

NEW ZEALAND ECONOMICS

Q2 LABOUR MARKET DATA PREVIEW

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CONTRIBUTORS

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DATA SUMMARY

		Last	ANZ exp
Wages			
LCI private sector wages (ex-overtime)	q/q	0.4	0.5
LCI private sector wages (ex-overtime)	y/y	1.8	1.8
QES private sector hourly earnings	q/q	0.3	1.0
QES private sector hourly earnings	y/y	2.5	2.4
Employment/Unemployment			
HLFS unemployment rate (sa)	%	5.2	5.1
HLFS participation rate (sa)	%	68.7	68.8
HLFS employment (sa)	q/q	1.2	0.8
HLFS employment	y/y	2.0	2.6

TIGHTENING UP

KEY POINTS

- **Q2 labour market figures are released next Wednesday.** This is the first official release since Statistics NZ implemented changes to the way it measures those “actively seeking work”. The extent of historical revisions has already been announced, with the changes lowering the number of people classed as unemployed and participating in the labour force.
- **We expect the key message from the figures to be solid demand and tightening capacity amidst still strong labour supply.**
- **Labour demand should remain buoyant.** HLFS employment grew at 1.2% q/q in Q1, which built on strong growth in Q4. Although both the ANZBO and QSBO measures of hiring effectively held steady in Q2, and job advertising continued to trend higher, we have pencilled in a slightly slower pace of quarterly employment growth in Q2 (0.8% q/q) than seen over the six months prior. This partly reflects quarterly volatility, although an argument could be made that the softer growth is consistent with firms finding it more difficult to find staff. Nevertheless, it would still see annual employment growth rise to 2.6%, the strongest in 12 months.
- **Solid labour demand – both from the HLFS and QES measures, along with a strong lift in hours worked, will help to solidify expectations that the economy has been expanding at an above-trend pace.** We wouldn’t be surprised to see Q2 GDP (when it is released in September) to print above 1% q/q.
- **Supply-side growth should also be strong, although we still expect the unemployment rate to tick lower.** We know that the working age population increased a whopping 0.7% q/q in Q2, holding annual growth at an all-time high of 2.5%. Based on the correlation with employment growth (and the encouraged/discouraged worker effect), it is also likely that the participation rate rises a little further too (we are assuming at 0.1%pt lift to 68.8%). It is certainly a line-ball call given this strong supply-side growth, but we still expect the unemployment rate to tick down to 5.1% (risks are to the upside). Nevertheless, a lower unemployment rate would certainly be consistent with the intensification in businesses’ angst towards labour shortages we have detected of late.
- **Overall wage growth is expected to be subdued** (we expect annual growth in the private sector LCI measure to hold at 1.8%). More than anything else, that reflects the low inflation backdrop more generally. **But within the Q1 figures, the distribution of wage increases and stronger growth in analytical measures did hint that perhaps a turn in the wage cycle is now underway.** Construction sector wage growth is outperforming. We are **expecting to see more hints along these lines in the Q2 data.**
- **We expect solid labour market figures to act as a reminder that the real side of the economy is responding to monetary policy stimulus and performing well, though the pricing side, courtesy mainly of a high NZD, is not.**

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