

Volatile employment figures disappoint

- The NZ labour market contracted and unemployment rate unexpectedly rose to 6.8% in Q4.
- The weakness in the labour market at the end of 2010 adds to a growing list of disappointing economic data.
- The data reinforces the need to keep interest rates low for the foreseeable future.

Last week's employment figures – in one of the most important data releases of February – were disappointing. The figures capped a week in which local data raised questions about whether the economy was regathering at the end of last year or falling back further.

Over the December quarter employment dropped 0.5% and the unemployment rate rose to 6.8% from 6.4%. On both counts these figures were weaker than generally expected. The challenge with the Household Labour Force Survey is that the survey results have become increasingly erratic: up strongly one quarter and then down slightly the next. Forecasts have tended to underestimate the strength of the strong quarters (the March and September quarters beat forecasts) and equally underestimate how weak the following quarters would be.

What to make of the latest figures? Does the decline in employment over the quarter signal that the economy has fallen back into recession? Not necessarily: the economy supposedly created 23,000 jobs during the September quarter – in which GDP was reported as falling 0.2%. But the figures were preceded by weak building consent and credit figures, which suggested heightened risk the domestic-driven parts of the economy are foundering.

Given the up/down nature of the labour figures, we have taken to averaging the outcomes over 2 quarters. These suggest employment growth averaged 0.3% per quarter over 2010, but that the unemployment rate edged up fractionally in the second half of the year (see Chart of the Week). Economic recovery in the last half of 2010 petered out, and with that employment struggled to keep pace with the growing number of people wanting to work. Over the year as a whole 27,000 jobs were created, but 24,000 additional people wanted work. The economic recovery needs to step up a couple of gears to reduce the queue of people out of work.

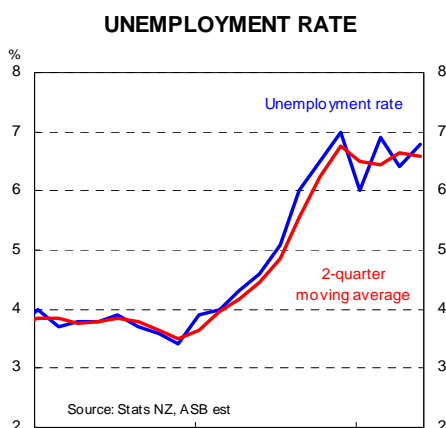
The lack of traction at present simply reinforces the need to keep interest rates low for the foreseeable future. We already expect the RBNZ will not lift rates again until September and that the early stages of the tightening cycle will be very gradual. Even though our view is gradual compared to the consensus, we see the risks to our view being an even later start. We'd also put around a 10% chance that the RBNZ cuts rates this year, though that is an event that would be preceded by clear signs that the economy, particularly the interest rate sensitive parts, is heading down over 2011 rather than regathering from last year's softness.

Click here for:

[Foreign Exchange](#)
[Interest Rates](#)
[Week Ahead](#)
[Week in Review](#)
[Global Calendars](#)

- NZD eases as labour market data disappoints.
- Soft labour market data keep interest rates low.
- REINZ housing data, QV monthly house price index, retail trade survey.
- Household Labour Force Survey, tourism and migration data.
- Bank of England rate decision, Australian employment report. Chinese trade data.

Chart of the Week



Over the past year the Household Labour Force Survey results have been so erratic that a given quarter's results in isolation cannot be relied upon. Employment jumped at least 1% in the March and September quarters, only to dip in the following quarters, with unemployment consequently just as erratic.

The truth lies somewhere in between: employment growth averaged 0.3% (7,000) per quarter in 2010 and 27,000 net jobs were created over the year. However, that pace of growth has struggled to keep pace with the growth in the labour force (the total number of people looking for work), particularly in the second half of 2010.

