

NEW ZEALAND ECONOMICS LABOUR MARKET STATISTICS – 2016Q3

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DATA SUMMARY

		Latest
Wages		
LCI private sector wages (ex-overtime)	q/q	0.4%
LCI private sector wages (ex-overtime)	y/y	1.6%
QES private sector hourly earnings	q/q	0.3%
QES private sector hourly earnings	y/y	1.8%
QES total gross earnings	y/y	5.3%
Employment/Unemployment		
HLFS unemployment rate (sa)		4.9%
HLFS participation rate (sa)		70.1%
HLFS employment (sa)	q/q	1.4%
HLFS employment	y/y	6.1%
HLFS hours worked (sa)	q/q	1.2%
QES filled jobs (sa)	q/q	0.6%
QES filled jobs	y/y	3.0%
QES paid hours (sa)	q/q	1.3%

TIGHTENING THE SCREWS

BOTTOM LINE

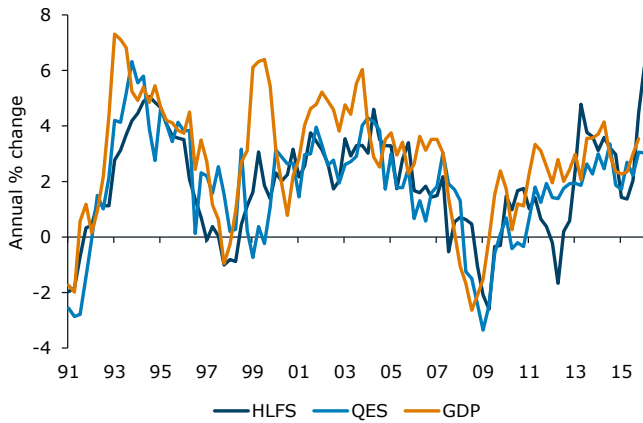
- Putting aside the surprise in some quarterly movements (always on the cards), today's figures confirmed what we had expected: **the labour market has strong momentum and is tightening quite quickly**. At this stage, nominal wage growth remains low (real growth is far stronger) but we suspect that is set to change shortly.
- The case for the RBNZ cutting the OCR further is weakening with each passing day**. Its forward guidance towards a November cut, risk of the NZD spiking if it doesn't, low headline inflation and reality that a cut likely won't be fully passed on, all mean that it will likely go. But the economy – though taking time to filter into inflation – says it shouldn't.

KEY POINTS

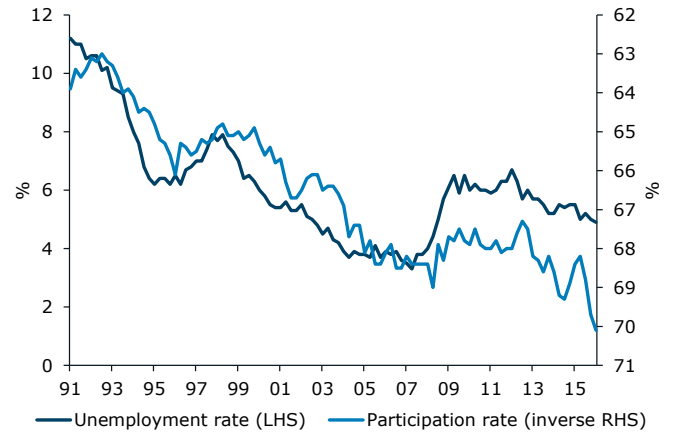
- This is the second quarter incorporating HLFS methodological changes**. These changes have distorted some series, so some quarterly and annual changes need to be treated with caution.
- But even so, the demand for labour is clearly strong**. After Q2's 2.4% q/q surge in HLFS employment, the Q3 1.4% q/q gain is a strong signal. The QES measure of filled jobs rose a more modest 0.6% q/q – so perhaps the HLFS overstates things. The fact HLFS employment was almost entirely led by part-time growth (4.0% q/q) provides another element of caution. Nevertheless, strong growth is consistent with our own job ads series and firms' intentions to hire, which have gone from strength to strength. Hours worked and paid hours rose 1.2% and 1.3% q/q respectively, pointing to Q3 being another decent quarter for growth.
- Labour supply growth is also strong**. The participation rate rose to an all-time high of 70.1%, and the labour force expanded by 1.2% q/q. Nevertheless, the market is clearly tightening. The unemployment rate fell to 4.9%, the first time below 5% since December 2008. The underutilisation rate dropped 0.5%pts to 12.2%.
- At this stage, nominal wage growth remains low**. Our preferred measure – the private sector Labour Cost Index – rose 0.4% q/q (1.6% y/y). The unadjusted LCI, a purer nominal wage growth measure (as opposed to a measure of unit labour costs), rose 2.6% y/y (from 3.1%).
- But real wage growth is far stronger, as are total gross earnings**. Real total gross earnings growth (which incorporates all elements of the labour market figures – wages, employment and hours) is growing at a decent 5.1% y/y pace. That's hugely supportive for spending.
- There are perhaps very early hints of a turn in nominal wages**. 16% of private sector jobs saw wage increases in Q3, the highest in 9 months. At 2.1% y/y, wage inflation in the construction sector continues to outperform (especially outside of Canterbury). This is hardly strong, but is something we expect to continue. In large part, low nominal wage growth just reflects the benign inflation backdrop more generally, so with headline inflation set to rise (domestic inflation pressures too), that should flow through into stronger wage growth outcomes in time.

