



EMPLOYMENT AND UNEMPLOYMENT - DECEMBER 2009 QUARTER

Background

- 1 This report informs you about the Household Labour Force Survey (HLFS) results for the December 2009 quarter which were released today.

Key points

- The unemployment rate rose to 7.3% in the December 2009 quarter - its highest rate in 10 years. The number of people unemployed now stands at 168,000.
- The increase in the unemployment rate was driven by an unexpected increase in the participation rate and strong population growth, resulting in an increase in the labour force of 16,000 (up 0.7%).
- The fact that the participation rate rose slightly (68.0% to 68.1%) may be partly due to people feeling more optimistic about their job prospects and starting to look for work.
- Employment in the health and education sectors has risen over the year. However, manufacturing, retail and construction continue to be affected by the downturn providing real challenges in finding employment for people that have lost their jobs over the last year.
- The youth unemployment rate increased to 18.4% over the quarter and the 'Maori only' unemployment rate increased from 9.8% in December 2008 to 15.4% in December 2009.
- Statistics New Zealand reports that New Zealand's unemployment rate is the 12th lowest of the 30 OECD nations, well below the OECD average of 8.6%.
- The recovery in the New Zealand economy will take some time to filter through to the labour market. We expect the unemployment rate to peak in mid-2010 and remain elevated until 2011.
- The Department's Leading Indicator of Employment continues to indicate that there will be an upturn in employment around the middle of the year.

Overall

Today's HLFS results showed that employment held up better than expected (only down 0.1%). However, the overall labour market remained soft over the December 2009 quarter.



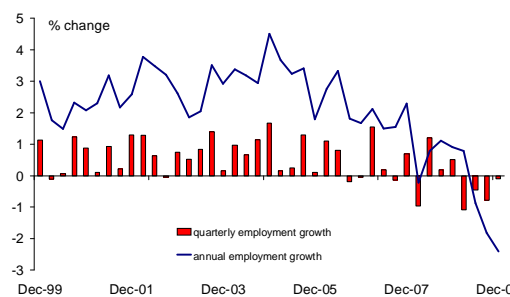
HLFS results show the labour market remained soft over the quarter

- 2 The December 2009 quarter HLFS showed the labour market continued to weaken with the unemployment rate rising to its highest rate in 10 years. However, more people are looking for work and employment has held up better than expected.

Employment has held up better than expected....

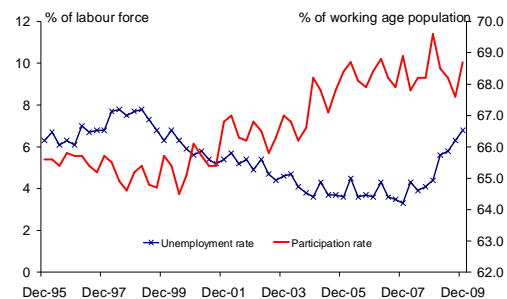
- 3 Employment declined by 2,000 (0.1%) to 2,152,000 in the December 2009 quarter (*Figure 1*) - a smaller drop than we were expecting. The drop in employment was made up of full-time workers declining by 5,000 (0.3%), while the number of part-time workers remained unchanged at 497,000¹.

Fig 1: Employment growth



Source: HLFS, Statistics New Zealand

Fig 2: Unemployment & participation rate



Source: HLFS, Statistics New Zealand

- 4 The decline in employment was entirely driven by a fall in female employment (down 0.3%), with both full-time and part-time female workers showing a decline, down 0.3% and 0.5% respectively. Male employment remained flat over the quarter.

...there are signs that we are reaching a trough

- 5 Total actual hours worked per week decreased by 0.4% in the December 2009 quarter. This compares to a decline of 0.8% in the previous quarter and 1.9% in the June 2009 quarter.
- 6 The percentage of people who work part-time but want to work more hours (the underemployed) declined over the quarter, from 24.4% in the September 2009 quarter to 22.9% in the December 2009 quarter. However, the number of underemployed has shown a marked increase over the downturn and highlights the degree of labour underutilisation in the economy.
- 7 As the economy recovers and labour demand picks up, we expect that the number of underemployed people will continue to decline over coming quarters.

