Economic Bulletin.

29 July 2021

Preview of Q2 labour market surveys: 4 August, 10:45am.

- We expect the June quarter unemployment rate to fall to 4.4%.
- Recent evidence points to a marked strengthening in labour demand, on top of the well-known issue of skill shortages due to the loss of access to migrant workers.
- Monthly indicators have shown a surge in job ads and an acceleration in hiring.
- But this is coming at a price – we expect to see a strong lift in wage growth for the quarter.
- It appears that firms are now willing and able to pay up to attract workers, much more so than they were just three months ago.

Michael Gordon, Acting Chief Economist
+64 9 336 5670

	Q1 actual	Q2 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	4.7	4.4	-
Employment growth	0.5	1.0	1.5
Participation rate	70.4	70.7	-
Quarterly Employment Survey			
FTE employment	-1.2	1.0	0.5
Hours paid	-1.0	1.0	2.9
Private average hourly earnings	-0.1	2.0	4.8
Labour Cost Index			
All sectors, ordinary time	0.4	0.8	2.2
Private sector, ordinary time	0.4	0.8	2.2
Private, all salary & wage rates	0.4	0.8	2.2

In the early part of this year, conditions in the labour market were consistent with an economy that was still running below its potential. Job growth was modest, and while concerns about skill shortages were emerging, there was little evidence that firms were actively bidding up to attract workers.

Things now look quite different. Job ads have surged to new highs, employment growth has accelerated, benefit numbers are falling sharply, and there are increasing anecdotes of big pay offers and poaching by employers, even in industries that weren't greatly reliant on overseas workers in the first place. All of these are markers of strong demand, on top of the supply-side constraints arising from the border closure.

This should be reflected in the June quarter labour market surveys, released next Wednesday. For the Household Labour Force Survey (HLFS) we're expecting the unemployment rate to drop from 4.7% to 4.4%. That's not quite back to pre-Covid levels, but is getting close to what we would have considered to be the non-inflationary minimum even during normal times.

The Monthly Employment Indicator (MEI) has shown a strong lift in the number of filled jobs over the last few months, which we expect will equate to around a 1% rise in employment in the HLFS. We expect this to be accompanied by a strong lift in labour force participation. The MEI also suggests that jobs growth has been weighted towards the younger age groups, where there is more scope for a rebound in participation after the Covid shock.

Even so, we also expect a substantial drop in the ranks of the unemployed. The number of people receiving the Jobseeker Support benefit has dropped by about 10% since the start of the year, an unusually rapid decline.

We're much more uncertain about what to expect from the wage measures in the labour market surveys. There have been stories of hefty pay increases being offered in some sectors – IT is the one that stands out – but it's unclear how significant this is at the economy-wide level. It also appears that some of the sweeteners being offered by employers are in non-wage guises, such as signing bonuses and additional leave.

The MEI shows a sharp lift in employees' gross earnings over the last few months alone. We're cautious about how to interpret that – it could be due to changes in the composition of jobs as well as pay increases. In that sense, it aligns more closely with the average hourly earnings measure in the Quarterly Employment Survey (QES) than with the Labour Cost Index (LCI) which captures like-for-like changes in pay rates.

For the LCI, we expect a 0.8% increase in wages for the quarter, following a 0.4% rise in the March quarter. That would be a marked shift in what is normally a slow-moving series – and the risks are probably to the upside. Our forecast would see annual wage growth lift from 1.7% to 2.2%, due to a weak reading in the June 2020 quarter (the Covid lockdown period) dropping out.

The minimum wage was increased by 5.8% in April this year, which was a smaller increase than last year but probably affected a greater share of the workforce. We've previously estimated that this year's minimum wage hike would add about 0.1% to annual wage inflation compared to last year.