Consequently, the unemployment rate edged up fractionally in the second half of 2010 when averaged over 2 quarters (see chart). The StatsNZ trend measure of the unemployment rate declined to 6.3% by June 2010 but has since lifted to 6.7%.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7680	0.7712	0.7577	0.7318	0.6898	UP	0.7600	0.7800
NZD/AUD	0.7595	0.7773	0.7629	0.7966	0.7945	DOWN	0.7500	0.7700
NZD/JPY	63.17	63.27	63.17	62.51	61.85	FLAT	62.50	64.50
NZD/EUR	0.5670	0.5672	0.5830	0.5511	0.5029	FLAT	0.5550	0.5750
NZD/GBP	0.4771	0.4862	0.4904	0.4581	0.4382	DOWN	0.4700	0.4850
TWI	68.3	68.9	68.8	67.3	64.1	FLAT	67.50	69.50

^Weekly support and resistance levels * Current is as at 10.00 am Monday; week ago as at Monday 5pm.

The NZ dollar fell over the past week, reflecting the continued run of uninspiring domestic data which points to little urgency for the RBNZ to lift the OCR. In particular, the Household Labour Force Survey indicated momentum in the labour market recovery slowed over the second half of 2010 as a result of the patchy nature of economic growth.

The Australian dollar ended last week above parity with the US dollar. A key influence on the Australian dollar this week will be the Australian employment report this Thursday, with a strong result likely to boost the currency and drag the NZ dollar higher with it. Over 360,000 jobs were created in the 2010 year, and continued strength in the labour market is likely to place upward pressure on wages and flow through to inflation later in the year.

In contrast, the US dollar lifted over the past week, as the non-farm payrolls report showed an unexpected decline in the US unemployment rate in January. The detail of the report was mixed and while the smaller than expected increase in employment initially caused a sell-off in the currency, the US dollar rebounded as the severe winter weather was seen as the key reason in preventing people from working in the month.

Short-term outlook: Key data Date Time (NZT) Market

	Electronic Card Transactions	9/2	10.45am	-
	QV House Prices	9/2	12.00am	-
	Australian Employment	10/2	1.30pm	+20,000
	REINZ House Sales	11/2	10.00am	-
	Retail Trade Survey	14/2	10.45am	-
	<p>Key events in offshore markets this week: JPN Current Account, GE Industrial Production, CA Housing Starts & Building Permits, UK Industrial Production, US Consumer Confidence (8th); GE & UK Trade Balance (9th Feb); AU Employment Report, ECB Monthly Report, UK Industrial & Manufacturing Production, BOE rate announcement, US Wholesale Inventories & Monthly Budget Statement (10th); GE Consumer Price Index, UK PPI, CA International Merchandise Trade, US Trade Balance & University of Michigan Confidence (11th).</p> <p>Speakers. Fed: Lacker (9th); Bernanke, Sack, Lockhart (10th); Lockhart (11th); Raskin (12th). ECB: Weber (7th, 10th), Smaghi (9th, 10th), Trichet (11th).</p>			

Medium-term outlook: [Last Quarterly Economic Forecasts](#)

Our forecast strength in the NZD in early 2011 is due to a strong New Zealand Terms of Trade and USD weakness, rather than the broader New Zealand economy's performance, which has been very patchy.

We forecast the NZD to ease over the course of 2011 against the main cross rates, but remain strong when compared to long-run average levels.

The Australian and Canadian economies continue to benefit from strong Terms of Trade and upward pressure on local interest rate settings. The AUD in particular is likely to out-perform over the coming months, and has already traded above parity with the USD.

We anticipate that the USD will remain weak over H1 2011. The FOMC appears extremely cautious in its assessment of a clearly improving US economy. It appears the threshold for the FOMC to pre-maturely end the quantitative easing program is high. Accordingly, we are unlikely to see near-term USD strength, but expect the Greenback will lift in the latter part of 2011.

We have revised up our near-term currency forecasts for the EUR, GBP and CHF forecasts. Behind the revision is an improvement in sentiment: "crisis management" by the European authorities is being perceived as satisfactory. Accordingly, exchange rate direction is now being driven by traditional interest rate, growth and inflation, differentials.

