ANZ Research

# Labour Market Statistics – 2022Q1

4 May 2022

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Contact

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## Wage growth accelerates

### Bottom line

- The labour market remained tight in the March quarter – despite the best efforts of the Omicron wave to disrupt things. Unemployment has remained at its record low of 3.2%, but the impacts of COVID are clear. Employment growth remained weak at 0.1% q/q, participation dropped 0.2%pts to 70.9%, and underutilisation ticked up 0.1%pts to 9.3%. However, with indicators of labour demand still at or around record levels, we expect the labour market to tighten further over 2022 as domestic COVID disruptions ease.
- Wage growth has increased markedly, with productivity-adjusted private sector labour costs up 3.1% y/y (2.8% previously), unadjusted labour costs up 5.0% (4.5% previously), and average hourly earnings lifting 5.3% y/y (4.1% previously). All three wage growth figures are clearly still far behind Q1's 6.9% CPI inflation print – but are accelerating faster than we expected.
- For the RBNZ, which had pencilled in a 3.1% lift in private sector labour costs in the February MPS, this data will confirm that the labour market will be a key driver of domestic inflation pressures over 2022. This will require ongoing interest rate hikes to bring labour demand back in line with labour supply and nip a potential wage-price spiral in the bud. That's consistent with our expectation for a 50bp hike in May.

### The view

The Omicron wave has clearly had an impact on the domestic labour market, with measures like underutilisation, hours worked, and participation all taking a small hit during the March quarter. With forward measures of labour demand holding up at or close to record levels, the labour market should continue to tighten over 2022 now that the peak of the Omicron wave is, touch wood, behind us. But the real story here is wage growth – which is accelerating faster than we anticipated, particularly for average hourly earnings. The RBNZ will be watching the labour market closely over 2022 as domestic inflation pressures continue to intensify.

Looking at the details of the Q1 release:

- Measures of labour market stretch remain very tight, although the impact of Omicron was clear. The unemployment rate remained at its previous record low of 3.2%, and the broader underutilisation rate ticked up slightly to 9.3% (9.2% previously).
- Employment growth remained anaemic at 0.1% q/q (although still up 2.9% y/y). This was expected, given the chaos wrought by Omicron over the March quarter. Monthly filled jobs fell in February and March, and experienced employment in the Q1 QSBO was also very weak. But indicators of labour demand remain very robust, so we'd expect to see a modest bounce-back in hiring over Q2, especially with labour mobility improving as Omicron cases ease from their peak.

Data summary

| | | Latest |
|---|---|---|
| **Labour market** | | |
| HLFS unemployment rate (sa) | | 3.2% |
| HLFS participation rate (sa) | | 70.9% |
| HLFS employment (sa) | q/q | 0.1% |
| HLFS employment | y/y | 2.9% |
| HLFS hours worked (sa) | q/q | -0.2% |
| **Wages** | | |
| LCI private sector wages (ex-overtime) | q/q | 0.7% |
| LCI private sector wages (ex-overtime) | y/y | 3.1% |
| QES private sector hourly earnings (ex-overtime) | q/q | 1.9% |
| QES private sector hourly earnings (ex-overtime) | y/y | 5.3% |
| QES total gross earnings | y/y | 10.9% |

- While overall headcount did manage a small increase, overall hours worked fell 0.2% q/q. Again, put that down to Omicron. 1.6% of employed people reported spending a week away from work due to sickness, illness, or injury in the March quarter – an increase of 67% on this time last year.

- The labour force participation rate edged down 0.2% pts to a still-impressive 70.9%. With the peak of the Omicron wave behind us (touch wood), we expect to see a small increase in participation over 2022 as rising wage growth (the carrot) and the surging cost of living (the stick) encourage people to enter the labour force.

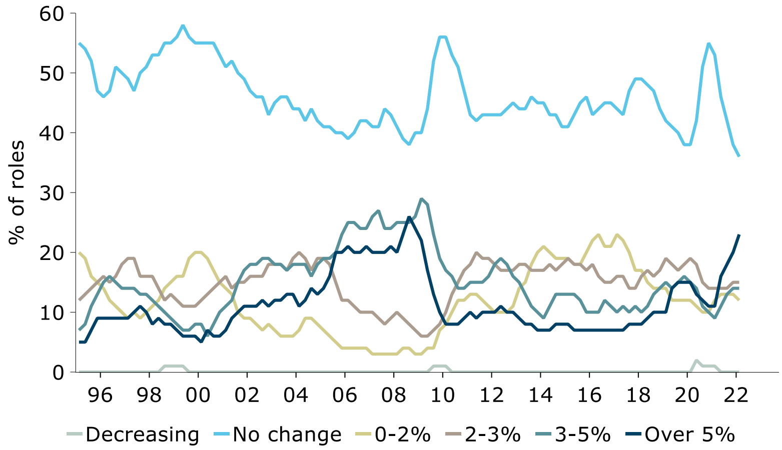
- The big positive and key takeaway in today's data is that wage growth has continued to accelerate, with all three key measures of private sector wage growth now comfortably the highest they've been since the GFC. Private sector labour costs rose 3.1% in the past year (versus 2.8% in Q4). The unadjusted LCI was up to 5.0%. Private sector average hourly earnings were up an even more impressive 5.3% (4.1% previously), well-ahead of our expectations for a 4.6% lift, and the RBNZ's forecast for 4.4%. All these wage measures are well short of Q1's 6.9% inflation print, but they also all posted post-GFC highs, with no signs of slowing. We expect to see wages continue to accelerate over 2022 as workers go through annual pay reviews or start switching jobs now that COVID mobility restrictions have eased. That should see wage growth catch up to inflation in about early 2023, based on our tentative forecast that CPI inflation will ease from here.

