

The signal and the noise

NZ labour market review, September quarter 2018

7 November 2018

- New Zealand's unemployment rate fell sharply in the September quarter, to its lowest since 2008.
- We're wary of the inherent noisiness of this survey. But the broader sweep of evidence points to continued moderate jobs growth and a gradual tightening in the labour market.
- The Reserve Bank won't have much time to digest today's results, but this is another piece of evidence that weakens the case for more stimulus.

The Household Labour Force Survey for the September quarter was one out of the box. The unemployment rate fell sharply from a downwardly revised 4.4% to 3.9%, taking it to its lowest level since June 2008. Market expectations had been for an unchanged result, and we expected a slight increase based on the slowdown in the pace of economic growth and a rise in jobseeker benefit numbers.

When faced with these sorts of outcomes, the hard part is disentangling how much of this is a genuine signal about the state of the economy, versus the usual short-term volatility or sampling errors. While we regard the unemployment rate as the most reliable metric from the HLFS, it can still be very jumpy from one survey to the next. A one-quarter move of this size is extreme but not unprecedented, and they're usually followed by at least a partial reversal in the next quarter.

On the other hand, looking at the broader sweep of today's data suggests that the fall in unemployment may misstate the degree of change, but not necessarily the direction. Conditions in the labour market do seem to be more positive than we expected; they're vastly better than what firms have been reporting in the likes of business confidence surveys.

The HLFS recorded a 1.1% rise in employment for the September quarter. That looks strong, but September

	Quarterly actual		Quarterly expected		Annual
	Q2	Q3	Market	Westpac	Q3
Household Labour Force Survey					
Unemployment rate (s.a.)	4.4	3.9	4.5	4.6	-
Employment (s.a.)	0.6	1.1	0.5	0.5	2.8
Participation rate (s.a.)	70.9	71.1	70.9	71.0	-
Quarterly Employment Survey					
FTE employment (s.a.)	1.0	0.5	-	0.5	1.9
Hours paid (s.a.)	1.1	0.6	-	0.5	2.3
Private avg hourly earnings, ordinary time	0.2	1.4	0.8	1.0	3.6
Labour Cost Index					
Private sector, ordinary time	0.5	0.5	-	0.7	1.8
All sectors, ordinary time	0.6	0.5	0.5	0.6	1.9
Private sector, all salary & wage rates	0.6	0.5	0.5	0.6	1.9

quarters have tended to have an upward bias in recent times. Indeed, coming off a whopping 2.2% rise in September last year, the annual growth in employment slowed sharply to 2.8%. That puts it more in line with the Quarterly Employment Survey (QES) measures of jobs growth, which in turn have been more in line with GDP. The economy has continued to grow steadily, but the pace of growth has come off its peak in the last year or so.

Labour force participation rose to 71.1%, matching the all-time high reached in September last year. The participation rate tends to move with the economic cycle, and demographics should arguably be dragging it lower over time (as a growing share of the population reaches retirement age). So to see it hold at such high levels suggests that the demand for labour remains healthy.

The fall in unemployment wasn't universal – it was heavily concentrated among younger workers, who saw the biggest one-quarter drop in history by a wide margin. That sort of extreme isolated result makes it more likely that sampling error was a factor here. But we note that there was also a fall in unemployment for older workers, dropping below 3% for the first time since 2008.

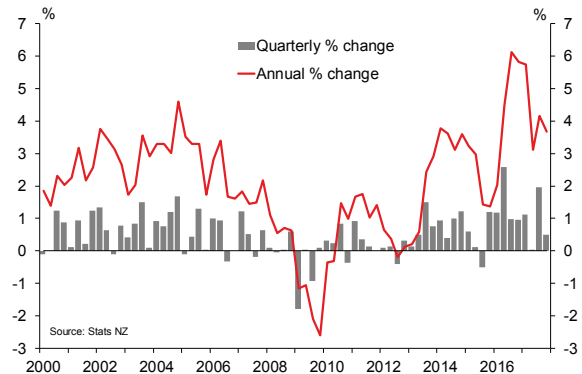
Unlike the employment surveys, the wages data didn't point to much of a tightening in labour market conditions. The Labour Cost Index (LCI) rose by 0.5%, with annual growth slowing a little to 1.9%. The drop in the annual growth rate is not surprising, as the aged care workers' pay equity settlement had boosted the numbers previously. Private sector wage growth has arguably started to pick up on a quarterly basis, but it's been a very incremental change so far.

The QES measure of average hourly earnings fared better, with an increase of 1.4% for the quarter and 3.6% over the last year. This measure can be affected by changes in the composition of workers, so while it has strengthened in the last year, it was curiously weak a year or so ago.

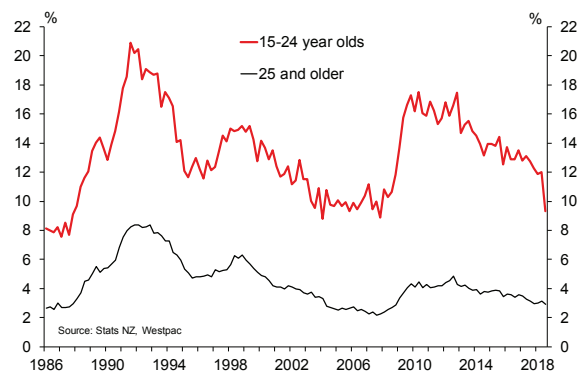
For the Reserve Bank, today's results come too late to be incorporated into the forecasts in tomorrow's *Monetary Policy Statement*, but they will have to be addressed in the media statement and conference. The RBNZ may cast a cautious eye on the extent of the fall in the unemployment rate. Nevertheless, it adds to the evidence that the economy is heading in the right direction, in terms of the RBNZ's dual mandate of stable inflation and maximum sustainable employment.

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Senior Economist

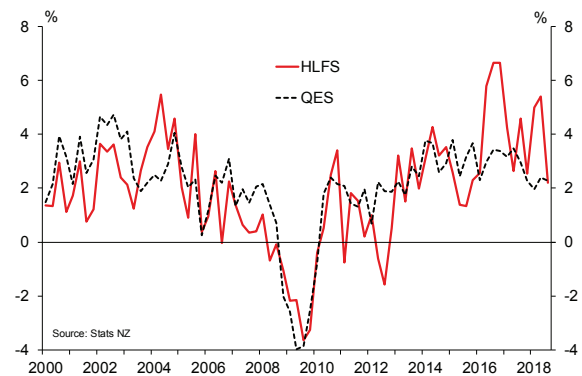
Employment growth



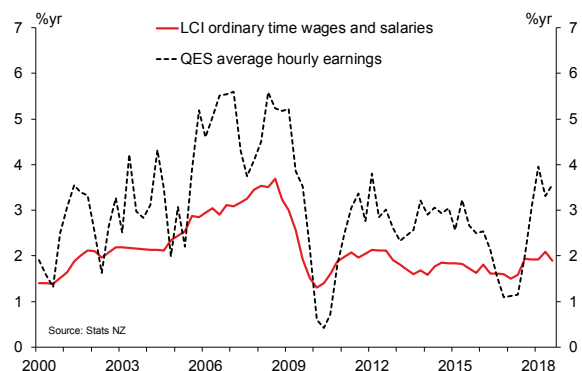
Unemployment rates



Annual growth in hours worked



Private sector wage growth



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