

18 May 2015

Labour Market

The March quarter labour market data were, in the main, robust. Employment growth, as per the Household Labour Force Survey, expanded 0.7% in Q1, for annual growth of 3.2%. Most developed countries would be overjoyed by such a rate. As they would be, too, if they had New Zealand's participation rate, which ramped up to a new all-time high of 69.6%. The employment rate, which held up at 65.5%, was also a picture of great strength. Still, not everything moved in a firming direction. The recent trend decline in the unemployment rate looked to be stalling, with an unchanged level of 5.8% in Q1. Also, annual wage inflation – as per the private Labour Cost Index – failed to pick up from its 1.8% pace, to remain a little below norm.

Consumer Spending

Retail spending started 2015 on the charge. In volume (inflation-adjusted) terms retail trade surged 2.7% in the March quarter, with every category seeing an increase (which is rare). This quarterly result drove annual growth to 7.4% – the strongest since 2004. Lower pricing played its part, partly thanks to the high exchange rate and lower fuel prices. Nonetheless, spending growth looks like it will slow markedly in Q2, given the 1.1% fall reported for April's electronic card transactions. Yes, the latter might have been affected by holiday timings. Still, we'll need to see a big bounce in May's transactions if we're to believe that June quarter retail trade volumes expanded, at all.

Tax and the Budget

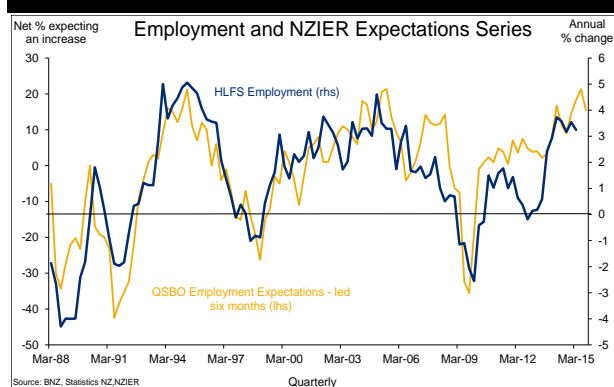
The government's nine-months-to-March 2015 accounts were almost an embarrassment of riches, going into a Budget (this Thursday) that will presumably be all about delayed surpluses. The core (OBEGAL) deficit was \$358m, compared to HYEFU expectations of a \$1,214m deficit. Most of this was because of core tax revenue running \$844m (1.8%) above plan – although Treasury expects about half of this to be reversed over the June quarter. Smoothing over the March quarter 2015, basic tax revenue was up 8.9% on a year ago. This is not bad at all, for an economy supposedly peaking, real growth wise, while also experiencing low inflation.

Housing and the RBNZ Restrictions

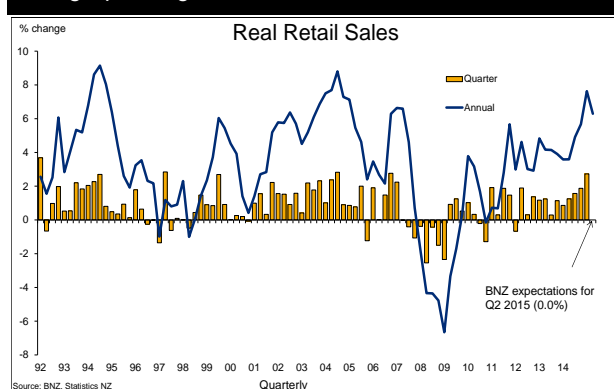
Of course, low inflation is not something we can associate with the housing market, and especially not Auckland. The REINZ Stratified House Price Index accelerated to a 9.3% annual pace, from the (revised) result of 8.5% in March. Auckland hit a crackling 18.9% y/y. No wonder the RBNZ has proposed a tighter restriction for those borrowing from NZ banks in order to buy an existing home in Auckland to rent out. But we wonder how biting the 30% deposit threshold will be, when already 97% of such investors present with at least a 20% deposit.

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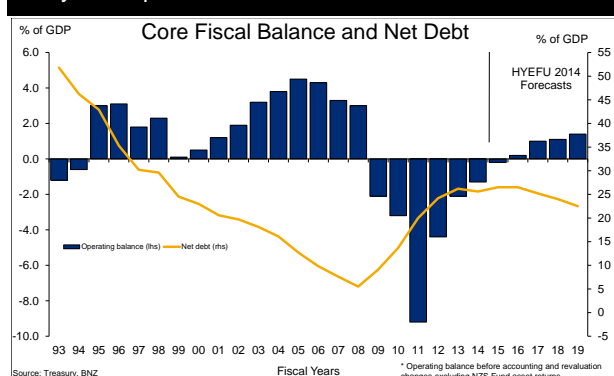
Jobs Market Still Looking Up



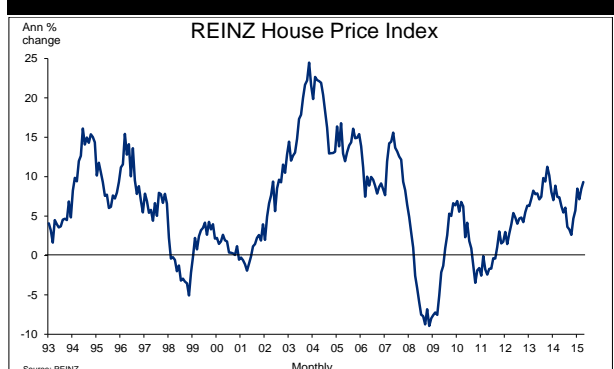
Strong Spending... For Q1 At Least



Delayed Surpluses



How's That Handbrake?



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