

Labour Market Statistics – 2019Q4

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A strong finish for 2019

Bottom line

- The unemployment rate ticked down to 4.0% in Q4 from a downwardly revised 4.1% in Q3, suggesting the labour market has been resilient to the growth slowdown in mid-2019.
- Employment growth was soft but wage growth accelerated – as capacity pressures in the labour market continue to see underlying wage pressures gradually lift.
- For the RBNZ, these data reaffirm a strong starting point relative to the November MPS, with inflation and the labour market in a comfortable position. The RBNZ can afford to be patient and see how developments unfold, in light of emerging and highly uncertain global risks associated with the tragic new coronavirus.

Key points

The unemployment rate ticked down to 4.0% in the December 2019 quarter – below ANZ, market, and RBNZ expectations of 4.2%. This followed a downwardly-revised print of 4.1% in Q3. These data can be volatile on a quarter-on-quarter basis, but the underlying details point to a robust labour market and household sector.

- The trend unemployment rate drifted sideways at just 4.1%
- The underutilisation rate (a broader measure of labour market tightness) fell 0.4%pts to 10.0% - an 11 year low.
- The unemployment rate remains within the RBNZ's estimate of full employment (a range of 4.0-4.4%), consistent with underlying inflation pressures holding close to the target mid-point and 'maximum sustainable employment'.

That said, labour market data are backwards looking. And the RBNZ will no doubt be attentive to the risk that the growth slowdown in mid-2019 could still manifest in a higher unemployment rate in the near term. Further, downside risks are in the foreground at present. While a number domestic economic indicators have improved in recent months, global economic risks related to the novel coronavirus, suggest the RBNZ will need to remain vigilant and stand ready to provide more stimulus if needed.

Some of the other details of today's release were mixed – employment growth was soft, but wages were robust and did strengthen.

Employment growth in Q4 was weak, with HLFS employment (a survey of households) flat q/q. Annual employment growth was also flat at 1.0%, and continues to move within the broad range on indicators we monitor. QES employment (from a survey of businesses) was also modest. QES filled jobs rose 0.1% q/q, with annual growth slowing from 1.1% in Q3 to 0.9%.

But offsetting the slowing in employment growth in terms of labour market capacity pressures, growth in the working-age population continues to slow. The participation rate ticked down 0.3% pts to 70.1%, but remains at a historically high level.

Data summary

		Latest
Labour market		
HLFS unemployment rate (sa)		4.0%
HLFS participation rate (sa)		70.1%
HLFS employment (sa)	q/q	0.0%
HLFS employment	y/y	1.0%
HLFS hours worked (sa)	q/q	-0.5%
QES filled jobs (sa)	q/q	0.1%
QES filled jobs	y/y	0.9%
QES paid hours (sa)	q/q	0.6%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.6%
LCI private sector wages (ex-overtime)	y/y	2.4%
QES private sector hourly earnings	q/q	0.1%
QES private sector hourly earnings	y/y	3.0%
QES private sector gross earnings	y/y	5.2%

In addition to employment, hours worked can provide an indication of economic activity and slack, though it can be noisy. QES hours paid (which tends to track GDP growth over history) grew 0.6% q/q, with annual growth lifting 0.5%pts to 1.6%. This is consistent with our current forecast of 0.5% q/q (1.7% y/y) for Q4 GDP growth. On the other hand, HLFS hours worked (which is far more volatile) posted a 0.5% q/q decline, pushing annual growth from 2.3% to just 0.5%.

Quarterly wage inflation was robust considering there were no regulated wage increases in Q4. Our preferred measure of wages – the private sector Labour Cost Index – increased 0.6% q/q, with annual growth accelerating 0.1%pts to 2.4%. Excluding minimum wage increases, this was up only 2.2% y/y, but underlying wage growth nonetheless continues to eke out gradual gains.

Public sector wage growth came in at 0.8% q/q, pushing annual growth from 3.0% in Q3 to 3.2% in Q4. Teacher, nurse, and police pay settlements have bumped up public sector wage growth in previous quarters.

Other wage measures were consistent with the theme of gradually rising wages. The all-sector LCI rose 0.7% q/q (2.6% y/y). The unadjusted private sector LCI rose 0.9% q/q (3.7% y/y).¹ QES private sector average (ordinary time) hourly earnings can be thrown around by compositional changes and tend to be very volatile, but for the record rose 0.1% q/q (3.0% y/y).

Stepping back, tightness in the labour market isn't translating into strong wage growth by any means, but underlying wage inflation has been gradually lifting. Businesses continue to report difficulties finding skilled labour, but margin squeeze and low profitability expectations appear to be dampening things.

The labour market is tight. Slowing employment growth (if capacity induced), alongside gradually rising wages, and a lower underutilisation and unemployment rate all bode well for pipeline inflation pressures.

Today's data will be incorporated into the RBNZ's February MPS forecasts (out next Wednesday), and are unlikely to have a material impact on their outlook, but they will certainly add to the stronger starting point compared to the November MPS. That said, emerging risks related to the novel coronavirus will be weighing on their thinking and assessment. Developments regarding this tragic shock are fast moving and the impacts highly uncertain. We expect the RBNZ to keep the OCR on hold at 1% next week, acknowledging these risks and emphasising their willingness to provide additional stimulus if required.

¹ 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.

Figure 1. Employment and GDP growth

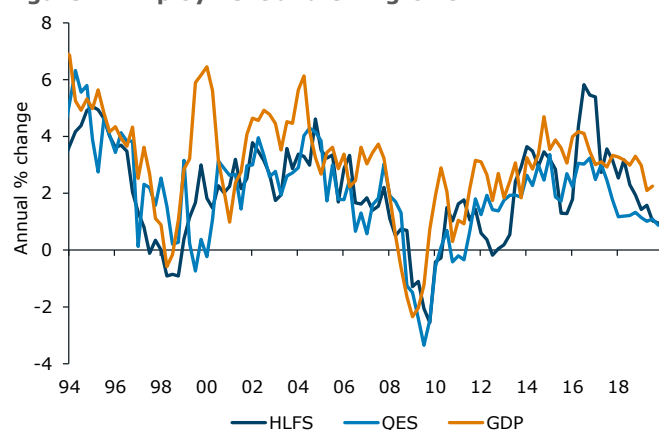
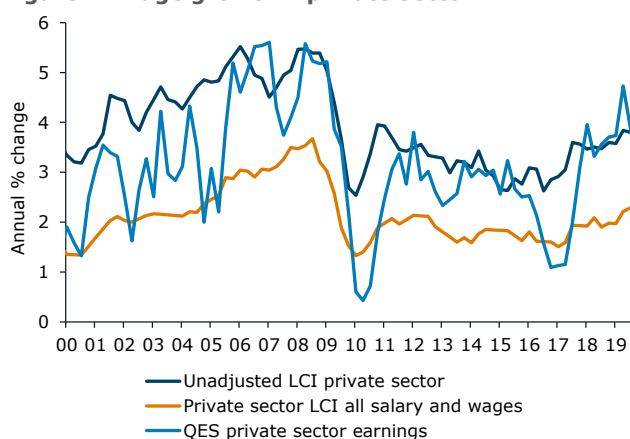


Figure 2. Wage growth – private sector



Source: Statistics NZ



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