WESTPAC ECONOMIC BULLETIN

Preview of Q2 labour market surveys: 2 August, 10:45am.

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Still robust.

- Jobs growth appears to have continued unabated in recent months.
- We think that migrant inflows have allowed employers to fill long-standing vacancies.
- Those migrant inflows have also boosted the size of the labour force, however.
- We expect the unemployment rate to nudge up 0.1ppts to 3.5% for the June quarter.
- Given the lagged impact of a tight jobs market, wages are likely to have grown robustly.

	Q1 actual	Q2 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	3.4	3.5	-
Employment growth	0.8	0.8	3.4
Participation rate	72.0	71.9	-
Labour Cost Index			
All sectors, ordinary time	1.0	1.3	4.5
Private sector, ordinary time	0.9	1.3	4.5

The most important entry in next week's local economic calendar is the release of the key labour market statistics for the June quarter. A projected loosening of the labour market forms the lynchpin of the RBNZ's forecast that CPI inflation will move back into the target range next year. And with last week's CPI pointing to stronger than expected inflation pressures in the non-tradables sector, the RBNZ will surely be keener than ever to see clear signs of a turning point in the labour market.

Indicators to hand suggest that a major turning point is yet to be reached. Our estimates suggest that the labour market has loosened only modestly of late, with the unemployment rate likely to have increased just 0.1ppts to 3.5% – still too low to apply downward pressure on inflation. While GDP growth has slowed, employment growth appears to have remained robust. At least in part this likely reflects the filling of longstanding vacancies, made possible by the recent surge in migrant inflows.

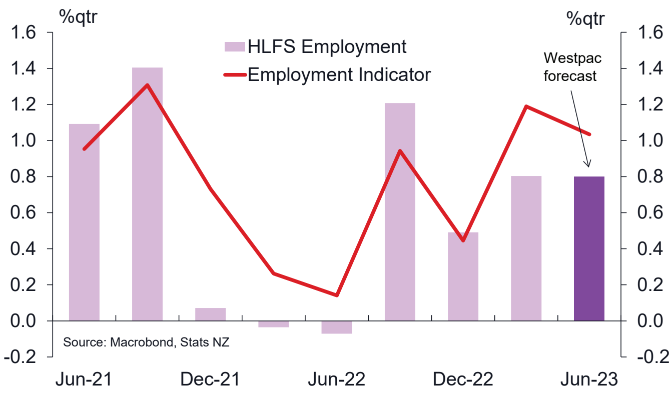
Our estimate for the unemployment rate is in line with the forecast made by the RBNZ in May, while our forecast for wage growth is just a smidgen firmer. Such an outcome will likely leave the RBNZ comfortable with its present policy stance. However, we think the Bank will want to see much greater progress in reducing labour market tightness in the second half of this year. Failure to see such progress would almost certainly raise the prospect of additional policy tightening.

Forecast details.

Our estimate of employment growth in the June quarter is guided by the monthly employment indicator (MEI). While the MEI differs conceptually from the Household Labour Force Survey (HLFS) measure of employment – the former measures filled jobs rather than people and does not capture the self-employed – the two measures usually move similarly from quarter to quarter. After increasing 1.2% in the March quarter, the MEI pointed to a further 1.0% lift in filled jobs in the June quarter. At face value, this points to a robust increase in household employment in the quarter.

Allowing for the possibility of some people taking second jobs in response to the increasing pressures on household finances, we estimate that the HFLS will report a 0.8% lift in household employment. Assuming no revisions – and we do see scope for an upward revision of employment growth in the March quarter – this would boost annual growth to 3.4% from 2.4% previously.

Employment



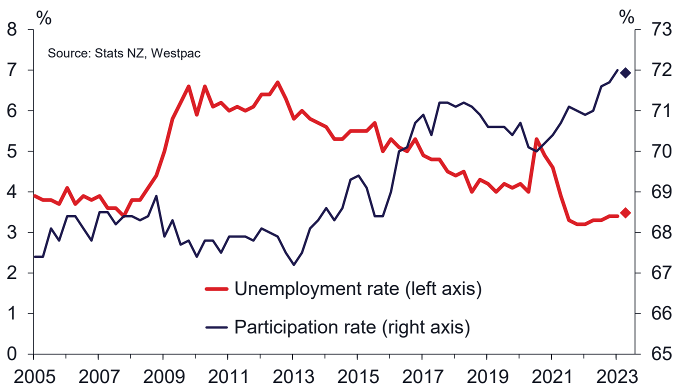
We think that the ongoing strength of employment growth owes in large part to the substantial inflow of migrant arrivals since late last year, which has allowed some employers to fill longstanding vacancies. For example, employers in the hospitality and public and private transport sectors are very likely to have added to their workforces, irrespective of general demand conditions in the economy.

