ANZ Research

# September 2022 Quarter Labour Market Preview

28 October 2022

This is not personal advice nor financial advice about any product or service. It does not take into account your financial situation or goals. Please refer to the Important Notice.


Contact

Finn Robinson or Sharon Zollner for more details.


Confused by acronyms or jargon? See a glossary here.

September 2022 Quarter

| | | Exp | Prev |
|---|---|---|---|
| **Labour Market** | | | |
| Unemployment rate (sa) | % | 3.1% | 3.3% |
| Participation rate (sa) | % | 70.9% | 70.8% |
| Employment (sa) | q/q | 0.5% | 0.0% |
| Employment | y/y | 0.3% | 1.6% |
| **Wages** | | | |
| LCI private sector wages (ex-overtime) | q/q | 1.1% | 1.3% |
| LCI private sector wages (ex-overtime) | y/y | 3.9% | 3.4% |
| QES private sector hourly earnings | q/q | 2.3% | 2.3% |
| QES private sector hourly earnings | y/y | 8.2% | 7.0% |

## Record wage growth beckons

- Q3 data next week should confirm that the Kiwi labour market remained exceptionally tight in the September quarter. Data volatility means it's highly uncertain where unemployment will actually land (we've pencilled in a 0.2ppt drop to 3.1%), but the overall release is expected to confirm that the inflationary chasm between labour demand and supply in New Zealand continues.
- Wage growth is likely to accelerate again, with private sector average hourly earnings picked to rise 2.3% q/q (8.2% y/y), comfortably exceeding annual inflation of 7.2%. Productivity-adjusted private sector labour costs, meanwhile, are forecast to have lifted 3.9% y/y. Both measures of annual wage growth are expected to see their strongest prints on record (albeit in data only going back to the 1990s).
- Next week's data may not shift the dial for the November MPS (where a 75bp hike is widely expected after last week's shock CPI print), especially given that the RBNZ in August was expecting an even faster rise in wages than we are now. But a stronger-than-expected set of data could firm up expectations for another 75bp hike in February (ie our forecast).

### The view

Business surveys (in particular the ANZ Business Outlook and QSBO), monthly filled jobs numbers, and online job ads data all point to one conclusion: labour demand remained far in excess of supply in the New Zealand labour market over the September quarter. HLFS data volatility means it's uncertain whether this labour market tightness will be reflected in a lower unemployment rate (we've pencilled in a 0.2ppt drop in unemployment to 3.1%, but with a wide margin for error). However, wage inflation is very much expected to reflect incredibly tight labour market conditions. We anticipate private sector average hourly earnings growth accelerated to 8.2% y/y (vs. 7.0% in Q2), and private sector productivity-adjusted labour costs are forecast to have increased by 3.9% y/y (vs. 3.4% in Q2). That would see both measures of annual wage growth reaching record highs (although the data only goes back to the early 1990s).

After three quarters in a row of zero (or slightly negative) employment growth, timely indicators point to reasonable growth in employment during the September quarter. Filled jobs were up 1.0% q/q (on a 3-month moving-average basis), and in the Q3 QSBO, a net 9% of firms reported increasing headcount in Q3. That was down slightly from 13% in Q2, but still points to a positive number for jobs growth. The HLFS employment data are notoriously volatile, but taking what signal we can from the indicators, we've pencilled in a 0.5% q/q (0.3% y/y) increase in employment. That translates into unemployment easing 0.2ppts to 3.1%, assuming the participation rate lifts 0.1ppts to 70.9%.

Picking how quarterly moves in volatile HLFS data will flow through to unemployment is tricky. For example, if the participation rate remained flat at 70.8%, but employment still lifted 0.5% q/q, then Q3 unemployment could pick up a 2-handle. Or, if we flow through the 1.0% q/q lift in monthly filled jobs directly into our employment pick, unemployment could also be comfortably into the 2s (but HLFS employment and monthly filled jobs measure slightly different things, so their quarterly percent changes don't line up quite that neatly). As always, the potential for volatility in the data means we'll be looking at the whole suite of labour market data, rather than just the headline unemployment rate, before concluding whether it was a 'strong' or 'weak' print.

