



## LABOUR MARKET OUTLOOK

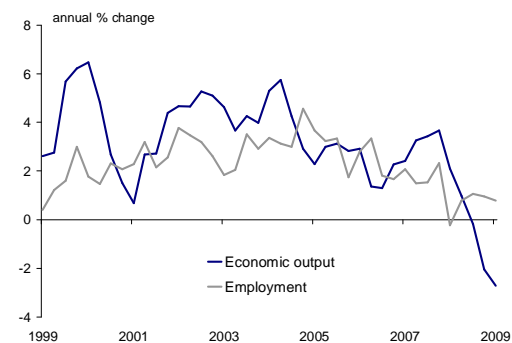
The purpose of this report is to provide a short-term outlook for the labour market. The next *Labour Market Outlook* is due to be released in February 2010.

### New Zealand economy expected to remain in recession until late 2009

The New Zealand economy contracted by 1.0% in the March 2009 quarter, the fifth consecutive quarterly decline in economic activity. GDP has now fallen by 2.7% over the past year, and is down 3.0% from its peak in the December 2007 quarter (see *Figure 1*). The fall in output over the March 2009 quarter was driven by a 7.2% decrease in manufacturing activity which took 0.9 percentage points off overall GDP growth. Wholesale & retail trade also felt the lack of demand as factors such as falling house prices and declining job security contributed to a 1.4% fall in consumer spending in the March 2009 quarter, the largest quarterly decline since 1991.

Economic activity is expected to remain weak with a further fall in activity likely to have occurred over the June 2009 quarter (GDP data will be released September 23<sup>rd</sup>). The average expectation in the latest NZIER Consensus Forecasts is for the economy to have contracted by 0.6% over the June 2009 quarter. Furthermore, a net 10% of firms in the June 2009 Quarterly Survey of Business Opinion (QSBO) expected their own activity to fall in the next three months, pointing to further weakness over the second half of 2009. In the short-term, weakness will be seen across most areas of the economy, although particularly in manufacturing, construction and wholesale & retail trade. Nonetheless, a number of forward looking indicators, such as business and consumer confidence and firms' own activity outlook, support the view that New Zealand will come out of recession in late 2009. Looking further ahead, NZIER Consensus Forecasts suggest real GDP will rise by 2.8% in the year to March 2011.

*Fig 1: Economic and employment growth*



Source: Statistics NZ.

### Employment to fall over the next year

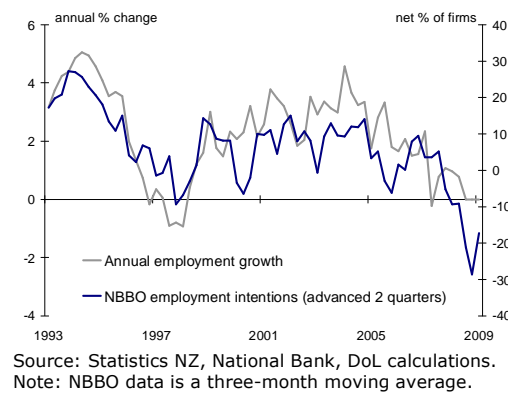
Employment has held up relatively well during the current downturn, rising by 0.8% over the year to March 2009 (see *Figure 1*). While many firms have had to lay off staff as a result of weak demand, the positive employment numbers show that many others are continuing to hire. Businesses entered the current downturn following a period of significant skill and labour shortages and they may have used the past year to hire the staff they require. This experience of the difficulties of recruiting in a tight labour market may make employers more willing to hold on to employees who will be needed when the economy recovers. As business conditions deteriorated over 2008, many firms appeared to make an effort to cut labour costs by reducing hours rather than laying off staff. Total actual hours worked fell by 0.9% between the December 2007



and March 2009 quarters, while the number of hours worked per worker per week reached a 22-year low of 33.2 in the December 2008 quarter.

More recently, firms have had to start reducing staffing levels as the economic downturn continued into its second year. Employment fell by 1.2% over the March 2009 quarter and business opinion surveys suggest the number of people employed will continue to fall strongly over the next year. Employment intentions in both the QSBO and the National Bank Business Outlook (NBBO) remain negative (see *Figure 2*). In the June 2009 NBBO, a net 17% of firms reported they intended to reduce staff numbers over the next 12 months.

*Fig 2: Employment intentions*



Over the next year, the fall in employment is expected to be concentrated in manufacturing, construction, transport and wholesale & retail trade. Weak demand, both domestically and globally, will continue to impact manufacturing output and this is expected to lead to further job losses in the sector over the next year. This lack of demand will also continue to affect the transport industry due to lower freight activity. Construction employment is expected to fall in the short-term as the number of building consents issued remains low which will result in reduced building activity. Lower consumer spending and fewer international tourist arrivals will most likely see job losses in wholesale and retail trade. These factors will also negatively affect employment in other tourist related industries such as hospitality. In contrast, there is likely to be continued employment growth in areas such as education and health services.

### **The unemployment rate projected to rise to around 7%**

The unemployment rate rose to a six-year high of 5.0% in the March 2009 quarter up from 4.7% in the December 2008 quarter and a record low of 3.5% in the December 2007 quarter. As a result of the weak economic outlook, unemployment is expected to continue rising over the next year. The Department expects the unemployment rate to peak just below 7% in mid 2010. The average prediction in the latest NZIER Consensus Forecasts is for the unemployment rate to rise to 7.2% in March 2010.

While the unemployment rate is expected to rise over the next year, it is projected to remain low internationally. Even if the unemployment rate rose above 7% in 2010, it would be lower than the current OECD average of 8.3% and much lower than the forecast OECD rate for 2010 of nearly 10%<sup>1</sup>. New Zealand has so far not experienced the large increases in unemployment seen in many other countries such as the United States, Ireland and Spain.

