At the eleventh hour

Bottom line

- Today’s data were undeniably stronger than expected. The unemployment rate fell sharply to 3.9%, with employment growing 1.1% q/q. Wage growth remains modest, up 0.5% q/q (1.9% y/y).

- While we are inclined to be a little wary of noise in the data, there is no question that this adds to the weight of evidence that suggests that the RBNZ has breathing room with the OCR. On balance, today’s data are a little more in line with a stick-to-the script press statement than a more dovish tone. Watching how developments unfold remains a prudent approach.

Key points

- The labour market tightened unexpectedly in the September quarter, with the unemployment rate falling to 3.9% – the lowest rate since June 2008. This was despite an increase in the participation rate to 71.1%, another all-time record.

- Unemployment is below estimates of the level consistent with maximum sustainable employment. The labour market is stretched, with difficulty finding skilled labour at an elevated level. The underutilisation rate also dipped to 11.3% – the lowest since December 2008.

- Employment growth grew a whopping 1.1% q/q to be up 2.8% y/y. HLFS employment data has been volatile of late, following changes in the survey methodology, and so there are reasons to be sceptical of this strength. But Statistics NZ say they are "confident" that this result is accurate.

- By contrast, QES filled jobs increased just 0.3% q/q, with annual growth stabilising at 1.2% y/y – far more in line with where we see underlying labour demand, with the economy having lost some steam, job ads growth having slowed, and employment intentions weak. Continuing divergence between the HLFS (which surveys households) and the QES (which surveys businesses) points to ongoing noise in the statistics. At the very least, we would not be surprised to see more volatility to come.

- Noise in the data aside, the labour market has undoubtedly been resilient in the face of downbeat business sentiment and the economy losing steam. This is expected to continue to support household spending. Trends in the labour market tend to lag the overall economy, so this doesn’t mean the labour market is immune to risks, but the strong starting point suggests it is in good stead for now.

- QES hours provide a partial gauge for some parts of GDP and grew moderately in the quarter, up 0.6% q/q (2.3% y/y). HLFS hours worked were flat (2.2% y/y). Combined with a remarkably strong employment result, this means that hours worked per person retreated in the quarter.

- Wage inflation was modest, following the minimum wage boost in Q2. Our preferred measure of wages – the private sector Labour Cost Index – increased 0.5% q/q. Annual growth moderated from 2.1% to 1.9% y/y, with last year’s care worker settlement dropping out of the annual calculation. The increase in the minimum wage on April 1 continues to boost annual growth to the tune of 0.2%pts, including some spill-over effects.
• Underlying wage inflation is weak. Excluding the minimum wage boost, wage inflation has stagnated at 1.7% y/y – a subdued rate, but up a little from recent lows of 1.6% y/y. In part this weakness relates to the subdued inflation environment. Real wages have been growing around average and real labour costs have been biting for firms, in part due to low productivity.

• Other measures of wage inflation were mixed. The all-sectors LCI was also up 0.5% q/q (1.8% y/y). Public sector wages grew 0.4% q/q (1.5% y/y). The unadjusted private sector LCI rose 0.9% q/q to see annual nominal wage moderate a touch to 3.3%.1 QES total average (ordinary time) hourly earnings rose 1.1% q/q, reflecting some payback from a weak Q2, moderating a little to 2.9% over the year. This measure can be thrown around by compositional changes and tends to be quite volatile.

• We expect that wage inflation will increase further from here. Future minimum wage increases are expected to contribute 0.2%pts to LCI wage inflation per year in coming years, including some spill-over effects to pay negotiations broadly. But the underlying wage pulse is expected to improve only gradually. We are starting to see this emerge, but only very slowly, and the labour market will need to remain strong for continued improvement to be assured.

• Today’s data were undeniably strong and give the RBNZ more breathing room to see how developments unfold. The tone of the RBNZ’s press release may reflect this strength tomorrow, although the RBNZ may also be wary of noise in the data. On balance, today’s data are a more consistent with a stick-to-the-script tone than a more dovish outcome, although the projections themselves will already be finalised and the RBNZ will, as always, emphasise the medium-term outlook and risks. We remain comfortable with our call that the OCR will remain on hold, but today’s data reaffirms that there are risks on both sides of the ledger. Waiting and watching developments remains a prudent approach.

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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.
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