ANZ Research

# Labour Market Statistics – 2021Q3

3 November 2021



Contact

Finn Robinson or Sharon Zollner for more details.

Data summary

| | | Latest |
|---|---|---|
| **Labour market** | | |
| HLFS unemployment rate (sa) | | 3.4% |
| HLFS participation rate (sa) | | 71.2% |
| HLFS employment (sa) | q/q | 2.0% |
| HLFS employment | y/y | 4.2% |
| HLFS hours worked (sa) | q/q | -6.6% |
| **Wages** | | |
| LCI private sector wages (ex-overtime) | q/q | 0.7% |
| LCI private sector wages (ex-overtime) | y/y | 2.5% |
| QES private sector hourly earnings (ex-overtime) | q/q | 1.2% |
| QES private sector hourly earnings (ex-overtime) | y/y | 3.6% |
| QES total gross earnings | y/y | 10.6% |

## Time for a raise

### Bottom line

- The Kiwi labour market surprised again, with the unemployment rate falling to 3.4% in the September quarter, down from 4.0% previously (we expected a smaller drop to 3.8%). That's equal to the previous record low set in Q4 2007. The details of this outturn were very solid, with a 2.0% q/q (4.2% y/y) rise in employment driving the fall in unemployment – even as participation surged to 71.2%. The only soft spot was average hours worked falling to 31 hours/week (34 previously) – but that just reflects the impact of lockdown.
- Wages continue to accelerate, with labour costs up 0.7% q/q (2.5% y/y) and average hourly earnings up 1.2% q/q (3.6% y/y) in Q3. That's still not enough to keep up with inflation (which we think will peak close to 6%) – and we expect we'll see wage inflation rise steeply from here.
- Today's data showed no signs of weakness, despite the economy spending half the quarter in lockdown. It's likely we won't see the main impact of lockdown until the Q4 data are released in early 2022, but so far, the labour market shows no signs of slowing down.
- Today's data reinforces that the labour market has been incredibly resilient in the face of renewed lockdown. We won't know for sure that it's escaped unscathed until we get the Q4 data (next year) – and that's another reason for the RBNZ to retain their cautious approach, hiking in well-signalled 25bp increments, bringing the OCR to 2.0% by end-2022. But with inflation so high and the labour market so tight, it's clear that those hikes are needed.

### The view

The labour market continued to tighten rapidly in the September quarter, despite the economy spending half the quarter at elevated Alert Levels. The unemployment rate dropped sharply to 3.4% (4.0% previously), driven lower by a huge 2.0% q/q rise in employment, even as labour force participation surged to 71.2% (70.5% previously). Unemployment is now equal to the previous record low set in 2007 Q4.

This outturn will be yet another upward surprise to the RBNZ (and everyone else, to be fair). The RBNZ forecast 3.9% unemployment in Q3 in the August MPS. While they did note in October that COVID-related restrictions "have not materially changed the medium-term outlook for inflation and employment since the August *Statement*", it's safe to say that this labour market outturn has already blown past the 3.8% low they expected unemployment to reach. However, we won't know the full impact of lockdown on the labour market until Q4's data are released early next year – so it makes sense for the RBNZ to retain their cautious approach, as outlined in their recent Kōtuku speech. We think that means well-signalled 25bp OCR hikes at each meeting until the OCR reaches 2.0% at the August 2022 meeting, all going well.

The fall in the unemployment rate was complemented by broad-based strength in key labour market indicators:

- Employment rose 2.0% q/q (4.2% y/y), in an increase that was broad-based across many industries, particularly construction (figure 3). That rise was consistent with signals from the monthly filled jobs data, which showed that even in September, the economy was still adding jobs.
- The participation rate also rose sharply to 71.2% (70.5% previously), with more people being pulled into the labour force by the opportunities available. The fact that we've seen unemployment fall so low, despite participation surging, is a testament to the strength in the Kiwi labour market. It stands in contrast to the US, where unemployment has dropped dramatically to 4.8% from its peak of 14.8%, but participation has languished about 2ppts below pre-COVID levels.
- Wage growth has increased strongly again – with private sector average hourly earnings up 1.2% q/q (3.6% y/y) and labour costs rising 0.7% q/q (2.5% y/y). The wage data was largely collected before lockdown, but we don't think that'll make much of a difference overall. As we outlined in a note yesterday, the labour market has rapidly tilted in favour of workers since the initial impact of the pandemic. And combined with sizeable cost of living adjustments, that means we expect wage rises will only accelerate from here.
- Not surprisingly, average hours worked dropped to 31 hours/week (34 previously). That reflects Kiwi firms reducing hours worked in response to lockdown, but understandably being very reluctant to actually let anyone go (the wage subsidy helps a lot in this regard). That's key for a rapid labour market recovery once restrictions ease.

This is a very healthy set of labour market data. The labour market is clearly well past full employment, and unemployment of 3.4% is easily below any estimate of NAIRU, especially given ongoing COVID disruptions in the labour market. That means we can expect a lot of inflation pressure emanating from the labour market, compounding already too-high underlying inflation pressures. We may yet see a little bit of softening in Q4 as lockdown dragged on, but with data this strong, there's certainly no sign yet that the labour market has been negatively impacted by restrictions. Looking ahead to 2022, it's feasible that we continue to see unemployment fall – employment intentions are still high, and job ads are above pre-COVID levels. It's a good time to be a worker in New Zealand, and we expect the shift in the balance of power to be reflected in both higher wages and higher turnover.