2016Q3 LABOUR MARKET REVIEW

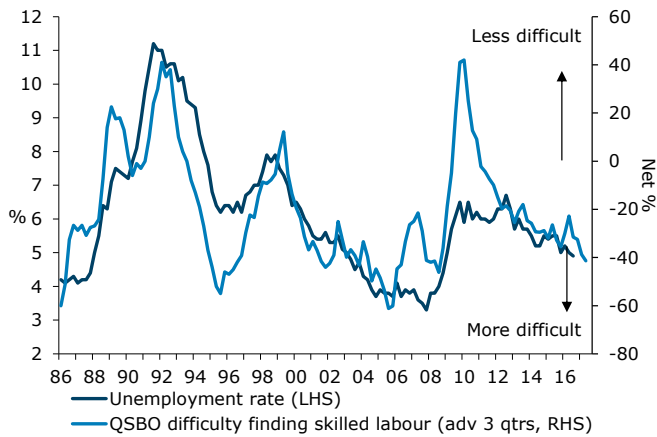
EMPLOYMENT AND GDP GROWTH



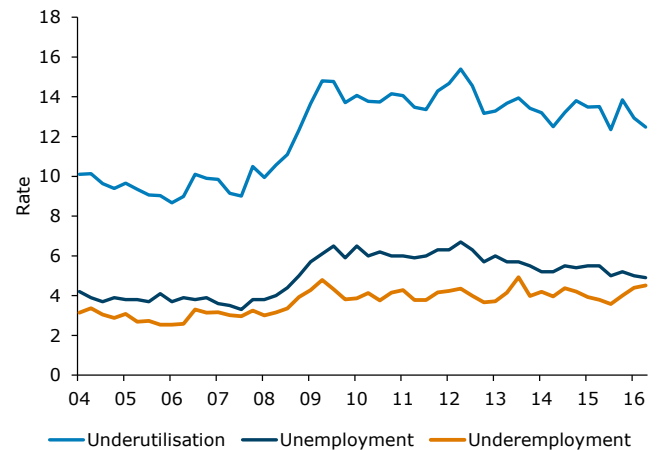
UNEMPLOYMENT AND PARTICIPATION RATES



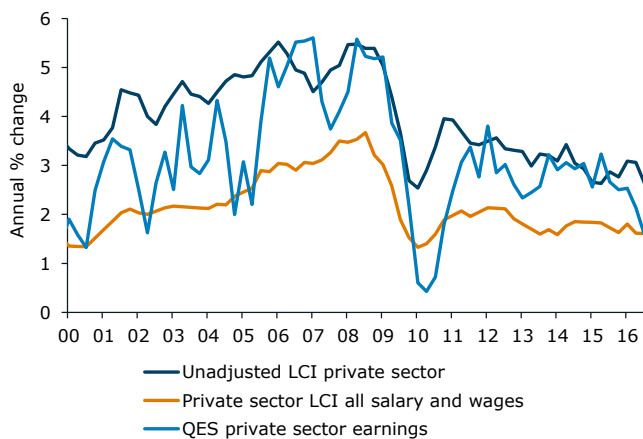
UNEMPLOYMENT AND DIFFICULTY FINDING LABOUR



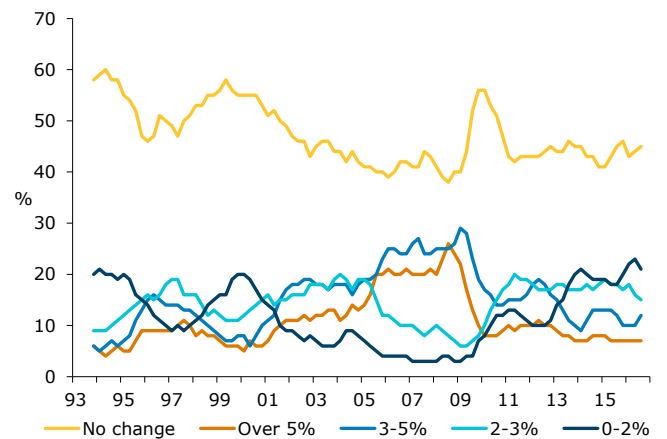
UNEMPLOYMENT AND UNDERUTILISATION RATES



WAGE GROWTH - PRIVATE SECTOR



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