

NEW ZEALAND ECONOMICS LABOUR MARKET STATISTICS – 2016Q4

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DATA SUMMARY

			Latest
Wages			
LCI private sector wages (ex-overtime)	q/q	0.4%	
LCI private sector wages (ex-overtime)	y/y	1.6%	
QES private sector hourly earnings	q/q	0.4%	
QES private sector hourly earnings	y/y	1.1%	
QES total gross earnings	y/y	4.8%	
Employment/Unemployment			
HLFS unemployment rate (sa)		5.2%	
HLFS participation rate (sa)		70.5	
HLFS employment (sa)	q/q	0.8%	
HLFS employment	y/y	5.8%	
HLFS hours worked (sa)	q/q	1.3%	
QES filled jobs (sa)	q/q	1.2%	
QES filled jobs	y/y	3.2%	
QES paid hours (sa)	q/q	1.2%	

UPSTAGED BY SUPPLY

BOTTOM LINE

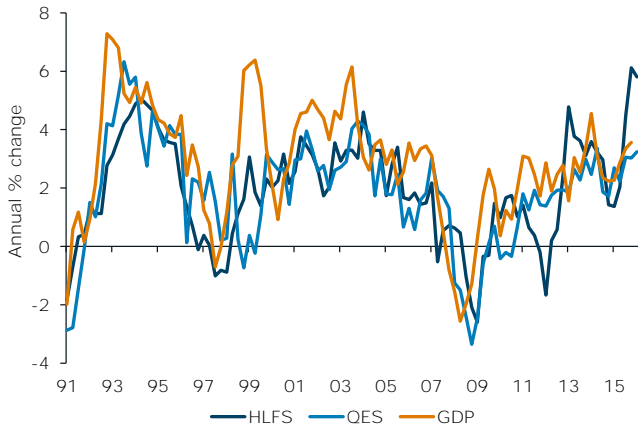
- **We were expecting today's Q4 figures to show a tighter labour market, and at face value, that was not the case.** Both the unemployment and underutilisation rates rose on the back of further strong labour supply growth, and importantly, nominal wage growth remained steady (at a low level). We do think that conditions for the latter are set to change (especially given stronger consumer price inflation) but clearly that looks set to occur gradually.
- **We believe the labour market is tighter than today's data implies.** However, given the market has been pushing the idea of the OCR potentially being lifted later this year, today's data should see it pause for thought. **The figures are certainly not weak (labour demand remains strong). But until clearer evidence of stronger wage growth emerges we doubt the RBNZ will want to front-run a tightening cycle.** Hikes still look more likely to be a 2018 story.

KEY POINTS

- **The big news in today's figures is the surprisingly lift in the unemployment rate by 0.3%pts to 5.2%.** Together with a 0.6%pt increase in the underutilisation rate to 12.8% (not seasonally adjusted), the figures are clearly at odds with business surveys and anecdote that suggest that the labour market has continued to tighten.
- **Labour demand is very strong.** HLFS employment grew a further 0.8% q/q in Q4 (5.8% y/y). Alternative demand measures, such as QES filled jobs (+1.2% q/q) and both hours worked and paid hours (+1.2% q/q and +1.3% q/q respectively) are also consistent the strong labour demand.
- **However, this was usurped by further strong labour supply growth in the quarter.** In large part due to net migrant gains, the working age population grew 0.5% q/q, and together with a 0.4%pt lift in the participation rate to an all-time high of 70.5%, the labour force grew 1.1% q/q.
- **We believe the labour market is 'tighter' than the above measures suggest.** How can it be possible that at a time of record net migration and labour force participation, firms are telling us that finding skill staff is their biggest problem? It speaks to a less efficient labour market at matching workers with jobs, and will be compounded going forward by large secular forces (technology, demographics etc). **It points to even greater dispersion in wage growth going forward.**
- **But for now, overall nominal wage growth remains steady, at a low level.** Our preferred measure of wage growth (the private sector Labour Cost Index) rose just 0.4% q/q, which left annual growth unchanged at 1.6% y/y. There was also little hint of a turn in the likes of distributional measures, although the unadjusted LCI did rise at a slightly stronger 0.9% q/q (2.9% y/y) pace.
- **Total gross earnings** (which takes into account wages, hours and employment) **also posted a solid 1.4% q/q increase** so the backdrop for labour income (and pending spending) overall remains solid.

2016Q4 LABOUR MARKET REVIEW

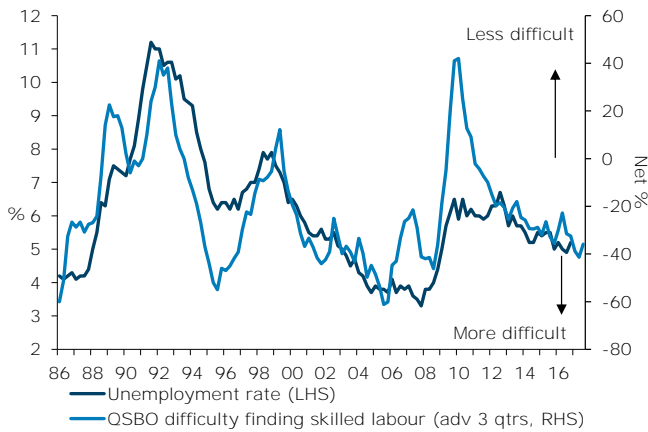
EMPLOYMENT AND GDP GROWTH



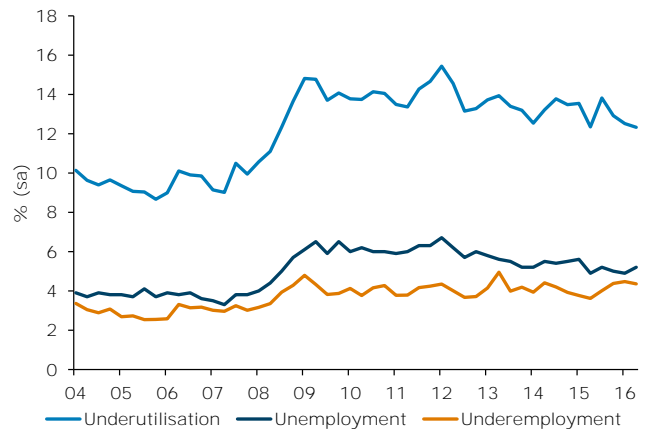
UNEMPLOYMENT AND PARTICIPATION RATES



UNEMPLOYMENT AND DIFFICULTY FINDING LABOUR



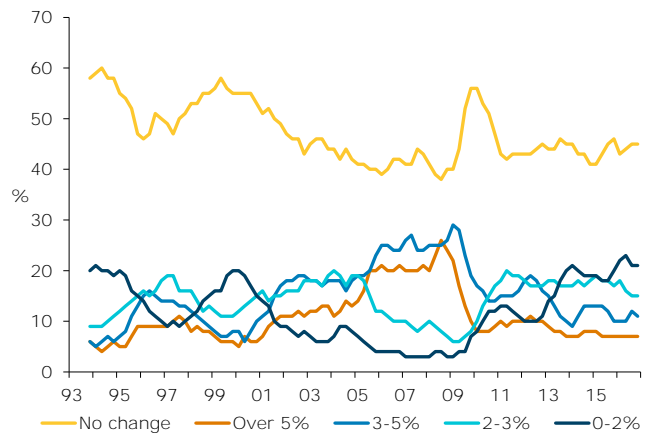
UNEMPLOYMENT AND UNDERUTILISATION RATES



WAGE GROWTH – PRIVATE SECTOR



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