ANZ Research

NZ Insight: Second wind for the labour market?

28 February 2023

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Second wind for the labour market?

- Timely indicators suggest the New Zealand labour market may be getting a second wind, with filled jobs up strongly in January, and employment intentions rising in February.
- This mirrors a global theme, with the US labour market surprising with its strength in recent months.
- The broad-based improvement in domestic labour market indicators in the first few months of 2023 reinforces our view that there are upside risks to our OCR call for a peak of 5.25% by May 2023.

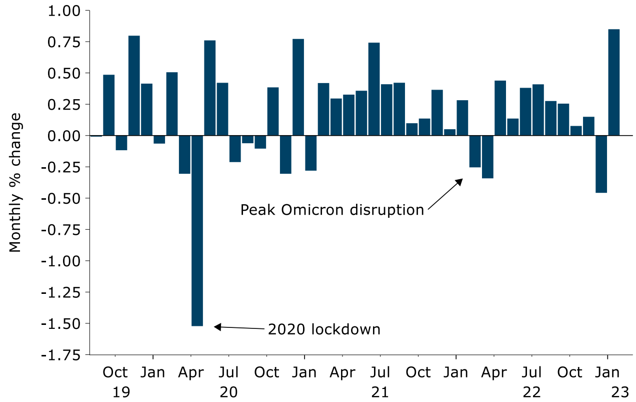
Still running hot

The labour market appeared to be starting to slow down at the end of 2022. Job vacancies were dropping, employment intentions had tanked in the wake of the RBNZ's hawkish November MPS, and monthly filled jobs growth dipped into negative territory in December. The deterioration in timely labour market indicators was one of the reasons why we downgraded our forecast for the February MPS to a 50bp OCR hike (versus 75bp previously expected), and our forecast OCR peak from 5.75% to 5.25%.

However, in a repetition of global themes, we've seen a marked turnaround (or at least, a stabilisation) in all of these indicators over January and February. Most notably, monthly filled jobs data for January and the February edition of our Business Outlook survey (both released today) both point to a sharp recovery in both actual and expected hiring over 2023.

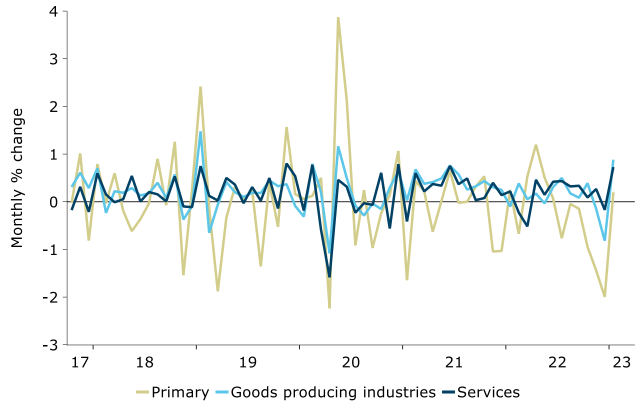
Monthly filled jobs were up an impressive 0.8% m/m in January, after slowing significantly towards the end of 2022, and even falling 0.5% m/m in December (figure 1). Job gains were broad-based across industries, with services, goods-producing, and primary industries all contributing positively to the monthly growth figure (figure 2). It's early days, but the January filled jobs print poses significant upside risk to our forecast that HLFS employment eked out only a 0.1% q/q gain in Q1.

Figure 1. Monthly filled jobs growth



Source: Stats NZ, ANZ, Macrobond, ANZ Research

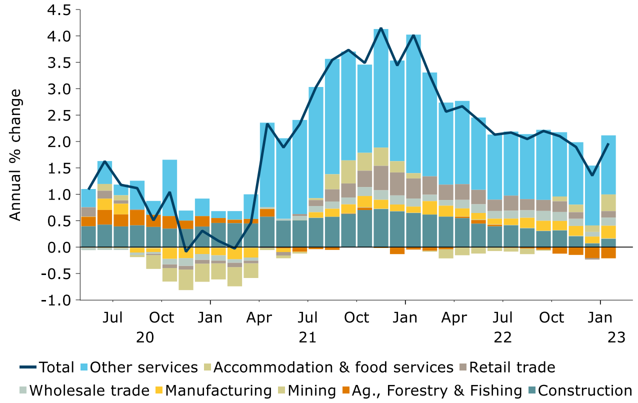
Figure 2. Monthly filled jobs growth by industry



