A FAMILIAR STORY, MORE OR LESS

BOTTOM LINE

- The labour market remains strong, but is perhaps showing a few more signs of slowing under its own (capacity-constrained) weight.
- But despite this, signs of a sustained lift in wage pressure remain tentative at best. Some wage measures are off their lows, but are hardly lifting in a way that would suggest broader inflation pressures are about to be unleashed.
- We therefore see little in the figures to alter the RBNZ’s cautious stance towards the monetary policy outlook.

KEY POINTS

- There were many elements of the Q4 labour market figures that highlight ongoing strength and a market that is ‘tight’. HLFS employment rose 0.5% q/q, which, when considered in the context of the 2.2% q/q surge in Q3, is a decent result. The participation rate dipped only 0.1%pts to 71.0%, only a whisker below all-time highs. The unemployment rate fell 0.1%pts to 4.5%, which is a nine-year low. It is hard to put a negative spin on any of that.
- But scratch beneath the surface, and there are a few more mixed messages. Alternative measures of labour demand are showing a more modest picture. QES filled jobs rose only 0.3% q/q, with annual growth, at 1.8% y/y, the softest since Q3 2015. HLFS hours worked contracted by 0.6% q/q, while hours paid lifted a modest 0.4% q/q. At face value, these data point to either a reasonable quarter for labour productivity or a softer end for economic momentum to end the year – at this stage our money is on the latter.
- Questions remain regarding the extent of labour market spare capacity. Despite the fall in the unemployment rate, both the underemployment and underutilisation rates rose in the quarter; the latter from 12% to 12.1%, which is still historically high and down only ~3%pts from its 2012 peak. It suggests there is still a pool of labour resources available, although perhaps this speaks more to what we suspect is a mismatch between the skills firms are currently demanding and what is available.
- So while we certainly would not discount the strength in the quarter and the overall message of a strong labour market, there are a few more mixed messages in the detail. And that is not inconsistent with the likes of our flatter job ads series and firms’ hiring intentions, which have eased of late. The labour market is strong, but is perhaps beginning to slow under its own capacity-constrained weight.
- And what is also clear, and arguably the most important element of the figures, is that despite these capacity pressures, evidence of a sustained lift in wage pressures remains tentative at best – although to be fair, that is hardly a theme unique to New Zealand.
- Our preferred measure of wages – the private sector Labour Cost Index – rose just 0.4% q/q, which was below market expectations. This saw annual inflation hold steady at 1.9%, with Statistics NZ stating...
that if it weren’t for Q3’s settlement with care and support workers, it would have held at just 1.6% y/y.

- **Alternative wage measures are consistent with the stable, but modest, picture.** The public sector LCI rose 0.5% q/q (1.5% y/y). The unadjusted private and all-sector measures rose 0.8% and 0.9% q/q respectively, keeping annual growth in these measures relatively stable. Private sector average hourly earnings did rise 0.8% q/q, which lifted annual growth to 3.1% y/y, but this measure is volatile and can be thrown around by compositional issues.

- **Higher wage growth is something that we do envisage in time** – the spirit of the public policy agenda is of course also leaning in that direction. However, what is far less clear is whether this is going to be enough to offset the clear structural deflationary forces working on the economy. This, too, is a global story.

Source: ANZ, Statistics NZ
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