

New Zealand Economic Comment

Softer jobs market consistent with RBNZ cut in Sep

Economics

New Zealand

Q2 employment below expected at 0.3% q/q, albeit still strong at 3.0% y/y

In Q2-15, jobs growth rose a less than expected 0.3% q/q (UBS & mkt: +0.5%) – the slowest since Q1-13 – & Q1 was revised down a tick to 0.6% (was 0.7%), albeit still the 11th consecutive q/q of expansion. Nonetheless, the q/q trend clearly moderated in the last 2 quarters to average ½% – halving from 1% in the prior 2 quarters. Hence, the y/y was also below expected at 3.0% in Q2 (mkt: 3.4%), easing from 3.2% in Q1 – albeit still relatively solid – dragged by a sharp slowdown in Canterbury to just 1%.

Unemployment rate ticks up further to 5.9% – the highest level since Q1-2014

Reflecting a slowing trend of jobs growth, the unemployment rate ticked up further as expected to 5.9% in Q2 (UBS & mkt: 5.9%), after 5.8% in Q1. Unemployment is now the highest level since Q1-2014, and has trended up almost ½%pt from a trough of 5.5% in Q3-14. Meanwhile, the participation rate fell back to 69.3% in Q2, albeit after lifting to a record high level of 69.5% in Q1.

LCI wages still low (0.5% q/q, 1.8% y/y), but earnings picked up (3.3% y/y)

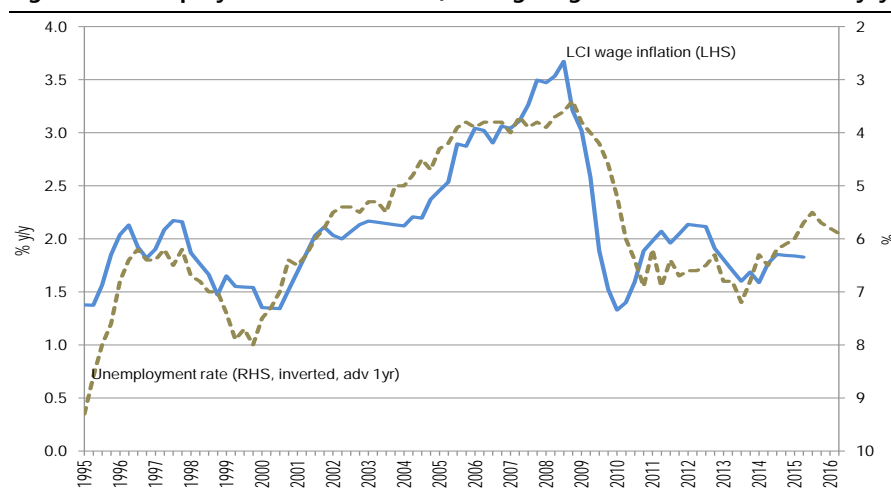
The Labour Cost Index shows ongoing low wage inflation, with private wage rates (including overtime) rising by 0.5% q/q as expected (UBS & mkt: +0.5%), after a surprisingly weak 0.3% q/q in Q1. Hence, the y/y held at 1.8%, continuing the steady trend since Q2-14. However, average hourly earnings rebounded by an above expected 1.2% q/q (nsa) in Q2 (mkt: 0.5%, albeit after just 0.2% in Q1), and picked up to 3.3% y/y. Total gross earnings also stayed solid at 5.3% y/y, but moderated from 5.9% in Q1.

Implications: softer labour market gives room for RBNZ to cut 25bp in Sep

The labour market appears to be on a softening trend, but not dramatically so. Employment growth is cooling (broadly in line with some pull-back of employment intentions), seeing a renewed uptrend in the unemployment rate. Wage inflation also remains relatively low (albeit earnings/income are holding up for now). Overall, we continue to expect the RBNZ will cut the OCR by another 25bp at its next meeting in September – but we note that Governor Wheeler's recent comments argued against "large[r] declines in interest rates over coming months".

George Tharenou

Figure 1: Unemployment rises to 5.9%; seeing wage rates hold a low 1.8% y/y



Source: Statistics NZ, UBS

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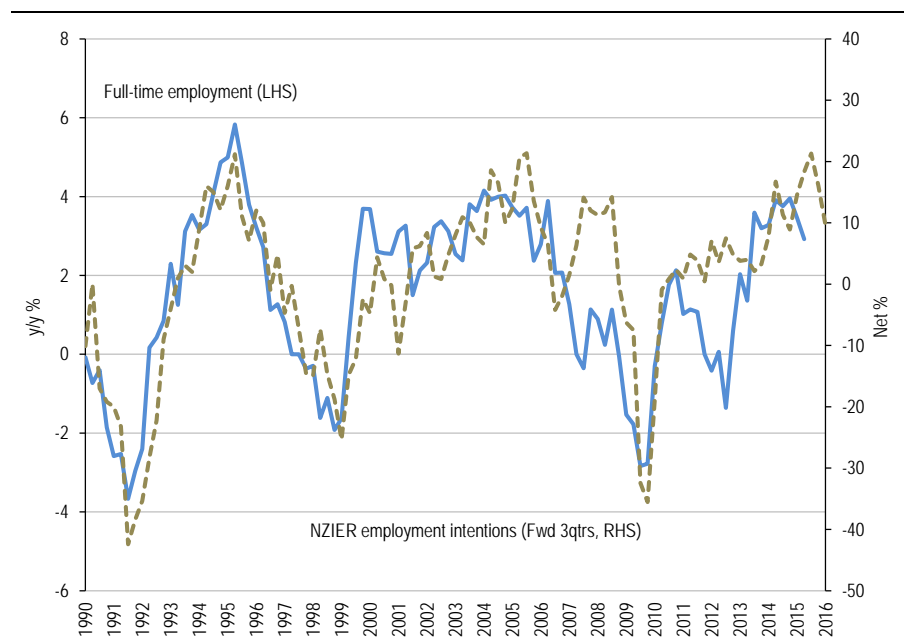
Household Labour Force Survey (Q2-2015)

Figure 2: Household Labour Force Survey

% (s.a.)	2014			2015	
	Jun	Sep	Dec	Mar	Jun
Total Employment - q/q	0.5	0.8	1.2	0.6	0.3
Full-time - q/q	1.0	0.8	1.0	0.6	0.4
Part-time - q/q	-0.2	-0.4	2.7	0.2	0.8
Participation Rate	68.7	68.8	69.4	69.5	69.3
Unemployment Rate	5.7	5.5	5.7	5.8	5.9

Source: Statistics NZ, UBS

Figure 3: Jobs growth moderates to still solid 3.0% y/y (in line with intentions)



Source: Statistics NZ, NZIER, UBS

Labour Cost Index (Q2-2015)

Figure 4: Labour Cost Index rose 0.5% q/q, and held at 1.8% y/y in Q2

Private sector, %		2014			2015	
		Jun	Sep	Dec	Mar	Jun
LCI	q/q	0.6	0.5	0.5	0.3	0.5
	q/q – sa (UBS)	0.4	0.5	0.5	0.4	0.4
	y/y	1.8	1.9	1.8	1.8	1.8

Source: Statistics NZ, UBS

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