

Confusion reigns

NZ Q4 Household Labour Force Survey: employment -1.0%q/q, unemployment rate 6.9%

- A weak headline result – the unemployment rate fell much as expected, but there was an unexpected decline in jobs.
- However the details of the report suggest that ongoing survey volatility is playing a role.
- On balance we assess the labour market remains weak, but hasn't taken another turn for the worse.

Key results

	Q3	Q4	Q4 expected	
	2012	2012	Westpac	Market
Employment %q/q	-0.4	-1.0	0.4	0.4
Unemployment rate %	7.3	6.9	7.0	7.1
Participation rate %	68.4	67.2	68.4	68.4
Hours Worked s.a %q/q	-0.8	-0.1	0.3	-

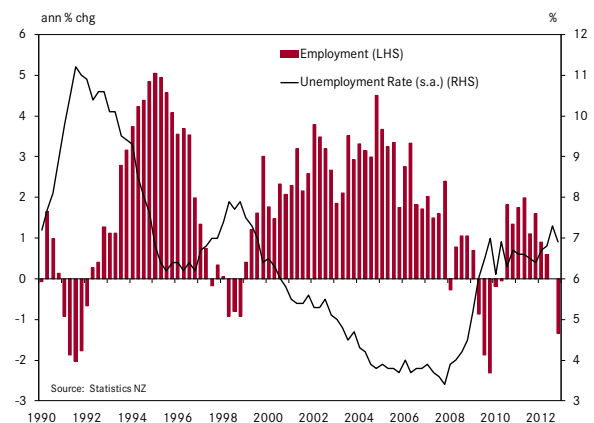
Today's Household Labour Force Survey delivered the expected correction in the unemployment rate, from the September quarter's implausibly high 7.3% to a more reasonable 6.9%. However, there was also a spectacular decline in the number of people employed (with a lower participation rate reconciling the two). The net result was a negative market reaction.

Having parsed the survey details more closely, we are sceptical that the jobs market really took such a lurch for the worse in the December quarter, when many other parts of the economy were picking up. While the HLFS is a particularly comprehensive survey of the labour market, it also has big margins of error – which may have increased further as a result of the population movements we've seen since the Canterbury earthquakes.

While we think the picture the HLFS is painting is overly bleak, our overall assessment of the labour market is hardly rosy. Even if jobs growth hasn't been as weak as the survey is saying, the labour market does continue to lag behind the upturn in other parts of the economy.

Today's HLFS does agree with the other evidence in one important respect: it's showing a firmly two-speed labour market, with jobs growing and unemployment falling in Canterbury, but conditions much weaker in many other parts of the country. Eventually we'd expect high wages to attract more people to move to Canterbury (international migration to Canterbury has already turned positive). But for now this segmented labour market – where

Employment and Unemployment



the people and the jobs are in different parts of the country – seems to be a major reason for the labour market's persistent weakness.

Details

The spectacular 1% fall in employment was entirely due to a massive 6% drop in part-time jobs – full-time employment was up 0.4%. It also coincided with the biggest drop in the rate of labour force participation in the history of the survey, from 68.4% to 67.2%.

It is certainly possible that to some extent this is evidence of a 'discouraged worker' effect. Stats New Zealand noted big increases over the past year in those over 55 who are no longer in the labour force (effectively retired), as well as those under 20 who have dropped out of work to go back to school.

However, we find it very implausible that this should all have happened in a single quarter (the labour force participation rate among the 55+ has in fact kept trending up in recent years). When participation and employment move sharply in the same direction, it's instead often an indicator of surveying issues. A few years back we had similar sharp spikes in both employment and participation, which were promptly reversed the following quarter.

Significantly, other labour market indicators have not been nearly so weak. As we've mentioned, full-time employment was up 0.4%, and 'usual' hours worked (excluding temporary factors like overtime) were up 0.3%. In Tuesday's Quarterly Employment Survey, full-time equivalent employment rose 0.4%. In keeping

with recent results from business and consumer confidence surveys, that suggests that employment growth has stayed soft, but hasn't fallen off a cliff.

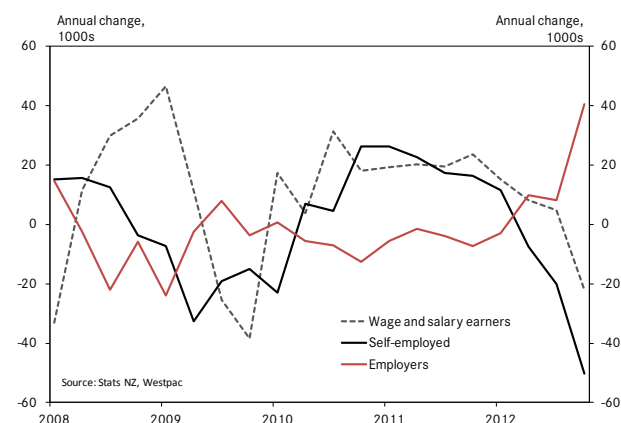
Survey breakdowns

The HLFS was in line with other evidence in one important respect: it shows an increasingly two-speed labour market, where post-quake reconstruction is boosting jobs in Canterbury (and parts of the rest of the South Island) but leaving much of the North Island behind. The unemployment rate in Canterbury fell for a second time in a row, to 4.9% on our seasonally adjusted estimates – the lowest since September 2010. This is on the back of an extra 16,000 jobs which have been created in Canterbury over the past year. By contrast, the unemployment rate is 7.4% in Auckland and 7.7% in Wellington.

The breakdown by type of employment is also consistent with this two-speed story. There has been a big drop in the number of self-employed over the past year, more or less matched by an increase in employers. This suggests that a growing number of sole operators that sprang up in the aftermath of the Canterbury earthquakes are now expanding and taking on staff. Despite this, overall jobs growth among wage and salary earners has been weak – though we'd note that the HLFS is much more downbeat on that score than the Quarterly Employment Survey.

About 6,800 of the extra jobs that have appeared in Canterbury over the past year were in the construction industry – the HLFS is clearly picking up the impact of the rebuild on employment in the region. By contrast, the HLFS reported ongoing weakness in the construction sector elsewhere. Nationwide, construction sector employment fell by over 7,000 over the past year (again, we think this is on the weak side of reality given all the other signs that the construction sector is ramping up).

Employment by type



However, most of the employment declines over the past year have been concentrated in areas where we'd expect them in view of the high NZ dollar and the recent global economic slowdown: manufacturing (-17,000) and the export-focused wholesale trade sector (-14,000). There has also been an 11,000 decline in education related jobs. By contrast, service sectors (retail trade and accommodation, transport, IT and media, finance, and arts and recreation) have seen employment increase over the past year.

Market reaction

The 1% decline in employment was a spectacular negative headline that duly caused a market reaction – the NZD fell half a cent and 2-year swap rates fell a basis point.

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