

December 2022 Quarter Labour Market Preview

26 January 2023



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Echoes of previous momentum

- The New Zealand labour market went from strength to strength in 2022, and we think echoes of that momentum will be seen in the Q4 labour market report, released on 1 February.
- Unemployment is forecast to dip 0.1ppt to 3.2% thanks to a 0.3% q/q (1.5% y/y) lift in employment. But the whims of quarterly volatility in the HLFS data mean it will be hard to read much into the unemployment figure without the context of the wider survey.
- We expect wage growth continued to accelerate, with labour remaining the biggest constraint facing firms in Q4. We think private sector average hourly earnings (ordinary time) were up 1.9% q/q (9.1% y/y), and that productivity-adjusted private sector labour costs were up 1.0% q/q (4.1% y/y).
- While next week's data should confirm that the labour market ended 2022 on a high note, that doesn't tell us much about the outlook for 2023. Forward indicators of labour demand have softened significantly in recent months, and we expect the RBNZ will [downshift](#) to a 50bp OCR hike in February as signs of deteriorating domestic demand become increasingly established.

The view

The New Zealand labour market went from strength to strength over 2022, [smashing multiple records](#) around employment, participation, wage growth, and more. We anticipate that that strength persisted into the December quarter, with the ongoing difficulty finding labour and additional demand from the revival of international tourism only increasing the strain on the labour market (albeit temporarily). Consequently, we anticipate that the unemployment rate fell slightly to 3.2% in Q4, driven by a modest 0.3% q/q (1.5% y/y) lift in employment. Monthly data showed filled jobs were up 0.2% m/m in October and in November, pointing to positive (but slowing) employment growth (December's filled jobs data are released next week).

As ever, the wildcard is the participation rate. Last quarter, participation blasted past all expectations, hitting a new record high of 71.7%. If employment increases 0.3% q/q in Q4 and participation holds up around that record high level (as we assume), then unemployment would come in at our 3.2% forecast. But if participation ticks back down (which purely statistically you'd have to say is pretty likely, given last quarter's outsized move from already outsized levels), we could easily see unemployment pick up a 2-handle. Alternatively, a further increase in participation (ie more people entering the workforce due to the strength in demand and/or cost of living pressures) could see unemployment print higher than expected. This uncertainty highlights the importance of taking in the entire labour market report (including wage growth) before reflecting on the implications for the RBNZ.

Timely indicators of labour demand turned decidedly negative in the final months of 2022: job ads declined, PMI and PSI employment eased (3mma basis), ANZBO employment intentions fell, and QSBO experienced and expected employment dropped. However, given the extreme mismatch

December 2022 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	3.2%	3.3%
Participation rate (sa)	%	71.7%	71.7%
Employment (sa)	q/q	0.3%	1.3%
Employment	y/y	1.5%	1.2%
Wages			
LCI private sector wages (ex-overtime)	q/q	1.0%	1.1%
LCI private sector wages (ex-overtime)	y/y	4.1%	3.8%
QES private sector hourly earnings	q/q	1.9%	2.6%
QES private sector hourly earnings	y/y	9.1%	8.6%

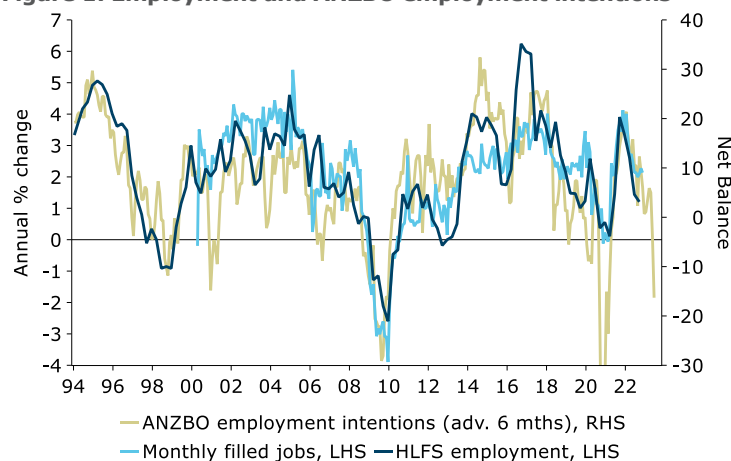
between labour demand and supply that persisted over 2022, and the additional pressure generated by the revival of international tourism, we don't expect to see a significant easing in labour market tightness until later this year.

Given the strength in labour demand over 2022, we anticipate that private sector wage inflation continued to accelerate in Q4. For average hourly earnings (ordinary time), we have pencilled in a 1.9% q/q (9.1% y/y) increase, after Q3's 2.6% q/q (8.6% y/y) jump in wages. The productivity-adjusted labour cost index (ordinary time) is forecast to have increased 1.0% q/q (4.1% y/y), versus 1.1% q/q (3.8% y/y) in Q3. Both forecasts would represent fresh record highs in annual wage growth (although that's partly built in due to very strong quarterly wage numbers seen in the past two quarters).

