

Pitching in

Q4 labour market review

- The labour market continued to strengthen in the December 2013 quarter, with the unemployment rate falling to 6% and participation in the labour force rising to near-record highs.
- Employment growth was higher than expected, although the weakness in hours worked raises questions about the rate of GDP growth over the quarter.
- Annual wage growth ticked up slightly from its lows, but with inflation set to remain subdued this year, wages are unlikely to accelerate sharply from here.

	Quarterly actual		Quarterly expected		Annual
	2013 Q3	2013 Q4	Market	Westpac	2013 Q4
Household Labour Force Survey					
Unemployment rate (s.a.)	6.2	6.0	6.0	6.1	-
Employment (s.a.)	1.2	1.1	0.6	0.6	3.0
Participation rate (s.a.)	68.6	68.9	68.6	68.6	-

Quarterly Employment Survey					
FTE employment (s.a.)	0.8	0.2	-	0.9	2.3
Hours paid (s.a.)	0.8	0.3	-	1.0	2.4
Private ave hourly earnings, ord time	1.6	0.2	0.1	0.5	2.9

Labour Cost Index					
Private sector, ordinary time	0.4	0.6	0.5	0.4	1.7
All sectors, ordinary time	0.4	0.5	-	0.4	1.6
Private, all sal & wage rates	0.4	0.6	0.5	0.5	1.7

The labour surveys for the December 2013 quarter confirm that the New Zealand economy's accelerating and broadening upturn is now finally extending to the jobs market. The unemployment rate fell to its lowest in four and a half years, numbers employed and labour force participation both rose strongly for a second straight quarter, and while wage growth remained subdued it may be nearing a turning point.

On balance the details of the surveys were a little stronger than we or the market expected, but there were enough soft patches to remind us of the hodge-podge nature of the labour market's recovery. In particular, the weakness in hours worked presents a challenge to our expectation of strong GDP growth over the quarter.

Today's results are probably neutral for a Reserve Bank that has already determined that interest rates will need to go higher this year. The fall in the unemployment rate was in line with the RBNZ's most recent forecasts, and while employment growth was surprisingly strong, rising participation will help to ameliorate concerns about the economy running up against capacity constraints. Wage pressures also seem to be tracking in line with the RBNZ's projections. On balance, this shouldn't change expectations for a 25bp OCR increase to kick off the tightening cycle in March.

Survey details: Household Labour Force Survey (HLFS)

The HLFS unemployment rate fell from 6.2% to 6.0% in the December quarter, in line with market expectations and slightly lower than our 6.1% forecast. This was the lowest rate since June 2009, and is now 1.2 percentage points below the cycle peak reached in September 2012.

The modest fall in the unemployment rate reflects the fact that a sharp rise in employment (up 1.1%) was met to a substantial degree by a rise in participation in the labour force (up from 68.6% to 68.9%). These two measures are both volatile and often move in tandem; after similarly strong gains in the

September, we'd felt there was some risk of a downward correction this time.

Indeed, the participation rate is now at its second-highest on record, topped only by a temporary spike in December 2008. Part of the upturn will be cyclical – in particular, youth participation looks to be picking up again. But there are also some structural elements that may not have run their course yet, such as the growing willingness of over-65s to remain in the workforce.

One of the less heartening aspects of the HLFS was a 0.4% decline in hours worked. This is not obviously due to a change in the composition of jobs – the rise in employment was shared across full-time (+1.0%) and part-time (+1.9%) positions. In a similar vein, there was a marked rise in the underemployment rate – a greater number of those in part-time work said that they would have liked to work more hours. That puts a mild dampener on our expectation of strong growth in production GDP over the quarter, although the historical relationship isn't particularly tight.

The Canterbury region was the star performer in the December quarter, accounting for about half of the nationwide rise in employment. Not surprisingly, the strongest growth in the region was reported in construction and manufacturing (the latter likely tied to the former); construction sector employment in the region is now 22% higher than the same time year ago. The region's unemployment rate has now fallen to 3.5%, from a post-earthquake peak of 6.5% (though still above its pre-precussion low of 2.4%).

Survey details: Quarterly Employment Survey (QES)

As an additional check on the degree of slack in the labour market, the QES provided a further note of caution about the apparent strength in the HLFS. The total number of hours paid by employers rose by just 0.3%, while full-time equivalent employment rose 0.2%. As with the fall in hours worked in the HLFS, this challenges our forecast for very strong GDP growth in the December quarter. However, it runs so counter to the tone of the other data for the quarter that we're reluctant to draw strong conclusions at this stage.

The QES's volatile average wage measure rose by just 0.2%, following a 1.6% rise in the September quarter. That was still enough to lift the annual rate of growth to 2.9%, the highest in just over a year.

Survey details: Labour Cost Index (LCI)

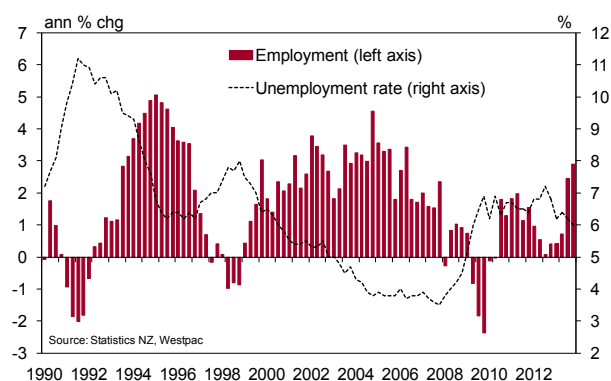
Our preferred measure of New Zealand wage inflation is the LCI, which is less volatile than the QES measure and less distorted by changes in the job mix or labour productivity. Private sector wage growth was a little stronger than we expected, ticking up slightly to 1.7% over the year to December.

However, the pace of growth remains fairly low; the degree of slack in the labour market and soft inflation outturns over 2012-13 are likely to have weighed on recent pay reviews. Only 54% of those surveyed reported receiving a pay increase in the last year, and within that group the average increase was 3.1% – the lowest figure since March 2000. We expect wage growth to gradually pick up as the economy strengthens, but with observed inflation likely to remain subdued this year, we suspect that most workers will still struggle to negotiate substantial pay increases.

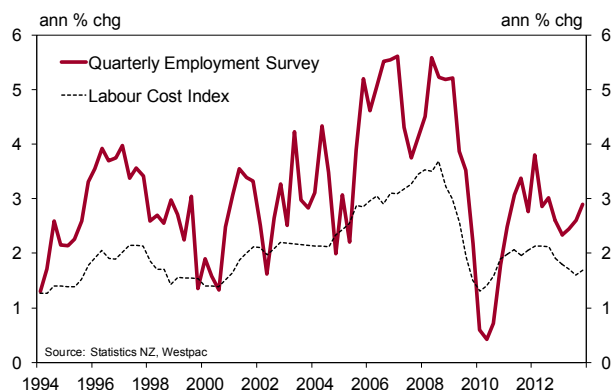
The surge of construction workers in the Canterbury region has had a marked impact on wage pressures. Construction sector labour costs in the region are still rising faster than in the rest of the country, but the annual rate of increase has slowed to 2.8%, compared to a peak rate of 4.3% in the year to March 2013. Rising wages have attracted more workers to the region, which in turn is helping to alleviate the upward pressure on wages – in other words, market forces have worked.

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Household Labour Force Survey



NZ LCI and QES wages



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