

Another drop in the jobless rate expected in Q4

- We expect the unemployment rate to tick down to 4.8% in Q4 2016.
- Wage inflation pressures are relatively static and are expected to remain steady at 1.6% 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 1 February (10.45am NZT), HLF5, QES and LCI Q3 labour market statistics are released. This will be the third release under the new labour definitions in the HLF5 and the results should be more settled now. However, while comparisons with Q2 and Q3 2016 are possible, further prior period comparison is not straight forward, given the extensive changes made to the survey by Stats NZ. The QES and LCI data are unaffected by the changes.

In Q4, we expect **the jobless rate to dip to 4.8%**. This despite a small upward move to the labour participation rate, to 70.2% from 70.1%. **We expect wage inflation to firm a touch, although remain fairly muted.** That modest growth is a function of continued firm net migration, with more record highs posted through Q4, while the low inflation environment is also tempering the extent of wage increases. As the labour market continues to tighten we look for more solid wage growth further down the track.

We expect **employment growth of 0.7% over Q4**. This after Q2's 2.4% increase and Q3's surprising 1.4% expansion. Some of those moves are attributable to the adjustments made to the HLF5 survey (Q2 in particular), although other labour market indicators pointed to healthy employment growth. We expect annual employment growth of 5.9%, 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. Wages pressures are more likely to be seen in construction given continued strong activity in this sector.

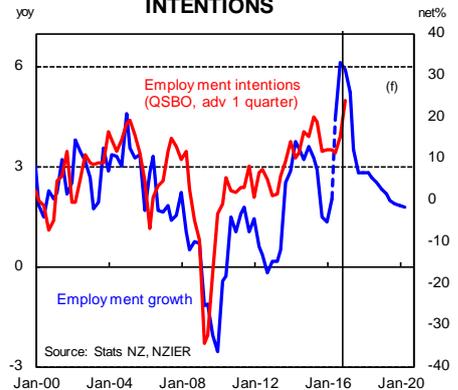
We expect the unemployment rate to dip to 4.8%. However, given the recent changes in the classifications of employment and participation, comparison with prior periods remains fraught with difficulty. **What has been fairly evident in recent quarters though is a general improvement in the labour market**, helping to underpin NZ economic growth. This strength has also been seen in other labour market metrics. However, the labour market does not appear quite tight enough to force wages, and therefore inflation, too much higher in the near term. The underemployment metric offered by Stats NZ could start to garner more attention as a measure of change in the overall strength of the market.

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 a 0.42% qoq lift in the Labour Cost Index (LCI) across all sectors. That would be slightly lower than Q3's 0.53%, although the annual pace would hold at 1.7%.

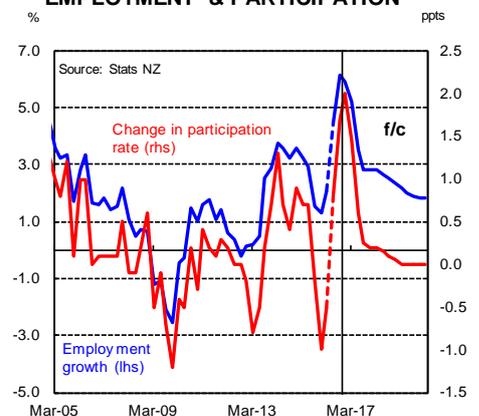
Putting aside survey changes, the labour market has been in good shape since late last year. We are mindful, however, that the new survey outcomes could still create surprises. In contrast, the QES and LCI releases should be business as usual, with weight put on the LCI as a guide to wage pressures. **As such the impact from the data on the RBNZ's OCR decision on February 9 should be limited, with little expected on the wages front to push inflation higher than expected in the immediate future.**

Q3 Employment Forecasts		
Indicator	ASB	Prior
Employment growth (QoQ)	0.7	1.4
Unemployment Rate (%)	4.8	4.9
Participation Rate (%)	70.2	70.1
Labour Cost Index		
Private Sector (% , QoQ)	0.45	0.35
Private Sector (% , ann)	1.6	1.6

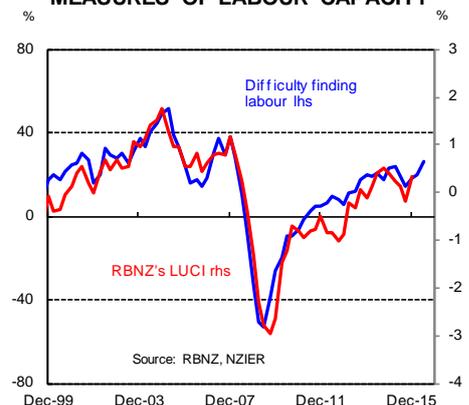
NZ EMPLOYMENT & EMPLOYMENT INTENTIONS



EMPLOYMENT & PARTICIPATION



MEASURES OF LABOUR CAPACITY



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