GBP is forecast to out-perform EUR, reflecting a more rapidly improving UK economy and a healthier banking system.

Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	3.00	3.00	3.00	3.00	2.50	FLAT
90-day bank bill	3.22	3.21	3.20	3.27	2.76	FLAT
2-year swap	3.85	3.88	3.82	3.96	4.28	FLAT
5-year swap	4.65	4.66	4.74	4.54	5.28	FLAT/UP
5-year benchmark gov't stock	4.52	4.55	4.69	4.61	5.10	FLAT/UP
NZSX 50	3368	3339	3318	3054	3105	UP

* Current is as at 10.00 am Monday; week ago is as at Monday at 5pm. Please note we changed the NZ gov't 5-year benchmark bond to the April 2015 maturity (from April 2013), which causes some distortion in the comparison against the previous levels (i.e. 6 months ago).

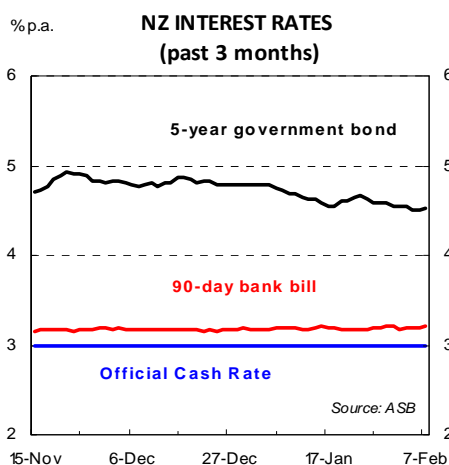
Weak local economic data is keeping the market comfortable with the view that the RBNZ will not be lifting interest rates any time soon. Overnight index swaps have only one rate hike fully priced by the end of this year. Weak labour market data kept short-term swap rates down last week.

Meanwhile, US government bond yields have been lifting higher over February, lifting by 30 basis points since January 31st. This dragged local long-term swap rates slightly higher last week.

US Treasury yields have pressed higher as reasonable US economic data have investors fretting about inflation turning out to be stronger than previously expected over the year ahead. Futures markets are pricing in a 75% chance of a rate hike by the end of the year, up from 28% a week ago.

Adding to the upward pressure on Treasury yields is the supply of US\$72billion of Treasuries this week.

Short-term outlook: Key data Date Time (NZT) Market



Key data	Date	Time (NZT)	Market
Electronic Card Transactions	9/2	10.45am	-
QV House Prices	9/2	12.00am	-
Australian Employment	10/2	1.30pm	+20,000
REINZ House Sales	11/2	10.00am	-
Retail Trade Survey	14/2	10.45am	-

Comment: The domestic data releases this week are expected to continue to capture the theme of household caution. We expect a low level of turnover in the January housing market report from REINZ on Friday, and next Monday we expect that the retail trade survey will show a decline in retail sales volumes in Q4. Both these outcomes would keep short-term rates low, while long-term rates will be largely influenced by offshore developments. In particular, if the strong upward movement in US long-term Treasury rates continues this week, it will likely push NZ swap rates slightly higher over the 5-10 year maturities.

Medium-term outlook: [Last Quarterly Economic Forecasts](#)

The RBNZ kept the OCR unchanged at 3% at the January OCR Review, and retained a very similar tone to that of the December MPS. Recent data have generally proved weaker than expected, and the RBNZ is particularly concerned about the weakness in the housing market, business investment intentions and business demand for credit. Back in December, the RBNZ assessed that low interest rates were delivering less stimulus to the economy than previously expected, and as a result had pushed back the timing and pace of future OCR increases.

The RBNZ remains remarkably comfortable on inflation pressures in the economy. We continue to view the RBNZ's medium-term inflation forecasts as optimistic, particularly around its relaxed attitude to inflation expectations over the next year. We expect the RBNZ will become less comfortable with the inflation picture over the coming year.

