

LABOUR MARKET STATISTICS – 2017Q2

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DATA SUMMARY

		Latest
Employment/Unemployment		
HLFS unemployment rate (sa)		4.8%
HLFS participation rate (sa)		70.0%
HLFS employment (sa)	q/q	-0.2%
HLFS employment	y/y	3.1%
HLFS hours worked (sa)	q/q	1.0%
QES filled jobs (sa)	q/q	1.0%
QES filled jobs	y/y	3.1%
QES paid hours (sa)	q/q	0.9%
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	0.8%
QES private sector hourly earnings	y/y	1.2%
QES total gross earnings	y/y	5.1%

LOOKING THROUGH THE NOISE

BOTTOM LINE

- **Weak employment growth (-0.2% q/q) masked a general tightening in the labour market in Q2.** Employees are becoming harder to find.
- **Spare resources continue to be absorbed.** Both the unemployment rate and underutilisation rates fell to the lowest levels since Q4 2008.
- **Wage growth remains subdued, though there were some tentative signs of a lift off lows in the quarter.** We expect this to extend.
- **The RBNZ will remain extremely comfortable with its ultra-neutral stance, though the labour market is the key area we expect to challenge the current dormant inflation picture.**

KEY POINTS

- **Demand for labour was soft in Q2 according to the HLFS.** Employment contracted 0.2% q/q, which was well below consensus expectations. It is the first contraction in employment since Q3 2015. However, we feel this move should be heavily discounted. While one can easily make the case that it signals firms are finding it harder to fill vacancies, statistical noise will also be playing a role. It follows increases of 0.7% and 1.1% in Q1 and Q4 respectively. In the lock-up, Statistics NZ acknowledged that there could have been some under-coverage this quarter (without stating where that under-coverage was).
- **Alternative measures of employment were far stronger.** QES filled jobs rose a solid 1.0% q/q. Hours worked and hours paid lifted 1.0% q/q and 0.9% q/q respectively, providing a better signal for Q2 GDP growth. Even the composition of HLFS employment had a better “feel”, with full-time employment rising 0.7% q/q, contrasting with a 1.8% q/q plunge in part-time workers. Employment and hours worked across a number of measures are up around 3% on a year ago.
- **But the surprise wasn't limited to employment.** The participation rate fell 0.6%pts to 70.0%, which is down from an all-time high in Q1. It meant that even with solid working-age population growth (+0.5% q/q), the labour force contracted by 0.2% q/q.
- **The unemployment rate fell 0.1%pts to 4.8% – an 8½-year low. The underutilisation rate declined to 11.8% – also an 8½-year low.** Both signal that despite the headline employment surprise, spare capacity in the labour market continues to be absorbed, albeit gradually.
- **History would suggest that wage growth should be stronger by now. But it remains subdued,** with our preferred measure – the private sector LCI – modest at +0.4% q/q (1.6% y/y). QES average hourly earnings were also modest at +0.8% q/q (1.2% y/y). Real wage growth remains negative.
- **However, there were tentative signs of a lift in Q2.** The LCI median private sector annual increase in the quarter was 2.5% – the strongest growth since Q2 2015. The unadjusted private sector LCI rose 0.9% q/q (3.1% y/y), which is the highest annual growth in a year. Public sector

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LCI wage growth also continues to outperform, rising 0.4% q/q (1.9% y/y), highlighting the risk of some private sector “catch-up”. We wouldn’t want to overstate things; the signs are only tentative. But we’d expect that as spare resources continue to be used up and the impact of the Government’s aged-care settlement flow through, wage growth should continue to lift modestly off lows, even if secular forces such as technology are acting in the opposite direction.

- **What is also important to note is that overall labour income growth is still strong.** Despite lacklustre wage growth, total gross earnings are still running at a strong pace, lifting 1.5% q/q (5.1% y/y) in Q2. That should be enough to continue to support healthy spending growth in the economy.
- **The market (NZD) has taken the figures negatively. We think that is an overreaction.** With workers increasingly difficult to find, labour demand will naturally slow. And eventually this will manifest in stronger wage growth.

