



## LABOUR MARKET UPDATE – DECEMBER 2008

### Background

- 1 This report 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 main sources of information are Statistics New Zealand, business surveys, and regional staff of the Department of Labour.

### National Information

- 2 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 Gross Domestic Product (GDP) fall in both the March and June 2008 quarters, with further weakness expected in the September 2008 quarter, driven by a fall in consumer spending and residential investment.
- 3 The Household Labour Force Survey (HLFS) shows the labour market softened as a result of a weaker economic environment (*Figure 1*). Over the first three quarters of 2008, employment was essentially flat and the unemployment rate rose to a 5-year high of 4.2% in the September 2008 quarter (*Figure 2*). Nevertheless, the rise in unemployment is from a historical low in late 2007, employment has held up so far and labour force participation sits at an equal record high rate of 68.7%.

Fig 1: Economic and employment growth

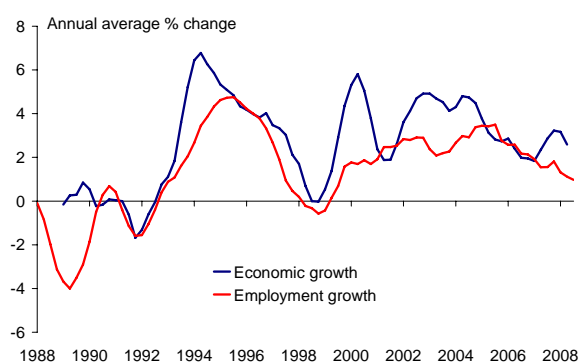


Fig 2: Unemployment rate



- 4 The downturn in the New Zealand economy has already had a negative impact on output (the volume of goods and services) and employment in a number of industries over the year to June 2008:
  - a Agriculture: output and employment fell in the year to June 2008, largely as a result of drought conditions in early 2008.
  - b Forestry and fishing: output and employment fell in the year to June 2008 due to factors such as a high exchange rate and high costs of fuel and shipping.
  - c Electricity, gas and water: output fell 4.5% in the year to June 2008, largely due to the drought impacting on hydro power generation. There was some flow through to other activity (e.g. parts of the manufacturing industry).



- d Construction: output and employment fell sharply in the year to June 2008 as a number of factors dampened residential construction, including high interest rates, high fuel prices, a fall in net migration inflows, and falling house prices.
- e Wholesale and retail trade: output fell slightly in the year to June 2008 as consumer spending weakened due to the same factors affecting construction.
- f Accommodation, cafes and restaurants: output growth was weak and employment fell in the year to June 2008 as a result of a fall in international tourist arrivals and softening consumer spending.

## Regional Information

- 5 At the sub-national level, there are several key trends by sector and region from the data sources we monitor and our on-the-ground regional information:
  - a There is evidence of job losses being caused by the downturn in the economy and unemployment has risen as a result, although not yet on a large scale.
  - b Rural areas appear to be less affected than urban areas because of relatively high returns in agriculture (especially dairy), but world commodity prices have fallen sharply and some smaller areas are vulnerable to closures of large firms.
  - c Demand for our exports – including agriculture, forestry, manufacturing, and tourism – is being negatively affected by the world economic slowdown. A lower exchange rate is helping to offset lower world demand and commodity prices but also making it more expensive to import capital and materials.
  - d Retail trade and residential construction have struggled over 2008. More recently, the credit crisis has impacted on the real economy, especially residential property development, real estate, and finance. Lower fuel prices, personal income tax cuts, falling mortgage interest rates, and ongoing infrastructure spending are providing some positive offset.

## Outlook

- 6 The outlook has weakened significantly since the global financial crisis. The National Bank Business Outlook for November 2008 showed a net 14.1% of firms expected their own activity to decline in the year ahead, the worst figure since 1988. The most pessimistic activity outlook were in the industries of retail trade and manufacturing, although none of the five industries were optimistic on balance.
- 7 The National Bank Business Outlook also showed a net 21.2% of firms were expecting employment to decline in the year ahead, the worst result since the series began in 1993. The weakest employment intentions were for firms in manufacturing, construction and retail trade, while the least negative employment intentions in November 2008 were in agriculture. The result for manufacturing was the worst on record.



