ANZ Research

Labour Market Statistics – Q3 2023

1 November 2023

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Contact

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Data summary – Q3 2023

		Latest
Labour market		
HLFS unemployment rate (sa)		3.9%
HLFS participation rate (sa)		72.0%
HLFS employment (sa)	q/q	-0.2%
HLFS employment	y/y	2.4%
HLFS hours worked (sa)	q/q	0.1%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.8%
LCI private sector wages (ex-overtime)	y/y	4.1%
QES private sector hourly earnings (ex-overtime)	q/q	2.0%
QES private sector hourly earnings (ex-overtime)	y/y	7.1%

The ship has turned

Bottom line

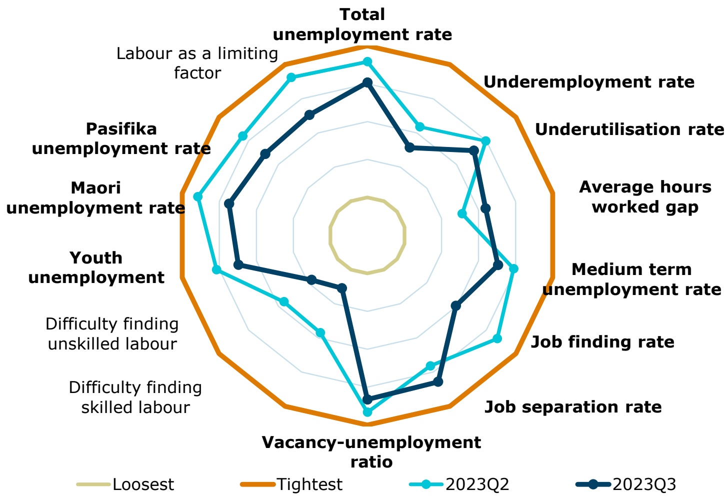
- Labour market pressures eased in Q3, with employment approaching its "maximum sustainable" level. The unemployment rate rose from 3.6% to 3.9%, in line with our forecast, but slightly higher than the RBNZ's forecast of 3.8%. The underutilisation rate rose 0.5%pt to 10.4% and the underemployment rate rose 0.3ppt to 3.8%, indicating untapped capacity in the labour market is increasing.
- Employment contracted in Q3, falling 0.2% q/q, considerably weaker than our expectation of a 0.4% q/q lift, which was based on the monthly employment indicator. Contradicting this weakness, QES filled jobs rose 1.3% (sa), but this has been out of step with other employment measures lately. The slowdown in employment growth, and the fall in the labour force participation rate are clear indicators that the labour market is softening.
- Annual wage growth moderated but still has a way to go to be consistent with inflation sustainably at target. Private sector labour costs (productivity adjusted, ex-overtime) lifted 0.8% q/q (4.1% y/y), lower than our and the RBNZ's expectation of 1.0% q/q. Private sector average hourly earnings (ordinary time) rose 2.0% q/q (7.1% y/y), in line with our and the RBNZ's expectation. Strong increases in public sector wages present some spillover risks, but private sector wage pressure is easing.
- All up, the labour market continues to move in the right direction for the RBNZ, and is unlikely to be a game changer for the November meeting, at which an unchanged OCR is universally expected. But there's still a fair way to go to generate the necessary slack needed to get on top of domestic inflation.
- We continue to expect the RBNZ's next move will be to hike 25bp, with February pencilled in for the timing, but pencilled in more lightly after today's data, which tilts the risks towards a later kick-off, or indeed no further hikes if the ducks line up. We expect the RBNZ will have to revise up its near-term non-tradeable inflation forecast and GDP starting point, and we will be interested to see how that is weighed up against clearer evidence of softening labour market pressures.

The view

It's unlikely that today's data will be a game changer for the RBNZ come the November MPS, where no one is expecting a change in the OCR, including the RBNZ. Capacity pressures in the labour market continue to ease, helped by the rapid expansion in labour supply stemming from record net migration inflows. We always knew that the surge in labour supply was going to open up capacity in the labour market, but today's data confirms that labour demand is also now playing ball.