Nonetheless, with recent activity data generally disappointing and inflation indicators suggesting inflation pressures are subdued for now there looks to be little urgency for the RBNZ to lift the OCR. This is particularly in light of the fact the RBNZ has highlighted it would like to become more confident the recovery is underway and inflation pressures are lifting before it resumes the reduction of monetary policy stimulus. Recent domestic data underscore just how patchy the recovery is proving to be.

We expect the RBNZ will wait until September to increase the OCR. In addition, we expect the initial phases of tightening will be gradual, with the first 25 basis point OCR increases occurring at the September, December 2011 and March 2012 Monetary Policy Statement releases. Beyond that, we expect the tightening cycle to pick up pace as inflation concerns eventually lift.

Data Preview: a look at the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
REINZ January housing market report (turnover)	11/2	-	-11.3%	-	-
Retail Trade Survey – December Quarter (total volumes)	14/2	10.45am	+0.7%	-	-0.7%*

New Zealand Data Previews

Friday 11 February

REINZ January housing market report.

Previous: turnover -11.3%yoy, House Price Index -1.6% yoy.

Housing activity picked up in November and December from extremely weak levels in October. However, despite this improvement, the market remains frail with turnover, prices, and days to sell all weaker than year-ago levels.

The housing market is typically quiet over December and January, which makes interpreting data slightly more difficult. However, we expect the caution shown by households in late 2010 will continue in early 2011.

The amount of inventory on the market remains quite high relative to turnover, and the housing market remains tipped in favour of buyers.

The fundamentals for housing remain unsupportive: migration is low and affordability is still stretched. In addition, while mortgage rates are low, they are significantly higher than early 2009, and are expected to rise slowly over the year ahead.

We continue to expect softness in prices over the months ahead, with prices remaining down on year-ago levels, and around 5% off the 2007 peak.

Monday 14 February

Retail trade Survey – December Quarter

Previous: Total volumes +0.7% qoq*

Ex-auto volumes +0.9% qoq*

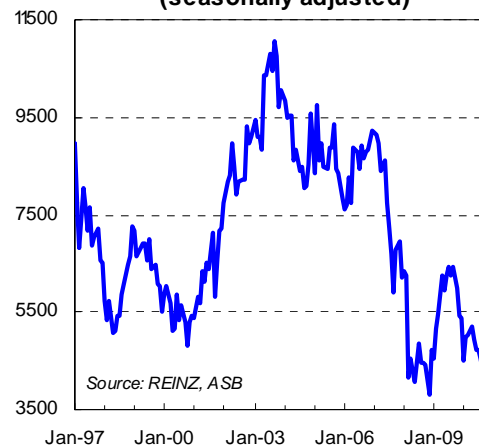
Retail sales have been volatile in recent months, reflecting the pre-GST spend-up that occurred in September as households brought forward the purchases of major household items in anticipation of the GST increase in October. Beyond this volatility, the trend in retail spending remains subdued.

We expect retail sales volumes to have declined over Q4, reflecting some payback from the strength in the previous quarter. Households remain cautious in regards to discretionary spending, as reflected in weak department store, furniture and electronic goods sales. Continued weak housing market activity, a faltering recovery in the labour market and high petrol prices are headwinds to the household sector.

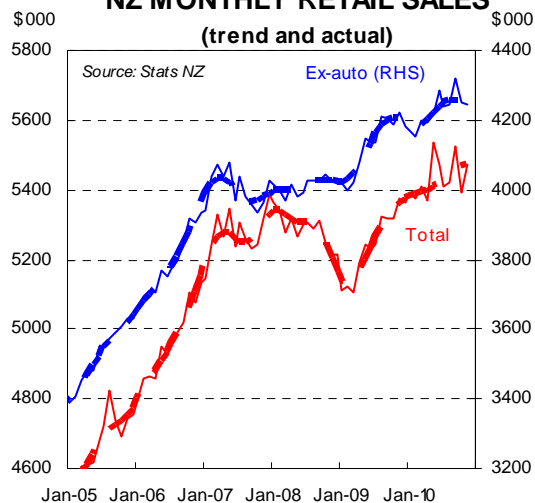
Beyond 2010 Q4, we expect the recovery in retail spending will be gradual over 2011.

