

NEW ZEALAND ECONOMICS

DATA REVIEW

NZ LABOUR MARKET – DECEMBER 2015 QUARTER

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CONTRIBUTORS

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BELIEVE IT OR NOT

KEY POINTS

- There was certainly an element of “believe it or not” in today’s Q4 labour market figures, with the unemployment rate falling a massive 0.7ppts to 5.3%, the lowest rate since March 2009.
- To us, that move certainly looks exaggerated, but the details in the rest of survey were generally good (employment rebounded solidly, hours-based measures were strong, and total gross earnings surged), so we’ll run with the spirit. The labour market is improving, and that’s against a reasonably strong labour supply backdrop courtesy of net migration (although the participation rate dipped again).
- While the lift in employment is consistent with timelier measures of labour demand, the fall in the participation rate (which drove the large fall in the unemployment rate) is a surprise and at odds with history, which suggest that more often than not, an increase in labour demand encourages *more* people to enter the labour market, not *fewer*.
- The HLFS has long had questions over its accuracy given that there have often been cases where large “surprises” such as today’s outcome are thrown up. Those questions will linger today.
- But stepping back, and discounting the move in the unemployment rate somewhat, there was still a positive hue to the figures. And that needs to be respected from a monetary policy perspective; there is no unemployment rate smoking gun making the case for a lower OCR.
- That said, it was not one-way traffic. Measures of wage inflation were again soft (and below expectations). Furthermore, there was little evidence in distributional, regional or sectoral nuances that points to any hint of a turn in wage growth any time soon.
- Net on net, we feel the data reduce the odds of an OCR cut in the near-term (we’d go so far to say as they rule out March completely) and favour an ongoing watchful stance from the RBNZ.

FIGURE 1. UNEMPLOYMENT AND PARTICIPATION RATE



Source: ANZ, Statistics NZ

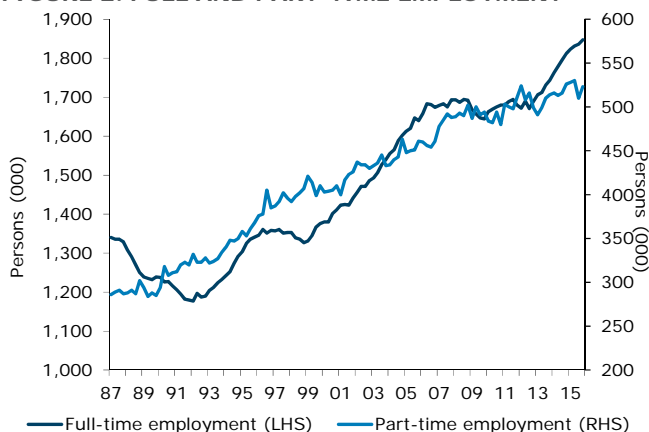
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COMMENT AND ASSESSMENT

		Latest	Previous	Expected
Wages/earnings				
LCI private sector wages (ex-overtime)	q/q%	0.4	0.4	0.5
LCI private sector wages (ex-overtime)	y/y%	1.6	1.7	1.8
QES private sector hourly earnings	q/q%	0.2	0.9	1.1
QES private sector hourly earnings	y/y%	2.5	2.7	..
QES total gross earnings	y/y%	6.0	5.5	..
Employment/unemployment				
HLFS unemployment rate (sa)		5.3	6.0	6.0
HLFS participation rate (sa)		68.4	68.7	69.3
HLFS employment (sa)	q/q%	0.9	-0.5	0.4
HLFS employment	y/y%	1.3	1.4	2.5
HLFS hours worked (sa)	q/q%	1.0	0.4	..
QES filled jobs (s.a.)	q/q%	1.0	0.8	..
QES filled jobs	y/y%	2.7	1.7	..
QES paid hours (s.a.)	q/q%	1.4	0.9	..

