

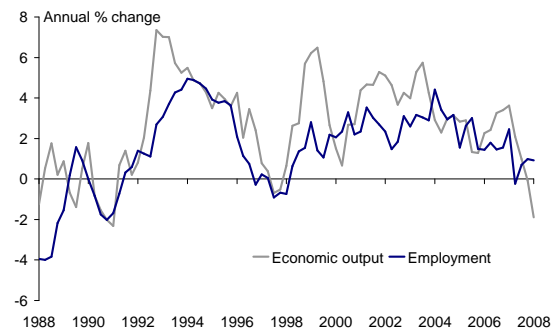


LABOUR MARKET UPDATE – APRIL 2009

The New Zealand economy contracted throughout 2008...

The New Zealand economy contracted by 0.9% in the December 2008 quarter and by 1.9% over the year (*Figure 1*). The fall in output in the final quarter of 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.

Figure 1: Economic and employment growth



...and the labour market softened

The downturn in the economy led to a softening labour market. The Household Labour Force Survey (HLFS), which is the official measure of unemployment in New Zealand, showed the unemployment rate rose to a 5-year high of 4.6% in the December 2008 quarter. The number of unemployed people rose from 76,000 to 105,000 in the year to December 2008 to be above 100,000 for the first time since 2002.

Employment has held up in this downturn (*Figure 1*). Over 2008, the number of workers increased strongly in the industries of education, health & community services, and business services, which led to growth in higher-skilled jobs such as managers and professionals. This growth was partially offset by a decline in service & sales workers, due to a slowdown in consumer spending and tourism, and in trades workers and plant & machinery operators, which reflected falling employment in the construction and manufacturing industries.

The New Zealand labour market is relatively well placed

The labour market has weakened by less than in many other nations. New Zealand has had a sharp fall in interest rates and the exchange rate, a relatively large fiscal stimulus, and has not been as affected by the financial crisis as elsewhere. The unemployment rate rose to 8.1% in the United States (from 4.8% a year earlier), to 8.8% in Ireland (from 4.7% a year earlier), and to 14.8% in Spain (from 9.0% a year earlier). Australia has been affected to a similar degree as New Zealand (rising to 4.6% in December 2008 from 3.4% a year earlier), with their unemployment rate rising to 5.2% in February 2009 from 3.9% a year earlier.

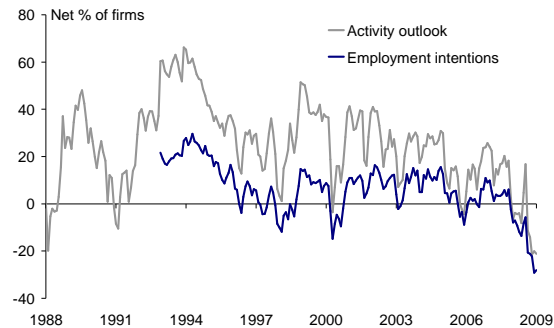
Net inflows of permanent and long-term migrants fell for much of 2008 as New Zealand entered recession before most nations. However, net inflows increased sharply over the three months to February 2009 as the easing of labour markets abroad has led to more New Zealanders returning home and discouraged people from leaving New Zealand.



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, business confidence is down, and asset prices have weakened. The National Bank Business Outlook for March 2009 showed a net 21% of firms expected their own activity to decline in the year ahead, the second worst figure since 1988 behind the figure for December 2008 (*Figure 2*).

Figure 2: Activity and employment outlook



The labour market is expected to continue easing over the next year as a result of the weakening economic environment. In the March 2009 National Bank Business Outlook, a net 28% of firms intended to reduce staff numbers over the next year, the second worst figure since the series began in 1993 (*Figure 2*). Firms in the industries of retail trade and construction were the most pessimistic about their own future activity, while agriculture was the least pessimistic.

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 strongly over the year to January 2009. Compared to a year earlier, newspaper ads fell by 59% to 9,800 and internet ads fell by 44% to 24,100.

The average expectation in the latest NZIER Consensus Forecasts is for employment to fall by 1.7% in the year to March 2010 before rising 1.0% the next year. The fall in employment is expected to result in a rise in the unemployment rate from 4.6% currently to 5.0% in the March 2009 quarter and a peak of 6.8% in the March 2010 quarter. However, 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 of 7.8% would be the highest level since 1994.