ANZ Research

Labour Market Statistics – 2020Q4

3 February 2021

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Contact

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Unambiguously better – no more OCR cuts required

Bottom line

- **We no longer expect the RBNZ to cut the OCR again this cycle.**
- The unemployment rate fell to 4.9%. Given the resolution of measurement difficulties, we are inclined to take this at face value and conclude that conditions are unambiguously better than previously feared. All measures of underutilisation dropped.
- Unemployment looks set to increase a bit further from here as the economic recovery stagnates, before gradually recovering, but a better starting point bodes well as an indicator of our economic resilience. Spare capacity lingers, but the labour market has been bolstered by a solid post-lockdown recovery.
- Wage inflation is low as expected, but hours worked and incomes are being supported by economic momentum that at face value appears to have been maintained in Q4. Slack in the labour market will weigh on wage inflation, but a slow grind higher is expected overall.
- The RBNZ's employment and inflation mandates are now looking more achievable, with the economy better placed to weather headwinds than previously feared. The RBNZ will want more assurance, with policy expansionary for a long while yet, but today's data suggest the RBNZ can be patient.

Data summary

		Latest
Labour market		
HLFS unemployment rate (sa)		4.9%
HLFS participation rate (sa)		70.2%
HLFS employment (sa)	q/q	0.6%
HLFS employment	y/y	0.7%
HLFS hours worked (sa)	q/q	4.5%
QES filled jobs (sa)	q/q	0.8%
QES filled jobs	y/y	0.9%
QES paid hours (sa)	q/q	1.3%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.5%
LCI private sector wages (ex-overtime)	y/y	1.5%
QES private sector hourly earnings	q/q	1.1%
QES private sector hourly earnings	y/y	4.4%
QES private sector gross earnings	y/y	4.4%

The details

The unemployment rate unexpectedly fell in the December quarter, from 5.3% to 4.9%. This was below our forecast, the RBNZ's November MPS forecast and market consensus, which all sat at 5.6%. The labour market is unambiguously in a better position and we no longer expect the RBNZ to cut the OCR again this cycle.

Participation nudged higher as expected, from 70.1% to 70.2%. This could push a little higher again in coming quarters, holding up the unemployment rate, all else equal. But the big story today was stronger than expected employment growth, rising 0.6% q/q (0.7% y/y), compared with expectations for a flat to very modest rise. The QES measure (a survey of firms) was similarly strong, up 0.8% q/q (0.9% y/y).

This strong outturn suggests that the post-lockdown recovery has been more than enough to offset the roll-off of the wage subsidy, with jobs growth continuing into the December quarter. That speaks to the economy maintaining momentum in aggregate, with demand supported and businesses resilient and well placed to face headwinds. On that, HLFS hours worked rose 4.5% q/q, after rising 9.4% in Q3, to be up 3.9% y/y. QES weekly paid hours likewise rose 1.3% q/q to be up 0.3% y/y. While this doesn't map perfectly to GDP, continued growth in hours does potentially challenge our view that the economy has seen some technical retracement in activity in Q4. We await more data to get a fuller picture on that. But overall, economic momentum appears to be continuing and has the potential to provide a powerful offset to headwinds from the closed border, if sustained.

There is clearly some spare capacity in the labour market, with some jobs having been shed due to lockdown and closed border disruption. But measures of labour market utilisation have improved across the board, with strength in the economy seeing some of this slack absorbed. For example, the underutilisation rate fell to 11.9% from 13.2%. The unemployment rate is well above its pre-COVID level of 4%, but the labour market is undoubtedly in a better position than had been feared, even accounting for the better starting point for overall economic activity.

But another theme is apparent in the data too: divergences across the economy are significant. Over the past year, there has been a strong increase in construction-related jobs, while workers have been shed in media and tourism. Post-lockdown, the parts of the economy that are booming have so far been able to plug the gap, seeing the labour market improve in Q4. But conditions are very varied, and it is hard to know how these offsets will continue to weigh against each other going forward.

It is difficult to match the right people to the right job at present, and that is expected to see the unemployment rate remain elevated compared to pre-COVID levels while the border is closed, even if the hole in GDP can be filled. And headwinds in industries related to the closed border are expected to weigh on activity early this year, along with broader challenges to maintaining growth in the current uncertain environment. This is expected to see some modest lift in the unemployment rate – perhaps by around half a percent by mid-2021 based on our most recent forecasts. But given the starting point, that means unemployment is likely to peak at a lower level than previously thought.

