

Backing up

Q4 labour market preview: 7 Feb, 10:45am

1 February 2019

- A range of measures are pointing to a tightening labour market. However, the sharp fall in the unemployment rate last quarter may have overstated the case.
- We're expecting a partial reversal, with unemployment rising back above 4%. This would still be consistent with an underlying trend improvement.
- With workers increasingly hard to find, we expect a gradual pick-up in wage growth in the coming years, though the quarterly result itself may not be all that revealing.

	Q3 actual	Q4 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	1.1	0.2	2.5
Unemployment rate	3.9	4.2	-
Hours worked	0.0	0.5	3.3
Participation rate %	71.1	71.0	-

Quarterly Employment Survey			
FTE employment (s.a.)	0.5	0.6	2.3
Hours paid (s.a.)	0.6	0.6	2.5
Private avg hourly earnings	1.4	0.7	3.4

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

Next Thursday's labour market surveys for the December quarter will be closely scrutinised, especially ahead of the Reserve Bank's next *Monetary Policy Statement*. A range of surveys and anecdotes point to an increasingly tight labour market over 2018. But the drop in the unemployment rate from 4.4% to 3.9% in the September quarter survey was well beyond any expectations, and it remains to be seen how much of that result will stick.

We're assuming a partial unwind of that result, with the unemployment rate rising to 4.2% in the December quarter. We noted at the time that the September quarter was dominated by an unprecedented drop in youth unemployment; in our view, the narrowness of that result makes it more vulnerable to a reversal. However, there was also a small drop in unemployment for older workers, which suggests that at least the direction of the move was genuine.

Our forecast also implies softer employment growth in the December quarter for the Household Labour Force Survey (HLFS), compared to the 1.1% jump recorded in the September quarter. The HLFS employment measure can be choppy from quarter to quarter, however, so it pays to cross-check it with other indicators.

The Quarterly Employment Survey (QES) tends to correspond more closely with the trends in GDP, with growth coming off its peak in the last year or so. We're expecting the QES measures to be in line with or a little stronger than the September quarter outturns, in line with our view that GDP growth will pick up from its soft 0.3% gain.

Even if the unemployment rate nudges above 4% again, it would still imply a tight labour market by historic standards. In time we'd expect that to lead to a pickup in wage growth, although to date there has been little evidence of this outside of government-mandated increases such as fair pay agreements and minimum wage hikes.

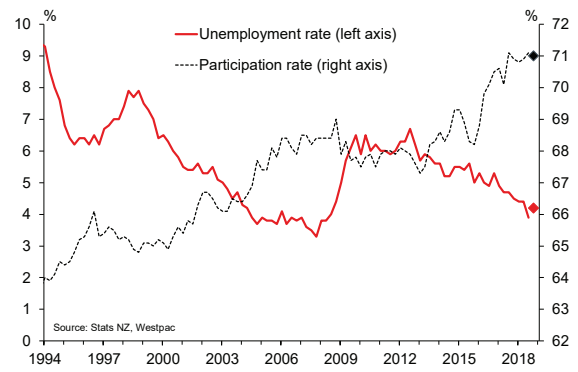
We expect a 0.6% increase for the Labour Cost Index (LCI) for the quarter, boosted by the pay settlement for nurses (which was agreed in August, but only about a third of it made the cutoff for the September quarter survey). That aside, we're looking for at most a mild lift in private sector wage growth.

The LCI is by design a slow-moving measure of wage growth. The QES average hourly earnings measure tends to be more responsive, and has seen a more substantial

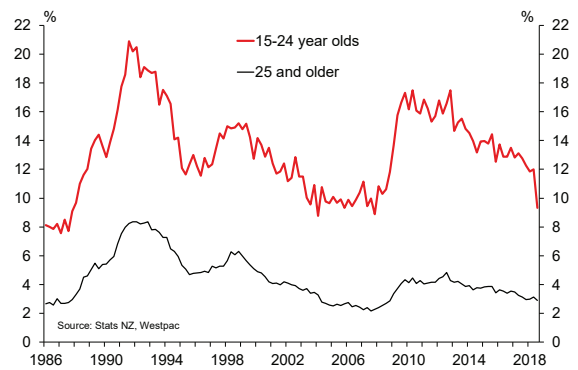
pickup compared to the LCI in recent times. We're forecasting a 0.8% increase in the total QES measure (0.7% for the private sector), which would broadly maintain the annual pace of growth.

Michael Gordon
Senior Economist

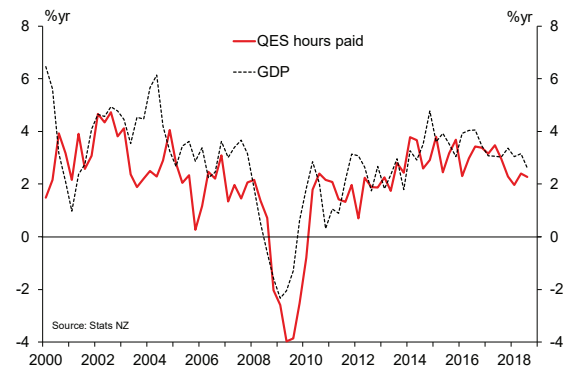
Unemployment and participation rates



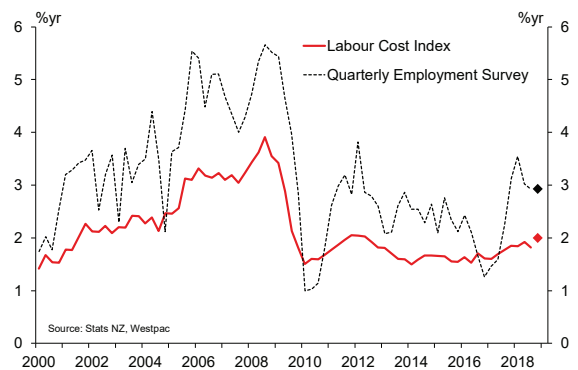
Unemployment rates



QES and GDP, annual change



Wage growth (all sectors, ordinary time)



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