*Note: In Q4 Statistics NZ are using new categories for the Retail Trade Survey. Comparisons with the previous quarters should be treated with caution.

No. **MONTHLY DWELLING SALES**
(seasonally adjusted)



NZ MONTHLY RETAIL SALES
(trend and actual)



International Data Previews

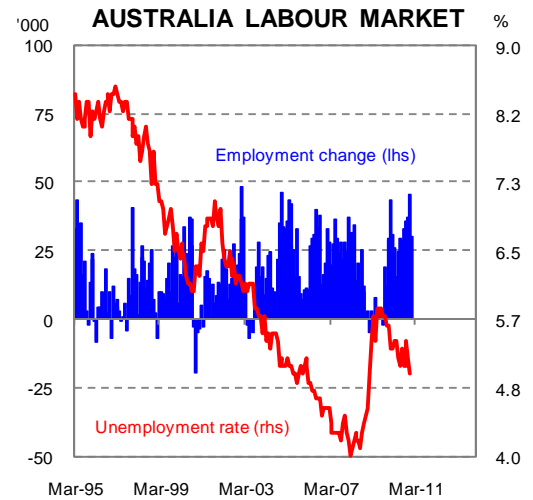
Thursday 10 February

AU Employment change, Jan, '000, (f) 25 (2.3 prev)

AU Unemployment rate, Jan, %, (f) 5.0 (5.0 prev)

AU Participation rate, Jan, %, (f) 65.9 (65.8 prev)

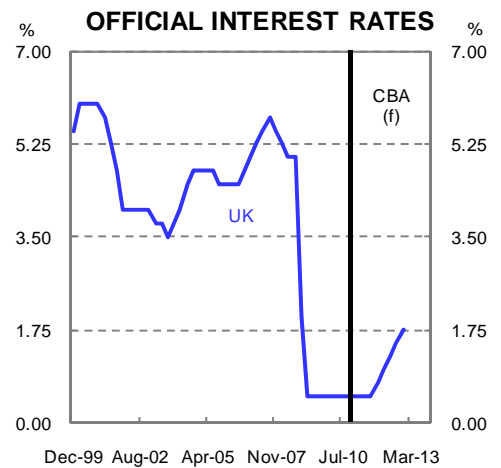
The Australian labour market added fewer jobs than expected in December, expanding by a modest 2,300. Markets had been expecting a 25,000 increase. The “correction” in December came after an exceptionally strong 2010 calendar year. Over 360,000 jobs were created in the year, with the annual jobs growth rate exceeding 3% since August. Significantly, the underlying strength in the Australian economy has pushed the participation rate to record levels. The forward indicators continue to point to jobs growth of at least 25,000 over the coming months, while slower population growth is likely to result in an unemployment rate below 5% in 2011.



Thursday 10 February

UK BOE announces rates, Feb, %, (f) 0.5 (0.5 prev)

The Bank of England (BoE) is expected to remain on hold at its February policy meeting. The BoE has kept interest rates at 0.5% since March 2009. We continue to forecast BoE policy tightening to commence in QIV 2011. But, risks of earlier rate increases are present. UK inflation, currently 3.7%, has tracked above the BoE’s 2% target since December 2009. Elevated UK inflation appears to be making the BoE uncomfortable. The BoE January policy meeting minutes indicated that two Monetary Policy Committee members voted for a rate rise, and that the committee had considered the case for monetary tightening. The minutes also stated that members now believe the risks to UK inflation in the medium term had shifted upwards. The 12-month Overnight Index Swap market is pricing in 73bpts worth of BoE rate rises.



