June 2023 Quarter Labour Market Preview

26 July 2023

Contact
Henry Russell or Miles Workman more details.

Confused by acronyms or jargon? See a glossary here.

A step towards sustainable levels

- We expect the Q2 labour market statistics (to be released 2 August) to show a relatively looser picture than Q1, although in an *absolute* sense, the labour market remains intensely inflationary.
- The unemployment rate is forecast to rise 0.1ppt to 3.5%, as a 0.6% q/q (3.1% y/y) lift in employment is offset by a solid 0.7% q/q increase in the working-age population (bolstered by the recent net migration surge).
- We think wage growth has peaked, with capacity pressures in the labour market and inflation expectations gradually easing. We expect QES private sector average hourly earnings (ordinary time) to rise 1.8% q/q (7.7% y/y), and the productivity-adjusted private sector labour cost index to lift 1.2% q/q (4.4% y/y).
- All up, the labour market is still at intensely inflationary levels and is expected to remain inflationary until 2024. For the RBNZ, it's extremely unlikely the Q2 labour market release will tick any boxes suggesting it was back at 'maximum sustainable levels' in Q2 (we're well through that), but this level is approaching as monetary tightening works through the economy. The Q2 data will give an indication of how quickly the labour market is transitioning to sustainable levels, and a feel for the risks around whether current OCR settings are tight enough to get it there before high domestic inflation becomes problematically embedded in wage and price-setting behaviour.

June 2023 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	3.5%	3.4%
Participation rate (sa)	%	72.0%	72.0%
Employment (sa)	q/q	0.6%	0.8%
Employment	y/y	3.1%	2.4%
Wages			
LCI private sector wages (ex-overtime)	q/q	1.2%	0.9%
LCI private sector wages (ex-overtime)	y/y	4.4%	4.5%
QES private sector hourly earnings	q/q	1.8%	2.1%
QES private sector hourly earnings	y/y	7.7%	8.2%

The view

To date, the labour market has been somewhat immune to the slowing momentum evident across the economy. While it's not at all unusual for the labour market to lag the broader economic cycle, the RBNZ will grow increasingly wary if the labour market response is looking tardy. With the Q2 CPI data highlighting a worrying persistence in domestic-driven inflation, likely tied to the strength of the labour market and resultant wage growth, a loosening in the labour market is a clear prerequisite for the RBNZ remaining comfortable in its on-hold stance.

While we expect the Q2 labour market statistics to show that the transition towards sustainable employment is underway, with unemployment ticking up and wage growth having peaked, it remains highly uncertain whether that process is occurring fast enough.

The key driver of the transition thus far has been a supply-side recovery. In Q2, the working age population grew 0.7% q/q, largely down to the recent surge in migration, although we expect employment growth of 0.6% q/q has absorbed almost all this new capacity. That's symptomatic of the hangover from the extreme tightness in the labour market seen last year, rather than strengthening labour demand currently. The massive influx of workers has enabled firms to finally work through previously unmet demand, as evidenced by steady (albeit slowing) growth in monthly filled jobs. The next release of monthly filled jobs is on Friday – underpinning our employment growth forecast is an assumption of modest monthly growth in June.

Based on our assumption that the participation rate holds up at its record-high level of 72.0%, we expect the unemployment rate to tick up 0.1ppt to 3.5%. That's a small step towards sustainable (less inflationary) levels, but still very far from where the RBNZ needs to see it.

The participation rate, as always, is a wildcard. It's certainly possible that it declines from its record high as jobseekers become discouraged, given the job market is becoming more competitive and labour shortages and the corresponding pull on people into the workforce is fading. However, cost-of-living pressures have not gone away and household budgets remain under pressure, likely enticing people into the workforce.

While the risks are balanced around our forecast, those opposing forces suggest a number of plausible outcomes either side of 3.5%. Table 1 shows the unemployment rate that would result from relatively small surprises on participation and employment growth.

Table 1. Illustrative range of unemployment rate outcomes

		Participation (last 72.0%)		
		71.8%	**72.0%**	**72.2%**
Employment growth (last 0.8% q/q)	**0.4% q/q**	3.4%	3.7%	4.0%
	0.6% q/q	3.2%	**3.5%**	3.8%
	0.8% q/q	3.1%	3.3%	3.6%

Turning to wages, we think annual growth has now peaked. For private sector average hourly earnings (ordinary time), we've pencilled in a 1.8% q/q lift (7.7% y/y). For the productivity-adjusted labour cost index (ordinary time), we're expecting a 1.2% q/q lift (4.4% y/y). However, wage-price spiral dynamics have not been resolved, and further moderation is necessary.

