

Room for growth

2011Q1 LCI and QES review

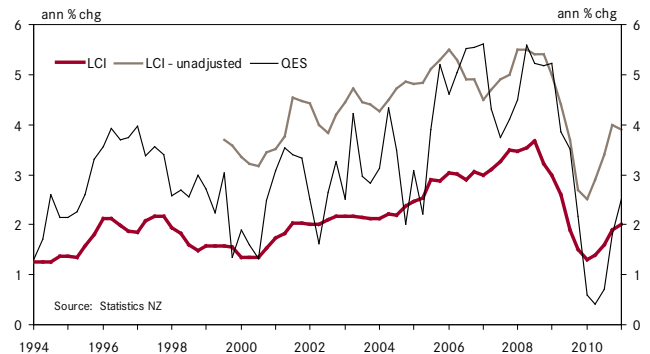
- **Wage growth was subdued in the March quarter.**
- **Further evidence that the economy was picking up in early 2011.**
- **Both the LCI and QES pre-date the Christchurch earthquake and so market reaction was limited.**

Today's wage and jobs numbers give a snapshot of the labour market just before the Christchurch earthquake – the Labour Cost Index and Quarterly Employment Survey were both surveyed in the middle of February. That snapshot shows an economy which was slowly coming to life at the start of the year, but had so far avoided inflationary pressures.

Wage growth was more subdued than we or the market had expected, with the Labour Cost Index including overtime (the RBNZ's preferred measure of wage pressures, which controls for changes in job grade and job mix) coming out at +0.4% for the quarter. The LCI, which is not seasonally adjusted, tends to be somewhat lower in March, as people tend to have their pay reviews later in the year. But even taking this into account the outturn was on the soft side, whereas improving employment intentions and an edging up in firms' reported skill shortages had led us to expect something a little stronger. It appears that ongoing high unemployment has left workers without bargaining power.

Other wage measures which don't adjust for changes in job mix or productivity were, if anything, even softer, suggesting

Private Sector Earnings and Labour Costs



that a lot of the jobs growth is still at the lower end – the 'unadjusted' LCI (which does not control for promotions and the like) grew more slowly than in any March quarter over the past 15 years except 2010, and the QES's average hourly earnings were also well below their March quarter average.

At the same time, the indicators of economic activity in the Quarterly Employment Survey – filled jobs, full-time equivalent employment, and hours paid – all showed an economy picking up fairly robustly in the early months of this year. On our estimates, seasonally adjusted FTE employment rebounded 1.1% after December's 1.1% fall, and seasonally adjusted filled jobs were up 0.6%. These employer-based jobs measures give a decent (though far from perfect) advance read of the preferred employment measure in Thursday's Household Labour Force

Table: LCI and QES Summary

	Labour Cost Index				Quarterly Employment Survey			
	Dec-10		Mar-11		Dec-10		Mar-11	
	qtrly	annual	qtrly	annual	qtrly	annual	qtrly	annual
Private Sector (ord time)	0.6	1.9	0.4	2.0	0.6	1.8	0.3	2.5
Public Sector (ord time)	0.4	1.4	0.5	1.4	0.3	1.3	2.3	2.8
Total (ordinary time)	0.5	1.7	0.4	1.8	0.5	1.8	0.4	2.6
FTEs (s.a.)*	-	-	-	-	-1.1	0.2	1.1	0.6
Paid Hours (s.a.)	-	-	-	-	-0.2	2.1	0.7	2.0

Source: Statistics NZ

* Westpac estimate

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Survey. If anything, they are pointing to something a little stronger than the 0.5% employment growth we had pencilled in. And hours paid grew 0.7% seasonally adjusted, hinting at decent GDP growth before the earthquake struck. That said, given that the earthquake did happen, we are picking flat growth for the quarter.

Industry breakdown

Economic growth continued to be very uneven. The QES is not a comprehensive measure of employment – it excludes farms and very small business. But it does show that while jobs in externally focused sectors of the economy generally picked up strongly this quarter, activity in more domestically focused sectors remained very subdued. On our estimates, seasonally adjusted full-time equivalent employment grew strongly in mining, technical specialist roles, transport, and wholesale trade (which includes exporters), whereas employment fell in health, education, real estate, recreational and other services, and retail trade. (Encouragingly, employment in the construction sector showed first signs of a pick-up after a very weak spell, growing 4% seasonally adjusted.) The Household Labour Force Survey will give a more comprehensive picture of these sectoral trends.

On the wages front, the Labour Cost Index was reclassified in mid-2009, making seasonal adjustment difficult, but looking back over the past year it shows a similar split – retail trade and the service sector have seen slower wage growth than mining, primary manufacturing, wholesale trade, and professional specialists (agricultural wages have continued to underperform). Public sector wage growth also remains relatively soft, with the public sector LCI (including overtime) growing 1.4% over the year (versus 2% private).

Market implications

Because today's wage and jobs data predate the game-changing events of 22 February, they have few implications for the monetary policy outlook, which will be determined by the price and wage pressures emerging once reconstruction gets going. Not surprisingly, there was also no discernible market reaction.

Nevertheless, the data do add to the corpus of evidence – business surveys, retail indicators, house sales – suggesting that the economy pre-quake was ready for a recovery with subdued inflation pressures. This offers some comfort for a Reserve Bank expecting to sit on its hands until Christchurch is clearly in rebuilding mode.

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