7 August 2013

Westpac Institutional Bank

A long row to hoe

NZ 2013Q2 Labour Data

- **As expected, the headline Household Labour Force Survey saw modest 'pay-back' from a very strong March quarter, with low employment growth and a slight rise in unemployment.**
- **The bigger picture shows a gradually improving labour market, against the back-drop of solid economic momentum.**
- **However, plenty of slack remains in the labour market. Crucially, there was nothing in today's data to suggest that wage inflation is picking up just yet.**

Key results

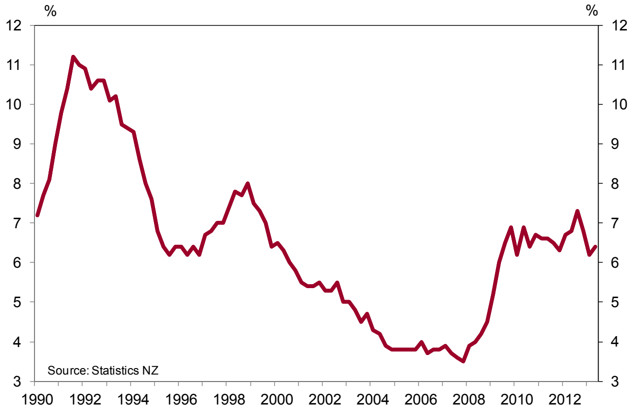
	Quarterly actual		Quarterly expected		Annual
	2013 Q1	2013 Q2	Market	Westpac	2013 Q2
Household Labour Force Survey					
Unemployment rate (s.a.)	6.2	6.4	6.3	6.3	-
Employment (s.a.)	1.7	0.4	0.3	0.3	0.7
Participation rate (s.a.)	67.9	68.0	67.9	67.9	-
Quarterly Employment Survey					
FTE employment (s.a.)	0.4	0.9	-	0.6	1.8
Hours paid (s.a.)	0.2	1.1	-	0.7	1.8
Private ave hourly earnings, ord time	1.0	0.4	0.6	0.7	2.4
Labour Cost Index					
Private sector, ordinary time	0.4	0.4	0.5	0.4	1.7
All sectors, ordinary time	0.4	0.4	-	0.4	1.7
Private, all sal & wage rates	0.3	0.5	0.5	0.4	1.8

Today's labour data confirmed that New Zealand's labour market is slowly improving off a weak base.

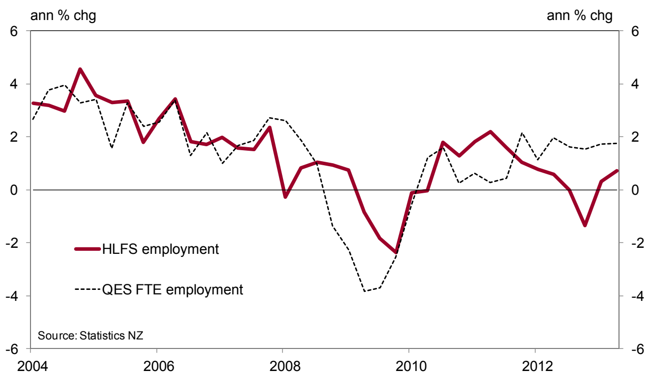
Granted, that may not have been obvious from the headlines of the Household Labour Force Survey – the unemployment rate rose a little and employment grew only modestly. But that was expected 'pay-back' after a very strong March quarter. At 6.4%, the unemployment rate is still well below last year's average of 6.9%.

Meanwhile, the Quarterly Employment Survey, which has been less volatile than the HLFS of late, showed even stronger momentum in jobs and hours than we had expected. Normally such a strong QES would point to strong GDP growth in the June quarter. However, the details that directly feed into June quarter GDP weren't quite so strong. Moreover, the QES doesn't include farm sector jobs. As such it wouldn't reflect the direct hit to economic activity from the recent drought. Accordingly, at this stage we remain comfortable forecasting just 0.3% GDP growth in the June quarter.

Unemployment rate (%)



QES vs HLFS employment



While the labour market may be improving, the data also confirmed that there is still plenty of slack remaining. The unemployment rate remains high by pre-2009 standards, and there is still very little sign of wage pressure about. Both the headlines and the details of the latest Labour Cost Index were extremely benign.

Importantly, that's more a reflection of overall low inflation than of a wage squeeze as such. Adjusted for recent low consumer price increases, real wages have actually been rising at a decent clip. But it does provide support to the RBNZ's intention to keep interest rates on hold at least through the end of this year. If anything, today's wage and unemployment data were a little softer than the Reserve Bank would have been expecting. However, the surprise was too small to cause us to change our monetary policy expectations – we continue to expect a first OCR hike in March 2014, and a steady series of increases thereafter.

