ANZ Research

Labour Market Statistics – Q4 2023

7 February 2024

Contact

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Data summary – Q4 2023

		Latest
Labour market		
HLFS unemployment rate (sa)		4.0%
HLFS participation rate (sa)		71.9%
HLFS employment (sa)	q/q	0.4%
HLFS employment	y/y	2.4%
HLFS hours worked (sa)	q/q	0.8%
Wages		
LCI private sector wages (ex-overtime)	q/q	1.0%
LCI private sector wages (ex-overtime)	y/y	3.9%
QES private sector hourly earnings (ex-overtime)	q/q	0.5%
QES private sector hourly earnings (ex-overtime)	y/y	6.6%

Hawkish surprise brings Feb hike into play

Bottom line

- The Q4 labour market data came in stronger than we or the RBNZ were anticipating. The unemployment rate rose from 3.9% to 4.0%, below our forecast of 4.3% and the RBNZ's forecast of 4.2%. The underutilisation rate rose 0.3%pts to 10.7% and the underemployment rate rose 0.7%pt to 4.5%, signalling spare capacity continues to emerge, albeit more gradually than expected.
- Employment rose 0.4% q/q, stronger than our and the RBNZ's expectation of a 0.2% q/q lift. Labour demand continues to moderate, while labour supply expansion remains robust. The participation rate fell 0.1%pt to 71.9%, which suggests that fringe workers are exiting the workforce as the job market becomes more competitive.
- Annual wage growth eased, but by less than we and the RBNZ expected for the key Labour Cost Index measure, and still has a way to go to be consistent with inflation sustainably at target. Private sector labour costs (productivity adjusted, ex-overtime) lifted 1.0% q/q (3.9% y/y), above our forecast of 0.8% q/q (3.9% y/y). Private sector average hourly earnings (ordinary time) rose 0.5% q/q (6.6% y/y), below our and the RBNZ's forecast, but this measure is less closely watched.
- All up, loosening in the labour market should support a moderation in domestic inflation over 2024, but progress has been a little slower than we and the RBNZ had anticipated. Our estimates of the RBNZ's labour capacity suite ticked up slightly, rather than the anticipated loosening. Forward-looking indicators are mixed but overall suggest ongoing loosening. But the fact is, since the "itchy-trigger-finger" November MPS the RBNZ has had small but unwelcome upward surprises on consumption growth, non-tradable inflation, QSBO capacity indicators, the labour cost index and now labour market capacity indicators. It's not been one-way traffic, and things are moving in the right direction overall. But the RBNZ made it clear in November that the right direction of travel isn't sufficient. A 25bp hike later this month has become a very real possibility, and RBNZ Governor Orr's speech on 16 February could raise the market-perceived probability of a hike further (now around 20%, up from 5% before the data).

The view

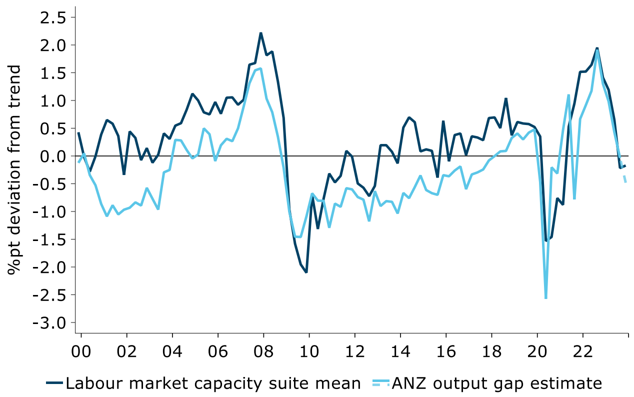
While the overall vibe of today's data was in a hawkish direction, the detail was mixed, and the RBNZ could take a glass-half-full or half-empty view of it. Slack continues to emerge across the labour market and wage growth is moderating, which will contribute to an easing in domestic inflation across 2024, but at a slower pace than anticipated – and the RBNZ made it very clear in November that their patience was limited. In fact, our capacity suite went sideways in Q4, though that likely reflects changes in the more volatile components. The more stable components, such as employment, and underutilisation went the right way (Figure 1).

That said, today's data have not materially changed our labour market outlook and we continue to expect a rapid loosening in the labour market across 2024, taking the unemployment rate to over 5%. The RBNZ will need to weigh a tighter-than-expected starting point for the labour market against the weakening outlook across the year ahead. On balance, we still think the weakening forward indicators will keep the RBNZ from hiking in February, although the chances of a hike have certainly risen with the small upward surprises in the starting point for not only the labour market, but also non-tradable inflation and consumption in earlier data.

