

Q4 Labour Market Data Preview

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Offsetting forces

- We expect the unemployment rate held steady at 4.2% in Q4, supporting a robust household sector despite the sharp slowing in economic momentum over the second half of 2019.
- Annual wage inflation is expected to come in unchanged at 2.3%.
- The labour market generally lags economic activity. Given the recent improvement in the domestic outlook, the RBNZ is unlikely to be too concerned if key labour market statistics deteriorate a little in Q4.

Key points

December quarter labour market statistics are released next Wednesday, 5 February. This will be the last major quarterly data release before the February Monetary Policy Statement on the 12th.

We expect the unemployment rate to hold steady at 4.2% in Q4. Our expectation for a stable unemployment rate accounts for several factors pulling it in different directions:

- The trend unemployment rate has drifted lower in recent years, but lifted 0.1%pts to 4.1% in Q3. This can be slow moving, but the economic backdrop suggests a step sideways is likely in Q4.
- The sharp slowdown in economic momentum in the second half of 2019 suggests capacity in the economy opened up a touch, and that would usually be expected to translate into a slight loss of momentum in the labour market.
- On the other hand, the technical-bounce element (statistical volatility) favours a dip lower from Q3's read of 4.2% (which itself bounced higher from Q2's solid 3.9% read). But – unsurprisingly – the volatility component is difficult to forecast.

Looking through the noise, we expect the unemployment rate will print comfortably within the RBNZ's estimated range for the NAIRU (Non-Accelerating Inflation Rate of Unemployment) of around 4.0-4.4%. This is consistent with the RBNZ's objectives of underlying inflation pressures holding close to the target mid-point and also achieving 'maximum sustainable employment'.

Employment growth is expected to come in at 0.4% q/q, with annual growth lifting 0.3%pts to 1.3%. Employment indicators have been a little mixed of late, with MBIE job ads falling 0.3% in Q4 but firms' reported hiring intentions lifting. Labour force participation is expected to hold steady at to 70.4% of the working-age population, a historically high level.

On the wage side, we expect nominal LCI adjusted private sector wages lifted 0.5% q/q, which would see annual wage inflation tick up 0.1%pt versus Q3 to 2.3%. The increase in the minimum wage last year continues to boost the annual figure. However, underlying wage inflation has also been slowly increasing, consistent with the tight labour market and the recent gradual lift in general inflation.

December 2019 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	4.2%	4.2%
Participation rate (sa)	%	70.4%	70.4%
Employment (sa)	q/q	0.4%	0.3%
Employment	y/y	1.3%	1.0%
Wages			
LCI private sector wages (ex-overtime)	q/q	0.5%	0.6%
LCI private sector wages (ex-overtime)	y/y	2.3%	2.2%
QES private sector hourly earnings	q/q	0.3%	0.6%
QES private sector hourly earnings	y/y	3.2%	3.9%

Looking forward, we expect the unemployment rate to remain close to current levels in the near term, before trending a little below 4% as economic activity gradually accelerates, soaking up any remaining spare capacity in the economy along the way.

Risks around our expectation for an unemployment rate of 4.2% in Q4 are broadly balanced. The labour market has shown resilience in the face of slowing economic momentum to date, and we assume that this theme continued over the December quarter. However, it's also possible that the recent growth slowdown has a more marked (and lagged) impact on the labour market than we expect. If that does turn out to be the case, the recent improvement in the data pulse should provide the RBNZ some assurance that further deterioration should be limited.

The Q4 labour market suite will be the last piece of the quarterly data puzzle before the February MPS is published. But it is unlikely to be a game changer. If it prints weak, never mind, the data is known for its volatility, and the recent improvement in the broader data pulse suggests further deterioration is likely to be limited. Conversely, a slightly stronger read would shore up confidence that the RBNZ can afford to be patient. A labour market read in the ball park of our expectation, alongside the fact that core inflation is close to the target mid-point, is consistent with our view that the OCR will be on hold at 1% for the foreseeable future as long as global risks don't crystallise.

