

## Q3 Labour Market Data Preview

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## September 2019 Quarter

		Exp	Prev
<b>Labour Market</b>			
Unemployment rate (sa)	%	4.2%	3.9%
Participation rate (sa)	%	70.2%	70.2%
Employment (sa)	q/q	0.1%	0.7%
Employment	y/y	0.7%	1.4%
<b>Wages</b>			
LCI private sector wages (ex-overtime)	q/q	0.5%	0.8%
LCI private sector wages (ex-overtime)	y/y	2.2%	2.2%
QES private sector hourly earnings	q/q	1.0%	1.1%
QES private sector hourly earnings	y/y	4.3%	4.7%

## Back up

- We expect the unemployment rate lifted 0.3%pts to 4.2% in Q3 – a bounce-back from Q2's strong 3.9% read and reflecting below-trend economic growth.
- Annual wage inflation is expected to come in unchanged at 2.2%.
- Labour market data generally lags economic activity, so Q3's figures are unlikely to be a game changer for the upcoming MPS decision. Softening economic momentum looks set to persist at least until the end of the year, and we expect the RBNZ to cut the OCR further to prevent inflation and inflation expectations from slipping.

## Key points

September quarter labour market statistics are released next Wednesday, 6 November. This will be the last major quarterly data release before the November MPS on 13 November.

We expect the unemployment rate lifted 0.3%pts to 4.2% in Q3. The unemployment rate is volatile and tends to lag economic activity, and our expectation of a small rise accounts for both of these factors: economic activity has recently slowed to a below-trend pace, suggesting a mild loosening in labour market conditions **is in the pipeline**; and Q2's read of 3.9% (an 11-year low) is due for a technical bounce the other way.

Looking through the noise, however, the unemployment rate is expected to remain **comfortably within the RBNZ's range** consistent with 'maximum sustainable employment'. However, with forward-looking indicators of economic momentum suggesting the economy will be growing at a sub-par pace for a little while yet, there should be enough cause for concern over the medium-term outlook to keep the RBNZ on their toes.

Employment growth is expected to come in at a modest pace of 0.1% q/q, with annual growth softening from 1.4% to 0.7% y/y. A number of employment indicators have come in on the softer side recently, **but it's fair to say they haven't done too well** at picking quarterly volatility. Indeed, HLFS employment growth remained relatively robust in Q2. Similar to our expectation for the unemployment rate, employment growth of 0.1% q/q reflects both an easing in trend employment growth and an element of bounce-back from Q2's solid 0.7% q/q rise. Labour force participation is expected to hold steady at to 70.2% of the working-age population.

On the wage side, we expect nominal LCI private sector wages lifted 0.5% q/q, which would keep annual wage inflation steady at 2.2%.

The labour market has so far been surprisingly solid in the face of slowing economic momentum, and it is possible that this theme continued over the September quarter. However, with the economy now running below trend **pace and forward indicators suggesting that's going to remain the case for a while yet**, spare capacity in the labour market is expected to open up. It just may happen a little **slower than we're expecting**.

Looking forward, we expect the unemployment rate to lift a little further over the year ahead, peaking at 4.5% by the end of 2020 before gradually improving as economic momentum slowly recovers. Employment growth is expected to remain modest, with the participation rate remaining at a high level and migration coming off its peak.

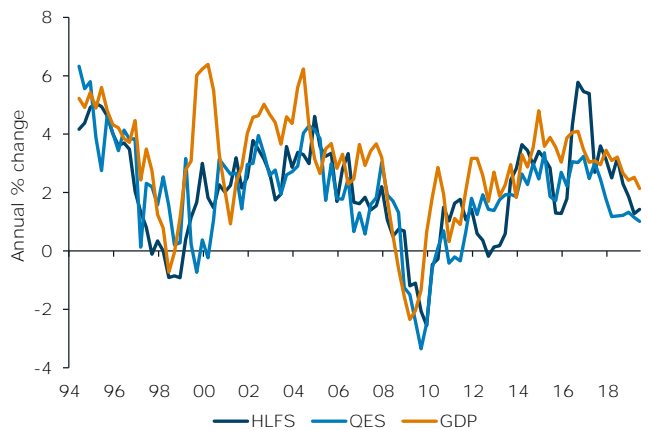
Risks around our expectation for an unemployment rate of 4.2% in Q3 are broadly balanced. Both business surveys and indicators of economic momentum suggest the unemployment rate could lift a little more than expected. Alternatively, past strength in the economy could continue to support a low unemployment rate a little longer than anticipated. Likewise for employment growth and the participation rate: the signal from the survey data is weaker than what we've pencilled in, but the underlying robustness of the labour market suggests this should be discounted somewhat.

Q3 labour market statistics will be the last piece of the quarterly data puzzle before the November MPS is published. But because the labour market generally lags the economic cycle, even a stronger-than-expected read is unlikely to be a game changer. We expect the RBNZ to cut the OCR 25bps and signal further cuts are likely to follow if the dataflow and outlook warrant – we expect it will.

**Figure 1. Participation and unemployment rates**



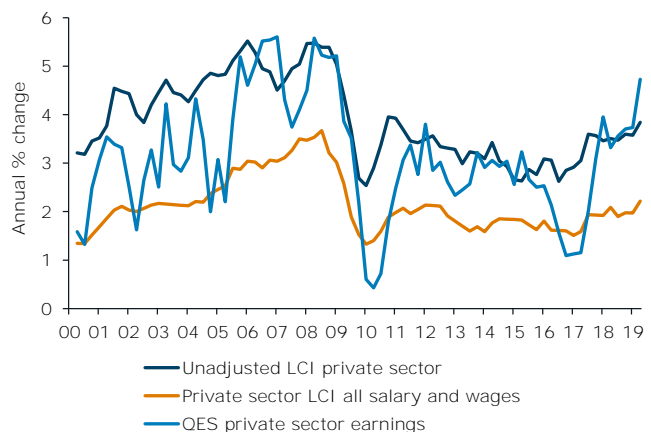
**Figure 2. Employment and economic growth**



**Figure 3. Employment growth and business surveys**



**Figure 4. Measures of wage inflation**



Source: Stats NZ, NZIER, ANZ Research



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