NEW ZEALAND ECONOMICS

Labour Cost Index and Quarterly Employment Survey – December 2011 quarter

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PICK-UP IN WAGES WILL BE NOTED

KEY POINTS

- LCI wage measures were stronger than market expectations, although annual wage inflation on this measure remains moderate. An increase in QES filled jobs and paid hours suggest a lift in Q4 HLFS employment and hours worked (and GDP).
- The data does not threaten the RBNZ's plan to stay on the sidelines for the foreseeable future, especially given weakening forward indicators for the labour market. However, the pick-up in quarterly wage growth will have been duly noted.
- LCI private sector wage inflation excluding overtime rose by 0.7 percent (2.0 percent y/y) in the December quarter. The unadjusted LCI rose by 0.9 percent (3.2 percent y/y). This is not the preferred measure, but it is worth noting that this series has been persistently strong.
- QES private sector ordinary time average hourly earnings were flat in the quarter (+2.8 percent y/y). However, QES average gross weekly earnings rose 1.0 percent q/q sa, and were up 4.8 percent y/y.
- Q4 QES filled jobs rose 0.5 percent (FTE-equivalent 0.6). Paid hours from the QES rose 0.6 percent.
- At face value, the figures suggest a respectable increase in Q4 HLFS employment on Thursday, while the rise in QES paid hours is supportive for Q4 GDP. It is growth prospects for the start of this year that has us slightly nervous.

	LCI private sector ordinary time		QES private sector ordinary time		QES paid hours	
	q/q	y/y	q/q	y/y	q/q	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	-1.9
Mar-09	0.5	3.0	1.1	5.2	-0.9	-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	-3.9
Dec-09	0.3	1.5	-0.4	2.2	0.2	-2.4
Mar-10	0.3	1.3	-0.4	0.6	0.8	-0.8
Jun-10	0.4	1.4	0.6	0.4	1.0	1.7
Sep-10	0.6	1.6	1.0	0.7	0.4	2.3
Dec-10	0.6	1.9	0.6	1.8	0.0	2.1
Mar-11	0.4	2.0	0.3	2.5	0.6	2.0
Jun-11	0.5	2.1	1.2	3.1	0.6	1.6
Sep-11	0.5	2.0	1.3	3.4	0.1	1.3
Dec-11	0.7	2.0	0.0	2.8	0.6	1.9
ANZ	**0.5**	**1.9**	**0.5**	**3.2**	**-**	**-**
Market	0.5	1.9	0.5	3.2	-	-

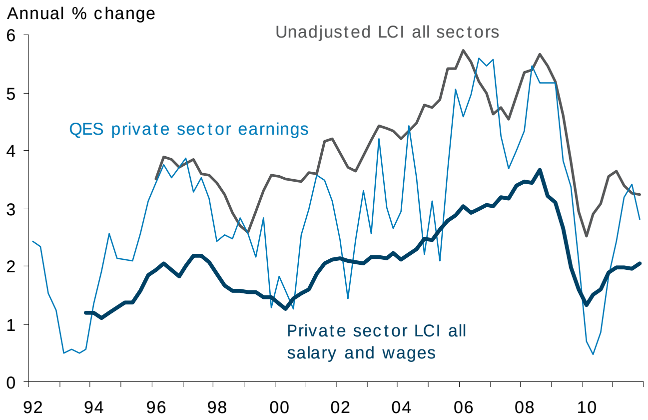
DATA REVIEW

DATA WRAP

LCI private sector wage inflation excluding overtime rose by 0.7 percent q/q (+2.0 percent for the December 2011 year). This was stronger than the market consensus and our pick of a 0.5 percent q/q rise. Including overtime, the increase was more modest (0.6 percent). Public sector LCI wage rates increased 1.8 percent y/y, versus 2.0 percent for the private sector. Private sector ordinary time hourly earnings from the QES were flat in Q3 after two relatively sharp rises in preceding quarters (+3.2 percent y/y). Given the compositional noise in the QES wage figures, they tend to be discounted by both the market at the RBNZ.

The unadjusted LCI wage measure (which adjusts for employment shifts between industries and occupations but not for increases due to quality changes within occupations) rose 0.9 percent, with the annual rate of wage inflation running at 3.2 percent. All wage measures remain well off their pre-recession rates of growth.

