

The force is strong with this one

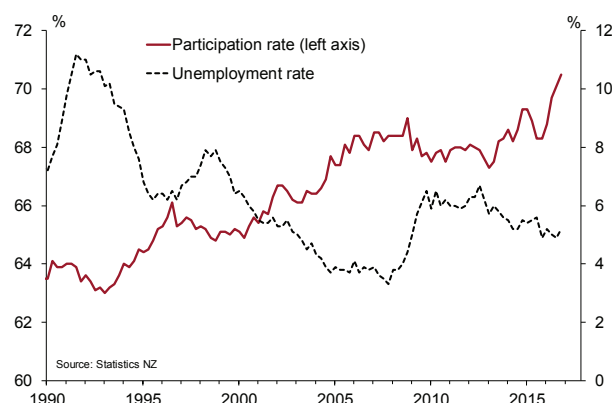
Q4 2016 Labour Market Review

- The unemployment rate rose to 5.2% in the December quarter, against analysts' expectations for a small fall.
- But rather than signaling a deterioration in economic conditions, the rise in the unemployment rate was due to continued strong growth in the labour force. This has been underpinned by strong growth in New Zealand's population and a record level of labour force participation.
- The December quarter saw firm growth in employment and hours worked, slightly better than expectations.
- Wage inflation remains muted, as expected.
- Today's data have limited implications for the RBNZ.

The number of jobless has risen as more people enter the labour force

New Zealand's unemployment rate rose to 5.2% in the December quarter (up from 4.9% in September). That took the unemployment rate back to the level it was in March 2016.

Labour force participation and unemployment



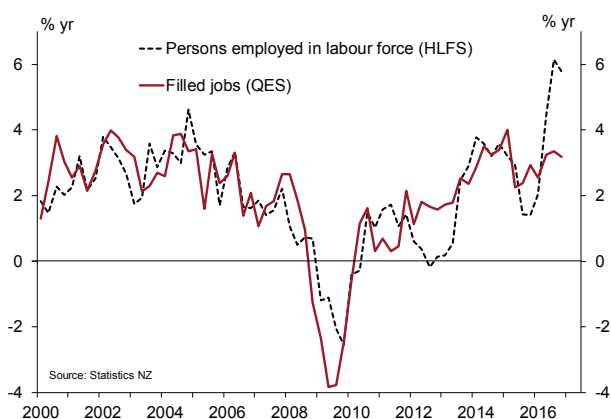
	Quarterly actual		Quarterly expected		Annual
	2016 Q3	2016 Q4	Market	Westpac	2016 Q4
Household Labour Force Survey					
Unemployment rate (s.a.)	4.9%	5.2%	4.8%	4.8%	-
Employment (s.a.)	1.3%	0.8%	0.7%	0.6%	5.8%
Participation rate (s.a.)	70.1%	70.5%	70.2%	70.2%	-
Quarterly Employment Survey					
FTE employment (s.a.)	0.9%	1.0%	-	0.8%	3.2%
Total weekly hours paid (s.a.)	1.3%	1.2%	-	0.5%	3.4%
Private ave hourly earnings, ord time	0.5%	-0.10%	0.6%	0.4%	1.3%
Labour Cost Index					
All sectors, ordinary time	0.4%	0.4%	0.5%	0.4%	1.6%
Private sector, ordinary time	0.5%	0.4%	-	0.4%	1.6%
Private, all salary & wage rates	0.4%	0.4%	0.5%	0.4%	1.6%

Analysts, including ourselves, had expected the unemployment rate to fall in the December quarter. However, the rise in the unemployment rate does not signal that economic conditions are deteriorating. Strengthening economic activity and the related increases in employment opportunities have enticed increasing numbers of people to enter the labour market. On top of this, large numbers of working age people have entered the country over the past year (including returning New Zealanders). Combined, these trends have seen New Zealand's labour force growing by 29,000 over the past three months, with the participation rate rising 0.4 pts to a new record high of 70.5%.

