

New Zealand economic update

Labour costs

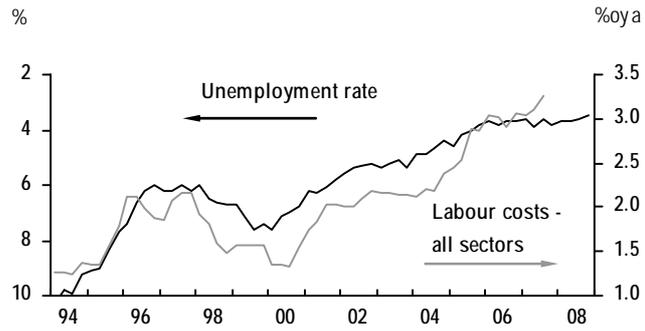
New Zealand's labour cost index was unexpectedly strong in 4Q

The total private sector labour cost index showed a jump in wages growth of 1.1%q/q (JPMorgan 0.8%, consensus 0.9%) in 4Q, the largest quarterly gain ever recorded. The 4Q spike took the annual rate of growth to 3.5%, the fastest annual rate since the series began in 1992. The 3.5%oya gain in private sector wages growth (excluding overtime worked) is running well above the 2.6% gain in public sector wages and the 3.1% including overtime. Private sector wages growth is being driven higher by a tight labour market and a net outflow of skilled workers from the country (see research note attached: "Flight of the Kiwi: mobile workers drain human capital").

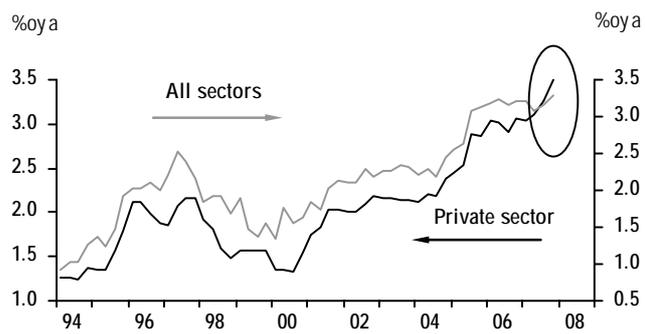
The three industries to enjoy the highest annual growth in salaries and wages were finance and insurance (up 6.3%), mining (up 5.1% - possibly affected by the new Tui oil field), and local government (up 5.1%). Wages growth in the agriculture sector was up just 2.8%oya in 2007, despite record commodity prices coming through and a shortage of farm hands/workers. Wages in the agricultural sector can be expected to increase throughout 2008.

The strong growth in salaries and wages will add to inflation concerns down at the RBNZ, and all but eliminates the possibility of a rate cut in the next two quarters. The RBNZ remains focussed on the upside risks to inflation from record high dairy prices flooding cash into the agricultural industry, and a government keen to "buy" votes ahead of this year's election. The upside risks to inflation in the near term still outweigh the downside risks to growth from a housing market correction, global financial market turbulence and growing economic uncertainty. The hurdle to a rate hike, however, remains high, as the RBNZ has already taken the official cash rate to a record (and very restrictive) 8.25%.

New Zealand: labour costs and unemployment



New Zealand: labour costs



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February 5, 2008



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