Westpac

Institutional Bank

1 May 2014

Help wanted

Q1 labour market data preview: 7 May, 10:45am

- Various labour market indicators point to further steady improvement over the March 2014 quarter. We expect the unemployment rate to fall from 6.0% to 5.8%, which would be a five-year low.
- Employment growth is likely to be more modest compared to the unexpectedly sharp bounce in the second half of last year.
- Wage growth may be starting to tick higher again, although not dramatically so given that inflation is still running below the RBNZ's medium-term target.

	Q4 actual	Q1 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	1.1	0.5	3.2
Unemployment rate %	6.0	5.8	-
Hours worked	-0.3	1.4	2.0
Participation rate %	68.9	68.8	-
Quarterly Employment Survey			
FTE employment (s.a.)	0.2	0.7	2.5
Hours paid (s.a.)	0.3	0.7	3.0
Private avg hourly earnings	0.3	0.9	3.2
Labour Cost Index			
All sectors, ordinary time	0.5	0.5	1.7
Private sector, ordinary time	0.6	0.5	1.8
Private, all salary & wage rates	0.6	0.4	1.8

The jobs market in New Zealand looks to be firmly in a growth phase, with firms now needing to expand their capacity as demand picks up. We expect the official labour market surveys for the March quarter, released next Wednesday, to show a further drop in the unemployment rate and a slight uptick in wage inflation. Growth in employment is likely to be more subdued than the combined 2.3% pace over the second half of last year, which likely reflected a catch-up phase.

Although surveys of business and consumer sentiment were running rampant over the March quarter, we note that the 'hard' measures of activity have been a little more subdued so far. Given that we're currently forecasting a strong 1.1% rise in March quarter GDP, we'll be particularly interested in what the labour market surveys have to say about the level of economic activity more generally – particularly the Quarterly Employment Survey (QES), which feeds directly into GDP for a number of service sectors.

Employment and unemployment

We expect the Household Labour Force Survey (HLFS) to show a drop in the unemployment rate from 6.0% to 5.8%, which would be the lowest rate in five years. The unemployment rate now looks to be comfortably on a downward trend, and our forecast is effectively a continuation of the recent pace of improvement.

There are plenty of indications that the availability of jobs is improving rapidly. The ANZ business confidence survey has shown a surge in hiring intentions over the last year, reaching record highs in early 2014. Growth in online job advertisements has accelerated over the last six months. And the Westpac McDermott Miller employment confidence index improved substantially in the March quarter, with the biggest quarterly increase in perceived job opportunities in the ten-year history of the survey.

Even so, we're expecting just a 0.5% rise in employment for the March quarter, after gains of 1.2% and 1.1% in the previous two quarters. Hiring intentions may be running hot, but the limited evidence to date on actual employment growth has been a little less vibrant. The *Quarterly Survey of Business Opinion* reported that staff numbers rose in the March quarter, but at a slower pace than in any quarter last year. And the fall in the number of people receiving benefits over the quarter was no greater than it has been over the last couple of years.

The other reason we're reluctant to forecast rampant employment growth is the issue of labour force participation. According to the HLFS, the participation rate slumped to a three-year low of 67.9% in March last year, then rebounded to a near-record high of 68.9% in December. Of course, a lift in participation is to be expected in a booming economy. But the size of the swing in participation over the last year raises the risk in our minds that the last reading in December was unsustainably high. We've assumed a slight drop in participation to 68.8%, which would dampen the numbers of both employed and unemployed in equal measure.

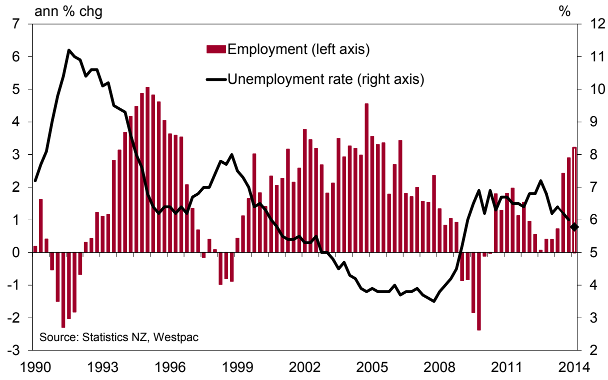
The Quarterly Employment Survey (QES) provides a useful cross-check on the degree of momentum in the labour market. However, we note that the measures of jobs filled and hours paid in this survey were surprisingly soft in the December quarter, somewhat in contrast with the HLFS and also with the 0.9% jump in GDP for that quarter. We'd expect a corrective bounce in the March quarter; we'd certainly need to see one to support our forecast of a 1.1% rise in GDP.

Wages and earnings

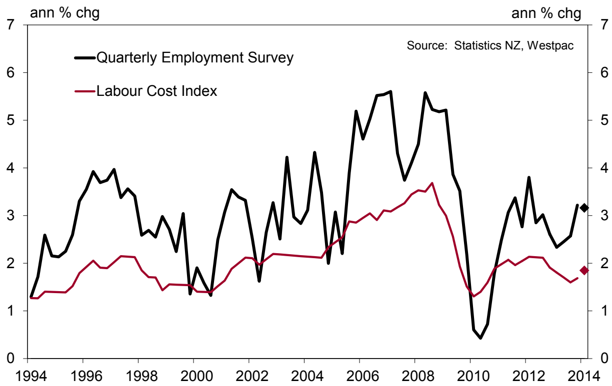
The Labour Cost Index (LCI) is our preferred measure of wage inflation, as it's less volatile than the QES average hourly earnings measure and less distorted by changes in the mix of jobs or labour productivity. Private sector ordinary time wage rates rose 1.7% in the year to December, compared to 1.6% in September, the first increase in the rate of growth in two years. Whether or not this marks the start of a new trend is difficult to tell. The LCI tends to evolve slowly (the annual growth rate rarely moves by more than 0.2 percentage points at a time), so even a small move could prove to be significant.

We expect the annual growth pace to rise a little further to 1.8% in the March quarter. The degree of slack in the labour market is easing, and annual inflation has passed its low point, though it's not rising dramatically. Both of those factors should come to bear on wage growth over time – indeed, this could be more of a feature for the second half of the year, when a greater number of workers have their annual pay reviews.

Household labour force survey



LCI and QES wages



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