

Surprising Strength

December quarter 2015 labour market review

- The unemployment rate plummeted to 5.3% in the December quarter. This was in stark contrast to the small increase we had expected.
- Employment growth was up a solid 0.9% while there was also a sharp fall in participation.
- Wage inflation remains moderate. But with inflation very low, workers' wages are going further after adjusting for inflation.
- On its own, today's data reduces the chance of the RBNZ cutting rates in March.

New Zealand's unemployment rate plunged in the December quarter, falling from 6% to 5.3%. This was in stark contrast to market expectations of a small lift in the unemployment rate. While there was a solid 0.9% lift in employment in the quarter (corroborated by solid growth in employment in the Quarterly Employment Survey) the surprise came down to a steep drop in participation in the labour force in the December quarter.

We're inclined to take a fairly cautious view of today's outturn because the Household Labour Force Survey can at times be volatile. New Zealand's labour market is clearly in better shape than we gave it credit for. But a broader suite of labour market indicators suggests that the improvement was modest rather than stonking. The bigger picture is that the labour market cooled a bit in mid-2015, before improving a bit in late 2015.

	Quarterly actual		Quarterly expected		Annual
	2015 Q3	2015 Q4	Market	Westpac	2015 Q4
Household Labour Force Survey					
Unemployment rate (s.a.)	6.0	5.3	6.1	6.1	-
Employment (s.a.)	-0.5	0.9	0.8	0.9	1.3
Participation rate (s.a.)	68.7	68.4	68.9	68.9	-

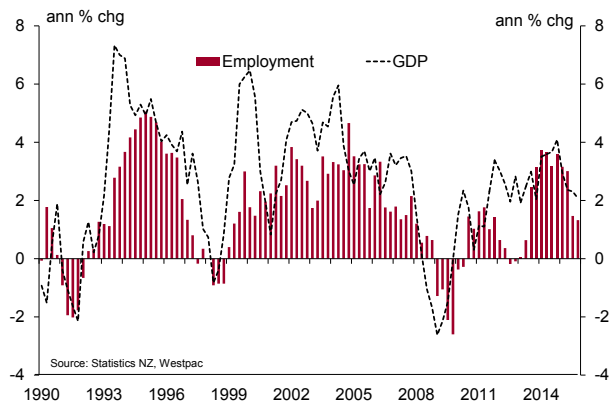
Quarterly Employment Survey					
FTE employment (s.a.)	0.8	1.2	-	0.9	2.9
Total weekly hours paid (s.a.)	0.9	1.4	-	0.6	3.8
Private ave hourly earnings, ord time	0.9	0.2	0.5	0.4	2.5

Labour Cost Index					
All sectors, ordinary time	0.4	0.4	-	0.5	1.5
Private sector, ordinary time	0.4	0.4	0.5	0.5	1.6
Private, all salary & wage rates	0.4	0.4	0.5	0.4	1.6

Details

The December quarter data was particularly unusual because participation and employment growth moved in opposite directions. Usually, they tend to move together from quarter to quarter. Consequently, quarterly movements in the unemployment rate tend to be less volatile.

Employment and GDP



Employment and the participation rate



So with employment growth in line with expectations, it's worth digging into the detail of the change in labour force participation. By age group, participation did fall quite sharply (in seasonally adjusted terms) for those under 30. However, participation by this age group tends to be quite volatile anyway as students shift in and out of the labour force. Looking across regions, participation actually rose in Auckland, Wellington and the Manuwatu but fell in most other regions. And by gender, participation fell for both males and females (though it was down more sharply for men than women). So it's difficult to point the finger at any particular group or region to explain the fall in participation this quarter.

Indeed, stepping back and taking a longer term look at trends in labour force participation, the sharp lift in participation over late 2014-early 2015 now stands out. Perhaps it was this lift in participation which was unusual rather than today's decline. Whichever the case, participation is now back to the levels we saw in September 2014.

With today's data tricky to interpret, it's worth taking a broader look at what other labour market indicators are saying about capacity in the labour market. The Quarterly Survey of Business Opinion showed firms finding it more difficult to find skilled labour in the December Quarter while monthly surveys show a lift in employment intentions, and households have become more optimistic about employment prospects. This supports the view that the labour market improved in the December quarter, even if the change wasn't as dramatic as the decline in the unemployment rate suggests.

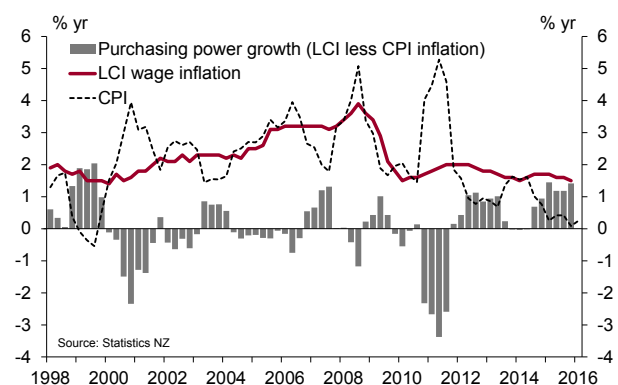
Wage growth remains low

Despite the strengthening in the labour market, wage inflation has remained stubbornly low. The private sector LCI (including overtime) rose by 0.4% over the quarter, to be up 1.5% for the year – its slowest rate of increase since 2010. Similarly, the broader QES measure of wage inflation dropped back to a subdued 2.5%.

Wage inflation has remained low for several years now. While that's a little surprising in the context of an economy that's been growing at a pretty firm pace in recent years, it comes against a backdrop of very low consumer price inflation. Over 2015, consumer price inflation dropped to the slowest rates we've seen in well over a decade. This has meant that cost of living adjustments to wages have been limited. But softness in consumer price inflation also meant that the limited wage increases households have received have actually been stretching further. In fact, adjusting for changes in the cost of living, real wage growth is around a 15 year high!

Over the coming year, we expect that nominal wage growth will remain modest. Consumer price inflation is set to take another step down, and that will keep a lid on cost of living adjustments.

LCI wage inflation



Implications

For the RBNZ, low wage growth is likely to be trumped by the sharp drop in the unemployment rate. On its own, this means the RBNZ is likely to be in less of a hurry to cut rates and reduces the chance of an OCR reduction in March.

Anne Boniface - Senior Economist
Satish Ranchhod - Senior Economist

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Satish Ranchhod, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

David Norman, Industry Economist
+64 9 336 5656

Any questions email:
economics@westpac.co.nz

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

Disclaimer continued overleaf.

Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "relevant persons"). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Services Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.