ANZ Research

Labour Market Statistics – Q2 2023

2 August 2023

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Contact

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Data summary – Q2 2023

		Latest
Labour market		
HLFS unemployment rate (sa)		3.6%
HLFS participation rate (sa)		72.4%
HLFS employment (sa)	q/q	1.0%
HLFS employment	y/y	4.0%
HLFS hours worked (sa)	q/q	0.3%
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	1.9%
QES private sector hourly earnings (ex-overtime)	y/y	7.7%

Relatives and absolutes

Bottom line

- Labour market pressures eased in Q2, but remain outright inflationary. The unemployment rate rose from 3.4% to 3.6%, slightly higher than both our and RBNZ's forecast of 3.5%. The underutilisation rate rose 0.7ppt to 9.8% and the underemployment rate rose 0.3ppt to 3.5%, indicating untapped capacity in the labour market is lifting, though it remains very low.
- Employment growth accelerated in Q2, rising 1.0% q/q, much stronger than our expectation of a 0.6% q/q lift. While this strength likely reflects firms finally working through previously unmet demand courtesy of the migration-driven large expansion in labour supply, it certainly suggests that labour demand is proving resilient. If the participation rate had not risen to a fresh record high, this level of employment growth, all else equal would have resulted in an unemployment rate of 3.1%. How much upside can be left in the participation rate from here is questionable.
- Annual wage growth decelerated but likely remains a concern for the RBNZ. Private sector labour costs (productivity adjusted, ex-overtime) lifted 1.1% q/q (4.3% y/y), lower than our and the RBNZ's expectation (4.4% y/y), while private sector average hourly earnings (ordinary time) rose 1.9% q/q (7.7% y/y, in line with our expectation but a touch higher than the RBNZ (7.6% y/y).
- All up, while the labour market undoubtedly remains beyond 'maximum sustainable employment', there were unders and overs in the data today and the numbers are unlikely to move the dial for the RBNZ one way or the other. But we remain sceptical of the RBNZ's expectation that the unemployment rate will rise as steeply as it did during the Global Financial Crisis (GFC) over coming quarters.
- We continue to expect the RBNZ will raise the OCR once more in November. We expect Q3 CPI and labour market data in the lead-up to the decision will highlight sticky domestic-driven inflation, reflecting capacity pressures taking longer to dissipate than the RBNZ's May forecasts assumed.

The view

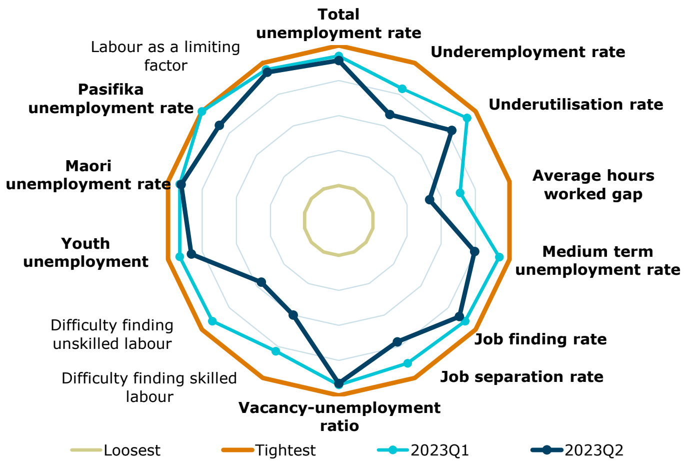
It's important to not conflate the relative and absolute stories in today's data. The labour market went in the direction the RBNZ requires in Q2, but in an *absolute* sense, it remained well into inflationary territory. It's a long way back to sustainable levels, and it remains highly uncertain how quickly that transition will occur.

