Stuck in the mud

Q1 labour market preview, 2 May, 10:45am

27 April 2018

- There are signs that the improving trend in the labour market has become bogged down more recently, as slower economic growth and uncertainty around government policy have weighed on firms' hiring decisions.
- We expect a soft 0.3% rise in employment over the March quarter, and an unchanged unemployment rate of 4.5%.
- Our estimates suggest that the labour market is currently in 'neutral' rather than 'tight' territory, in terms of its influence on inflation pressures. Consequently, we expect wage growth to be in line with previous quarters.

	Q4 actual	Q1 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	0.5	0.3	3.0
Unemployment rate	4.5	4.5	
Hours worked	-0.6	0.5	3.1
Participation rate %	71.0	70.8	
Quarterly Employment Survey			
FTE employment (s.a.)	0.3	0.7	2.4
Hours paid (s.a.)	0.4	0.7	2.6
Private avg hourly earnings	0.8	0.8	3.6
Labour Cost Index			
All sectors, ordinary time	0.4	0.4	1.9
Private sector, ordinary time	0.4	0.4	2.0
Private , all salary & wage rates	0.4	0.4	2.0

The March quarter labour market surveys, released next Wednesday, may have a slightly more subdued tone compared to the improvement seen over the last couple of years. We expect a soft 0.3% rise in the number of workers, and an unchanged unemployment rate of 4.5%. Labour costs, which tend to evolve slowly in any case, are expected to be in line with previous quarters.

We have been expecting some softness in the labour market over the first half of this year, as uncertainty over the new government's policies causes firms to hold back on their hiring and investment plans. That's certainly what businesses have been saying in recent confidence surveys. But is this just an expression of discontent, or is it translating into action?

In fact, there have been more tangible signs of a cooling in the labour market. Job advertisements are growing, but at a slower pace than before. The latest Westpac-McDermott Miller employment confidence survey found that perceptions of job opportunities have eased. And the number of people receiving the jobseekers benefit has ticked up in seasonally adjusted terms. None of these factors on their own are ringing alarm bells, but they do suggest that the strengthening in the labour market over the last few years has become bogged down more recently.

For the Household Labour Force Survey (HLFS), our forecast of a 0.3% rise in employment is softer than the 0.5% growth in the working-age population. That's offset by our assumption of a further small pullback in the participation rate from its recent record highs. One point of uncertainty is the extent to which the new Government's provision of a year's free tertiary education has boosted the number of young people entering study (and therefore staying out of the active labour force for a while).

The balance of soft employment growth and lower participation leaves us with a forecast of an unemployment rate of 4.5%. That would be an improvement from the 4.9% rate a year ago, but unchanged from the rate seen in the December quarter. Incidentally, this is also right in line with our best estimate of the 'neutral' unemployment rate, which is consistent with inflation neither accelerating nor decelerating.

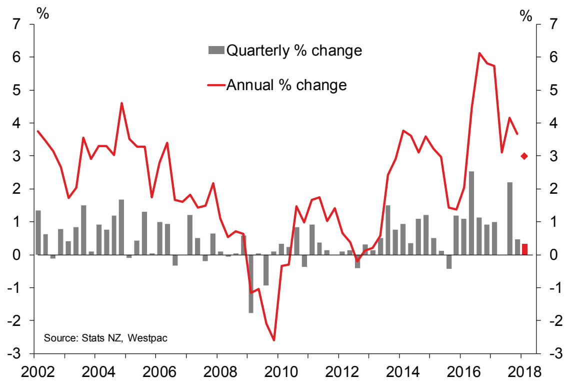
We expect the Quarterly Employment Survey (QES) to show somewhat higher growth in employment and hours paid compared to the HLFS. However, that is largely payback from the previous quarter, where the QES readings were soft relative to GDP growth.

For the Labour Cost Index (LCI), we expect a 0.4% rise in private sector labour costs – essentially the same quarterly rate of increase that we have seen for the last few years, with the exception of the aged-care workers' pay settlement in the September quarter last year. The LCI tends to evolve very slowly, so even a small deviation from our 0.4% forecast would provide a useful signal about the tightness – or lack of it – in the labour market.

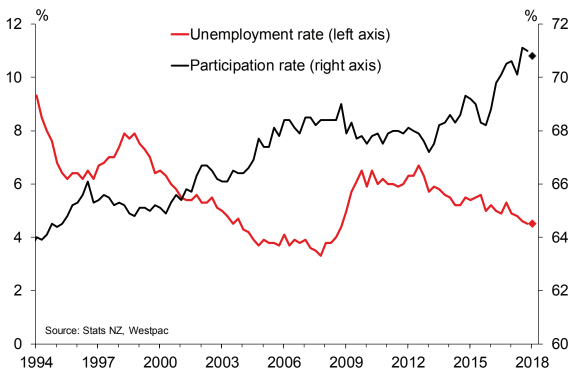
We do expect a modest pickup in wage growth over the next couple of years, based on a combination of a tighter labour market, collective pay agreements and minimum wage hikes. But the case for expecting a near-term pickup is weak. CPI inflation has ebbed lower again over the last year, and in our view the labour market is not sufficiently tight enough to warrant much more than cost-of-living increases in wages.

Michael Gordon
Senior Economist

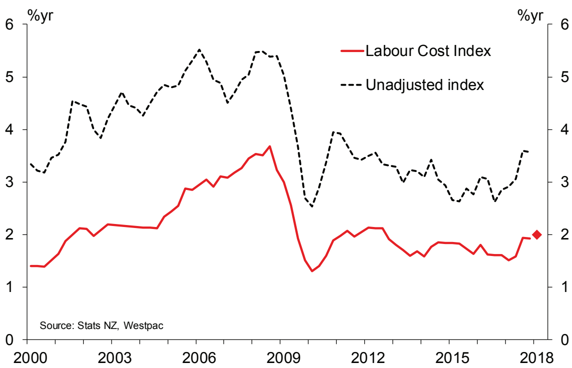
Employment growth (including forecast)



Unemployment and participation rates



Labour Cost Index



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