Following the weak Q3 result, both we and the market were looking for an element of recoil in today's employment figures and that certainly transpired. "Official" HLFS employment rose a solid 0.9% q/q (1.3% y/y) following a 0.5% q/q fall in Q3. That was close to consensus expectations (+0.8% q/q). The composition was solid, with both full-time (+0.6% q/q) and part-time (+2.5% q/q) employment rising over the quarter. Together with the likes of hours worked and QES paid hours lifting 1.0% q/q and 1.4% q/q respectively, and total gross earnings surging 2.1% q/q (6.0% y/y), the details are consistent with a reasonable economic backdrop and certainly point to the surprise drop in employment in Q3 as being a temporary blip.

FIGURE 2. FULL AND PART-TIME EMPLOYMENT



Source: ANZ, Statistics NZ

Against a backdrop of stronger labour demand, it was not surprising to see unemployment fall. However, the massive 0.7ppt fall in the unemployment rate to 5.3% far exceeded anyone's expectations, given turbo-charged migration boosting labour supply growth. It is the lowest unemployment rate since March 2009. It was helped by a 0.3ppt drop in the participation rate to 68.4% – the third consecutive fall. While solid employment figures are consistent with timelier

measures of labour demand such as firms' hiring intentions and recovering job ads, the drop in participation comes as quite a surprise. History suggests that more often than not, an increase in labour demand actually encourages *more* people to enter the labour market, not *fewer*. It meant that despite another solid 0.5% q/q lift in the working age population, the labour force grew only 0.2% q/q, with annual growth cooling to 0.9% y/y, the softest since mid-2013.

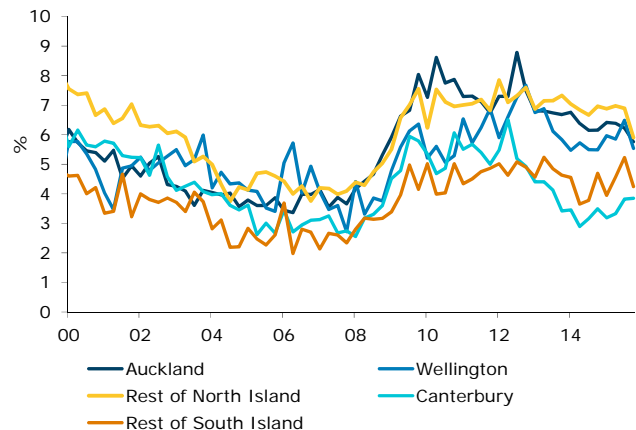
The Household Labour Force Survey has long had questions over its stability and accuracy given that there have often been cases where large "surprises" such as today's outcome are thrown up. Those questions will linger today.

But stepping back, and discounting the move in the headline unemployment rate somewhat, there was still a positive hue to the figures. That needs to be respected.

The fall in the unemployment rate was actually reasonably broad-based. It fell for both males (-0.5ppts to 5.0%) and females (-0.8ppts to 5.7%). In seasonally adjusted terms we also estimate that the unemployment rate fell in every single North Island region, with particularly large falls (of at least 1.0ppts) in Northland, Waikato, Taranaki, and Wellington. Unemployment rates rose in Canterbury and Otago, but only modestly, and from already-low levels to 3.8% and 4.5% respectively.

This highlights an interesting regional thematic. While many argue that this economic expansion is really only about Auckland, its housing market and the construction cycle, today's figures rebuff that to a degree. It reinforces that the regions have their own pressures too and that to ensure that skill shortages do not become widespread, there is a need for an ongoing push on the micro-economic front to ensure resources are allocated efficiently.

