ANZ Research

Labour Market Statistics – 2018Q4

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Back pay

Bottom line

- The unemployment rate rose to 4.3%, in large part reflecting payback from last quarter's surprise drop. Noise aside, the labour market has stabilised and the best may be behind us.
- Wage inflation was stable at 0.5% q/q, nudging up from 1.9% to 2.0% y/y. Looking through temporary factors, underlying wage inflation is edging up only slowly, reflecting previous labour market tightening.
- Today's data could add to a more cautious tone from the RBNZ next week, even if their central forecasts do not change significantly. Our MPS preview will be released later today.

Key points

The unemployment rate rose to 4.3% from an upwardly revised 4.0% print last quarter. This was above our (and market) expectations.[1] The underutilisation rate ticked up from 11.4% to 12.1%.

After last quarter's sharp, unexpected drop in the unemployment rate, some payback was expected. The data has been volatile of late, and anything in the range of 3.8-4.4% would not have surprised us. More indicative of recent labour market performance, the trend unemployment rate was flat at 4.2%, after declining from 4.4% at the start of 2018. Today's data suggest that the labour market has stabilised, recent improvement has been only gradual, and that the best may in fact be behind us.

The labour market is currently in "stretched" territory and firms are finding it difficult to find skilled labour. However, the labour market lags the overall activity cycle, and the current degree of tightness reflects the past few years of economic expansion. Looking forward, growth momentum has faded and it looks increasingly difficult for the economy to grow above trend from here. Given this, we suspect that the peak in resource pressures may have passed.

Employment growth continues to moderate, dipping from 2.8% to 2.3% y/y, consistent with the recent moderation in GDP growth. But HLFS employment data has been volatile recently, and Q4's 0.1% gain should be viewed in the context of Q3's considerable strength (+1.0% q/q). QES filled jobs rose 0.3% q/q, the same as last quarter, to be up 1.3% y/y. This measure continues to suggest softer labour demand, with the economy having lost some steam and firms a little warier about hiring. Continuing divergence between the HLFS (which surveys households) and the QES (which surveys businesses) reaffirms noise in the statistics. This participation rate dipped 0.1%pts to 70.9% and has been broadly stable over the past year.

QES hours worked provide a partial gauge for parts of GDP. It grew 0.1% q/q (1.9% y/y). It's early days in terms of the dataflow, but this is on the softer side and could, at the margin, present downside risk to our current forecast of 0.6% q/q (2.5% y/y) for Q4 GDP, though we expect some bounce-back from Q3's weak 0.3% q/q print. HLFS hours worked declined 2% q/q (-0.4% y/y).

Data summary

		Latest
Labour market		
HLFS unemployment rate (sa)		4.3%
HLFS participation rate (sa)		70.9%
HLFS employment (sa)	q/q	0.1%
HLFS employment	y/y	2.3%
HLFS hours worked (sa)	q/q	-2.0%
QES filled jobs (sa)	q/q	0.3%
QES filled jobs	y/y	1.3%
QES paid hours (sa)	q/q	0.1%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.5%
LCI private sector wages (ex-overtime)	y/y	2.0%
QES total hourly earnings	q/q	1.0%
QES total hourly earnings	y/y	3.7%
QES total gross earnings	y/y	5.1%

[1] Today's labour market data include some adjustments, reflecting information gathered from the Survey of Working Life. Without this, the unemployment rate would have been 4.4%.

Wage inflation was stable. Our preferred measure of wages – the private sector Labour Cost Index – increased 0.5% q/q. Annual growth ticked up to 2.0% from 1.9%, with the increase in the minimum wage on April 1 continuing to provide a boost of 0.2%pts, including some spill-over effects. The nurses' pay settlement will also be providing a small nudge.

It appears that underlying wage inflation continues to edge higher only very slowly on the back of recent tightening in the labour market. In part, modest wage inflation reflects the subdued inflation environment, with real wages generally growing around average recently. For firms this means that labour costs have been biting, especially in light of low productivity growth.