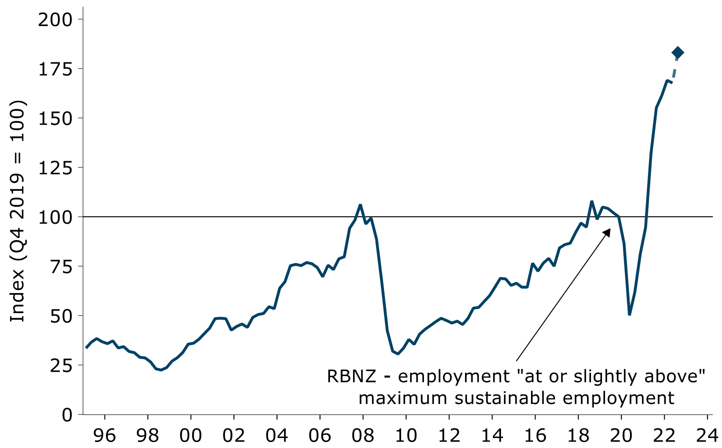
## Monetary policy implications

Next week's data is unlikely to shift the dial too much for the November MPS (23 November). A 75bp OCR hike is widely expected after last week's shock inflation print, and the hurdle is exceptionally high for more than that. The RBNZ also already had a high wage forecast (with private sector average hourly earnings forecast to hit 8.3% y/y in the August MPS). And any surprise in the other direction is likely to be discounted as noise, given all the other evidence that the labour market remains extremely stretched.

However, if we do see a hawkish surprise (whether that be higher-than-expected wage growth, lower unemployment, or a combination of the two), then the data could firm up expectations for another 75bp hike at the February meeting (our forecast). With the current inflation surge likely to become an increasingly domestic phenomenon (ie driven by domestic conditions, rather than global price pressures), any unexpected strength in the domestic labour market raises the risk that underlying inflation will continue to exceed expectations (therefore requiring more aggressive rate hikes).

The labour market is out of balance. Job vacancies have skyrocketed, and remain well in excess of pre-pandemic levels. Meanwhile, domestic labour supply is extremely well utilised compared to history, with unemployment close to record lows and participation close to record highs. Consequently, measures of labour market tightness have been off the charts (and likely remained so in Q3 – figure 1).

**Figure 1. Job vacancy index to unemployment ratio**



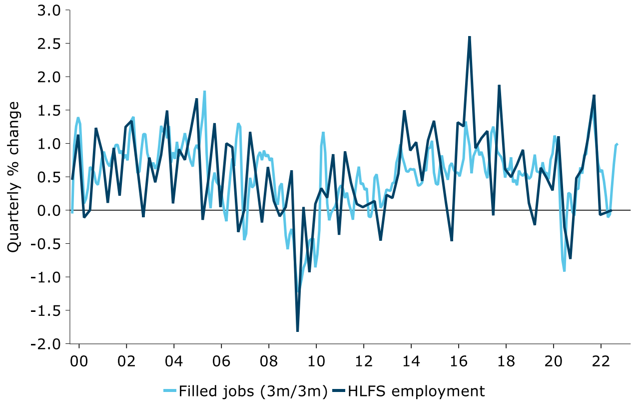

Source: Stats NZ, MBIE, Macrobond, ANZ Research

When demand is greater than supply, that pushes up prices (in this case wages). And absent a commensurate jump in productivity, those higher wages flow through to higher inflation. The RBNZ therefore needs to bring balance back to the labour market to have any hope of taming domestic inflation pressures.