¹ Individually seasonally adjusted series for full-time, part-time, male and female employment numbers means that they will not necessarily add up to the aggregate figures.



The unemployment rate rose to 7.3% - the highest level in 10 years

- 8 The unemployment rate increased to 7.3% over the December 2009 quarter. This is higher than we anticipated and above market expectations. The increase in the unemployment rate was driven by an unexpected increase in the participation rate and strong population growth.
- 9 The unemployment rate rose for both men and women in the December 2009 quarter. The female unemployment rate rose from 6.5% to 7.3%, while the male rate increased 0.7 percentage points to 7.2%.
- 10 The number of people unemployed now stands at 168,000. Female unemployment rose by 13.4%, to reach 80,000, while male unemployment increased by 11.2% to reach 89,000.
- 11 Long-term unemployment has increased markedly over the year from 14,800 in December 2008 to 40,500 in the December 2009 quarter, reflecting the number of people who lost their jobs early in the recession and have not been able to find employment. Long-term unemployment now represents 25% of all unemployment, up from 14% a year ago.

The participation rate remained high at 68.1%

- 12 The labour force participation rate increased to 68.1% in the December 2009 quarter, up from 68.0% in the previous quarter. The participation rate may have remained relatively high because people are feeling more optimistic about their job prospects and entering the labour market. This is in line with the Westpac-McDermott employee confidence survey which showed a lift over the December quarter and also that fact that business are feeling more confident about the future.
- 13 The increase in the participation rate was driven by a slight increase in male participation (up 0.1 percentage points to 74.3%), while female participation remained flat, at 62.3%.

Youth unemployment rate reaches 18.4% in the December 2009 quarter

- 14 Low level of work experience and lower skills has meant that youth (those aged 15-24 years) continue to be affected by the labour market downturn. Youth are much more likely to be unemployed than the rest of the working age population.
- 15 The HLFS showed a large fall in youth employment compared to a year earlier. Employment for those aged 15-24 years dropped by 34,000, or 9.5% from the same quarter last year.
- 16 The youth unemployment rate rose to 18.4% up from 12.0%, while the youth participation rate declined markedly over the year. This is in line with Ministry of Social Development data showing youth aged 18-24 years accounted for an increased share of unemployment benefit (UB) recipients, up from 29.2% in December 2008 to 34.0% in December 2009.
- 17 The youth participation rate declined by 2.6 percentage points over the year to reach 63.1% in the December quarter 2009. At least part of this decline will be due to an increased participation in formal study.



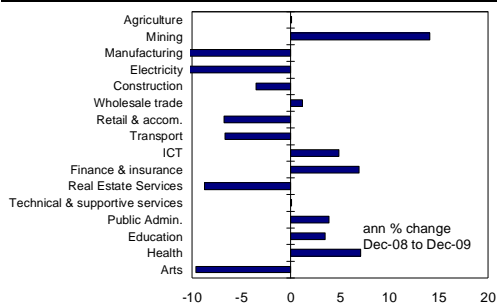
Māori and Pacific workers continue to be affected

- 18 Māori and Pacific workers have continued to be affected by the downturn in the economy over 2008 and 2009. These groups have a greater proportion of youth relative to Europeans and also tend to be disproportionately employed in lower-skilled occupations.
- 19 The December 2009 quarter saw large increases in the unemployment rates for all ethnic groups. The unemployment rate for 'Māori only' increased to 15.4% from 9.8% a year earlier, while the rate for 'Pacific peoples only' increased to 14.0% from 7.8%. The European/Māori ethnic group unemployment rate rose to 13.6% from 7.0%. The unemployment rate for the 'European only' group was 4.6%, up from 3.2% a year earlier.