Source: Stats NZ, Macrobond, ANZ Research

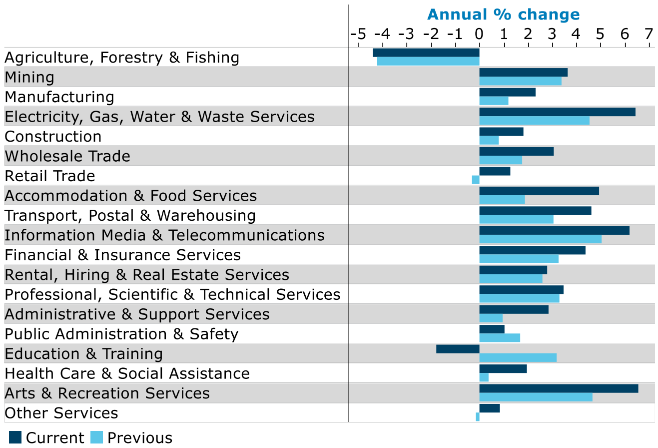
On an annual basis, filled jobs growth ticked up to 2.0% y/y, from 1.4% in December. Again, the strength in the annual jobs growth figure was broad based (figure 3), with the only significant drag coming from agriculture, forestry & fishing, with jobs in that industry down 4.4% y/y (despite bouncing higher on a monthly basis in January). Every other industry except education and training (down 1.8% y/y) saw positive jobs growth in the twelve months to January, and most saw *accelerating* job gains versus the twelve months to December (figure 4). Hiring was running hot in January, and across multiple industries. This is not the softness that the RBNZ would be hoping to see, given that they need to generate a cooling in the labour market to bring core domestic inflation pressures down.

Figure 3. Contributions to filled jobs growth



Source: Stats NZ, Macrobond, ANZ Research

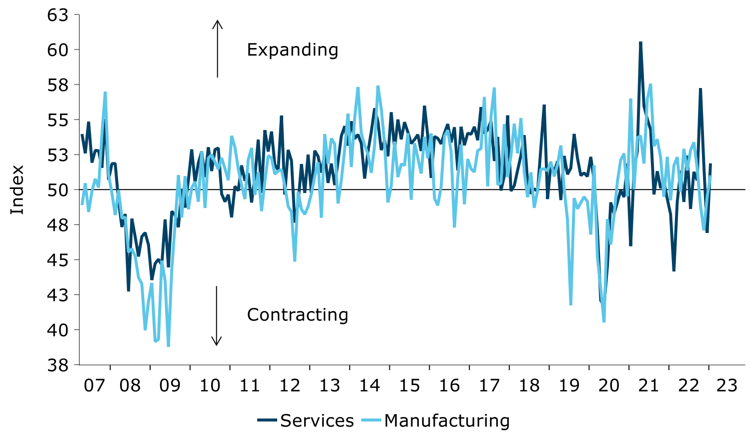
Figure 4. Annual jobs growth by industry



Source: Stats NZ, Macrobond, ANZ Research

Other indicators also point to the labour market remaining robust. The employment components of the Performance of Services Index (PSI) and Performance of Manufacturing Index (PMI) both bounced solidly in January. The PSI employment index rose to 51.8 (46.9 previously), while the PMI employment index rose to 51.0 (49.5 previously), both solidly back in expansionary territory after a soggy end to 2022 (figure 5). These data are obviously pretty volatile from month to month, so we can't put too much weight on the rebound just yet. But it does add to broad-based strength in a range of other labour market indicators over the same period.

