ANZ Research

NZ Insight: The 'great resignation' in New Zealand

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Contact

Finn Robinson or Sharon Zollner for more details.

The 'great resignation' in New Zealand

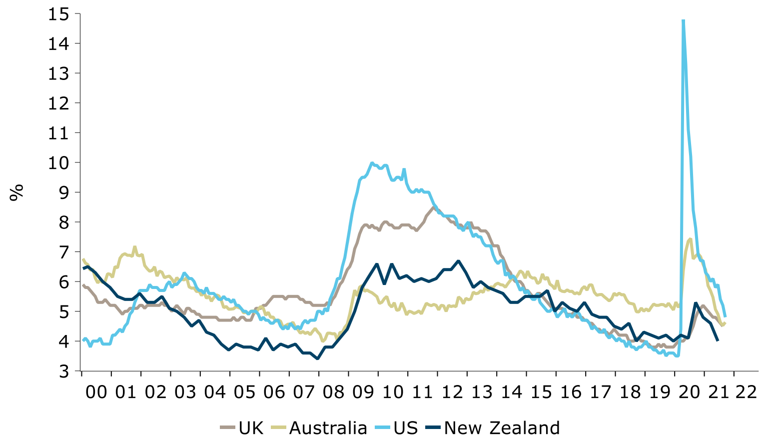
Summary

- The global COVID-afflicted economy has shortages of everything – and that includes workers. Labour shortages across many countries have seen concerns build about a 'great resignation' that will see firms lose workers en mass.
- The New Zealand labour market has always been characterised by high levels of labour market turnover – so to some extent, a surge in resignations is a return to normal after COVID disruption. That said, early indications are that turnover in the labour market is likely to flirt with record highs once current COVID restrictions ease.
- The drop in unemployment to 4% in Q2 made it clear that there's been a seismic shift in the balance of power in the New Zealand labour market. Workers are now worth their weight in gold – and that means they can demand a larger share of the economic pie. It may be a tough pill to swallow for firms that have struggled through months of lockdowns and other restrictions - but they're going to have to cough up or lose workers to higher-paying competitors.
- In short, the 'great resignation' means wage inflation will accelerate. Unfortunately, much of that gain will just be eaten up by inflation. However, increased labour market churn can enhance productivity by sorting workers into the jobs for which they are most suited, and at the highest productivity firms. That would be a good thing for the economy, since rising productivity is the key to sustainably increasing real incomes.

Introduction

One of the more unexpected aspects of the COVID-19 pandemic has been the intensity of the labour shortage that has developed, both in New Zealand and overseas. Coming into the crisis, there were real concerns that we could see double-digit unemployment that would take years to return to pre-pandemic levels. And indeed, there were significant job losses in many countries, although less so where the fiscal response was effectively targeted at keeping people attached to their jobs (figure 1).

Figure 1. Unemployment rates



Source: Stats NZ, ABS, BLS, ONS, Macrobond, ANZ Research

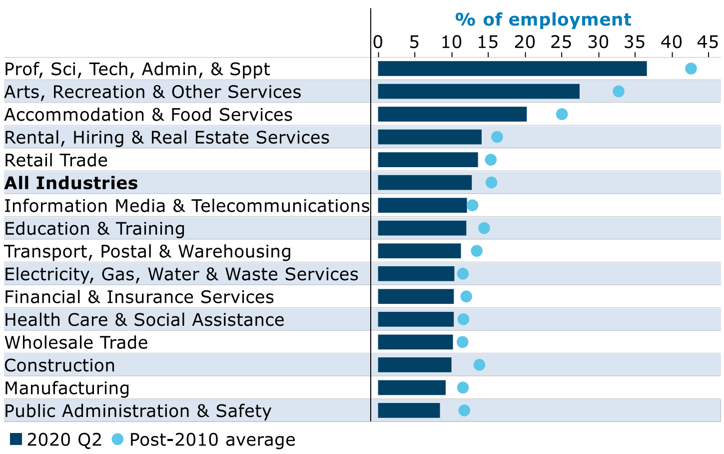
Thankfully, the health, fiscal, and monetary policy responses to the pandemic significantly mitigated the damage to many economies. Unemployment is now either close to, at, or even below pre-pandemic levels in many countries. There is a shortage of available workers around the world, and firms, most notably in the US, have been grappling with a 'great resignation', as people quit their jobs en mass. There are many drivers of this increase, including concerns about the pandemic (especially in face-to-face jobs), people searching for more flexible roles, better pay and conditions, or workers just dropping out of the labour force entirely. The great resignation even has its own Wikipedia page.

