No pay wave

NZ labour market review, March quarter 2018

2 May 2018

- New Zealand's unemployment rate fell to a nine-year low in the March quarter.
- However, employment growth has slowed, and wage inflation remains missing in action.
- The implication is that there is still some spare capacity remaining in the labour market.

The surveys for the March quarter have arguably deepened the mystery about the state of New Zealand's labour market. Employment has continued to rise, albeit at a slowing rate, which would suggest that the economy is moving closer to full capacity. But there is still no sign of an acceleration in wage growth, and if anything the pressure on wages is going in the other direction.

The labour market surveys come ahead of next week's Monetary Policy Statement, which will be the first under the Reserve Bank's new mandate to consider employment as well as inflation outcomes. The unemployment rate was in line with the RBNZ's forecast for this quarter, and is below the RBNZ's estimate of the non-inflationary unemployment rate. But there is a sizeable band of uncertainty around that estimate, and the lack of a pickup in wage growth to date argues that the true 'sustainable' rate of unemployment could be somewhere further south. We'll be releasing our MPS preview later this week.

Details

The unemployment rate improved further in the March quarter, falling to a fresh nine-year low of 4.4%. That was in line with market and RBNZ forecasts, and was stronger than our forecast of an unchanged rate.

	Quarterly actual		Quarterly expected		Annual
	2017 Q4	2018 Q1	Market	Westpac	2018 Q1
Household Labour Force Survey					
Unemployment rate (s.a.)	4.5	4.4	4.4	4.5	-
Employment (s.a.)	0.4	0.6	0.6	0.3	3.1
Participation rate (s.a.)	70.9	70.8	71.0	70.8	-
Quarterly Employment Survey					
FTE employment (s.a.)	0.2	0.1	-	0.7	1.7
Hours paid (s.a.)	0.4	0.1	-	0.7	2.0
Private ave hourly earnings, ord time (all sectors)	0.8	1.1	0.5	0.8	4.0
Labour Cost Index					
All sectors, ordinary time	0.4	0.3	0.4	0.4	1.9
Private sector, ordinary time	0.4	0.3	-	0.4	1.8
Private, all sal & wage rates	0.4	0.3	0.5	0.4	1.9

However, the fall in the unemployment rate was the product of two relatively soft outcomes. Employment rose by 0.6%, barely matching the growth in the working-age population. Meanwhile the labour force participation rate fell slightly, albeit from a near-record high.

The Quarterly Employment Survey (QES) painted an even more muted picture of employment, with little or no growth in employment and hours paid. And while annual growth in the HLFS employment measure remains fairly strong, the QES measures suggest a slowdown in growth over the last year, aligning more closely with the slowdown in GDP growth over that time.

Over the last year, the growth in employment has been strongest in business services (e.g. professional and administrative services) and personal services (e.g. healthcare, education, arts and recreation). In contrast, employment in the construction sector has flattened out after several years of strong growth, highlighting the issue of skill shortages in this area.

There was no clear factor behind the fall in the participation rate. We were curious at to the impact of the new Government's policy to previous a year's free tertiary education, which might have seen more people go into study and therefore stay out of the active workforce for a while. But there was no obvious impact in the March quarter figures – the number of people in formal study was actually down on last year.

The Labour Cost Index (LCI) showed just a 0.3% rise for the quarter, even less than our 0.4% forecast which was at the low end of the market range. The annual rate of growth remained at 1.9%. Excluding the impact of last year's pay settlement for aged care workers, the annual increase would have been 1.6% – effectively the same rate of increase that we have seen for the last several years.

Notably, the share of workers receiving any pay increase at all has been trending lower again in the last few years, and is now at its lowest since 2010, which was in the wake of the Global Financial Crisis. It's very unusual to see pay increases becoming less frequent when businesses are supposedly crying out for more workers, and when inflation is no longer at rock-bottom levels.

In contrast to the subdued wage growth story in the LCI, the QES measure of average hourly earnings has picked up strongly in the latest quarter, and over the last year. However, we would put less weight on this series. It has always been more volatile than the LCI (and was affected more by the aged-care workers' settlement), and the recent growth is arguably a correction from a very weak patch a year earlier.

Michael Gordon
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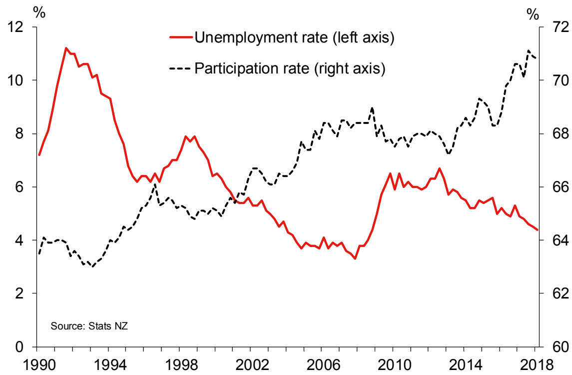
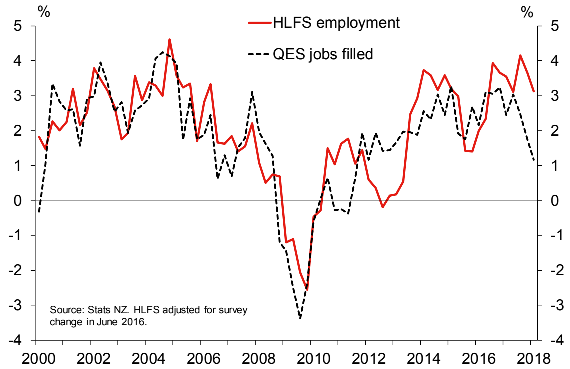
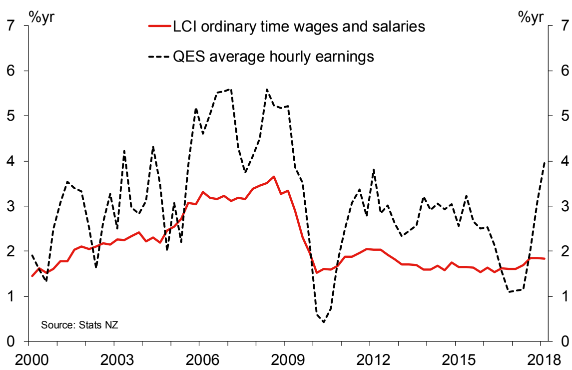
Unemployment and participation rates



Annual employment growth



Private sector wage growth



Distribution of wage growth

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