

New Zealand Economic Update

Labour cost index

- Private sector labour costs grew 0.7%q/q in 4Q
- Wage growth to moderate further
- Unemployment rate to rise rapidly

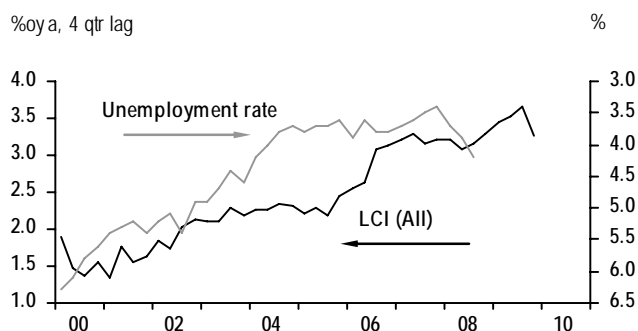
Private sector labour costs in New Zealand (as measured by the LCI) grew 0.7%q/q in 4Q (J.P.Morgan 0.7%, consensus 0.9%) after surging 1.1% in 3Q. The all sector labour cost index also grew 0.7%q/q (J.P.Morgan 0.8%, consensus 0.9%), compared to 1.2% in the previous quarter.

The moderation in wage growth emerged in the final quarter of 2008 as labour market conditions continued to ease. Growing job insecurity and redundancies will mean that workers continue to curb spending in 2009, weighing even further on the economic growth outlook. Household spending will fall around 0.2% this year, with only the forthcoming tax cuts in April preventing an even larger decline than currently forecast. Weak economic growth (we expected the economy to contract 0.7% this year) will mean that firms will shed more human capital.

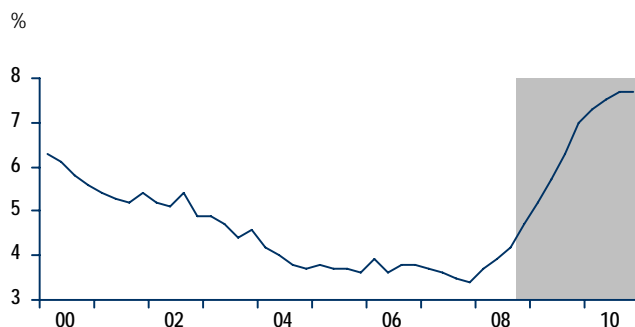
Wage growth will moderate further, removing another previously threatening upward inflationary force. Already, we forecast that inflation will fall within the RBNZ's 2-3% target range this year, paving the way for more assertive policy easing from the RBNZ. Our forecast calls for a terminal cash rate of 2.25% in April. The forthcoming fiscal stimulus is a key factor preventing even larger cuts to the OCR, with the government planning to inject about NZ\$7bn into the economy over the next two years.

The next key piece of labour market data is the employment print on Thursday. We expect employment will have contracted 1.0%q/q in 4Q, helping to push the unemployment rate up from a five year high of 4.2% in 3Q to 4.7% in 4Q (consensus 4.6%). By year end, the unemployment rate, on our forecasts, will be at 7%.

New Zealand: labor cost index and unemployment



New Zealand: unemployment rate



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