

Q2 LABOUR MARKET DATA PREVIEW

CONTRIBUTORS

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STRONG LABOUR DEMAND BUT STILL MUTED WAGE GROWTH

- **Capacity is being absorbed across the labour market with employment metrics expected to remain strong** (although perhaps off their highs) **and the unemployment rate projected to fall.**
- **We doubt there will be much in the way of evidence of this feeding into wage inflation yet.** We are sticking with our view that this will happen in time as capacity tightens. However, significant secular forces (technology especially) are working in the opposite direction and suggest any lift will be modest.

KEY POINTS

- **Demand-side metrics should remain solid.** Firms' hiring intentions have been stable at an elevated level and our Job Ads series is growing at 14% y/y (on a three-month average basis). While the latter is off its highs, it is hardly a weak story and reflects base effects more than anything. We have pencilled in a 0.7% q/q lift in employment. That's strong but still a deceleration from recent employment gains and more modest growth is consistent with the increased difficulty firms are having in filling positions. Hours worked should rebound from Q1's contraction and will flag better Q2 GDP figures.
- **Supply-side growth should also be decent, but perhaps with some natural constraints developing.** We already know that the working age population expanded by 0.5% q/q, supported by ongoing net migrant gains. The bigger question (as always) surrounds the participation rate, which has risen for five consecutive quarters to an all-time high of 70.6%. What the natural upside limit is, is unclear, but we do believe we are approaching it. In Q2, we assume the rate holds steady.
- **Overall, the figures should be consistent with the message of labour market spare capacity gradually being absorbed.** We expect the unemployment rate to drop 0.1%pts to 4.8%, which would be an 8½-year low. The underutilisation rate, which we estimate was steady at 12.4% in seasonally adjusted terms in Q1, should also continue to trend lower, which would be consistent with firms telling us that labour is increasingly hard to find. In saying that, skill shortages are also not just about the absolute pool of available labour, but also the mismatch in skills between what that labour possesses and what employers are demanding.
- **History suggests that the conditions are in place for stronger wage growth to emerge.** The unemployment rate is already below our current spot estimate (broadly 5%) of the of non-accelerating inflation rate of unemployment (NAIRU). Despite dipping in Q2, headline inflation is still well up from its lows, which should see workers look to push for cost of living adjustments. Finding skilled labour remains the biggest problem facing firms according to our Small Business Microscope.
- **However, we doubt we will see clear evidence of this yet.** Our preferred measure, the private sector Labour Cost Index, is expected to be stable at 0.4% q/q, which would see annual wage inflation lift to a modest 1.6% y/y. That's below the rate of general inflation so technically real wages have fallen of late. Total private sector hourly earnings from

DATA SUMMARY

		Last	ANZ exp
Employment/Unemployment			
Unemployment rate (sa)	%	4.9	4.8
Participation rate (sa)	%	70.6	70.6
Employment (sa)	q/q	1.2	0.7
Employment	y/y	5.7	4.0
Wages			
LCI private sector wages (ex-overtime)	q/q	0.4	0.4
LCI private sector wages (ex-overtime)	y/y	1.5	1.6
QES private sector hourly earnings	q/q	0.3	1.1
QES private sector hourly earnings	y/y	1.1	1.5

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the QES typically rise strongly in Q2, and we expect that again this year, with a lift of 1.0% q/q. However, that would only see annual wage inflation at 1.5% y/y.

- **We expect stronger wage growth in time.** Capacity is being eaten into. The Q3 figures should be mechanically boosted by the recent aged-care gender equality settlement. Public wage growth (1.7% y/y on an LCI basis and 4.3% y/y on an hourly earnings basis) is running at a stronger pace than the private sector, implying some risk of catch-up for the latter.
- **But any lift looks set to be modest.** Some cyclical factors are certainly beginning to point towards accelerating wage growth, and there are strong anecdotes to back that up. But there are clearly some significant secular forces working in the opposite direction, just like with the inflation process more generally. Wage bargaining power is being diluted as disruptive technology becomes an increasing threat to a wide range of jobs. **This is raising some significant questions for policymakers, and society in general, about what the future will hold.**
- **We expect the data to reinforce the RBNZ's cautious stance with tightening labour capacity yet to manifest into an inflation pulse.**

