

Q2 Labour Market Data Preview

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Weakness filtering through

- We expect the unemployment rate rose to 4.4% in Q2, as weakness in the economy filtered through to the labour market. Survey indicators and job ads suggest employment growth was weak in Q2, consistent with subdued GDP growth.
- Wage inflation is expected to remain flat at 2.0% y/y, with a quarterly increase supported by minimum wage increases and previous tightening in the labour market.
- The higher unemployment rate should set the scene for the RBNZ to cut the OCR at the August MPS the following day, and signal that an even lower OCR is likely needed.

Key points

June quarter labour market statistics are released next Tuesday, 6 August. The labour market release is the day before the MPS and right in the middle of Committee deliberations – too late to affect the published forecasts, but not the decision.

We expect to see the unemployment rate tick up to 4.4% from 4.2% (figure 1). This would be the highest level in a year yet is likely still comfortably **within the RBNZ's range of 'maximum sustainable employment'**, but it is the direction of movement that is concerning, as well as the lack of any sign that domestic growth is likely to recover sharply from here.

Employment growth is expected to soften from 1.5% to 1.1% y/y in the second quarter. Employment is expected to have grown a soft 0.2% q/q. Several indicators of employment growth for the June quarter have been extremely weak, with a fall in job ads and a drop in hiring intentions in business surveys (figure 3). Our 0.2% pick reflects an element of bounce-back from last quarter's 0.2% q/q decline. Labour force participation is expected to tick up slightly to 70.5% of the working-age population, a bit below recent peaks.

This is the quarter we expect to see the effect of the recent GDP growth slowdown filtering through to the unemployment rate. The labour market has so far been reasonably robust to the growth slowdown, but there are now signs that hiring by businesses has slowed sharply.

Going forward, we expect the unemployment rate to peak at 4.5%, but improve towards 4.1% by the end of 2021 once OCR cuts provide a bit of stimulus to the economy. Employment growth is expected to remain modest, with the participation rate remaining at a high level and migration coming off its peak.

On the wage side, we expect that annual wage inflation was unchanged in the June quarter, despite a boost from the April minimum wage increases. Nominal LCI private sector wages are expected to have risen 0.6% q/q, with minimum wage rises contributing around +0.2%pts to the quarterly print. That would leave annual wage inflation unchanged at 2.0% y/y. Underlying wage inflation remains fairly subdued, and has inched up only very gradually.

June 2019 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	4.4%	4.2%
Participation rate (sa)	%	70.5%	70.4%
Employment (sa)	q/q	0.2%	-0.2%
Employment	y/y	1.1%	1.5%
Wages			
LCI private sector wages (ex-overtime)	q/q	0.6%	0.3%
LCI private sector wages (ex-overtime)	y/y	2.0%	2.0%
QES private sector hourly earnings	q/q	0.3%	1.1%
QES private sector hourly earnings	y/y	3.7%	3.7%

The risks around our 4.4% unemployment rate pick are balanced. The unemployment rate could increase further based on the amount of weakness we've seen in business surveys and job ads. Alternatively, past strength in the economy could continue to support a low unemployment rate in the near term, despite the recent slowing in GDP growth. There is also a risk of stronger employment growth in the quarter if the participation rate bounces back up by more than we expect.

The new RBNZ Committee will receive these labour market statistics very late in the piece. With the data coming out a day before the MPS is published, it will be too late to affect the published forecasts. But the labour market developments may influence the OCR decision (made the morning of the MPS release) and the tone of the Committee statement and Record of Meeting.

The higher unemployment rate should set the scene for the RBNZ to cut the OCR at the August MPS, and signal that an even lower OCR is likely needed. An unexpected drop in the unemployment rate would seem inconsistent with other signals from the labour market and the wider economy, so may be discounted as noise from a volatile, lagging indicator.

The Q2 labour market release should confirm that further OCR cuts are 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

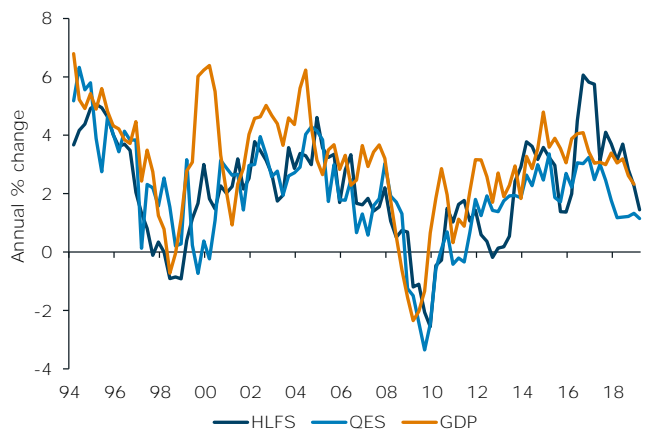


Figure 3. Employment growth and business surveys

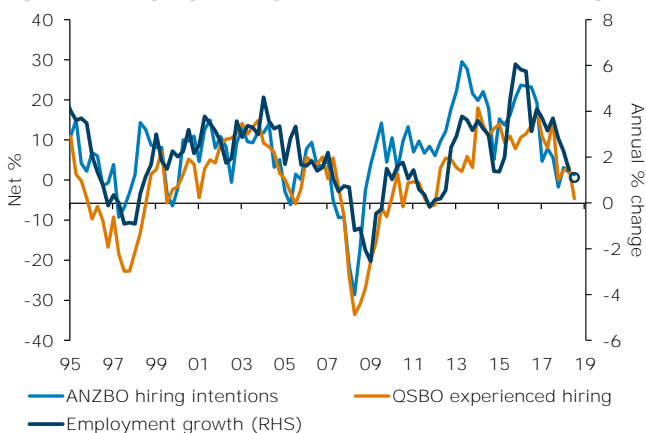
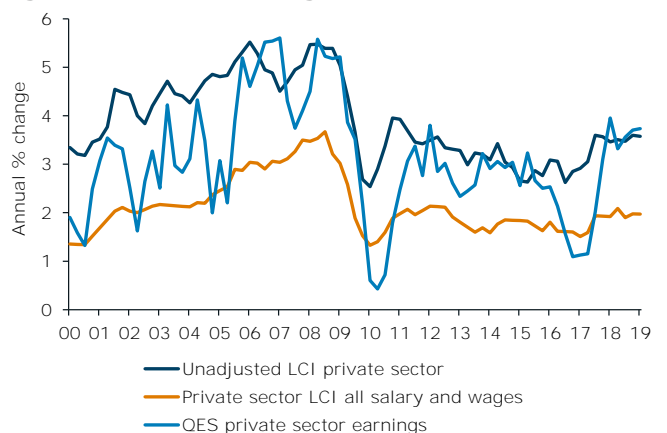


Figure 4. Measures of wage inflation



Source: Stats NZ, NZIER, ANZ Research



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