5 February 2020

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.
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.
New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (FAA).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman’s Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law made (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People’s Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (ANZ China). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNV/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:
- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (QCB), the Qatar Financial Centre (QFC) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (Qatar); or
- authorised or licensed for distribution in Qatar, and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:
  - registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
  - authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of “accredited investors”, “expert investors” or (as the case may be) “institutional investors” (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser’s licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 12 of 2004. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA) and is permitted to offer financial services in the UAE by virtue of its licence issued by the DFSA. The financial products or services described in this document are only available to persons who qualify as “Professional Clients” or “Market Counterparty” in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (ANZ Representative Office) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

United States. Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (ANZ SI) which is a member of the Financial Regulatory Authority (FINRA) (www.finra.org) and registered with the SEC. ANZSI’s address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as “US person” is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is a FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64 9 357 4094, e-mail nzecomonics@anz.com, http://www.anz.co.nz