

NEW ZEALAND ECONOMICS

Labour Cost Index and Quarterly Employment Survey – September 2011 quarter

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KEY POINTS

- Labour earnings growth remained moderate and in line with market expectations. Increases in QES filled jobs suggest a Q3 lift in HLFS employment, whereas unchanged QES paid hours suggest a flat outturn for HLFS hours worked. Moderate wage growth is expected to encourage the RBNZ to remain on the sidelines until well into 2012.
- LCI private sector wage inflation (both including and excluding overtime) rose by 0.5 percent (2.0 percent y/y) in the September quarter. The unadjusted LCI rose by 1.0 percent (3.5 percent y/y). This is not the preferred measure, but the higher rate of wage inflation on this measure is worth noting.
- QES private sector ordinary average hourly earnings rose by 1.3 percent (3.4 percent y/y). This was stronger than market expectations, but this measure tends to be discounted due to its volatility.
- Our seasonally adjusted estimates show a 0.7 percent rise in Q3 filled jobs. Paid hours from the QES were flat.
- Taking the figures at face value suggests a respectable increase in Q3 HLFS employment on Thursday. However, flat QES paid hours won't help out Q3 GDP.

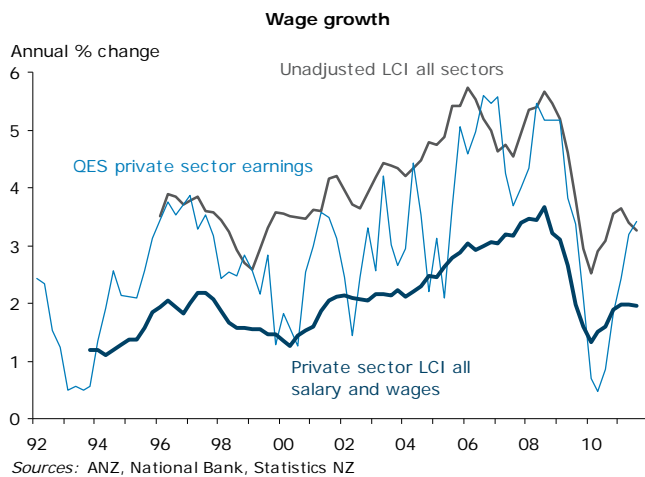
	LCI private sector ordinary time		QES private sector ordinary time		QES paid hours	
	q/g	y/y	q/g	y/y	q/g	y/y
Jun-08	0.8	3.5	2.1	5.6	0.1	1.3
Sep-08	1.1	3.7	1.0	5.2	-0.5	0.7
Dec-08	0.7	3.2	0.9	5.2	-1.3	-2.0
Mar-09	0.5	3.0	1.1	5.2	-0.8	-2.6
Jun-09	0.3	2.6	0.8	3.9	-1.5	-4.1
Sep-09	0.4	1.9	0.7	3.5	-0.2	-3.8
Dec-09	0.3	1.5	-0.4	2.2	0.1	-2.5
Mar-10	0.3	1.3	-0.4	0.6	0.9	-0.8
Jun-10	0.4	1.4	0.6	0.4	1.0	1.8
Sep-10	0.6	1.6	1.0	0.7	0.3	2.3
Dec-10	0.6	1.9	0.6	1.8	-0.1	2.1
Mar-11	0.4	2.0	0.3	2.5	0.7	2.0
Jun-11	0.5	2.1	1.2	3.1	0.7	1.6
Sep-11	0.5	2.0	1.3	3.4	0.0	1.3
ANZ	0.5	2.0	1.0	3.1	-	-
Market	0.5	2.0	0.7	2.8	-	-

DATA REVIEW

DATA WRAP

LCI private sector wage inflation (both including and excluding overtime) rose by 0.5 percent (2.0 percent for the September 2011 year). This was in line with the market consensus and our pick. Public sector wage rates increased 0.6 percent (1.8 percent y/y). Private sector ordinary time hourly earnings from the QES rose 1.3 percent in Q3 (+3.4 percent y/y). This series is volatile, but it's worth noting that it has risen sharply the last two quarters.

The private sector unadjusted LCI wage measure (which adjusts for employment shifts between industries and occupations but not for increases due to quality changes within occupations) recorded a 1.0 percent quarterly increase, with the annual rate of wage inflation easing very slightly to 3.5 percent. The all-sector equivalent also eased.

