

NEW ZEALAND ECONOMICS

Q1 LABOUR MARKET DATA PREVIEW

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CONTRIBUTORS

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DATA SUMMARY

| | | Last | ANZ exp |
|--|-----|------|------------|
| Wages | | | |
| LCI private sector wages (ex-overtime) | q/q | 0.4 | 0.3 |
| LCI private sector wages (ex-overtime) | y/y | 1.6 | 1.7 |
| QES private sector hourly earnings | q/q | 0.2 | 0.5 |
| QES private sector hourly earnings | y/y | 2.5 | 2.8 |
| Employment/Unemployment | | | |
| HLFS unemployment rate (sa) | % | 5.3 | 5.5 |
| HLFS participation rate (sa) | % | 68.4 | 68.8 |
| HLFS employment (sa) | q/q | 0.9 | 1.0 |
| HLFS employment | y/y | 1.3 | 1.6 |

LOOKING THROUGH THE NOISE

KEY POINTS

- **Q1 labour market figures are released next Wednesday.** There will no doubt be the usual data vagaries to contend with (how the unemployment rate behaves after Q4's plunge especially), but we expect the overall message to be one of a market that is in solid health.
- **Importantly, we believe that quarterly volatility aside, the figures will show that labour market spare capacity is slowly reducing.**
- **Employment growth should be solid.** HLFS employment grew 0.9% q/q in Q4, and just like the economy itself, rebounded from weakness earlier in the year. While indicators of firms' hiring intentions have not sent a unanimous signal since then (QSBO measures eased, while ANZBO measures rose), we expect employment to be in-line, if not stronger, than Q4 growth and consistent with a decent labour demand backdrop.
- **The far bigger question is what happens on the supply side.** We already know that the working age population increased by a solid 0.7% q/q, lifting annual growth to 2.5% – an all-time high. But much will hinge on the participation rate, which surprisingly fell 0.3%pts to 68.4% in Q4. We say surprising because historical correlations suggest that at times of strong labour demand, the participation rate typically rises as well (consistent with the discouraged/encouraged worker effect). Q4 figures conflicted with that, although we are looking for the relationship to be reinstated in Q1, with the participation rate lifting back to 68.8%.
- **This should be enough to see the unemployment rate retrace some of Q4's fall,** lifting from 5.3% to 5.5%. While some may interpret that as a softer signal, we instead see it as confirmation that with the unemployment rate trending lower, labour market spare capacity is slowing reducing. It would certainly be consistent with anecdotes of labour shortages becoming a much greater issue for businesses.
- **It is with this in mind that we will be particularly interested in the wage growth figures.** No doubt, the overall levels will remain low – which is also importantly a reflection of low inflation itself. Our preferred measure, the private sector LCI, is expected to sit at just 0.3% q/q (1.7% y/y). But we will be looking at broader indicators, sectoral and regional relativities and the distribution of changes to see if any turn is in sight. It may not be evident in Q1 (wage inflation is a lagging indicator after-all), but we suspect it may not be too far away, particularly with more firms highlighting growing cost pressures.
- **The RBNZ has recently acknowledged that the labour market (and strong supply growth particularly) has played a key role in suppressing domestic inflation.** Any shift in labour market "slack" would therefore have monetary policy implications. We are certainly not expecting a step-change in Q1. But we suspect that the likes of the RBNZ's new Labour Utilisation Composite index (which we will update after the data), will hint that conditions are slowly shifting a little tighter.

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