

Mixed messages

Q3 labour market preview: 7 Nov, 10:45am

1 November 2018

- We expect a modest rise in employment and an uptick in the unemployment rate to 4.6% in the September quarter.
- We also expect a pickup in wage growth, partly helped by pay settlements with the Government.
- New Zealand's labour market has become tighter over recent years, but we're only now seeing evidence of a pickup in wage pressures.
- And there are signs of a softening in labour demand, as the economy has passed its peak rate of growth.
- We're expecting both unemployment and wage growth to exceed the Reserve Bank's forecasts. But there will be little time to process these results before next Thursday's *Monetary Policy Statement*.

The September quarter labour market surveys, released next Wednesday, could be a mixed bag. Last quarter's surveys revealed surprisingly robust growth in employment, which was in line with the stronger GDP result. However, the fall in the unemployment rate seems to be stalling, and it actually rose slightly to 4.5% in the June quarter. We're expecting next week's figures to show more modest employment growth and another small rise in the unemployment rate.

For wages, the outlook is a little more straightforward: pay settlements in the healthcare sector favour a stronger headline result. Beyond that, there are also early signs of an acceleration in private sector wage growth at last. However, the wage data tends to evolve slowly, which makes it hard to determine if there's been a genuine change in the trend.

The labour market surveys will be released a day before the Reserve Bank's *Monetary Policy Statement*, so the results won't be reflected in the RBNZ's forecasts but could feature in the press release and subsequent comments by the Governor. Our forecasts of unemployment and wage growth are both a touch higher than what the RBNZ expected in its *August Statement*. On balance, a weaker unemployment result would probably carry more weight, given that the RBNZ's dual mandate includes contributing to maximum sustainable employment.

Details

For the Household Labour Force Survey (HLFS), we are expecting a small uptick in the unemployment rate to 4.6%. The RBNZ's August *Monetary Policy Statement* forecast it to hold steady at 4.5% for the September quarter, with gradual declines over subsequent quarters.

We've pencilled in a modest 0.5% rise in employment, which is in line with our forecast of a modest rise in GDP for the September quarter. But we're wary that reported employment and labour force participation in the HLFS can both jump around a lot from one quarter to the next. Annual employment growth will almost certainly slow, given that a whopping 2.2% rise in the September quarter last year will be dropping out of the calculation.

The recent indicators of labour demand have been mixed. Business confidence surveys have shown a marked drop in hiring intentions. However, the message from job

	Q2 actual	Q3 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	0.5	0.5	2.0
Unemployment rate	4.5	4.6	-
Hours worked	1.4	-0.1	2.4
Participation rate %	70.9	71.0	-

Quarterly Employment Survey			
FTE employment (s.a.)	1.0	0.5	1.9
Hours paid (s.a.)	1.1	0.5	2.2
Private avg hourly earnings	0.2	1.0	3.2

Labour Cost Index			
All sectors, ordinary time	0.5	0.7	2.0
Private sector, ordinary time	0.6	0.6	2.0
Private, all salary & wage rates	0.6	0.6	2.0

advertisements is more nuanced: vacancies are still rising, although the rate of growth has slowed over the last year. The notable exception is healthcare, where job ads have surged in recent months after a sharp increase in funding in the May Budget.

The Westpac-McDermott Miller employment confidence survey found that perceived job opportunities fell slightly in the September quarter, though they remain close to a ten-year high. This measure has tended to be a good predictor of the unemployment rate.

There is one particular factor that sways our forecast towards a rise in unemployment. The share of the working-age population receiving the jobseeker's benefit, which had been trending down for several years, has started rising again in recent quarters. There are some differences between the eligibility criteria for the benefit and the official definition of unemployment, but generally the benefit numbers and the HLFs have followed a similar trend.

The rise in benefit numbers isn't necessarily a sign of a weakening economy. There are stories that the work-ready criteria for receiving the benefit are being less rigorously enforced under the new Government. If so, this would likely result in people exiting unemployment at a slower pace, leading to a higher 'steady state' unemployment rate.

For wages, we expect a 0.7% rise in the Labour Cost Index (LCI) for all sectors. The September quarter will feature the first stage of the nurses' pay agreement, with a 6% increase in wages covering about 1% of the total workforce. We'll also see the second round of the pay equity settlement for aged care workers, though the impact will be much smaller than it was for the first round a year ago.

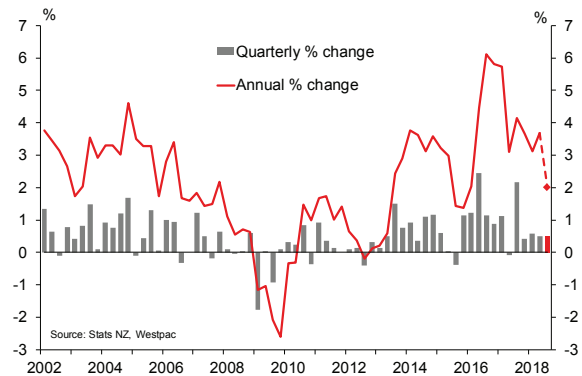
On our forecasts, this would see annual wage growth for all sectors pick up from 1.9% to 2.0%. However, private sector wage growth would drop from 2.1% to 2.0%, due to this year's aged care workers wage increase being smaller than last year's. In August the RBNZ was forecasting private sector wage growth to slow to 1.9%.

The LCI measure of wage growth tends to evolve very slowly, so even these sorts of incremental changes can be significant. The June quarter LCI showed the first signs of an acceleration in wage growth, which had been effectively static for several years up until then. There was a larger than usual increase in the minimum wage during that quarter, but we think that the pickup in wage growth extended beyond that impact.

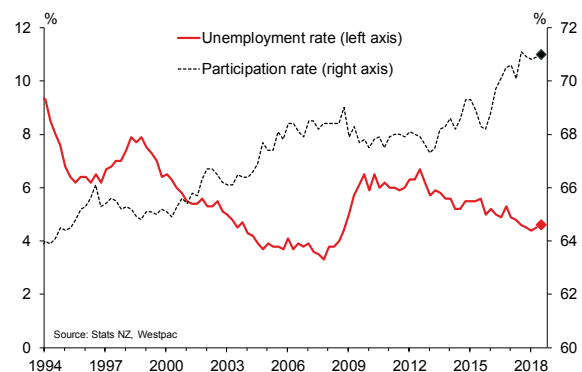
The Quarterly Employment Survey (QES) measure of wage growth typically runs higher than the LCI measure; it's also much more variable and has a strong seasonal pattern. We're expecting a 1.2% increase across all sectors (1.0% for the private sector), which reflects the usual strong gain in September quarters and the impact of the two pay settlements.

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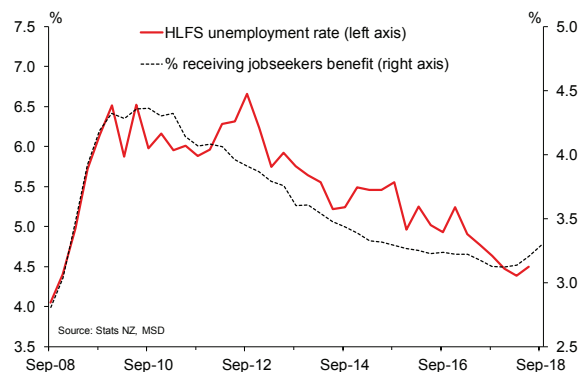
Employment growth



Unemployment and participation rates



Measures of unemployment



Wage growth (all sectors, ordinary time)



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