

# New Zealand Economic Update

## Q3 employment and unemployment

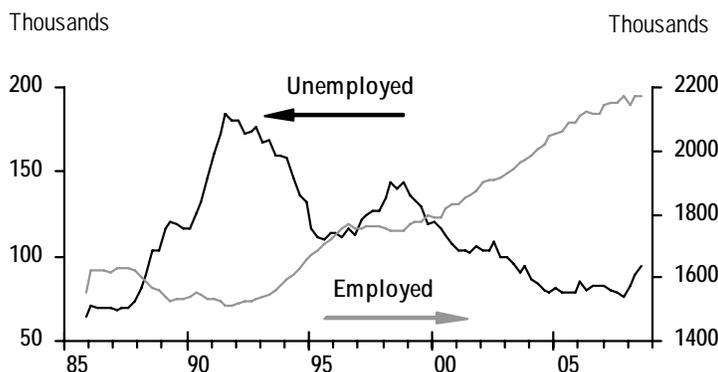
New Zealand's jobless rate spiked up to 4.2% up in 3Q, from 3.9% in the June quarter, a slightly smaller rise than we had expected (JPMorgan and consensus 4.3%). Employment unexpectedly rose 0.1%q/q (3,000 persons, JPMorgan -11,000, consensus -13,000) over the quarter, after a 1.2% gain in the June quarter. Despite today's modest upside surprise on employment, the underlying trend is clear - conditions in New Zealand's troubled labour market are deteriorating amid what we believe will be an extended period of recession. Indeed, labour market conditions almost certainly will be a lot worse in the December quarter.

The biggest rise in employment in the September quarter was for manufacturing (up 6,000 persons), followed by education and health/community (both up 4,000). The biggest decline was in farming (-6,000 persons) and hospitality (-5,000). Full time employment rose 0.5%q/q in the September quarter, but part time employment fell 0.5%. Employment among males fell 0.4%q/q - all of the gains in 3Q came in female employment (up 0.8%q/q). It follows, therefore, that unemployment for males has risen much more quickly than for females.

The economy-wide jobless rate of 4.2% in 3Q is the highest since the December quarter of 2003, but there is more bad news to come for job seekers. Our forecast is that New Zealand's unemployment rate will climb steadily in coming quarters as firms reconsider hiring decisions and shed human capital to cut costs. The forecast is that the jobless rate will reach 6.7% by the end of 2009 - a nine year high, and virtually double the cycle low of 3.4% reached back in late 2007.

We expect the RBNZ to respond to rising joblessness and other signs of sustained economic weakness with aggressive interest rate cuts. We forecast an OCR of just 3.25% by the end of 2009. From a broader policy perspective, the winner of Saturday's general election, which the latest opinion poll results suggest will be the Opposition National Party, will face serious economic challenges, not least the drain on the Budget resulting from the rising jobless rate.

New Zealand: employed and unemployed



November 6, 2008

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