Figure 1. Vacancy and unemployment rates

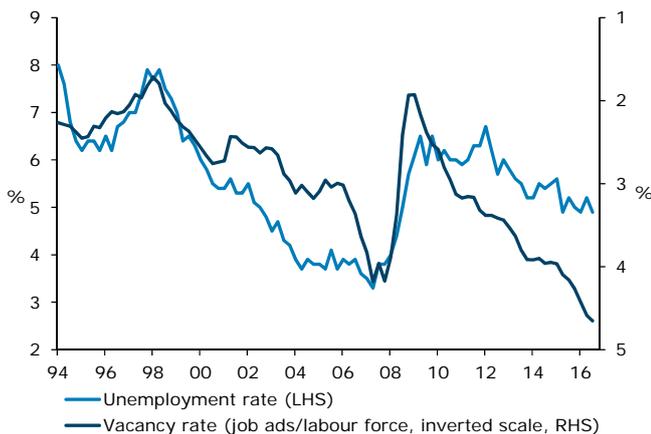


Figure 2. Firms' hiring intentions

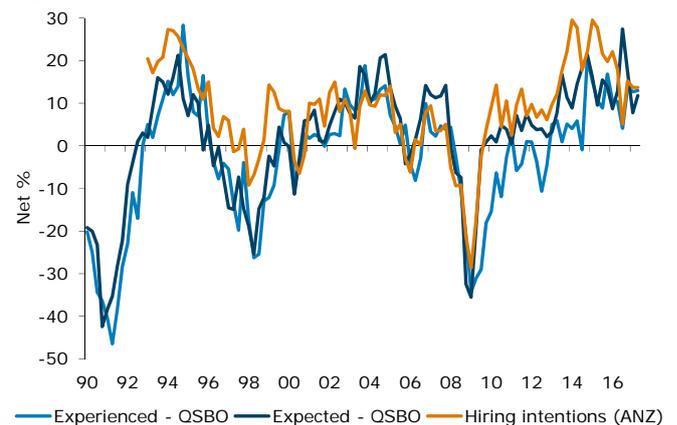


Figure 3. Difficulty finding labour

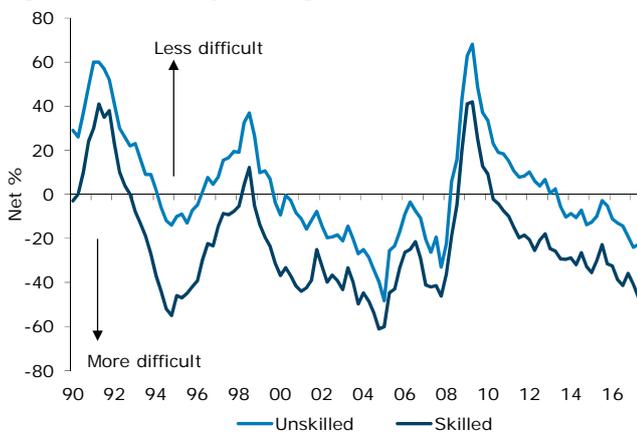
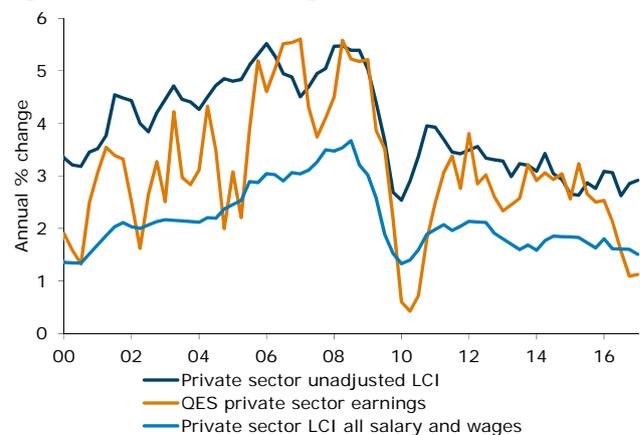


Figure 4. Measures of wage inflation



Source: ANZ, Statistics NZ, NZIER

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