

## Jobless rate rises, but more people in work

- Unemployment rate moves back up to 5.2%, driven by the 0.4%pt increase in the participation rate to 70.5%.
- Employment grew 0.8% qoq, slightly stronger than expected.
- Wage inflation muted on some measures, but not too far from estimates.

### Summary

**Q4 Employment growth remained healthy.** Jobs growth was driven by full-time work, generally seen as a vote of confidence by employers. **The key surprise was a further lift in labour force participation to a fresh record, which is the reason for the lift in the unemployment rate.** The combination of strong migration inflows and a high willingness to work continues to strongly boost the supply of workers. **Wage growth was fairly benign, with little sign of growing inflation pressure,** and the surprising elasticity of labour supply will keep wage-driven inflation side-lined in the near term at least.

**We continue to expect the RBNZ to hold the OCR at 1.75% at next week's MPS, with the underlying data showing the labour market is still robust despite the uplift in the headline unemployment rate.** But, just as there are no grounds to cut the OCR, equally there is no reason to expect hastened OCR increases. We expect the RBNZ to be on hold for an extended period, to late 2018.

### Employment details

**Although the unemployment rate has lifted to 5.2%, the underlying data still show a robust economy.** One of the key drivers of the increase was **the lift in the labour force participation rate, to 70.5% from 70.1%, marking another new record high.** Employment itself also grew, adding another 0.8% (just above our 0.7% forecast). That outpaces the 0.5% increase in the working age population, driven by natural expansion and migration.

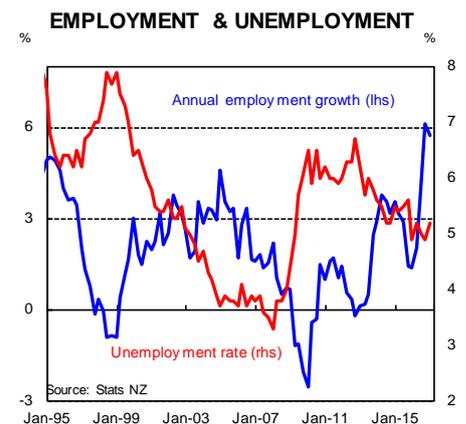
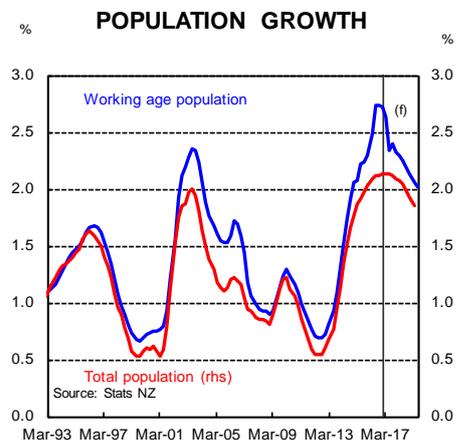
In addition, the division between full- and part-time labour also signalled underlying strength. **The number of full-time jobs expanded by 32,000, against a 12,000 drop in part-time employment.** The three main areas of employment growth were retail trade, accommodation and food services. The last 2 of that list likely reflect the continued tourism boom, both domestic and international. Construction continues to expand, with an additional 17,000 new roles. However, some caution does need to be exercised with sector numbers, as the changes to the HLFs continue to make themselves felt, with the prior 2 quarters containing many people employed in an 'unspecified' industry.

The Quarterly Employment Survey also shows **the number of full-time equivalent workers increased yet again, up 1.0% qoq,** reinforcing the underlying picture of healthy job creation.

**At this stage it does not look as if there has been a major impact on measured employment from November's earthquake,** with the number of persons employed increasing and even more new entrants to the market.

### Wage details

**Wage growth, as measured by the Labour Cost Index, maintained its 1.6% annual growth rate for the private sector,** with quarterly growth of 0.4% for the 6th consecutive quarter. That quarterly growth was a touch below market expectations, though quite close to our 0.45% forecast. The strong growth in labour supply appears to be keeping wage growth in check. **Overall labour cost growth slowed a touch, to 1.6% yoy from 1.7%,** after public sector roles saw a slower quarterly labour cost increase of 0.5%, down from 0.7% last time out.



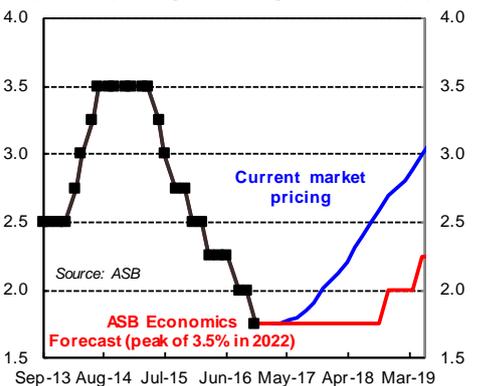
When measuring wages under the Quarterly Employment Survey definitions, the picture is a touch less strong. Private sector ordinary time wages actually ticked down 0.3% qoq, slowing the annual pace to just 1.1%, a low since Q3 2010. Total wages for all sectors, including overtime, declined 0.1% qoq, dragging the annual measure to just 1.3%, again the lowest increase since Q3 2010. Note, the QES measure also takes into account changes in job composition and skill levels and, thus, the wage measure can get knocked around by changing workforce composition. Wage growth by industry shows that Forestry & Mining is the sector to be in, with wages up 7.9% qoq, while retail was up 1.4% qoq. Surprisingly, construction wage growth was -0.8% qoq, the largest drop in at least 3 years. However, filled jobs in construction did still increase 9.0% qoq, suggesting still-plentiful demand and supply in the sector.

The RBNZ recently constructed a Labour Utilisation Composite Index (LUCI) to help understand the degree of tightness in the labour market. This measure looks at a range of market indicators over and above the unemployment rate (which can be pushed around by fluctuations in the participation rate as we saw in this release). According to our estimate of LUCI for Q4, the tightness in the labour market eased slightly over the quarter, which implies less upward pressure on wages. As a result, this reinforces the fact that there is likely to be little urgency from the RBNZ to lift the OCR any time soon.

LABOUR UTILISATION COMPOSITE INDEX



OCR FORECASTS (ASB vs pricing of overnight index swaps) %



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