



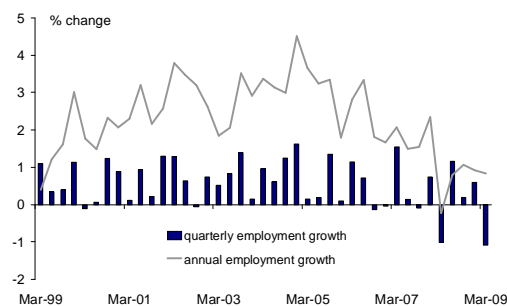
LABOUR MARKET UPDATE – JUNE 2009

Labour market conditions weaken further in 2009

The labour market continued to weaken in the March 2009 quarter, according to the Household Labour Force Survey (HLFS). The downturn in the New Zealand economy has led to a fall in employment and a rise in unemployment.

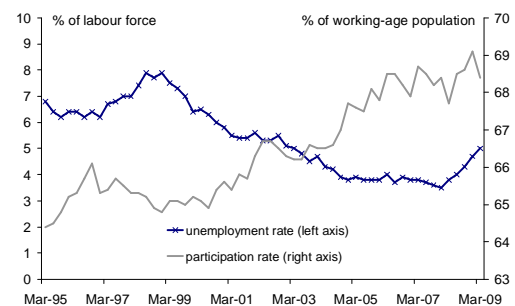
The number of people in work fell by 1.1%, or 24,000 people, in the March 2009 quarter with part-time employment particularly affected, declining by 3.1%. It appears firms have begun to cut staff numbers rather than just reducing hours as was evident over the second half of 2008. Even with the quarterly fall, employment is still up by 0.8% compared to a year ago, despite the economy being in recession since the beginning of 2008.

Fig 1: Employment growth



Source: Statistics New Zealand

Fig 2: Unemployment and participation rate



Source: Statistics New Zealand

The unemployment rate rose from 4.7% to a six-year high of 5.0% in the March 2009 quarter. The increase in the unemployment rate was the fifth consecutive rise since it reached a 22-year low of 3.5% in late 2007. The smaller than expected increase in the unemployment rate was due to the labour force participation rate falling to 68.4% in the March 2009 quarter, down from a record high of 69.1% in the previous quarter.

It is common for the labour force participation rate to fall as employment declines. People who lose their job may not seek further work and instead turn to other activities such as looking after children or studying. There may also be some discouraged workers who have given up searching for employment and have left the labour force altogether. As the labour market eases further we expect the participation rate to continue to fall, which will dampen any rise in the unemployment rate.

As in previous recessions, the downturn in the labour market has hit youth (15-24 year olds) hard. Compared to a year ago, there were 14,700 more youth unemployed and 11,300 fewer youth in employment. The 3.3% fall in employment for youth is consistent with the large fall in part-time work.

Compared to the March 2008 quarter, the unemployment rate for the Pacific peoples ethnic group rose from 8.7% to 13.1% while the European/Māori group (ie people who identify as both European and Māori) rose to 13.1%, up from 7.2%. Increases in other ethnic groups were not as pronounced, with the unemployment rate for the Māori only group up to 11.9% from 10.2% a year earlier and Europeans up to 3.8% from 3.0%.



By region, Auckland continues to lead the downturn with employment falling by 4.6% over the past year. The large fall in manufacturing employment appears to be primarily affecting Auckland with the unemployment rate rising to 6.5% from 4.7% a year earlier. There have also been large increases in the unemployment rate in Northland, Gisborne/Hawke's Bay and Canterbury.

New Zealand holding up relatively well

Although the unemployment rate rose to 5.0%, it remains relatively low on an historical basis and well below the OECD average of 7.3%. Due to a variety of reasons, the New Zealand labour market has weakened less than in many other nations. Furthermore, the labour market has eased from a position of historical strength. In the United States, where much of the turmoil in financial markets originated, the unemployment rate has risen from 4.8% in February 2008 to 9.4% in May 2009. Unemployment has increased in other developed nations, most noticeably Ireland (to 11.1% in April 2009 from 5.2% a year earlier) and Spain (to 18.1% in April 2009 from 10.0% a year earlier). The unemployment rate in Australia has risen from 4.2% in April 2008 to 5.4% in April 2009.

Wage growth slows

Consistent with a softening labour market, wage growth continued to ease in the March 2009 quarter. The adjusted Labour Cost Index showed annual wage growth fell to 3.3% in March 2009, down from 3.5% in December 2008 and a record high of 4.0% in September 2008. Wage growth is expected to ease further over the coming 18 months as a result of rising unemployment, abating skill shortages, and easing consumer price inflation.

Migration inflows continue to increase

Net migration inflows rose to 9,200 in the year to April 2009, up strongly from 3,800 in the year to December 2008. The upturn in net migration is largely due to a fall in the number of New Zealanders leaving, particularly to Australia, as they are put off by weak job prospects overseas. The easing of labour markets abroad has also led to more New Zealanders returning home. With many countries facing an economic slowdown, these trends are expected to continue and migration is forecast to rise well above the average of the past ten years of around 10,800 per annum. Higher net migration inflows are likely to provide positive support for housing and construction activity.

Labour market to ease

The labour market is expected to continue easing over the next year as a result of the weak economic environment. The March 2009 Quarterly Survey of Business Opinion showed a significant weakening in labour market indicators. Firms are finding it easier to recruit staff than at any other time in the past 30 years and one-third of firms intend to decrease staff over the June 2009 quarter, the highest figure since 1991.

Some signs of economic stabilisation

Some recent data however, has pointed to signs of stabilisation within the economy. The housing market has shown signs of recovery, net migration inflows have risen sharply, the May 2009 National Bank Business Outlook reported improving employment and activity intentions and consumer confidence has increased to its highest level since the global financial crisis began in late-2008. The improvement in some indicators, albeit from low levels, increases the chances of positive economic growth over the second half of 2009. However, as the labour market typically lags economic activity, we expect further declines in employment over the next year, and the unemployment rate to rise towards 7% by March 2010.