WESTPAC ECONOMIC BULLETIN

Preview of Q2 labour market surveys: 3 August, 10:45am.

28 July 2022

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Now hiring.

- We expect the unemployment rate to dip further to 3.1% in the June quarter.
- If so, that would mark a new low going back to the start of the survey in 1986.
- The demand for workers remains red-hot, and with fewer Omicron disruptions in the quarter, we expect to see a lift in the number of workers.
- We expect a further lift in wage growth, albeit still falling short of the surge in the cost of living.
- That reflects the unusual nature of the Covid shock, which has seen both a boost to demand and a hit to productivity.
- Our picks are similar to the Reserve Bank's most recent set of forecasts, and would leave them on track for another 50 basis point increase in the OCR next month.

	Q1 actual	Q2 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	3.2	3.1	-
Employment growth	0.1	0.5	2.3
Participation rate	70.9	71.1	-
Quarterly Employment Survey			
FTE employment	0.4	0.4	3.8
Hours paid	0.2	0.5	3.4
Private average hourly earnings	1.9	1.3	6.0
Labour Cost Index			
All sectors, ordinary time	0.8	0.9	3.2
Private sector, ordinary time	0.7	1.0	3.2
Private, all salary & wage rates	0.7	1.0	3.2

The labour market remains a crucial part of the inflation-interest rate nexus. It's still true that much of the surge in prices to date has been due to forces beyond New Zealand's control. But a tight labour market is the mechanism through which an initial price shock could become 'inflation' in the sense of an ongoing process of rising prices.

We expect the June quarter labour market surveys, released next Wednesday, to show a further drop in the unemployment rate to a fresh record low. The March quarter was characterised by disruptions from the peak of the Omicron wave, which were still present, but less of an issue during the June quarter. We also expect a further lift in wage growth in nominal terms, though still not catching up on the surge in the cost of living.

Our forecasts are similar to what the Reserve Bank predicted in its May *Monetary Policy Statement* (in fact a little softer than the RBNZ's view on labour costs). A result in line with our forecasts wouldn't move the dial on what the RBNZ is likely to do at its 17 August review – we expect another 50 basis point lift in the OCR to 3.00%, with a signal of more hikes to come this year.

Forecast details.

For the Household Labour Force Survey (HLFS), we expect a small drop in the unemployment rate to 3.1% in the June quarter, from a steady 3.2% in the March quarter. Within that forecast, we expect a lift in both the number of people employed and the participation rate, with relatively less disruption from Omicron during the latest quarter.

The main indicators that we watch paint a consistent picture around a strengthening in the jobs market.

Employment confidence: While our Employment Confidence Index was softer overall in June, the sole improvement was in households' perceptions of current job opportunities. This question has tended to be a good leading indicator of the unemployment rate.

Job advertisements: Listings have continued to rebound after last year's Delta lockdown, and in May they set another record higher (although they eased back a bit in June). Much of the high level of listings is likely to reflect 'churn' rather than new job creation, but churn itself is a sign of a tight labour market.

Monthly Employment Indicator: After a drop in February and March that we suspect was due to Omicron disruptions, the number of filled jobs has bounced back to new highs, and was around 0.4% higher on average over the June quarter. The details also suggest that much of the recent growth in employment has been in the youngest age groups, where there's plenty of room for bringing more people into (or back into) the workforce – hence our forecast of a higher participation rate.

Jobseeker benefits: There was a further drop in the number of people receiving this benefit over the June quarter, although the rate of improvement is slowing. We should note that this measure provides at best a rough indication of the trends in HLFS unemployment. A recent paper from Stats NZ showed that there is a surprisingly small overlap between the two groups – only around a third of those officially unemployed are receiving the Jobseeker benefit, and vice versa.

One interesting aspect to watch for in the HLFS is the number of hours worked. First official restrictions, then staff absenteeism during the Omicron wave, meant that average hours per worker were about 2% lower than normal in both the December and March quarters. That measure should improve in the June quarter, to the extent that worker absenteeism was less severe in the last few months (though still very much an issue).

Wage growth has been picking up over the last year, reflecting the tight jobs market. For the Labour Cost Index (LCI), we're expecting a 0.9% increase in the overall measure for the June quarter. This would lift annual growth to 3.2%, the fastest pace since early 2009.

