ANZ Research

Labour Market Statistics – 2019Q1

1 May 2019

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Data summary

		Latest
Labour market		
HLFS unemployment rate (sa)		4.2%
HLFS participation rate (sa)		70.4%
HLFS employment (sa)	q/q	-0.2%
HLFS employment	y/y	1.5%
HLFS hours worked (sa)	q/q	4.9%
QES filled jobs (sa)	q/q	-0.1%
QES filled jobs	y/y	1.1%
QES paid hours (sa)	q/q	0.3%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.3%
LCI private sector wages (ex-overtime)	y/y	2.0%
QES total hourly earnings	q/q	1.1%
QES total hourly earnings	y/y	3.7%
QES total gross earnings	y/y	5.2%

Soft under the surface

Bottom line

- The unemployment rate dipped to 4.2% in the March quarter, slightly lower than the market expected. But the details weren't strong – the fall was due to a decline in participation with employment growth actually falling 0.2% in the quarter. Momentum in the labour market appears to have slowed, consistent with the soft GDP outturns seen over the past year.
- Wage inflation ticked up 0.3% q/q, leaving annual growth at 2.0% y/y, less than we and the RBNZ expected. Looking through temporary factors, underlying wage inflation is very subdued.
- This data is consistent with the softer growth outlook that implicitly lay behind the RBNZ's dovish March OCR Review, and is set to be formalised in the May MPS. We continue to expect the first rate cut in August, with next week's MPS to set the stage. Our MPS preview will be released tomorrow.

Key points

The unemployment rate dipped to 4.2% in the first three months of the year. This was slightly below our, and market, expectations. However, the details of the release were soft – employment actually fell in the quarter, but this was offset by fewer people participating in the workforce. The underutilisation rate ticked down to 11.3%, an improvement from the 11.9% recorded a year ago.

The unemployment rate has been volatile lately, but it seems clear that the labour market has lost momentum. Stats NZ's measure of the trend unemployment rate ticked up from 4.2% to 4.3% – only slightly lower than a year ago (4.4% in 2018 Q1), following several years of strong improvement. Today's data suggest that the labour market has lost momentum, and further improvement seems unlikely in the near term, with GDP growth soft.

However, despite the slowdown in momentum, the labour market is currently in good shape and the RBNZ is likely to continue to assess employment as being near its maximum sustainable level. Firms are finding it difficult to find both skilled and unskilled labour. That said, the labour market lags the overall activity cycle, and the current degree of tightness reflects past strength in the economy. Looking forward, it looks like it will be increasingly difficult for the economy to grow above trend. Today's data release adds to the case that capacity pressures are past their peak, which doesn't bode well for the inflation outlook.

Growth in employment was weak. Growth in HLFS employment (which surveys households) continues to ease fairly abruptly. Annual employment growth dipped from 2.3% to 1.5% y/y, consistent with the recent slowdown in GDP growth. HLFS employment data has been volatile recently, but it is notable that Q1's 0.2% q/q fall follows on the heels of a weak 0.1% q/q print in Q4.

A drop in the participation rate resulted in the lower unemployment rate, explaining the divergence between the robust unemployment rate figure and weak employment growth. The participation rate fell to 70.4% from 70.9% after being broadly stable over the past year, following several years of strong increases in participation.

The other read on employment comes from the QES, which surveys businesses. The picture here was also weak. QES filled jobs fell 0.1% q/q, a slowdown from last quarter's 0.3% print, to be up 1.2% y/y. This measure continues to suggest soft labour demand, with businesses wary about hiring amidst deteriorating profitability.

In addition to employment, hours worked measures are important indicators of economic activity and slack. In particular, QES hours paid provide a partial gauge for parts of GDP, and tend to track annual GDP growth well over history. In the March quarter, QES hours paid grew 0.3% q/q, with the annual growth rate unchanged at 1.9% y/y. The outturn suggests slight downside risk to our current forecast of 0.5% q/q (2.3% y/y) for Q1 GDP growth. On the other hand, HLFS hours worked posted a solid 4.9% q/q rise (3.4% y/y), rebounding from a very weak previous quarter (-2.0% q/q).

