ANZ Research

December 2023 Quarter Labour Market Preview

1 February 2024

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Contact

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December 2023 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	4.3%	3.9%
Participation rate (sa)	%	72.0%	72.0%
Employment (sa)	q/q	0.2%	-0.2%
Employment	y/y	2.0%	2.4%
Wages			
LCI private sector wages (ex-overtime)	q/q	0.8%	0.8%
LCI private sector wages (ex-overtime)	y/y	3.7%	4.1%
QES private sector hourly earnings	q/q	0.7%	2.0%
QES private sector hourly earnings	y/y	6.8%	7.1%

No gamechanger expected

Summary

- We expect the Q4 labour market statistics (released 7 February) to show inflationary pressure stemming from the labour market has run its course, with spare capacity increasing and wage growth moderating. While things are on track, the RBNZ requires a sustained period of excess slack in the labour market to be confident that domestic inflation pressures will dissipate.
- We expect the unemployment rate rose from 3.9% to 4.3%, with continued expansion in employment more than offset by substantial labour supply growth. Employment indicators for Q4 have been firmer than previously anticipated and we've revised up our forecast to +0.2% q/q (previously -0.2% q/q) – still well below the 0.6% q/q expansion in the working age population.
- We expect wage growth continued to ease in Q4, while remaining at levels inconsistent with inflation sustainably back at target. We expect the private sector labour cost index (ordinary time) rose 0.8% q/q (3.7% y/y) and private sector average hourly earnings (ordinary time) rose 0.7% q/q (6.8% y/y).
- All up, we don't expect the Q4 labour market data to materially change the monetary policy outlook. The labour market is evolving broadly as the RBNZ expects, and if loosening continues across the first half of the year, we think the RBNZ will be in a position to deliver its first cut in August 2024.

The view

We expect the labour market remained on a loosening trajectory in Q4, with capacity indicators continuing to suggest slack has emerged and the labour market is no longer in an inflationary state. While moderating labour demand as the economy slows has played a role, the ongoing surge in labour supply continues to be the key driver. Record net migration inflows have resolved reported labour constraints. NZIER's Quarterly Survey of Business Opinion firms reported that skilled and unskilled labour has not been easier to find since the Global Financial Crisis (GFC), outside of the initial March 2020 COVID-19 lockdown period. That's an astounding turnaround from the intense shortages experienced in 2022.

And it has occurred while labour demand has remained relatively robust, contrasting to the recessionary dynamics during the GFC. Employment levels unexpectedly contracted in the Q3 Household Labour Force Survey (HLFS) release, but it appears that may have been more survey volatility than signal, given monthly filled jobs growth has remained robust, increasing 0.5% q/q across Q4. Filled jobs numbers are based off tax data, and there are significant methodological differences with the HLFS, but nonetheless the monthly employment indicator continues to point to labour market resilience. That theme has also been evident across the NZIER's QSBO and our own Business Outlook survey, where hiring intentions have improved. However, falling job vacancies provide a conflicting signal.

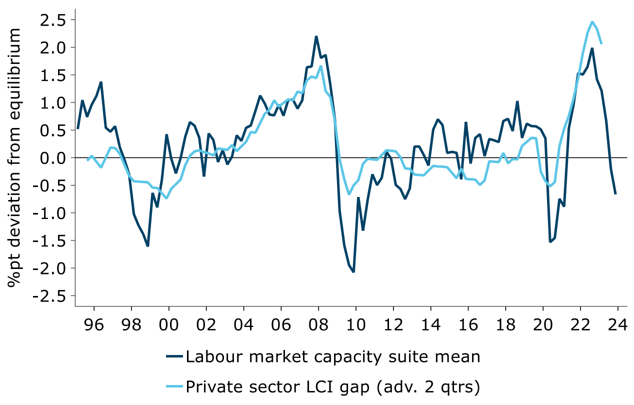
We expect employment expanded 0.2% q/q in Q4, which is modest growth but much firmer than our previous forecast of -0.2% q/q. However, our unemployment forecast of 4.3% remains unchanged, as labour supply growth has also been stronger than we previously expected, with the working age population rising 0.6% q/q. That is, growth in labour supply continues to outpace demand.

