



LABOUR MARKET UPDATE – APRIL 2009

This note provides an update on the labour market and how it is being affected by the downturn in the economy and the global financial crisis.

The economy contracted in all four quarters of 2008...

The New Zealand economy went into recession in early 2008 due to domestic factors such as drought conditions, high interest rates, falling house prices, and rising fuel prices. This saw real Gross Domestic Product (GDP) fall in all four quarters of 2008. The fall in output over 2008 was driven by large declines in residential and business investment, while both exports of goods and services and imports fell sharply. As a result, there was a large fall in activity in construction and manufacturing, while tourism also struggled.

The New Zealand economy is now entering the second phase of the recession as a result of global events. The onset of the global financial crisis has seen a contraction in many major economies. In the December 2008 quarter, real GDP fell in the US (-1.6%), the UK (-1.6%), Japan (-3.4%) and Australia (-0.5%), compared with a 0.9% contraction in New Zealand.

...and led to a softening in the labour market...

As a result of the economic downturn, the New Zealand labour market continued to ease in the December 2008 quarter. While employment rose by 0.9% over the quarter, hours worked fell and a large increase in the labour force participation rate led to the unemployment rate rising to a 5-year high of 4.7%. Unemployment has risen from 79,000 to 108,000 over the past year and is now above 100,000 for the first time since early 2003. The 37% increase in unemployment over the year to December 2008 was the largest annual increase since the 1991/92 recession.

...with the global slowdown affecting the export sector...

Many jobs in the New Zealand economy are tied to the export sector and the slowdown in the world economy has negatively affected employment in the sector:

- *Agriculture, forestry & fishing:* employment fell by 4%, or 7,100, over 2008 as the industry faced a drought in early 2008, weaker global growth and lower world commodity prices, particularly for dairy products. The large fall in the exchange rate, however, has offset some of the fall.
- *Manufacturing:* employment fell by 2%, or 6,600, over the year to December 2008. There has been a particularly large fall in employment in textile, clothing & footwear manufacturing. Activity is expected to remain weak in the manufacturing industry due to weak demand, both domestically and globally.
- *Tourism:* employment in the hospitality industry fell by 6%, or 6,800, over 2008 as the tourism industry struggled due particularly to a fall in international tourist arrivals.

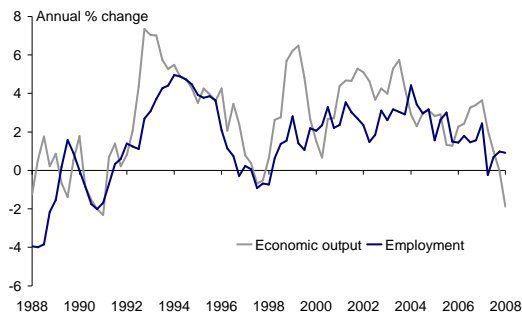


...and the domestic sector weakening after strong growth...

After years of strong economic and employment growth, the domestic sector has weakened over the past year with a number of industries affected:

- *Construction:* after growing by 10% per annum over the five years to 2006, employment fell by 3%, or 4,700, over 2008. Activity in the industry was weak as a number of factors dampened residential construction, including high interest rates, a fall in net migration inflows, and falling house prices.
- *Finance & insurance:* employment in finance and insurance grew by 6% per annum over the five years to December 2007, before falling 9%, or 6,500 over 2008. With turbulence in world financial markets and the collapse of several finance companies, certain sections of the industry have shed workers.
- *Wholesale & retail trade:* employment growth remains positive but has slowed to 2% over the past year, down from an average of 4% per annum over the previous five years. Furthermore, employment intentions are very weak for the retail industry. Retail sales have fallen in the year to February 2009 as consumer spending has weakened due to factors such as falling house prices and concerns about job security.

Fig 1: Economic and Employment Growth



Source: Statistics New Zealand

...but employment opportunities remain in some areas...

Employment has held up in this downturn, rising by 1.0% in 2008 (*Figure 1*). The relative strength of the latest employment data shows that, while the economy has slowed, severe skill shortages in recent years has meant there has not been a marked impact on employment. Over 2008, there was strong growth in employment in education (up 7%), business services (up 5%) and health & community services (up 3%). This led to growth in higher-skilled jobs such as technicians (up 8%), professionals (up 4%) and managers (up 1%). There is also anecdotal evidence of ongoing demand for high-skilled workers. For instance, Hays April 2009 Quarterly Report has noted demand for workers in areas such as accounting, banking, engineering and IT. The global financial crisis does not appear to have affected activity in "knowledge intensive" sectors such as communications and business services as much as other industries.

The growth in higher-skilled occupations has been partially offset by a decline in sales workers (down 6%) due to a slowdown in consumer spending and tourism, and in trades workers (down 10%) and plant & machinery operators (down 2%), which reflected falling employment in the construction and manufacturing industries.



