

Q1 Labour Market Data Preview

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March 2019 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	4.3%	4.3%
Participation rate (sa)	%	70.9%	70.9%
Employment (sa)	q/q	0.5%	0.1%
Employment	y/y	2.2%	2.3%
Wages			
LCI private sector wages (ex-overtime)	q/q	0.4%	0.5%
LCI private sector wages (ex-overtime)	y/y	2.1%	2.0%
QES private sector hourly earnings	q/q	0.7%	1.0%
QES private sector hourly earnings	y/y	3.2%	3.7%

Stability

- We expect to see a stable unemployment rate at 4.3% in Q1. Labour market data has been volatile in recent quarters; last quarter we saw a rise, but the general trend has been a gradual tightening. But further improvement in the near term seems unlikely with GDP growth subdued.
- Wage inflation is expected to have firmed to 2.1% y/y, reflecting both previous tightening in the labour market and minimum wage increases.
- A stable or slightly lower unemployment rate should set the scene for the RBNZ to deliver a downward-sloping OCR track at the May MPS, in line with our expectation for an August rate cut. A higher unemployment rate and subdued wage inflation would add to the risk of a rate cut as soon as May.

Key points

March quarter labour market statistics are released next Wednesday, 1 May. The labour market is the last piece of the puzzle for the RBNZ – one week out from the MPS and right in the middle of Committee deliberations.

We expect to see the unemployment rate stable at 4.3% (seasonally adjusted), after volatile swings in recent quarters (figure 1). Looking through recent noise, we expect the labour market has been broadly stable in the March quarter, consistent with moderating GDP growth (figure 2) and cautious hiring intentions in business surveys.

Employment growth is expected to soften from 2.3% to 2.2% y/y. Employment is expected to have grown 0.5% in the quarter, with an element of bounce-back from last quarter's weak 0.1% q/q print. MBIE job ads are noisy, but are consistent with robust employment growth in the quarter (figure 3). Labour force participation is expected to have remained elevated near 71% of the working-age population.

We'll be watching the hours worked and hours paid data closely. These were very weak last quarter and contributed to the easing in our ANZ capacity indicator suite. QES hours paid in particular has a reasonable correlation with GDP growth.

The labour market has been robust in the context of the recent GDP growth slowdown, with employment near its maximum sustainable level. Going forward, we expect the labour market to tighten only very modestly over the medium term, once OCR cuts provide a bit of stimulus to the economy. Employment growth is expected to remain modest, with the participation rate stable at a high level and migration coming off its peak.

We expect that wage inflation picked up in the March quarter. Nominal LCI private sector wages are expected to have risen 0.4% q/q, with annual wage inflation increasing from 2.0% to 2.1% y/y. We estimate minimum wage rises will contribute around +0.2%pts to annual growth in each year they are implemented. Underlying wage inflation remains fairly subdued, and has inched up only very gradually. We expect to see a nudge higher in underlying wage inflation from 1.8% to 1.9% y/y, reflecting the recent tightening in the labour market.

In coming years, wage inflation should be boosted by further increases in the minimum wage (to \$20/hour by April 2021), with some spill-over effects into pay discussions more generally. But underlying wage inflation is expected to increase only modestly, with the dampening effect of low past inflation expected to take time to dissipate.

The risks around our 4.3% unemployment rate pick are balanced. The unemployment rate could increase if weak business confidence and rising costs push employers to cut back on employment by more than we expect. Alternatively, past strength in the economy could continue to push the unemployment rate lower in the near term, despite the recent slowing in GDP growth.

The new RBNZ Committee will be wary of reading too much into these labour market statistics – recent outturns have been very noisy and the labour market tends to lag, rather than lead, GDP growth. And the data comes late in the forecasting process. However, in our view a stable or slightly lower unemployment rate is consistent with a downward-sloping OCR track in the May MPS, setting up an August rate cut. An unexpected sharp drop in unemployment would see market pricing for a cut this year back off, while a higher unemployment rate and subdued wage inflation would add to the risk of a rate cut as soon as May.

While the timing is uncertain, we remain of the view that in the context of cooling capacity pressures OCR cuts will be needed to keep the labour market near its maximum sustainable level and return inflation sustainably to target.

Figure 1. Participation and unemployment rates



Figure 2. Employment and economic growth



Figure 3. Employment growth and MBIE job ads

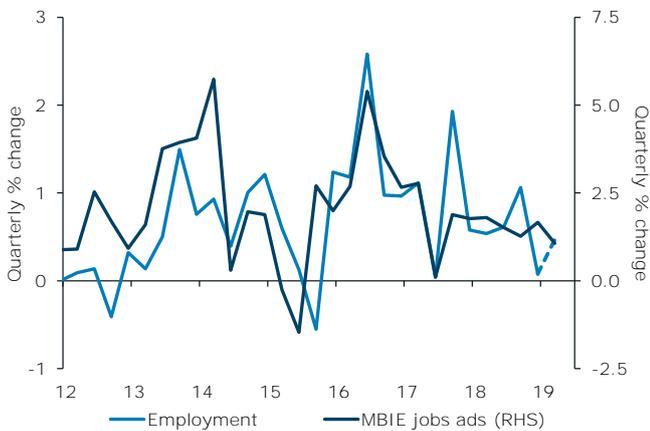
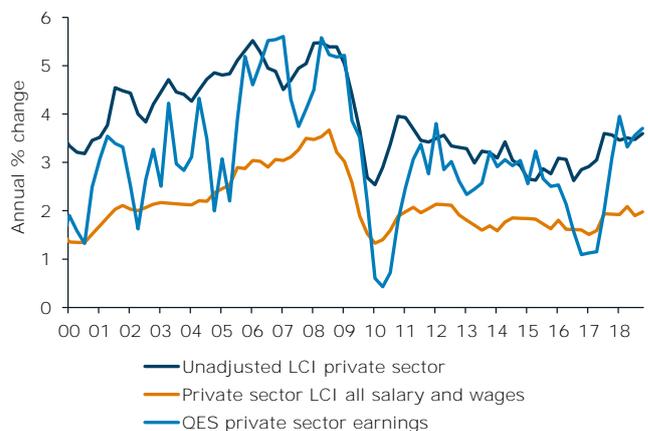


Figure 4. Measures of wage inflation



Source: ANZ, Statistics NZ, MBIE



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