Figure 1. Employment and GDP growth

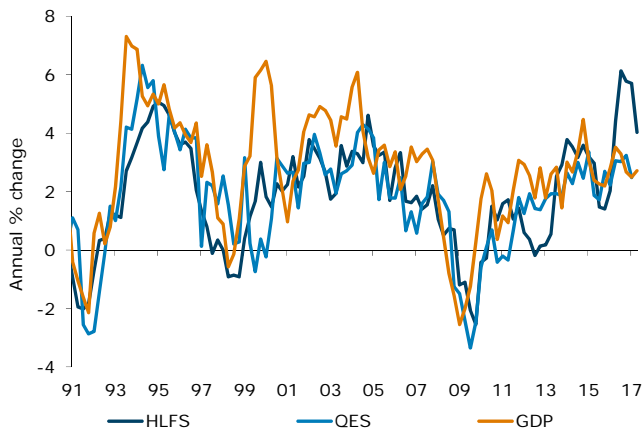


Figure 3. Unemployment and underutilisation rates

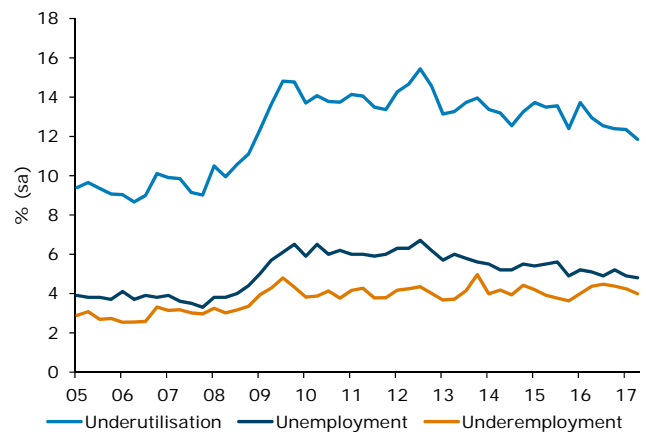


Figure 2. Wage growth – private sector

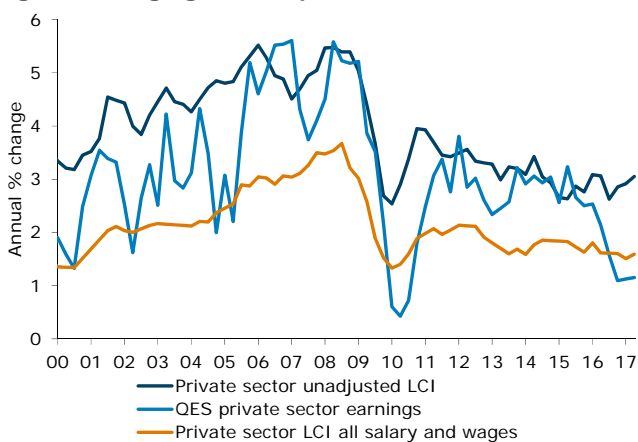
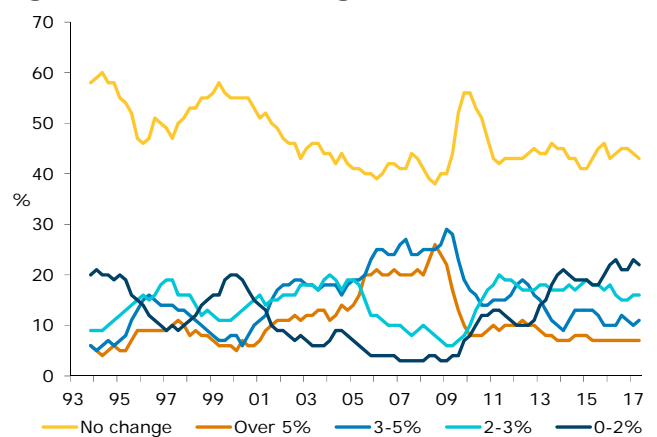


Figure 4. Distribution of wage increases



Source: ANZ, Statistics NZ

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