In an ideal world, that adjustment would come through significant falls in job vacancies being posted, rather than outright job losses. But in reality, the speed of the RBNZ's hiking cycle means that the domestic economy is in for a tough 2023 (avoiding a technical recession in our forecasts thanks only to the recovery of tourism from pandemic lows). And that means we will likely see unemployment rise over 2023 and into 2024.

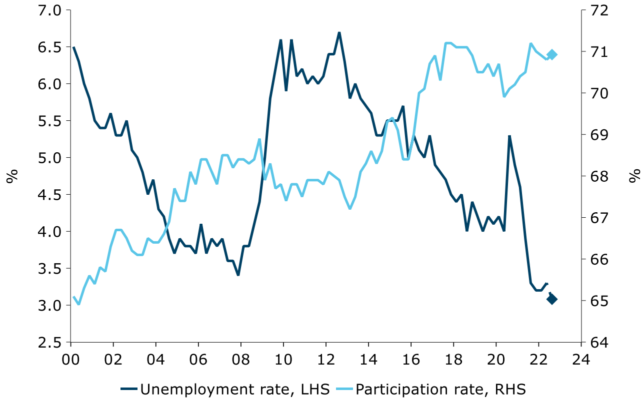
Unfortunately, the RBNZ can't afford to go easy on inflation. It's cold comfort for those at the more tenuous end of the labour market, but the earlier the RBNZ gets inflation under control, the less damage it will end up doing to the economy and the labour market in the long run. But barring some miraculous recovery in the supply-side of the economy, that reduction in inflation will come at the cost of lower economic growth and worse labour market outcomes than otherwise in the near term as the RBNZ uses its interest rate lever to haul demand back in line with supply in the economy.

**Figure 2. Employment and monthly filled jobs**



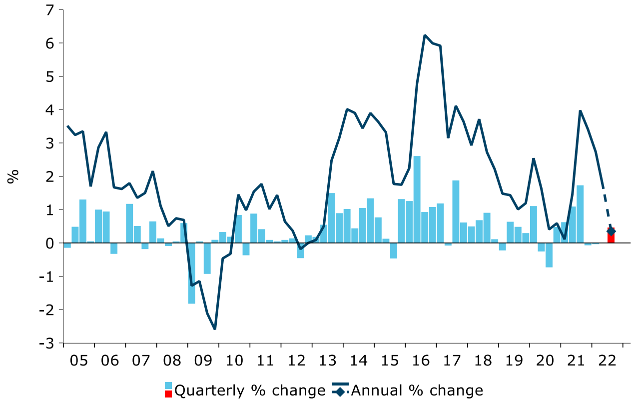

Source: Stats NZ, Macrobond, ANZ Research

**Figure 3. Unemployment and participation**



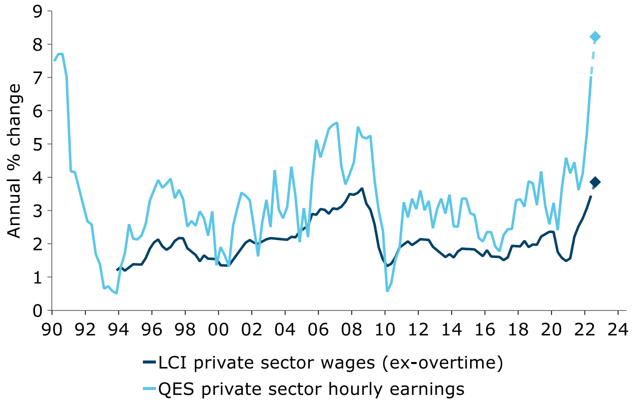

Source: Stats NZ, Macrobond, ANZ Research

**Figure 4. HLFS employment growth**




Source: Stats NZ, Macrobond, ANZ Research

**Figure 5. 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

**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: 1 September 2022

**This document (which may be in the form of text, image, video or audio) 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 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 Banking Group Limited 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 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 (**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.** 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 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 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**) 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.
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