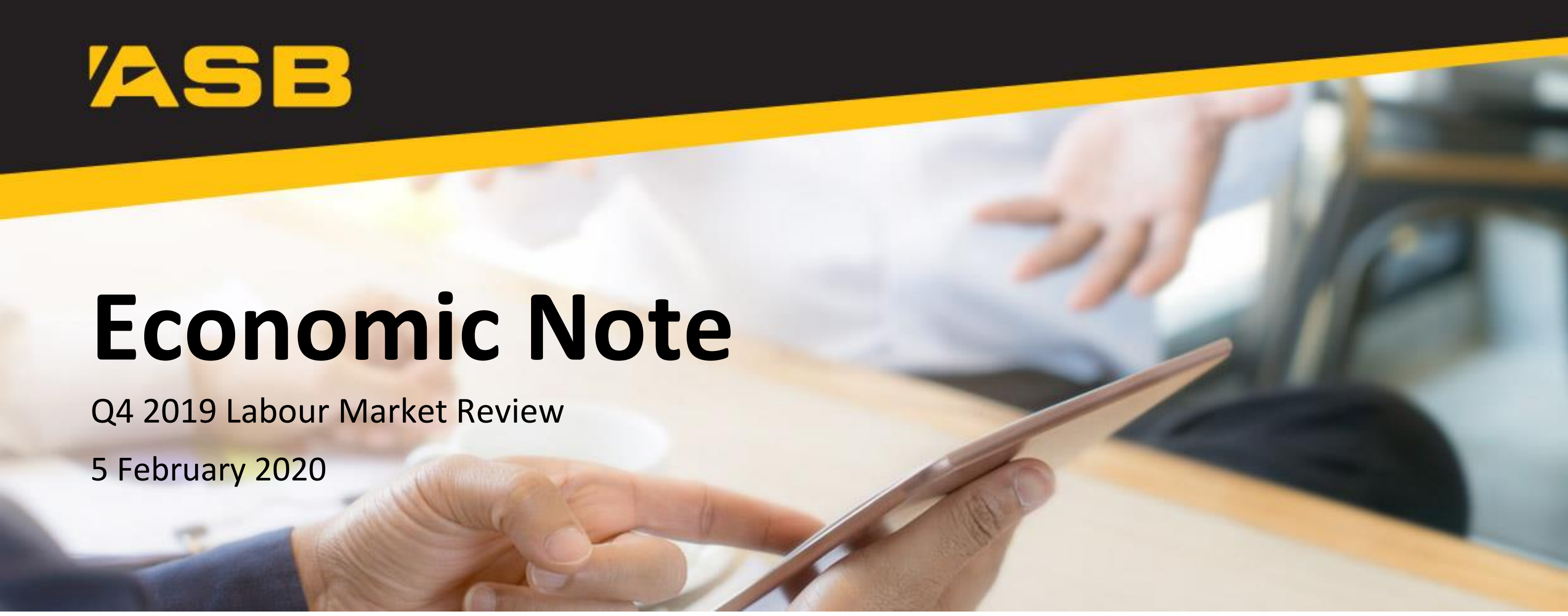

Economic Note

Q4 2019 Labour Market Review

5 February 2020

Thank You, Next

- The NZ labour market ended 2019 in a slightly stronger position than most expected.
- The RBNZ is nailing its labour market and inflation objectives, but this is quickly being overtaken by recent events, namely the coronavirus (hence the lack of market reaction today). We also remain wary of the potential for some slackening in the labour market over 2020.
- As a result, we are keeping our call for a 25bps rate cut in May for now, while continuing to acknowledge the risk the RBNZ has already done enough to stimulate the economy.

Household labour Force Survey	Actual	ASB	Market
Employment growth (QoQ)	0.0	0.3	0.3
Employment growth (YoY)	1.0	1.2	1.2
Unemployment Rate (%)	4.0	4.2	4.2
Participation Rate (%)	70.1	70.3	70.4
Labour Cost Index			
Private Sector (%, QoQ)	0.6	0.5	0.5
Private Sector (%, ann)	2.4	2.3	2.3

Summary and implications

Looking through the usual oddities and bumps, today's Q4 data showed the labour market ended 2019 in a stronger position than both we and the RBNZ expected. This very much plays with the grain of recent domestic economic data showing the economy had recovered to be in reasonable health by the end of last year, and was perhaps starting to pick up.

For the RBNZ, it was another confirmation that it is nailing its "maximum sustainable employment" objective. Core inflation is also around target. If it hadn't been for the outbreak of the coronavirus, we suspect the Bank would be soon moving to a more neutral policy bias. But with the virus impacts still evolving and unclear we think the RBNZ will keep its powder dry at next week's meeting (watch for our preview on Friday). Our forecast for a May 25bps RBNZ rate remains, albeit we continue to acknowledge the risk that last year's 75bps of cuts have done enough to support the economy.

