



## DEPARTMENT OF LABOUR LEAD EMPLOYMENT INDICATOR – SEPTEMBER 2011 QUARTER

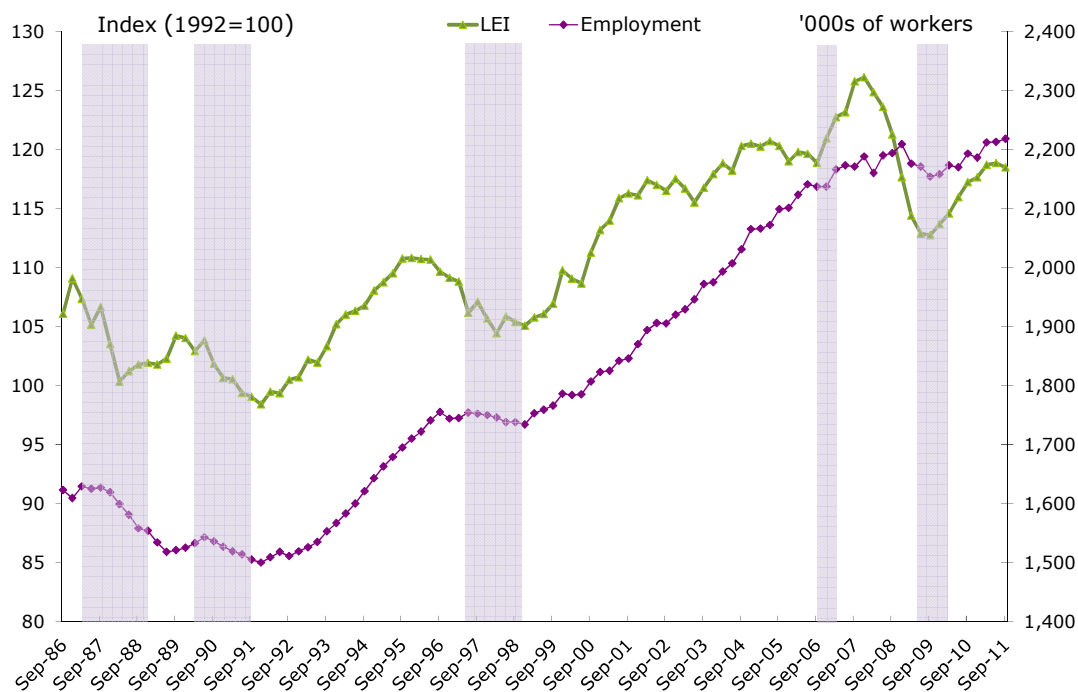
### November 2011

The Department of Labour's Lead Employment Indicator is designed to give an advance signal of turning points in the employment cycle. The Lead Employment Indicator combines information from five different components into a single indicator in order to predict future turning points in employment.

### Results

- The Lead Employment Indicator fell by 0.3% during the September 2011 quarter after increasing for the previous seven quarters. However, this will not indicate a downturn in employment over the coming year unless the Lead Employment Indicator is also negative in the December 2011 quarter.
- The Lead Employment Indicator can also be used to forecast short-term employment growth. The Lead Employment Indicator is currently predicting that employment will increase by about 0.3% in the December 2011 quarter and by between 0.2% and 0.4% in the following two quarters.

**Figure 1: Employment and Lead Employment Indicator (LEI)**



Source: Department of Labour, Statistics New Zealand. Note: Shaded areas show a downturn in employment.  
Note: 1992=100



## Components of the Lead Employment Indicator

The decline in the Lead Employment Indicator in the September 2011 quarter was driven by a lower Southern Oscillation Index combined with falling commodity and share prices.

**Table 1: Components of the Lead Employment Indicator**

Component	Quarterly change		Weight in Index
	June 2011 Quarter	September 2011 Quarter	
QSBO (labour limiting factor)	48.4%	26.5%	21.9%
ANZ Commodity Price Index (in NZD)	0.4%	-6.1%	18.8%
PLT Arrivals	0.2%	4.3%	21.9%
Southern Oscillation Index (level)	-59.9%	-10.6%	17.4%
Stock Market Index	3.0%	-4.0%	20.1%

Components are seasonally adjusted where necessary. The weights in the table are applied to the standardised level of each component series and not to their percentage change. The components and weights will be reviewed when necessary.

## Additional information

The Lead Employment Indicator is a combination of five different indicators that have historically been shown to lead changes in employment. The series is designed to give advance warning of turning points in employment<sup>1</sup>. The Lead Employment Indicator is more reliable than each component on its own because combined they cover a wider range of sectors.

A 'turning point' in the Lead Employment Indicator (or employment) series is confirmed when there are two consecutive quarterly movements in a new direction. This indicates a local peak or trough. Thus, with employment growth of 1.3% for the March 2011 quarter, the 0.3% decline in employment for the December 2010 quarter did not interrupt the upswing in the employment cycle as these two quarters did not form a consecutive change in a new direction.

The 0.3% decline in the Lead Employment Indicator in the September 2011 quarter does not yet constitute a turning point in the employment cycle unless next quarter also records negative growth.

The average lead time between the Lead Employment Indicator turning point and a corresponding turning point in employment is variable but generally between one and four quarters. The Lead Employment Indicator correctly anticipated the upturn in employment in the December 2009 quarter with a lead time of one quarter. It also

<sup>1</sup> Here defined as the number of people in paid work of one hour or more per week, as measured by the HLFS

gave advance warning of the 2009 downturn in employment with a lead time of four quarters.

Users should note that the historical relationship between the Lead Employment Indicator and employment can vary from time to time. The Lead Employment Indicator is only one indicator of turning points in the employment cycle and should be used alongside other labour market indicators.

For more information on the Lead Employment Indicator please refer to the background and methodology document:

<http://www.dol.govt.nz/publications/lmr/lioe/background.asp>.

### **Release Details**

The Lead Employment Indicator is available on a quarterly basis.

#### **For more information please contact**

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For further information please visit <http://dol.govt.nz> or email [research@dol.govt.nz](mailto:research@dol.govt.nz).

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