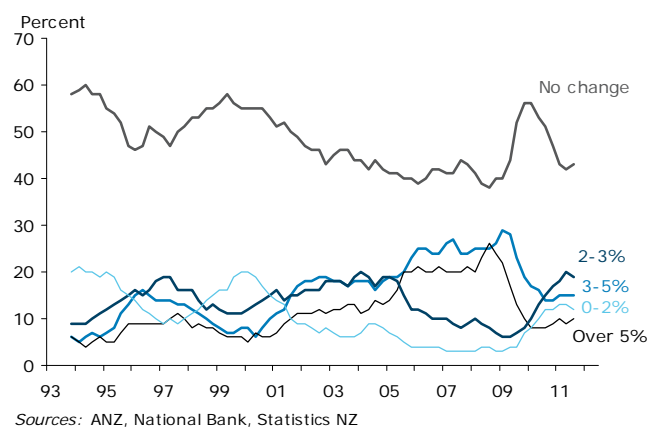
**Details of the LCI revealed sector divergences.**

Public sector wages on the LCI measure continue to undershoot the private sector on an annual basis, though there was some catch-up in Q3. Central government wage growth on the LCI wage measure was 0.6 percent in Q3 (1.8 percent y/y). This is modest, but has been rising steadily over the past year. It illustrates the difficulties for the government in achieving spending cuts without significant job cuts.

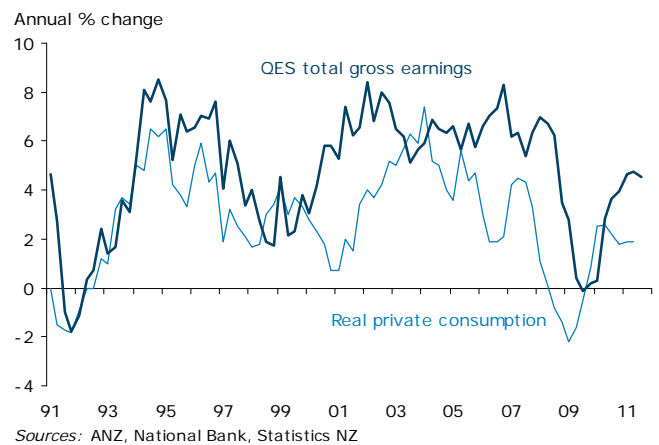
Looking at the sector detail by occupation, quarterly wage movements were in a 0.4 to 0.8 percent range. Increases for farm and forestry workers and clerical workers were near the bottom, where those for engineering and trades and machinery operators are near the upper bound. Annual wage movements were in a 1.3 percent to 2.4 percent range. Sales workers experienced the lowest increases, whereas wage increases for automotive and engineering and construction trades were near the top. Wage differences that reflect labour market pressure points are providing a clear signal of where labour resources need to shift.

We expect these differences to become more stark, given the trade skills resource requirements of the Canterbury rebuild.

The distribution of wage increases ticked up slightly, with a slightly larger proportion of jobs securing wage increases above 2 percent. At only 44 percent of surveyed jobs, this remains a comparatively low proportion compared to more buoyant times. Bargaining power is still largely on the side of employers, but the picture is slowly changing.

Distribution of wage increases

While wage measures from the LCI were contained, the 1.3 percent increase in QES average hourly earnings for private sector ordinary time (3.4 percent y/y) was stronger than expected. Given the compositional noise in the QES wage figures the RBNZ will not be overly concerned by this. Solid growth in average weekly earnings (up 0.8 percent q/q and 4.5 percent y/y) will boost the chances of repairing household balance sheets without a nasty crunch in consumption.