Monetary policy implications

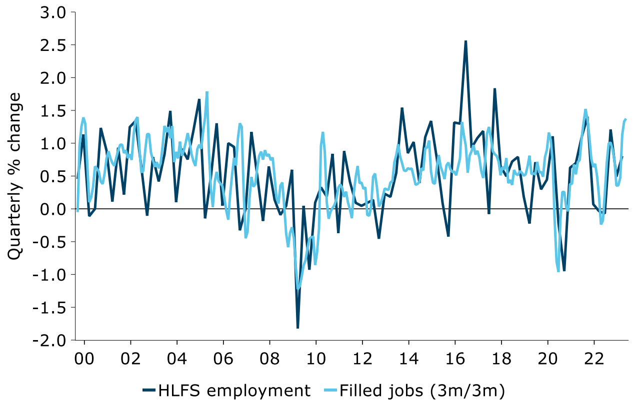
It's a very high hurdle for the RBNZ to recommence hiking in the near term. Since the RBNZ went on hold in May, GDP came in lower than expected, with clear evidence that the economy is slowing (albeit with plenty of cyclone-related noise clouding the signal). Meanwhile, the housing market is now showing clear signs of life, which is an upside risk to the RBNZ's outlook. Non-tradables inflation came in stronger than the RBNZ expected in Q2, indicating the persistence of domestic-driven inflation. That, in part, reflects ongoing tightness in the labour market, made clear by the fact that services and core measures of inflation remained at or near their peaks. The RBNZ will need to see labour market pressures starting to ease to be confident that inflation is sustainably returning to the 2% target.

We expect the Q2 data to signal a small step towards more sustainable levels, but in an absolute sense, the labour market remains far too tight for any comfort. That said, the volatility of the Household Labour Force Survey ought to caution against reading too much into small changes in the unemployment rate. Indeed, given typical volatility, a shift of more than 0.2ppt in the unemployment rate would likely be required for confidence in the signal from a surprise in either direction. However, certainly the only direction that will provide the RBNZ with comfort will be a lift in the unemployment rate towards the May MPS forecast peak of 5.4%.

The RBNZ's forecast in the May MPS had the unemployment rate rising to 3.5% in Q2, in line with our expectation. However, from the second half of 2023, the RBNZ is expecting the unemployment rate to rise as sharply as it did during the Global Financial Crisis. We expect that to occur much more gradually, reflecting our expectation for relatively resilient demand via net migration, sizeable fiscal stimulus the next 12 months, improving business confidence and a pickup in the housing market, all adding to labour market resilience and thus upside risk to medium-term inflation. To be clear, we are forecasting a recession in the second half of the year. It's not a strong story. But we don't see the economy rolling over quite as rapidly as the RBNZ does.

While those risks may not be clear in next week's data, we expect them to become evident as we move further through the year. By November, the RBNZ will have Q2 GDP and Q3 inflation and labour market data to consider. We expect those releases will make the case that capacity in the economy is not opening up quickly enough, resulting in persistent inflation pressures, drawing the RBNZ back to the hiking table. While it's highly unlikely the Q2 labour market will cause the RBNZ to change from its current strategy to "watch, worry and wait" in the near term, the data may add to the RBNZ's discomfort around where the balance of risks lie.

Figure 1. Employment and monthly filled jobs

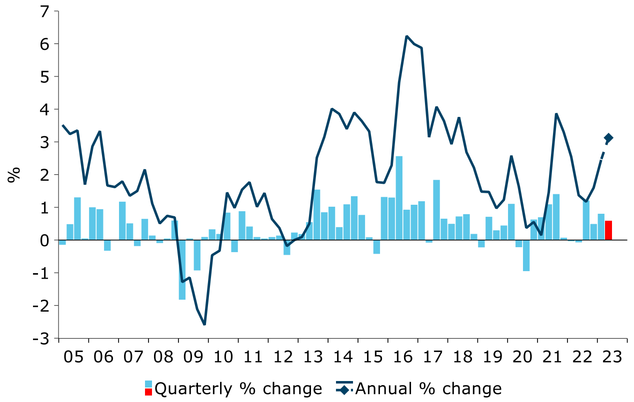


Source: Stats NZ, ANZ, Macrobond, ANZ Research

Figure 2. Unemployment and participation

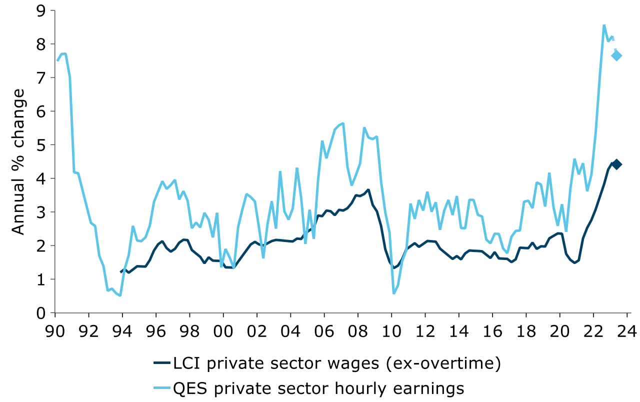
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. HLFS employment growth



Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Wage growth



Source: Stats NZ, Macrobond, ANZ Research

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
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

