

NEW ZEALAND ECONOMICS LABOUR MARKET STATISTICS – 2016Q1

4 May 2016

CONTRIBUTORS

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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 | 1.8 |
| QES private sector hourly earnings | q/q | 0.3 |
| QES private sector hourly earnings | y/y | 2.5 |
| QES total gross earnings | y/y | 4.8 |
| Employment/Unemployment | | |
| HLFS unemployment rate (sa) | | 5.7 |
| HLFS participation rate (sa) | | 69.0 |
| HLFS employment (sa) | q/q | 1.2 |
| HLFS employment | y/y | 2.0 |
| HLFS hours worked (sa) | q/q | 1.0 |
| QES filled jobs (sa) | q/q | 1.2 |
| QES filled jobs | y/y | 2.2 |
| QES paid hours (sa) | q/q | 0.5 |

DECENT UNDER THE HOOD

KEY POINTS

- **There will no doubt be plenty of discussion on some of the quarterly movements within today's figures.** There always seems to be, given results can be a little perplexing at times. However, we are far more interested in looking through this noise and assessing the overall tone. **Our conclusion: the labour market is in reasonable health.**
- The big question ahead of today's data was how the unemployment rate was going to behave after the surprise drop in Q4. Would it fall further – providing a very strong signal overall – or would it retrace some of this drop? In the end, it did partially retrace its Q4 fall, lifting to 5.7% (from an upwardly revised 5.4%). However, we still interpret this as a reasonable signal, with the unemployment rate trending lower overall.
- **Labour demand remained strong in Q1, building on Q4's decent gain.** HLFS employment rose a stronger-than-expected 1.2% q/q, which lifted annual growth to 2.0%. The composition was also solid, with full-time employment rising 1.0% q/q. There was also a comparably strong signal from QES fill jobs, which lifted 1.2% q/q. HLFS hours worked rose a further 1.0% (2.5% y/y), with QES paid hours rising 0.5% q/q.
- **Labour supply also rebounded,** with the labour force growing 1.5% q/q. This was due to a combination of record working-age population growth and a bounce in the participation rate. The move in the latter (up 0.5%pts to 69.0%) is more consistent with historical relationships, with the solid labour demand backdrop pulling more people into the workforce.
- **While some may argue that the lift in the unemployment rate is a weaker sign, we wouldn't.** The lift in the quarter was entirely the result of strong participation, which is an encouraging sign. Moreover, and as mentioned, the unemployment rate is still trending lower. **We therefore judge that labour market capacity is slowly reducing,** which is certainly consistent with the anecdotes we are picking up on the ground.
- **It is because of the above that we are watching for any hints of a turn in the wage cycle, and perhaps that is now evident.** LCI private sector wage growth, at 0.4% q/q, 1.8% y/y, was a touch firmer than expected. Yes it is still low, which is a consequence of the low inflation backdrop more generally, but it was not as benign as could have been the case. Moreover, the distribution of wage increases highlights a small increase in the proportion of workers receiving wage increases, and the LCI analytical measure rose to 3.1% y/y – the strongest since Q2 2014. Construction sector wage growth (outside of Canterbury) is running at the fastest pace since at least 2010, when the series began.
- **Today's figures certainly do not rule out further monetary policy easing.** The data was strong in Q4 and the RBNZ still cut in March. Dairy, NZD, and global wobbles all make an argument for cutting. However, reducing labour market spare capacity, in combination with housing and re-leveraging behaviour, mean further easing is far from a done deal in our view – particularly as soon as June.

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