

On the job

NZ labour market review, June quarter 2018

1 August 2018

- New Zealand's unemployment rate rose slightly in the June quarter, but in most other respects the details on jobs and wage growth were robust.
- Annual growth in employment accelerated, and labour force participation remains near record highs.
- Wage growth has accelerated, albeit slightly, even after accounting for Government-mandated pay increases.
- Today's reports will provide some comfort to the Reserve Bank that the economy is on track for both full employment and a gradual return to the inflation target.

Labour market conditions were generally firmer in the June quarter. Jobs growth was robust, though the unemployment rate ticked up slightly. With the economy moving closer to full capacity, the first signs of a stirring in wage growth are finally emerging.

While the results were stronger than we expected, they were largely in line with the Reserve Bank's forecasts in its May *Monetary Policy Statement*. The only aspect that fell short was the rise in the unemployment rate, and that was well within the margin of error for this survey. We think the RBNZ will be satisfied with both its contribution to "supporting maximum sustainable employment" – as specified in its new dual mandate – and with the evidence that inflation pressures are gradually picking up as intended.

The labour market figures are perhaps best seen as a corrective to the pessimism seen in recent business confidence surveys. Growth in activity has slowed from its peak, but businesses have remained open to hiring. And while wage growth has picked up, it's not spiralling higher in the way that businesses seem to fear.

Details

The Household Labour Force Survey (HLFS) recorded a 0.5% rise in employment for the June quarter, matching the growth in the working-age population. But with more

	Quarterly actual		Quarterly expected		Annual
	Q1	Q2	Market	Westpac	Q2
Household Labour Force Survey					
Unemployment rate (s.a.)	4.4	4.5	4.4	4.4	-
Employment (s.a.)	0.6	0.5	0.4	-0.3	3.7
Participation rate (s.a.)	70.8	70.9	70.8	70.3	-
Quarterly Employment Survey					
FTE employment (s.a.)	0.2	1.0	-	0.7	2.1
Hours paid (s.a.)	0.2	1.1	-	0.7	2.4
Private avg hourly earnings, ordinary time	1.1	0.2	1.0	0.9	3.3
Labour Cost Index					
Private sector, ordinary time	0.3	0.6	0.6	0.5	2.1
All sectors, ordinary time	0.3	0.5	-	0.5	1.9
Private sector, all salary & wage rates	0.3	0.6	0.6	0.5	2.1

people actively entering the workforce, the unemployment rate rose slightly from 4.4% to 4.5%.

In our preview last week, we noted that the HLFS employment figures tend to have a downward bias in June quarters, due to a revamp of the survey in June 2016 that disrupted the seasonal pattern. That seasonal bias hasn't disappeared – employment was actually even stronger than the reported number suggests, as demonstrated by the rise in annual employment growth from 3.1% to 3.7%. The employment measures in the separate Quarterly Employment Survey (QES) also picked up strongly in the June quarter.

The two surveys still tell somewhat different stories about the state of labour demand. The QES had seen a slowdown in jobs growth over the previous year, before picking up in the June quarter, whereas the HLFS has been persistently strong.

We're more inclined to believe the QES on this matter. The HLFS's record of a 3.7% rise in employment (and a 5.4% rise in hours worked) over the last year seems out of proportion with an economy where GDP has grown by around 2.5%. Either there's been an appalling decline in labour productivity in the last year, or one of these numbers is being mismeasured.

The Labour Cost Index (LCI) showed a 0.6% rise in private sector pay rates in the June quarter, in line with market and RBNZ expectations. That follows several years of quarterly gains in the order of 0.4% (with the exception of the September 2017 quarter, due to the aged-care workers' pay equity settlement).

Some of the increase was due to the larger minimum wage increase this year. Stats NZ estimates that this added 0.2% to the LCI private sector measure compared to a 0.1% boost in previous years, which is in line with what we expected. Around 3% of pay rates were directly or indirectly affected by the minimum wage increase – a proportion that will rise in coming years if future minimum wage hikes proceed as planned.

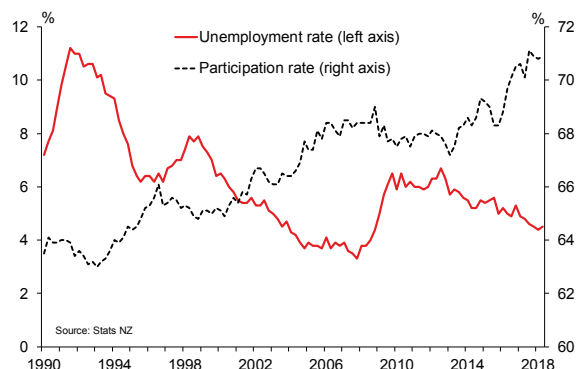
Even after stripping out the minimum wage impact, there does seem to have been a genuine pickup in private sector wage growth this quarter – this survey tends to evolve very slowly, so even a small change in direction can be significant. That slow evolution also means that it's difficult to identify the sources of any change. But we do note that in recent quarters there has been a drop in the share of people receiving pay increases of less than 2%. As the era of near-zero inflation has passed, cost-of-living pay increases are nudging higher accordingly.

In contrast to the LCI, the QES measure of average hourly earnings was soft in the June quarter, with annual growth slowing from 4.0% to 3.3%. This measure of wages is more volatile than the LCI, and its recent pattern has been hard to interpret – it slowed sharply in 2016, then surged higher in 2017. The latest results support our view that the acceleration was simply a short-lived catch-up phase.

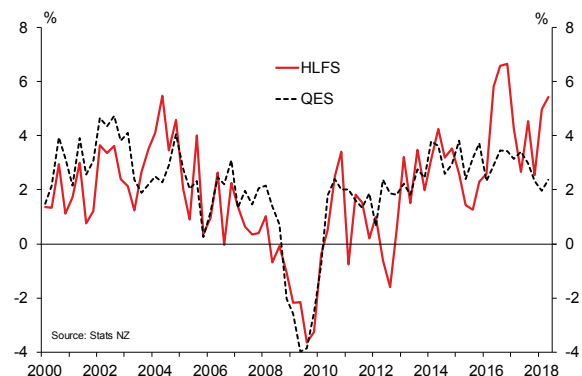
As with the various measure of 'core' inflation, the lift in LCI wage growth is not an upside surprise for the RBNZ – rather, it is no longer surprising on the downside. Wage and prices pressures are picking up gradually, but are still towards the lower side of the RBNZ's target range. With that in mind, the RBNZ can continue to keep interest rates low for an extended period.

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Senior Economist

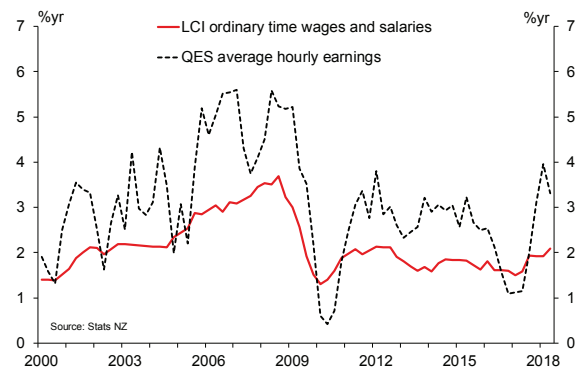
Unemployment and participation rates



Annual growth in hours worked



Private sector wage growth



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