



LABOUR MARKET UPDATE – NOVEMBER 2009

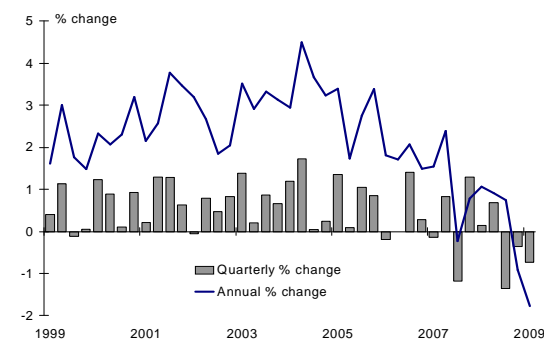
Labour market conditions ease further...

The labour market continued to weaken in the September 2009 quarter. According to the Household Labour Force Survey (HLFS), the number of people in employment fell, labour force participation decreased, and the unemployment rate rose to a 9-year high of 6.5%.

...with males most affected by the fall in employment...

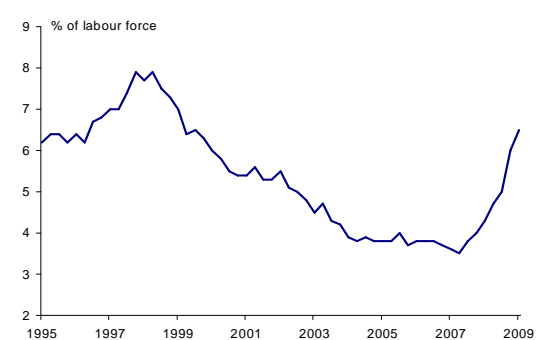
The number of people employed fell by 0.8%, or 17,000, over the September 2009 quarter. The decline was driven entirely by a fall in male employment, for both full-time and part-time workers, and can largely be attributed to declines in the male-dominated industries of manufacturing and construction. Over the past year, manufacturing has suffered from weak demand, both domestically and globally, while residential construction has been affected by high interest rates and low net migration inflows over 2008 as well as falling house prices. On an annual basis, employment fell by 1.8% in the year to September 2009 (*Figure 1*).

Fig 1: Employment Growth



Source: Statistics New Zealand

Fig 2: Unemployment Rate



Source: Statistics New Zealand

...and the unemployment rate rose to 6.5%...

The unemployment rate rose from 6.0% to 6.5% in the September 2009 quarter, the highest rate since March 2000 (*Figure 2*). The unemployment rate has now risen 1.5 percentage points over the past two quarters. This is the largest six month rise since 1988 and reflects the severity of the global financial crisis which has affected the New Zealand economy over the past year. The increase in the unemployment rate was the seventh consecutive rise since it reached a 22-year low of 3.5% in late 2007.

The increase in unemployment was driven by males, with the male unemployment rate rising from 5.7% to 6.6%. As a result, the unemployment rate for males is now similar to the female unemployment rate which rose from 6.2% to 6.5%.

The number of people unemployed rose by 9% over the September 2009 quarter, from 138,000 to 150,000. The rise in unemployment is broadly consistent with data from the Ministry of Social Development, which showed that Unemployment Benefit numbers increased from 50,855 in June 2009 to 60,660 in September 2009. Long-term unemployment (more than 26 weeks) has also increased strongly over the past year, rising from 13,600 to 35,500. This reflects the number of people who lost their jobs early in the recession and have not been able to find employment. It will be important to continue to monitor this group during the economic recovery.



...as the participation rate falls

The labour force participation rate fell from 68.4% to 68.0% in the September 2009 quarter. The fall was driven entirely by a decrease in the male participation rate, which fell 1.0 percentage point to 74.1%, while female participation rose slightly from 62.1% to 62.3%. The overall decline in the participation rate was slightly more than expected and prevented the unemployment rate from rising further. The decline may have been partly driven by people opting out of the labour force to study given limited job opportunities. The number of people participating in formal study rose by 9.3% over the year to September 2009.

Young people particularly affected

Youth continue to feel the full effects of the downturn in the labour market. The unemployment rate for 15-24 year olds rose to 16.8% in the September 2009 quarter, up from 11.1% a year earlier. This is the highest youth unemployment rate since 1994. Many youth are entering into the labour market at a time of minimal hiring activity and with little or no work experience, many are struggling to find employment.

There have also been large increases in Māori and Pacific unemployment rates. The Māori unemployment rate rose to 13.0% in September 2009, up from 8.2% in September 2008, while the Pacific rate rose to 13.2%, up from 7.3% a year ago.

Over the past year, the largest increases in the unemployment rate occurred in Bay of Plenty (4.2% to 7.9%) and Gisborne/Hawkes Bay (6.7% to 10.0%). In general, the South Island has lower rates of unemployment, however, both Canterbury and Otago have experienced above average increases over the past year.

Wage growth continues to slow

Wage growth eased further in the September 2009 quarter as the labour market continued to soften. The Labour Cost Index showed annual wage growth fell to 2.1% in September 2009, down sharply from 4.0% a year ago. With wages typically lagging changes in economic and labour market conditions by around 1-2 years, wage growth is expected to remain weak over the short-term as unemployment continues to rise.

Unemployment to continue rising towards a peak of around 7%

Given that the labour market lags the wider economy, the labour market was always expected to soften further over the September 2009 quarter. We expect smaller increases in the unemployment rate over the next couple of quarters, with the unemployment rate rising to a peak of around 7% in the middle of 2010.

Employment is not expected to begin rising substantially again until well into 2010. During the downturn, there has been evidence of many employers trying to hold on to labour and reducing hours rather than laying workers off. Hours worked has fallen by 3.7% since December 2007 compared to a fall in employment of only 1.6%. Hours worked per worker are also at a record low and around one-quarter of part-timers want to work more hours. As a result, there is a significant amount of spare capacity in the current workforce. During the recovery, businesses should be able to increase production by getting more hours out of existing workers rather than needing to hire new staff.

Business opinion surveys show that firms are intending to keep staff numbers at current levels, signalling that job destruction has slowed but also suggesting there is little sign of job creation. The Department of Labour's Leading Indicator of Employment is currently predicting that employment will begin to grow again in the June 2010 quarter.