One step forward, one step back

Q1 labour market preview: 1 May, 10:45am

24 April 2019

- We expect a small rise in the unemployment rate to 4.4% in the March quarter. Low business confidence appears to have led to a slower pace of hiring.
- The labour market has tightened in recent years, and is close to estimates of the sustained maximum level of employment. However, the Reserve Bank would be concerned if employment trends were heading in the wrong direction.
- We expect a modest pickup in wage growth in the March quarter. More significant government-related increases are likely to come later in the year.

	Q4 actual	Q1 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	0.1	0.4	2.2
Unemployment rate	4.3	4.4	-
Hours worked	-2.0	3.3	1.8
Participation rate %	70.9	71.0	-
Quarterly Employment Survey			
FTE employment (s.a.)	0.4	0.6	2.5
Hours paid (s.a.)	0.1	0.6	2.3
Private avg hourly earnings	1.0	0.8	3.4
Labour Cost Index			
All sectors, ordinary time	0.5	0.4	2.0
Private sector, ordinary time	0.5	0.5	2.1
Private , all salary & wage rates	0.5	0.5	2.1

The March quarter labour market surveys, released next Wednesday, are shaping up as a mixed bag. Growth in hiring appears to have softened, matching the slower pace of economic growth over the last year or so. Even so, the labour market remains relatively tight, which should support a gradual uptick in wage growth.

The labour market surveys are the last major release before the Reserve Bank's next *Monetary Policy Statement*, which is a 'live' decision in terms of the possibility of an OCR cut. In its last published forecasts the RBNZ was expecting a slight drop in the unemployment rate to 4.2% this quarter. In contrast, we expect an increase to 4.4%. That would still leave it close to the RBNZ's estimates of the maximum sustainable rate of employment, but the RBNZ would be concerned if it were heading in the wrong direction.

For the Household Labour Force Survey (HLFS), we expect a modest 0.4% rise in jobs and a small rise in the unemployment rate from 4.3% to 4.4%. We expect a slight uptick in the participation rate to 71.0%, equalling its record high.

While the labour market is tight by all accounts, there are some concerning signs that the demand for new workers is flagging, as business confidence has remained low. Growth in job advertisements has flattened out in the last year, aside from a flurry of hiring in the public healthcare sector.

We also note that the share of the working-age population receiving the jobseekers benefit has been rising for the last five quarters. It's not clear to what extent this reflects less vigorous enforcement of the eligibility criteria, rather than a rise in the actual number of jobless. Nevertheless, this is a developing trend that doesn't look consistent with a strong labour market.

The HLFS is volatile at the best of times, and there are two points to note about the previous survey that make the March quarter even more uncertain. First, the December quarter included the occasional Survey of Working Life – there's a tendency for some workers to say that they are no longer in the labour force in order to avoid these extra questions. The main effect is a lower reported participation rate, but it can also lift the unemployment rate slightly. Stats NZ made some adjustments to the December figures at the time, but we won't know what the true impact was until the March figures are available.

The second issue was that surveying was more concentrated at the end of the December quarter, which meant that it was more likely than usual to capture students after their studies had ended. Consequently, youth unemployment was probably overstated last quarter.

Given the uncertainty around the HLFS, it's important to cross-check it with the Quarterly Employment Survey (QES), which covers employers rather than households. This survey confirms that the pace of employment growth has slowed over the last year or so, matching the slowdown in GDP growth over that time. We expect a modest 0.6% rise in jobs and hours paid in the March quarter.

Wage growth tends to lag the broader economic cycle. Even if the demand for new workers is fading, there appears to be enough accumulated pressure in the labour market to support a pickup in wage growth over the next couple of years.

We expect a 0.5% rise in the Labour Cost Index (LCI) for the private sector, lifting the annual growth rate above 2%. For the QES average hourly earnings measure, which tends to be more responsive to the cycle, we expect a 0.8% quarterly increase. There were no special factors that we're aware of in the March quarter, but subsequent quarters are likely to see a boost from public sector pay agreements and the large 7.3% increase in the minimum wage in April.

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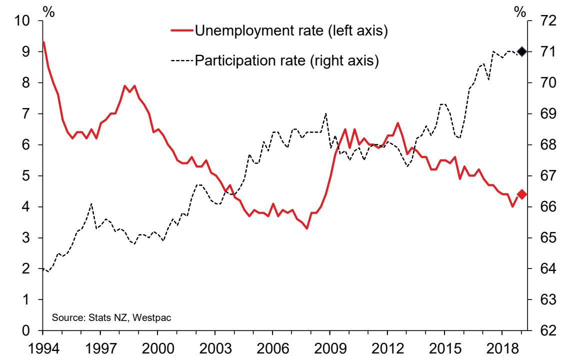
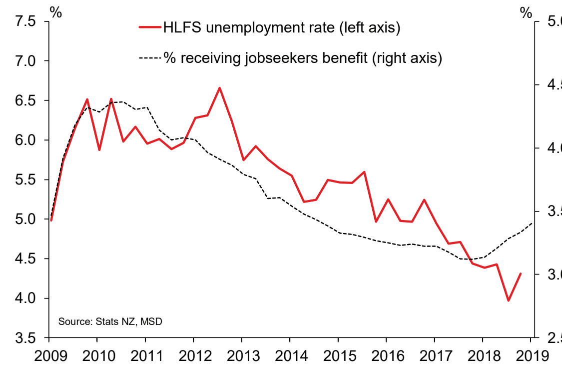
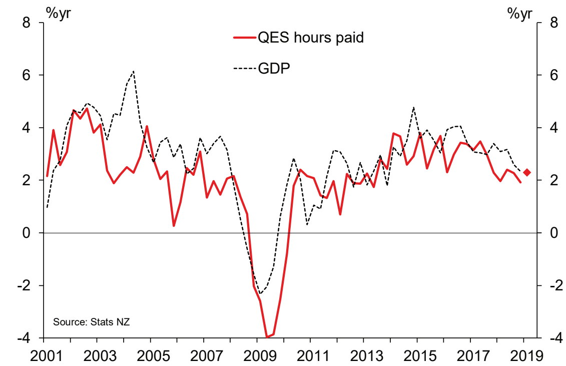
Unemployment and participation rates



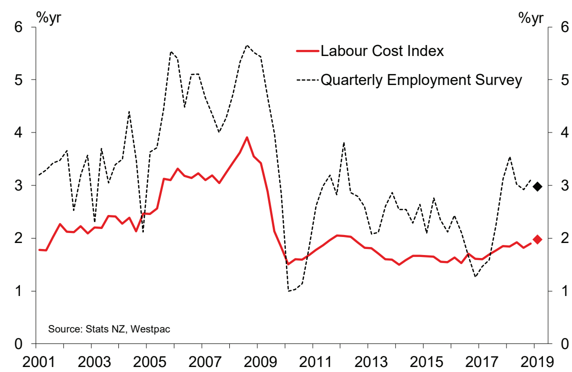
Measures of unemployment



QES and GDP, annual change



Wage growth (all sectors, ordinary time)



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