ANZ Research

Labour Market Statistics – Q4 2022

1 February 2023

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Contact

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Data summary – Q4 2022

		Latest
Labour market		
HLFS unemployment rate (sa)		3.4%
HLFS participation rate (sa)		71.7%
HLFS employment (sa)	q/q	0.2%
HLFS employment	y/y	1.3%
HLFS hours worked (sa)	q/q	1.4%
Wages		
LCI private sector wages (ex-overtime)	q/q	1.1%
LCI private sector wages (ex-overtime)	y/y	4.3%
QES private sector hourly earnings (ex-overtime)	q/q	0.9%
QES private sector hourly earnings (ex-overtime)	y/y	8.1%

Cracks appearing

Bottom line

- The labour market remained extremely tight in Q4, consistent with business survey data showing labour shortages were still the top constraint facing firms at the end of 2022. But cracks are beginning to show. Unemployment lifted 0.1ppt to 3.4%, driven by lower-than-expected employment growth. And the underutilisation rate ticked up to 9.4% (9.0% previously). Both numbers are higher than this time last year.
- Wage growth was mixed, but still concerning for the RBNZ. Private sector labour costs (productivity adjusted, ex-overtime) were solid, lifting 1.1% q/q (4.3% y/y). But private sector average hourly earnings (ex-overtime) rose just 0.9% q/q (8.1% y/y) versus September's 8.6% annual increase. Labour cost inflation came in slightly lower than the RBNZ's November forecast of 4.4%, and average hourly earnings were significantly lower than their (and our) 9.1% pick. But on the other hand, 36% of roles surveyed in the labour cost index received a pay-rise of 5% or more in Q4 (31% previously).
- The Q4 data still show a labour market beyond 'maximum sustainable employment', but some signs of softening are beginning to show. And as we look to 2023, timely indicators point to a significant easing in labour market pressures, with job ads, monthly filled jobs growth, and employment intentions all easing significantly in recent months.
- Combine these timely indicators with Q4 CPI inflation coming in cooler than the RBNZ feared, and we see a strong argument for the RBNZ to hike 'just' 50bp in February, rather than the 75bp signalled by the November MPS OCR forecast.

The view

Q4 labour market data shows some cracks starting to show in what previously seemed like unstoppable momentum. To be sure, unemployment remains near historic lows and annual growth in the private sector labour cost index hit a new record high. But with unemployment and underutilisation rising, employment increasing by less than expected, and growth in average hourly earnings slowing sharply in Q4, the labour market clearly did not end 2022 quite as strongly as the RBNZ (and we) thought. And timely indicators of labour demand foreshadow a significant further softening in the labour market over 2023.

Looking at the details of the Q4 release:

- Measures of labour market capacity pressure eased in Q4. Unemployment lifted 0.1ppt to 3.4% (whereas both we and the RBNZ expected a slight fall to 3.2%), and the underutilisation rate lifted to 9.4% (9.0% previously). Both measures are now 0.2ppt higher (ie worse) than they were a year ago. Total actual hours worked did increase 1.4% q/q in Q4.

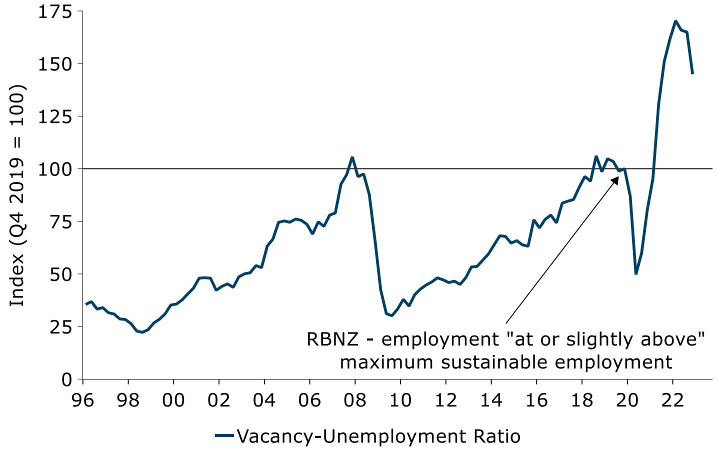
- Employment lifted just 0.2% q/q (1.3% y/y), lower than implied by the monthly filled jobs data (up 0.4% q/q) and the RBNZ's November MPS forecast (0.4% q/q). Employment growth has slowed markedly from the 1.3% q/q increase seen in Q3. Shortages of labour may still be hampering employment growth, but with wage growth coming in lower than expected and measures of underutilisation also weakening, there may well be a demand aspect to this as well. And as we move through 2023 and the full impacts of the RBNZ's monetary policy tightening make their way into the labour market, we think that a theme of weakening demand for labour will become increasingly prevalent.
- Wage growth was mixed in Q4:
  - Private sector average hourly earnings growth (ordinary time) slowed to 8.1% y/y in Q4 (8.6% previously), with a quarterly gain of just 0.9% (versus our expectation of 1.9%).
  - The private sector labour cost index (LCI, which is adjusted for productivity) rose 1.1% q/q (4.3% y/y) – higher than our 1.0% q/q (4.1% y/y) pick. However, the number was a touch below the RBNZ's November MPS forecast of 4.4%.
  - The analytical unadjusted LCI measure for private sector workers was up 6.1% y/y (5.6% previously).
  - 36% of jobs surveyed in the LCI received a pay rise of more than 5%, versus 31% previously.
  - About two thirds of jobs received an increase in ordinary-time wage rates in the past year – remaining at very elevated levels.

