NZ labour market preview, September quarter 2017

Wednesday 1 November, 10:45am

25 October 2017

- We expect the gradual strengthening in the labour market to have continued over the September quarter.
- Both employment and labour force participation are subject to volatility; we expect some payback from their June quarter declines.
- The unemployment rate provides a steadier gauge of the strength of the jobs market. We expect a small decline to 4.7%, taking it to a new nine-year low.
- Labour costs will be boosted by the healthcare workers' equal pay settlement, but we expect a modest pickup in underlying growth as well.
- The labour market figures are unlikely to dominate the Reserve Bank's thinking in its next *Monetary Policy Statement.*

	Q2 actual	Q3 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	-0.2%	1.0%	2.7%
Unemployment rate	4.8%	4.7%	
Hours worked	1.0%	0.7%	2.2%
Participation rate %	70.0%	70.3%	
Quarterly Employment Survey			
FTE employment (s.a.)	0.7%	0.9%	2.9%
Hours paid (s.a.)	0.9%	0.9%	3.1%
Private avg hourly earnings	0.8%	0.8%	1.6%
Labour Cost Index			
All sectors, ordinary time	0.4%	0.9%	2.2%
Private sector, ordinary time	0.4%	1.0%	2.2%
Private , all salary & wage rates	0.4%	1.0%	2.2%

A range of indicators suggest that New Zealand's labour market has continued to strengthen this year, even as the wider economy has entered a period of slower growth. Business surveys report that firms have been hiring at a rapid pace and intend to continue doing so, although skilled workers are becoming increasingly difficult to find. And in our quarterly employment confidence survey, households were on balance optimistic about job opportunities for the first time in nine years.

We're wary that the labour market tends to be a laggard in the economic cycle. For example, unemployment didn't start to fall consistently until several years after the recovery from the financial crisis began; wage growth has been even slower to respond. So there's good reason to expect a solid set of labour market reports for the September quarter, but there may be some clouds on the horizon for the jobs market next year if the current slowdown persists.

From the Household Labour Force Survey (HLFS), we expect a solid 1% rise in employment. That follows an unexpected 0.2% fall in the June quarter, which was at odds with a swathe of otherwise strong indicators for the quarter. We have a suspicion that the revamp of the HLFS in June last year may have altered the seasonal pattern of the employment series (though it will take several years of data from the new survey to confirm this). If is the case, we see the risks towards a stronger rise in employment in the September quarter as payback for the previous weak reading.

The drop in employment last quarter was accompanied by a sharp fall in the labour force participation rate, from a record high of 70.6% to 70.0%. We expect some of that result to be unwound too. But given the potential for unpredictable moves in both of these series, we recommend focusing on the unemployment rate as the more reliable gauge of the jobs market. We expect a modest improvement in the unemployment rate from 4.8% to 4.7%, which would be the lowest rate since December 2008.

The measures of employment growth from the Quarterly Employment Survey (QES) were more stable in the June quarter, and more in line with GDP growth for that period. We expect another solid increase in these measures for the September quarter, keeping annual growth at around 3%.

The decline in unemployment over the last few years has been a gradual one. Nevertheless, the labour market is moving closer to what could be considered 'tight' territory – that is, an unemployment rate that is associated with rising inflation. There's no agreement as to what constitutes 'tight', but the experience of the mid-2000s is a useful guide: wage growth picked up significantly as the unemployment rate fell to 4% and below.

We expect the Labour Cost Index (LCI) to show a mild pickup in underlying wage growth in the September – albeit largely as compensation for inflation, which has picked up from its lows. However, the headline LCI result is likely to be dominated by the impact of the recent equal pay settlement for caregivers in the health sector. This historic agreement will boost the wages of around 55,000 workers over the next few years, with the biggest increase coming into effect in July this year. We also expect to see some spillover to wage rates in associated occupations.

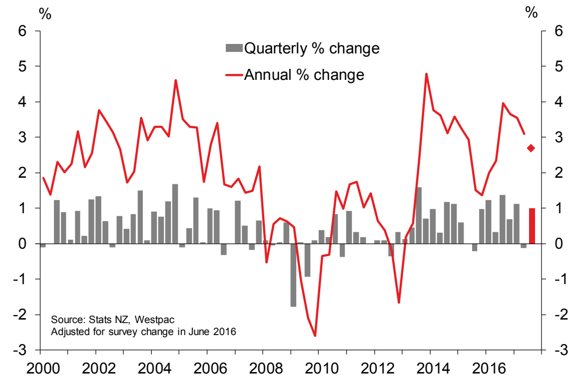
We estimate that this wage increase will add 0.4% to the LCI for the September quarter. Taking out that impact, our forecast implies a modest uptick in annual labour cost growth, from 1.7% to 1.8%. That doesn't sound like a big shift, but the LCI tends to evolve slowly over time – a 1.8% rise would be the strongest annual increase in nearly five years.

The labour market reports are the last significant pieces of economic information before the Reserve Bank's November Monetary Policy Statement. The Reserve Bank's forecasts are very similar to our own: a further small decline in the unemployment rate, and a temporary boost to wage growth from the healthcare workers' settlement.

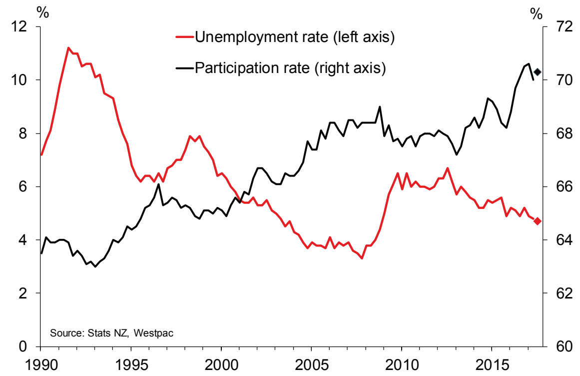
Any surprises in the labour market data are unlikely to alter the RBNZ's stance on their own; other considerations such as the slowdown in GDP growth and the cooling housing market are likely to play a bigger role in the RBNZ's thinking. We will release our preview of the *MPS* next week.

Michael Gordon
Senior Economist

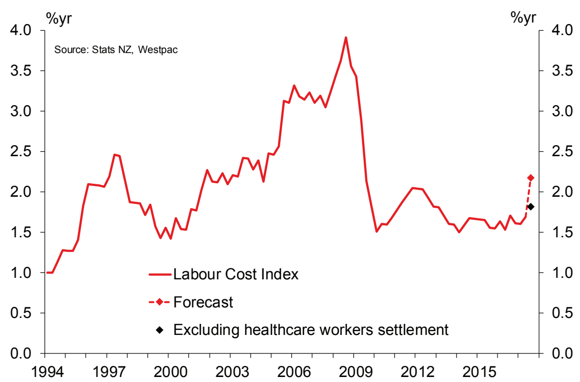
Employment growth (including forecast)



Unemployment and participation rates



Labour Cost Index



Contact the Westpac economics team

Dominick Stephens, Chief Economist +64 9 336 5671

Michael Gordon, Senior Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Shyamal Maharaj, Economist +64 9 336 5669

Paul Clark, Industry Economist +64 9 336 5656

Any questions email: economics@westpac.co.nz

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