Nonetheless, wage growth is currently very weak. Our preferred measure of wages – the private sector Labour Cost Index (LCI) – increased 0.5% q/q as expected, seeing annual wage inflation soften from 1.6% to 1.5% y/y. This measure adjusts for changes in composition and productivity, and compares with a rate of 2.4% y/y pre-COVID.[1] QES private sector hourly earnings rose 1.1% after last quarter's sharp rise. These data can also be thrown around by compositional changes, but paint a strong picture when it comes to cash in the hand, with annual growth at 4.4% y/y. Likewise, weekly gross earnings rose 2.6% q/q, another strong gain, to be up 4.5% y/y. This speaks to solid income growth, supportive of consumption.

Today's data provide increased clarity regarding where we are sitting following lockdown disruption. Although the data are noisy, with measurement issues no longer such a problem, we are taking at face value that the labour market is in a better position than previously feared. We may see some further volatility in the data in coming quarters – that is to be expected, as the tug of war between headwinds and tailwinds continue, and experiences in different industries weigh against each other. But there is more economic momentum out there to help us withstand challenges.

It will be difficult for unemployment to fall rapidly until the border opens. At that point, faster declines in the unemployment rate will be possible. Higher unemployment will continue to weigh on wage inflation, which is already very low, but a significant deceleration is not expected while skills mismatch remains prevalent. Once the border opens these skills mismatches will resolve, and the unemployment rate will fall more quickly. Overall this points to only a gradual lift in wage inflation, particularly given firms are already facing cost increases on a number of other fronts.

[1] The unadjusted LCI does not adjust for productivity improvements within a given occupation but does adjust for improvements that arise from changes in the composition of the workforce. The adjusted LCI takes into account both. QES average hourly earnings adjust for neither.

Today's data add to a building picture of economic resilience relative to expectations, which, combined with better inflation data, a strong housing market, resilient business sentiment, and continued good management of our COVID response, should provide some assurance to the RBNZ. Their targets look achievable over the medium term, provided downside risks do not materialise. So while easy monetary conditions will be with us for a long while yet, the RBNZ can be patient. We no longer expect the RBNZ to cut the OCR again this cycle.

Figure 1. Employment and GDP growth

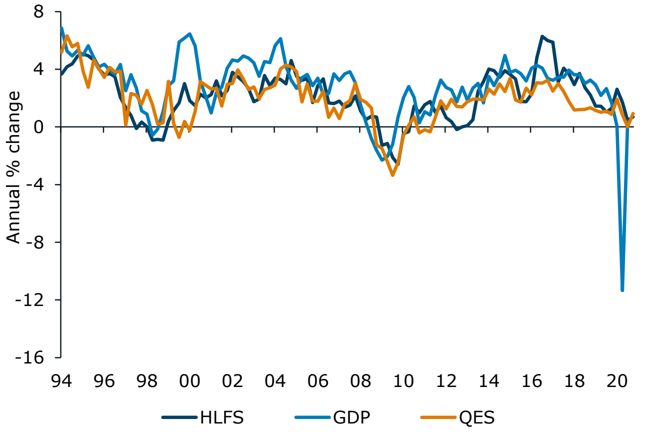
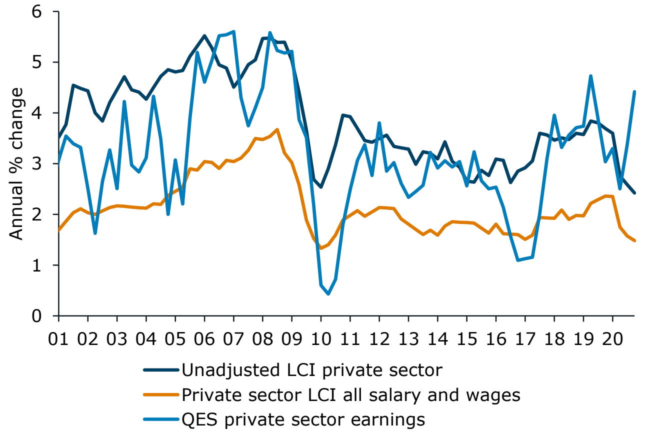


Figure 2. Wage growth – private sector



Source: Statistics NZ

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