ANZ Research

# Labour Market Statistics – 2021Q4

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Contact

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## Another record low

### Bottom line

- We haven't seen a labour market this tight during the inflation-targeting era. The unemployment rate fell to 3.2% – a new record low in the Household Labour Force Survey, which started in 1986. The data points to further tightening in the labour market ahead, even though employment came in below our expectations, with employment rising just 0.1% q/q (4.7% y/y). Participation dropped slightly to 71.1% from its previous record high of 71.2%.
- Wages are rising, with labour costs up 0.7% q/q (2.8% y/y) and average hourly earnings up 1.4% q/q (4.1% y/y) in Q4. Both prints were solid for a December quarter, especially hourly earnings. But wage growth still has a way to go to keep up with inflation running at nearly 6% (and expected to peak at 6.4% in Q1).
- Like inflation, the labour market has continued to drift beyond the RBNZ's target. And as workers use their newfound bargaining power to demand larger-than-usual wage rises to compensate for surging inflation, that is likely to exacerbate the rise in domestic inflation pressures over 2022. The RBNZ has a job to do to get on top of rising inflation – and we think that entails hiking the OCR all the way to 3% in April 2023, assuming no downside risks eventuate.

### The view

We haven't seen a labour market this tight in the 'official' macroeconomic data of New Zealand, which begins in 1986. The unemployment rate has fallen to a record low of 3.2% in Q4, from a downwardly revised 3.3% in Q3. That was a touch above our forecast for 3.0%, with lower (but still very high) participation and a small 0.1% q/q lift in employment sending unemployment lower.

Looking at the details, it's clear that the ongoing impact of the Delta outbreak has been a touch more persistent than the monthly indicators suggested. Underemployment lifted to 3.4% of the labour force (3.2% previously), while average hours worked are still down 4.1% y/y. And with the Omicron variant now dominant in New Zealand, it's likely we'll see further volatility in measures of labour utilisation, as worker absenteeism has been very high overseas during the latest Omicron wave.

But overall, the data confirms that the labour market is continuing to tighten, and that's seeing Kiwi firms jostle to hire from the rapidly shrinking pool of domestic applicants. Forward-looking employment indicators from both the QBSO and our Business Outlook suggest that the demand for labour is unlikely to be satiated while the border remains closed – adding further capacity constraints to an economy that's already battling against COVID disruptions.

The labour market is now in a considerably stronger place than anyone expected a year ago, and it's pretty clear that both the inflation and employment aspects of the RBNZ's dual mandate are now well beyond target.

### Data summary

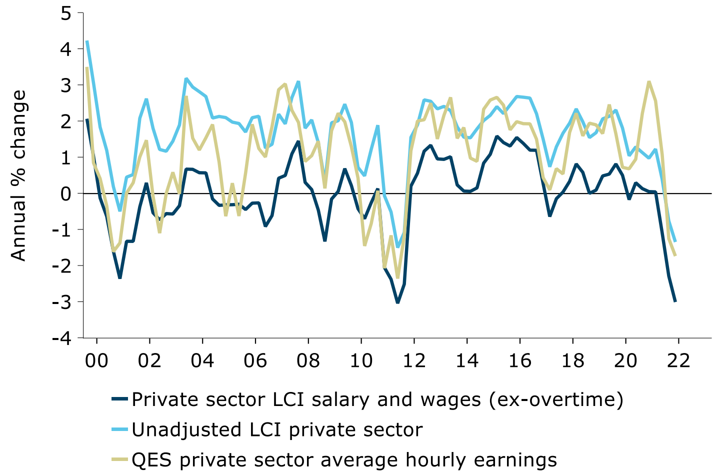
| | | Latest |
|---|---|---|
| **Labour market** | | |
| HLFS unemployment rate (sa) | | 3.2% |
| HLFS participation rate (sa) | | 71.1% |
| HLFS employment (sa) | q/q | 0.1% |
| HLFS employment | y/y | 3.7% |
| HLFS hours worked (sa) | q/q | 7.6% |
| **Wages** | | |
| LCI private sector wages (ex-overtime) | q/q | 0.7% |
| LCI private sector wages (ex-overtime) | y/y | 2.8% |
| QES private sector hourly earnings (ex-overtime) | q/q | 1.4% |
| QES private sector hourly earnings (ex-overtime) | y/y | 4.1% |
| QES total gross earnings | y/y | 10.6% |

Turning to the details of the release:

- Employment was up 0.1% q/q (3.7% y/y) in Q4, versus 1.9% q/q (3.8% y/y) previously. The rise in employment was considerably weaker than the signals from the monthly filled jobs data, which showed a 0.7% q/q gain in filled jobs, but such discrepancies aren't uncommon, given they're measuring slightly different concepts.
- The participation rate remained very high at 71.1% – a touch below its 71.2% record high in Q3, possibly reflecting the ongoing impact of the Delta outbreak. COVID remains a risk to participation – we could easily see a significant drop as Omicron spreads throughout the community. That would only increase the pressure in the labour market, by reducing the supply of labour at a time where demand seems insatiable.
- Wage growth has increased again, with private sector average hourly earnings up 1.4% q/q (4.1% y/y) and labour costs rising 0.7% q/q (2.8% y/y) in Q4. A larger share of workers are now getting larger wage rises, with 20% of roles receiving a 5% or higher annual wage rise – similar to 2007. Wages are still lagging behind the nearly 6% increase in consumer prices in the year to December, and private sector real hourly earnings are down 1.7% y/y (figure 1). But wages don't stay low in a labour market this tight – we expect a significant lift in wage growth over 2022.
- Measures of underutilisation were mixed, reflecting the ongoing impact of the Delta outbreak on how much people are actually working. Underemployment ticked up to 3.4% of the labour force (3.2% previously), while the unemployment rate dropped to a record low of 3.2%. The overall underutilisation rate was steady at 9.2% (a post-GFC low). Average hours worked have retraced some of their lockdown-induced decline, but are still down 4.1% y/y.

One might wonder if 3.2% unemployment is as good as it gets for the labour market. But unless the wheels abruptly fall off, it's looking like we'll see a further tightening over coming months – and could see the unemployment rate with a 2-handle in no time at all. Labour demand is still well in excess of supply, and with the border remaining closed, there's no real prospect of a significant rise in labour supply just yet. And even when the border does open, there will be a queue to get out, as well as one to get in.

**Figure 1. Real wage growth**




Source: Stats NZ, Macrobond, ANZ Research

## RBNZ implications

This is a highly inflationary set of labour market data. There's a real risk the tight labour market will exacerbate underlying inflation pressures – which are already too high).

The only options firms have to fill vacancies at this point are poaching staff from other firms (through higher pay – that's inflationary), or luring economically inactive people into the labour force with higher pay and/or better conditions (again, good news for them, but also inflationary). And with COVID continuing to negatively impact productivity, firms will likely end up paying higher wage bills for less output per worker. That feeds into higher consumer prices, since firms can't absorb shrinking margins indefinitely. And if consumer prices are rising strongly, workers will then leverage their increased bargaining power to secure larger wage rises. It's a self-reinforcing inflation cycle, where every adjustment is entirely justified and only reasonable, but one where potentially no one ends up any better off in real terms.

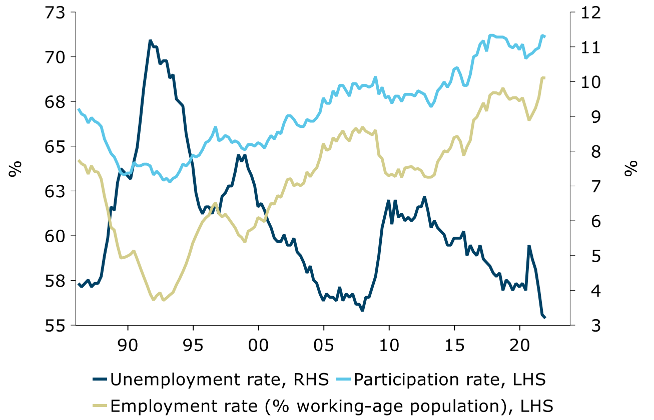
And then there's the Omicron wildcard. With COVID case numbers on the rise over the past few days, the big question is: what will it do to the economy? If we get a proportionately similar-sized outbreak to what we've seen in the UK, US, and Australia, then we can expect a few months of supply-chain chaos, which will only add to what's already a highly inflationary environment. More importantly, though, we could see a significant drop in participation as older workers, who have been key drivers of stronger participation in recent decades, may prioritise minimising their health risks and drop out of the labour force, at least for a time. Lower participation in the US has contributed to significant rises in employment costs for firms as the 'great resignation' weighs on labour supply.

