ANZ Research

Labour Market Statistics – 2019Q2

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Data summary

		Latest
Labour market		
HLFS unemployment rate (sa)		3.9%
HLFS participation rate (sa)		70.4%
HLFS employment (sa)	q/q	0.8%
HLFS employment	y/y	1.7%
HLFS hours worked (sa)	q/q	-0.9%
QES filled jobs (sa)	q/q	0.4%
QES filled jobs	y/y	1.0%
QES paid hours (sa)	q/q	0.2%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.8%
LCI private sector wages (ex-overtime)	y/y	2.2%
QES total hourly earnings	q/q	1.1%
QES total hourly earnings	y/y	4.7%
QES total gross earnings	y/y	5.5%

Surprisingly solid

Bottom line

- The unemployment rate fell to 3.9% in the June quarter, lower than the market and RBNZ expected. Employment was up a solid 0.8% q/q, with annual growth rising to 1.7% y/y from 1.5%.
- Wages lifted 0.8% q/q, also more than expected by the market or RBNZ, resulting in a tick up in annual growth to 2.2% y/y. April minimum wage increases supported the quarterly rise; underlying wage inflation is rising only slowly.
- This print suggests that the starting point for the labour market is robust. However, we are wary of reading too much into the release given the volatile and lagging nature of this data, particularly in the context of the slowing economy, weak employment intentions, and falling job ads. The RBNZ will focus on the deteriorating economic outlook tomorrow. We expect rate cuts in August, September and November, taking the OCR to 0.75% by year-end.

Key points

The unemployment rate fell to 3.9% in the second quarter of the year. This was below market and RBNZ expectations. The 3.9% print is the lowest unemployment rate in 11 years. The details of the release were solid – employment rose solidly in the quarter, and wages were strong. Broader measures of labour market tightness also strengthened; the underutilisation rate ticked down to 11.0% from 11.3% last quarter.

The unemployment rate come out of a survey of households, and can be very volatile. Additionally, the labour market is a lagging indicator, so we expect this print may be discounted somewhat by the RBNZ in a forward-looking sense. But the labour market starting point is tight and the RBNZ is likely to continue to assess employment as being near its maximum sustainable level.

The outlook for the labour market remains concerning. The labour market lags the overall activity cycle and there’s no sign that domestic growth is going to recover sharply from here. We expect the unemployment rate to move up over the next year, before a gradual recovery in GDP growth helps push the unemployment rate lower.

Employment growth in Q2 was solid, following negative growth the previous quarter. Growth in HLFS employment (which surveys households) was up a robust 0.8% q/q, and annual growth held up. Annual employment growth rose to 1.7% y/y from 1.5%, somewhat inconsistent with the weakness we’ve seen in job ads and business hiring intentions. The participation rate was flat at 70.4% after being stable around 71% over the past year, following several years of strong increases.

The other read on employment comes from the QES, which surveys businesses. The picture here was more modest. QES filled jobs rose 0.4% q/q, following last quarter’s 0.1% fall, to be up just 1.0% y/y. This measure continues to suggest softening labour demand, with businesses wary about hiring amidst deteriorating profitability and growth concerns. This marries better with surveys of businesses’ intentions, and with job ads.

In addition to employment, hours worked measures are important indicators of economic activity and slack. These measures were a touch weaker. 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 June quarter, QES hours paid grew just 0.2% q/q, with the annual growth rate dropping to 1.1% y/y. This soft outturn is consistent with our current forecast of 0.4% q/q (2.0% y/y) for Q2 GDP growth. On the other hand, HLFS hours worked (which is far more volatile) posted a 0.9% q/q fall (+1.3% y/y), partially recoiling from a very strong Q1 (4.9% q/q).

Wage inflation was robust. This suggests that the tightness seen so far in the labour market has started to lift underlying wage inflation higher, and is consistent with anecdotes that firms are struggling with cost pressures. Our preferred measure of wages – the private sector Labour Cost Index – increased 0.8% q/q. Annual growth rose to 2.2%, above RBNZ and market expectations of 2.1%. The increase in the minimum wage in April provided a boost of about 0.2%pts, including some spill-over effects. So outside of regulated wage increases, underlying wage inflation is picking up only very slowly.

Other wage measures were consistent with the theme of rising wage growth. Public sector wages ticked up 0.4% q/q, taking annual growth to 2.2% from 1.9% y/y, and the all-sector LCI rose 0.7% q/q (2.1% y/y). The unadjusted private sector LCI rose 1.2% (3.8% 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 picked up to 4.7% y/y.

This labour market release comes too late to be incorporated into the RBNZ's published forecasts, due out tomorrow. But the report certainly does not undo the case for a rate cut tomorrow morning. The global growth outlook has worsened, the domestic economy doesn't look like it will pick up any time soon, and leading indicators of the labour market are turning in the other direction. We expect the RBNZ will leave the door open to further rates cut beyond August, although the strength in this labour market report could weigh on the tone of the Committee statement and press conference. We think it is prudent to discount the noisy survey somewhat, given its inconsistency with other indicators.

We expect rate cuts in August, September and November, taking the OCR to 0.75% by year-end.

[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.

Figure 1. Employment and GDP growth

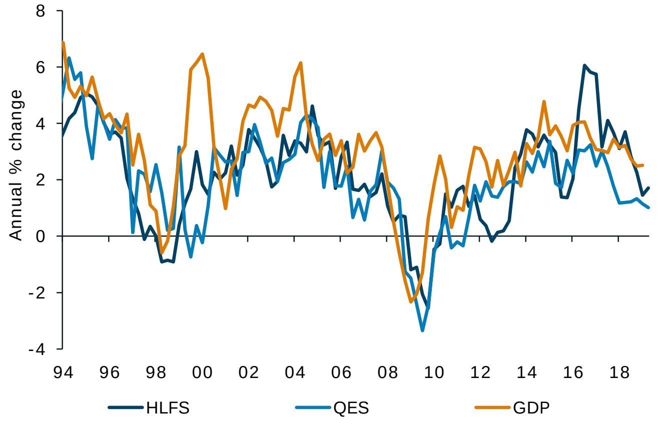
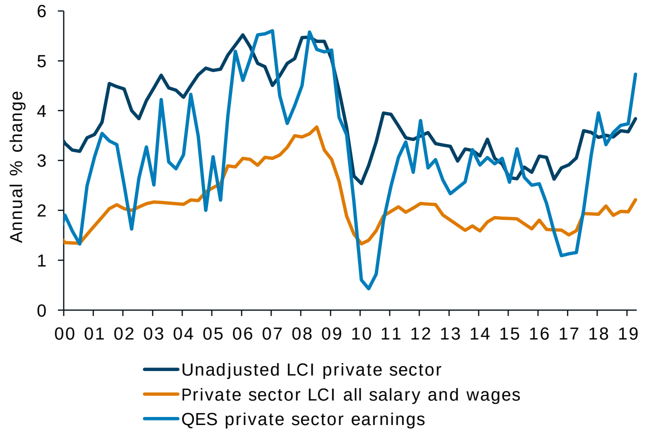


Figure 2. Wage growth – private sector



Source: Statistics NZ

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