But what does the 'great resignation' mean for New Zealand? Are we about to see a collapse in labour supply that could throw us into a stagflationary spiral? Are we heading to a new labour market equilibrium where the workers start to dictate terms to employers? Or is this just a return to the normal amount of churn that the labour market experiences?

A constant churn

Something that's hard to appreciate if you just look at the headline unemployment number is that the labour market is more like a fluid than a solid object. It is characterized by flows of people between unemployment, inactivity, and employment, plus big movements from job to job. Labour turnover[1] has been running at around 15% of total employment on average since 2010 – and there are big differences across industries, with average turnover ranging from 12% to 43% (figure 2).

Figure 2. Labour turnover by industry



Source: Stats NZ, Macrobond, ANZ Research

What's been consistent across many industries, however, is that turnover was structurally lower after the global financial crisis (GFC). And that matters, because the movement of employees between jobs (and in theory up the job ladder) is a key driver of larger pay rises. For example, recent research shows that in the US, when more workers are switching jobs, wage inflation tends to be significantly stronger. New Zealand research has found similar results.

Visually, we can see this by plotting labour turnover versus quarterly wage inflation (figure 3). The data on labour turnover does come out with a significant lag, so we only have it to 2020 Q2 – but there are some

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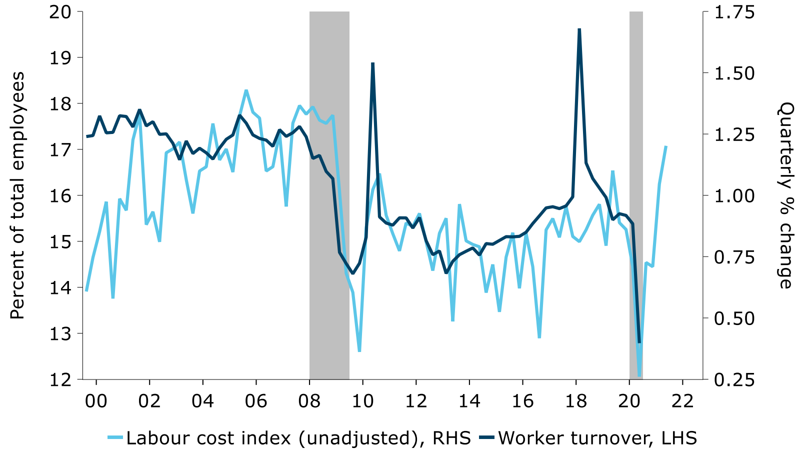
[1] The worker turnover rate is the average of total accessions (new employees joining employers) and separations (employees who have left their employers), relative to the average of total employment in the current and previous quarter. See Stats NZ's Guide to Interpreting the LEED Data for more detail.

interesting historical patterns. For example, labour turnover dropped sharply after the GFC, and never really recovered. One of the (many) theories for low wage growth after the GFC is that people stopped switching jobs as much, and fewer people therefore received the wage premium that often comes with a new employer.

Figure 3. Labour turnover and wage inflation (ANZ sa)



Source: Stats NZ, Macrobond, ANZ Research

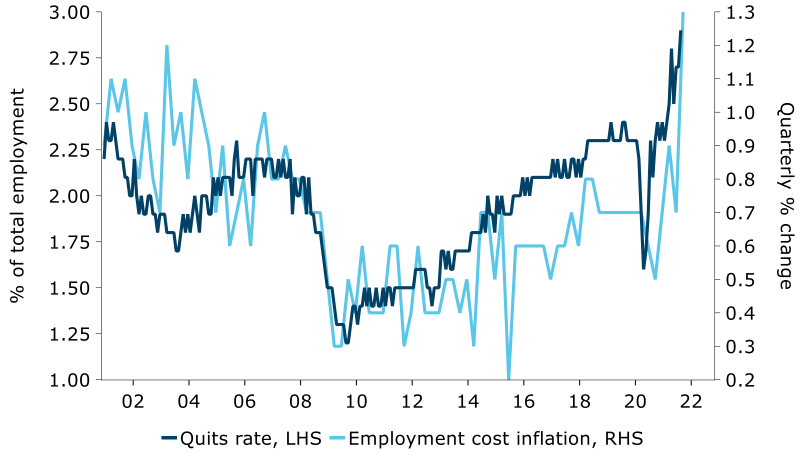
Not surprisingly, turnover also tanked in Q2 2020 when we entered lockdown. We would naturally expect to see a bump in labour market turnover as restrictions start to ease. That might be quite alarming to employers watching a larger-than-usual chunk of their workforce resigning, but it is a natural part of the labour market.

This time is different

So if the labour market always experiences massive churn, why is everyone so worried about this 'great resignation'?

