

Warming up

Q2 labour market review

- The unemployment rate fell from 5.9% to 5.6% in the June quarter, its lowest in over five years.
- Employment rose modestly and labour force participation edged down from a record high, although both are markedly stronger than a year ago.
- Wage pressures were a little stronger than expected, though still at historically low levels.
- On balance, these reports tell a less appealing story about the economy's capacity to grow without inflation, reinforcing the case for normalising interest rates over the medium term. However, we still expect the Reserve Bank to remain on hold until next year.

The labour market has continued to steadily strengthen, in its usual lagging fashion, as the New Zealand economy has picked up a head of steam over the last year or so. The June quarter unemployment rate fell by even more than we or the market expected, while wage inflation gave the first hint of starting to tick higher (in the private sector at least).

What was remarkable over the past year was the economy's seeming ability to grow without generating a significant amount of inflation pressure. Growing demand for workers had been met by an increase in labour force participation, which had surged to a record high by the March quarter of this year. The latest figures push back against that story to some degree: the participation rate edged lower in the June quarter, which meant that even the modest 0.4% rise in employment came entirely out of the ranks of the unemployed.

The ongoing tightening in the labour market supports the Reserve Bank's campaign to normalise the level of interest rates over the medium term. However, we don't think today's

	Quarterly actual		Quarterly expected		Annual
	2014 Q1	2014 Q2	Market	Westpac	2014 Q2
Household Labour Force Survey					
Unemployment rate (s.a.)	5.9	5.6	5.8	5.8	-
Employment (s.a.)	0.9	0.4	0.7	0.7	3.7
Participation rate (s.a.)	69.2	68.9	69.3	69.3	-
Quarterly Employment Survey					
FTE employment (s.a.)	1.2	1.1	-	0.8	3.5
Hours paid (s.a.)	1.5	0.8	-	0.5	3.6
Private ave hourly earnings, ord time	0.7	0.5	0.6	0.6	3.1
Labour Cost Index					
All sectors, ordinary time	0.3	0.5	-	0.4	1.6
Private sector, ordinary time	0.3	0.6	0.5	0.4	1.8
Private, all salary & wage rates	0.3	0.6	0.5	0.5	1.8

figures create any additional urgency to hike rates again this year; in any case, in terms of the news over the last 24 hours, the sharp deterioration in international dairy prices will probably be more of a headache for the RBNZ than a gradually strengthening labour market.

Survey details: Household Labour Force Survey (HLFS)

The official unemployment rate fell to 5.6% in the June quarter, from 5.9% in the March quarter (revised down from 6.0%). This was the lowest unemployment rate since March 2009.

The details of the survey were a little less impressive on the face of it. Employment rose by 0.4%, while the labour force participation rate fell to 68.9% from a record high of 69.2% – both of these undershooting our forecasts. However, volatility in these measures often goes hand in hand, which is why we recommend focusing on the unemployment rate as a more stable gauge of what's happening in the jobs market.

What this does suggest is that some of the blockbuster performance in jobs growth and participation up to the March quarter may have been due to survey noise, a possibility that we always have to be prepared for. We'd note that both measures are still substantially stronger than they were a year ago – employment is up 3.7%, while the participation rate is 0.8 percentage points higher.

The fall in the unemployment rate was fairly widely shared across the regions, although Canterbury obviously remains the star performer – the seasonally adjusted unemployment rate of 2.7% was only slightly above the all-time low of 2.5% in early 2008. It should be noted that the rebuild is not simply a story about construction jobs; Canterbury has also seen significant gains in manufacturing, retail and public administration jobs over the last year. Similarly, the construction boom is not simply a Canterbury story – construction jobs there are 27% higher than a year ago, but are also up 14%yr in the rest of the country.

Survey details: Quarterly Employment Survey (QES)

The employment measures of the QES generally told a similar story to the HLFS: solid growth in employment, but less than in the March quarter. Full time-equivalent employment rose by 1.1%, while hours paid rose by 0.8%; both measures were up around 3.5% on a year earlier. These fit with our forecast of 0.7% GDP growth in the June quarter: less than previous quarters, but not dramatically so.

The QES's measure of average hourly earnings rose by 0.5% over the quarter, following a 0.7% increase in the March quarter. This measure can be quite volatile at times, but this time it was more or less in line with our expectations. Annual growth picked up slightly from 2.9% to 3.1%.

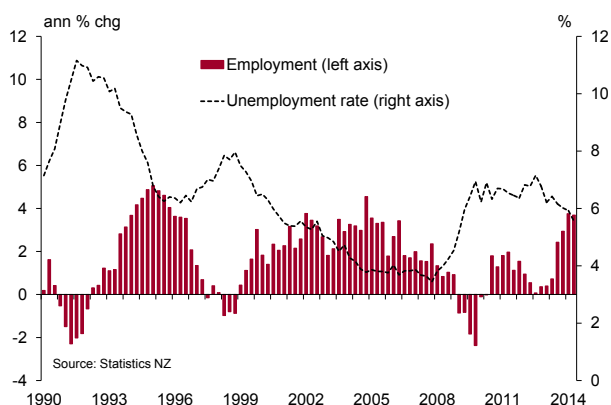
Survey details: Labour Cost Index (LCI)

Our preferred measure of wage inflation is the LCI, which is less volatile than the QES measure and less distorted by changes in the mix of jobs or labour productivity. Private sector ordinary time wages were stronger than expected, with the annual rate of increase rising from 1.6% to 1.8%. That's the fastest pace in just over a year, though it's still pretty low even by post-recession standards. (Public sector wage growth remained at 1.2%yr, the slowest since 1995.)

The legacy of sub-2% inflation over the last couple of years has clearly had an impact on pay negotiations. That situation will change as the degree of slack in the labour market is eroded, but wage inflation tends to evolve gradually and with a significant lag to the economic cycle.

The obvious exception to weak wage growth has been the construction industry. Construction wages and salaries were up 3.0%yr in Canterbury, the same annual pace as in the March quarter. However, there's been some catch-up in construction wages in the rest of the country too, accelerating to 1.9%yr in the June quarter.

Household labour force survey



LCI and QES wages



Michael Gordon
Senior Economist

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

Disclaimer continued overleaf.

Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.