NZ Data Recap: weekly recap

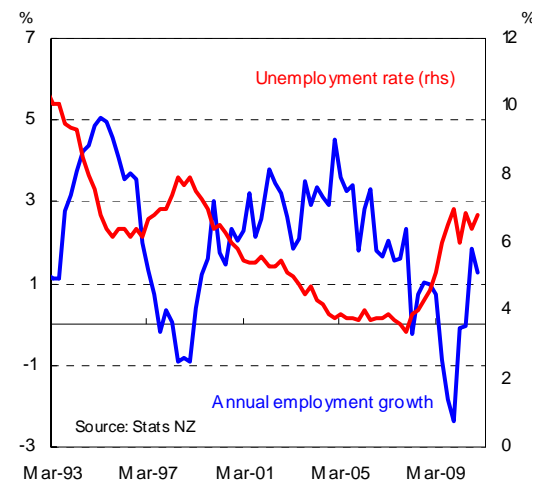
Household Labour Force Survey – December Quarter

Employment fell 0.5% over the December quarter. As a result, the unemployment rate lifted to 6.8%. The decline in employment over Q4 was weaker than early indicators suggested, with employment intentions suggesting that employment should have been much stronger over the second half of 2010 compared to what transpired. However, the Quarterly Employment Survey, released on Tuesday, foreshadowed a decline in employment with full-time equivalent employees falling 1% and hours paid falling 0.2% (both seasonally-adjusted). ([read our review](#)).

The sharp decline in Q4 employment continues a particularly choppy run of data in the Household Labour Force Survey, and the Q4 result is likely to be overstating the weakness in the labour market. Nonetheless, taking a look at the average rate of employment growth over the past two quarters, it is clear that momentum in the recovery waned over the second half of 2010. This has also been reinforced by the slower growth in hours worked over the second half of 2010, following a strong recovery over the first half. Reflecting this slowdown, the trend unemployment rate estimated by StatsNZ has increased over the second half of the year to 6.7% from a low of 6.3% in Q2.

However, there are signs of improving labour demand, particularly given the lift in hours worked over the past year. We expect jobs growth to resume over 2011 as business expansion plans start to gain momentum.

EMPLOYMENT & UNEMPLOYMENT



Tourism & Migration – December

The pace of monthly net migration inflows remains relatively low but steady, recording 750 net new migrants in December and bringing the annual pace of inflow down to 10,451. On a trend basis the number of permanent departures appears to be stabilising, particularly the numbers departing to Australia. Over the past year, the relatively strong labour market in Australia has drawn an increasing number of New Zealanders across the Tasman. Permanent arrivals appear to be also stabilising, although remain relatively subdued. In particular, the number of arrivals from the UK and US remains very low, reflecting weak state of the NZ labour market.

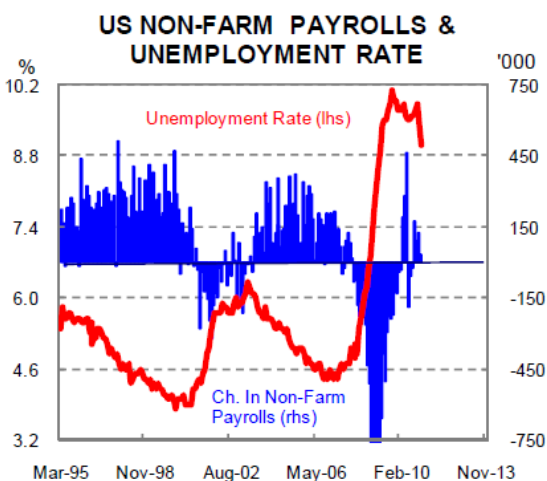
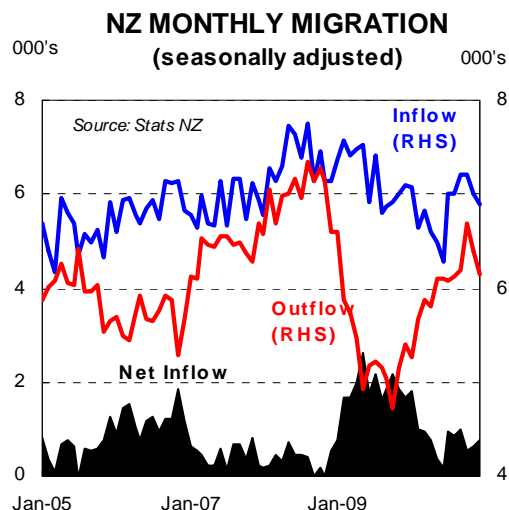
Short-term visitor arrivals lifted 1.4% over December, and are up 1.3% on year-ago levels. The number of Australian visitors has remained fairly steady over the past year after surging in 2009. Arrivals from the US and UK continue to trend down, which has been a key driver of reduced tourist spending over the past year. However, a growing number of Chinese and other Asian arrivals should help provide some offset in future.

