

# NEW ZEALAND ECONOMICS QUARTERLY EMPLOYMENT SURVEY & LABOUR COST INDEX – 2016Q2

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## CONTRIBUTORS

**Philip Borkin**  
Senior Economist  
Telephone: +64 9 357 4065  
E-mail: philip.borkin@anz.com

## 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	0.8
QES private sector hourly earnings	y/y	2.1
QES total gross earnings	y/y	5.2

### Employment

QES filled jobs (sa)	q/q	0.3
QES filled jobs	y/y	3.1
QES paid hours (sa)	q/q	0.2

## DEMAND VS SUPPLY

### BOTTOM LINE

- On the whole, today's figures (which, to be fair, paint only a partial picture of the labour market) were a touch softer than we had expected. Both filled jobs and paid hours lifted only modestly in Q2 (although both follow strong growth) and wage inflation remained low.
- We will have to wait for the Household Labour Force Survey (now due August 17) to get a complete picture, but today's data highlights some risk that "official" employment growth was modest over the quarter too. With labour supply growth likely remaining strong (due both to working age population growth and an elevated participation rate), it is possible that the unemployment rate held steady – or even rose modestly – in the quarter.

### KEY POINTS

- **The QES measure of employment – filled jobs – rose a relatively modest 0.3% q/q in Q2.** To be fair, this follows strong growth of 1.0% and 1.1% in Q4 and Q1 respectively, and annual growth still lifted to 3.1%, so the underlying trend remains firm. Over the past year, the largest contributions to this growth came from accommodation and food services (14k) and construction (10k) – two sectors of the economy that are clearly performing well.
- **Paid hours also rose modestly, up 0.2% q/q in Q2.** But as with filled jobs growth, annual paid hours growth still accelerated (to 2.9% y/y), reflecting earlier strong results. But at the margin it does hint that broader Q2 GDP growth may have been a little softer than our earlier thinking (our current forecast for GDP growth is 0.8% q/q).
- **It is always somewhat of a tenuous exercise trying to draw strong conclusions from the QES data for the HLFS** (now due for release on August 17). But at the margin it does suggest that "official" employment growth rose at a more modest pace than in the prior six months too. We still believe that the underlying trend in labour demand is strong. But in the face of strong labour supply growth as well (likely to be confirmed by the HLFS), total labour market spare capacity does not look like it is being absorbed quickly (even though anecdotes suggest the contrary for some sectors). **In fact, today's data suggests the possibility that the unemployment rate even rose a touch over the quarter.**
- **The slow absorption of spare capacity is reinforced by wage inflation figures, which remained modest.** Our preferred measure of wage inflation – the private sector Labour Cost Index – rose just 0.4% q/q, seeing annual growth ease back to 1.6%. While some measures were stronger (the analytical LCI lifted 0.8% q/q, holding annual growth at 3.1% y/y), the overall signal is still a benign one. The distribution of wage increases showed more workers receiving no wage increases in Q2 than in Q1. The low inflation backdrop more generally appears to be dominating. And most surprisingly, quarterly wage inflation in the construction sector moderated in Q2 (and eased to 2.0% y/y from 2.2% y/y). This is completely at odds with anecdote, and leaves us scratching our heads.

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