Wage growth



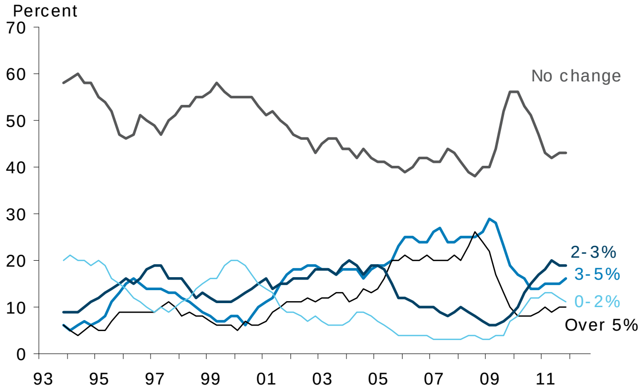
Sources: ANZ, National Bank, Statistics NZ

Sector divergences were again evident in the LCI. Public sector wages on the LCI measure continue to undershoot the private sector on an annual basis, though the gap is closing. Central government annual wage inflation by the LCI measure was 1.8 percent in Q4, up from 1.3 percent a year ago. This remains modest, but the disinflationary impetus from this source is waning. It illustrates the difficulties for the Government in achieving spending cuts without significant job cuts.

Salary and wage rates in the construction sector climbed 0.8 percent q/q (2.3 percent y/y), with above-average wage increases in electricity, gas and water, finance and insurance services, and parts of the manufacturing sector. Wage increases in retail were subdued (up 0.4 percent q/q), a reflection of the tough retail environment and consumer caution at present. 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.

A slightly smaller proportion of jobs secured wage increases above 2 percent. At only 46 percent of surveyed jobs, this remains a comparatively low proportion compared to more buoyant times. Bargaining power is still clearly on the side of employers, but this is changing in some industries.

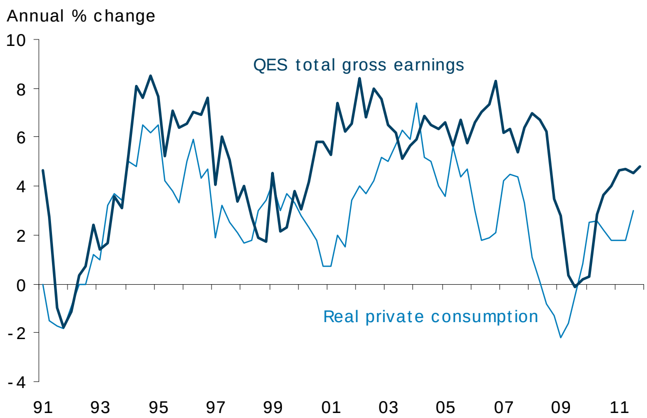
Distribution of wage increases



Sources: ANZ, National Bank, Statistics NZ

While wage measures were generally contained in an annual growth sense, they were stronger than expected. This is helpful in some respects. Solid growth in QES average gross weekly earnings (up 1.0 percent q/q and 4.8 percent y/y) boosts the odds of repairing household balance sheets without a nasty crunch in consumption. But this boon might be undone were it to spook the RBNZ. At present, we see little risk of this. The impact of decent labour income growth on the broader economy continues to be blunted by ongoing household deleveraging, a dynamic we (and the RBNZ) expect to persist for years.

QES total gross earnings and private consumption



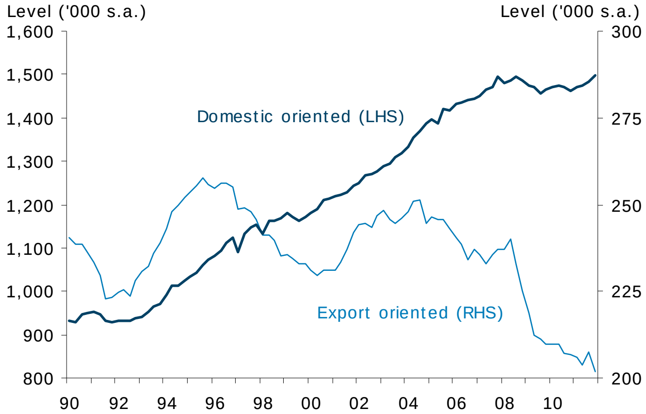
Sources: ANZ, National Bank, Statistics NZ

DATA REVIEW

The QES employment–based measures gave mixed readings. The number of filled jobs rose 0.5 percent q/q sa, but is up only 1.9 percent y/y.

