ANZ Research

# Q4 Labour Market Data Preview

27 January 2022



Contact

Finn Robinson or Miles Workman for more details.

## Unemployment – how low can you go?

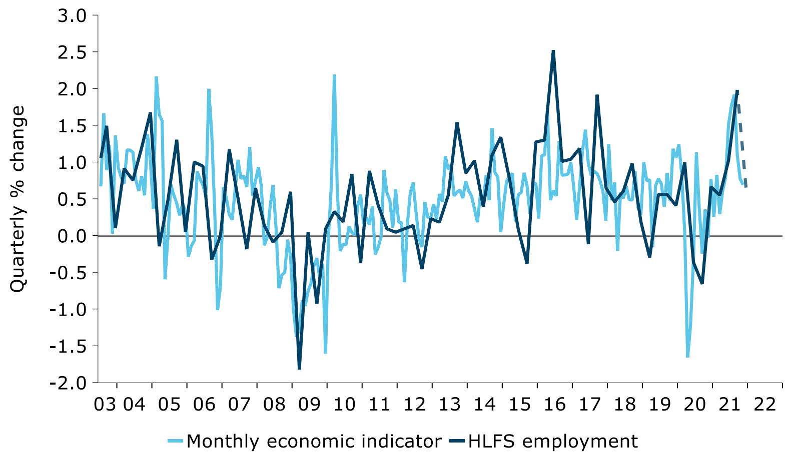
- Stats NZ release Q4 labour market data next Wednesday. Timely indicators suggest that, despite the ongoing Delta outbreak, employment growth was still going strong at the end of 2021. We've pencilled in a 3.0% unemployment rate – this reflects a further 0.7% q/q increase in employment. But if participation falls from its current record high, unemployment could easily drop into the 2s.
- Wage inflation is expected to continue accelerating, as labour demand continues to outstrip supply. We expect labour costs were up 2.9% y/y in Q4 (vs 2.5% in Q3), while average hourly earnings growth is forecast to have lifted 4.1% y/y in Q4 (3.6% previously).
- There's still room for error – especially given the ongoing impact of COVID on data volatility. But in combination with ongoing strength in indicators of labour demand, we expect the details of the release will portray a considerably tighter labour market than we or the RBNZ expected back in November. Given that inflation was 5.9% in Q4, the risk of a wage-price spiral is real. Next week's data should further reinforce our call for the RBNZ to lift the OCR from 0.75% currently, to 3% in April 2023.

### The view

Next week's labour market data for Q4 2021 is looking set to be considerably stronger than we or the RBNZ expected when the November MPS projections were finalised. This, combined with Q4's 5.9% inflation print, reinforces the need for further OCR hikes to 3% in April 2023.

We initially expected that the Delta outbreak would result in a small uptick in the unemployment rate to 3.5% in Q4 (from 3.4% in Q3) as hiring stalled. Instead, monthly filled jobs data for October and November indicate that the economy was still adding jobs at a steady clip during the December quarter – in spite of COVID restrictions, and another summer without international tourists. Based on the filled jobs data, we've pencilled in a 0.7% q/q (4.3% y/y) lift in employment in the December quarter (figure 1).

**Figure 1. Employment and monthly filled jobs**



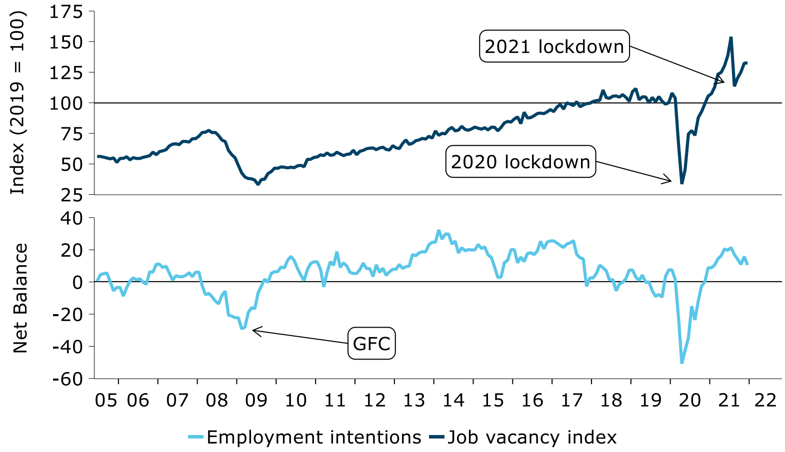

Source: Stats NZ, Macrobond, ANZ Research

December 2021 Quarter

| | | Exp | Prev |
|---|---|---|---|
| **Labour Market** | | | |
| Unemployment rate (sa) | % | 3.0% | 3.4% |
| Participation rate (sa) | % | 71.2% | 71.2% |
| Employment (sa) | q/q | 0.7% | 2.0% |
| Employment | y/y | 4.3% | 4.3% |
| **Wages** | | | |
| LCI private sector wages (ex-overtime) | q/q | 0.9% | 0.7% |
| LCI private sector wages (ex-overtime) | y/y | 2.9% | 2.5% |
| QES private sector hourly earnings | q/q | 1.4% | 1.2% |
| QES private sector hourly earnings | y/y | 4.1% | 3.6% |

Forward-looking indicators of labour demand remain strong. Job vacancies took a hit in August, but have retraced some of that loss, and remain well above pre-COVID levels (figure 2). And employment intentions in our Business Outlook are still positive – even compared with the period from mid-2017 to 2019, when unemployment fell from 4.8% to 4.0%.