The RBNZ signalled a focus on wages data at the October Monetary Policy Review, but ultimately the importance of this data is capped by the fact that wages are more a reflection of where the labour market has been than where it's going. The clear evidence that the labour market is at or near maximum sustainable employment should provide the RBNZ confidence that inflationary pressures stemming from the labour market have largely run their course. That will be an important milestone for the RBNZ, but only the first. The RBNZ's models will tell them that the labour market needs to transition well *below* maximum sustainable employment to generate the necessary slack needed to see inflation return to target. We're on track, but the race is not yet won.

Figure 1. 'Maximum Sustainable Employment' suite of indicators



Source: Stats NZ, NZIER, ANZ Research

Bold indicates data released today

The details

Looking at the details of the Q3 release:

- The unemployment rate rose 0.3%pt from 3.6% to 3.9%. The underutilisation rate rose to 10.4% (9.9% previously) and the underemployment rate ticked up to 3.8% (3.5% previously). Labour market spare capacity is increasing, but will need to rise further to generate the required disinflationary pressure.

- The participation rate decreased 0.4ppt to 72.0%. If this hadn't occurred, the unemployment rate would have comfortably had a 4-handle. As the labour market continues to loosen participation should ease further, as fringe workers exit the workforce as opportunities become scarcer and competition increases.

- Employment growth unexpectedly contracted, falling 0.2% q/q (2.4% y/y), much weaker than suggested by the monthly employment indicator. QES filled jobs rose 1.3% q/q (sa), contradicting the moderation. Labour demand is now showing clear signs of easing, consistent with a slowdown across the economy. It appears that the pent-up demand from previous labour shortages has largely passed, consistent with the normalisation in labour market capacity pressure reported in the QSBO.

- Wage growth moderated but has a way to go to be consistent with the inflation target. The weakening in labour demand suggested by today's release implies wage pressure is on track to keep easing. That said, while private sector labour costs slowed more than we expected, public sector labour costs surged, and that divergence comes with some risk of spillover.

- The private sector labour cost index (ex-overtime, adjusted for productivity) rose 0.8% q/q (4.1% y/y), a below our expectation and the RBNZ's forecast (1.0% q/q).
- Private sector average hourly earnings growth (ordinary time) lifted 2.0% q/q in Q1, taking annual growth to 7.1% y/y, in line with both our and the RBNZ's expectation.

Monetary policy implications

Today's data will be welcomed by the RBNZ as clear progress towards generating disinflationary pressures in the economy, and is likely to keep the Monetary Policy Committee on the sidelines in November. The Committee has expressed confidence that interest rates are sufficiently restrictive, and the dataflow has broadly gone its way of late, with a loosening labour market, a lower headline inflation starting point, and sustained easing in capacity pressures across the QSBO.

The Committee will certainly take those wins, but it's important to remember that it was only at the August MPS that the RBNZ revised its Q3 unemployment rate forecast lower and Q3 non-tradables inflation forecast higher. The economy is evolving broadly as *recently* expected, but is stronger than expected when the RBNZ went on hold back in May. From next quarter the RBNZ is forecasting the economy to capitulate, the unemployment rate to lift sharply on its way to 5% by the middle of next year and quarterly non-tradables inflation to fall off a cliff. That's still a lot of ducks to line up to be confident further tightening isn't required.

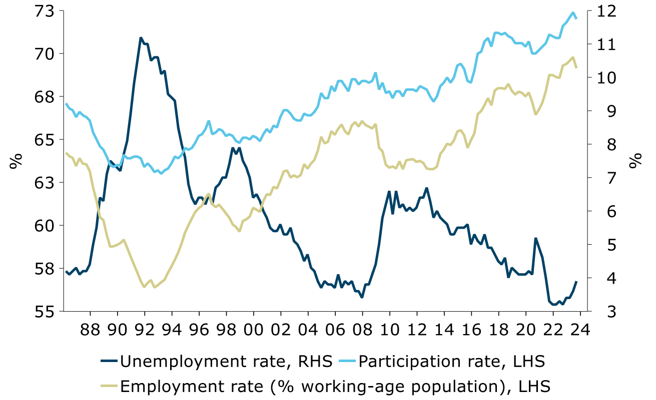
The RBNZ may well be revising up some of its near-term forecasts at the November MPS (as they did at the August MPS), and that can't be done too many times before doubts are raised about the potency of current monetary policy settings. But for now, things are moving in the right direction, buying the RBNZ time to assess the sustainability of progress and a long summer hiatus to "watch, worry and wait."

