ANZ Research

March 2023 Quarter Labour Market Preview

28 April 2023

Contact

Sharon Zollner or Henry Russell for more details.

Confused by acronyms or jargon? See a glossary here.

March 2023 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	3.3%	3.4%
Participation rate (sa)	%	71.7%	71.7%
Employment (sa)	q/q	0.5%	0.1%
Employment	y/y	1.9%	1.3%
Wages			
LCI private sector wages (ex-overtime)	q/q	1.2%	1.1%
LCI private sector wages (ex-overtime)	y/y	4.8%	4.3%
QES private sector hourly earnings	q/q	2.1%	0.9%
QES private sector hourly earnings	y/y	8.3%	8.1%

Yet to turn… but it's coming

- The New Zealand labour market remains exceptionally tight. Although signs of softening domestic demand are emerging, the labour market typically lags the broader economic cycle. We expect the Q1 2023 labour market report (due to be released on 3 May) will highlight strength in both labour demand and supply, and an acceleration in wage growth.
- Unemployment is forecast to dip 0.1ppt to 3.3%, driven by a 0.5% q/q (1.9% y/y) lift in employment. While monthly filled job indicators and still-elevated job advertisements point to solid employment growth, on the other side of the equation, the working age population is growing rapidly too, offsetting the impact on the unemployment rate.
- We expect wage growth accelerated, with finding labour still the biggest problem facing firms in Q1 according to our Business Outlook survey, tourism demand keeping the pressure on, and inflation expectations elevated. We expect QES private sector average hourly earnings (ordinary time) to rise 2.1% q/q (8.3% y/y), and the productivity-adjusted private sector labour cost index to lift 1.2% q/q (4.8% y/y).

The view

While signs of a slowing domestic demand have undoubtedly emerged in recent months, we aren't expecting to see these manifest as yet to any great degree in the labour market, which remains very tight. Given the ongoing strength of labour demand, and with the participation rate likely near its limit, we're expecting the unemployment rate ticked down to 3.3%, driven by a 0.5% q/q (1.9% y/y) lift in employment growth.

Monthly employment indicators showed strong filled jobs growth of 0.9% m/m in January, 0.5% m/m in February, and 0.4% in March. While these give a good steer, they aren't a perfect match for the HLFS employment measure. The monthly indicators are sourced from IRD tax data, and January's outsized growth may reflect timing of reporting being delayed from December. Nonetheless, we do see upside risk to our employment pick overall, which could be up to 1.0%.

However, not all the growth in employment will translate into a lower unemployment rate. The lift in employment likely reflects a combination of supply and demand effects. The recent surge in net migration inflows implies solid growth in the working age population. We are also assuming (a better word than forecasting, in this instance) that the participation rate remained at its record high of 71.7%. Naturally, there are risks on both sides with implications for our unemployment rate pick. If participation lifts further, as more people are drawn into the labour force due to the strength of demand and as cost-of-living pressures bite, this could offset strong employment growth and see the unemployment rate actually rise.

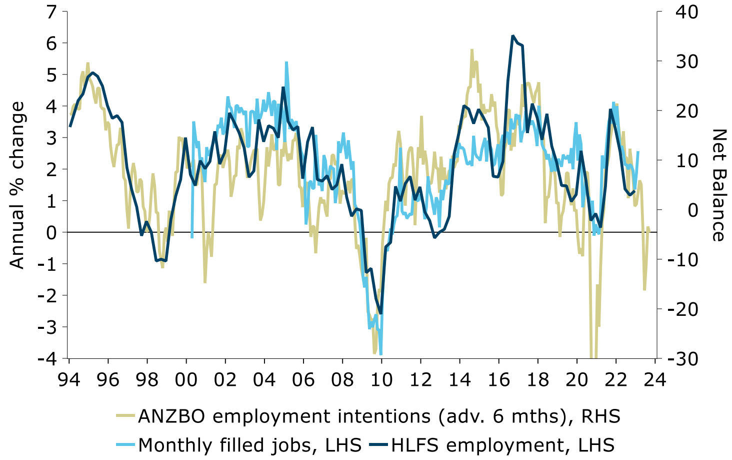
We expect labour supply-demand imbalances continued in Q1, despite the surge in migration. That, plus elevated household inflation expectations that have proved stubborn, are forecast to culminate in a (short-lived) re-acceleration in private sector nominal wage growth. We're expecting average ordinary time hourly earnings to lift 2.1% q/q (8.3% y/y). The productivity-adjusted ordinary time labour cost index (LCI) is forecast to increase 1.2% q/q (4.8% y/y). As long as the labour market remains tight, consumer inflation expectations – and subsequently wage expectations – are likely to matter more than otherwise.

Monetary policy implications

While we're not expecting to see a significant loosening in the labour market in Q1, the labour market does traditionally lag developments in economic activity. So it's certainly not a sign that monetary policy isn't working.

At the February MPS, the RBNZ forecast unemployment to rise to 3.5% in Q1, and while we don't see that forecast eventuating (yet), the RBNZ can take some comfort from forward-looking indicators of employment and wage growth moving in the right direction. Job advertisements, while elevated, are trending down, and employment intentions in our ANZ Business Outlook have been negative for six months now. NZIER's Q1 QSBO saw sales overtake labour as the top constraint preventing businesses from expanding production, as tighter monetary policy works its way through the economy. On the supply side, the surge in net migration inflows will also act to ease labour shortages. All up, while we don't expect to see it in Q1, all signs point to easing labour demand from here.

