

New Zealand Economic Update

Labour cost index

- Private sector labour costs rose 0.6%q/q in 1Q
- Wage growth should moderate further
- Unemployment rate to rise rapidly

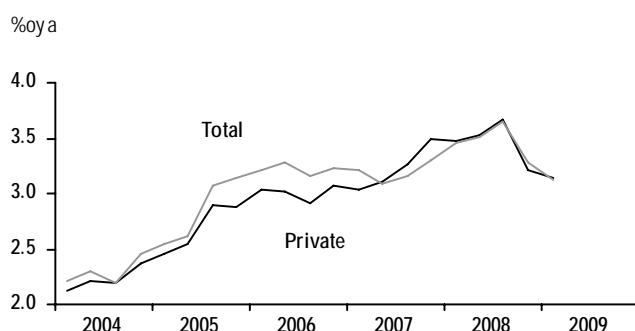
There were no great surprises in the wage data released today from New Zealand. Private sector labour costs (as measured by the LCI) rose 0.6%q/q in 1Q (J.P. Morgan and consensus 0.6%), slowing from 0.7% in 4Q as labour market conditions continued to weaken. From a year ago, the private LCI was up 3.0%, the slowest rate in two years.

With labour market conditions continuing to ease, we expect that wage growth will moderate even further throughout 2009. Slower wage growth, rising job insecurity, and increasing redundancies mean that consumers will continue to curb spending. In our forecasts, household spending will fall by more than 1% this year, stifling already sub-par economic growth.

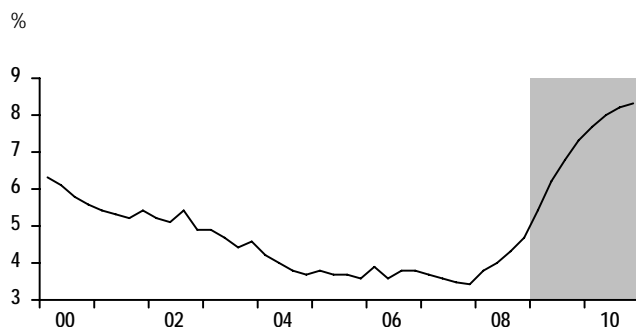
Lower interest rates should help soften the blow, however. Our forecast calls for a 25bp cut to the OCR in June, leading to what we believe will be the terminal cash rate in this cycle of 2.25%. The risk is, though, that the RBNZ sits on the sidelines next month. One argument for this would be the Governor's desire to preserve monetary policy power for use when unemployment soars, meaning that there is a good case for the RBNZ to wait until 2H09 before delivering further policy support.

We expect other labour market data scheduled for released tomorrow to show the unemployment rate rising from a five-year high of 4.7% in 4Q to 5.4% in the March quarter.

New Zealand: labour cost index



New Zealand: unemployment rate



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