Other measures were mixed, but consistent with the theme of stability. Public sector wages ticked up from 0.5% to 0.7% q/q (1.7% y/y), but nonetheless the all-sectors LCI was 0.5% q/q (1.9% y/y). The unadjusted private sector LCI rose 0.9% (3.3% y/y).[2] QES total average (ordinary time) hourly earnings rose 1%, adding to last quarter's strong (1.4% q/q) print. This measure can be thrown around by compositional changes and tends to be very volatile. In annual terms it remains pretty stable at 3.7% y/y.

We expect that wage inflation will increase from here, but only slowly. Future minimum wage increases are expected to contribute 0.2%pts to LCI wage inflation per year, including some spill-over effects to pay negotiations more broadly. This influence will be seen over the next couple of years and will pass through to inflation to some degree via higher costs, but we do not see this as likely to have persistent effects, given that it is not market driven. The underlying wage pulse is expected to improve gradually, reflecting demand pressures that have built over time. But with the peak in resource pressures now looking like it's behind us, this strengthening is not assured, and risks are tilted to the downside should strength in the labour market start to be eroded.

Today's data suggest that the labour market has stabilised, after tightening on the back of previous strength in the economy. Looking through recent volatility, improvement has been gradual. And in our view, the best the labour market has to offer may be behind us. Today's data will add to a more cautious tone from the RBNZ next week, on the back of a softer outlook for activity, clear global growth risks and emerging economic headwinds, even if we don't see a significant change in their central forecasts. In our view, the RBNZ will eventually need to cut the OCR, but the move to a more overtly dovish stance may take some time to unfold. Our February MPS Preview will be released later today.

Figure 1. Employment and GDP growth

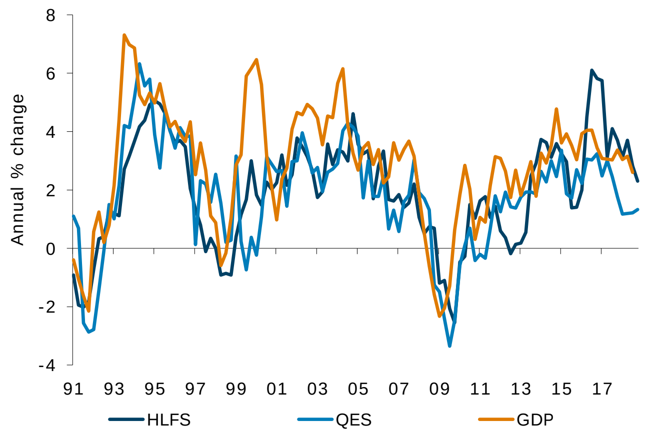
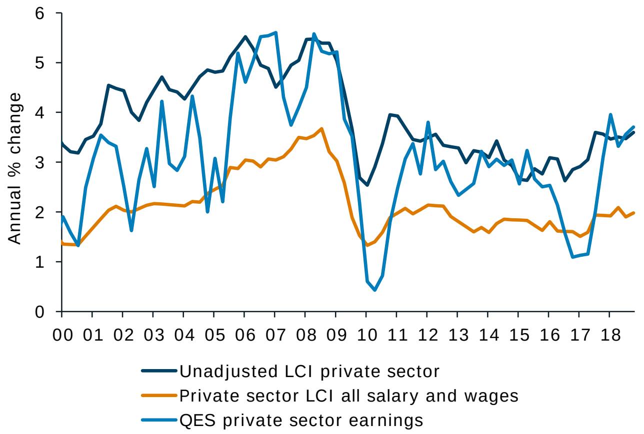


Figure 2. Wage growth – private sector



Source: Statistics NZ

[2] The unadjusted LCI does not adjust for productivity improvements within a given occupation but does adjust for improvements that arise from changes in the composition of the workforce. The adjusted LCI takes into account both. QES average hourly earnings adjust for neither.

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