## RBNZ implications

At a headline level, todays data may look a touch weaker than expected. But we were expecting volatility, and we're attributing the results to the (hopefully temporary) impact of the Omicron wave peaking in New Zealand.

The real story in today's data is that we're seeing some really meaningful acceleration in wage pressures in New Zealand. The RBNZ was forecasting a 3.1% lift in private sector labour costs in the year to March 2022, and the labour market has delivered. As mentioned above, the increase in average hourly earnings was even more impressive (although those data are also more volatile). The share of jobs receiving a 5% or larger wage rise has also continued to lift, showing that the large pay rises you'd expect to see in a labour market this tight are finally starting to come through significantly in the data (figure 1).

**Figure 1. Distribution of annual wage rises**

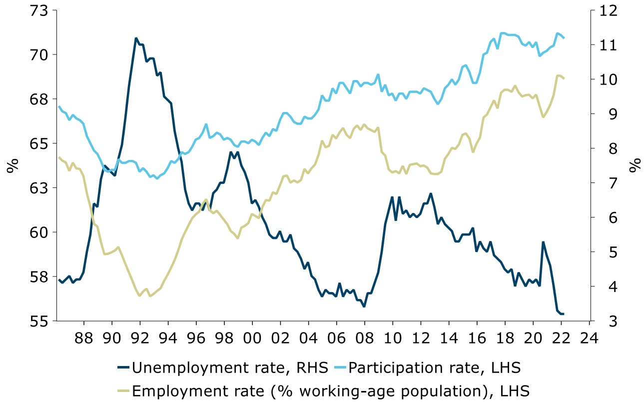



Source: Stats NZ, Macrobond, ANZ Research

Forward-looking indicators of labour demand remain elevated. Employment intentions in our Business Outlook survey, online job ads data, and an array of capacity indicators in the Q1 QSBO all show that domestic labour demand is very strong – even if Omicron disruption may have shifted some hiring from Q1 into Q2. But the labour market is just not capable of meeting demand right now – especially with the border reopening still in progress. So we should continue to see firms bid up wages over 2022 in the battle to attract and retain talent. Should the tightening Australian labour market lure a significant number of Kiwis overseas (a serious risk), then the labour market may tighten even further.

This is a highly inflationary process, given that productivity is not rising as quickly as wages. That means firms will have to pass on higher wages in the prices they charge – potentially generating an ongoing cycle of higher wages and higher prices. In turn, that would mean any benefit workers may expect from a tight labour market is simply eaten away by inflation. So the RBNZ needs to get ahead of this pernicious cycle by continuing to quickly raise the OCR (including a second 50bp hike in May). It won't be fun, and highly indebted households could struggle. But letting domestic inflation spiral would have far worse consequences.

**Figure 2. Unemployment, employment, and participation rates**

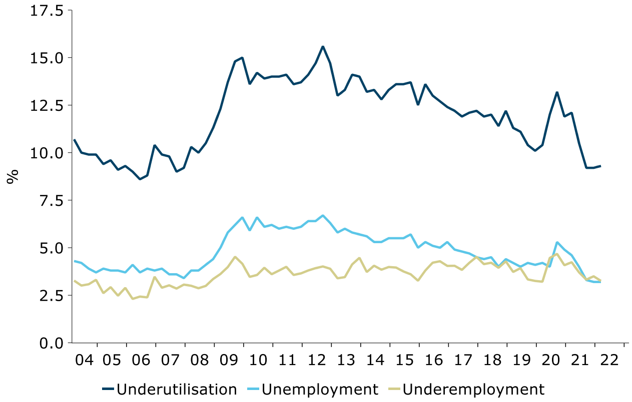



Source: Stats NZ, Macrobond, ANZ Research

**Figure 3. Employment and filled jobs**

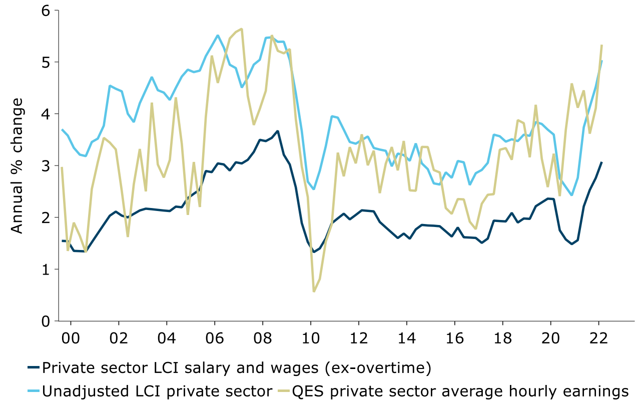

Source: Stats NZ, Macrobond, ANZ Research

**Figure 4. Underutilisation**




Source: Stats NZ, Macrobond, ANZ Research

**Figure 5. Wage growth – private sector**




Source: Stats NZ, Macrobond, ANZ Research

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