With so much domestically generated inflation likely to come from the labour market over 2022, the RBNZ will need to act to get ahead of the potential wage-price spiral that could develop. And we think that will require interest rate hikes at every meeting until the OCR reaches 3% in April 2023. It will be a difficult balancing act though, as risks to economic growth are very much to the downside, with the housing market slowing, consumer and business confidence looking soft, and another round of COVID disruption imminent. There's plenty that could knock the economy off course over the next year. That speaks to the RBNZ continuing with 25bp hikes, rather than double-headers, in order to preserve optionality should downside risks require a pause in, or even reversal of, OCR hikes.

## Market implications

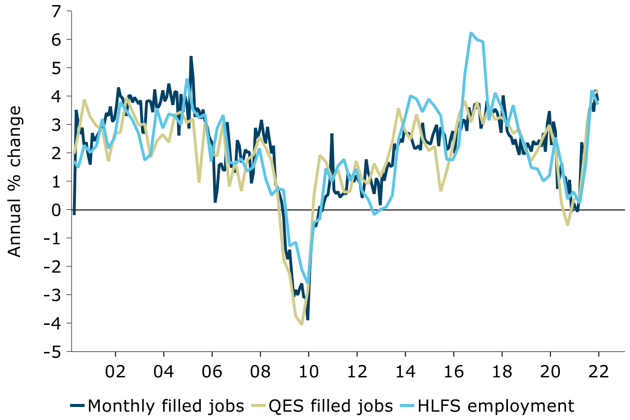
Once the dust settles, we think markets will judge today's data to still be very robust. While it wasn't quite as strong as we expected (we were pencilling in stronger employment and a 3.0% unemployment rate), we were at the "top" of market and the data still represent a tightening compared to Q3, and compared to the RBNZ's forecast. The unemployment rate is also, after all, at a new record low. Going into today's data, markets were already pricing in roughly one in three odds that we'd see a 50bp, rather than 25bp hike, at this month's RBNZ meeting. We still expect a 25bp hike, and market expectations have come back a touch, and are now pricing in "just" one in five odds of a 50bp hike. But it's hard to envisage markets completely discounting the possibility of a 50-pointer given this incremental tightening in the jobs market. In short, we think this will ease fears of a 50-pointer, but not eliminate them. The NZD dipped a touch on the data, but as with the rates reaction, the move was small and more of a correction than a full-blown reassessment.

### Figure 2. Unemployment, employment, and participation rates



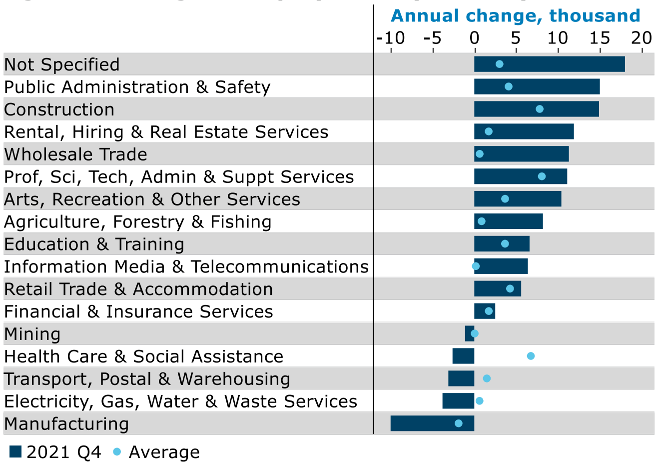

Source: Stats NZ, Macrobond, ANZ Research

### Figure 3. Employment and filled jobs



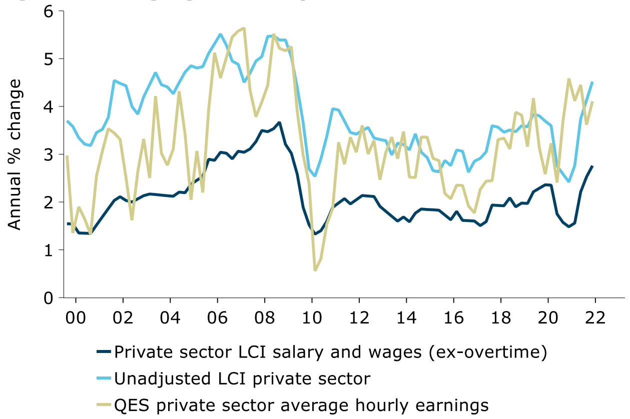

Source: Stats NZ, Macrobond, ANZ Research

### Figure 4. Change in employment by industry




Source: Stats NZ, ANZ Research

### Figure 5. Wage growth – private sector




Source: Stats NZ, Macrobond, ANZ Research

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