Figure 5. PMI and PSI employment components



Source: BusinessNZ, Macrobond, ANZ Research

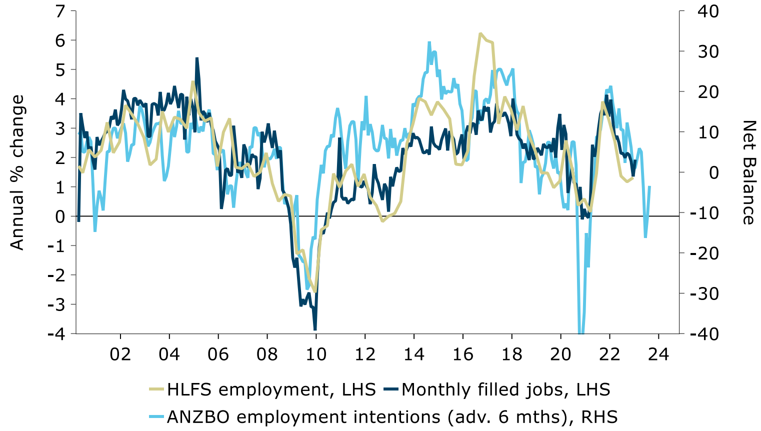
Online job advertisements are also showing tentative signs of stabilising, after several months in a row of chunky declines. The SEEK job ads index lifted 2.0% m/m in January, while the MBIE job ads index (which includes SEEK, Trade Me Jobs, Kiwi Health Jobs, and Education Gazette) stabilised (figure 6). Job ads are down significantly from the lofty peaks of 2021 and 2022, but there's still a way to go before supply and demand are in better balance in the labour market.

Figure 6. Online job ads

Source: MBIE, SEEK, Macrobond, ANZ Research

So far, the indicators suggest that the labour market got off to a stronger start to 2023 than anticipated. And our latest Business Outlook survey suggests that momentum may continue over the first half of the year. Employment intentions in February bounced to -3.4, versus the low of -16.3 immediately after the November MPS. That's still a pretty low number by historical standards, but it is consistent with positive jobs growth (figure 7), whereas we (and the RBNZ) have been forecasting that employment growth would turn negative over 2023.

Figure 7. Monthly filled jobs, employment intentions, and HLFS employment



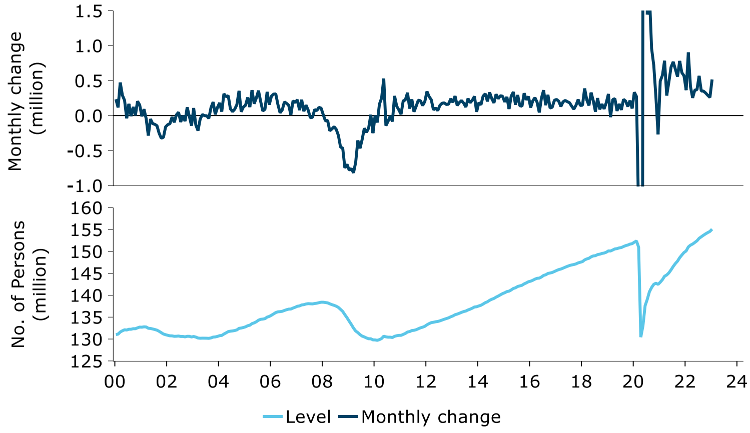
Source: Stats NZ, Macrobond, ANZ Research

Global bounce back?

The bounce in New Zealand filled jobs numbers comes at the same time as we've seen evidence that global economies are proving far more resilient to central bank rate hikes than anticipated. Last week, PMI data for February confirmed a broad-based bounce back in activity across the US, UK, and euro area. And that was hot on the heels of a series of solid US data for January, including the ISM services index, retail sales, and a bumper nonfarm payrolls print.

In January, nonfarm payrolls in the US lifted by a whopping 517,000. That was much higher than the consensus expectation of a 189,000 increase, and a sharp acceleration from December's 260,000 gain (figure 8, top panel). While there are some questions about how well the seasonal adjustment is coping with COVID volatility, the raw data for January (ie not seasonally adjusted) was also much stronger than normal as well. The monthly pace of job gains in the US is still running well ahead of pre-COVID rates, despite overall jobs numbers now exceeding 2019 levels (figure 8, bottom panel).

