ANZ Research

Labour Market Statistics – 2019Q3

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CONTACT:

Michael Callaghan
Economist
Telephone: +64 4 382 1975
Michael.Callaghan@anz.com

Sharon Zollner
Chief Economist
Telephone: +64 9 357 4094
Sharon.Zollner@anz.com

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	0.9%
HLFS hours worked (sa)	q/q	0.5%
QES filled jobs (sa)	q/q	0.4%
QES filled jobs	y/y	1.1%
QES paid hours (sa)	q/q	0.4%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.6%
LCI private sector wages (ex-overtime)	y/y	2.3%
QES total hourly earnings	q/q	0.6%
QES total hourly earnings	y/y	3.9%
QES total gross earnings	y/y	5.4%

There and back again

Bottom line

- The unemployment rate rose to 4.2% in the September quarter, in line with ANZ's forecast but a touch higher than the market expected. Employment was up a soft 0.2% q/q, with annual growth falling to 0.9% y/y from 1.4%.
- Private sector wages lifted 0.6% q/q, in line with market expectations, resulting in a tick-up in annual growth to 2.3% y/y. Public sector wages surged on the back of collective agreements.
- The Q3 labour market print is unlikely to be a game-changer for the MPS decision next week, as the labour market data generally lags broader economic activity. But softer economic momentum looks set to persist at least until the end of the year. We continue to expect an OCR of 0.25% by mid-2020 (with cuts in November, February, and May).

Key points

The unemployment rate rose back to 4.2% in the third quarter of the year. This was in line with ANZ expectations, but slightly higher than the market expected. The 4.2% print reflected a bounce-back from 3.9%, which was the lowest unemployment rate in 11 years, and takes us back to where we were at the start of the year. The details of the release were mixed – employment rose a soft 0.2% in the quarter. But wages were robust and a broader measure of labour market tightness did strengthen; the underutilisation rate ticked down to 10.4% from 11.0% last quarter.

Employment growth in Q3 was weak, following solid growth the previous quarter. Growth in HLFS employment (a survey of households) was up 0.2% q/q. Annual employment growth dropped to 0.9% y/y from 1.4%, consistent with the weakness we've seen in job ads and surveyed hiring intentions. The participation rate ticked up slightly to 70.4%, close to its historically high level.

The other read on employment comes from the QES, a survey of businesses. The picture here was also modest. QES filled jobs rose 0.4% q/q, on top of last quarter's 0.4% rise, but is up just 1.1% y/y. This measure continues to suggest soft labour demand, with businesses wary about hiring amidst deteriorating profitability and growth concerns.

In addition to employment, hours worked measures are important indicators of economic activity and slack. In particular, QES hours paid provides a gauge for parts of GDP, and tend to track annual GDP growth well over history. In the September quarter, QES hours paid grew 0.4% q/q, with the annual growth rate steady at 1.1% y/y. This modest outturn is consistent with our current forecast of 0.4% q/q (2.2% y/y) for Q3 GDP growth. On the other hand, HLFS hours worked (which is far more volatile) posted a 0.5% q/q rise (2.1% y/y), partially recoiling from a 0.9% fall in Q2.

Wage inflation was robust, in line with expectations, but remains relatively subdued outside of regulated wage increases and collective agreements. Our preferred measure of wages – the private sector Labour Cost Index – increased 0.6% q/q, in line with market expectations. Annual growth ticked up to 2.3%, but excluding minimum wage increases is up only 1.9% y/y.

The tightness we have seen in the labour market has seen underlying wage inflation start to lift, consistent with anecdotes that firms are struggling to find staff. But outside of regulated wage increases, underlying wage inflation is picking up only gradually – and now the labour market is moving in the wrong direction, albeit from very tight levels.

Collective agreements saw public sector wage surge 1.4% q/q, taking annual growth to 3.0% from 2.2% y/y. This was driven by teachers' pay settlements that were confirmed in late June, adding to previous agreements for nurses and police over the past year.

Other wage measures were consistent with the theme of gradually rising wages. The all-sector LCI rose 0.8% q/q (2.5% y/y). The unadjusted private sector LCI rose 0.9% (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 for the record rose 0.6% q/q. In annual terms it dipped to 3.9%.

This labour market data will be incorporated into the RBNZ's forecasts in the MPS next Wednesday, but is unlikely to have a material impact. In the August MPS, the RBNZ forecast an unemployment rate of 4.4% in Q3 anyway, prior to the drop in unemployment to 3.9% in the Q2 release. So the lift from Q2's 3.9% isn't 'new news' for the RBNZ.

An unemployment rate of 4.2% still indicates a 'tight' labour market, but it shouldn't be forgotten that the RBNZ now has an employment mandate and the outlook for the labour market is looking cloudier. The labour market lags economic activity, domestic growth doesn't look like it is going to recover sharply from here, and businesses' hiring intentions are low. We expect that below-trend economic growth will see the unemployment rate move up a little further over the next year, peaking around 4.5%, before a gradual recovery in GDP growth helps push it lower again.

Although it isn't the 'lock' it was, on balance we expect the RBNZ to cut the OCR 25bps next week at the November MPS and signal that further cuts remain a possibility should the dataflow and outlook warrant – we expect it will, in time. We continue to expect further rate cuts in February and May next year, aimed at preventing inflation and inflation expectations from slipping further. This would take the OCR to a new record low of 0.25%.

[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

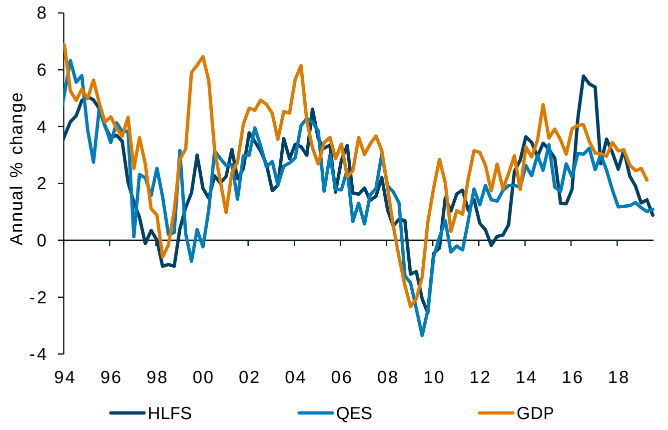
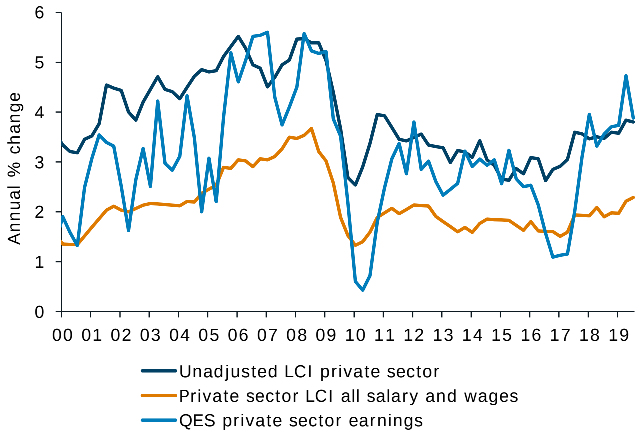


Figure 2. Wage growth – private sector



Source: Statistics NZ

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