**Figure 2. Job vacancies and employment intentions**

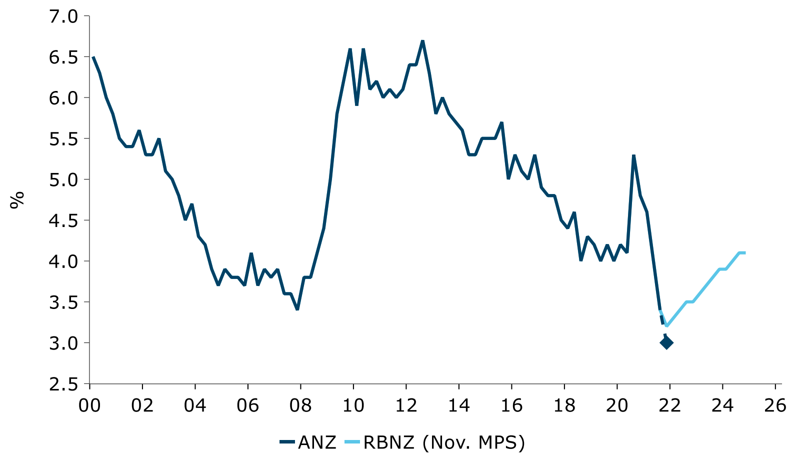



Source: MBIE, Macrobond, ANZ Research

With the labour market characterised by considerable excess demand at the moment, firms are having to sweeten the deal in order to attract workers into the labour force. That, in combination with the surging cost of living, has contributed to the labour force participation rate rising to a joint-record high of 71.2% in Q3. While it's more of an assumption than a forecast, our prediction has participation remaining at this record high in the December quarter, with firms continuing to pull workers into the labour force with offers of better wages and/or working conditions.

Strong employment growth then implies the unemployment rate dropping to a mere 3.0% in the December quarter – in spite of record-high labour force participation. That's a super-strong combo. We previously didn't expect the unemployment rate to drop that low until the end of this year. The RBNZ's November MPS forecast has a low of 3.2% in Q4 before rising towards 4.1% over the next few years (figure 3).

**Figure 3. Unemployment rate**

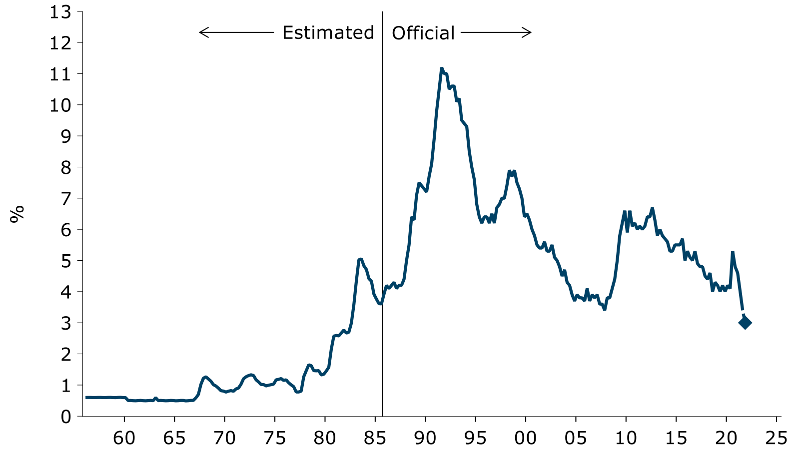



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

A 3% unemployment rate sounds low – and it is. But should participation have fallen over Q4, then unemployment could easily start with a 2-handle next week. That's "unprecedented", but that factoid has to be interpreted in the context of official macroeconomic data that only starts in 1986.

NZIER's Data1850 project provides an estimate of the historical unemployment rate all the way back to the 1950s (figure 4). Caveats apply – the data are the best attempts of economists to generate HLFS-consistent estimates over history, and the evolution of unemployment benefits has had a very large impact; it's not just the economic cycle. But the chart does put a 3% unemployment rate in the proper historical context. It's strong, but certainly not unprecedented.