The recovery in labour supply continues to dominate the labour market data. Record net migration has resolved reported labour constraints and is reducing wage pressures. That has occurred in the context of relatively resilient labour demand. Despite the unemployment rate having risen 0.8%pt from its record low, employment growth is yet to look outright recessionary, in comparison to economic activity data. That, in part, reflects the lagged response of the labour market to slowing activity, but it also highlights how the current labour market transition to date has differed from past demand-driven slowdowns (Figure 2).

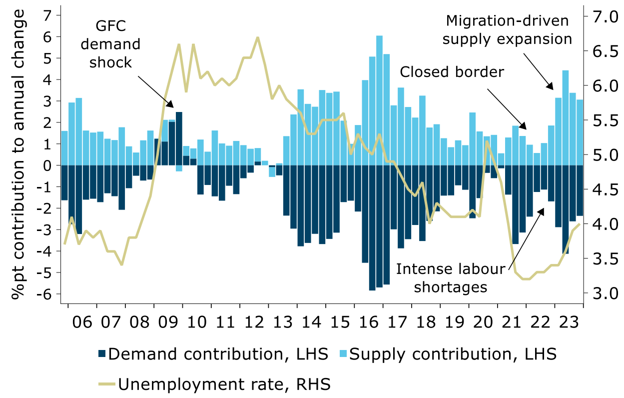
During the GFC, labour demand fell sharply, and employment contracted, which was the key driver of the sharp rise in the unemployment rate. In the current period, labour demand has remained relatively resilient, though we don't see that as remaining the case as the impacts from slowing activity across the economy finally flow through to the labour market. But for now, compared to previous downturns, the labour market picture is one of relative resilience.

Figure 1. Labour market capacity pressures



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

Figure 2. Contributions to change in unemployment



Source: Stats NZ, Macrobond, ANZ Research

The details

- The unemployment rate rose 0.1%pt to 4.0%. The underutilisation rate rose to 10.7% (10.4% previously) and the underemployment rate rose from 4.5% (3.8% previously). Labour market spare capacity will need to rise further to generate the required disinflationary pressure. The RBNZ's suite of indicators of labour market stretch were mixed – eg underutilisation rose, as did youth unemployment, but Māori and Pasifika unemployment fell and average hours worked per person rose.
- The participation rate fell 0.1%pt to 71.9%. As the labour market continues to loosen, participation should ease, as fringe workers exit the workforce as opportunities become scarcer and competition increases.
- Employment expanded by 0.4% q/q. Employment growth has remained relatively resilient to slowing economic activity, but we expect that is the result of the lagged response of the labour market to the broader economic cycle. Labour demand indicators suggest further weakness across 2024, particularly job vacancies, which have fallen around 25% in the past year.

- Wage growth moderated but has a way to go to be consistent with the inflation target. With spare capacity emerging in the labour market, wage growth should continue to moderate across 2024.
  - The private sector labour cost index (ex-overtime, adjusted for productivity) rose 1.0% q/q (3.9% y/y).
  - The unadjusted private sector labour cost index remained unchanged at 5.7% y/y, after last quarter's fall. However, the proportion of employees receiving annual increases in excess of 5% eased from its record high to 39%.
  - Private sector average hourly earnings growth (ordinary time) lifted 0.5% q/q in Q4, taking annual growth to 6.6% y/y.

Monetary policy implications

With the details of today's data mixed, it is not a slam-dunk how the RBNZ will interpret it. These data have not materially changed our labour market outlook, and nor do we think it'll change the RBNZ's. But the November MPS indicated that the RBNZ expected that it would hike in response to any data surprises that mean a further delay in getting inflation sustainably back to target. And while it hasn't been one-way traffic, the balance of data since then has been tilted towards exactly that outcome. Since the November MPS the RBNZ has had:

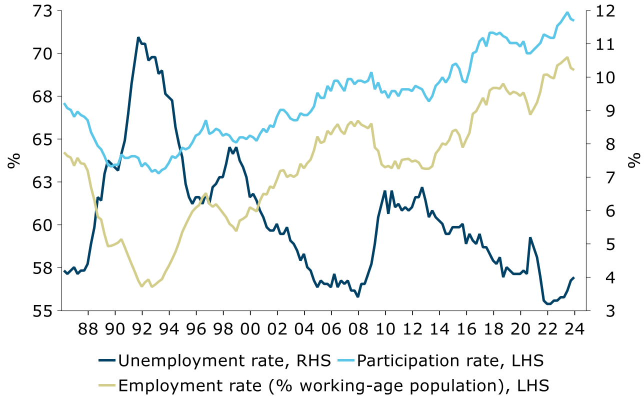
- a downward surprise on Q3 GDP but an upward surprise on consumption growth,
- an 0.2%pt upward surprise on domestic-driven inflation (offset by much weaker tradables inflation),
- a mixed bag of capacity indicators in the NZIER QSBO,
- today's stronger-than-expected labour market data and an upside surprise on wages,
- recovering high-frequency activity data,
- higher-than-expected net migration,
- lower yields.