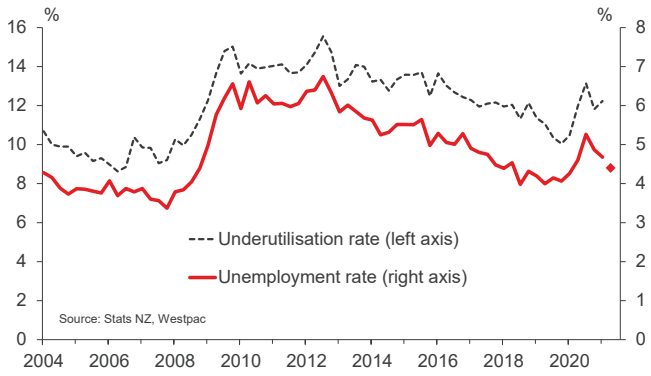
Overall, our forecasts are on the stronger side of what the Reserve Bank was expecting in its May Monetary Policy Statement. The RBNZ assumed that the unemployment rate would stall at around its current level, as skills mismatches meant that employers wouldn't be able to fill their vacant roles. We were sceptical of that at the time, and the evidence since then has pointed to a strong lift in hiring. However, our wage growth forecasts are similar to the RBNZ's.

In its July Monetary Policy Review the RBNZ took a noticeably more hawkish stance, saying that it was now time to start removing some of the monetary stimulus that was put in place last year. Even so, it noted that there were uncertainties around the persistence of inflation pressures, given "reported underutilisation of labour, modest wage growth, and well anchored inflation expectations".

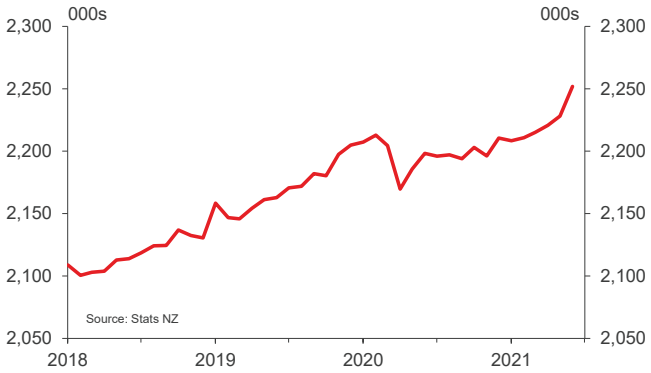
On the first two, we don't expect that next week's surveys will offer anything to stand in the way of an OCR hike in August. We haven't had any official data on wage growth since the March quarter, but the extent to which the stories of big pay increases have emerged in only the last couple of months is remarkable.

The reference to the underutilisation rate probably reflects the fact that this broader measure rose in the March quarter, in contrast to the fall in the unemployment rate. However, we doubt that there's much additional information to be gleaned from looking at this measure. The two measures often move in different directions from quarter to quarter, but the ratio between the two has been fairly stable over time, through both booms and busts, and that hasn't been any different in the past year.

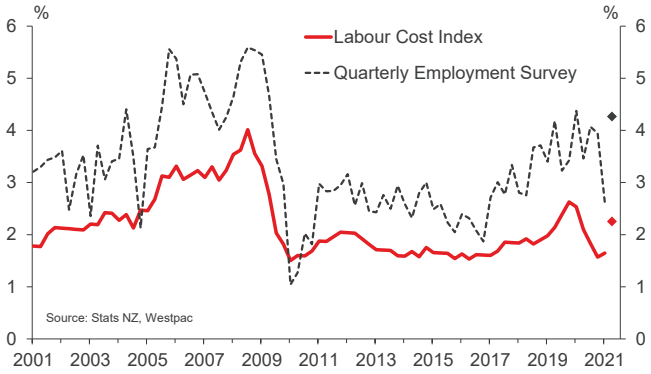
Unemployment and underutilisation rates



Monthly Employment Indicator filled jobs



Wage growth, all sectors ordinary time



Contact the Westpac economics team.

Michael Gordon, Acting Chief Economist
+64 9 336 5670

Satish Ranchhod, Senior Economist
+64 9 336 5668

Nathan Penny, Senior Agri Economist
+64 9 348 9114

Paul Clark, Industry Economist
+64 9 336 5656

Gregorius Steven, Economist
+64 9 367 3978

Any questions email:
economics@westpac.co.nz

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