FIGURE 3. REGIONAL UNEMPLOYMENT RATES

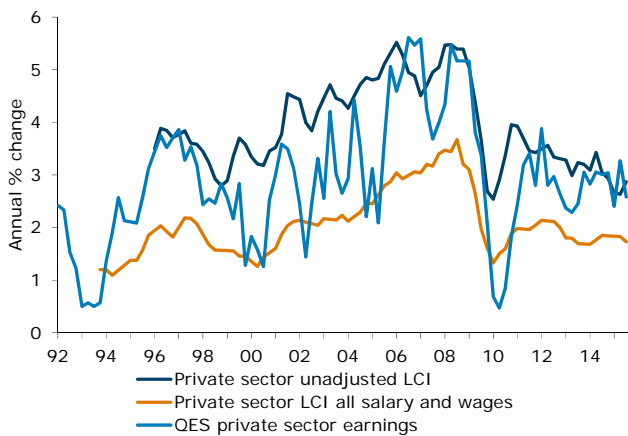


Source: ANZ, Statistics NZ

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But while the figures were strong overall, it was not one-way traffic. In particular, wage growth remains low (and below expectations in the quarter). The private sector LCI measure of wages rose 0.4% q/q for the second consecutive quarter, seeing annual growth fall to just 1.6%, the lowest since March 2010. QES average hourly earnings for the private sector rose 0.2% q/q (2.5% y/y). The unadjusted LCI (which is a truer measure of wage inflation rather than a measure of unit labour costs) rose 0.7% q/q (2.8% y/y).

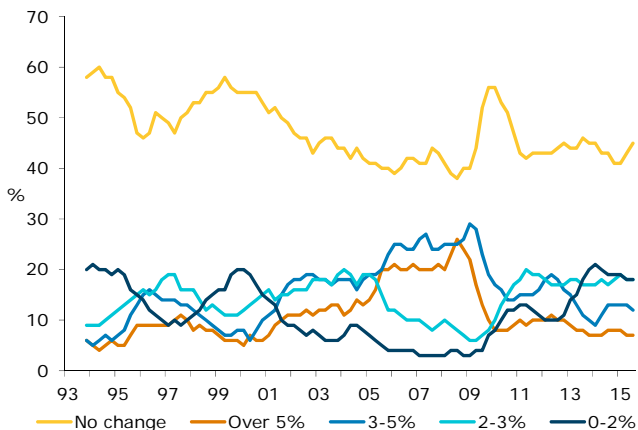
FIGURE 4. WAGE GROWTH MEASURES



Source: ANZ, Statistics NZ

Moreover, there was little evidence in distributional, regional or sectoral nuances to point to any hint of a turn in wage growth any time soon. Despite a solid demand backdrop, construction sector wage inflation continues to slow. This is both in Canterbury (which is now sitting at 1.4% y/y compared with 2.6% y/y a year ago), and the rest of the country (1.9% y/y in Q4 versus 2.4% y/y in 2014). In the December quarter, only 54% of the entire LCI sample experienced an increase in wage rates over the year to December, which is down from 55% in Q3 and the lowest since March 2014.

FIGURE 5. DISTRIBUTION OF WAGE INCREASES



Source: ANZ, Statistics NZ

IMPLICATIONS

Like us, we are sure many are questioning the degree of the fall in the unemployment rate in Q4. The RBNZ no doubt will be too. In the past, it has often stated that it looks through big surprises in the HLFS, focusing rather on a number of labour market indicators and what the overall tone of the data implies. For us, that tone was generally pretty strong and consistent with a respectable domestic economic backdrop overall.

It also means that from a monetary policy perspective, there is clearly no unemployment rate smoking gun for a lower OCR. Certainly persistently low wage growth is something that is relevant from a medium-term inflation perspective, and it is consistent with the benign inflation backdrop more generally. It is this low inflation backdrop that means the risk profile for the OCR continues to be skewed towards the possibility of further cuts. **But net-on-net, we feel today's figures actually reduce the chances of action any time soon.** In fact, we'd go as far to say that the strength of the employment components of today's figures effectively rules out action as early as March. Instead, we see the figures justifying a continuing watchful stance from the RBNZ.

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