PAY HEED

BOTTOM LINE

- The labour market showed continued strength in the March quarter, with employment growth up 0.6% and the unemployment rate dipping to 4.4%. The labour market remains tight.
- Wage inflation remains anaemic. Conditions are in place for a pick-up in wage inflation but this is tentative and gradual to date.
- The RBNZ will be paying closer attention to labour market data. The labour market is near “maximum sustainable employment” but today’s data are a reminder that wage and price pressures remain elusive. The OCR expected to remain on hold for some time yet.

KEY POINTS

- The labour market showed continued strength in the March quarter. HLFS employment was up 0.6% q/q to be up 3.1% y/y, building on recent strength. The participation rate dipped slightly to 70.8% but remains at a high level. The labour force continues to grow at a solid rate, up 0.4% in the quarter (2.5% y/y). Despite this, the unemployment rate fell 0.1%pts to 4.4% on the back of strong employment growth, continuing its downward trend.

- Other measures of labour demand are more mixed. QES filled jobs fell 0.2% q/q, with annual growth at 1.2%. HLFS hours worked were up 1.7% (4.9% y/y), while QES hours paid were up 0.1% (2.0% y/y). The divergence between the two labour market surveys (of businesses and households respectively) points to some continuing noise in the statistics. We suspect that employment growth in the HLFS may be overstating the strength of labour demand at present.

- Nonetheless, it is clear that the labour market remains tight. The unemployment rate dipped again and is below estimates of the NAIRU – pointing to continued capacity pressures in the labour market. The underutilisation rate dipped 0.3%pts to 11.9% but remains historically high. This high level may imply that there is more spare capacity available in the labour market than the unemployment rate alone suggests. Or it could be a symptom of mismatch: the skills and hours firms require are different from what is available.

- We may see some bumpier reads on the labour market in coming quarters, as the economy grapples with both capacity pressures and a more cautious business sector. Businesses are feeling wary, according to our ANZ Business Outlook, and hiring intentions have softened into 2018. But it also remains difficult to find skilled labour in light of capacity pressures, which is likely weighing on employment growth. We expect the economy has more in the tank, but it’s not all smooth sailing at present.

- Despite evidence the labour market is tight, wage inflation is anaemic. Our preferred measure of wages – the private sector Labour Cost Index – increased a modest 0.3%, below all expectations. This saw annual inflation stay flat at 1.9%. The all-sectors LCI was up 0.3% (1.8% y/y). The annual print continues to be flattered by Q3’s settlement with care and support workers. This is providing a 0.2%pts boost; all-sectors wage inflation would otherwise have been just 1.6% y/y. While wage inflation is off its lows, the pick-up is tentative and gradual.
LABOUR MARKET REVIEW

- **Alternative wage measures are mixed, but some can be volatile.** The public sector LCI increased 0.3% q/q to be stable at 1.5% y/y. The unadjusted private sector measure increased 0.6% (3.2% y/y). Private sector average hourly earnings in the QES increased 1.1%, continuing recent strength to be up 4.0% y/y. But this latter measure is particularly volatile and can be thrown around by compositional issues.

- **We expect that wage inflation will increase further from here, but only gradually.** The labour market is tight, capacity pressures are expected to continue to build, and Government policy (minimum wage increases and labour relations policy) is expected to provide a boost. However, CPI inflation is muted (often the starting point for wage negotiations), and with business sentiment more downbeat, the outlook for higher wages is not assured.

- **Labour market data has taken on new significance for the RBNZ, but today’s data will not change its thinking on the outlook for monetary policy.** With the RBNZ moving towards a dual mandate, it will be paying closer attention to developments in the labour market. The economy is arguably near “maximum sustainable” employment. But at 1.1% y/y CPI inflation remains well below the midpoint of the RBNZ’s target band. And today’s data provide a reminder that wage inflation remains elusive. We expect the OCR will remain on hold until we see a broader increase in inflationary pressures.

Source: ANZ, Statistics NZ
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