<sup>1</sup> June 2009 OECD Economic Outlook



As in previous downturns, the impacts of the recession are likely to be unevenly distributed among the many demographic groups in the labour force. Youth, Maori, Pacific peoples and those in low income, low skilled occupations are particularly at risk. There have already been large increases in the unemployment rate and unemployment benefit numbers for youth, Maori and Pacific peoples over the past year.

### **Participation rate remains high although expected to ease**

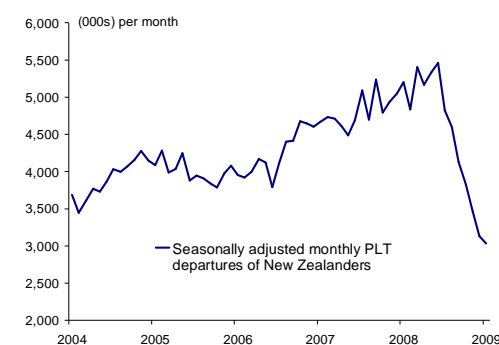
The labour force participation rate has held up during the current downturn. As at the March 2009 quarter, the participation rate stood at 68.4%, the same rate as recorded at the beginning of the recession. In the year ahead, the labour force participation rate is expected to fall as limited job opportunities will discourage people, particularly young people, from participating in the labour force. As in previous recessions, many will turn to study and/or remain in study for longer. A falling participation rate tends to dampen the rise in the unemployment rate.

An important feature of the current downturn is the continued rise in the labour force participation rate for older workers which has helped the overall participation rate remain high. A similar trend has been seen in other countries such as Australia and the United States. A possible explanation for the strength in participation for older workers is that they have suffered a significant loss of wealth during the global financial crisis as the value of stock markets, and to a lesser extent house prices, have fallen strongly. This may be directly influencing older workers retirement decisions and encouraging them to remain in, or re-enter, the labour force. Should this pattern continue the unemployment rate may rise higher than expected.

### **Rising net migration will provide positive support to the economy**

The current downturn originally saw net migration inflows fall for much of 2008 as New Zealand entered recession before most other countries. However, the global financial crisis that began in late 2008 has caused many countries to enter recession, discouraging many New Zealanders from heading overseas, particularly to Australia (see *Figure 3*). As a result, annual net migration has risen strongly in recent months with a net inflow of 12,500 recorded in the year to June 2009, up from 3,800 in the year to December 2008.

*Fig 3: Monthly PLT departures of NZers*



Source: Statistics NZ, DoL calculations.

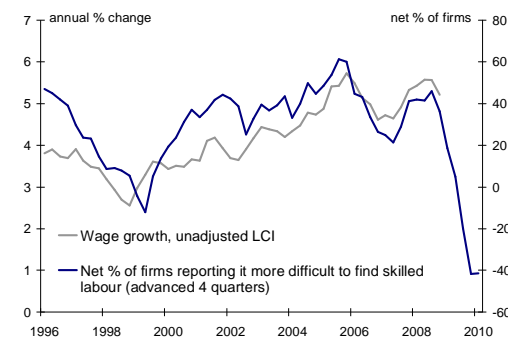
Departures are expected to continue falling over the next year as New Zealanders choose to stay at home, put off by higher unemployment and weakening job prospects abroad. This will help net inward migration to rise further over the next 12 months, perhaps even surpassing 20,000 by the end of 2009. Rising net migration will provide some support to consumer spending, housing and construction activity.



## Wage growth to ease

Annual wage growth in both the Labour Cost Index and the Quarterly Employment Survey has eased from record highs in recent quarters. While wage growth remains relatively strong, it is typically one of the last indicators to turn in a recession due to the time lags involved in wage negotiation. Increased competition for jobs as unemployment continues to rise will ensure wage growth eases over 2009 and 2010. The QSBO shows that firms are reporting it easier to find skilled labour than at any other time in the past thirty years, with the series generally leading wage growth by around one year (see *Figure 4*). Falling consumer price inflation will also contribute to weaker wage growth over the next 18 months.

*Fig 4: Wage growth*



Source: Statistics NZ, NZIER, DoL calculations.

## Labour productivity to be weak

The current downturn in the New Zealand economy is likely to dampen productivity growth, at least in the short-term. Indeed, crude measures of economy-wide labour productivity growth (GDP per hour worked) point to a slowing over the past year with GDP falling by more than hours worked. Growth in GDP per hour worked has fallen from 3.1% in the year to March 2008 to -1.3% in the year to March 2009, the lowest rate recorded for at least twenty years.

Strong productivity growth is not likely until the economy recovers from the current downturn. However, one factor that has dampened productivity growth in recent years – a large rise in lower-skilled workers – is likely to reverse and could raise observed productivity growth in the downturn. The performance of the exchange rate may also be an important driver of productivity growth. While there is considerable uncertainty around the outlook for the exchange rate, a lower rate will tend to encourage a shift of resources from domestically-oriented businesses to the export sector, which tends to have higher productivity.

## Household Labour Force Survey released August 6

The labour market has so far held up relatively well during five quarters of recession and has generally been less affected than most other OECD nations. However, most expectations are for labour market conditions to weaken over the coming 12 months. The Household Labour Force Survey for the June 2009 quarter, released on August 6, will be a key indicator of how the labour market is performing. Unemployment is expected to have risen over the quarter with data from the Ministry of Social Development showing that Unemployment Benefit numbers increased from 37,146 in March 2009 to 50,855 in June 2009, a 37% increase. We currently expect the unemployment rate to have risen to around 5.5% in the June 2009 quarter.