ANZ Research

Labour Market Statistics – 2021Q1

5 May 2021

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Contact

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Data summary

		Latest
Labour market		
HLFS unemployment rate (sa)		4.7%
HLFS participation rate (sa)		70.4%
HLFS employment (sa)	q/q	0.6%
HLFS employment	y/y	0.3%
HLFS hours worked (sa)	q/q	-2.3%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.4%
LCI private sector wages (ex-overtime)	y/y	1.6%

Undeniably stronger

Bottom line

- The unemployment rate declined to 4.7% in the March quarter, down from 4.9% previously. The details of this outturn were also very solid. A stronger-than-expected 0.6% q/q rise in employment meant that unemployment fell, even though participation rose to 70.4% (70.2% previously).
- Further labour market gains will be hard won over 2021. The labour market is already tight, and while demand for labour is high, skills mismatches, a dwindling number of job seekers, and other dysfunctions in the labour market mean that employment growth may struggle to keep momentum.
- Wage inflation was robust in Q1, with wages up 0.4% q/q (1.6% y/y) – that's not surprising given the fall in unemployment, and the reports from some sectors (like construction) of intense difficulty finding labour. Matching issues mean that some of the strength in labour demand is showing up in rising wages.
- The employment side of the RBNZ's dual mandate is in good shape, and this labour market release raises the possibility of the labour market returning to full employment sooner than expected. But it's not clear what "full employment" is at present.

The details

The unemployment rate fell to 4.7% in the March quarter, down from 4.9% previously (figure 1). That's stronger than our expectation of an uptick to 5.1%, reflecting that robust employment growth was able to comfortably offset a rising labour force participation rate. A 4.7% unemployment rate is also lower than the 5.0% unemployment rate that the RBNZ expected to see in their February Statement, and poses upside risks to the monetary policy outlook.

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

- The participation rate rose to 70.4% (70.2% previously), almost returning to its pre-COVID trend. This reflected a rebound in female participation rates, up 0.1ppts to 65.3%. As we noted in our Preview last week, women were disproportionately affected by the COVID-recession, so this recovery in participation shows signs that the labour market is healing well (although it still has some way to go – female participation was 65.9% in mid-2019).
- Wages increased 0.4% q/q, up 1.6% y/y. Wage growth is being supported by the tight labour market – skills shortages combined with a closed border are a potent recipe for strong wage growth in the next few quarters.
- Employment increased 0.6% q/q, up 0.3% y/y. We had expected a slightly weaker rise of 0.4% q/q, reflecting the intense difficulty finding labour and matching issues plaguing hiring managers around New

Zealand. The fact that employment increased by so much, and by enough to offset a strong participation rate print, speaks to the strength of today's data.

- The underutilisation rate was one soft spot in today's data, rising 0.4ppts to 12.2%. That's down from the peak of 13.1% in Q3 2020, but well above the pre-COVID trough of 10.1% at the end of 2019.

There was always considerable uncertainty about how rising participation and employment would net out for the unemployment rate. Today's data allayed some of our concern that the labour market would struggle to match increased numbers of job seekers with (extremely high) vacancies, seeing unemployment tick up.

Overall, it's hard to escape the conclusion that the labour market is in very good shape, especially compared with what we were expecting going into the COVID crisis. Labour demand remains robust, and jobs growth should continue into 2021. Employment is now up 0.3% y/y (figure 2), demonstrating the remarkable resilience of the New Zealand economy, and the success of the Government's COVID-response at keeping workers connected with jobs.

Further gains in the labour market will be possible over 2021, but they will be hard won. As we've noted before, considerable matching issues remain in the labour market. Firms have many vacancies to fill, but they are really struggling to find the right people.

One reason for this is the sector-specific nature of the COVID shock. Customer-facing services industries, such as retail trade and accommodation, have really suffered over the past year, and many Kiwis employed in these industries have lost their jobs (figure 3). At the same time, industries like construction are booming, adding thousands to their workforces, and hoping to gain thousands more.

But you can't become an electrician or builder overnight, so even though these industries are crying out for more workers (and the Government is doing its part with boosting apprenticeships), employers are struggling to find them. It's all but impossible to bring people in from overseas right now, and local workers who may have lost jobs in other sectors may need to reskill and/or relocate, which takes time.

Overall this means that we're expecting to see demand pressures in the labour market continue to build, and spill over into higher wage inflation over the next few quarters, while employment growth may struggle to keep up with rising participation – although today's data have shown, encouragingly, that more Kiwis are having success in their job-hunting.

Monetary policy implications

For the RBNZ, today's data presents upside risk to the monetary policy outlook. The drop in unemployment, combined with strong employment and wages growth, means that we're probably closer to full employment than we, and the RBNZ, previously thought. But it's unclear what full employment is at present, given the severe matching issues. Once these are resolved, an unemployment rate somewhere around 4.0% would be consistent with being at maximum sustainable employment (alongside strength in other indicators like underutilisation and average hours worked). But aiming for that in the meantime is likely to generate more wage pressure than employment, from this starting point.

