

Back on track

NZ Labour market review, March quarter 2017

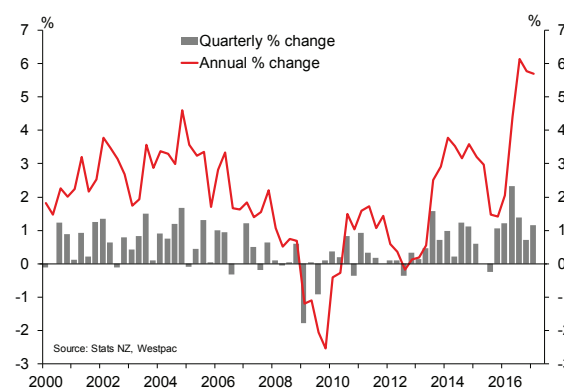
3 May 2017

- The unemployment rate fell to 4.9% in the March quarter, a lower level than analysts had expected.
- The larger than expected drop in unemployment reflected stronger than expected jobs growth, with the number of people in employment rising by 29,000 over the quarter.
- Jobs growth in March offset the continued increase in the size of the labour force and associated climb in the participation rate (which hit a fresh record level).
- Wage inflation remains muted, as expected.
- Today's data have limited implications for the RBNZ.

Unemployment down on stronger than expected employment growth

New Zealand's unemployment rate fell to 4.9% in the March quarter. That was stronger than analysts (including ourselves) had expected, and completely reversed the rise seen in December.

Employment growth

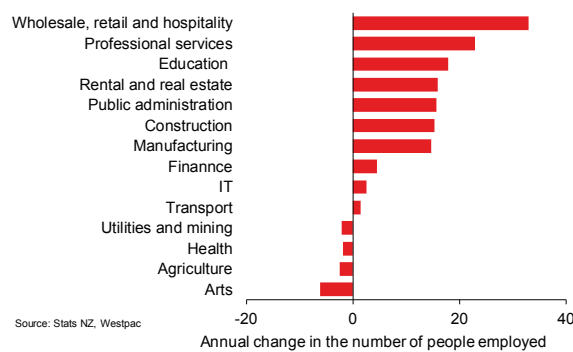


	Quarterly actual		Quarterly expected		Annual
	2016 Q4	2017 Q1	Market	Westpac	2017 Q1
Household Labour Force Survey					
Unemployment rate (s.a.)	5.2%	4.9%	5.1%	5.2%	-
Employment (s.a.)	0.7%	1.2%	0.8%	0.8%	5.7%
Participation rate (s.a.)	70.5%	70.6%	70.5%	70.6%	-
Quarterly Employment Survey					
FTE employment (s.a.)	0.9%	0.4%	-	0.7%	2.5%
Hours paid (s.a.)	1.1%	0.1%	-	0.6%	3.1%
Private ave hourly earnings, ord time (all sectors)	-0.3	-0.3%	0.7%	0.6%	1.1%
Labour Cost Index					
Private sector, ordinary time	0.4%	0.4%	0.4%	0.4%	1.5%
All sectors, ordinary time	0.4%	0.4%	-	0.4%	1.6%
Private, all sal & wage rates	0.4%	0.4%	0.5%	0.4%	1.5%

Underlying the reduction in unemployment has been solid economic activity that has been translating into increased demand for workers. Over the March quarter, the number of people in work rose by 29,000 – an increase of 1.2%. That continues the run of positive employment growth seen since late 2015, and it reinforces the picture of an economy that is continuing to chug along. We expect to see continued employment growth and a further drop in the unemployment rate over the coming year.

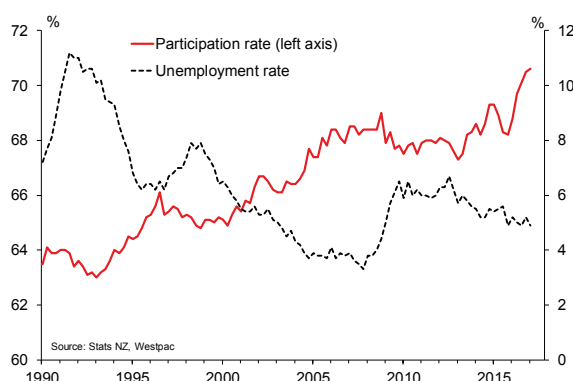
Jobs growth over the past year has been widespread across the regions, with particularly strong gains in Auckland, Northland, Waikato, and Manawatu-Whanganui. By sector, jobs growth has been centred on the retail and hospitality and professional services sectors, but it has been seen across most parts of the economy.

Employment growth by sector, year to March



Firm economic activity and the related increases in employment opportunities have enticed increasing numbers of people to enter the labour market. On top of this, large numbers of working age people have entered the country over the past year (including returning New Zealanders). Combined, these trends have seen New Zealand's labour force growing by 27,000 in the March quarter, with the participation rate rising 0.1ppts to a new record high of 70.6%.

Labour force participation and unemployment



The employer-focused Quarterly Survey of Employment was also released today. It showed continued, but more modest employment growth. Full-time employee numbers rose 0.4% over the quarter. Filled job numbers were up 0.3% over the quarter.

Wage growth remains muted for now

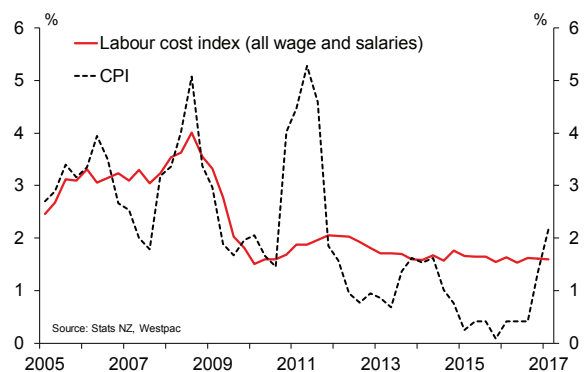
While labour demand continued to strengthen, this has not yet translated into stronger nominal wage growth. The headline LCI index rose 0.4% in the quarter, leaving annual wage inflation at 1.5% (in line with expectations and largely unchanged over the past year). Similarly, the broader QES measure of average hourly earnings rose by a modest 1.1% over the past year.

The low wage inflation we've seen in recent years has come against a backdrop of more general softness in consumer prices. This meant that even though nominal earnings growth was limited, households' purchasing power was continuing to expand at a healthy pace.

However, the inflation backdrop has changed dramatically. Consumer price inflation rebounded to 2.2% in early-2017, and we expect that it will linger around 2% over the coming year. This signals increasing pressure on household purchasing power, and is likely to translate into increased cost of living claims over the coming years. Combined with firmness in domestic activity, this is expected to see wage growth picking up (especially with businesses highlighting increased difficulty sourcing both skilled and unskilled labour). Nevertheless, wages are still expected to rise fairly gradually.

From August, the overall level of wage inflation in the economy will receive a sizeable boost from the recent equal pay settlement for caregivers. This historic agreement will boost the wages of around 55,000 workers from August by a sizeable amount. It's likely that we'll also see some spill over to wage and salary rates in associated occupations. However, outside of specific occupations, we still expect that overall wage growth in the economy will be modest.

Labour Cost Index and CPI inflation



Implications

We doubt today's data will have a significant impact on the RBNZ is thinking ahead of next week's *Monetary Policy Statement*. While the employment numbers were firmer than they had assumed in February (when they released their last set of projections), the unemployment rate and wage inflation were in line with their forecasts. We'll be releasing a preview of the RBNZ's *Statement* later this week.

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