Well, the post-COVID labour market is different, and the level of labour market turnover globally has been off the charts – even accounting for the fact that there will be some payback from the 2020 drop in labour mobility. In the US, for example, the quits rate reached a record high in August, with 4.3 million people voluntarily leaving their jobs – equivalent to 2.9% of the total number of employees. That's coincided with the largest increase in employment costs since 2001 (figure 4). To an employee, that probably sounds like a pretty good thing – but with inflation running at over 5% in the US, it'll take a much larger increase in wages for households to actually feel better off.

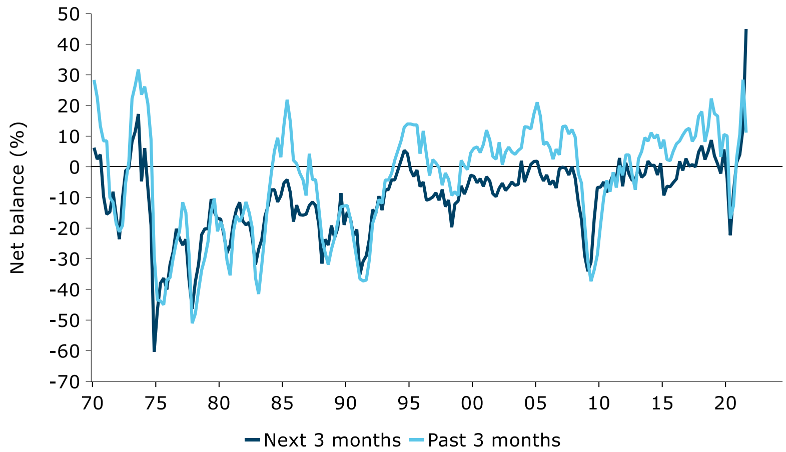
Figure 4. US quits rate and employment costs



Source: BLS, Macrobond, ANZ Research

Unfortunately, New Zealand doesn't have timely official data on this kind of labour market turnover. But the Quarterly Survey of Business Opinion (QSBO) does ask firms about the level of labour turnover they've experienced over the past three months, and what they expect over the next three. This data goes back all the way to 1970. The data show that reported labour turnover dropped sharply in Q2 2020 (confirming what can be seen in figure 3), before surging to a level not seen since the 1970s. Renewed lockdown has seen turnover drop, but if firms' expectations are anything to go by (actually if anything, it looks like firms have historically under-predicted the level of turnover), then we're likely to see turnover increase to record levels in coming quarters. And again, some of that will be payback from lockdown, but a significant chunk is likely to be workers leveraging their newfound bargaining power to switch jobs and secure large wage rises.

Figure 5. QSBO labour turnover indicators



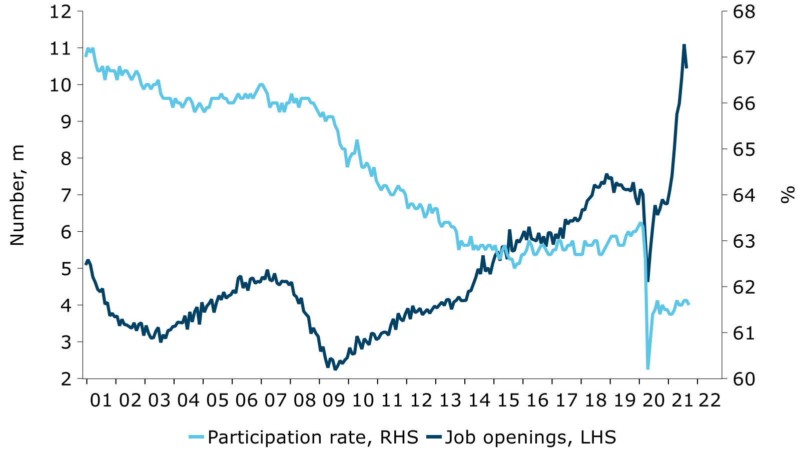
Source: NZIER, Macrobond, ANZ Research

Why are workers scarcer?

Workers are clearly taking advantage of a post-COVID labour market equilibrium whereby they can demand significantly higher wage rises, and have plenty of outside offers should their current offers disappoint. But why are workers so scarce right now?

The answer depends partially on which country you are looking at. Take the US – they've seen the labour force participation rate drop since the onset of the pandemic, and it hasn't gotten anywhere close to recovering. That's a huge amount of labour supply that's just gone, at the same time that stimulatory monetary and fiscal policies, and the loosening of COVID restrictions, have sent labour demand into overdrive (figure 6). No wonder the Employment Cost Index just saw its largest annual increase in two decades.