**Figure 4: Long term unemployment estimates (ANZ sa)**



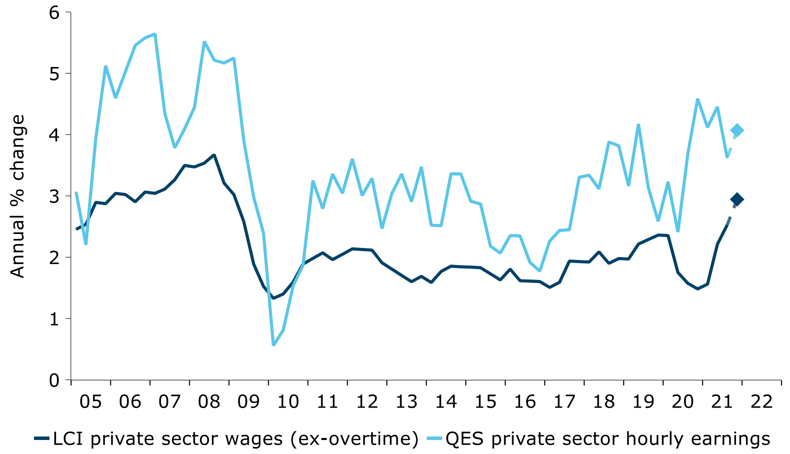

Source: Stats NZ, data1850, Macrobond, ANZ Research

There's plenty of room for both forecast and statistical error, as COVID continues to impact data collection. But it's worth noting that last quarter, the extended unemployment rate (which accounts for people unable to search for work due to COVID) was 3.4% – bang in-line with the official HLFS estimate.

Unemployment could come in higher than expected simply because of volatility in the HLFS (it is a survey after all). But what matters for monetary policy is the degree of capacity stretch in the labour market, and it's certainly not just the HLFS pointing that out. Our Business Outlook and the QSBO for Q4 both show the labour market continuing to tighten, putting further pressure on an underlying inflation trend that's already too strong.

Turning to wage growth, we expect to see further acceleration in wage gains, as workers demand compensation for rising inflation, and the balance of power shifts further in favour of employees. We expect the labour cost index rose 0.9% q/q (2.9% y/y), and we've pencilled in a 1.4% q/q (4.1% y/y) lift in average hourly earnings (figure 5).

**Figure 5. Wage inflation**




Source: Stats NZ, Macrobond, ANZ Research

Both measures of wage growth are still much slower than inflation, reflecting that wages usually take a lot longer to adjust (for example, if workers have only an annual wage review). But as inflation beds in, we can't rule out a sudden shift in wage-setting behaviour that sees wage growth rise even faster than we expect. And if workers start switching jobs more as the labour market heats up, that opens the door for even bigger wage rises.

## Monetary policy implications

The RBNZ has been overshooting on both aspects of its dual mandate for some time now. Inflation came in at 5.9% y/y in Q4, and we expect next week's data will show further tightening in the labour market (which the RBNZ already viewed as beyond maximum sustainable employment back in the November MPS). This is a highly inflationary labour market, with workers now a scarce commodity, and employers having to pay big bucks to fill vacancies. And that's only going to reinforce the upwards trend in domestic inflation pressures.

Inflation is a challenge for household budgets – and it's particularly hard for lower-income households, for whom essential spending on food, shelter, and transport takes up the bulk of their disposable income. Real wages were likely still falling in Q4 – putting further cash-flow pressure on households, who now need to work longer to be able to afford the same standard of living as one year ago. It's a tight labour market, but inflation is gobbling up the benefit that Kiwi workers might have expected to see.

As we discussed in our Review of today's CPI data, there's a serious risk that without continued interest rate hikes by the RBNZ, a wage-price spiral could see inflation rise even further and for longer. It'll be a challenge for an economy with a softening housing market, falling business and consumer sentiment, and ongoing COVID restrictions, but higher interest rates are needed to put a lid on surging domestic inflation pressures. And we think that means the RBNZ will lift the OCR in 25bp increments to 3% in April 2023 (assuming no unforecastable shocks knock the economy off course).

# 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 27 664 3554
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

**Finn Robinson**
Economist

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

Telephone: +64 21 629 553
Email: finn.robinson@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: 15 October 2021

**This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The opinions and research contained in this document are (a) not personal advice nor financial advice about any product or service; (b) provided for information only; and (c) intended to be general in nature and does 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 and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

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 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 would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any 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 does not represent or warrant the accuracy or completeness of the information Further, ANZ 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 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. The 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 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 and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the 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 the 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's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

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

**Country/region specific information:** Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

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

**Brazil, Brunei, India, 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.

**Chile.** You understand and agree that ANZ Banking Group Limited is not regulated by Chilean Authorities and that the provision of ANZ Research is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

**European Economic Area (EEA):** ***United Kingdom.*** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. 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 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 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.

**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 publication 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 publication have not been reviewed by any regulatory authority in Hong Kong.

# Important notice

**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.

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

**New Zealand.** This material is for information purposes only and is not financial advice about any product or service. We recommend seeking financial 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 or Oman's Capital Market Authority. 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. Accordingly, 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.

**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.** This document is distributed in Singapore by the Singapore branch of 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 Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore. In respect of any matters arising from, or in connection with, the distribution of this publication 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**) 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 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 this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this 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: 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 an 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.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand,
Ph 64-9-357 4094, e-mail nzeconomics@anz.com, http://www.anz.co.nz