As always, the labour force participation rate remains a wildcard that could throw the headline unemployment rate around. We assume it remained constant at 72.0%, after taking a large step-down last quarter. With the jobs market becoming more competitive, fringe workers pulled in at the peak of tightness are likely to exit the workforce. This has been evident in the rebalancing in employment in recent quarters: youth employment has fallen after surging at the height of labour market tightness, while employment in the migrant-heavy 25-39 year age bracket has been rising. However, that dynamic faces an offset in terms of still-strong cost-of-living pressures for households, which strengthen the incentive to look for work.

As a result of labour supply growth continuing to outpace labour demand, wage growth, which is closely tied to domestic inflation pressures, is expected to continue to moderate. While it remains well in excess of the level consistent with CPI inflation at target, it is easing. We expect the private sector labour cost index (ordinary time) eased from 4.1% y/y to 3.7% y/y (0.8% q/q), and private sector average hourly earnings (ordinary time) eased from 7.1% y/y to 6.8% y/y (0.7% q/q). Wage growth responds to changing labour market conditions with a lag, and our suite of capacity indicators suggest there is plenty of disinflation coming down the pipeline (Figure 1).

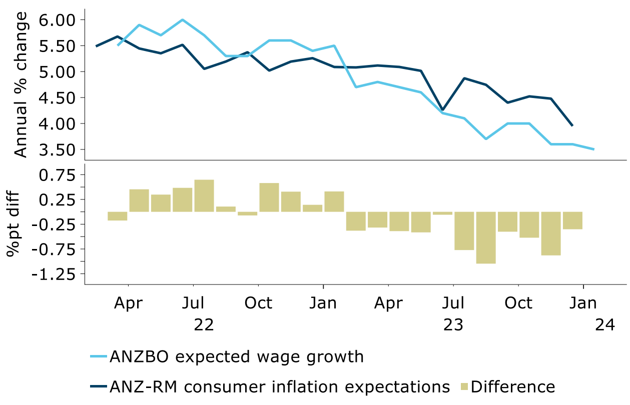
However, still-high household inflation expectations, and employees looking to make up for lost ground from real incomes having gone backwards over the past few years could add some persistence to elevated wage inflation. But employees' bargaining power has been dramatically reduced given the immense increase in competition for jobs, and firms' wage expectations in our Business Outlook survey are now well below consumers' expectations of inflation, a reversal of what was seen across 2022 (Figure 2).

Figure 1. Labour Cost Index and labour market capacity pressures



Source: Stats NZ, NZIER, RBNZ, Macrobond, ANZ Research

Figure 2. Consumer inflation expectations vs firm wage expectations



Source: ANZ, Macrobond, ANZ Research

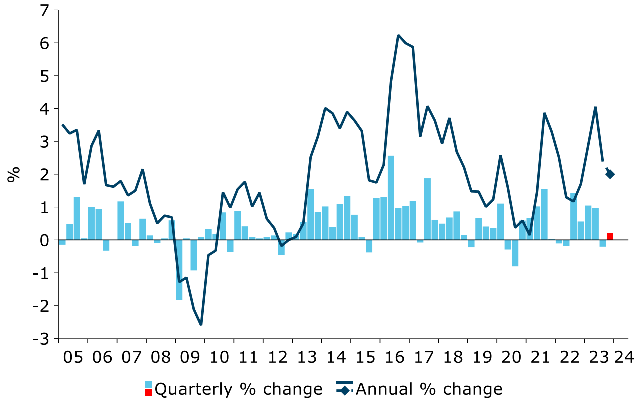
Monetary policy implications

We don’t expect the Q3 labour market data to be a game changer for the RBNZ’s February meeting. Despite the relative resilience of labour demand, the ongoing supply expansion due to record-high migration continues to see spare capacity emerge across the labour market. As a result, wage pressures are now gradually easing, which will contribute to a moderation in domestic inflation over 2024. Forward-looking labour market indicators continue to point to a rapid loosening across 2024. While the Household Labour Force Survey is notoriously volatile, and the weakness in Q3 employment looks to have been more volatility than signal, firmer employment growth must be seen in the context of a stronger labour supply expansion – in our estimation the labour market is now disinflationary. Of course, there's two sides to the immigration coin: the RBNZ quite rightly remains wary of resulting demand-side pressures, particularly in the housing market.

