Westpac

Institutional Bank

30 October 2015

Unemployment to rise despite continued hiring

Q3 2015 labour market preview: Wednesday 4 November, 10:45am

- We expect the unemployment rate to rise to 6.2% in September as strong growth in the labour force offsets moderate growth in employment.
- Wage growth remains subdued, but low consumer price inflation means that households' spending power is rising at a strong pace.

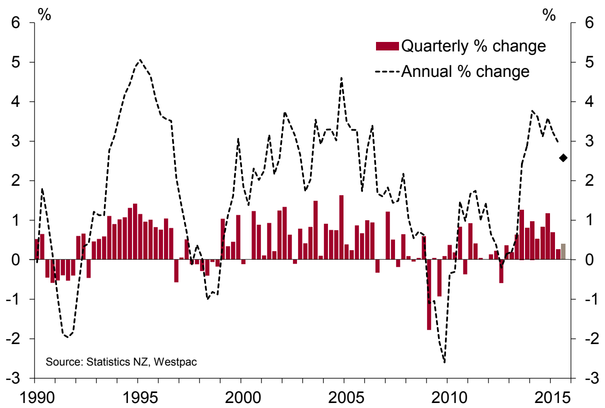
	Q2 actual	Q3 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	0.3	0.4	2.6
Unemployment rate %	5.9	6.2	
Hours worked	-0.4	0.6	1.7
Participation rate %	69.3	69.4	
Quarterly Employment Survey			
FTE employment (s.a.)	-0.8	0.7	2.4
Hours paid (s.a.)	-0.6	0.6	2.9
Private avg hourly earnings	1.2	0.8	2.6
Labour Cost Index			
All sectors, ordinary time	0.5	0.5	1.7
Private sector, ordinary time	0.5	0.5	1.9
Private, all salary & wage rates	0.5	0.5	1.9

Labour force growth outpacing employment

Over the past year, we've seen GDP growth slow and business confidence falling to low levels. Together, these factors have seen businesses reining back hiring.

In light of these developments, we're forecasting that the Household Labour Force Survey will show that employment in the economy grew by 0.4% over the September quarter. This would result in annual employment growth softening to 2.6%. While that's still healthy, it's well down on the above 3% rates we were seeing over the past year.

Employment growth (including forecast)

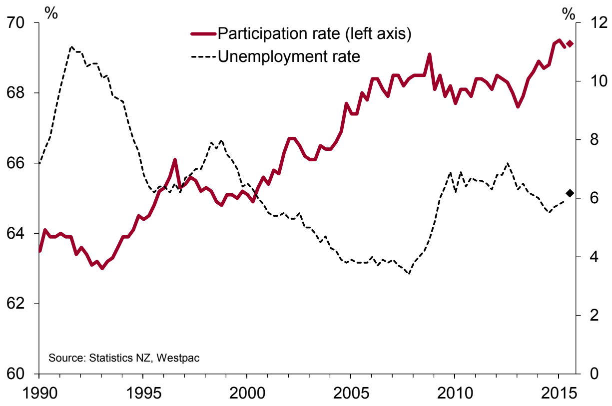


Importantly, growth in employment is coming atop very strong population growth, with net immigration rising to a record high over the past year. The resulting increase in the labour force means that, despite continued employment growth, we can expect the unemployment rate to push higher to 6.2% in September (up from 5.9% in June). That would be the fourth increase in the unemployment rate in as many quarters.

A key risk around our forecasts is what happens to labour force participation. We expect that the participation rate will push back up to 69.4% in September – just shy of the record high reached in March. But although strong population growth has been boosting labour force participation, there can be bumps (like the unexpected pull back we saw in June) which can throw estimates of the unemployment rate around.

We'll be watching the Quarterly Employment Survey (QES) as a cross check on the health of the labour market. We expect that the QES will show that the number of full-time equivalent employees grew by 0.7% in the September quarter. This follows a 0.8% fall in June, and will leave annual growth in FTEs at 2.4%.

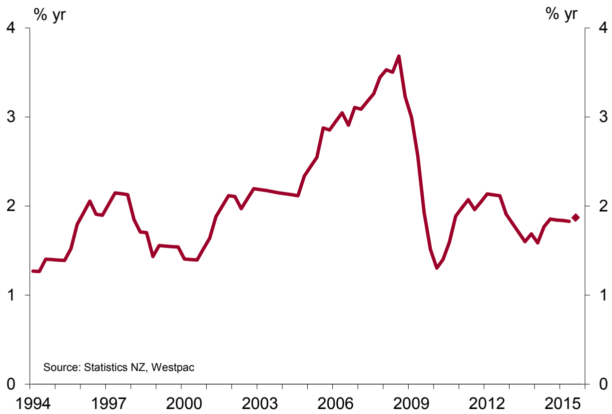
Labour force participation and unemployment (including forecasts)



Wage growth to remain low, but spending power pushing higher

Wage growth remains modest. We expect that private sector wage rates as measured by the Labour Cost Index rose by 1.9% over the past year (up just a touch from last quarter) , while the broader QES measure of average hourly earnings growth is expected to have eased back to 2.6%.

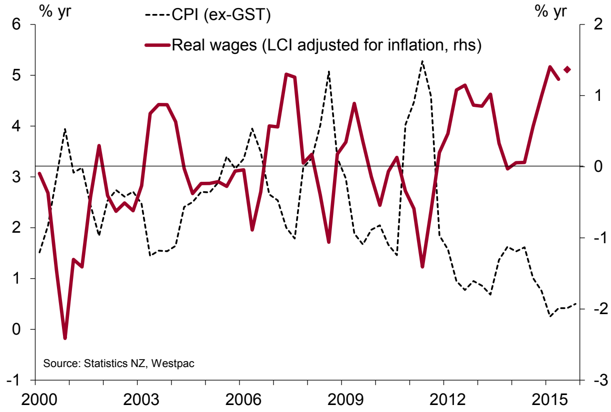
Labour Cost Index (private sector, ordinary time - including forecast)



In nominal terms, wage inflation hasn't shown any material acceleration since the economy exited recession in 2011. But it's important to put that that apparent weakness in context. Over the past year, consumer price inflation has fallen to very low levels, meaning that the limited wage increases households have received have actually been stretching further. In fact, the purchasing power of households' wages (often referred to as "real wages") has been growing at its fastest pace since 2007.

Over the coming year, we do expect to see growth in real wages moderating to more average levels. Consumer price inflation is expected to lift from current very low levels. At the same time, softening GDP growth and rising unemployment will keep a lid on nominal wages.

Real wage growth (including forecast) and consumer prices



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