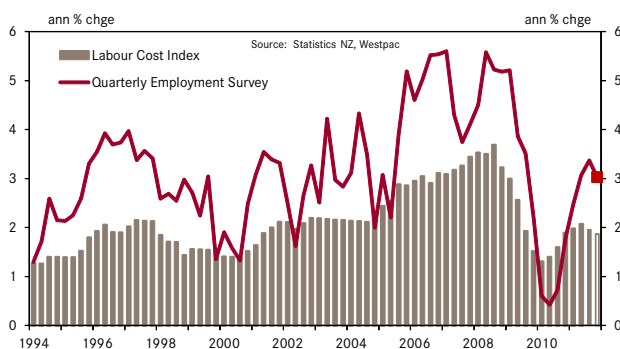
The best guide we have to the current state of the labour market, the NZIER's *Quarterly Survey of Business Opinion*, showed an uptick in reported hiring in the three months to December. Employment could also see a bit of a boost for statistical as well as economic reasons: the seesaw pattern that's been an increasing feature of measured employment growth over the past decade suggests we're due a bounceback. We considered the potential additional impact of the Rugby World Cup, which straddled the September and December quarters – but that left little trace on the September quarter labour data or the *QSBO*. We also think the *QSBO* (showing slightly above average hiring in the construction sector) is, at this stage, a decent guide to employment conditions in that sector. While the HLFSS showed construction employment leaping nearly 6% in the September quarter, it's hard to say how much of that was real or lasting in an extremely volatile series. Putting all this together, we're picking decent, but not stellar, 0.5% employment growth.

At the same time, the *QSBO* showed a small increase in businesses saying that staff have become easier to find. There are some other signs that jobs remain scarce: In the Westpac McDermott Miller employment confidence survey, for example, more households thought that jobs were hard to get than in September. And indicators such as the SEEK employment index (which shows the balance of online job ads to applicants) have eased back as well. These aren't huge moves, and we're not ready to forecast an actual setback in the unemployment rate. But we also don't expect unemployment to fall. That means that the pickup in employment that we expect would be mirrored in a lift in the labour force participation rate (to 68.6). That's not unusual – historically the two move together closely. Meanwhile, we're expecting hours worked to consolidate (a -0.1% fall) after the strong increases we saw in the June and September quarters.

Wages and earnings

Our picks for wages reflect both seasonal factors and the underlying state of the economy. Growth in the Labour Cost Index (LCI) tends to be higher in the second half of the year, which is when a greater share of pay reviews tends to occur. But unemployment is elevated, whereas inflation expectations eased marginally in the latest December survey. On balance, that points to wage growth somewhat below the December quarter average (about 0.6%) and, at 2%, fairly modest annual wage inflation.

Private Sector Earnings and Labour Costs



The average wage measure from the Quarterly Employment Survey (QES) is a lot more volatile than the LCI and higher on average (as it doesn't strip out productivity-related pay rises). It's also

dominated by seasonal changes in labour force composition (the QES, unlike the LCI, is seasonally low in December, when low-paid seasonal workers enter the workforce). Our pick of 0.3% reflects that seasonal weakness. The resulting annual inflation rate of 3% is a little below the historical average of the series.

The QES also reports measures of jobs growth which historically have helped predict the HLFSS employment outturn two days later. We'll be paying particularly close attention to the QES's full-time equivalent employment (this downweights part-time jobs and is less vulnerable to double-counting of people holding multiple jobs). Handily, Statistics New Zealand are now doing their own seasonal adjustment of this series. One thing to note is that the QES is a snapshot of the labour market in mid-November, whereas the HLFSS gets sampled through the quarter – so the QES won't capture what, if anything, happened to employment during the Rugby World Cup.

Market Implications

Our forecasts are broadly in line with those of the RBNZ (in its December *MPS*) and those of other economists. An outcome in line with our expectations shouldn't therefore generate much of a market response. But HLFSS employment is a notoriously volatile series and the unemployment rate, while less choppy, has also blindsided forecasters on numerous occasions. Big surprises on either side are possible and, rightly or wrongly, have in the past often elicited a significant market reaction.

Dominick Stephens, Chief Economist, Ph: (64-9) 336 5671
Felix Delbrück, Senior Economist, Ph: (64-9) 336 5668