



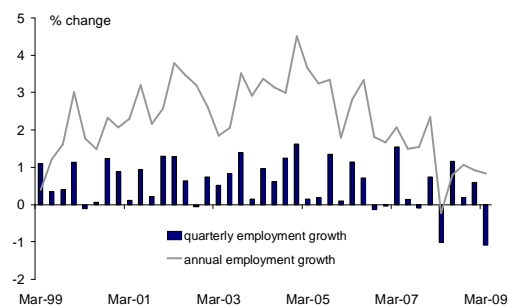
LABOUR MARKET UPDATE – MAY 2009

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.

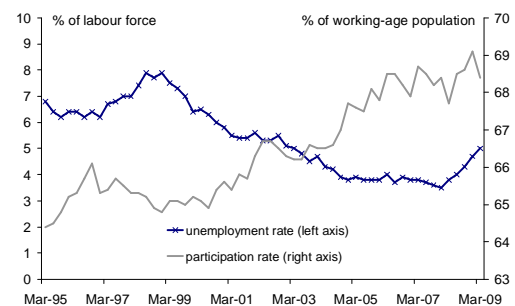
The number of people in work fell by 1.1%, or 24,000 people, in the March 2009 quarter with part-time employment particularly affected, declining by 3.1%. It appears firms have begun to cut staff numbers rather than just reducing hours as was evident over the second half of 2008. Even with the quarterly 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 has been a 14,700 rise in the number of youth unemployed and an 11,300 decrease in the number of 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 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

Statistics New Zealand reports that New Zealand's unemployment rate is the ninth lowest of the 27 OECD nations with comparable data. 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%.

The labour market has weakened 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. Furthermore, the labour market has eased from a position of historical strength. In the United States, where much of the turmoil in financial markets was first seen, the unemployment rate has risen from 5.0% in April 2008 to 8.9% in April 2009. Unemployment has increased in other developed nations, most noticeably Ireland (to 10.6% in March 2009, from 5.2% a year earlier) and Spain (to 17.4% in March 2009, from 9.5% a year earlier). The unemployment rate in Australia has risen from 4.2% in April 2008 to 5.4% in April 2009.

Wage growth continues to slow

Consistent with a softening labour market, wage growth continued to ease in the March 2009 quarter. The adjusted Labour Cost Index (LCI) 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 an easing of consumer price inflation.

Outlook remains weak

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 employment intentions are at their lowest level since 1991. A net 36% of firms intend to decrease staff over the June 2009 quarter. Although recent data has pointed to signs of stabilisation within the economy, real GDP is not expected to increase until the second half of 2009. With the labour market typically lagging the economy, it is forecast to continue easing into 2010. We expect further declines in employment over the next year, and the unemployment rate to rise towards 7% by March 2010.