There and back again

NZ labour market review, December quarter 2018

7 February 2019

- New Zealand's unemployment rate rose in the December quarter, reversing most of the surprise fall seen in the September quarter.
- The labour market has gradually tightened over the past year, but the pace of improvement is slowing.
- The pick-up in wage growth appears to be still in the early stages.
- The Quarterly Employment Survey increased the risk of a weak December quarter GDP result.
- Combined with other recent data, this makes it clear that the New Zealand economy lost momentum in late 2018.

The sharp drop in New Zealand's unemployment rate in the September quarter always looked ripe for a reversal. As such, today's survey results were only a little weaker than we anticipated. But the bottom line is that they were weaker.

The unemployment rate rose to 4.3% in the December quarter, following an upwardly revised 4.0% in September and 4.4% in June. We noted at the time that the September quarter result was largely due to an unprecedentedly large fall in youth unemployment, which looked more likely to be sampling error. The latest results bear that out – youth unemployment more than reversed its previous fall, even as unemployment for older workers ticked down slightly.

Smoothing over the September quarter result, the data points to a modest improvement in labour market conditions over the last year. Employment growth of 2.3% was only slightly ahead of the 2.0% growth in the working-age population. And with labour force participation remaining at a high level, the unemployment rate is just 0.2 percentage points lower than it was a year ago.

Stats NZ noted that some of the results of the Household Labour Force Survey (HLFS) should be treated with caution. The latest quarter included the Survey of Working Life, an additional set of questions for workers. In the past, there's been a tendency for some workers to say that they are no longer in the labour force in order to avoid answering the

	Quarterly actual		Quarterly expected		Annual
	Q3	Q4	Market	Westpac	Q4
Household Labour Force Survey					
Unemployment rate (s.a.)	4.0	4.3	4.1	4.2	-
Employment (s.a.)	1.0	0.1	0.3	0.2	2.3
Participation rate (s.a.)	71.0	70.9	71.1	71.0	-
Quarterly Employment Survey					
FTE employment (s.a.)	0.5	0.4	-	0.6	2.1
Hours paid (s.a.)	0.5	0.1	-	0.6	2.1
Private avg hourly earnings, ordinary time	1.4	1.0	0.8	0.7	3.7
Labour Cost Index					
Private sector, ordinary time	0.5	0.5	-	0.6	1.9
All sectors, ordinary time	0.5	0.5	0.6	0.5	2.0
Private sector, all salary & wage rates	0.5	0.5	0.6	0.5	2.0

survey. Stats has made some adjustments to the high-level results (but not the detailed breakdown) to account for this effect. However, the scale of those adjustments will be reviewed once we get another 'normal' survey in the March quarter.

While this doesn't give us reason to dispute the December quarter HLFS results, it does make it even more important to cross-check it with the Quarterly Employment Survey (QES), which surveys employers rather than households. The QES confirms that the December quarter was soft for employment, with filled jobs up 0.3% and hours worked up just 0.1%.

The weakness in jobs growth in these surveys increases the risk of a soft December quarter GDP result, especially since the QES goes directly into GDP as the measure of activity for some services sectors. Our preliminary forecast for GDP growth was 0.8%, but with the QES and other recent indicators, it now looks like it may not be much different from the weak 0.3% rise in the previous quarter.

The rebound in the unemployment rate also means it's less obvious that the labour market is in inflationary territory. In keeping with that theme, the pick-up in wage growth has remained very gradual to date. The Labour Cost Index (LCI) rose by 0.5% for the quarter, with annual growth up slightly to 1.9%. That's an improvement from the 1.6% pace that prevailed a few years ago, though some of that is due to government-directed pay increases such as the nurses' pay settlement and the bigger minimum wage hike this year. The more volatile QES measure of average hourly earnings saw a more robust 1% rise, with annual growth ticking up slightly to 3.7%.

For the Reserve Bank, today's surveys will be at most a small negative factor. The RBNZ didn't have time to incorporate the September quarter results into its November Monetary Policy Statement forecasts, so the unwind in the December quarter unemployment rate largely puts it back where the RBNZ expected it to be. However, the prospect of another weak GDP result will be of more concern.

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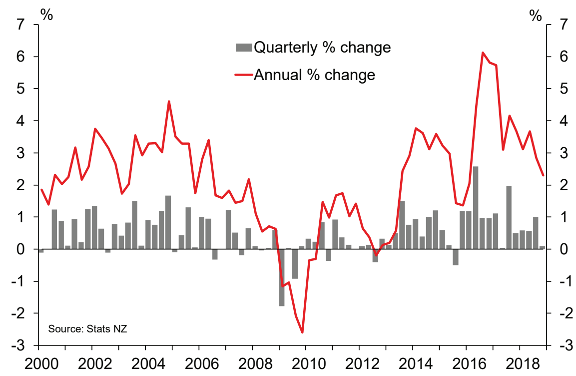
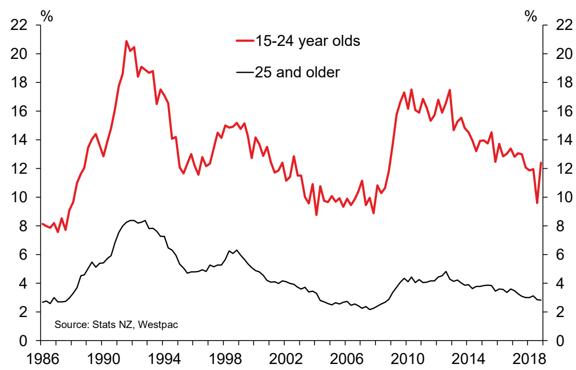
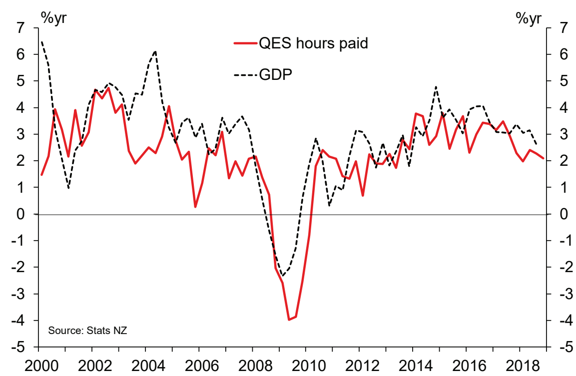
Employment growth



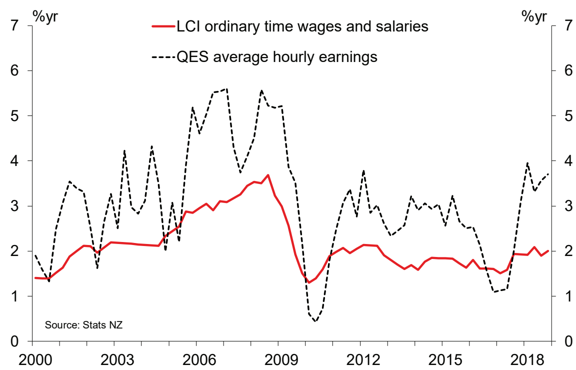
Unemployment rates



Hours paid and GDP, annual growth



Private sector wage growth



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