Importantly, the surge in migrant arrivals has also significantly lifted the pool of potential labour. Indeed, Statistics New Zealand has reported that the working age population increased by 0.7% in the June quarter. Moreover, with population growth during the March quarter recently revised up to 0.8% – double that estimated previously – our estimate implies a lift in annual growth to a new high of 2.2%. This also points to the likelihood of a small upward revision to employment growth in the March quarter as prior survey sample estimates are scaled by the revised population estimate.

Given the estimated working age population and our estimate of employment, the implications for the unemployment rate hinge on developments in labour force participation. The labour force participation rate increased by 0.3% to a new record high of 72.0% in the March quarter. Pressures on household finances, due to high inflation and rising mortgage interest rates, may be causing more people to seek work. It also seems likely that migrants' labour force participation rate exceeds that of the general population. That said, after such a large increase last quarter, we are hesitant to forecast a further increase in the June quarter. Indeed, cognisant of survey sample error, we have assumed a modest pullback in the labour force participation rate to 71.9%.

Given the above, we estimate that the unemployment rate will edge up by 0.1ppts to 3.5%, continuing the very slight uptrend evident since early last year. As always, we caution that even a small deviation in the labour force participation rate can have a large impact on the unemployment rate (for example, should the former hold at 72.0%, all else equal the latter would rise to 3.6%). A modest lift in the unemployment rate seems consistent with survey measures pointing to a marked reduction in perceived labour shortages. The number of people on Jobseeker benefits – only loosely correlated with the unemployment rate – has drifted slightly higher in recent weeks. Meanwhile, the number of online job vacancies has moved down more noticeably and is now down 25% from a year earlier. That suggests that pent up demand for labour is either being met or withdrawn. However, we expect that this will have more impact on the unemployment rate in the September quarter onwards.

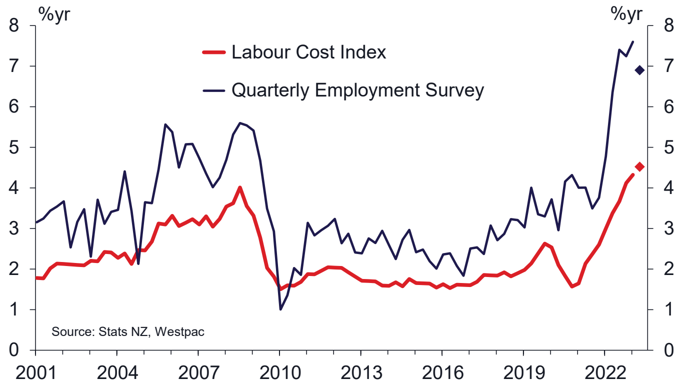
Unemployment and participation rates



Turning to wages, we expect that the overall Labour Cost Index (LCI) will increase 1.3% in the June quarter, stepping up from 0.9% in the March quarter, and lifting annual growth to a new cyclical high of 4.5%. Contributing to this lift in growth is the Government's decision to lift the minimum wage by 7% to $22.70 from 1 April. According to MBIE's analysis, this increase will have lifted the wages of about 7.5% of the workforce to varying degrees as pay rates are brought up to the new floor. However, for the most part the lift in the LCI reflects the lagged impact of past tightness in the labour market. Significant declines in wage growth are more likely to be a story for 2024, rather than this year.

Conceptually the headline LCI is close to a measure of unit labour costs, with any change in wages adjusted to remove the impact of promotions or seniority. A better measure of workers' take-home pay is provided by the unadjusted Labour Cost Index (which grew 5.8% in the year to March). The Quarterly Employment Survey, which has narrower coverage, reported a 7.6% lift in average hourly earnings in the year to March. These measures are likely to remain similarly elevated in the June quarter.

Wage growth, all sectors ordinary time



If the labour market data pan out much as we expect they will likely have little impact on the RBNZ's view of the economy or policy outlook. We expect employment to be slightly stronger than the 0.6% growth forecast by the RBNZ back in May. However, with migrant inflows also boosting the labour force, our estimate of the unemployment rate is in line with the RBNZ's forecast. We expect that a more significant upward trend in the unemployment rate will commence from the September quarter onwards as pent-up labour demand is exhausted and labour force growth continues at an above-trend pace (although perhaps not quite as steep as the RBNZ is forecasting). Our forecast for the increase in the (private sector) LCI is a notch above the RBNZ's May forecast, which might attract some focus from policymakers should the unemployment rate surprise on the downside.

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