Table 1: Activity and employment outlook by industry (net % of firms)

Industry	Own activity outlook		Employment intentions	
	Nov 2007	Nov 2008	Nov 2007	Nov 2008
Retail	13.0	-28.6	-6.5	-24.3
Manufacturing	9.6	-21.0	2.4	-44.4
Agriculture	14.9	0.0	3.0	-9.0
Construction	6.1	-10.7	-9.1	-28.6
Services	21.1	-14.1	9.6	-13.6
Total	15.7	-14.1	3.3	-21.2

Source: National Bank Business Outlook.

- 8 It is anticipated that there will be a rebound in activity in the drought-affected industries of agriculture and electricity, gas and water, assuming normal weather conditions. However, the other industries already affected before the most recent global financial crisis – residential construction, real estate and wholesale and retail trade – are likely to remain subdued.
- 9 Since the global financial crisis, the availability of credit has been more limited, the world economic outlook has deteriorated significantly, world commodity prices have fallen sharply (e.g. food), confidence is down, and asset prices have weakened. On balance, these factors are likely to have a negative impact on exports, including manufacturing, tourism, commercial construction, finance, and downstream industries such as business services and transport.
- 10 There are factors that will provide some positive offset, including lower fuel prices, lower official interest rates and mortgage interest rates (although availability of credit is also lower), personal income tax cuts, and ongoing infrastructure spending. Nevertheless, the economic forecasts that incorporate the impact of the global crisis project that the economy and the labour market will weaken further.
- 11 Of the major forecasting agencies that have released forecasts since the recent turmoil in global financial markets, expectations for the year to March 2009 range from a fall in real GDP of 0.5% to a rise of 0.4%. Most of these agencies expect economic growth to rebound in the year to March 2010, but growth is generally expected to be modest until the following year.
- 12 The latest forecasts show the unemployment rate is expected to rise further towards 5.5% to 6.0% over the next year and a half. One forecaster, Deutsche Bank, expects a rise in the unemployment rate to 7.1% by March 2010. These forecasts are useful guides to how much the labour market will be affected by the economic downturn.
- 13 When considering the outlook for the labour market, other factors are:
  - a Any rise in unemployment is likely to be muted by a fall in the labour force participation rate (some people will become discouraged from the labour force by poorer job prospects), labour hoarding (some firms will keep staff on in anticipation of an upturn), and departures of people from New Zealand.



- b The recession of 1997/98, generally linked to the Asian Financial Crisis, drought conditions and tight monetary policy saw the unemployment rate rise from 6.0% in late 1996 to 7.6% in mid-1998. In the recession prior to that, the unemployment rate rose from 7.0% in early 1990 to a peak of 10.9% in mid-1991. Because the unemployment rate is low, and there are skill and labour shortages throughout the country, we would not anticipate increases to anywhere near these levels.
  - c In the United States, where the turmoil in financial markets originated, the labour market has weakened considerably since the start of this year. Their unemployment rate has risen from 4.8% in February to 6.5% in October, a 14-year high, and is expected to rise further. Unemployment has increased in other developed nations, particularly Ireland (to 6.6% in September 2008, from 4.6% a year earlier) and Spain (to 11.9% in September 2008, from 8.3% a year earlier).
  - d There have not yet been widespread job losses in New Zealand and many of those losing their job have found work elsewhere. The HLFS shows the number of unemployed people in the September 2008 quarter who were laid off, dismissed or made redundant from their last job was 9,900, up from 7,600 in the September 2007 quarter but lower than the average September quarter figure of 10,500 from 2000 to 2007.
  - e An unemployment rate below 3.5%, briefly reached at the end of 2007, is generally not considered to be sustainable and non-inflationary given a normal level of churn and job seeking in the labour market (e.g. new job seekers, people between jobs). The natural rate of unemployment is generally considered to be somewhere around 5% in New Zealand. This provides important context to the rise so far and any future increase towards 5%.
- 14 There is much uncertainty at present and considerable downside risk to the outlook for the labour market. The Department will continue to monitor what is happening, and what is likely to happen, in the labour market.