Monetary policy is working, though the RBNZ needs to see a sustained period of slack emerge to be confident that domestic inflation pressures will dissipate. Our current estimate is that by August, conditions will be in place for the RBNZ to begin easing policy settings.

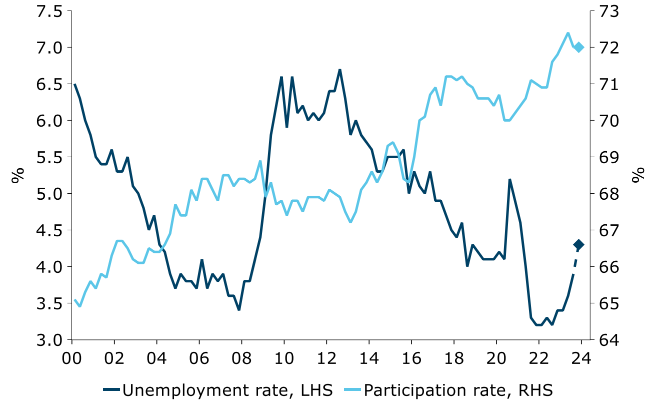
One can never rule out a surprise on the day from the inherent volatility of the HLFS, which is why we (and the RBNZ) will be looking at the broad suite of labour market indicators to assess tightness in the market. In big picture terms, we’d be very surprised not to see slowing wage growth and a general loosening in the labour market overall.

Figure 3. HLFS employment growth



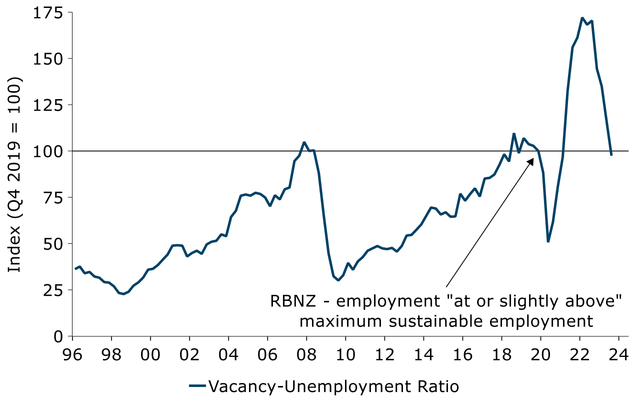
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Unemployment and participation



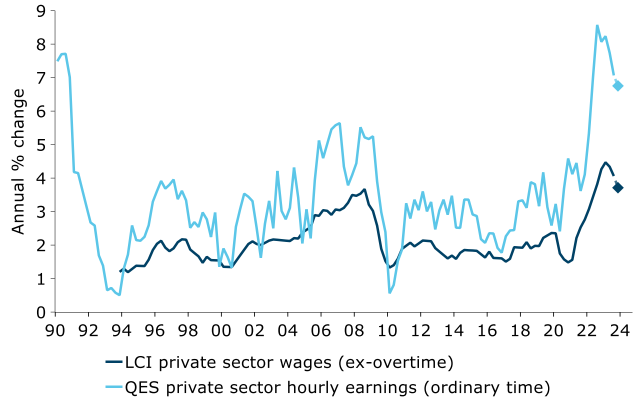
Source: Stats NZ, Macrobond, ANZ Research

Figure 5. Vacancy-Unemployment Ratio



Source: Stats NZ, MBIE, Macrobond, ANZ Research

Figure 6. Wage growth



Source: Stats NZ, Macrobond, ANZ Research

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