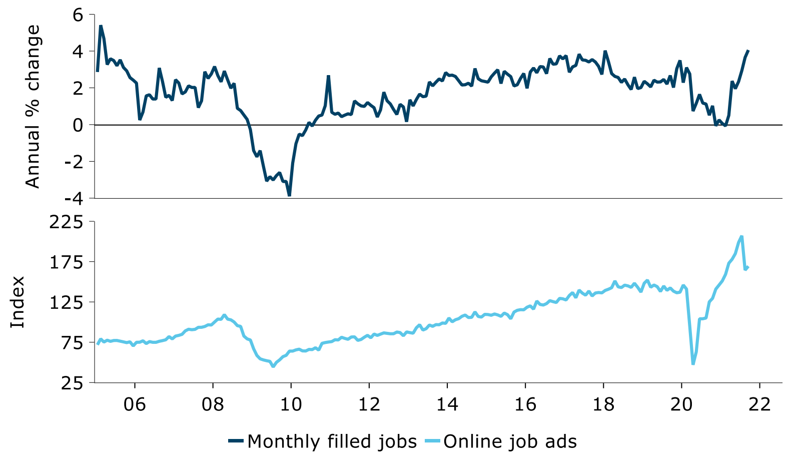
Figure 6. US labour force participation and job openings



Source: BLS, Macrobond, ANZ Research

In New Zealand, we haven't seen the same drop in labour force participation. It's currently at 70.5%, versus 70.7% in early 2020, pre-COVID. But our labour market was already around full employment pre-pandemic, and domestic demand has been supercharged by the policy response as well. Add in a closed border, and you've got labour supply constrained while demand is surging. The 'great resignation' in the New Zealand context reflects that workers have become a very scarce resource as firms struggle to fill vacancies and meet surging demand. Even during the latest lockdown, the economy continued to add jobs at a surprisingly high rate, and job vacancies have remained well-above pre-COVID levels (figure 7).

Figure 7. NZ jobs growth and online job ads

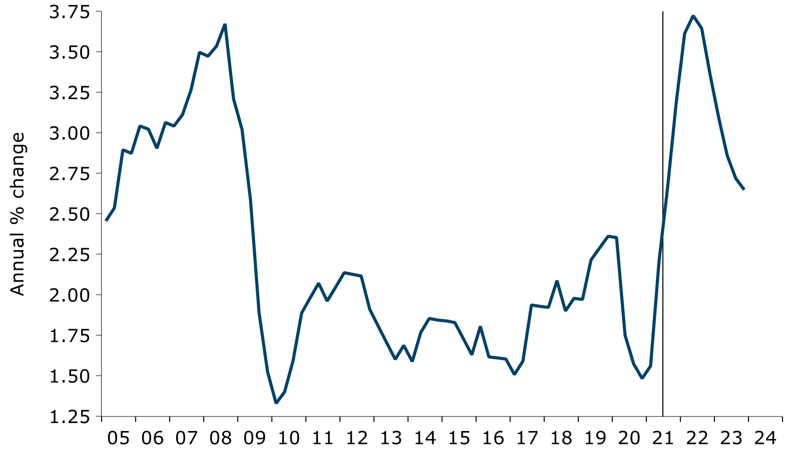


Source: Stats NZ, MBIE, Macrobond, ANZ Research

Higher wages (and productivity?)

So the obvious answer to what the 'great resignation' means for New Zealand is higher wage inflation. As mentioned earlier, that's not necessarily as good news for workers as it sounds, since inflation is so high that it'll likely take annual wage inflation of over 6% for households to feel any richer (and for those saving for a house, more like 30%!). But it does reflect that the balance of power has shifted markedly towards workers, as we noted after unemployment fell to 4% in Q2 2021. The labour market is now a seller's market. Demand is far outstripping supply, and that means workers should see larger-than-usual wage rises as firms battle it out to fill vacancies. We're expecting that labour cost inflation will reach pre-GFC levels over the next year, and only start to ease as OCR hikes feed through the economy (figure 8).

Figure 8. Labour cost inflation forecast



Source: Stats NZ, Macrobond, ANZ Research

One side effect of increased churn in the labour market could be an increase in labour productivity. In theory, people will gradually sort themselves into roles that better suit their skills and experiences (rather than just taking the first job that comes up). And, the firms that are able to offer the best pay and conditions are also likely to be more productive than their competitors.

Increased labour productivity would obviously be a really healthy thing for the economy. Currently, a lot of the wage pressures we're seeing are due to excess demand – and that's all just feeding the wage-price spiral that's developing. So in real terms, people won't feel any better off because inflation is soaking up their pay rises. But, if we start to see productivity-driven wage rises, that means workers are producing more output per hour worked – and that's the key to sustainable growth in real incomes.

Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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