Wage inflation was soft. Our preferred measure of wages – the private sector Labour Cost Index – increased 0.3% q/q. Annual growth remained flat at 2.0%, versus RBNZ and market expectations for a tick up to 2.1%. The increase in the minimum wage in April 2018 continues to provide a boost of about 0.2%pts y/y, including some spill-over effects.

Outside of regulated wage increases, underlying wage inflation continues to edge higher only very slowly. Modest wage inflation partly reflects the subdued inflation environment, with real wages generally growing around average recently. We expect further increases in wage growth to be gradual, with the peak in capacity pressures now behind us. However, the risks are tilted to the downside should weakness in GDP growth spill over further into the labour market.

Other wage measures were mixed, but consistent with the theme of stability. Public sector wages ticked up 0.5% q/q, taking annual growth to 1.9% from 1.7% y/y, but nonetheless the all-sector LCI was 0.4% q/q (2.0% y/y). The unadjusted private sector LCI rose 0.6% (3.6% y/y).[1] QES total average (ordinary time) hourly earnings can be thrown around by compositional changes and tend to be very volatile, but rose a solid 1.1% q/q. In annual terms it remains broadly stable at 3.7% y/y.

In our view, this labour market report is not a game changer for the RBNZ, and not a trigger for a May rate cut. The details of the release certainly suggest that labour market momentum has slowed. But this is consistent with the story already evident in recent GDP prints and the dovish tone of the RBNZ's March OCR Review. Continued subdued wage inflation suggests that tightness in the labour market has not been enough to lift underlying wage inflation higher.

The new RBNZ Committee will be wary of reading too much into these labour market statistics for a few reasons: recent outturns have been very noisy, the labour market tends to lag GDP growth, and the data comes late in the forecasting process. That said, they will take some comfort from continued resilience in the unemployment rate, with employment near its maximum sustainable level. The outlook is murky, however, and we expect OCR cuts to kick off in August. We will release our MPS Preview tomorrow.

Figure 1. Employment and GDP growth

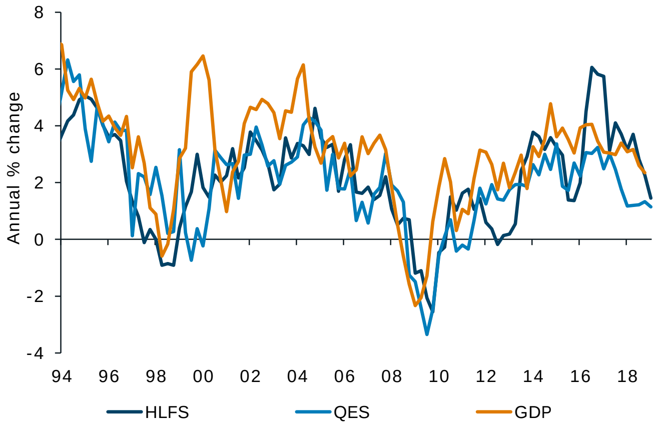
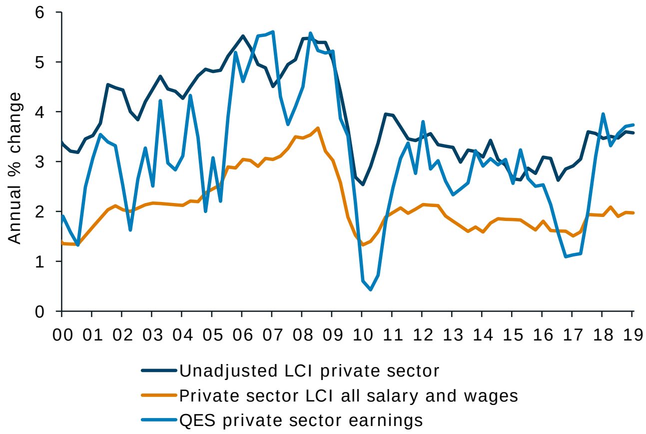


Figure 2. Wage growth – private sector



Source: Statistics NZ

[1] The unadjusted LCI does not adjust for productivity improvements within a given occupation but does adjust for improvements that arise from changes in the composition of the workforce. The adjusted LCI takes into account both. QES average hourly earnings adjust for neither.

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