

Muddying the waters

June quarter 2016 HLFS review

- The unemployment rate fell to 5.1% in the June quarter.
- However, the underlying details are not easily interpreted. The 2.4% jump in employment growth certainly overstates the extent of the lift in employment in the June quarter.
- Stepping back and looking at a broader suite of labour market indicators, the picture remains one of a gradually improving labour market, albeit one where wage pressure is still noticeably absent.

Unemployment rate



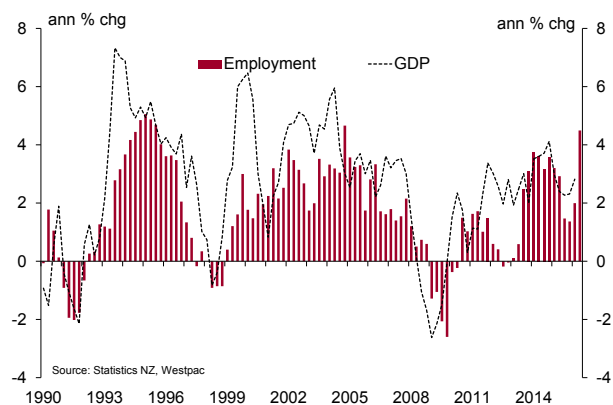
The unemployment rate eased a touch in the June quarter, down from 5.2% in March. But, unusually, the real headline grabber in today's HLFS data release wasn't the unemployment rate; rather it was the whopping 2.4% growth in employment in the quarter. And it is here that the water starts to get a little muddy.

Today's HLFS release was the first using Statistics New Zealand's updated methodology. The key change is that those only looking at job adverts on the internet no longer count as actively seeking work. But it wasn't this change that led to the surprises in the June quarter data as these changes were dealt with by the publication of a revised historical series last month. Instead, it was a change in the survey questionnaire which has led to a sharp lift in the number of people counted as self-employed who were previously not counted in the labour force. In addition, the HLFS survey now includes people employed in the armed forces (living in private dwellings). Previously these people weren't surveyed. While statisticians are confident this is now a more accurate picture of employment in the economy, they haven't been able to put a finger on how much the changes have contributed to employment growth this quarter. This makes comparisons with earlier periods pretty tricky. While employment growth was probably positive in the June quarter, it simply wasn't as strong as the 2.4% reported in today's HLFS.

These changes not only boosted employment, but also increased participation and boosted hours worked in the quarter. The participation rate jumped 0.9 percentage points in the quarter to 69.7% while hours worked were up 2.5% in the quarter (and 5.7% in the year).

	Quarterly actual		Quarterly expected		Annual
	2016 Q1	2016 Q2	Market	Westpac	2016 Q2
Household Labour Force Survey					
Unemployment rate (s.a.)	5.2%	5.1%	5.3%	5.3%	-
Employment (s.a.)	1.3%	2.4%	0.6%	0.6%	4.5%
Participation rate (s.a.)	68.8%	69.7%	68.8%	68.8%	-

Employment and GDP



One way to abstract from the noise and focus on the underlying message of the data is to focus on the unemployment rate. In this regard, the fall in the unemployment rate to 5.1% feels like a pretty fair reflection of how the New Zealand labour market is tracking (indeed it's what we were picking prior to the surprisingly soft Quarterly Employment survey results out a fortnight ago).

It is also helpful to take a step back and look at the bigger picture when trying to interpret labour market developments in the light of quarter to quarter volatility. In this regard, it's clear that the growing New Zealand economy has supported a gradual improvement in the labour market this year. In

surveys, firms report hiring more workers and requiring more overtime, and there are more vacancies being advertised. Firms are also reporting that it's getting more difficult to find skilled and unskilled labour.

Implications

The big picture approach is certainly what the RBNZ will be doing when it makes an assessment of pressures in the labour market. This point was emphasised by its introduction of LUCI (a labour utilisation composition index). This model combines 17 different labour market variables and (in the RBNZ's words) "is particularly useful in situations when different labour market variables give contradictory signals, or when individual labour market variables have idiosyncratic movements".

Our own interpretation of the wide swathe of labour market data remains that we have a fairly solid job market, but little upward pressure on wages thanks to strong population growth and the weak inflation backdrop. Consequently, there's not much in today's data to throw the RBNZ off the course it outlined in the August Monetary Policy Statement last week. It's likely we'll see a 25 basis point cut in November, with the possibility of a further OCR cut beyond this. We remain of the view that when push comes to shove, the RBNZ won't need to cut the OCR to 1.5% as the outlook for inflation starts to pick up, but much will depend on the fortunes of the NZ dollar.

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