JOB SUMMIT INFORMATION PACK

Current labour market situation

The New Zealand economy experienced a downturn over the first three quarters of 2008 as a result of factors such as drought conditions, high interest rates, a strong exchange rate, falling house prices and rising fuel prices. The downturn has seen real GDP fall in the March, June and September 2008 quarters, with further weakness expected in the December 2008 quarter.

The downturn in the New Zealand economy led to an easing in the labour market in the first three quarters of 2008, with the unemployment rate rising to a 5-year high of 4.2% in the September 2008 quarter from a historical low in late 2007. The unemployment rate for the December 2008 quarter is released on 5 February 2009 and will be the first release to pick up the impact of the global financial crisis. It is expected that the unemployment rate will rise to around 4.6%. While there is likely to be an increase in unemployment, overall results are based on changes in much larger stocks and flows. Appendix 1 shows this pattern in more detail.

Unemployment beneficiary numbers declined to around 20,000 over recent years. Since December 2007, this number has risen by 34% to reach 31,000 at the end of December 2008, with this growth occurring over the last six months. The increase in unemployment benefit numbers over the last six months has been weighted toward those aged under 25 years and the regions of Auckland, Bay of Plenty and Canterbury.

Outlook for the labour market

Since the global financial crisis, the availability of credit has been reduced, the world economic outlook has deteriorated significantly, world commodity prices have fallen sharply (e.g. food), confidence is down and asset prices have weakened. There are factors that will provide some positive offset, including lower fuel prices, lower official interest rates and mortgage interest rates, personal income tax cuts and ongoing infrastructure spending.

On balance, the economy and labour market are expected to weaken further over 2009. The Quarterly Survey of Business Opinion for the December 2008 quarter showed a net 43% of firms expect their own activity to decrease over the next three months, the worst result since 1970. Furthermore, a net 32% of firms intend to decrease staff in the next three months, the worst figure since 1991.

The Treasury's economic forecasts, released in December 2008, showed the unemployment rate peaking at 6.5% in mid-2010. However, due to events over the last month, the Treasury now consider their downside scenario as the most likely path for the economy. Under the downside scenario, the unemployment rate is expected to peak at 7.5% in mid-2010. The Ministry of Social Development current projections estimate that unemployment beneficiary numbers are likely to approach Treasury's downside scenario and come close to 38,000 by June and 50,000 by October 2009.

For the downside scenario to actually happen, a range of assumptions need to occur. The following table reviews the assumptions and provides a judgement on whether they are likely to occur or not.

Assumptions for the downside scenario	**Current position**	**Reason**
Weaker global growth. New Zealand top 20 trading partners having GDP growth of 0.4% and 1.6% in 2009 and 2010	True – position might even be worse	• The Australian economy is forecast to record zero growth through 2009 as the global credit crisis stifles business activity. Australian real GDP was expected to rebound to 1% in 2010. • Japan's government has forecast that the country's economy will have zero growth in the year ending March 2010. • China is crucial to Asia's fortunes. Many economists expect GDP growth to slow to around 7% in 2009, down from almost 12% in 2007 and its slowest rate for almost two decades. • Dec 08 Consensus Forecasts for NZ trading partner growth were 0.2% in 2009, below Dec Update downside scenario assumption of 0.4%.
Rapid falls in commodity prices – world dairy prices falling 50% from levels in 2008	True	• The ANZ Commodity Price Index for dairy products in November 2008 was down 42.7% from a peak a year earlier. • Dec data showed a further fall in dairy and commodity prices generally; Fonterra has announced reduced payout for 08/09 ($5.10/kg). • Whole milk prices have slid 54% since July 2008, similar to globally-traded cheese, butter and casein prices which have all fallen by between 45% and 55%.
Pressure on the New Zealand Dollar	True	• The NZD has fallen from over 80 cents against the USD in March 2008 to around 0.55 in December 2008 and has fallen further since then. • This represents one of, if not, the largest and steepest falls the NZD has experienced in its post-float history.
Widening of current account deficit to nearly 11% of GDP by end of 2009	Maybe	• Current account deficit has already reached just over 8.6% of GDP in the year to September 2008.
International investors reassessing risks of the New Zealand economy	True	• In January 2009 Standard & Poor's revised its outlook on New Zealand's foreign currency rating from stable to negative, and is warning of a possible downgrade in the country's currency ratings. • Country risk ratings across New Zealand, Australia, the United States, the United Kingdom and China have been downgraded as continued volatility in global financial markets and local economic factors drive further deterioration in the conditions of economies around the world. • Dun & Bradstreet's latest Economic & Risk Outlook Report reveals that the 2008 world GDP forecast has been downgraded to 2.6% on the back of reduced global economic activity in Q2 2008. New Zealand has also had its GDP growth forecast revised, down from 0.7% to 0.0%, and its country risk rating has been downgraded to DB2c.

