

LABOUR MARKET DATA PREVIEW – SEPTEMBER QUARTER 2007

(LCI and QES due 10.45am 5 November, HLFS due 10.45am 8 November)

Key points

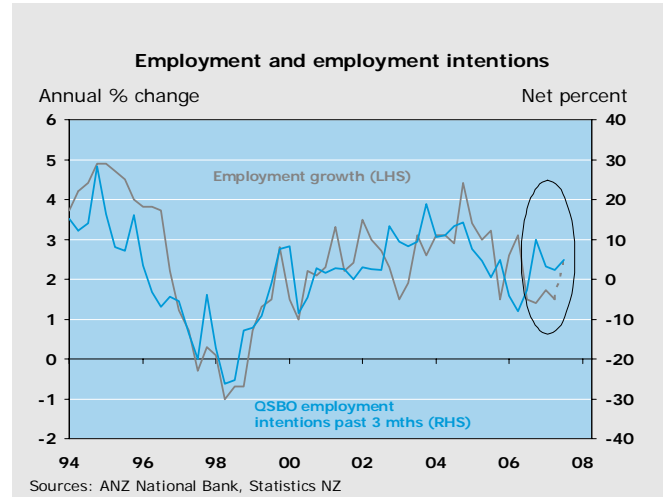
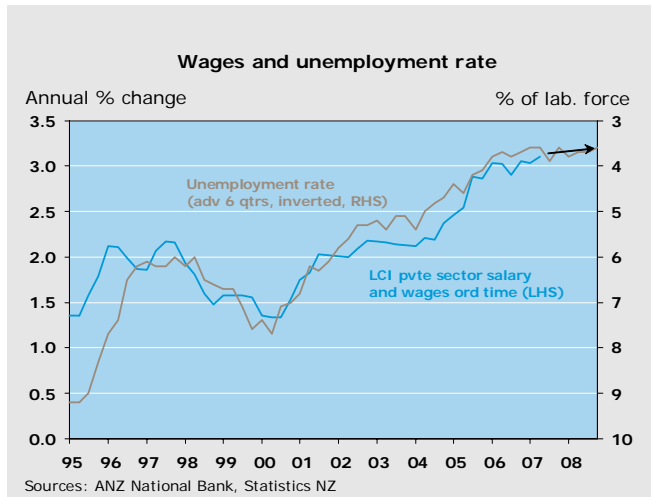
- Wage growth to remain elevated given the tight labour market environment.
- Robust employment growth to keep the unemployment rate at record lows.
- On balance, labour market data to show ongoing support for the economy.
- Cost-push inflation pressure to keep the Reserve Bank on alert.

	Expectations	
	ANZ National	Market
LCI salary and wage ordinary time (private sector)	0.9% q/q 3.2% y/y	0.8% q/q 3.1% y/y
QES salary and wage ordinary time (private sector)	2.0% q/q 4.4% y/y	1.4% q/q 3.7% y/y
HLFS unemployment rate (s.a.)	3.6%	3.6%
HLFS participation rate (s.a.)	68.9%	68.8%
HLFS employment growth	0.6% q/q 2.5% y/y	0.4% q/q 2.3% y/y

Wage growth is expected to remain elevated in the September quarter. We expect the Labour Cost Index (LCI) measure of private sector ordinary time earnings to record an increase of 0.9 percent, taking annual growth to a new record high of 3.2 percent. Public sector wages typically exhibit a strong seasonal increase in the September quarter, and this year will be no exception. This will help push total wage rates for all sectors higher by 1.0 percent in the quarter, taking annual growth to 3.1 percent. For completeness, the less reliable Quarterly Employment Survey (QES) wage indicator – which is volatile and influenced by compositional changes – is expected to increase by 2.0 percent in the quarter, taking annual growth to 4.4 percent.

Strong economic activity over the first part of this year will ensure wage pressures remain elevated in the near-term. The labour market remains extremely tight, with firms continuing to report difficulty in finding both skilled and unskilled workers. Although the changes to the statutory minimum wage rates which came into effect on 1 April 2007 did not appear to have had a material impact on June quarter wage growth, we anticipate some indirect effect as employees seek relativity adjustments. This may take some time to come through, but nevertheless portends of further wage inflation to come.

Employment intentions survey points to ongoing labour demand. Although the HLFS is notoriously volatile and two big increases in employment in the March (1.2 percent) and June (0.7 percent) quarters suggests there is a risk of a pullback in the September quarter, we can't go past the fact that employment intention surveys continue to hold up. We expect employment growth to increase by 0.6 percent in quarter, taking annual growth to 2.5 percent, which is consistent with the latest reading on past employment intentions from the QSBO. However, as has been the case recently, employment growth is expected to be dominated by an increase in part-time workers. As always, the key uncertainty lies with the participation rate. It rose to a new record high of 68.8 percent in the June quarter. Given the solid growth that occurred over the first half of the year, and the troubles firms are having in finding staff, we feel that it is likely more workers were pulled into the labour force in the September quarter. We expect the participation rate to tick up to 68.9 percent and this will ensure the unemployment rate remains unchanged at the equal record low of 3.6 percent.



Assessment

The labour market continues to provide key support for the economy and will remain a source of ongoing inflation concern for the Reserve Bank. Though labour market data tends to be viewed as late cycle indicators, the potential for cost-push inflation from higher wage growth becoming more entrenched will worry the Reserve Bank. The Bank will want to ensure that the recent benign headline inflation outturn will help contain future wage claims and lead to a moderation in inflation expectations.

Strong employment and wage prints will keep the market biased towards higher rates. Despite the Reserve Bank maintaining their wait-and-see stance in the October *OCR Review*, the market has latched on to the Bank's inflation concerns. We do not expect the labour market data to provide any smoking gun that will cause the Reserve Bank to change their current stance. Nonetheless, a stronger than expected outturn will see the market biased towards higher rates. But given the recent moves in the swaps market, the risk is for a substantial pullback should the data come out softer than expected.

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