June quarter movements tend to be on the higher side because of minimum wage increases, which take effect on 1 April. While this year's increase of 6% was similar to last year's 5.8%, each successive increase affects a greater share of the workforce, which in turn gives it a bigger influence on the average.

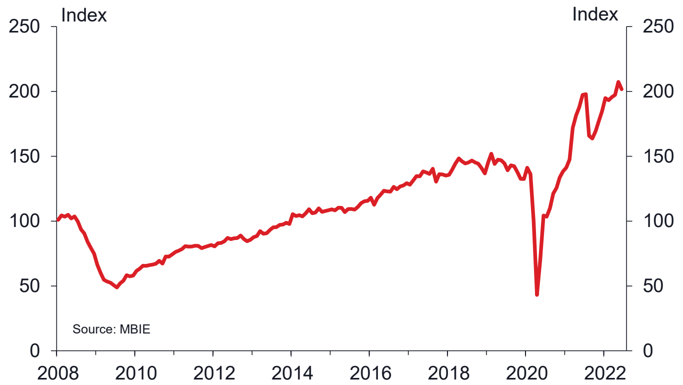
The LCI measures the cost for a given unit of labour, abstracting from pay increases that relate to experience or seniority. For a better sense of what workers are actually receiving, we should look to the unadjusted measure of the LCI, or the average hourly earnings from the Quarterly Employment Survey (QES). Both of those measures rose by 4.8% in the year to March, and we're expecting a further acceleration to around 5.5% for the year to June (and even higher for the private sector component).

With consumer prices rising by 7.3% over the same period, that implies a continued squeeze on households' budgets. As we've noted before, that's to be expected from the very unusual set of economic conditions that we have at the moment. The surge in inflation has been the result of both a productivity shock to the economy from Covid, and a boost to demand from policy stimulus. The former argues for a drop in real (inflation-adjusted) pay rates, even as the latter helps to boost them in nominal terms.

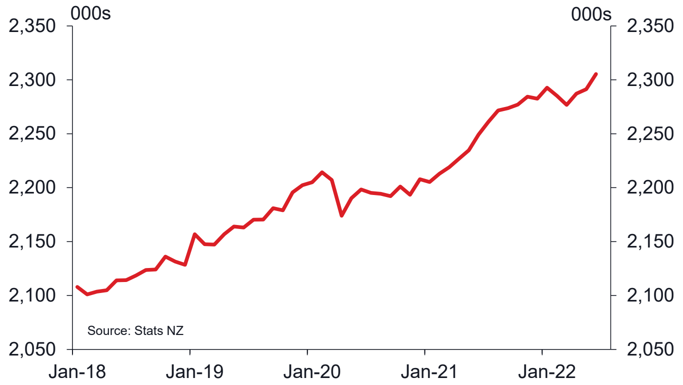
We expect that mix to change over the year ahead, with inflation being less a product of Covid disruptions and more a product of the strength of demand and the tightness of the labour market. Even so, with the RBNZ and other central banks now rapidly tightening monetary policy in order to cool down the economy, any rebound in real wages is likely to be a short-lived cyclical one rather than an ongoing trend.

Unemployment rate and employment growth

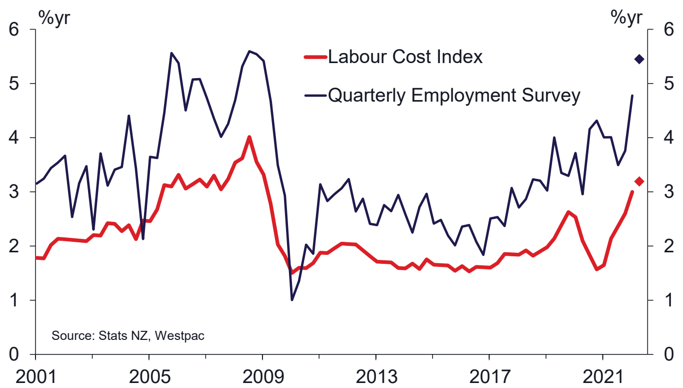
Online job advertisements, seasonally adjusted



Monthly Employment indicator filled jobs



Wage growth, all sectors ordinary time



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