

Steady as she goes

Q4 Labour Cost Index and Quarterly Employment Survey

- Wage inflation is showing little sign of either accelerating or decelerating.
- On today's QES measure, jobs growth picked up modestly in the December quarter.
- The labour market remains firmly two-speed, with plenty of wage inflation in the Canterbury construction sector but not much elsewhere.

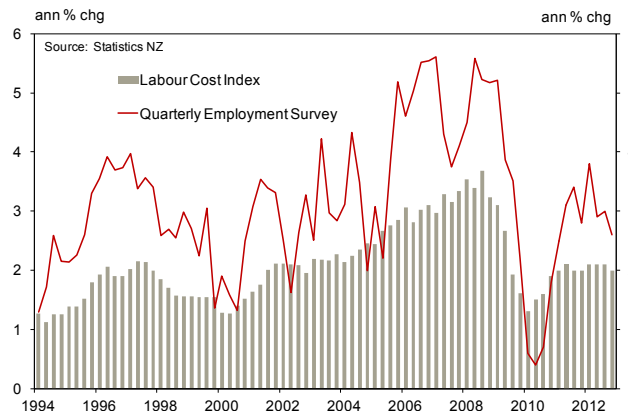
The first batch of December quarter labour market reports showed annual wage inflation continuing to truck along in a narrow range close to 2%. This puts paid to the idea that the New Zealand labour market weakened significantly over 2012.

We've been watching for signs of growing wage pressures associated with the Canterbury rebuild. Sure enough, Statistics New Zealand continued to report unusually high wage inflation in the Canterbury construction sector. But wage growth in other industries and parts of the country remains very subdued, suggesting that the pressures associated with the rebuild remain well-contained, at least for now.

Meanwhile, the Quarterly Employment Survey gave a first read on jobs growth in the December quarter. In line with the swathe of other recent signs of improvement in the economy it showed the labour market picking up from a weak September quarter. However, momentum continues to lag behind our estimates of overall economic growth, suggesting that businesses remain reluctant to take on new staff.

Overall, these wage and jobs reports provide more evidence that there is very little generalized inflation pressure about right now. We expect residential building in Canterbury to double over the next two years, and a much more pronounced effect on wage and inflation pressures is likely to eventually result. But for now today's data will leave the RBNZ more than happy to keep the OCR on hold.

NZ LCI and QES wages (private sector ordinary time)



Survey Details

The Labour Cost Index (private sector, all salary and wage rates - the RBNZ's preferred measure of wage inflation) rose 0.6% in the June quarter, and was 2.0% higher than a year ago, just a touch lower than the previous three quarters' 2.1%. The distribution of wage increases also saw very little change: the percentage of wages seeing increase fell a smidgen to 55% (from 56% three months ago), and the median wage increase stayed at 3%.

The QES's average wage measure (private sector, ordinary time) was considerably weaker, falling 0.4% in the quarter and slowing to 2.6% annually - the lowest annual rate since March 2011. However, we'd caution that this measure can be highly volatile and can be thrown around by (actual and statistical) changes in the job mix, so we tend to discount it as an accurate reflection of wage inflation pressures.

That said, the overall tone of the QES activity numbers was also on the soft side - though clearly better than in the September

Table: LCI and QES Summary

| | Labour Cost Index | | | | Quarterly Employment Survey | | | |
|--------------------------------|-------------------|--------|--------|--------|-----------------------------|--------|--------|--------|
| | Sep-12 | | Dec-12 | | Sep-12 | | Dec-12 | |
| | qtrly | annual | qtrly | annual | qtrly | annual | qtrly | annual |
| Private Sector (ordinary time) | 0.5 | 2.1 | 0.5 | 1.9 | 1.4 | 3.0 | -0.4 | 2.6 |
| Public Sector (ordinary time) | 0.4 | 1.4 | 0.5 | 1.5 | 0.4 | 2.6 | 0.9 | 2.6 |
| Total (ordinary time) | 0.5 | 1.9 | 0.5 | 1.8 | 1.1 | 2.8 | -0.1 | 2.6 |
| FTEs (s.a.) | - | - | - | - | -0.1 | 1.6 | 0.4 | 1.5 |
| Filled jobs (s.a.) | - | - | - | - | 0.3 | 1.4 | 0.4 | 1.4 |
| Paid Hours (s.a.) | - | - | - | - | -0.3 | 1.8 | 0.6 | 1.9 |

Source: Statistics NZ

quarter. FTE employment was up 0.4% and hours paid rose 0.6% - not quite as buoyant as the 0.8% increase in GDP that we are forecasting for the December quarter, and suggesting that jobs growth has continued to lag behind the rest of the economy.

The QES has very little bearing on Thursday's Household Labour Force Survey, which has shown very little relationship with any other labour market indicator lately. We continue to expect Thursday to show the unemployment rate dropping to 7% (with plenty of potential for surprises on either side!).

Regional and industry breakdown

The wage data continue to reflect a firmly two-speed labour market. Labour costs rose 3.9% in the Canterbury construction sector in 2012 - the highest annual rate of increase in September 2011, when they rose 4.3%. Elsewhere in New Zealand construction sector wages rose just 2.3%, up a little from September's 2.2%. Outside the construction sector things mostly look even softer. Moreover, annual wage inflation slowed in many other industries, including manufacturing, agriculture, and professional services.

Except for the construction sector, the Labour Cost Index isn't broken down by region. The less reliable QES average wage is. Interestingly, on this measure, overall wage inflation was much higher in Canterbury than elsewhere in 2011, but has fallen back this year (average wages in Canterbury rose just 0.3%, compared to 2.7% nationwide). We suspect that earthquake disruption gave rise to a wage premium in the region, by making it harder to attract and retain staff. That premium may now have stabilised or even started to diminish. This would help alleviate some of the lopsidedness that's such a feature of the labour market to date, though we wouldn't expect it to disappear altogether for a while.

The Quarterly Employment Survey's employment estimates can be volatile from quarter to quarter and we're reluctant to read too much into the breakdowns. However, the QES did show another solid increase in hiring in the construction sector, where FTE employment is now 7.2% higher than a year ago. Other areas of strong jobs growth were utilities (up a massive 18% over the year), health (up 4.7%) and wholesale trade (up 5.4%). The quarter also saw a lift in public administration jobs after a very weak period (up 2.2% over the year). Elsewhere, momentum is mostly still very subdued.

Market reaction

The headline Labour Cost Index was bang on market expectations and there was no market reaction.

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