Henry Russell
Economist

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

Telephone: +64 21 629 553
Email: henry.russell@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

Important notice

Last updated: 18 April 2023

The opinions and research contained in this document (which may be in the form of text, image, video or audio) are (a) not personal financial advice nor financial advice about any product or service; (b) provided for information only; and (c) intended to be general in nature and do not take into account your financial situation or goals.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared by ANZ Bank New Zealand Limited (ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand). This document is distributed in your country/region by Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**), a company incorporated in Australia or (if otherwise stated), by its subsidiary or branch (herein collectively referred to as **ANZ Group**). The views expressed in this document are those of ANZ Economics and Markets Research, an independent research team of ANZ Bank New Zealand Limited.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ Group to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ Group would be subject to additional licensing or registration requirements. Further, any products and services mentioned in this document may not be available in all countries.

ANZ Group in no way provides any personal financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ Group does not represent or warrant the accuracy or completeness of the information, except with respect to information concerning ANZ Group. Further, ANZ Group does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ Group does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. Any products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ Group expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (**Liability**) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ Group may have an interest in the subject matter of this document. They may receive fees from customers for dealing in any products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in any products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products.

This document is published in accordance with ANZ Group's policies on conflicts of interest and ANZ Group maintains appropriate information barriers to control the flow of information between businesses within the group.

Your ANZ Group point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact.

Brazil. This document is distributed on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this document, and no securities have been and will not be registered with the Securities Commission - CVM.

Brunei, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. The information contained in this document is confidential and is provided solely for your use upon your request.

This does not constitute or form part of an offer or solicitation of any offer to engage services, nor should it or any part of it form the basis of, or be relied in any connection with, any contract or commitment whatsoever. ANZ does not have a licence to undertake banking operations or securities business or similar business, in Cambodia. By requesting financial services from ANZ, you agree, represent and warrant that you are engaging our services wholly outside of Cambodia and subject to the laws of the contract governing the terms of our engagement.

Canada. This document is general information only, is intended for institutional use only – not retail, and is not meant to be tailored to the needs and circumstances of any recipient. In addition, this document is not intended to be an offer or solicitation to purchase or sell any security or other financial instrument or to employ a specific investment strategy.

Chile. You understand and agree that ANZ is not regulated by Chilean Authorities and that the provision of this document is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice.

Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This document is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Israel. ANZ is not a holder of a licence granted in Israel pursuant to the Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 1995 ("Investment Advice Law") and does not hold the insurance coverage required of a licensee pursuant to the Investment Advice Law. This publication has been prepared exclusively for Qualified Clients as such term is defined in the First Schedule to the Investment Advice Law. As a prerequisite to the receipt of a copy of this publication a recipient will be required to provide confirmation and evidence that it is a Qualified Client. Nothing in this publication should be considered Investment Advice or Investment Marketing as defined in the Investment Advice Law. Recipients are encouraged to seek competent investment advice from a locally licensed investment adviser prior to making any investment.

Macau. Click here to read the disclaimer for all jurisdictions in Mandarin. **澳门.** 点击此处阅读所有司法管辖区的免责声明的中文版。

Myanmar. This document is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This document is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

Important notice

New Zealand. This document is distributed in New Zealand by ANZ Bank New Zealand Limited. The material is for information purposes only and is not financial advice about any product or service. We recommend you seek advice about your financial situation and goals before acquiring or disposing of (or not acquiring or disposing of) a financial product.

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman (**CBO**) or Oman's Capital Market Authority (**CMA**). The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. So, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Peru. The information contained in this document has not been, and will not be, registered with or approved by the Peruvian Superintendency of the Securities Market (Superintendencia del Mercado de Valores, **SMV**) or the Lima Stock Exchange (Bolsa de Valores de Lima, **BVL**) or under the Peruvian Securities Market Law (Legislative Decree 6 861), and will not be subject to Peruvian laws applicable to public offerings in Peru. To the extent this information refers to any securities or interests, it should be noted the securities or interests may not be offered or sold in Peru, except if (i) such securities or interests were previously registered with the Peruvian Superintendency of the Securities Market, or (ii) such offering is considered a private offering in Peru under the securities laws and regulation of Peru.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar, and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC.

The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. To the extent that this document contains any statements of opinion and/or recommendations related to an investment product or class of investment product (as defined in the Financial Advisers Act 2001), this document is distributed in Singapore by ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act 2001 of Singapore). ANZ is licensed in Singapore under the Banking Act 1970 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act 2001 of Singapore. In respect of any matters arising from, or in connection with, the distribution of this document in Singapore, please speak to your usual ANZ contact in Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (**DIFCML**) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

United Kingdom. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited (**ANZ**) solely for the information of persons who would come within the Financial Conduct Authority (**FCA**) definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ considers this document to constitute an Acceptable Minor Non-Monetary Benefits (**AMNMB**) under the relevant inducement rules of the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

United States. Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use our website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use our website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is a FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.