...and New Zealand is well placed relative to other countries

Despite the easing, the New Zealand labour market has so far not been affected by the current global financial crisis as much as other countries for a number of reasons:

- The fiscal stimulus in New Zealand over 2009 and 2010 is expected to be around 5% of GDP, which internationally is at the more expansionary end.
- The Reserve Bank has decreased the Official Cash Rate by a total of 525 basis points since June 2008 to its current rate of 3.0%.
- Our banking sector has been less exposed to the global financial crisis due to tighter lending criteria than many of the foreign banks.
- Our labour market was in a strong position when the downturn began. The rise in unemployment is from a historical low of 3.5% in late 2007 and labour force participation sits at a record high rate of 69.2%.

In the United States, where the turmoil in financial markets originated, the labour market has eased considerably over the past year with their unemployment rate rising to 8.5% from 5.1% a year earlier. In other countries, the unemployment rate rose to 10.0% in Ireland (from 4.8% a year earlier), and to 15.5% in Spain (from 9.3% a year earlier). Australia has been affected to a similar degree as New Zealand with their unemployment rate rising to 5.7% in March 2009 from 4.0% a year earlier.

There have been recent signs of some stabilisation...

While the short-term economic outlook remains weak, there are some signs of stabilisation within the economy. Indicators in both the Quarterly Survey of Business Opinion (QSBO) and the National Bank Business Outlook (NBBO) have stopped falling, and while they point to ongoing weakness, they are not getting any worse. Both the One News Colmar Brunton poll and the BNZ confidence survey show confidence has risen strongly recently, albeit from very low levels. The rise most likely reflects low interest rates, lower fuel prices, tax cuts and optimism towards the housing market.

There have been signs of stabilisation in the housing market indicating residential construction activity may have reached a trough. Real Estate Institute of New Zealand March 2009 sales figures revealed an improvement in sales volumes and a slight rise in the median selling price over the last month. The BNZ Capital-Business New Zealand Performance of Manufacturing Index for March 2009 also rose, although it was still the third lowest figure since the survey began in 2002.

...as migration begins to rise...

Migration results for the March 2009 quarter show net migration inflows have increased and are likely to rise further over the next year. Net migration inflows fell for much of 2008 as New Zealand entered recession before most countries. However, the global financial crisis that began in late 2008 has led to economic downturns in many of our trading partners, including the United Kingdom and Australia. The easing of labour markets abroad is expected to lead to more New Zealanders returning home and also discourage people from leaving New Zealand.

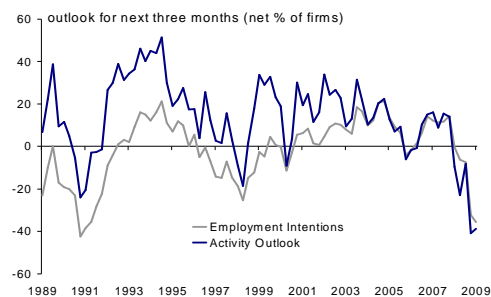
...but the short-term outlook remains weak...

The outlook for the economy has weakened significantly since the global financial crisis began. The world economic outlook has deteriorated, the availability of credit has been more limited, commodity prices have fallen sharply, asset prices have weakened and business confidence is down. The March 2009 QSBO showed a net 47% of firms reported



a decline in their own activity in the March 2009 quarter, the worst result for this indicator since at least 1970. This suggests economic activity will decline further in the March 2009 quarter (GDP data released on 26 June) and it may be similar or larger than the 0.9% contraction in the December 2008 quarter. Firms' activity expectations for the June 2009 quarter are also negative with a net 38% of firms expecting a drop in activity (Figure 2).

Fig 2: Activity and Employment Outlook



Source: Quarterly Survey of Business Opinion

So far the labour market has held up relatively well in the economic downturn. However, the labour market typically lags economic growth by 1-2 quarters indicating the coming quarters will be the first to fully pick up the effects of the global financial crisis. The March 2009 QSBO showed a significant easing in labour market indicators. Firms are finding it easier to find staff than at any time in the past 30 years and employment intentions are at their lowest level since 1991.

Workers also expect labour market conditions to ease. The Westpac Employment Confidence Index fell from 104.0 to 93.2 in the March 2009 quarter, the lowest result since the series began in 2004. A large part of the fall was driven by workers finding jobs harder to get and by workers expecting lower job security for the coming year. Furthermore, total job ads, as measured by the Department of Labour, fell sharply over the year to February 2009. Compared to a year earlier, newspaper ads fell by 61% to 8,400 and internet ads fell by 50% to 21,400.

The average expectation in the latest NZIER Consensus Forecasts is for employment to fall by 1.7% in the year to March 2010. This is expected to result in a rise in the unemployment rate to 5.0% in the March 2009 quarter (HLFS data released on 7 May) and a peak of 6.8% in the March 2010 quarter. A lot of uncertainty remains around the outlook for the labour market. The lowest forecast for the unemployment rate among the 10 economists in NZIER Consensus Forecasts is for a rise to 5.7% in the March 2010 quarter, while the highest forecast is 7.8%.

...with growth not expected to be positive until late 2009

It is widely expected that the economy will come out of recession in the second half of 2009 but growth will be subdued until 2010. The average expectation in the latest NZIER Consensus Forecasts is for the economy to grow by 2.7% in the year to March 2011 as export activity and business investment pick up. Employment is expected to rise by 1.0% and the unemployment rate to ease to 6.7%.