Hiking again certainly could be a policy mistake, and the RBNZ will be aware of that risk. Given the lags with which monetary policy operates, the impact on near-term inflation would be limited (though it could certainly instantly pour herbicide on housing market green shoots), but the RBNZ's focus is on the medium term. There has been clear progress, but will the RBNZ feel confident that inflation is falling back to target in an acceptable time frame? In the cycle ending in 2008, the RBNZ paused twice, only to decide it hadn't done enough and hike again. We're in familiar territory. We'll see what Governor Orr has to say on 16 February, but at this stage a February hike is looking like a line-ball call. The RBNZ could certainly say hand on heart that we all got fair warning.

Markets

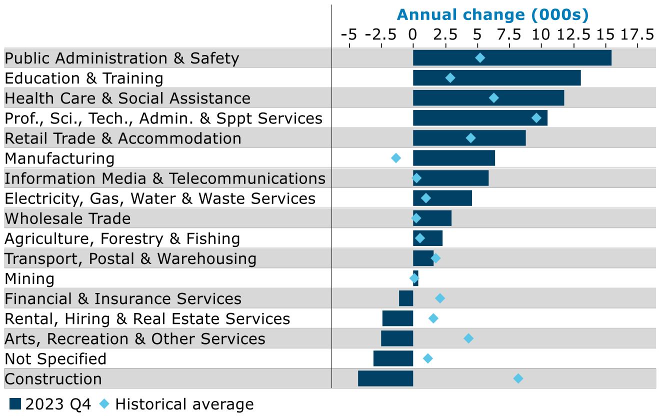
Markets reacted strongly to the data, with the bellwether 2yr swap rate up around 10bp and the NZD up around 20bp within an hour of the data being released. While the data do paint a picture of a cooling labour market, as with the easing in non-tradable inflation, the improvement is simply occurring too slowly, and given the tone of both the November MPS and last week's RBNZ speech, we think it is appropriate for the market to seriously ask whether the RBNZ might hike again. Markets will probably be reluctant to move beyond pricing 50/50 odds of a hike later this month on this data alone, but if next week's speech by RBNZ Governor Orr is hawkish, markets could easily gravitate towards a hike as their base case. Consistent with the tone struck by the Fed and other central banks, at a minimum, this data reinforces the idea that it could be a long time before we see cuts, whether or not we see a hike next. Against that backdrop, short-end rates remain biased higher, which should lend the NZD a much-needed helping hand.

Figure 1. Unemployment, employment, and participation rates



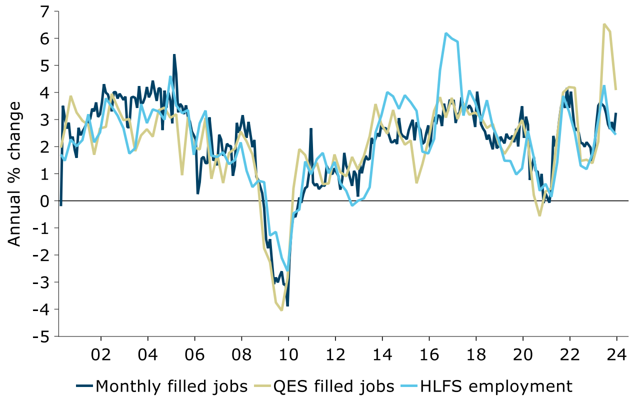
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Employment by industry



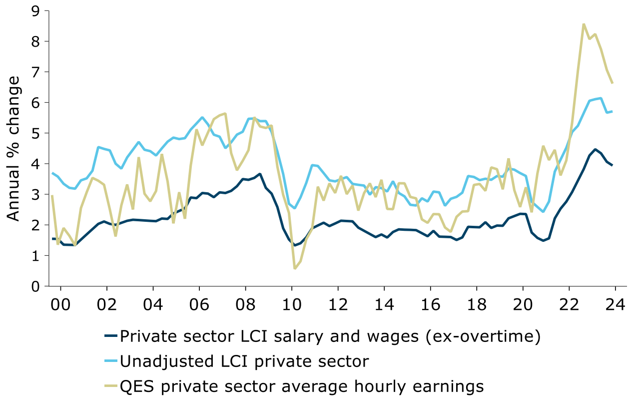
Source: Stats NZ, Macrobond, ANZ Research

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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