US Non-farm Payrolls

US non-farm payrolls rose by 36,000 in January, lower than market expectations centred on a 145,000 lift. Private payrolls increased by 50,000 in the month. December private payrolls were revised higher from 113,000 to 139,000. The January readings are likely to have been depressed by the recent bad weather. Payrolls in industries which have historically been adversely affected by bad weather, such as construction and transportation, fell in January.

Average hourly earnings lifted by 0.4% in January while hours worked remained stable at 34.2 hours. Average hourly earnings are now at the highest level since November 2008.

Despite the weak lift in employment, the US unemployment rate fell from 9.4% to 9.0% - the lowest reading since April 2009. According to the Labour Department, bad weather prevented 886,000 people from going to work in January, almost four times the average of the past five Januaries.



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 7 Feb	12.30	AU	AiG Performance of Construction Index	Jan	Index	43.8	~	~
	13.30	AU	ANZ Job Advertisements	Jan	m%ch	2.0	~	~
	13.30	AU	Retail Sales s.a.	Dec	m%ch	0.3	0.5	0.5
	13.30	AU	Retail Sales (ex inflation)	QIV	q%ch	0.7	-0.3	-0.5
	18.00	JN	Coincident Index	Dec P	Index	102.4	103.2	~
	18.00	JN	Leading Index	Dec P	Index	100.6	101.4	~
	18.30	AU	Foreign Reserves	Jan	AUD\$	41.6	~	~
Tues 8 Feb	12.50	JN	Japan Money Stock M2	Jan	y%ch	2.3	~	~
	12.50	JN	Current Account	Dec	¥bn	926.2	~	~
	12.50	JN	Adjusted Current Account	Dec	¥bn	1145.1	~	~
	12.50	JN	Current Account	Dec	y%ch	-15.7	~	~
	12.50	JN	Trade Balance – BOP Basis	Dec	¥bn	259.7	~	~
Wed 9 Feb	10.45	NZ	NZ Card Spending	Jan	m%ch	-0.9	~	~
	12.00	NZ	QV House Prices	Jan	y%ch	-0.9	~	~
	12.30	AU	Westpac Consumer Confidence	Feb	Index	104.6	~	~
	15.30	CH	China HSBC Services PMI	Jan	Index	53.1	~	~
	18.00	JN	Consumer Confidence	Jan	Index	40.2	~	~
	19.00	JN	Machine Tool Orders	Jan P	y%ch	64.0	~	~
Thu 10 Feb	12.50	JN	Housing Loans	QIV	y%ch	3.6	~	~
	12.50	JN	Machine Orders	Dec	m%ch	-3.0	~	~
	13.30	AU	Employment Change	Jan	'000	2.3	15.0	25.0
	13.30	AU	Unemployment Rate	Jan	%	5.00	5.0	5.0
	13.30	AU	Full-Time Employment Change	Jan	'000	1.7	~	~
	13.30	AU	Part-Time Employment Change	Jan	'000	0.6	~	~
	13.30	AU	Participation Rate	Jan	%	65.8	65.8	65.9
	15.00	CH	Trade Balance	Jan	US\$bn	13.08	~	~
15.00	CH	Exports	Jan	y%ch	17.9	~	~	
Fri 11 Feb	15.00	CH	Imports	Jan	y%ch	25.6	~	~
	10.45	NZ	Food Prices	Jan	m%ch	-0.8	~	~
	10.45	NZ	REINZ House Sales	Jan	y%ch	-11.3	~	~

Calendar - North America & Europe

Please note all days and times are UK time. Add 13 hours for NZ times.

