Economic Bulletin.

30 January 2020

Preview of Q4 labour market surveys: 5 February, 10:45am.

- We expect the unemployment rate to hold steady at 4.2% in the December quarter.
- Economic growth has slowed, but from above-trend to around its trend pace.
- This is consistent with a flattening out in unemployment, rather than a softening.
- Annual wage growth is expected to remain at a 10-year high. There were no special factors such as public sector pay settlements in the December quarter.
- The economy is running close to the Reserve Bank's assessment of 'maximum sustainable employment'. The RBNZ will be wary of any softening in the labour market outlook this year, but we don't expect next week's releases to provide a catalyst for further interest rate cuts.

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	Q3 actual	Q4 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	4.2	4.2	-
Unemployment rate	0.3	0.3	1.3
Participation rate	70.4	70.4	-
Quarterly Employment Survey			
FTE employment	0.3	0.3	1.5
Hours paid	0.4	0.3	1.2
Private avg hourly earnings	0.6	0.6	3.5
Labour Cost Index			
All sectors, ordinary time	0.8	0.5	2.5
Private sector, ordinary time	0.6	0.5	2.3
Private, all salary & wage rates	0.6	0.5	2.3

We expect next Wednesday's labour market surveys for the December quarter of 2019 to tell a similar story to the previous quarter. The economy has been growing at a middling pace, consistent with little change either way in the unemployment rate from its current level of 4.2%, and there were no distortionary factors that we know of during the quarter.

Our forecasts are in line with what the Reserve Bank expected in its November *Monetary Policy Statement*. At that time, the economy seemed to be running at around 'maximum sustainable employment', as set out in the RBNZ's policy remit – in fact the balance of the labour market indicators that the RBNZ looks at was slightly on the hot side. Any softening in the labour market outlook this year could be a catalyst for further interest rate cuts, but we don't expect next week's releases to support such a move in the near term.

Forecast details.

For the Household Labour Force Survey (HLFS), we expect the unemployment rate to hold steady at 4.2%. The economy has slowed from an above-trend pace of growth up to 2018, to around trend growth in 2019. That's consistent with a stalling in the rate of improvement in the labour market, rather than a softening.

Indicators for the December quarter were mixed. On the downside, job advertisements were down slightly for the quarter and well down on a year ago. However, this captures only part of the picture: it doesn't tell us anything about job losses, and it can reflect the rate of churn in existing jobs as well as the creation of new jobs.

On the more positive side, Stats NZ's new monthly employment indicator (which was launched at the end of last year) suggests that jobs growth maintained a steady pace throughout 2019. This indicator is still in its early stages though, and could be subject to future revisions (indeed it was revised substantially higher on its second release in January).

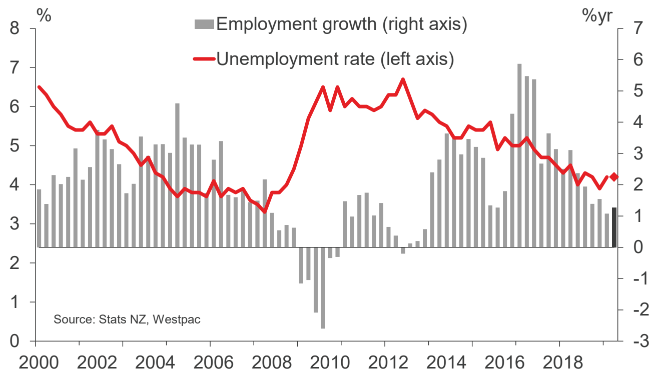
Business confidence surveys also showed a mild improvement in hiring intentions compared to the previous quarter. However, they were still at a lower level than in previous years.

The Quarterly Employment Survey (QES), which covers employers, provides a useful cross-check to the household survey on the pace of jobs growth. It also tends to correspond more closely with the rate GDP growth – although the historical revisions to GDP at the end of last year have weakened that relationship somewhat. We expect both the HLFS and the QES to record modest jobs growth of 0.3% for the quarter.

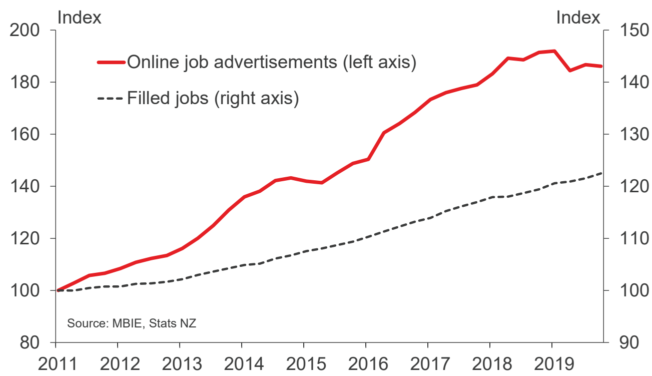
An unemployment rate in the low 4's is close to what we would consider to be 'neutral' – that is, consistent with neither a slowdown nor an acceleration in wage growth. For the Labour Cost Index (LCI) we expect a 2.5% rise in wage rates compared to a year ago (2.3% for the private sector), maintaining the 10-year high in wage growth that was reached in September.

Higher wage growth is not just a reflection of a tighter labour market, it's also been boosted in recent times by Government actions – both interventions in the private sector such as minimum wage hikes, and large pay settlements for public sector workers. To our knowledge none of those factors took effect in the December quarter, which means that it should provide a relatively clean read on the strength of wage pressures. We expect a 0.5% rise in both public and private sector wages for the quarter itself. (In contrast, the QES measure of earnings will be affected by the primary teachers' wage settlement, which was agreed but hadn't started being paid out at the time of the September quarter survey.)

Unemployment rate and employment growth



Employment indicators



Wage growth (all sectors, ordinary time)

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