

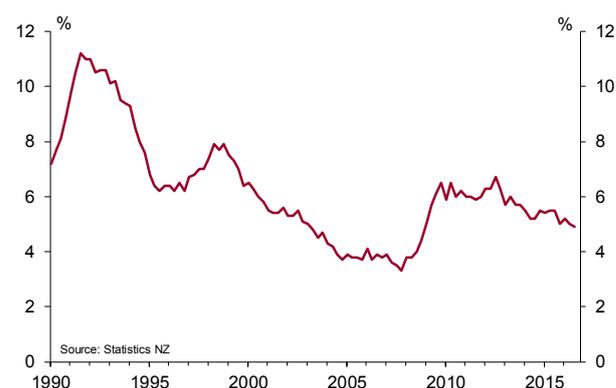
On a firm footing

Q3 2016 Labour Market Review

- New Zealand's labour market continued to strengthen in the September quarter.
- The unemployment rate fell to 4.9% from a (downwardly revised) 5% in June. This is the lowest unemployment rate since late 2008.
- There was a broad-based strengthening across the range of labour market indicators in today's data.
- Despite the improving labour market, wage inflation has yet to show signs of life. But we expect that will change next year.

We had expected to see further improvements in the labour market heading into the second half of the year. And today's data did not disappoint, coming in even stronger than our optimistic expectations. The unemployment rate fell to 4.9%, a near 8 year low, as the pace of jobs creation continued to outpace growth in the labour force. Employment growth of 1.4% in the September quarter extended the run of positive employment growth to four quarters.

Unemployment rate

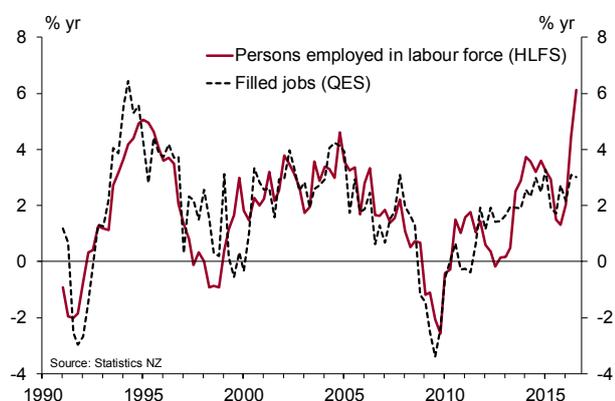


	Quarterly actual		Quarterly expected		Annual
	2016 Q1	2016 Q3	Market	Westpac	2016 Q3
Household Labour Force Survey					
Unemployment rate (s.a.)	5.0%	4.9%	5.1%	5.0%	-
Employment (s.a.)	2.4%	1.4%	0.5%	0.7%	6.1%
Participation rate (s.a.)	69.7%	70.1%	69.7%	69.8%	-
Quarterly Employment Survey					
FTE employment (s.a.)	0.3%	0.8%	-	0.5%	3.3%
Total weekly hours paid (s.a.)	0.2%	1.3%	-	0.7%	3.4%
Private ave hourly earnings, ord time	0.8%	0.6%	1.0%	0.7%	1.8%
Labour Cost Index					
All sectors, ordinary time	0.4%	0.4%	0.4%	0.5%	1.6%
Private sector, ordinary time	0.4%	0.5%	-	0.5%	1.7%
Private, all salary & wage rates	0.4%	0.4%	0.4%	0.4%	1.6%

The strengthening labour market continues to entice more people into the workforce. The participation rate rose further in the September quarter to 70.1%, the highest on record (although comparisons with earlier periods are difficult given the change in methodology last quarter which lifted the overall level of participation).

While there has been heightened uncertainty around labour market data in the wake of methodological changes to the HLFS, one notable element in today's data was the consistent message of improvement coming from both the HLFS and QES. This, viewed against a backdrop of solid momentum in the domestic economy, business confidence surveys reporting a lift in hiring intentions, and household surveys indicating improved employment prospects, means we're happy to take the strength in today's labour market data largely at face value.

Jobs growth

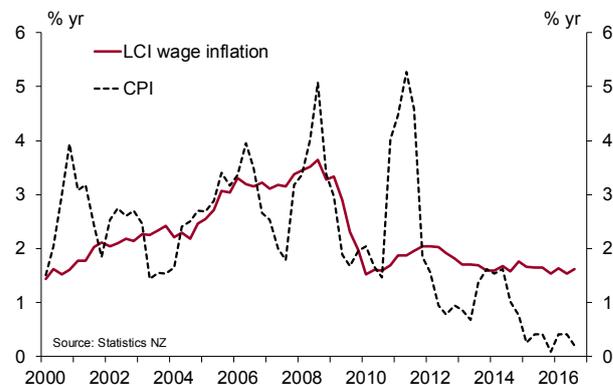


Split by industry, employment growth has been fairly broad based. There are hints that the recent rapid population growth is lifting employment in sectors such as education. Strong growth in the tourism sector is supporting some service industries, while the buoyant housing market has supported growth in related industries over the past year.

Yet while the labour market has continue to tighten, this is not yet having an impact on nominal wage growth. The headline LCI index rose 0.4% in the quarter, leaving annual inflation on this measure at 1.6%. Meanwhile, the broader QES measure of average hourly earnings rose 0.6%, broadly in line with expectations.

Low wage growth is likely to continue to be a drag on inflation in the near term. But we don't expect this to remain the case forever. Inflation is expected to make a long awaited return to the RBNZ's target band in December (we're forecasting annual inflation to reach 1%). And with firms increasingly finding it difficult to get the workers they want, pressure on wages is likely to start mounting next year.

LCI wage inflation



Implications

For the Reserve Bank, today's labour market data is likely to have been a little stronger than expected. Coming in conjunction with this morning's chunky rise in dairy prices, this means the economy is probably on a firmer footing than the Bank anticipated at its last Momentary Policy Statement. While it will keep a close eye on inflation expectations data released this afternoon, barring major surprises, the improvement in the domestic outlook is unlikely to be enough to dissuade the Bank from its long-signalled November rate cut. However, it does make us more convinced that next week's rate cut will be the last in this cycle.

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