Figure 1. Employment and ANZBO employment intentions



Source: Stats NZ, Macrobond, ANZ Research

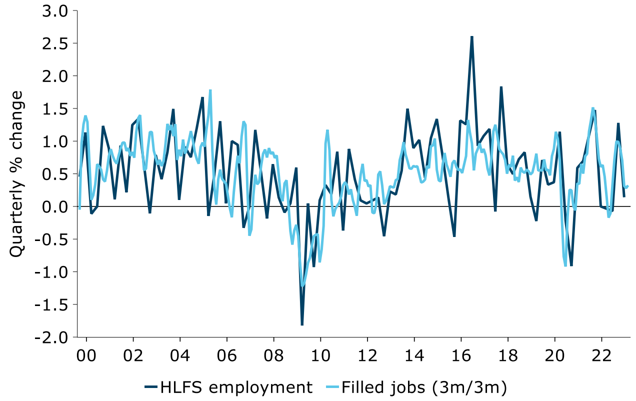
And importantly, there will be a mix of demand and supply developments impacting the data, meaning the headlines on the day may or may not be a good guide to the inflationary and thus monetary policy implications. In particular, if strong employment reflects a greater availability of workers, with the surge in migration likely contributing to this, it doesn't necessarily imply greater tightness in the labour market and more inflation pressure. While the RBNZ see migration as an upside risk to inflation in the medium term, its impacts on labour market tightness are not ambiguous. Rather, the disinflationary impact of improvements in labour supply could be more than offset by demand effects, particularly for housing.

And finally, there's the "noise" factor – any surprise on the unemployment rate probably needs to be at least 0.2%pts to be taken as signal.

Recent downward shifts in inflation indicators support our forecast that CPI will gradually ease over the remainder of the year. However, with annual non-tradables inflation still accelerating and the ongoing rotation from goods to services inflation, the labour market is key. Waning labour market pressures are a key part of the RBNZ's strategy to beat inflation, given the strong links between non-tradables and services inflation and wage growth.

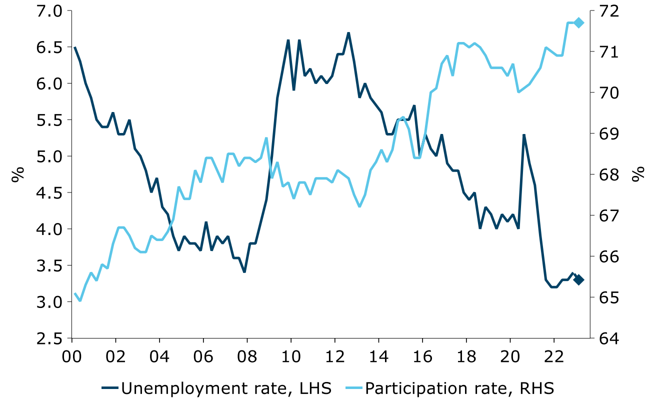
Although we expect a solid labour market report in Q1, it may be something of a "last hurrah". With the RBNZ getting traction, we expect one further 25bp increase to the OCR on 24 May before a pause to "watch, worry and wait". Labour market tightness is a key input to the inflation outlook but the RBNZ's decision will also be contingent on the outlook for fiscal policy released at Budget 2023 on 18 May.

Figure 2. Employment and monthly filled jobs



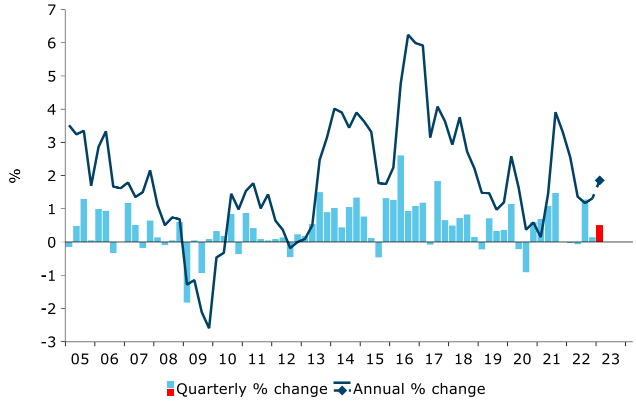
Source: Stats NZ, ANZ, Macrobond, ANZ Research

Figure 3. Unemployment and participation



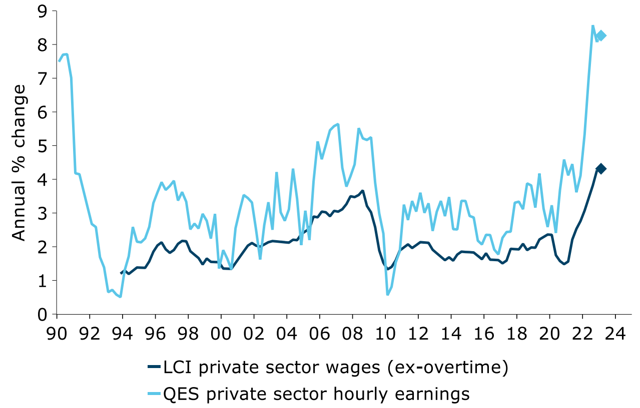
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. HLFS employment growth



Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Wage growth



Source: Stats NZ, Macrobond, ANZ Research

Contact us

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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

Henry Russell
Economist

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

Telephone: +64 21 629 553
Email: henry.russell@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

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