Complicating the interpretation of the data is the fact that we are transitioning from the tightest labour market on record last year. The hangover from that period is still evident in robust employment growth due to lifting labour supply, contradicting the slowing momentum evident across other parts of the economy. But the labour market cannot withstand the changing economic tide indefinitely, and those pent-up demand effects will fade. But looking through the noise, we discern elements of resilience in today's data that challenge the RBNZ's expectation that the labour market is set to loosen as rapidly as it did during the GFC. There's wariness amongst firms, certainly, but not the "batten down the hatches" vibe associated with that shock. We continue to expect a relatively more resilient labour market across the second half of the year than the RBNZ does (though we both expect a rising unemployment rate; it's a question of degree).

Looking at the details of the Q2 release:

- The unemployment rate rose 0.2pt from 3.4% to 3.6%. The underutilisation rate rose to 9.8% (9.0% previously) and the underemployment rate ticked up to 3.5% (3.2% previously). Capacity pressures are easing, but elevated labour force participation may be flattering this loosening, insofar as its persistence at these record high levels is uncertain.
- Remarkably, the participation rate increased 0.4ppt to a fresh record high of 72.4%. This suggests cost of living pressures continue to draw people into the workforce, but also that tight labour market conditions continue to enable this. As labour market conditions loosen, it's typical to see participation fall as fringe workers become discouraged and exit the workforce. That hasn't happened yet, suggesting that capacity constraints still linger.
- Employment growth accelerated, lifting 1.0% q/q (4.0% y/y) in Q1. We suspect that a lot of this growth reflects firms finally having been able to fill long-standing vacancies given the lift in labour supply courtesy of the jump in net migration. Forward-looking indicators of employment point to a moderation in employment growth from here. That said, there's clearly an element of resilience in labour demand that may have a little further to run. Employment intentions in our ANZ Business Outlook survey are well off their lows.
- Wage growth remains elevated, and while it's past its peak, still-stretched capacity and elevated household inflation expectations are likely to keep the pressure on for some time.
  - The private sector labour cost index (LCI, adjusted for productivity) rose 1.1% q/q (4.3% y/y), a touch below both our and the RBNZ's expectation (1.2% q/q, 4.4% y/y).
  - Private sector average hourly earnings growth (ordinary time) lifted 1.9% q/q in Q1, taking annual growth to 7.7% y/y, in line with our expectation, but slightly stronger than the RBNZ's forecast of 7.6% y/y.

Figure 1. 'Maximum Sustainable Employment' suite of indicators



Source: Stats NZ, NZIER, ANZ Research

Bold indicates data released today

Monetary policy implications

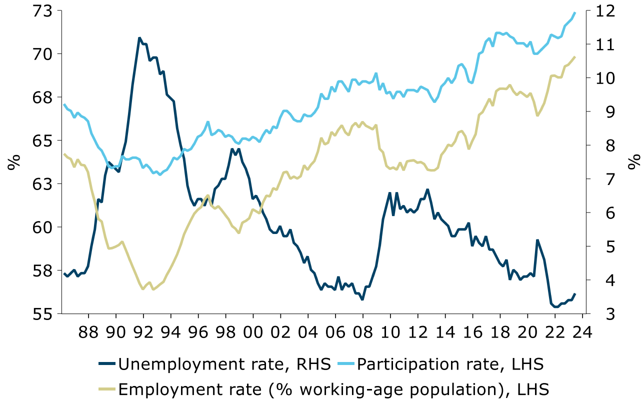
While capacity pressures eased in Q2, the labour market remains exceptionally tight and undoubtedly still above the RBNZ's assessment of 'maximum sustainable employment'. As we have long stated, our call that the RBNZ will hike again is a story for later in the year. It's a high bar for the RBNZ to recommence tightening, and today's data are not a game changer.

Since it's May decision to pause, the RBNZ has seen weaker-than-expected GDP growth in Q1 and steadily (if slowly) declining inflation signals. But it hasn't been one-way traffic: non-tradable inflation was higher than expected in Q2, and the housing market has found a floor well before the RBNZ expected it to. There's certainly plenty to mull over as the RBNZ prepares its next round of forecasts. However, what today's data highlight is the labour market still has a long way to go to get back to sustainable, non-inflationary levels and there remains considerable uncertainty over whether that transition will occur as quickly as the RBNZ expects.

