

### Wage pressures not building, RBNZ on hold for longer

- Q2 employment growth was much weaker than expected.
- Unemployment and wages as expected, with no wage acceleration apparent.
- We now expect the RBNZ will first lift the OCR in February 2019.

#### Summary

Employment growth was much weaker than expected over Q2, falling by 0.2% while the unemployment rate edged down to 4.8%, as expected. The lower unemployment rate was the result of the labour force participation rate dipping – participation tends to follow the direction of employment to a degree.

The softness in employment growth is surprising, especially given employment indicators were robust over the quarter. Annual growth is, nevertheless, strong at 3.1% (and no longer distorted by the survey changes made last year). Wage growth remained modest over the quarter, in line with expectations.

This release reinforces the idea that the RBNZ will be in no rush to raise interest rates any time soon. We now expect the RBNZ will leave the OCR on hold until February 2019, previously November 2018.

#### Details

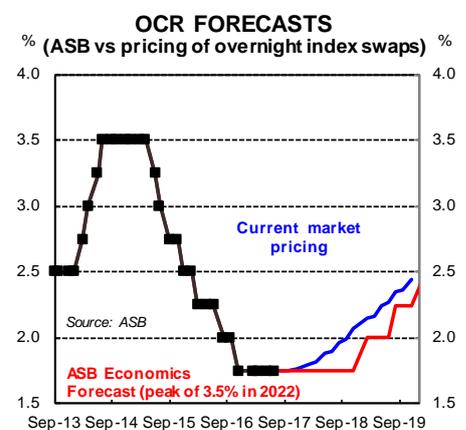
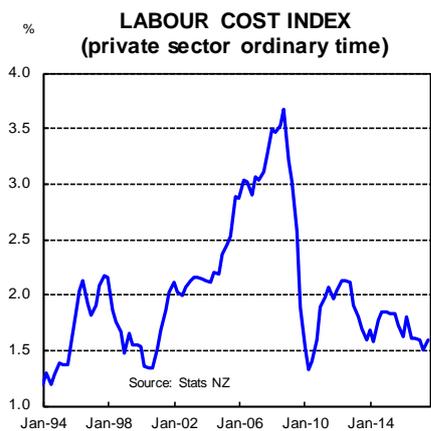
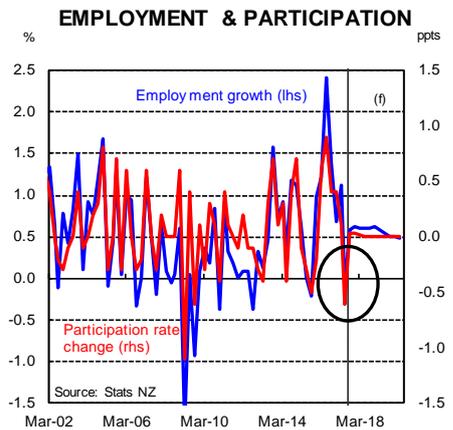
**Employment fell by 0.2% over Q2**, weaker than the 0.7% lift in employment forecast by both ourselves and the market. This result was **surprising given that employment indicators, such as the Quarterly Survey of Business Opinion, were robust over the quarter.**

However, **jobs growth as measured by the Quarterly Employment Survey (QES), painted a more robust picture of the labour market.** For example, filled jobs lifted 0.9% over the quarter and full-time equivalent employees rose 0.8% qoq. Overall, this **suggests that the labour market may remain healthier than the headline employment growth rate in the HLFs indicates.** Nevertheless, the **weak HLFs employment growth follows 2 quarters of modest GDP growth, and raises a flag of caution.**

Despite employment falling over the quarter, the **unemployment rate hit a recent low in Q2, falling to 4.8%.** The dip in the unemployment rate reflects the fact that the **labour force participation rate fell to 70.0% in Q2, from a record high of 70.6% in Q1.** The falling participation rate was seen across both male and female workers, as well as across most age groups. However, the lift in those taking themselves out of the labour force in Q2 was mainly women.

By region, **Auckland continues to contribute the most to employment growth**, followed by Waikato and Wellington. Looking at employment by industry, professional and support services employment lifted by 11.1% over the year, **construction was up 8.3%** and rental, hiring and real estate services jobs grew by 24.4%.

**Wage growth over the quarter was largely in line with expectations with the Labour Cost Index showing another quarter of muted wage growth.** In Q2, private sector ordinary time wages rose 0.4% over the quarter to be 1.6% higher than in Q2 2016, steady on Q1's result. Public wages continue to rise the fastest on an annual basis, with wages 1.9% higher than this time last year. QES private sector ordinary time wages also rose in line with expectations, but remain subdued on an annual basis (+1.2% yoy). **With no signs of wage growth accelerating over the quarter, we now think the RBNZ will leave the OCR on hold until February 2019.**



ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	<a href="mailto:nick.tuffley@asb.co.nz">nick.tuffley@asb.co.nz</a>	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	<a href="mailto:jane.turner@asb.co.nz">jane.turner@asb.co.nz</a>	(649) 301 5853	
Senior Rural Economist	Nathan Penny	<a href="mailto:nathan.penny@asb.co.nz">nathan.penny@asb.co.nz</a>	(649) 448 8778	
Senior Wealth Economist	Chris Tennent-Brown	<a href="mailto:chris.tennent-brown@asb.co.nz">chris.tennent-brown@asb.co.nz</a>	(649) 301 5915	
Economist	Kim Mundy	<a href="mailto:kim.mundy@asb.co.nz">kim.mundy@asb.co.nz</a>	(649) 301 5661	
Publication and Data Manager	Judith Pinto	<a href="mailto:judith.pinto@asb.co.nz">judith.pinto@asb.co.nz</a>	(649) 301 5660	



<https://reports.asb.co.nz/index.html>

[@ASBMarkets](https://twitter.com/ASBMarkets)

ASB Economics  
ASB North Wharf, 12 Jellicoe Street, Auckland

#### Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.