Crossroads

Q2 labour market preview: 1 Aug, 10:45am

27 July 2018

- We expect the unemployment rate to remain unchanged at 4.4% in the June quarter, ending a recent streak of declines.
- Our forecast includes a drop in employment, but this mostly reflects survey volatility. The unemployment rate is the more reliable guide to labour market trends.
- We expect annual wage growth to tick up slightly as a result of the larger minimum wage increase this year.
- New Zealand's labour market has tightened in recent years, but with little evidence of a pickup in wage pressures to date. And with economic growth slowing, the labour market may actually loosen in the near term, rather than tighten further.

	Q1 actual	Q2 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	0.6	-0.3	2.9
Unemployment rate	4.4	4.4	
Hours worked	1.7	-0.9	3.5
Participation rate %	70.8	70.3	
Quarterly Employment Survey			
FTE employment (s.a.)	0.1	0.5	1.5
Hours paid (s.a.)	0.4	0.5	1.8
Private avg hourly earnings	1.1	0.9	4.1
Labour Cost Index			
All sectors, ordinary time	0.3	0.5	1.9
Private sector, ordinary time	0.3	0.5	2.0
Private , all salary & wage rates	0.3	0.5	2.0

New Zealand's labour market conditions have reached an uncertain juncture. Strong growth to date appears to have taken the labour market into 'tight' territory: the unemployment rate is at a nine-year low, and businesses are increasingly expressing concern about the difficulty of finding workers and the likely impact of pay increases. But at the same time, there's growing evidence that the economy has lost some momentum over the last year, in part due to uncertainty around the impact of the new Government's policies.

What's more, the labour market tends to respond to broader economic conditions with a lag. So it's not clear to what extent the June quarter surveys, released next Wednesday, will reveal a change of direction one way or another.

For the Household Labour Force Survey (HLFS), we expect an unchanged unemployment rate of 4.4%, ending a five-quarter run of declines. This is in line with the Reserve Bank's forecast, and we suspect that the average market forecast will be similar.

Where we differ is that we're forecasting negative employment growth for the quarter. Much of this reflects our allowance for a distorted seasonal pattern in the survey, rather than a genuine difference of opinion. Nevertheless, such a seemingly weak result would likely generate some commentary and a reaction in financial markets. We emphasise focusing on the unemployment rate as the most reliable measure.

For wages, we expect a 0.5% quarterly increase in the Labour Cost Index (LCI) private sector measure. The Reserve Bank is forecasting a 0.6% rise, a meaningful difference for this slow-moving series.

Forecast details

Our indicators for employment over the June quarter have been mixed. On the positive side, the Quarterly Survey of Business Opinion showed an uptick in reported hiring over the last three months, in contrast to the fall in hiring intentions and the weaker business sentiment in general. And the Westpac-McDermott-Miller employment confidence survey found that perceptions of the availability of jobs – which corresponds quite closely with the unemployment rate – improved further in June.

On the other hand, the growth in job advertisements has slowed substantially this year, though they haven't fallen outright. And perhaps of most concern, the share of the working-age population receiving the jobseekers' benefit is now rising again after several years of decline. Not everyone who is unemployed receives this benefit, but because it is a complete record rather than a survey, the benefit numbers provide a much more stable measure of unemployment trends than the HLFS.

We've struck a balance between these indicators and assumed a steady unemployment rate for the June quarter. Stepping back a little, our forecasts include a slight worsening in unemployment over this year, reflecting the slowdown in economic growth, before increased fiscal spending drives a further drop in unemployment over 2019. But the timing of these turning points is uncertain.

We expect a 0.3% fall in the number of people employed in the June quarter, but that comes with some caveats. Both employment and labour force participation are choppy from quarter to quarter, due to sampling errors in the survey. But generally these moves are offsetting and don't affect the unemployment rate, which is the measure that we recommend focusing on.

There's also a technical issue, large enough to highlight here. The revamp of the HLFS in June 2016 temporarily disrupted its seasonal pattern, so that reported employment now tends to be understated in June quarters. If we adjust for this issue, our 'true' forecast would be a modest 0.2% rise in employment rather than a 0.3% decline. This issue doesn't affect the unemployment rate in the same way – another reason to focus on this measure.

In terms of wage growth, there's currently a marked divergence between the two main surveys that we expect will persist into the June quarter. For the LCI, we expect a 0.5% rise in private sector labour costs – a break from the string of 0.4% quarterly gains in recent years. The main factor is the 4.8% minimum wage hike in April this year, compared to increases of around 3.4% in the previous few years. The impact of the planned minimum wage hikes will escalate in future years, being both larger and affecting a greater share of the workforce.

Beyond the minimum wage hike (and the aged care workers' pay equity settlement last year), our forecast implies no substantial change in wage growth compared to what we've seen in the past few years. The LCI tends to evolve very slowly, so any deviation from our forecast – in either direction – would be noteworthy.

In contrast, the Quarterly Employment Survey (QES) measure of average hourly earnings has picked up strongly – up 4% on a year ago – and we expect the minimum wage hike to provide a further boost in the June quarter. We're reluctant to read too much into this measure, though. The QES recorded a sharp slowdown in earnings growth in 2016, which was somewhat at odds with other labour market indicators at the time. If the QES is simply playing catch-up, there's no certainty that the recent jump in earnings growth will be sustained.

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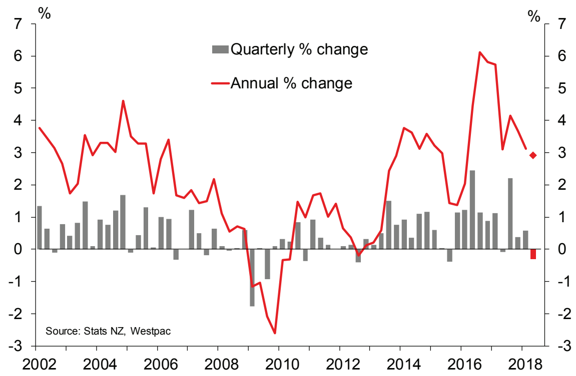
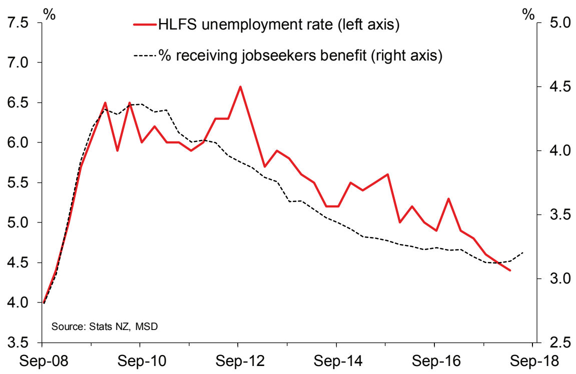
Employment growth



Measures of unemployment



Wage growth

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