

Unemployment rate to dip lower

- We expect the unemployment rate to tick down to 4.8% in Q2 2017 and employment to lift by 0.7% qoq.
- In contrast, labour costs are likely to increase a soft 1.6% yoy, essentially flat in real terms.
- However, we see wage pressures just around the corner as the labour market continues to strengthen.

We expect the Household Labour Force Survey (HLFS) to show that the jobless rate dipped to 4.8% in Q2 on the back of a solid 0.7% qoq lift in employment. We also expect the labour force participation rate to hit a new record high of 70.7% as net migration continues to run at elevated levels.

However, with strong growth in the supply of workers, wage pressures have so far been lagging behind an otherwise robust labour market. We expect this to have continued in Q2 and for the Labour Cost Index (LCI) and Quarterly Employment Survey (QES) to show subdued wage growth over the quarter. However, we expect wage pressures to pick up shortly as NZ's robust growth outlook continues to boost the labour market.

Q2 Employment Forecasts		
Indicator	ASB	Prior
Employment growth (QoQ)	0.7	1.2
Unemployment Rate (%)	4.8	4.9
Participation Rate (%)	70.7	70.6
Labour Cost Index		
Private Sector (% QoQ)	0.40	0.35
Private Sector (% ann)	1.6	1.5

Q2's labour market release is the fourth quarterly release since the HLFS survey was updated in June 2016. As a result, this represents the first release in a year for which we can confidently analyse annual changes.

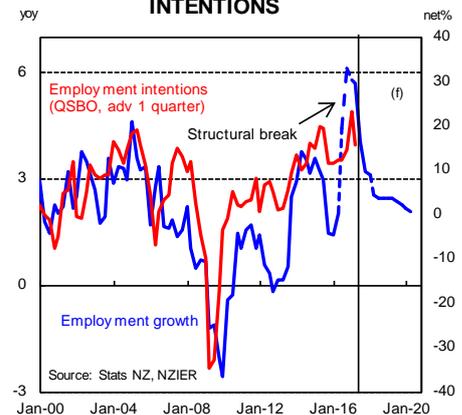
We expect employment growth of 0.7% over Q2, taking annual employment growth to 4%. The construction and tourism sectors are likely to have remained key sources for employment growth over Q2. However, there is a risk that capacity constraints limit potential employment growth in these sectors going forward.

We expect the unemployment rate to dip to 4.8%, the lowest unemployment rate in nearly 9 years. This is despite our forecast for the labour force participation rate to lift to a new record high of 70.7%, and is a sign of the current strength of New Zealand's labour market.

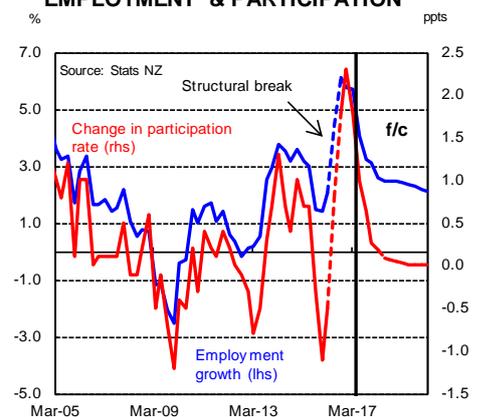
Despite the strengthening labour market, we expect wage pressure to have remained subdued over Q2. A key consequence of NZ's high net migration and high labour participation is that job creation has only just outpaced the increasing labour supply. We are expecting the Labour Cost Index to show private sector ordinary time labour costs rose 0.40% over the quarter, supported by the annual minimum wage increase. This would see annual wage inflation at 1.6%, indicating that real wages (on a labour cost basis) were flat over the year. For the equivalent Quarterly Employment Survey measure we expect annual wage growth of 1.2%.

Looking forward, however, NZ's robust growth outlook will support further strengthening in the labour market. Combined with growth in the participation rate levelling off, we expect to see sustained upward pressure on wages in the next few quarters.

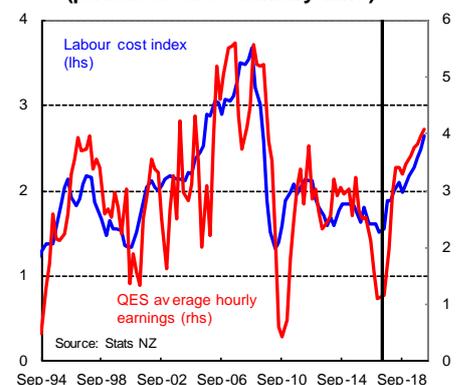
NZ EMPLOYMENT & EMPLOYMENT INTENTIONS



EMPLOYMENT & PARTICIPATION



NZ ANNUAL WAGE GROWTH (private sector ordinary time)



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