

Against the wind

NZ labour market review, June quarter 2019

6 August 2019

- The New Zealand labour market has defied expectations of a slowdown, with the unemployment rate falling to an 11-year low of 3.9% in the June quarter.
- Employment growth was solid, with the surprise being the lack of an accompanying rise in labour force participation.
- Wage growth was boosted by this year's large increase in the minimum wage, but underlying growth looks to have picked up a little as well.
- Today's results won't stand in the way of an OCR cut tomorrow, though they reduce the risk of a follow-up move in September.

The June quarter surveys defied expectations of a slowdown in the labour market. The unemployment rate fell to an 11-year low, employment regained some momentum after a soft March quarter, and wage growth was stronger than forecast even after allowing for the expected impact of the large minimum wage hike.

Today's surveys will give the Reserve Bank some comfort around how it's performing against its 'maximum sustainable employment' mandate. While the RBNZ looks at a broader suite of indicators than just the unemployment rate, many of them are simply different ways of slicing and dicing the Household Labour Force Survey (HLFS), so will most likely return the same surprisingly strong results. The counterargument is that this data is historical, and more forward-looking indicators such as the decline in job advertisements don't bode as well for employment growth in the coming quarters.

We don't think that today's data will affect tomorrow's OCR decision – we still think a cut is all but assured, along with a bias towards further easing. The stronger than expected labour market figures make it less likely that the RBNZ will immediately follow up with a cut in September, although global developments might still force its hand.

Turning to the details, the unemployment rate fell from 4.2% to 3.9% in the June quarter. That's low relative to

	Quarterly actual		Quarterly expected		Annual
	Q1	Q2	Market	Westpac	Q2
Household Labour Force Survey					
Unemployment rate (s.a.)	4.2	3.9	4.3	4.3	-
Employment (s.a.)	-0.1	0.8	0.3	0.8	1.7
Participation rate (s.a.)	70.4	70.4	70.4	70.7	-
Quarterly Employment Survey					
FTE employment (s.a.)	0.1	0.7	-	0.6	1.8
Hours paid (s.a.)	0.3	0.2	-	0.6	1.1
Private avg hourly earnings, ordinary time	1.1	1.1	0.5	0.4	4.7
Labour Cost Index					
Private sector, ordinary time	0.4	0.7	-	0.7	2.1
All sectors, ordinary time	0.3	0.8	0.7	0.7	2.2
Private sector, all salary & wage rates	0.3	0.8	0.7	0.7	2.2

history, but not extreme. Unemployment was persistently below 4% between mid-2004 to mid-2008, a period when the labour market was clearly considered to be tight, whereas unemployment has only just dropped below the 4% mark for the first time in this cycle.

Employment in the HLFS rose by 0.8%, rebounding from a 0.1% drop in the March quarter. While that was in line with our forecast, we expected this to be matched by a rebound in the labour force participation rate. Instead, participation held steady at 70.4%, and remains below the all-time high of 71% that was reached last year.

Notably, participation among the 55-64 age group has fallen markedly over the last year, busting a long-running upward trend. It's not clear whether this is a temporary issue with the survey sample, or if there has been a genuine trend towards early retirement in recent times.

If this trend persists, it could have serious implications for the degree of slack in the labour market. The ageing population means that the 55+ age group is the fastest-growing cohort in New Zealand, and while strong net migration has helped to bolster the number of younger workers in recent years, that effect is now waning. Businesses could face even greater difficulty in finding the number of workers that they need.

The Quarterly Employment Survey (QES) broadly supported the HLFS employment measure, picking up after a subdued March quarter. Filled jobs rose by 0.4% and full-time equivalent employment rose by 0.7%, although paid hours rose by just 0.2%.

The measures of wage growth were inevitably affected by the 7.3% minimum wage hike that took effect in April. The Labour Cost Index (LCI) rose by 0.7% overall, in line with our forecasts, although the 0.8% rise in private sector wage rates was a little stronger than we forecast. As we would expect, the biggest increases for the quarter were in sectors where minimum wage jobs make up a relatively large part of the total wage bill – retail, hospitality and administrative services.

Stats NZ noted that wage growth would have been 0.2% lower if the pay rates that were affected by the minimum wage hike had remained flat. That's close to the impact that we estimated a year ago, although the figures aren't quite comparable – we looked at the impact relative to a 'normal' minimum hike of around 3%, and we considered the knock-on effects for wage rates that were already slightly above the new minimum wage. Our best guess is that underlying private sector wage growth was a little stronger than we expected in the June quarter – and a clear pick-up from the 0.3% rise in the March quarter.

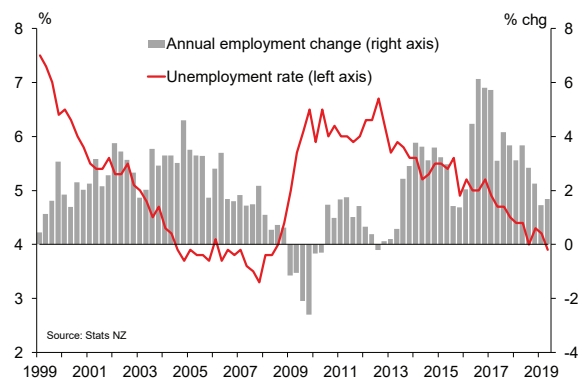
The LCI is by design a slow-moving measure of wage growth. In contrast, the QES measure of average hourly earnings has seen a marked acceleration, rising by 4.7% over the last year. This measure can be affected by changes in the composition of jobs, rather than just changes in pay rates, and the minimum wage hike probably had an even greater impact here than it did on the LCI. Nevertheless, it's notable that wage growth on the QES measure is now

reaching the levels seen during the 'tight labour market' period between 2004 and 2008.

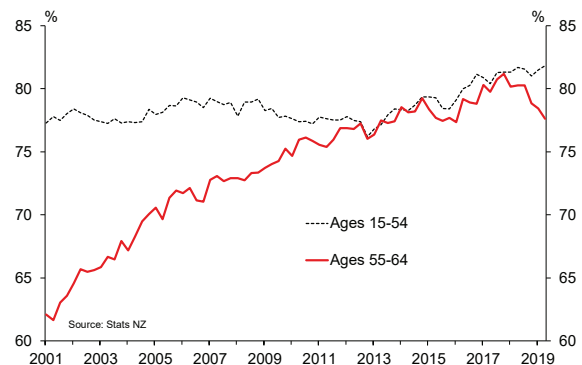
We doubt that unemployment will remain this low, and it could rise over the coming year. There are already early signs of a softening labour market, with forward-looking indicators such as hiring intentions and job ads falling in recent months. And we now face the prospect of an export downturn due to the escalating US-China trade war, which will inevitably affect employment in New Zealand.

Michael Gordon
Senior Economist

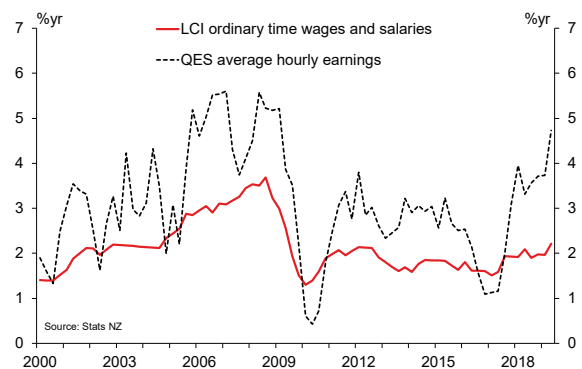
Unemployment rate and employment growth



Labour force participation rates



Private sector wage growth



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