

Employment continues to rise but wage growth remains muted

- Unemployment rate moves back down to 4.9%, despite the 0.1%pt increase in the participation rate to 70.6%.
- Employment grew 1.2% qoq, much stronger than expected.
- Wage inflation remains muted.

Summary

The Q1 employment data continue to paint a robust picture of the NZ labour market, with employment and participation growing and those unable to secure a job declining. However, employment growth still does not appear strong enough to push wages significantly higher across the economy in general. Wage pressures remain largely confined to tourism-related sectors and construction. Continued record high levels of migration and a strong willingness to work amongst those of working age are keeping overall wage pressures depressed.

We continue to expect the RBNZ to hold the OCR at 1.75% at next week's MPS, with the underlying data showing the labour market is still robust. But, just as there are no grounds to cut the OCR, equally there is no reason to expect hastened OCR increases. We expect the RBNZ to be on hold for an extended period, to late 2018.

Employment details

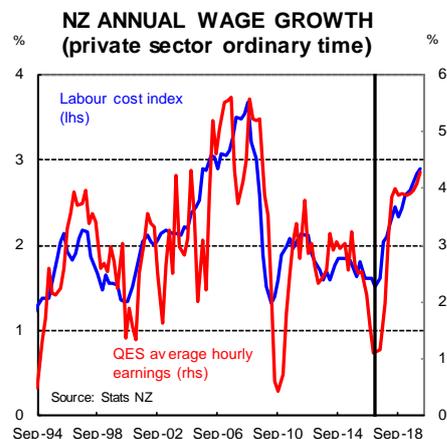
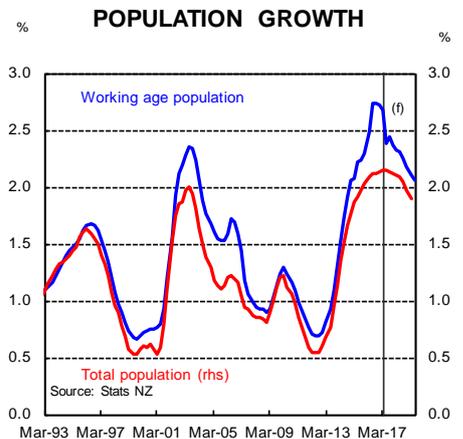
The unemployment rate in the Household Labour Force Survey stepped back below 5% despite yet another record high in the labour participation rate. Labour participation stepped up to 70.6%, above both the market and our own forecast. That is the fifth consecutive move higher for the participation rate, although some of that increase is due to the changes made to the HLFS survey in Q2 last year. However, the robust employment growth of 1.2% was enough to offset the increased participation rate and push the jobless rate back down to the same level as Q3 last year.

Taking some of the shine off the increase in employment is the fact that much of the rise is in part-time work. Those employed part time increased 3.1% qoq, compared to -2.0% in Q4. However, full-time employment only pushed up 0.6% qoq, the second weakest lift in the last 6 quarters. Still, the labour underutilisation index managed to improve a touch, dipping down to 12.5%, the second lowest read in the last 2 years, suggesting many of those in part-time work are satisfied with the number of hours they are working.

The Quarterly Employment Survey mirrored the impressive rise in employment, with filled jobs up 2.4% compared to 1.1% last quarter. It is no surprise to see that over half of that increase can be attributed to construction and the service sectors. The latter's growth was concentrated in accommodation and food services, both of which are likely to be benefitting from the continued high number of short-term visitors to NZ.

Wage details

The continued growth in employment still does not appear to be seeping through into wage pressures, with the Labour Cost Index measure holding at 0.4% qoq for the all-sector measure and the private sector. Those in the public sector saw labour costs rise just 0.3% qoq, down from 0.5% last time out. The recent equality pay ruling, which is set to come into force from Q3, will lift the pace of wage increases.



Given the lift in the labour participation rate, and continued record highs in net annual migration, it is no surprise to see another quarter of muted labour cost growth. Indeed, the 0.4% result is the seventh such result in a row, despite robust economic growth for the economy as a whole.

On an annual basis labour costs held at 1.6%, the fourth consecutive quarter of such growth. This compares to CPI inflation of 2.2% yoy for the same period, pushing the real wage increase over the last year into negative territory, admittedly after a period of very strong real wage growth.

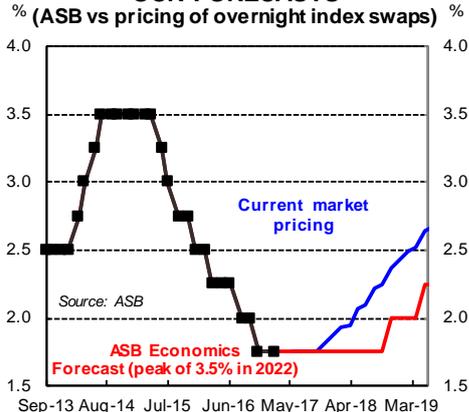
Turning to the Quarterly Employment Survey wage measures and the picture of muted wage growth is underlined. Private sector ordinary time wages increased 0.3% qoq, reversing the drop of the same magnitude seen last quarter. However, annual ordinary time wage growth is still just 1.1%. When taking both public and private sectors together, and including overtime, the picture does improve a touch, with wage growth of 0.5% qoq, up from -0.1% last time out. On an annual basis though, growth was still only 1.6%, the second weakest since 2010.

When looking at wage growth by industry under QES, it is no surprise to see robust growth in construction, with wages up 4.8% qoq. In addition food and accommodation services saw wages rise 6.5% over the same period. These two industries were the strongest performers over the quarter and saw increases of 11.7% and 12.5%, respectively, over the last 12 months.

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