Jobs market is tight, but Q4 data overstates the case

Jobs growth was soft in Q4. Employment growth was flat, a little below our and RBNZ expectations for a modest 0.3% qoq expansion. Annual growth held at just 1.0%, highlighting the impact of the 2019 economic slowdown on the employment market. Once again a decline in part-time employment was a feature. In fact, the share of part-time workers in the labour force, at 19.6%, is now at the lowest level since 1990.

Employment measures from the Quarterly Employment Survey (QES), which surveys employers rather than workers,

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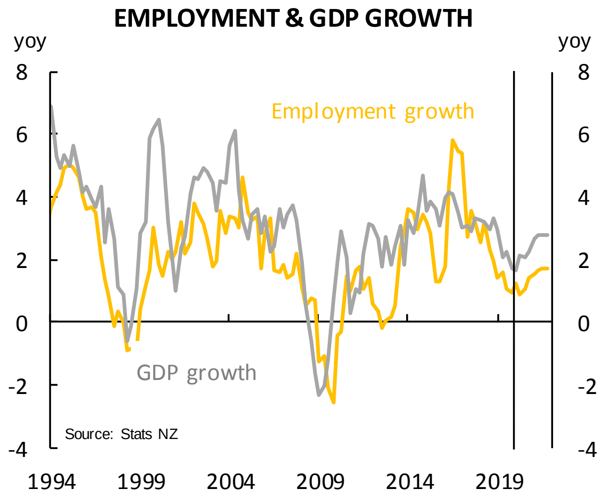
were a tad mixed, but generally supported the notion Q4 was a sub-par quarter for hiring. Filled jobs rose just 0.1% qoq while paid hours were a little stronger at 0.6% qoq.



The more important takeaway from today's data was that, despite no jobs growth in Q4, the labour market actually tightened. Unemployment fell from a downwardly revised 4.1% in Q3, to 4.0%. The underutilisation rate – another important measure of labour market stretch the RBNZ looks at closely – fell sharply for the second straight quarter, to an 11-year low of 10%.

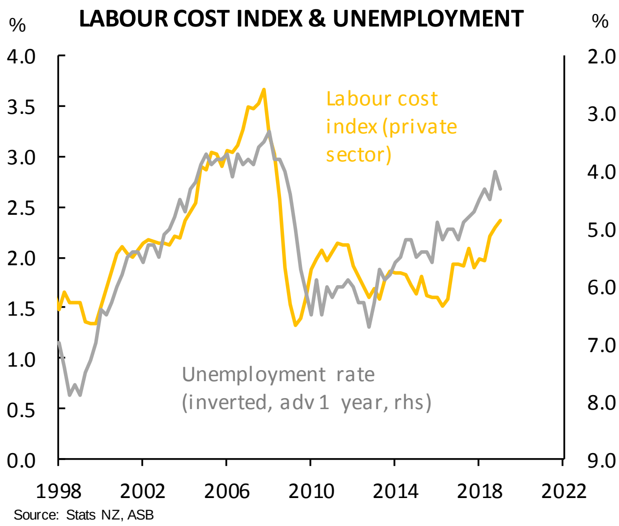
We're quick to note that the labour market is probably not quite as tight as a 4.0% unemployment rate would imply. A reasonable fall in labour supply, via a 0.3 percentage point reduction in the labour force participation rate (to 70.1%), was the main reason the unemployment rate fell in Q4. No jobs growth and a bunch of workers leaving the labour force are hardly positive signs.

Regardless, smoothing through the last four quarters of the (notoriously choppy) HLFS puts the average unemployment rate for the past 12 months at 4.05%. The inference is that the labour market has broadly stabilised along the lines of our and RBNZ expectations. It's just that it appears to have stabilised in a slightly tighter state.

A recent RBNZ analytical note highlighted the usefulness of watching average hours worked per person as an important cyclical indicator of the labour market. The Bank observed that "during a downturn, firms tend to adjust the hours worked by their staff first, before resorting to letting them go". Thus, any falls in average hours could be a sign of a deepening economic downturn. This was no sign of this in today's data. Average hours worked per person held at 34 hours/week, as it has for the past two years.

Wage pick-up continues

The tight state of the labour market was reinforced in today's wage data too which, on the whole, were a smidge stronger than expected. However, we wouldn't overstate the case. According to the key private sector Labour Cost Index (LCI), wage inflation hit a fresh 10-year high of 2.4% (0.6% qoq, ASB: 0.5%). The disaggregated data showed wage increases for the quarter were fairly widespread and even, with another 1.4% quarterly increase for health care workers the only outsized move of note. As expected there were no major or one-off wage settlements impacting the data, for the first time in a while.



Wider wage measures eased a little as expected. Average hourly earnings from the QES eased from 4.2% to 3.6% yoy and the unadjusted LCI held at 3.9% yoy. The median wage increase from the LCI slipped to 2.6% from 3.0%.

Market Reaction

For markets, it was a clear case of thank you, next. Focus is firmly on the evolving coronavirus situation. Wholesale interest rates rose a couple of bps following the data, having already opened on the front foot following the lift in yields in offshore markets. The NZD/USD barely moved.

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