The RBNZ want firm evidence of being at full employment before they tighten policy, so they will remain patient and look for further signs of a recovery in the labour market. This recovery will need to be across a broad range of labour market indicators, including underutilisation, wages, and outcomes for different groups in the population, eg Maori and Pasifika.

However, the RBNZ will be encouraged by today's data. A tight labour market should also be a source of more sustainable inflation pressures (in contrast to current temporary drivers, which include oil prices, base effects, and supply chain disruptions).

Market implications

As we note, it is too soon for the RBNZ to declare "mission accomplished", but this data represents an advance towards the RBNZ's maximum sustainable employment goal. With inflation pressures evident across many parts of the economy, irrespective of where inflation ends up in a year or two, conditions are ripe in the near term for markets to challenge the RBNZ's view of the world. The local market was already itching for a challenge, and this data will only embolden those calling for earlier hikes, putting upward pressure on short end interest rates and the NZD.

Figure 1. Unemployment and participation

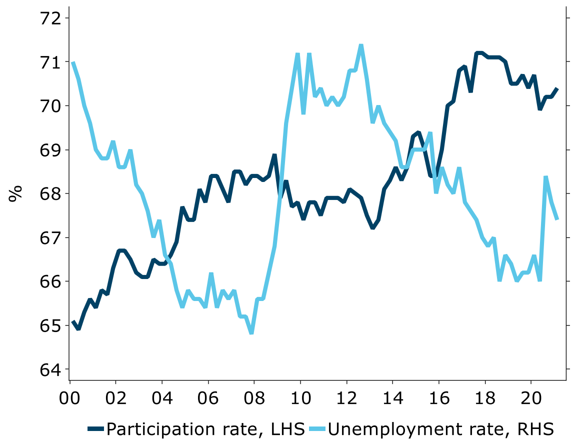


Figure 2. Employment and GDP growth

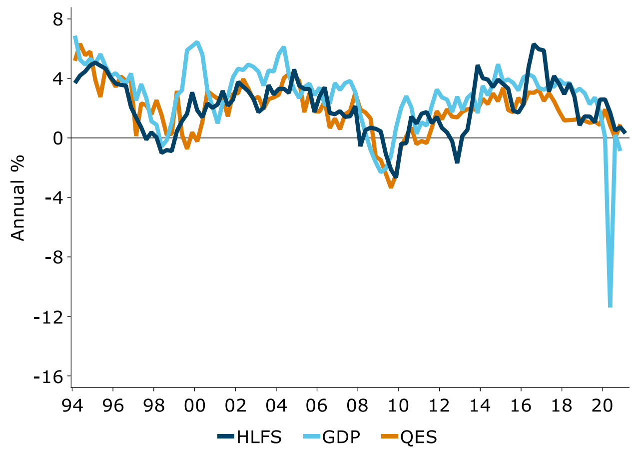


Figure 3. Change in employment by industry

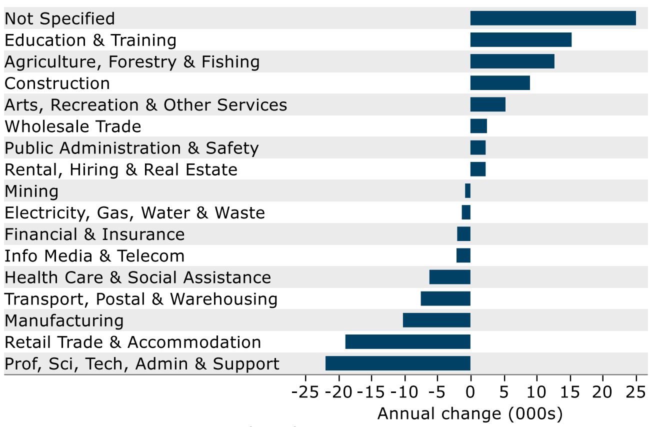
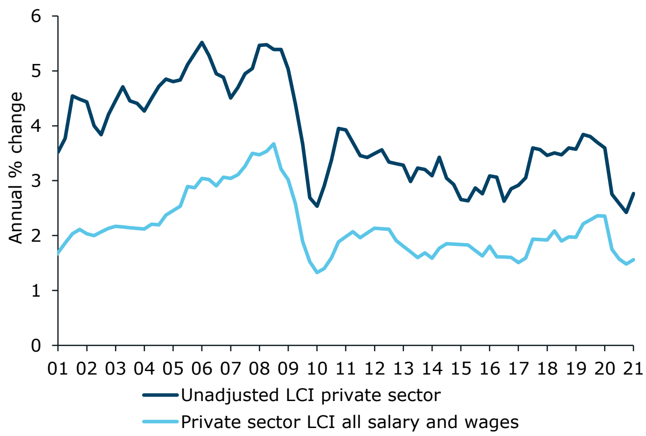


Figure 4. Wage growth – private sector



Source: Stats NZ, Macrobond

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