WESTPAC ECONOMIC BULLETIN

Preview of Q3 labour market surveys: 3 November, 10:45am.

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Back to work.

- We expect a solid lift in employment for the September quarter, and a dip in the unemployment rate back to its record low of 3.2%.
- The demand for workers remains red-hot, and tax data suggests that jobs growth has even regained some momentum in recent months.
- We also expect a further acceleration in wage growth for the year to September.
- Employment looks to be stronger than what the RBNZ was expecting. However, the RBNZ is already braced for some very strong wage growth in the coming quarters.

	Q2 actual	Q3 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	3.3	3.2	-
Employment growth	0.0	0.6	0.5
Participation rate	70.8	71.1	-
Quarterly Employment Survey			
FTE employment	-0.9	0.6	1.6
Hours paid	-0.1	0.6	0.9
Private average hourly earnings	2.3	1.7	7.6
Labour Cost Index			
All sectors, ordinary time	1.1	1.0	3.6
Private sector, ordinary time	1.3	1.0	3.7
Private, all salary & wage rates	1.3	1.0	3.7

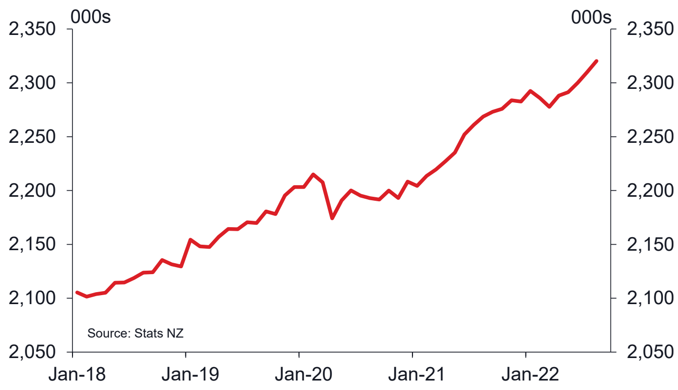
The labour market is crucial to the Reserve Bank's efforts to bring inflation under control. With the unemployment rate close to a record low, and employers desperate to fill labour shortages, pay rates have picked up sharply in the last year or so. Those labour costs are in turn being passed through into prices – the latest CPI report shows that price rises are increasingly widespread across all categories, and that local forces are taking over as the main source of inflation pressures.

With that in mind, the September quarter labour market surveys, released next Wednesday, are unlikely to give much comfort to the RBNZ. We expect a solid 0.6% rise in employment for the quarter, and a small dip in the unemployment rate back to its record low of 3.2%. We also expect a 1% rise in the Labour Cost Index, lifting the annual growth rate to a 14-year high of 3.6%.

Our employment forecast is stronger than what the RBNZ assumed in its August Monetary Policy Statement. On the other hand, our wage growth forecast is a little softer – the RBNZ is already braced for some very strong wage growth, so it would take a lot to surprise them to the upside. That said, we're in agreement that wage growth is heading higher.

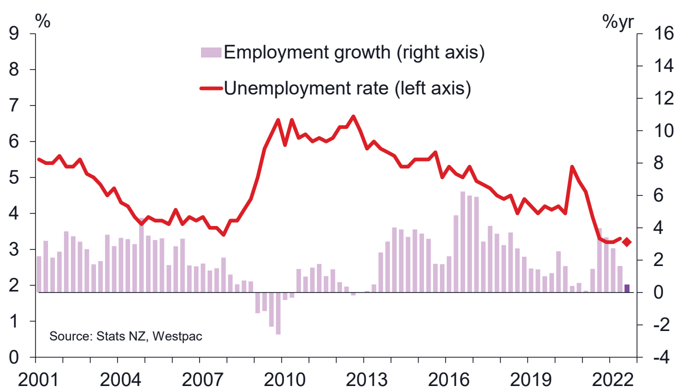
The monthly employment indicator, based on tax data, suggests that jobs growth has regained some momentum in recent months. While this measure doesn't entirely correspond with the Household Labour Force Survey – it measures jobs rather than workers, and some people will work more than one job – it has proven to be a reasonable guide on a quarterly basis. Our forecast of 0.6% employment growth is actually to the low side of what the tax data would suggest.

Monthly Employment indicator filled jobs



One wrinkle to this data is the question of where these workers have come from. The closure of the border over the last couple of years has meant that the working-age population is barely growing at all. And the Jobseeker benefit numbers have been fairly flat, which suggests that not many of them are coming out of the ranks of the unemployed. Finally, there's a striking statistic from the tax data: over the past year, 40% of the growth in jobs has been among teenagers.

Unemployment rate and employment growth



Altogether, this suggests to us that the lift in employment will be largely matched by a rise in the labour force participation rate, with a more modest impact on the unemployment rate. Participation has been high but choppy over the last several quarters, with a tug-of-war between rising youth participation and a growing share of the population hitting retirement age.

For the Labour Cost Index, we've assumed a 1% rise for the September quarter. That follows a 1.1% rise in the June quarter (including a 1.3% rise in private sector wages), which was boosted by the 6% increase in the minimum wage for this year. On an annual basis, our forecast implies a further acceleration in labour costs, and we think that this has some way further to go yet.

Wage growth, all sectors ordinary time

The Quarterly Employment Survey measure of average hourly earnings comes closer to capturing what workers are actually getting in hand. This measure has risen even more sharply than the LCI, reaching 6.4% growth in the year to June (and 7% for the private sector). We expect to see a further acceleration in this measure for September as well.

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