QES total gross earnings and private consumption

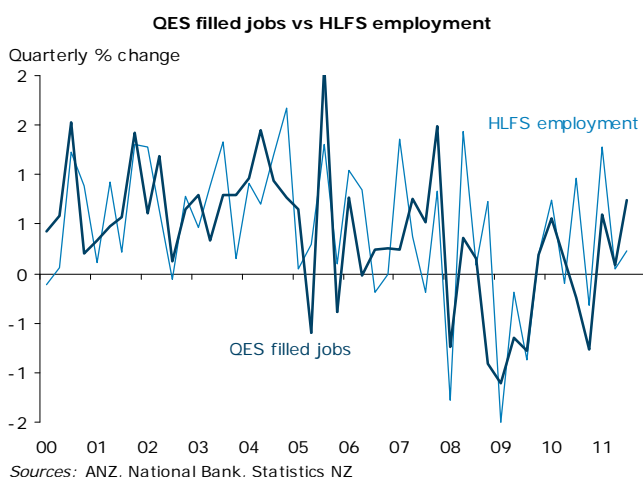
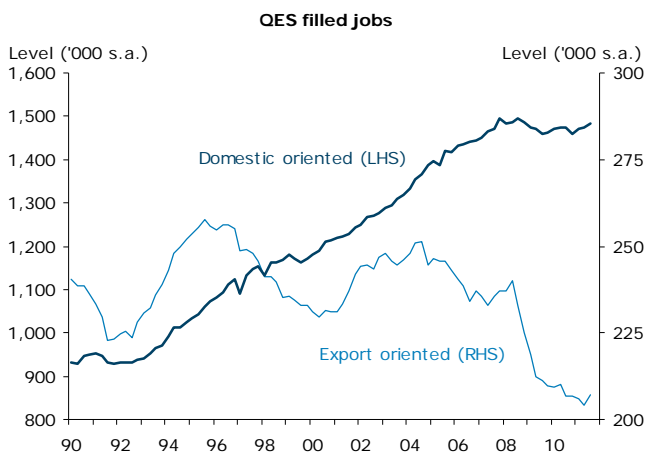
The QES employment-based measures provided mixed readings. The number of filled jobs rose 0.7

DATA REVIEW

percent s.a., offsetting the falls in the previous two quarters, but is still up only 0.7 percent y/y.

A fall in filled jobs in the non-market sector was evident in Q3 (down 0.5 percent s.a.). However, filled jobs in the market sector rose 1.6 percent. Given the volatility the annual percent change perhaps tells a more robust story: **market sector filled jobs are growing steadily (+1.6 percent) whereas the non-market sector is contracting**

(-0.5 percent). Looking at the split of the market sector, filled jobs in export-orientated sectors gained some ground this quarter but is still running at only 0.3 percent y/y. This is not great news for the required economic rebalancing.



A good metric for labour demand is hours worked within the economy, as this tends to respond more quickly than employment. QES paid hours were flat in seasonally adjusted terms. With paid hours a key input into the services component of Q3 GDP data, this is not going to be a key growth driver.

Digging into the detail shows offsetting movements. **Paid hours in the market sector increased 0.3**

percent s.a., offset by a 0.9 percent fall in non-market paid hours. Non-market hours were pushed down by a 2.3 percent fall in education and training paid hours, which may be partly the result of the shifting in school holidays to accommodate the Rugby World Cup (RWC). There was evidence of an RWC-induced ramp-up in activity, with strong increases in paid hours in the retail trade, transport, and real estate sectors. Unfortunately perhaps for Q3 GDP, paid hours in the other parts of the services sector did not show the same degree of vigour. A decline in paid hours for business services paid hours (-3.8 percent s.a. q/q) was to be expected given the strong Q2 increase. Finance and insurance paid hours weakened further in Q3 (down 1.7 percent s.a.) after falls in Q2.

The filled jobs and paid hours employment gauges from the QES provide a rough steer on the HLFS data (to be released Thursday). Taking the figures at face value suggests a respectable increase in HLFS employment, with upside risk to our previous expectation of 0.2 percent q/q. However, some of this pick-up in employment may prove to be short-lived, with anecdotes of significant temporary employment directly related to the Rugby World Cup. We remain comfortable with our 6.5 percent pick for the unemployment rate.

IMPLICATIONS

Private sector LCI inflation was moderate and in line with market expectations. Moderate wage growth is expected to encourage the RBNZ to remain on the sidelines until well into 2012. Nevertheless, the Bank will remain vigilant for signs of broadening pressure on the wage front.

Measures of employment from the QES were mixed. The flatness in seasonally adjusted paid hours in the QES is not a great sign for labour market momentum, but this series is volatile. We'll get a clearer picture with the HLFS survey on Thursday.

That wage growth has not escalated markedly during a period where headline CPI inflation has hovered around the 4 to 5 percent mark is testament to a high degree of labour market flexibility. With inflation expectations and pricing intentions remaining elevated the battle is far from over. **But with the focus of the RBNZ still directed offshore, there is sufficient time for the Bank to evaluate the economic and labour market outlook.** The next move in the OCR will be up, but with the RBNZ needing time to evaluate the post-Rugby World Cup environment domestically and the impact of the turmoil offshore, we do not expect a move until June 2012.

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