Migration is the wild card. A migration-driven labour supply recovery will enable capacity to open up just as pent-up demand for labour fades, and slowing economic momentum will weigh. It could all turn as quickly as the RBNZ's forecast assume. But tighter monetary policy and weakening export demand are facing offsets in the form of near-term fiscal stimulus, population growth, a turning housing market and resilient household incomes. A lot can happen in three months, but a capitulation in the labour market across Q3 seems no more likely after today's data.

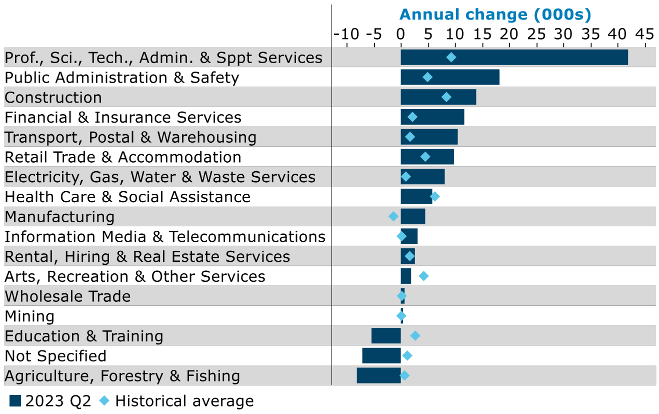
Ultimately, the longer the labour market operates above maximum sustainable levels, the greater the risks of second-round effects taking hold, where high inflation becomes problematically embedded in wage- and price-setting behaviour. While capacity pressures have improved compared to Q1, the RBNZ will need to see more progress very soon, to allow them comfort that the OCR is sufficiently restrictive. We think the next (Q3) labour market report (released 1 November) will raise enough questions about the future path of inflation to draw the RBNZ back to the hiking table.

Figure 1. Unemployment, employment, and participation rates



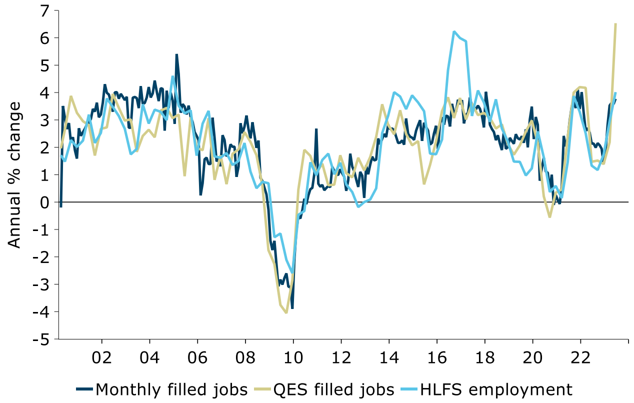
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Employment by industry



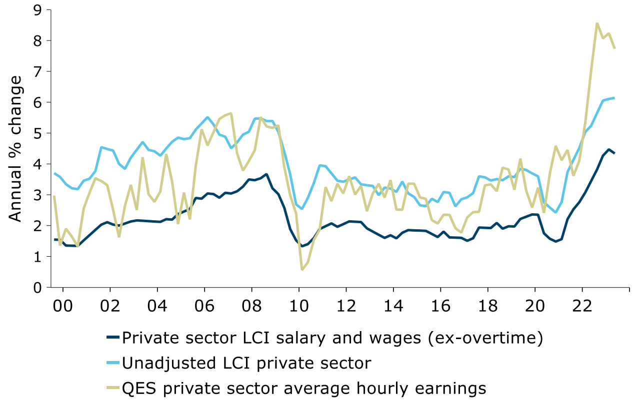
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Employment and filled jobs



Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Wage growth – private sector



Source: Stats NZ, Macrobond, ANZ Research

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