Figure 1. Participation and unemployment rates

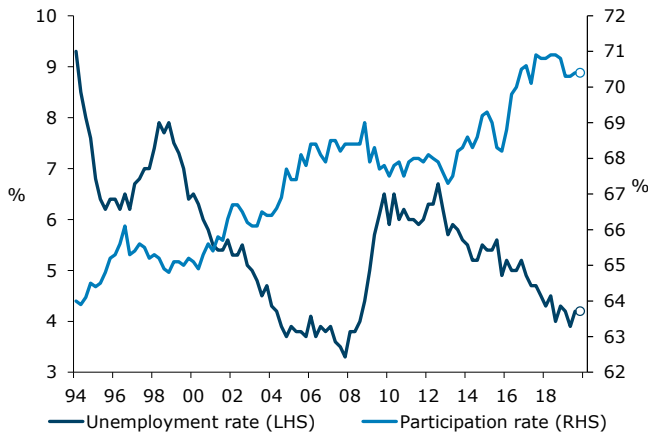


Figure 2. Employment and economic growth

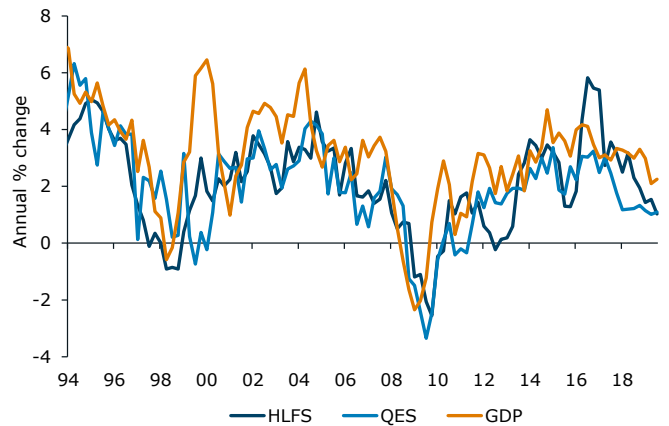


Figure 3. Employment growth and business surveys

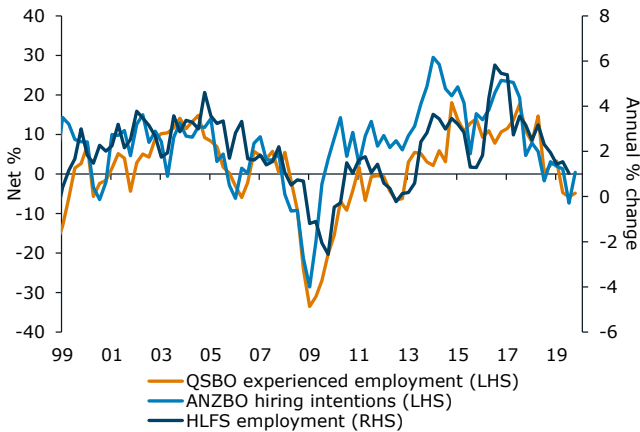
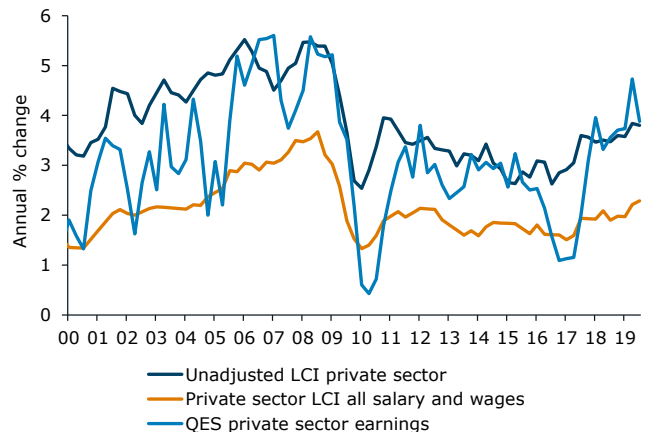


Figure 4. Measures of wage inflation



Source: Stats NZ, NZIER, ANZ Research



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