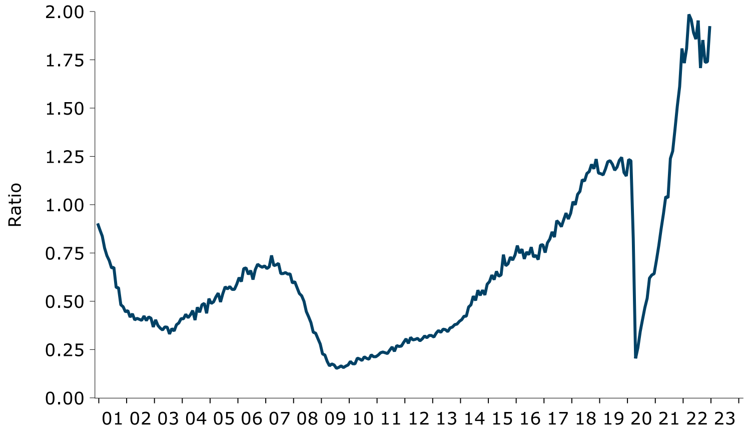
Figure 8. US nonfarm payrolls (axis cuts off major volatility in 2020)



Source: BLS, Macrobond, ANZ Research

Indicators of labour demand are also holding up well in the face of the Fed's aggressive interest rate hikes over the past year. The number of job openings per unemployed person, for example, ticked back up to 1.9 in December, indicating that demand for workers remains far in excess of supply in the US labour market (figure 9). It's worth noting that prior to COVID, a ratio of 1 job opening per unemployed person would have been high by historical standards. This ongoing strength in the US labour market is one reason why we now expect the US federal funds rate to peak at 5.5%, versus 5.0% previously (and the current level of 4.75%).

Figure 9. Job openings per unemployed person in the US



Source: BLS, Macrobond, ANZ Research

New Zealand is clearly not alone in experiencing a labour market that may be having a second wind. Technically, what's happening in the US doesn't directly affect us here in New Zealand, but to the extent that it tells us anything about global inflation pressures, it may play into local inflation risks. And it is putting upward pressure on global interest rates, which is, in turn, having a direct impact on longer-term wholesale interest rates in NZ.

In the February Monetary Policy Statement the RBNZ also highlighted the increasing correlation between global inflation and New Zealand non-tradables inflation. Prices like construction costs may be counted as non-tradables (ie largely domestic) inflation, but house building still relies on imported materials, and so is still subject to the whims of the global inflation cycle. As such, evidence of further froth in the US labour market does have implications for New Zealand.

Monetary policy implications

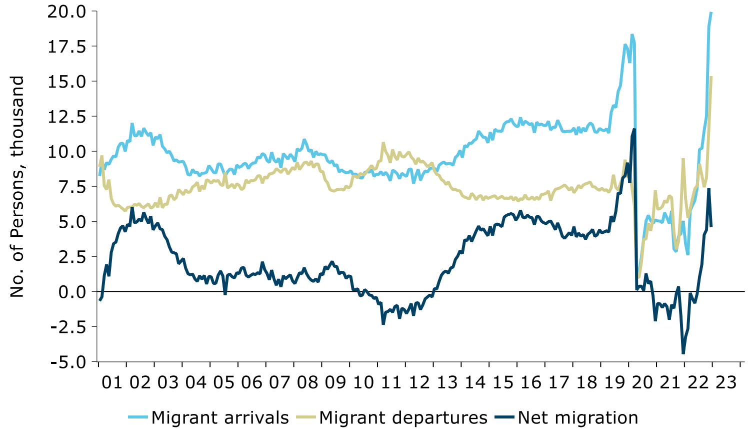
It's early days in 2023, and we are wary of reading too much into monthly movements in volatile indicators. But the synchronised nature of the improvements we are seeing in New Zealand labour market data, in combination with a very convincing lift in filled jobs in January, does suggest that the labour market is proving more resilient than previously expected.

Inflation pressures here and overseas are increasingly tilting towards services prices (which are tightly linked to labour market developments). This means more than ever that the strength we're seeing in timely labour market indicators represents a material upside risk to our current assessment that the RBNZ will pause hiking the Official Cash Rate after it reaches a peak of 5.25% in May. The RBNZ were forecasting in the February Monetary Policy Statement that unemployment would rise throughout all of 2023, from the get go. January's filled jobs data points to the risk that unemployment could be flat at 3.4% in Q1 (or even fall a tad), and may be slower to rise, given the resilience we're seeing in forward indicators, depending on what happens to labour supply (via both immigration and the labour force participation rate – both of which are extremely difficult to predict).