While there is very much a mix of unders and overs for the RBNZ when they come to revise their forecasts in November, there were clear signs in today's data suite of moderating labour market pressures, and that's important. Today's data, all else equal, reduces the chance of a hike in February, or indeed another hike at all. However, we still see the risks as tilted to more being needed. For example, the labour market data demonstrates the disinflation-friendly aspects of surging net migration, namely the labour supply boost. We're yet to see the demand side fully play out – and in particular the impact on rents and house prices. There will be plenty of interesting data to peruse over the summer break.

Markets

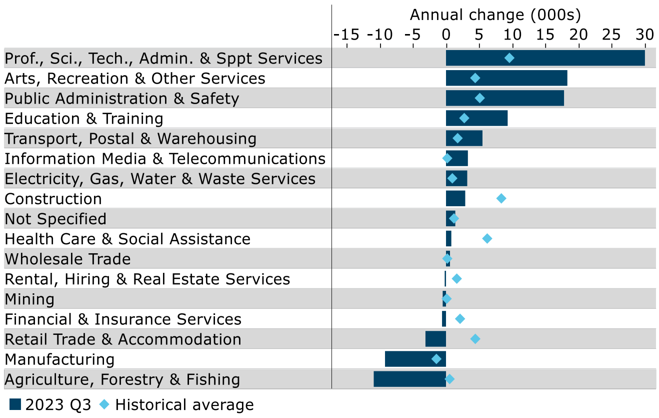
Financial markets reacted swiftly to the data, with the 2yr swap rate down around 6bp and the NZD/USD off around 40bp. That's fair given it obviously raises the hurdle and/or might delay the timing for a hike, but there's still a long way to go to get inflation back to target and we are mindful that ironically, NZD TWI weakness is inflationary, all else equal. The TWI is at a new low for the cycle and almost 3% below the RBNZ's August assumption.

Figure 1. Unemployment, employment, and participation rates



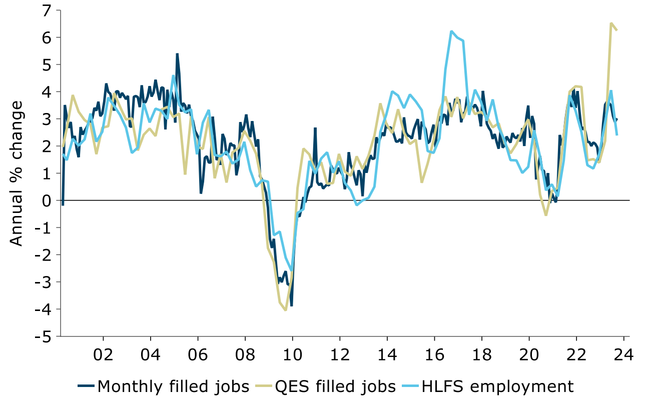
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Employment by industry



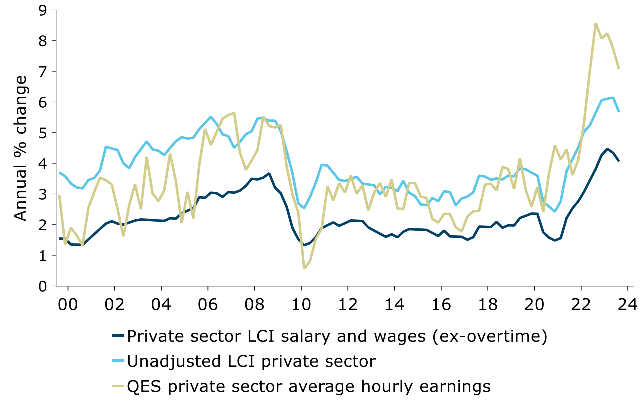
Source: Stats NZ, Macrobond, ANZ Research

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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Last updated: 18 April 2023

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