ANZ Research

Labour Market Statistics – Q3 2022

2 November 2022

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Contact

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Wage growth outstrips inflation

Bottom line

- The unemployment rate remained flat at 3.3% in the September quarter, but the details of the data show a labour market that has even more momentum than expected, with strong growth in employment, participation, hours worked, and wages over the quarter. Measures of labour market slack remain extremely tight, consistent with the Monetary Policy Committee's view in October that "employment is beyond its maximum sustainable level".
- The good news for financially stretched households is that average wage growth is now comfortably exceeding annual CPI inflation, with private sector average hourly earnings rising 8.6% y/y in Q3 (7.0% previously), versus CPI inflation of 7.2%. Private sector productivity-adjusted labour costs lifted 3.8% y/y (3.4% previously). Both wage measures posted their strongest gains on record, in data going back to the 1990s.
- The labour market has only continued to tighten in Q3 (from already remarkable levels in Q2), and is now a key source of domestic inflation. Today's data reinforce our expectation for a 75bp OCR hike (to 4.25%) at the RBNZ's November meeting. With employment and hourly earnings growth coming in hotter than the RBNZ expected, the data also tilt the odds further towards our forecast of a 75bp hike in February (to 5.0%).

The view

The Q3 labour market data confirm that the labour market remains extremely tight, and the inflationary gap between supply and demand in the market shows no sign of closing. The tightness in the labour market is reflected in measures of wage growth hitting record highs in the September quarter (albeit the data only goes back to the 1990s), as well as strong employment growth and declining underutilisation over the quarter.

Looking at the details of the Q3 release:

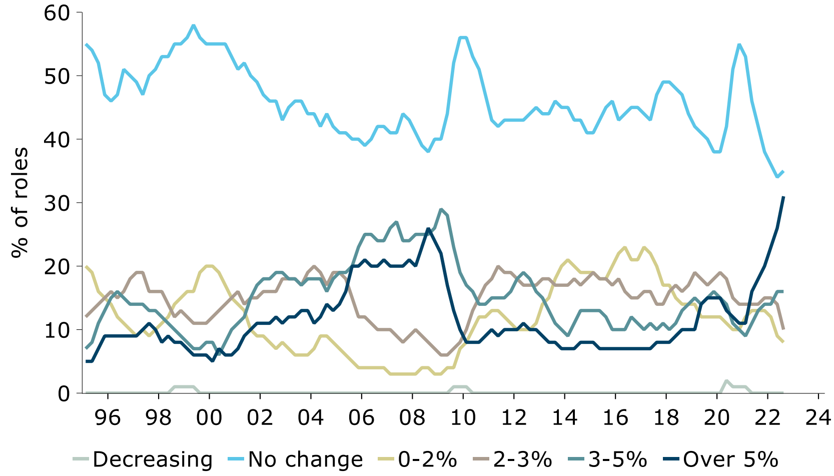
- Measures of labour market stretch tightened, although stronger-than-expected labour force growth saw unemployment hold steady at 3.3% (still the 6th lowest unemployment rate in the OECD). The broader underutilisation rate ticked down to 9.0% (9.2% previously, and down from 13.1% in Q3 2020), the participation rate surged 0.8ppt to 71.7%, and average weekly paid hours lifted 0.4% q/q to 38.2.
- Employment lifted 1.3% q/q (1.2% y/y), an even stronger print than suggested by the 1.0% q/q (3mma) increase in filled jobs over the quarter (and way ahead of the RBNZ's 0.1% q/q forecast in August). Firms are clearly being quite successful at luring workers into the labour force, with a 29k drop in the number of people not in the labour force – the largest quarterly fall in the series' history. The employment rate (as a share of the working-age population) has bounced to 69.3% (68.6% previously).

Data summary – Q3 2022

		Latest
Labour market		
HLFS unemployment rate (sa)		3.3%
HLFS participation rate (sa)		71.7%
HLFS employment (sa)	q/q	1.3%
HLFS employment	y/y	1.2%
HLFS hours worked (sa)	q/q	0.9%
Wages		
LCI private sector wages (ex-overtime)	q/q	1.1%
LCI private sector wages (ex-overtime)	y/y	3.8%
QES private sector hourly earnings (ex-overtime)	q/q	2.6%
QES private sector hourly earnings (ex-overtime)	y/y	8.6%

- Hours worked rose sharply, with total hours usually worked up 1.4% q/q, indicating that not only are more people finding jobs, but the people with jobs are also being worked harder as the labour shortage bites.
- Wage growth has continued to accelerate, with the intense mismatch between labour supply and demand helping to drive the strongest annual wage growth we've seen in the data (going back to the 1990s).
  - Private sector average hourly earnings growth (ordinary time) lifted a whopping 8.6% y/y in Q3 (7.0% previously), comfortably exceeding annual CPI inflation of 7.2%, and well-ahead of even the RBNZ's hawkish forecast for an 8.3% lift.
  - The private sector labour cost index (LCI, which is adjusted for productivity) was up 3.8% y/y (3.4% previously), with a 1.1% q/q increase. That number was slightly weaker than the RBNZ's forecast for 4.0%, but with hourly earnings growth already way ahead of the RBNZ's forecast, we doubt they'll take much comfort from that.
  - The analytical unadjusted LCI measure for private sector workers was up 5.6% y/y (5.2% previously).
  - 31% of jobs surveyed in the LCI received a pay rise of more than 5%, the largest share on record (figure 1).
  - About two thirds of jobs received an increase in ordinary-time wage rates in the past year – remaining at very elevated levels.

