



LABOUR MARKET UPDATE – JUNE 2009

The New Zealand economy remains in recession...

The New Zealand economy contracted by 1.0% in the March 2009 quarter, the fifth consecutive quarterly decline in economic activity. Real GDP fell by 2.7% over the year and is now down 3.0% from its peak in the December 2007 quarter. The fall in output over the March 2009 quarter was driven by a large fall in manufacturing activity while wholesale & retail trade and hospitality were also affected. Consumer spending fell 1.4% over the quarter as people cut back on spending amidst falling house prices and declining job security. On an annual average basis, economic activity decreased 1.0%, the lowest figure since 1992 (*Figure 1*).

Fig 1: Economic and Employment Growth



...as the labour market continues to soften...

The downturn in the economy has led to an easing in the labour market. Employment fell by 1.2% over the March 2009 quarter, helping the unemployment rate rise to a 6-year high of 5.0%. There are now 114,000 people officially unemployed, the highest level in nearly 9 years and up from a low of 79,000 in the December 2007 quarter.

The downturn in the labour market has particularly affected youth, Pacific peoples and those in the Auckland region. The unemployment rate for those aged 15-24 rose to 14.8% in the March 2009 quarter, up from 11.6% a year ago, while the Pacific unemployment rate increased from 8.2% to 13.1%. In Auckland, employment has fallen by more than 4% over the past year while the unemployment rate rose to 6.5%, up from 4.7% a year earlier.

...although there are a range of positive signs...

The labour market has held up relatively well during the current downturn. Annual employment growth remains positive at 0.8%, despite the New Zealand economy having been in recession for five quarters. The unemployment rate has risen to a six-year high of 5.0% but remains relatively low on an historical basis, while the labour force participation rate currently sits at 68.4%, the same rate as at the beginning of the recession.

Over the past year, employment has increased strongly in the health & community and property & business services industries, up 9% and 8% respectively. Older workers and women have also experienced above average employment growth.



Furthermore, the unemployment rate remains well below the current OECD average of 7.8%, and New Zealand has not experienced the large increases in unemployment seen in other countries. The unemployment rate has risen to 9.4% in the United States (from 4.8% in early 2008), to 11.1% in Ireland (from 4.8% in early 2008), and to 18.1% in Spain (from 9.0% in early 2008). Australia has been affected to a similar degree as New Zealand with their unemployment rate rising from 4.0% in early 2008 to 5.7% in May 2009.

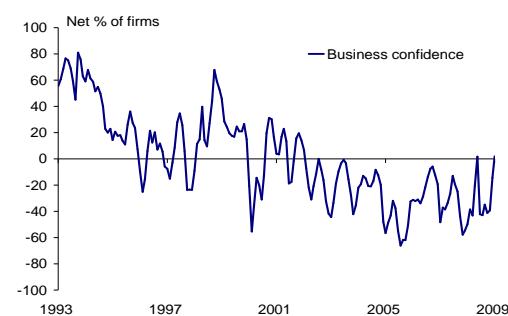
...with net migration continuing to rise...

Net inflows of permanent and long-term migrants fell for much of 2008 as New Zealand entered recession before most other countries. However, annual net migration has risen strongly in recent months with a net inflow of 11,200 recorded in the year to May 2009, up from 9,200 in the year to April 2009 and 3,800 in the year to December 2008. The easing of labour markets abroad appears to be discouraging people from leaving New Zealand and leading to more New Zealanders returning home. Net migration is expected to continue rising over the next 12 months, providing positive support to the domestic economy, particularly housing and construction activity.

...but the short-term outlook remains weak

Economic activity is expected to remain weak over the next year with further falls in activity likely over the June 2009 and September 2009 quarters. The average expectation in the latest NZIER Consensus Forecasts is for the economy to contract by 0.6% in the June 2009 quarter. However, a range of recently released indicators point to signs of stabilisation within the economy, supporting the view that growth will resume in late 2009. The housing market has shown signs of recovery, net migration inflows have risen sharply and both consumer and business confidence are now positive, the latter at its highest level since 2002 (*Figure 2*).

Fig 2: Business Confidence



Source: National Bank Business Outlook

As a result of the weak economic environment, and given that the labour market tends to lag the wider economy, labour market conditions are expected to soften over the next year. In the May 2009 National Bank Business Outlook, a net 16% of firms reported they intended to reduce staff numbers over the next 12 months. While employment intentions are the most positive they have been since September 2008, they remain negative, pointing to falls in employment over the next year. Manufacturing and construction firms had the most pessimistic employment intentions, while agriculture firms were the least pessimistic. The projected fall in employment is expected to result in a rise in the unemployment rate over the next year. The average prediction in the latest NZIER Consensus Forecasts is for the unemployment rate to rise from 5.0% currently to 7.2% in the March 2010 quarter. Even if a rate of 7.2% was reached, it would still be substantially lower than the current OECD average of 7.8%.