Date	Time (UK)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 7 Feb	11:00	GE	Factory Orders sa	Dec	m%ch	5.2	-2.0	~
	13:30	CA	Building Permits	Dec	m%ch	-11.2	~	~
	20:00	US	Consumer Credit	Dec	US\$bn	1.35	2.00	~
Tues 8 Feb	00:01	UK	RICS House Price Balance	Jan	%	-39.0	-37.0	~
	11:00	GE	Industrial Production sa	Dec	m%ch	-0.70	0.0	~
		UK	Halifax House Prices sa	Jan	m%ch	-1.30	-0.30	~
	13:15	CA	Housing Starts	Jan	'000	171.5	173.5	~
Wed 9 Feb	22:00	US	ABC Consumer Confidence	6 Feb	Index	-41	~	~
	07:00	GE	Exports sa	Dec	m%ch	0.50	0.8	~
	07:00	GE	Imports sa	Dec	m%ch	4.10	0.5	~
	07:00	GE	Current Account	Dec	€bn	12.0	14.0	~
	07:00	GE	Trade Balance	Dec	€bn	12.9	11.0	~
	09:30	UK	Visible Trade Balance	Dec	£mn	-8736	-8809	~
	09:30	UK	Trade Balance Non EU	Dec	£mn	-5028	-4900	~
Thu 10 Feb	09:30	UK	Total Trade Balance	Dec	£mn	-4123	-4055	~
	09:00	EC	ECB Publishes Monthly Report	Feb				
	09:30	UK	Industrial Production	Dec	m%ch	0.40	0.4	~
	09:30	UK	Manufacturing Production	Dec	m%ch	0.60	0.4	~
	12:00	UK	BOE Asset Purchase Target	Feb	£bn	200	200	~
	12:00	UK	BOE rate announcement	10 Feb	%	0.5	0.5	0.5
		UK	NIESR GDP Estimate	Jan	q%ch	0.5	~	~
	13:30	US	Initial Jobless Claims	5 Feb	'000	415	410	~
	13:30	US	Continuing Claims	29 Jan	'000	3925	~	~
Fri 11 Feb	15:00	US	Wholesale Inventories	Dec	m%ch	-0.2	0.80	~
	19:00	US	Monthly Budget Statement	Jan	US\$bn	-80.0	-59.0	~
	07:00	GE	Consumer Price Index	Jan F	m%ch	1.00	-0.5	~
	07:00	GE	CPI - EU Harmonised	Jan F	m%ch	1.20	-0.5	~
	09:30	UK	PPI Input NSA	Jan	y%ch	12.50	~	~
	09:30	UK	PPI Output n.s.a.	Jn	y%ch	4.20	4.3	~
	09:30	UK	PPI Output Core NSA	Jn	y%ch	2.90	~	~
	13:30	CA	International Merchandise Trade	Dec	C\$bn	-0.1	-0.5	~
	13:30	US	Trade Balance	Dec	US\$bn	-38.3	-40.5	~
	14:55	US	University of Michigan Confidence	Feb P	Index	74.2	74.5	~

<https://reports.asb.co.nz/index.html>

<http://www.research.comsec.com.au>

ASB Economics
Level 9, 135 Albert Street, Auckland

ASB Economics & Research

Phone

Fax

Economics				
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 374 8604	(649) 302 0992
Economist	Jane Turner	jane.turner@asb.co.nz	(649) 374 8185	
Economist	Christina Leung	christina.leung@asb.co.nz	(649) 369 4421	
Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 374 8819	

Disclaimer

Views expressed in this report are those of the authors as at the date of this report and are based on information and sources believed but not warranted to be correct. Any views or information, while given in good faith, do not necessarily reflect the views of ASB and are subject to change without notice. Neither ASB Bank Limited nor any person involved in preparing this report accepts any liability for any loss or damage whatsoever that may directly or indirectly result from any views, information or omission contained in this report.