

Smoke, but no fire?

Q3 labour market data preview: 5 November, 10:45am

- Employment growth is expected to have remained firm through the September quarter, pushing the unemployment rate down from 5.6% to 5.4%.
- With robust growth in GDP and employment, more people are being encouraged to enter the labour force.
- Despite the strengthening in employment, wage inflation is likely to have remained subdued, adding to the more general picture of soft inflation in New Zealand.

Strong GDP growth is encouraging robust growth in employment...

Despite recent declines in commodity export prices and earlier increases in the Official Cash Rate, the New Zealand economy is continuing to expand at a healthy pace. Growth is being supported by increases in construction (particularly in Auckland and Canterbury), as well as the boost to demand from strong population growth. These conditions have seen surveys of businesses' hiring intentions remaining at above average levels in H2 2014. We expect that this will be reflected in solid labour market data for the September quarter, which is due for release next week.

We're expecting the Household Labour Force Survey (HLFS) to show that employment increased by 0.8 percent in the September quarter. That would equate to a 3.2% increase in employment from the previous year. While this would be a step down from the rapid pace seen in early 2014, it would still be a solid increase, and enough to push the unemployment rate down from 5.6% in June to 5.4% in September - its lowest level since 2009.

...and increases in labour force participation...

There are a lot moving parts underlying our expectation for a decline in unemployment. One of the most important, and one of the most unpredictable in recent times, is the participation rate - that is, the share of the working-age population declaring themselves to be either in work (employed) or actively seeking work (unemployed).

Strong growth over the past year has encouraged increasing numbers of people to seek employment, and we're expecting labour force participation to push higher to 69% in September (not far from the record level reached in March). Increases in labour force participation have also been contributed to by demographic factors, including strong net immigration and increasing participation by older workers. As discussed in

	Q2 actual	Q3 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	0.4	0.8	3.2
Unemployment rate %	5.6	5.4	-
Hours worked	0.3	0.7	4.0
Participation rate %	68.9	69	-

Quarterly Employment Survey			
FTE employment (s.a.)	1.1	0.4	3.1
Hours paid (s.a.)	0.8	0.6	3.4
Private avg hourly earnings	0.5	0.8	2.3

Labour Cost Index			
All sectors, ordinary time	0.5	0.6	1.8
Private sector, ordinary time	0.6	0.6	2.0
Private, all salary & wage rates	0.6	0.6	2.0

our September Bulletin “*In or out: Labour force participation in New Zealand*”¹ we expect these demographic factors to continue boosting the underlying trend in labour force participation for a few more years.

But while the trend in labour force participation is for further increases, it can be volatile. In the year to March it slid from 68.7% to 67.9%, then bounced to 69.3% by March this year, before falling back again. Such swings can push the unemployment rate around at times. Consequently, we’ll be watching the Quarterly Employment Survey (QES) to provide a cross check on the HLFs. We expect that the QES will show that the number of filled jobs grew by 0.6 percent in September, consistent with firm growth in GDP over the quarter.

...but wage pressures remain low

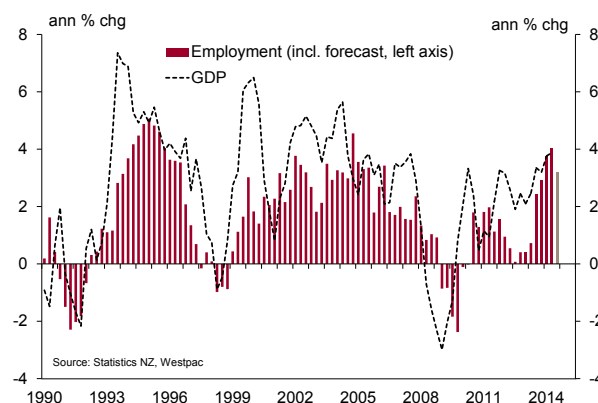
While GDP and employment have both been growing at a robust pace, we are yet to see a significant pick-up in domestic inflation. This is particularly evident in the labour market, with wage inflation not showing any material acceleration since the financial crisis.

But it’s important to put the current low wage inflation in context. When New Zealand experienced high rates of nominal wage inflation in the late 2000s, we also experienced high rates of generalised inflation which eroded households’ purchasing power. Recently, although we’ve had low wage inflation, we’ve had even lower consumer price inflation. Consequently, cost of living adjustments to wages have been modest.

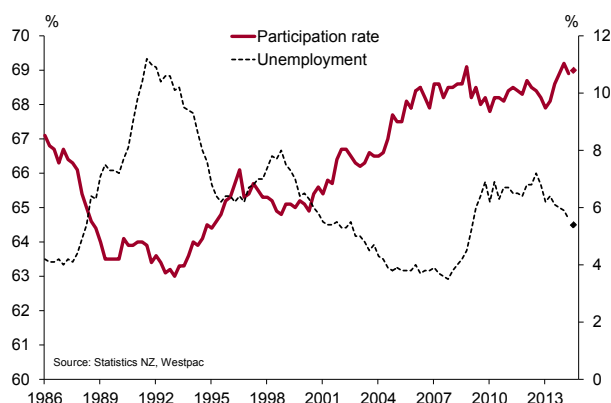
With the economy projected to grow at a robust pace over the coming year, unemployment is expected to decline, and some pick-up in wage inflation can be expected over time. But any substantive pick-up in wage inflation is likely to be 2015 story. In the near term we’re forecasting wage growth to remain modest, with the all sectors LCI expected to show a 1.8% increase in the year to September.

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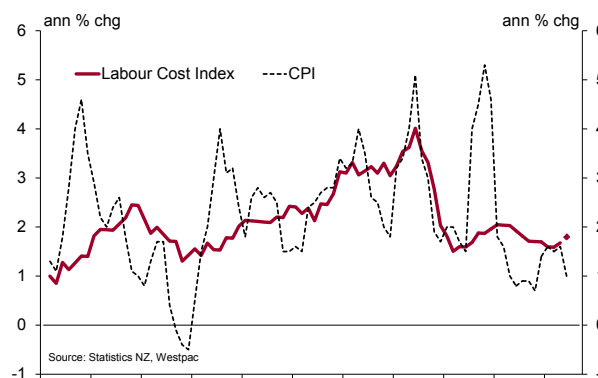
Employment and GDP



Labour force participation and unemployment



LCI and CPI



¹ <http://www.westpac.co.nz/assets/Business/Economic-Updates/2014/Bulletins-2014/Labour-Force-September-2014.pdf>

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