

NZ labour market preview, June quarter 2017

Wednesday 2 August, 10:45am

28 July 2017

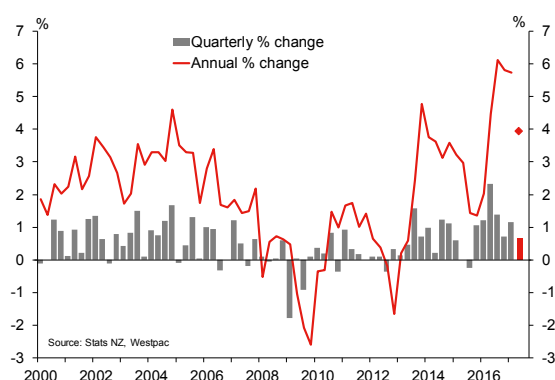
- June quarter labour market figures to show that employment is continuing to rise, underpinned by firm economic activity.
- Despite rising employment, growth in the labour force means that the unemployment rate is expected to remain at 4.9%.
- Wage inflation to remain modest.
- Markets and the RBNZ are likely to take the data in their stride.

| | Q1 Actual | | Q2 Forecast | |
|--------------------------------------|-----------|---------|-------------|--------|
| | Quarter | Quarter | Quarter | Annual |
| Household Labour Force Survey | | | | |
| Employment growth | 1.2% | 0.7% | 3.9% | |
| Unemployment rate | 4.9% | 4.9% | | |
| Hours worked | -0.6% | 1.0% | 1.8% | |
| Participation rate % | 70.6% | 70.7% | | |

| Quarterly Employment Survey | | | |
|------------------------------------|------|------|------|
| FTE employment (s.a.) | 0.4% | 0.9% | 3.1% |
| Hours paid (s.a.) | 0.1% | 1.1% | 3.8% |
| Private avg hourly earnings | 0.3% | 1.0% | 1.3% |

| Labour Cost Index | | | |
|----------------------------------|------|------|------|
| All sectors, ordinary time | 0.4% | 0.4% | 1.6% |
| Private sector, ordinary time | 0.4% | 0.4% | 1.6% |
| Private, all salary & wage rates | 0.4% | 0.4% | 1.6% |

Employment growth (including forecast)



Strengthening business conditions supporting employment growth...

During our recent travels, we've been hearing some very upbeat stories from businesses around the country. The positive vibes have been widespread, with sentiment particularly strong among those businesses linked to the hospitality and tourism sectors. Of course, there are still some challenges out there, including growing capacity pressures in some areas and continued strong international competition. But overall, our talks with businesses have left us with quite an upbeat picture of economic activity through the middle part of 2017.

Importantly, many businesses are reporting that they are looking to expand their operations, including staff numbers. And consistent with this, we expect the June quarter labour market figures, which are due for release on Wednesday 2 August, to show ongoing employment growth.

In terms of the numbers, we're forecasting that the Household Labour Force Survey (HLFS) will show that employment levels increased by 0.7% in the June quarter. Increases in employment are expected to be widespread, with larger gains in service sectors (including hospitality), retail and professional services. We also expect continued employment gains in the construction sector, though difficulties sourcing skilled labour may provide some brake on jobs growth on this front.

Growing demand for workers is also expected to be reflected in the employer-focused Quarterly Employment Survey (QES), which will be released at the same time. We expect that the QES will show that the number of full-time equivalent employees grew by 0.9% in the June quarter, to be 3% higher for the year – consistent with an economy growing at a firm pace.

...but increases in the labour force providing a floor under unemployment

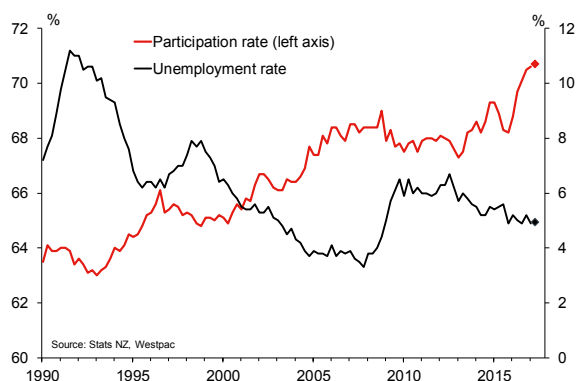
Even though the demand for workers is growing, we expect next week's figures will show that the unemployment rate remained unchanged at 4.9% in June. While that's not high, it's not really low either.

With the economy continuing to expand and demand for workers rising, more New Zealanders have been encouraged to seek employment. At the same time our

positive economic conditions are encouraging people to stay on shore or come back from overseas (particularly from Australia). This has also encouraged a pick-up in the number of new arrivals, which is adding to both demand in the economy and the labour supply.

Combined, we expect these trends will result in the labour force participation rate cracking a fresh record high of 70.7% in June. This strong rise in labour force participation has moderated the decline in the unemployment rate.

Labour force participation and unemployment (including forecasts)



Wage growth muted

On the wages front, things are still looking pretty muted. There are some sectors, like construction, where growing demand has given wages a bit of a lift over the past year. But even with the economy now into its seventh year of continued expansion, we're yet to see a broad-based lift in wage growth.

We're expecting the June quarter Labour Cost Index to show that base wage rates rose by only 1.6% over the past year. Similarly, the broader QES measure of average hourly earnings is expected to have risen by only 1.3% in the year to June.

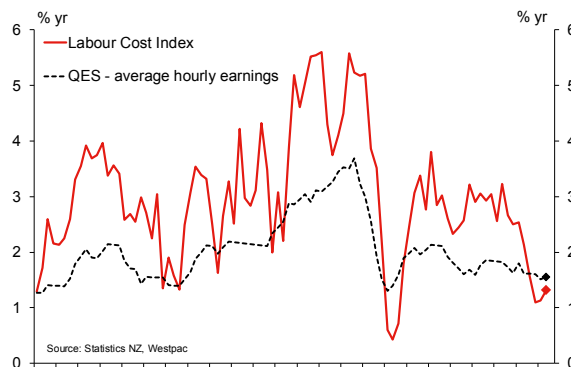
However, while wage growth may be low currently, we don't expect this to be the case forever. The economy is set to continue chugging along for sometime, and many firms are already reporting increasing difficulties sourcing both skilled and unskilled workers. Such difficulties appear most acute in the construction sector, but we're hearing about them in other industries too, including hospitality.

On top of this, much of the low wage growth in recent years came against a backdrop of very low consumer price inflation, which meant that cost of living adjustments to wages were also limited. But inflation has now lifted from its earlier lows, and over time this will feed into wage and salary changes.

On top of the firming in economic conditions more generally, the overall level of wage inflation in the economy will receive a sizeable boost in August as a result of the

recent equal pay settlement for caregivers in the health sector. This historic agreement will boost the wages of around 55,000 workers by a sizeable amount. It's likely that we'll also see some spill over to wage and salary rates in associated occupations.

Wages (private sector, ordinary time)



Implications

June's labour market update is one of the last key pieces of economic information ahead of the Reserve Bank's August policy decision. A result in line with our forecasts is unlikely to prompt a large reaction from markets or the RBNZ.

But even if we saw stronger than expected wage growth or a sharper pull-back in the unemployment rate, we doubt the June labour market data would be enough to prompt a shift in stance from the RBNZ. Economic conditions more generally, as well as a recent speech by RBNZ Assistant Governor McDermott, all point to the RBNZ remaining very firmly on hold. If anything, the risk is that a weaker than expected labour market would prompt a dovish tilt from the RBNZ.

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