Figure 1. Distribution of annual wage rises



Source: Stats NZ, Macrobond, ANZ Research

Monetary policy implications

We don't see today's data as shifting the dial for the November MPS. Q3's shock CPI inflation print saw most forecasters, including us, pencil in a 75bp hike at this meeting. While the jobs report makes a smaller-than-expected 50bp hike less likely, it does not in our view meet the (very) high bar for the RBNZ to consider a move of more than 75bps.

However, there's clearly more momentum here than the RBNZ (or we) anticipated. Employment lifted 1.3% q/q, much higher than the 0.1% lift that the RBNZ had pencilled in. Overall underutilisation fell, participation surged, and hours worked all lifted. We're hiring more people, working them harder, and paying them more than ever. The labour market shows no sign of slowing, and when you combine 8.6% private sector wage growth with a stronger-than-expected Q3 CPI inflation print (which will likely influence workers' wage demands), the data do point towards the risk that the labour market will drive a stronger and more persistent domestic inflation pulse than anticipated into 2023.

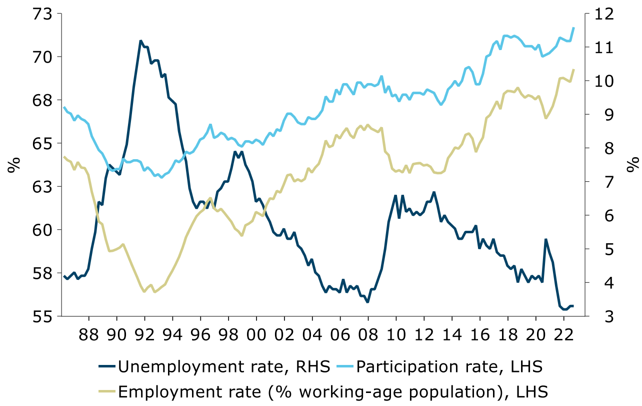
In short, despite the dramatic monetary policy tightening already delivered, we are getting further into wage-price spiral territory. And with labour demand still miles ahead of supply, that's unlikely to change without further action from the RBNZ.

Taken together, we see Q3's underutilisation, employment, wage, and CPI inflation data as tilting the odds further towards the second 75bp OCR hike that we've pencilled in for February (taking the OCR to a peak of 5.0%).

Certainly, there's a lot of water to flow under the bridge before we get to the February MPS (including Q3 GDP and the Q4 CPI and labour market releases), but so far there's been scant evidence that the RBNZ is having a significant impact on domestic inflation pressures. And apart from the sharp increases in interest rates that the RBNZ is delivering, there's not much else to suggest why domestic inflation will actually fall markedly over 2023 (unless we saw a sudden improvement in the supply-side of the economy, or something nasty (and deflationary) hitting us from offshore – unforecastable things).

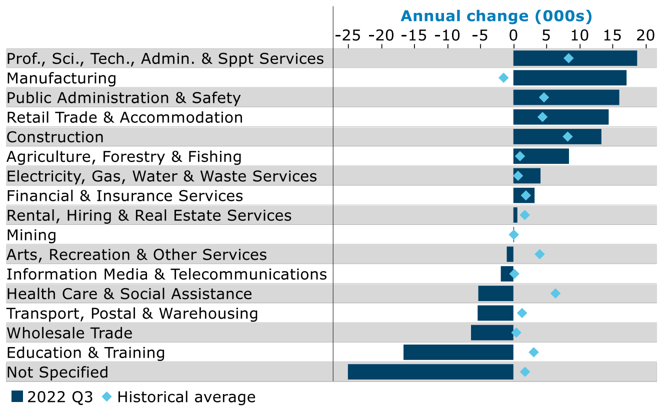
We see the RBNZ needing to lift the OCR to a peak of 5.0% to bring the current inflation surge under control, but despite clear downside risks to growth, the upside risks around that forecast dominate, just as has been the case with every one of our OCR forecasts since COVID faded as an economic driver. The earlier the RBNZ gets the OCR to 5%, the smaller the chance that it will need to keep on hiking past this level.

Figure 2. Unemployment, employment, and participation rates



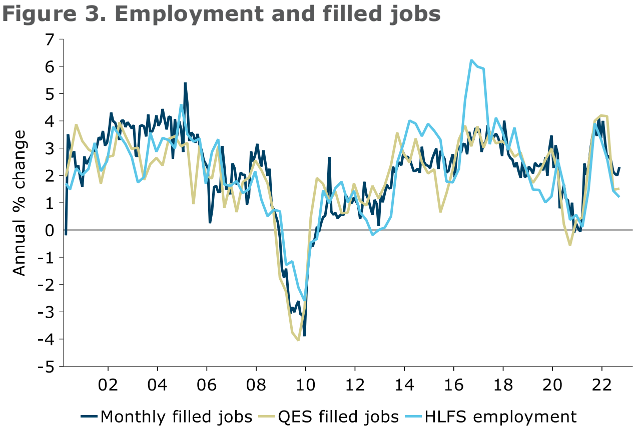
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Employment by industry



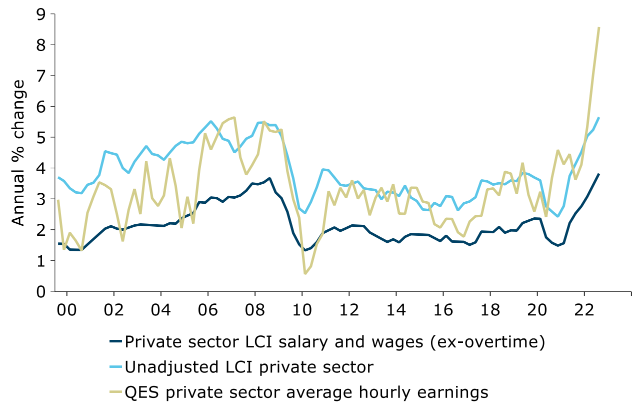
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Employment and filled jobs



Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Wage growth – private sector



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