As outlined last week, we were already seeing upside risks to the OCR outlook. The tragic impact of Cyclone Gabrielle is a significant risk to both the near and medium term inflation outlook, given the pressure on rents, construction costs, food prices and other goods and services we may see in coming months and years. Add an even stronger labour market into this mix, and the idea that the RBNZ may pause rate hikes at an OCR peak of 5.25% is starting to look more tenuous.

Of course, one thing we economists have learned over recent years is the importance of the supply side, and not assuming that economic data reflects demand-side developments. Firms may partly be planning to increase their employment because they now believe that they actually have a shot at being able to do so, now that net immigration has turned up strongly (figure 10).

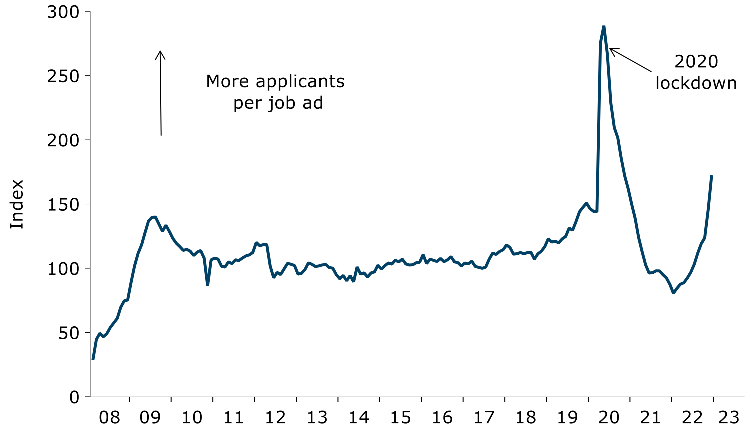
Figure 10. Monthly immigration and emigration



Source: Stats NZ, Macrobond, ANZ Research

These data are prone to enormous revision, but both anecdote and job seeker data (figure 11) certainly does support the notion that finding staff has gotten a little easier. If that fact turns out to have been the main driver of the increased employment intentions and actual hires, then it isn't likely to be as inflationary, nor as persistent.

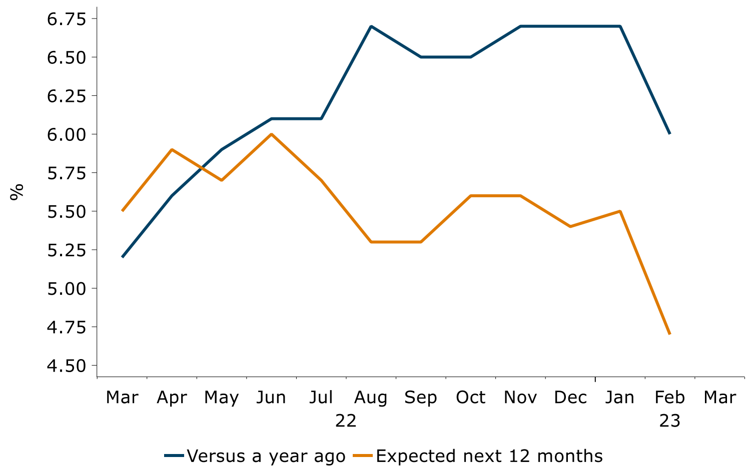
Figure 11. SEEK applicants per job ad index



Source: SEEK, Macrobond, ANZ Research

Along the same lines, wages are a particular focus for the RBNZ at present, and here, the February ANZBO data was suggestive of a waning in inflationary pressures (figure 12). One month does not make a trend, however, and wages do tend to respond to labour market imbalances with a lag.

Figure 12. Past and expected wage settlements (economy-wide)



Source: Macrobond, ANZ Research

Labour supply appears to be lifting. However, we still think we're a long way from labour demand being matched by supply. For now, the evidence is pointing toward the labour market remaining more resilient than we (or the RBNZ) expected, and that points to the risk that the OCR will also need to rise higher than the 5.25% we are currently forecasting.

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Last updated: 1 September 2022

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