How does this compare to previous recessions?

Many of the features associated with past recessions are relevant in the current downturn, including previously high oil prices and overvalued housing market, a global downturn, drought conditions, and a large current account deficit. All these factors mean uncertainty is higher than usual and there are considerable downside risks at present.

The current recession is expected to be more severe than the last one in 1997/98 because of the global scale of the current recession. The demand for our exports is likely to be constrained, regardless of what the exchange rate does. The current situation is more comparable with the recession of the early 1990s, which was associated with a global downturn and significant economic restructuring in New Zealand. In the early 1990s recession, the unemployment rate rose from 7.0% in early 1990 to a peak of 10.9% in mid-1991. Low-skilled workers were particularly affected, with the unemployment rate for those with no qualifications rose from 11.1% in early 1990 to 16.1% in early 1992, while the unemployment rate for 15-19 year olds rose from 16.2% to 22.6% over the same period.

There is evidence that suggests that New Zealand has more reason to be positive. Internationally, many trading banks have either been effectively nationalised or supported to a much larger degree than that seen in New Zealand. New Zealand has more opportunity to stimulate investment demand by reducing interest rates. The OCR in New Zealand is 3.5%, while the corresponding rate in the United Kingdom is 1.5% and in the United States is 0.25%. The unemployment rate in New Zealand continues to be amongst the lowest in the OECD. When the September quarter unemployment statistics were released in November 2008, New Zealand had the eighth lowest rate of the 27 OECD countries.

Economic situation by industries/sectors

While the majority of businesses in New Zealand are small, this share is not dissimilar to many other countries. For example, for both New Zealand and Australia in 2004, 96% of all businesses had fewer than 20 employees. While there are only a few large businesses (only 0.5% of businesses had 100 or more employees in 2008), they employed 47% of all workers.

The downturn in the New Zealand economy has already had a negative impact on a number of industries over 2008, particularly:

- agriculture and electricity, gas and water (largely as a result of drought conditions in early 2008)
- forestry and fishing (due to factors such as a high exchange rate and high costs of fuel and shipping)
- construction (due to high interest rates, a fall in net migration inflows, and falling house prices)
- wholesale and retail trade (due to high fuel prices and the same factors that dampened construction activity), and
- accommodation, cafes and restaurants (as a result of a fall in international tourist arrivals and softening consumer spending).

However, the economic and employment outlook by industry has weakened significantly since the global financial crisis. The National Bank Business Outlook for December 2008 shows a net 21.5% of firms expected their own activity to decline in the year ahead, the worst figure since the series began in 1988. By industry, the most pessimistic activity outlook was in retail trade and construction; none of the five industries were optimistic on balance.

The latest National Bank Business Outlook also showed weak hiring intentions, with a net 22.2% of firms expecting employment to decline in the year ahead, the worst reading since the series began in 1993. The weakest employment intentions were for firms in construction, retail trade, and manufacturing, while the least negative employment intentions in December 2008 were in agriculture.

Table 2: Activity and employment outlook by industry (net % of firms)

Industry	Own activity outlook		Employment intentions	
	November 2008	**December 2008**	**November 2008**	**December 2008**
Retail	-28.6	-49.2	-24.3	-33.8
Manufacturing	-21.0	-16.9	-44.4	-33.8
Agriculture	0.0	-1.8	-9.0	-1.8
Construction	-10.7	-36.4	-28.6	-45.5
Services	-14.1	-18.6	-13.6	-16.7
Total	-14.1	-21.5	-21.2	-22.2

Source: National Bank Business Outlook.

Table 3 sets out some of the key factors that will potentially impact on each industry over the coming year. The more limited availability of credit, deterioration in the world economic outlook, fall in world commodity prices, decline in confidence levels, and weakening of asset prices are likely to have a negative impact on exports, including manufacturing and tourism, construction, finance, and downstream industries such as business services and transport.

