

### Jobless rate to trend lower

- We expect the unemployment rate to tick down to 5.0% in Q1 2017.
- Wage inflation pressures are relatively static and are expected to only tick up to 1.7% yoy on a labour cost basis.
- Wage inflation is expected to gradually pick up in the coming quarters as the labour market tightens.

**Next week on 3 May (10.45am NZT), the Household Labour Force Survey (HLFS), Quarterly Employment Survey (QES) and Labour Cost Index (LCI) Q1 statistics are released. This will be the fourth release under the new labour definitions in the HLFS and the last for which direct comparisons with the same quarter a year earlier are not advisable.** The QES and LCI data are unaffected by the changes.

In Q1, we expect **the jobless rate to dip to 5.0%, with employment itself up a healthy 0.8% qoq. We expect wage inflation to firm a touch, although remain fairly muted.** That modest wage growth is a function of continued firm net migration, with more record highs posted through Q1. As the labour market continues to tighten over the coming quarters we look for more solid nominal wage growth further down the track, with real wage growth picking up in 2018.

**We expect employment growth of 0.8% over Q1.** This after Q2's 2.4% increase, Q3's surprising 1.4% expansion and a still-healthy 0.8% in Q4 2016. Some of those increases were attributable to the definition adjustments made to the HLFS survey (Q2 in particular). We expect annual employment growth of 5.4%, although the annual growth rate is still being distorted by the structural break in how employment is measured.

Construction and tourism remain the most likely sources for employment growth. However, the latter is starting to experience accommodation capacity pressures, which may slow tourism-related employment growth in the coming quarters. Wages pressures are likely to remain firm in construction, given continued strong activity in this sector.

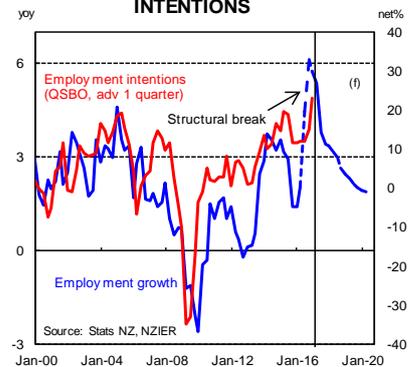
**We expect the unemployment rate to dip to 5.0%.** However, given the recent changes in the classifications of employment and participation, comparison with prior periods remains fraught with difficulty. **What has been fairly evident in recent quarters, though, is a general improvement in the labour market,** helping to underpin economic growth. We make that statement despite the lift in the unemployment rate to 5.2% in Q4. That move was due to the increased participation rate, which jumped to a new record high of 70.5%, with the strong labour market encouraging more new entrants. However, the labour market does not appear quite tight enough to force wages and, therefore, inflation too much higher in the very near term.

**Strong net migration continues to be a theme in the labour market** (and elsewhere), keeping the supply of labour high and constraining wage growth, at least in the short term. We look for private sector ordinary time wages to rise 0.50% qoq, as measured by the LCI. That would be slightly higher than Q4's 0.44%, taking the annual pace to 1.7%.

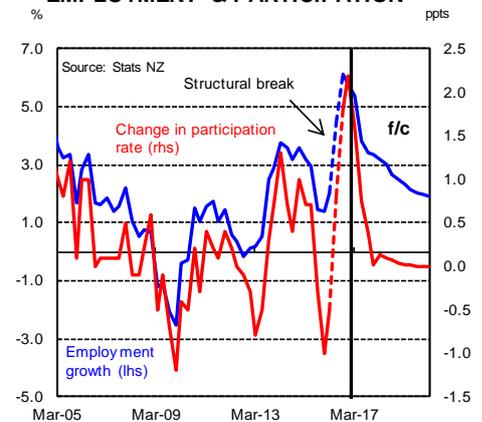
Putting aside survey changes, the labour market has been in good shape since late 2015. We are mindful, however, that the new survey outcomes could still create surprises. In contrast, the QES and LCI releases should be business as usual, with weight put on the LCI as a guide to underlying wage pressures. **As such the impact from the data on the RBNZ OCR decision-making process over the next few months is likely to remain limited.**

Q1 Employment Forecasts		
Indicator	ASB	Prior
Employment growth (QoQ)	0.8	0.8
Unemployment Rate (%)	5.0	5.2
Participation Rate (%)	70.4	70.5
Labour Cost Index		
Private Sector (% , QoQ)	0.50	0.44
Private Sector (% , ann)	1.7	1.6

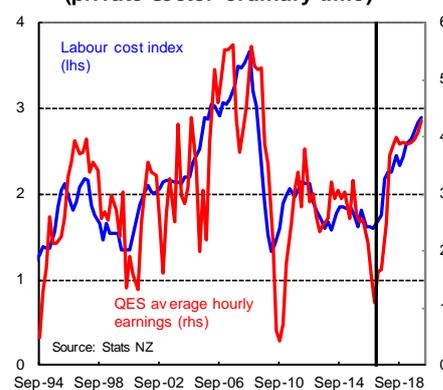
**NZ EMPLOYMENT & EMPLOYMENT INTENTIONS**



**EMPLOYMENT & PARTICIPATION**



**NZ ANNUAL WAGE GROWTH (private sector ordinary time)**



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	Daniel Snowden	<a href="mailto:daniel.snowden@asb.co.nz">daniel.snowden@asb.co.nz</a>	(649) 301 5657	
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	



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ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

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