## RBNZ and market implications

Today's data represents yet another big upward starting point surprise for the RBNZ. It highlights that inflation pressures are not solely a matter of supply disruptions, but rather constrained supply meeting very strong demand. With inflation already near 5% and forecast to go higher yet in the near term, and a clearly overheated economy, the RBNZ has a lot of work to do, all going well. We are forecasting the OCR to reach 2% by the end of next year. This might sound low compared to current inflation of nearly 5%, but it's worth noting that borrowers rolling over a 1-year mortgage are already facing a 60-70% hike in their debt-servicing bill, and today's data will only add further upward pressure in rates markets.

Markets went into this data mindful that the risks seemed to be skewed to a stronger result, and that's what we got. That would normally mute the market reaction. However, today's data was stronger from just about every angle. The NZD rose by around a quarter of a cent against the USD, and market pricing for Nov went from 31 to 35bp indicating a 40% chance of a 50bp hike is now priced in.

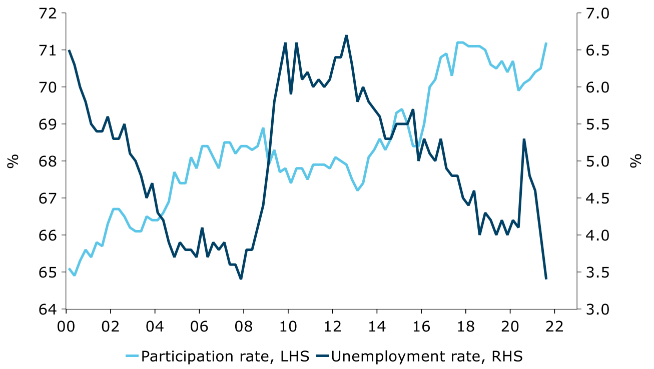
It makes sense for the market to toy with the idea that the RBNZ will hike 50bp at its Monetary Policy Statement this month rather than the standard 25bp, given it's clear they're a bit behind the 8-ball. However, in our view, that remains unlikely, though certainly not out of the question.

A 50bp hike would cause considerable volatility and potentially have an outsized impact on confidence at a time when downside risks to the activity outlook are growing, not diminishing. The sharp decline in consumer confidence was a shot across the bows; the housing market looks set to soon flip to surprising by how rapidly it's retreating; and we have yet to navigate a very messy couple of months in terms of our transition to living with COVID and discovering the cumulative damage from the long Auckland lockdown.

Indeed, the RBNZ outlined these downside risks to growth in their Financial Stability Review this morning, and today's strong Q3 labour market data doesn't eliminate them at all. In our view the RBNZ could achieve a similar degree of tightening to a 50bp hike with more optionality and less risk by hiking 25bp and showing an aggressive forward track, and/or adding a January OCR Review into the announcement schedule, which the market would quite rightly read as an "in principle decision" to raise the OCR another 25bp at that meeting.

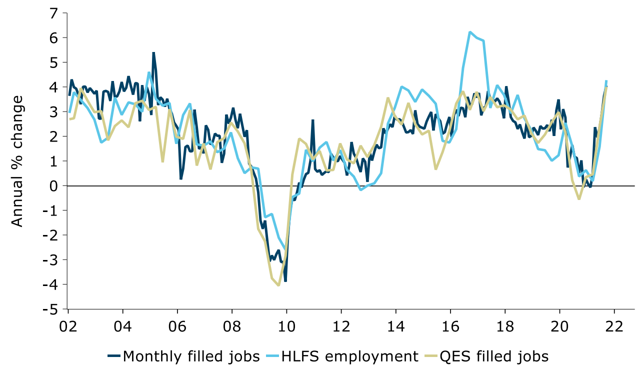
All up, the RBNZ clearly has more work to do, but we suspect the picture will get murkier from here as the data flow becomes not only more volatile and noisy, but also genuinely more mixed. The housing market boom in particular is on borrowed time.

**Figure 1. Unemployment and participation**



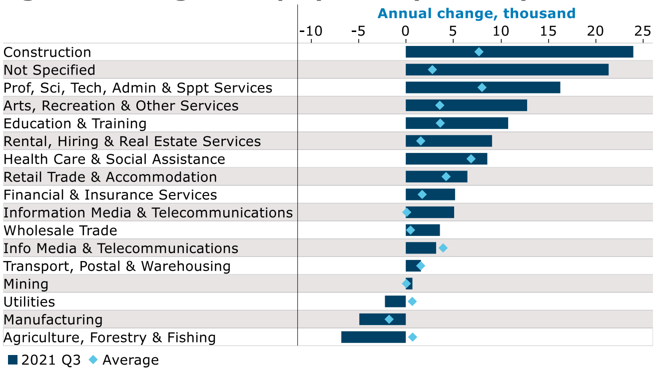

Source: Stats NZ, Macrobond, ANZ Research

**Figure 2. Employment and filled jobs**



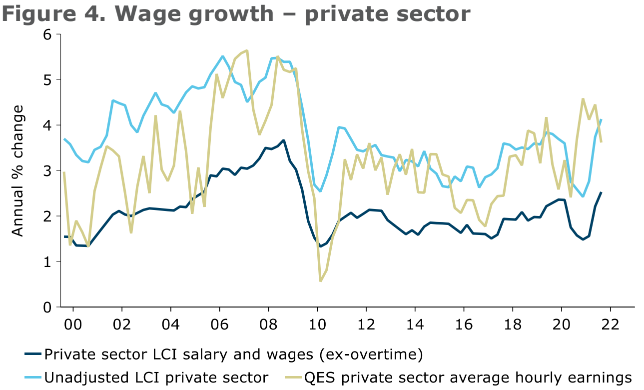

Source: Stats NZ, Macrobond, ANZ Research

**Figure 3. Change in employment by industry**




Source: Stats NZ, Macrobond, ANZ Research

**Figure 4. Wage growth – private sector**




Source: Stats NZ, Macrobond, ANZ Research

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