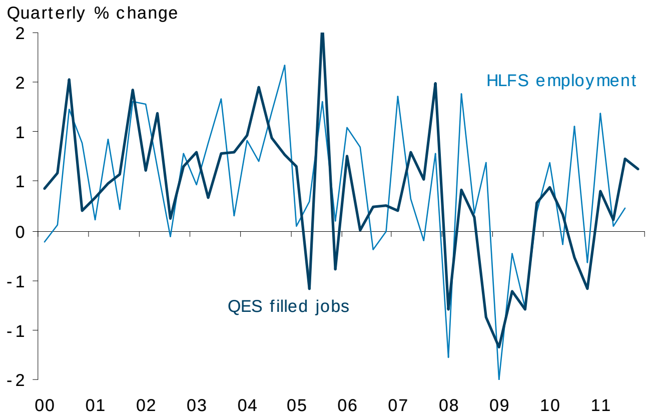
Filled jobs in the non-market sector failed to bounce back from earlier falls, falling another 0.1 percent sa (-0.7 percent y/y). Filled jobs in the market sector rose 0.9 percent q/q (+2.7 percent y/y). The market sector split showed mixed fortunes by sector, with increases in forestry, transport, and construction sector employment contrasting with falls for retail, manufacturing and wholesale trade filled jobs. Looking at the split of the market sector did not offer much encouragement regarding the necessary rebalancing of the economy. Filled jobs in export-orientated sectors fell 2.7 percent sa and is still running at -2.3 percent y/y. Domestic-oriented job growth was 1.1 percent q/q sa (2.5 percent y/y). Given the requirements of the Christchurch rebuild, this dichotomy is likely to persist.

QES filled jobs



Sources: ANZ, National Bank, Statistics NZ

QES filled jobs vs HLFS employment



Sources: ANZ, National Bank, Statistics NZ

Hours worked within the economy is a good measure of labour demand, as this measure tends to respond more quickly than employment. QES paid hours rose 0.6 percent in seasonally adjusted terms. **This will support the services components of Q4 GDP, as paid hours are a key input.**

Digging into the detail shows offsetting movements. **Paid hours in the market sector increased 0.8 percent s.a., whereas non-market paid hours were flat.** Particularly large declines were seen for information media and telecommunications (-5.2 percent q/q sa) and for manufacturing (-4.6 sa percent q/q). At the other end of the scale was forestry and mining (+10.3 percent q/q sa) and, interestingly, rental, hiring and real estate (+8.8 percent q/q sa), with recovery in the latter in line with growing housing turnover.

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, in line with our forecast of 0.2 percent q/q sa. However, some of this pick-up in employment may prove to be short-lived, given job advertising has been declining since August. We remain comfortable with our 6.5 percent pick for the unemployment rate.

IMPLICATIONS

Private sector LCI inflation was still moderate on an annual basis, but it did outpace market expectations in terms of quarterly growth, and this is not a volatile data series. Accordingly, the Reserve Bank will have taken note. However, it does not at this stage threaten the RBNZ's plans to stay on the sidelines while they keep a nervous eye on developments out of Europe. That said, the RBNZ will remain vigilant for signs of broadening pressure on the wage front, and will be watching the construction sector particularly closely (for years).

Measures of employment from the QES were mixed. The rise in seasonally adjusted paid hours in the QES was encouraging, given weakness in the preceding quarter, but this series is volatile. We'll get a clearer picture with the HLFS survey on Thursday.

The RBNZ will be pleased that wage growth has not escalated markedly during a period where headline CPI inflation has hovered around the 4 to 5 percent mark for an extended period. This restraint has allowed monetary policy to take a more relaxed stance, a valuable option given the skewed risks to global growth at present. **Today's data does not take away that option. Barring global meltdown, the next move in the OCR will be up, but it is still some time away.**

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