

Economic Research
Sydney

August 9, 2007

New Zealand economic update

2Q Labour Force Survey

Unemployment rate drops back to historic low of 3.6%

New Zealand's labour force survey posted a stronger than expected 0.7%q/q gain (14,000 positions) in employment in 2Q (JPMorgan 0.2%, consensus 0.3%), after a rapid 1.2% spike in 1Q. The continued momentum in employment growth took the unemployment rate back to an equal record low 3.6% (JPMorgan and consensus 3.7%) from a downwardly revised 3.7% (previously 3.8%) in 1Q. New Zealand's unemployment rate has been bouncing off the record low since it first hit 3.6% in 3Q05 (chart). The labour force participation rate hit an all-time high of 68.8%, as the growth in the size of the workforce outstripped growth in the working age population.

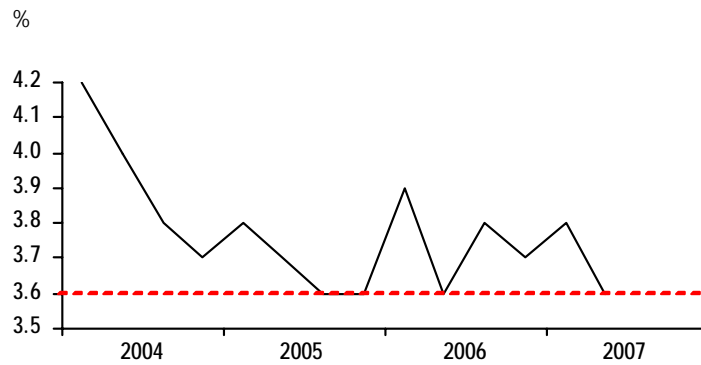
The Government's *Working for Families* package, which encourages both welfare beneficiary and working families to work for tax credits. The supply of part-time employment in the survey therefore has increased, pushing up the level of participation, and reducing the unemployment pool. The increased labour supply is being met by demand, however, as employers are becoming increasingly willing to take on part-time workers - the casualisation of the work-force continues.

On the outlook for interest rates, the risk of yet another policy tightening over the next six months has risen. Today's employment report in isolation is not enough to push the RBNZ across the line in September, but it does support an already uncomfortable nontradables inflation trajectory, which remains pegged in the top half of the RBNZ's 1-3%oya target range. The report shows that the macro environment in New Zealand remains one of stretched resources, a drum-tight labour market, and continued inflation pressure in the pipeline. Such an environment will keep the RBNZ at action stations, as the war on inflation rages on.

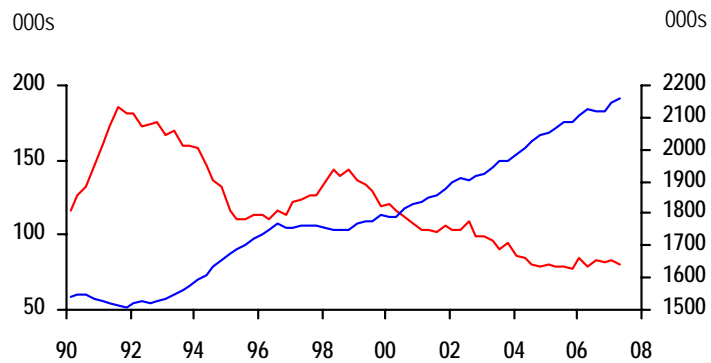
It is important to note that we have had four policy tightenings since March (the last was in July), and this report was for 2Q. The RBNZ has time on its side to assess the impact of their recent policy response on economic activity. The housing market, for example, is beginning to show signs of turning, and the forward looking indicators (various confidence surveys) are softening.

Financial market reaction: NZD bounced 25pts after the release

New Zealand: unemployment rate, sa



New Zealand: employed and unemployed



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