Monetary policy implications

The labour market was clearly still very tight at the end of 2022 (as any business trying to find staff for the summer tourism rush could tell you). That tightness is evident in measures like unemployment and underutilisation remaining very low, and measures of private sector wage growth hitting fresh record highs. The RBNZ would no doubt still assess that the labour market was beyond 'maximum sustainable employment' in Q4.

But there are signs that the shine is starting to come off the labour market, with unemployment and underutilisation now both higher than a year ago, and average hourly earnings growth slowing as well. When we look at job vacancies relative to unemployment, it's clear that overall labour market pressures were starting to turn in Q4 2022 (figure 1). And this data reflects hiring and remuneration decisions made several months ago now. Forward indicators like our January Business Outlook survey point to further weakening as we head through 2023.

Figure 1. Job vacancies relative to unemployment (index)

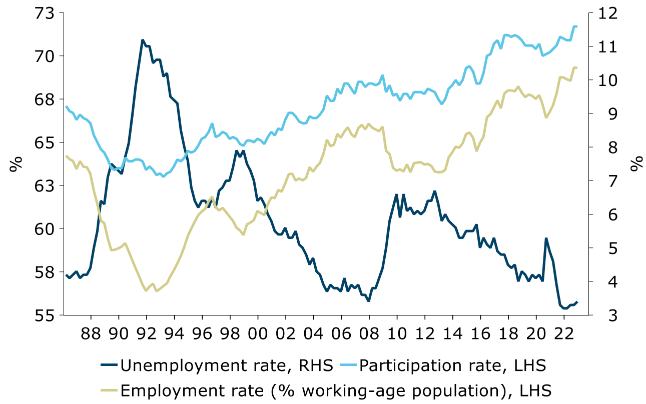


Source: Stats NZ, MBIE, Macrobond, ANZ Research

To be sure, no one would call figure 1 evidence of a 'soft' labour market. We are still in relatively uncharted territory when it comes to current levels of labour market tightness. However, enough indicators are turning down that it appears likely the demand for workers will ease fairly rapidly as we move through 2023, as the RBNZ is expecting and requires. And at the margin, the recovery in net migration should help to ease the log-jam in the labour market as well (although it's unlikely to be a game changer, given new migrants add to demand in the economy, as well as boosting labour supply).

With Q4 non-tradables inflation (ie domestically driven inflation) coming in lower than the RBNZ expected as well, there's strengthening evidence that both sides of the RBNZ's dual mandate will start to head in the right direction over 2023. We therefore expect that the RBNZ will dial back the hawkishness a touch, lifting the OCR 'just' 50bp in February, and reaching a peak of 5.25% by May. Whether the RBNZ is still hiking by May will depend on both activity indicators and inflation and wage data. It's the perceived risk of unanchored inflation expectations and high inflation becoming normalised that will determine at what point the RBNZ can sit back to "watch, worry and wait".

Figure 2. Unemployment, employment, and participation rates

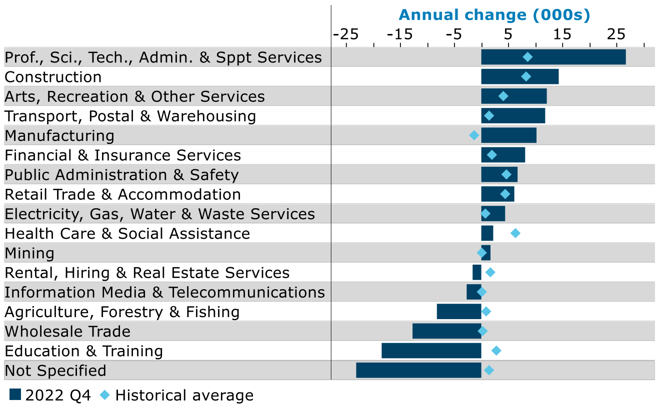


Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Employment and filled jobs

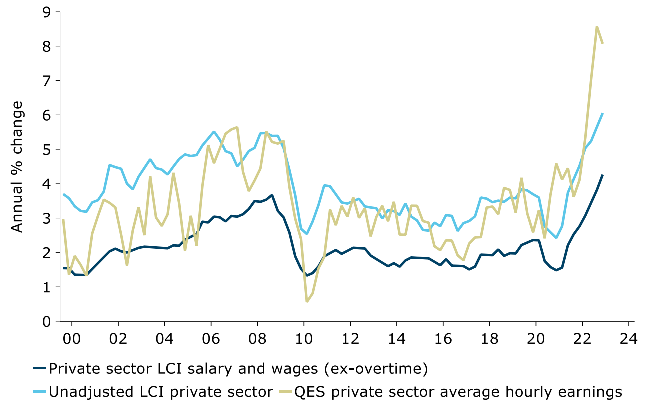
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Employment by industry



Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Wage growth – private sector



Source: Stats NZ, Macrobond, ANZ Research

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