Economic Note

Q4 2019 Labour Market Preview

30 January 2020

Job stability

- Q4 jobs data to confirm economy remains close to full employment
- Another reason the RBNZ can rest easy for now
- But an expected creep higher in unemployment over 2020 warns against complacency

Q4 Labour Market Forecasts			
HLFS	**ASB**	Prior	RBNZ
Employment growth (QoQ)	0.3	0.3	0.4
Employment growth (YoY)	1.2	1.0	1.3
Unemployment Rate (%)	4.2	4.2	4.2
Participation Rate (%)	70.3	70.4	70.5
Labour Cost Index			
Private Sector (%, QoQ)	0.5	0.6	0.5
Private Sector (%, ann)	2.3	2.3	2.3

Summary and implications

Jobs growth and wage inflation are expected to have broadly stabilised in the fourth quarter, with the unemployment rate unchanged at 4.2% (data released 5 February). A result on expectations would confirm the RBNZ is continuing to meet its “maximum sustainable employment” objective – half of its mandate. Last week’s CPI figures confirmed the Bank is also meeting the other half.

This being the case, we doubt the RBNZ will be reaching for the interest rate lever anytime soon. But we don’t think the Bank can rest easy just yet. We continue to forecast unemployment settling a little higher than the Bank’s expectations over 2020. This, coupled with our belief that the NAIRU (non-accelerating inflation rate of unemployment) is closer to bottom than the top of the RBNZ’s estimated 4.0-4.4% range, means the labour market might actually drift into territory on the slacker side of neutral later in the year.

We are still forecasting a 25bps RBNZ rate cut in May, but continue to acknowledge the risk that last year’s 75bps of cuts have done enough to support the economy.

Another slow quarter for jobs growth

The labour market softened a touch in the September quarter, as the lagged impacts of the broader economic slowdown were brought to bear on the jobs market. Employment growth throttled back to 1% yoy and the unemployment rate lifted to 4.2%. Our forecasts for Q4 essentially have the labour market consolidating in this marginally softer state.

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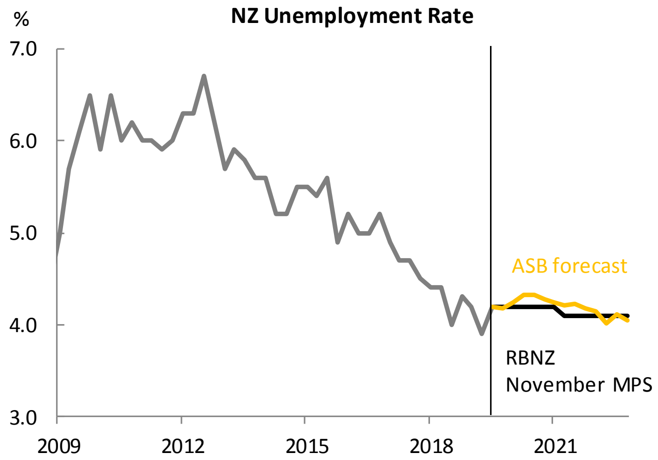
We expect employment growth of 0.3% qoq (1.2% yoy), with partial indicators suggesting Q4 was another sub-par quarter for hiring. Firms' employment intentions suffered through 2019 amid generalised economic uncertainty, and this was reflected in the likes of jobseeker data revealing an increase in folk seeking support. Still, we think enough jobs were added over Q4 to keep the unemployment rate steady at 4.2%, assuming a tick down in the participation rate to 70.3% (from 70.4%).



Notably, these numbers are all relatively similar to the RBNZ's own expectations. And, if our forecasts are correct, it would essentially confirm the RBNZ is continuing to meet its "maximum sustainable employment" objective – one half of its mandate. Last week's CPI figures confirmed the bank is also meeting the other half. Headline inflation and most core inflation measures are clustered around the 2% midpoint of the RBNZ's inflation target. We think they will stay there for the next year or so.

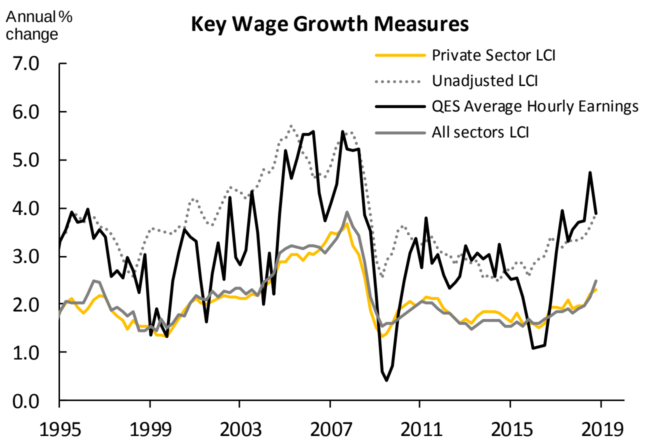
This all being the case, we doubt the RBNZ will be reaching for the interest rate lever anytime soon. But we don't think the Bank can rest easy just yet. We continue to forecast unemployment settling a little higher than the Bank's expectations over 2020 (see chart). This, coupled with our belief that the NAIRU (non-accelerating inflation rate of unemployment) is closer to bottom than the top of the RBNZ's estimated 4.0-4.4% range, means the labour market might actually drift into territory on the slacker side of neutral later in the year.

Upturn in wage growth to take a breather

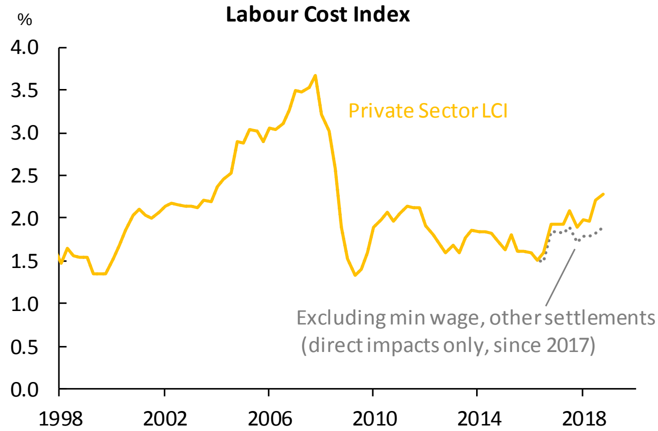
Wage inflation has shown clearer signs of an upswing over the past few quarters. The most closely watched measure – wages and salaries from the private sector LCI – lifted to 2.3% yoy in September, a 10-year high. Broader measures capturing 'raw' (unadjusted) wage growth are running around 4% (see chart below), and have experienced an even larger increase over the past year.

This will have pleased the RBNZ, albeit a decent chunk of the pick-up in wages looks to have come via legislated (e.g. minimum wage) increases or other one-off settlements. An attempt to strip these out (as in the chart), blunts much of the recent lift, and wage inflation drops back into the 1.5-2% area it's been ambling along at since the GFC.

We also expect the uptick in wage inflation to take a breather over the next couple of quarters. First, the softer state of the economy and labour market over late 2019/early 2020 is expected to exert some restraint. Second, there were no major wage settlements in the December 2019 quarter (and nothing has been announced so far in Q1). As such, we're expecting a trend-like 0.5% increase in the private sector Labour Cost Index in December. This would hold the annual rate at 2.3% yoy. 'Raw' measures should ease a little.



Source: Stats NZ, ASB



Source: Stats NZ, ASB

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