Survey details: Household Labour Force Survey

The HLFS enjoyed a very strong quarter in March, and as expected, there was modest pay-back in the latest survey. (The removal of census work, which featured in Q1, may also have contributed to these weak headlines.) There was a particularly big drop in 'usual' hours worked (down 1.7%) after a 2.3% surge the previous quarter. (Somewhat surprisingly, actual hours worked, which include temporary factors like overtime, fell only 0.2%.)

Some other quirks of the Household Labour Force survey persist. In particular, construction-sector employment remains puzzlingly weak given a host of other evidence of a booming construction sector. According to the HLFS, employment in the sector has increased by just 5,000 since June 2011, compared to nearly 10,000 according to the QES. It may be that the HFLS hasn't coped well with the significant population movements engendered by the Canterbury earthquakes and rebuild. The survey tracks dwellings, not people, and also doesn't include people living in hotels and other temporary accommodation.

Also, labour force participation among teenagers in education remains low after falling sharply late last year. (While overall part-time employment and labour force participation picked up in the latest survey, it wasn't in this group.) That may reflect new benefits for teenagers in education and training introduced late last year. We're now also seeing a clear downtrend in youth unemployment rates. On our estimates the unemployment rate among 15-24 year olds was 15.7%, the second-lowest since early 2009.

While questions remain around the HLFS's estimates of overall construction-related employment, the survey is clearly showing a much tighter labour market in Canterbury than elsewhere. While the unemployment rate in Canterbury rose slightly (to 4.4% on our seasonally adjusted estimates) that's still the lowest since September 2009, and the highest in the country. And labour force participation in Canterbury has been steadily rising since late 2011, and is now the highest since 2006.

Survey details: Quarterly Employment Survey

The HFLS unemployment rate is New Zealand's premier measure of labour market slack. However, we tend to prefer the QES as an indicator of near-term economic momentum – both because it has been less volatile than the HLFS of late, and because parts of the QES hours paid measure feed directly into Stats NZ's GDP estimates.

These numbers were pervasively strong. Filled jobs were up 0.8% in the quarter, full-time-equivalent employment rose 0.9%, and hours paid were up 1.1%. The QES's volatile average wage measure was surprisingly soft (up just 0.4%) but that still left total paid earnings up 1.2% for the quarter, continuing the solid run of roughly 1% earnings growth a quarter that we have seen for the past few quarters.

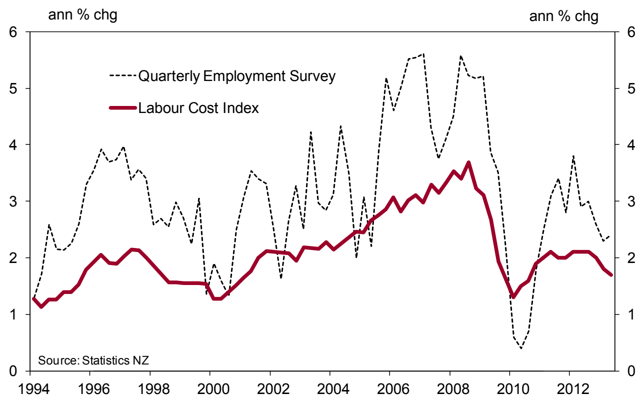
That said, as we've noted, the QES doesn't include the farm sector, which is likely to depress June quarter GDP. And the details that matter for GDP were mixed (hours paid in education were stronger than we expected, but in other services they were on the soft side).

Survey details: Labour Cost Index

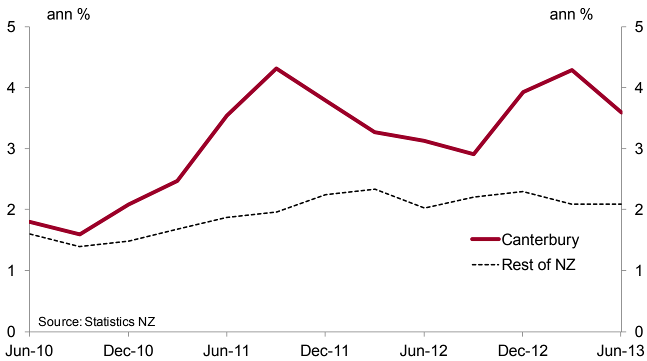
Our preferred measure of New Zealand wage inflation is the Labour Cost Index, which is less volatile than the QES average wage and less distorted by changes in the job mix or labour productivity.

On the basis of this measure there is currently very little wage pressure about. Overall this was as we anticipated – to a large extent it's just a reflection of very low overall inflation. (Adjusted for inflation, labour costs rose 1.1% over the past year, which is actually at the higher end of the range we've tended to see over the past decade.) But it was difficult to find even pockets of accelerating wage growth. Even in the Canterbury construction sector wage inflation was more sedate than in the previous survey (at 3.7%, compared to 4.3% three months ago), while outside Canterbury construction sector wage growth held steady at 2.1%. Wage growth is accelerating modestly in a handful of industries (IT and communications, property and real estate, transport, and financial services) but slowing almost everywhere else.

NZ LCI and QES wages



Construction sector labour costs, Canterbury and elsewhere



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