Manufacturing and retail showed the greatest decline over the year, but Government related sectors remained resilient

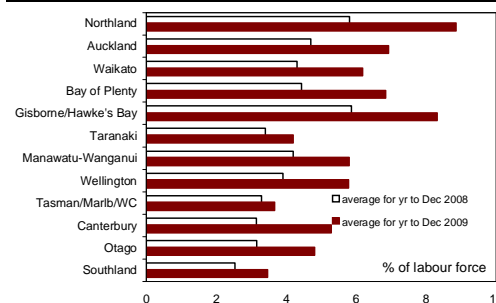
- 20 Manufacturing and construction have been particularly affected by the recent recession given the weakness in domestic and international demand for manufactured goods and the recent softness in the housing sector. The December 2009 quarter results showed that compared to a year ago manufacturing employment fell by 28,000 and construction shed 6,400 workers. Additionally, sectors related to consumer spending remained particularly weak over the year. Retail trade & accommodation is down by 24,100 workers from a year ago (*Figure 3*).
- 21 The education and health sectors have been relatively less affected during the downturn. The December 2009 quarter HLFS showed that employment in education & training increased by 6,400 and employment in healthcare & social assistance rose by 14,900 over the year.

Fig 3: Employment growth by industry



Source: HLFS, Statistics New Zealand

Fig 4: Unemployment rates by region



Source: HLFS, Statistics New Zealand

Otago and Southland doing relatively well

- 22 Unemployment rose in most regions, with northern regions most affected (*Figure 4*). Manawatu-Wanganui's unemployment rate increased the most and reached



8.1%, up from 3.7% a year earlier. In the Bay of Plenty and Auckland the unemployment rate was 7.4% and 8.0% respectively (up from 4.5% and 5.3% a year earlier). Wellington's unemployment rate was 6.3% up from 3.6% a year earlier. In contrast, Otago and Southland's unemployment rates remain relatively low at 3.9% and 4.3% respectively.

New Zealand's unemployment rate remains lower than the OECD average

- 23 Despite the large increase in the unemployment rate, the New Zealand labour market is holding up better than most other countries. The unemployment rate still remains lower than the OECD average of 8.6% and is the 12th lowest of the 30 OECD nations. Norway has the lowest unemployment rate at 3.1%, followed by the Netherlands at 3.6%. South Korea and Switzerland are also below 5%.
- 24 The unemployment rate for Australia fell from 5.8% in the September quarter to 5.7% in December 2009 quarter. The labour market has been more resilient in Australia, due to its economy not entering into recession. The Australian economy has been sustained by low interest rates, a large fiscal stimulus and recovering global demand for raw materials such as iron ore and coal.

Summary

- 25 Today's HLFS showed that the labour market remained weak over the December 2009 quarter. The larger than anticipated increase in the unemployment rate was driven by the fact that the participation rate remained elevated over the quarter and also because of strong growth in the working-age population.
- 26 The higher than expected participation rate may be a reflection of people feeling more optimistic about their job prospects given recent lifts in business and consumer confidence.
- 27 We anticipate that the unemployment rate will not increase much further, given the slowing growth of unemployment benefit claims and an increase in business activity.

Outlook for the labour market

- 28 Large improvements in business and consumer confidence have signalled that the New Zealand economy has stabilised. GDP growth has been only marginal but forecasts are for around 2.8% growth over the next year. The initial recovery has been in the household sector thanks to high net migration, lower interest rates, and rising house prices. Additionally, the New Zealand export sector should see gradual benefit from further improvement in the world economy and among our trading partners, particularly Australia and Asia.
- 29 Firms' employment and investment intentions are still at subdued levels as measured by the Quarter Survey of Business Opinion, although they have been improving and continue to trend upwards in line with marginally increasing business activity. We expect to see employment growth from mid-2010 onwards, as indicated by the Department's Leading Indicator of Employment. Firms will initially extend staff working hours rather than take on new employees as activity picks up, which will dampen employment growth.



- 30 The recovery in the New Zealand economy will take some time to filter through to the labour market as profit margins remain under pressure. We expect the unemployment rate to peak in mid-2010 and remain elevated until 2011.



Structure of the Labour Market: December 2009 quarter

(seasonally adjusted)