Monetary policy implications

More than usual, next week's labour market data already feel like old news. The release will probably still portray a labour market facing historically low levels of unemployment, and very high wage growth at the end of 2022. But this is not a reflection of the state of play in 2023, which is pointing towards labour demand dropping sharply as the impacts of the fastest OCR hiking cycle on record work their way through into the real economy. We have already received a bevy of forward-looking indicators that point to a significant easing in labour demand in the months ahead. Excluding 2020, our [Business Outlook Survey](#) shows that more businesses expect to reduce headcount than at any time since the Global Financial Crisis (figure 1). Of course, it's only one month of data, and we cannot yet discern the lasting impact from the initial shock value of hearing that policymakers are deliberately engineering a recession.

Figure 1. Employment and ANZBO employment intentions



Source: Stats NZ, Macrobond, ANZ Research

Given the increasing breadth of indicators now pointing south, we are more confident in our forecast that CPI inflation will drop away over 2023, after the extra froth from the 2022/23 summer tourism recovery has dissipated. We expect the RBNZ will recognise the change in economic momentum, [and will downshift](#) to a 50bp OCR hike in February (to 4.75%). That being said, inflation pressures are still far too strong, and we're not convinced (like financial markets seem to be) that the RBNZ will be ready to think about lowering interest rates this year.

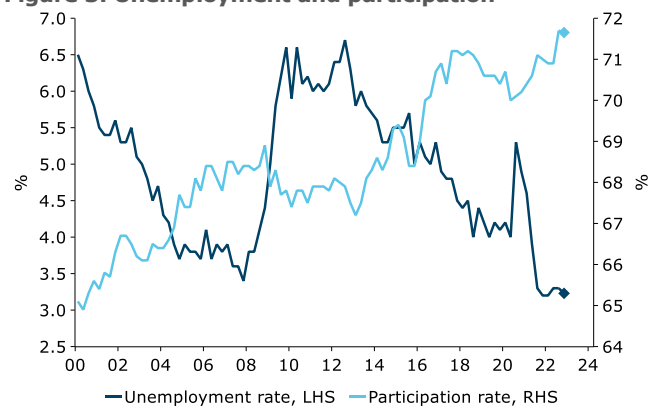
But we do think it is now time for the RBNZ to dial back the aggression with rate hikes. Consumers appear to have got the message that it is time to rein in spending, and the policy-induced recession the RBNZ believes will be required to restore price stability appears increasingly likely.

Figure 2. Employment and monthly filled jobs



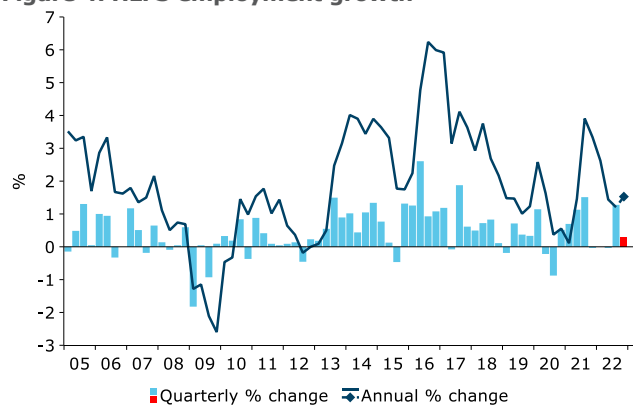
Source: Stats NZ, ANZ, Macrobond, ANZ Research

Figure 3. Unemployment and participation



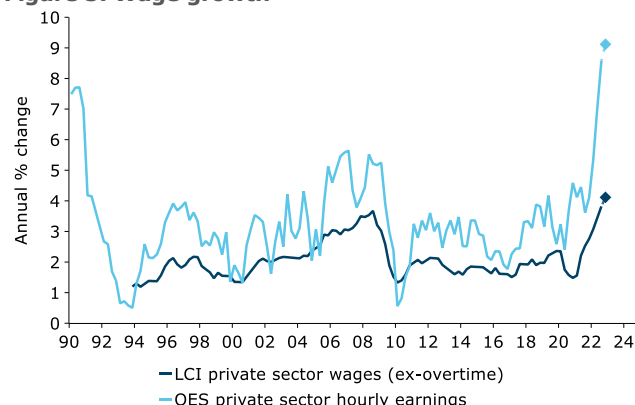
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. HLFS employment growth



Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Wage growth



Source: Stats NZ, Macrobond, ANZ Research



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Last updated: 1 September 2022

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