Table 3: Potential factors impacting on each industry

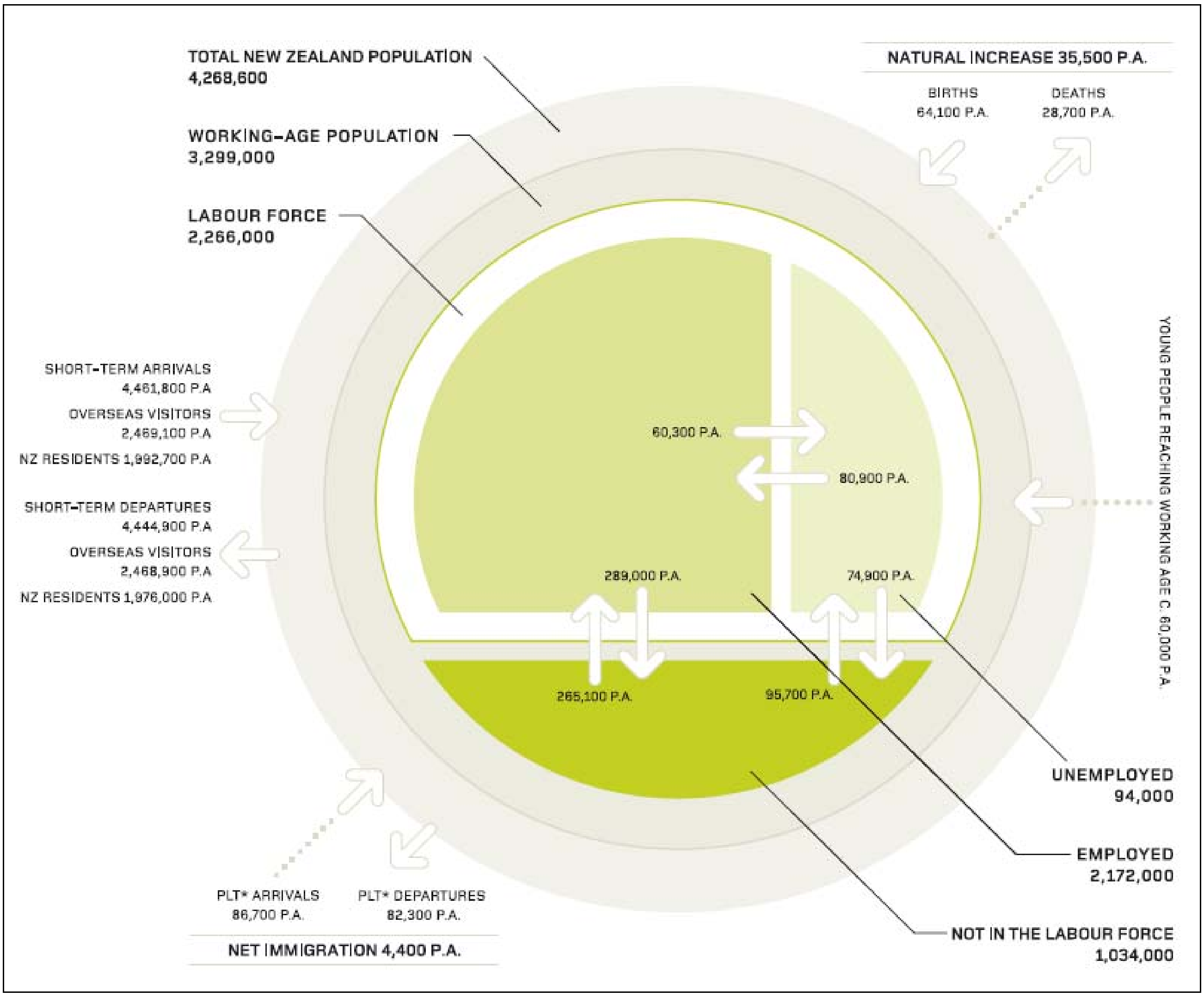
Industry	Positive factors	Negative factors
Agriculture	Potential rebound from drought, lower exchange rate	Fall in world demand and commodity prices, reduced availability of credit
Forestry and fishing	Lower fuel and shipping costs	Fall in world demand, particularly in housing markets
Mining	Ongoing oil and gas exploration and extraction	Fall in world demand and commodity prices
Manufacturing	Lower exchange rate, except against the Australian dollar	Fall in world demand, higher cost of imported plant and machinery
Electricity, gas and water	Potential rebound from drought	
Construction	Infrastructure spending, lower interest rates	Reduced availability of credit, lower net migration inflows
Wholesale and retail trade	Personal income tax cuts, lower fuel prices, lower interest rates	Rising unemployment, falling house prices, lower exchange rate raising import prices
Accommodation, cafes etc	Lower exchange rate	Fall in world demand for tourism, lower domestic consumer spending
Transport and storage	Lower fuel prices	Weaker exports, including tourism, weaker imports
Communications	Infrastructure spending on broadband	
Business and financial services	Infrastructure spending (eg, engineering)	Downstream impact from global financial crisis and downturn, lower house prices and sales
Other services	Ongoing government spending, ageing population	Downstream impact from general downturn

Appendix 1

Dynamics of the labour market

The labour market measures as reported by most statistics are net results – within every result there are large flows of people going back and forth, into and out of employment from various states. The diagram below shows the major flows as at September 2008.

Flows of the New Zealand labour market



NOTES:
* PLT = permanent and long term migrants in the year to Sep-08
Population: number of people at the end of Jun-08
Working-age population, not in the labour force, labour force, employed, unemployed: number of people seasonally adjusted average for 3 months to Sep-08
Flows are number of people moving between labour market states in the year to Sep-08
Births and deaths are for the year to Jun-08
Figures may not add to total due to rounding.