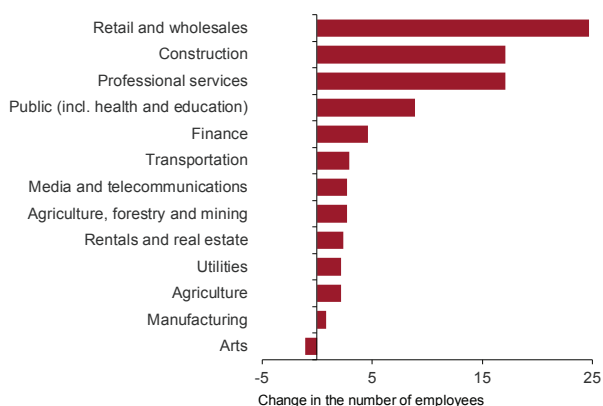
Employment growth remains healthy

The underlying detail of the December quarter Household Labour Force Survey (HLFS) pointed to solid demand for workers. Over the December quarter employment levels rose by 0.8%, with hours worked up 1.3%. That continues the run of positive employment growth seen since late 2015, and it reinforces the picture of an economy that is continuing to chug along.

Jobs growth



Employment growth by sector, December quarter



Methodological changes introduced in the June quarter have made it a little more difficult to interpret the HLFS data. However, the employer focused Quarterly Employment Survey (QES), which was also released today, told a consistent story of labour market strength. It showed that the number of full-

time employees in the economy rose 1% over the quarter, with a solid 1.2% lift in the number of labour hours.

Jobs growth has been widespread across the regions, with particularly strong gains in Auckland, the Bay of Plenty and Canterbury. By sector, jobs growth has been centred on the retail, construction and professional services sectors, but it has been seen across most parts of the economy.

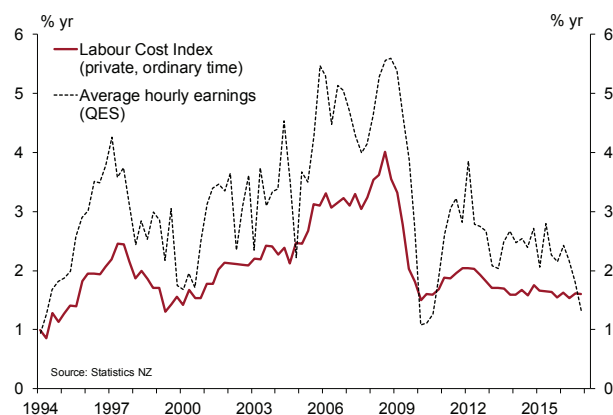
Wage growth remains muted

While labour demand continued to strengthen in the latter part of 2016, this has not yet translated into stronger nominal wage growth. The headline LCI index rose 0.4% in the quarter, leaving annual wage inflation on this measure at 1.6% (in line with expectations and largely unchanged over the past year). Meanwhile, the broader QES measure of average hourly earnings actually fell 0.1% over the quarter, and on an annual basis, this measure of earnings growth has fallen to its slowest pace since 2010.

Two key factors have weighed on wage growth in recent years. First is the low level of consumer price inflation, which has meant that cost of living adjustments to wages have been limited. Next is the state of the economy, with the unemployment rate trending down only gradually as growth in the labour force has helped to meet labour demand.

Conditions on both of the above fronts have been evolving, and a pick-up in wage inflation is likely over the coming year. Consumer prices have already picked up. In addition, continued growth in economic activity has seen the demand for workers growing, with business highlighting increased difficulty with finding suitable labour.

Earnings growth



Implications

We doubt today's data will be a big surprise for the RBNZ, especially with wage inflation remaining modest. We continue to expect an on hold decision from the RBNZ at next week's February *Monetary Policy Statement*. We'll be releasing a preview of the RBNZ's Statement later this week.

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