

Q1 LABOUR MARKET DATA PREVIEW

CONTRIBUTORS

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DATA SUMMARY

		Last	ANZ exp
Employment/Unemployment			
Unemployment rate (sa)	%	5.2	5.1
Participation rate (sa)	%	70.5	70.5
Employment (sa)	q/q	0.8	0.8
Employment	y/y	5.8	5.3
Wages			
LCI private sector wages (ex-overtime)	q/q	0.4	0.4
LCI private sector wages (ex-overtime)	y/y	1.6	1.6
QES private sector hourly earnings	q/q	-0.3	0.5
QES private sector hourly earnings	y/y	1.1	1.3

WILL DATA MATCH ANECDOTE?

KEY POINTS

- Labour market figures for the March quarter (due 3 May) should paint a solid picture overall.** We expect some of the “surprise” in the Q4 figures (a higher unemployment rate) to reverse, at least partially, therefore pointing to a tightening labour market overall. That would certainly be consistent with the anecdotes we are hearing.
- Demand for labour remains strong.** Our Job Ads series has risen in 14 of the past 15 months, and is up 18% y/y (on a 3-month average basis). Firms’ hiring intentions from our Business Outlook averaged a net 23.5 over the March quarter, which is effectively unchanged from the December quarter average, and well above the overall historical average (+8). It is a similar story within the latest QSBO.
- The bigger uncertainty, once again, is the supply side.** If we were basing our judgement purely on anecdote then we’d conclude that overall labour supply growth is not keeping pace with demand. Firms are finding it increasingly difficult to find staff. Indeed, according to our Small Business Microscope, finding staff is the *biggest* problem for firms right now. However, that evidence was present at the end of last year too, but labour supply growth of 1.1% q/q (due in part to a 0.4%pt surge in the participation rate to an all-time high of 70.5%), saw the unemployment rate rise to 5.2%. But what is becoming increasingly clear is that the tightness of the labour market is not really about the amount of labour available right now, but the skills that available labour possesses. There seems to be an increasing mismatch with what firms are looking for.
- We see employment growth holding at a similar pace to Q1 (0.8% q/q), consistent with quarterly GDP growth in Q1 of ~1%.** We already know that the working-age population grew 0.7% q/q, so the overall strength of labour supply will be determined by the participation rate, and we do believe further large gains in that are becoming more difficult. We have pencilled it holding at 70.5%, which would see the unemployment rate dip to 5.1%. If anything, we see the risk skewed towards some of Q4’s participation rate lift reversing, which would see the unemployment rate fall back below 5% (where it was in Q3).
- The conditions for stronger nominal wage growth are emerging.** Real wage growth has actually been reasonably solid recently and consistent with a tighter labour market and reported skill shortages. But with headline inflation now back over 2%, nominal wage growth will need to accelerate to ensure those real wage gains are not reversed. We expect that to occur over time, with the latest equal pay settlement (for some health care workers) adding to that vibe.
- But it is likely to be a gradual process and only tentatively evident in the Q1 figures.** We expect private sector LCI ordinary time wages grew 0.4% q/q, which would be the seventh consecutive quarter of such a rate. Annual growth will therefore hold at a modest 1.6% y/y. We would have been inclined to pencil in a stronger lift were it not for what appears to be some mild seasonality in March quarters (to the softer side).

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- A tightening labour market will add to the case that the RBNZ’s explicit neutral stance is on borrowed time.** But that doesn’t mean the RBNZ is about to shift to an explicit tightening bias either. With inflation rising, but in far from a broad-based manner, concerns over the global backdrop no doubt lingering, and tighter credit

and financial conditions effectively taking pressure off the Bank to shift the OCR, we believe the RBNZ will be still happy to maintain a watchful, cautious stance for some time yet, even if the figures are consistent with the next move in the OCR being upwards (which is our forecast).

FIGURE 1. VACANCY AND UNEMPLOYMENT RATES

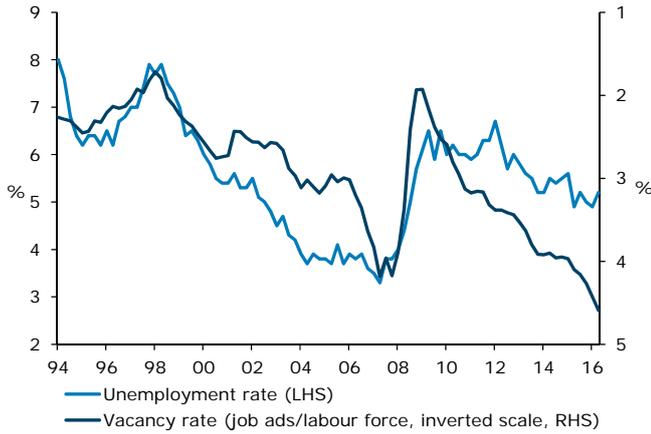


FIGURE 2. FIRMS’ HIRING INTENTIONS

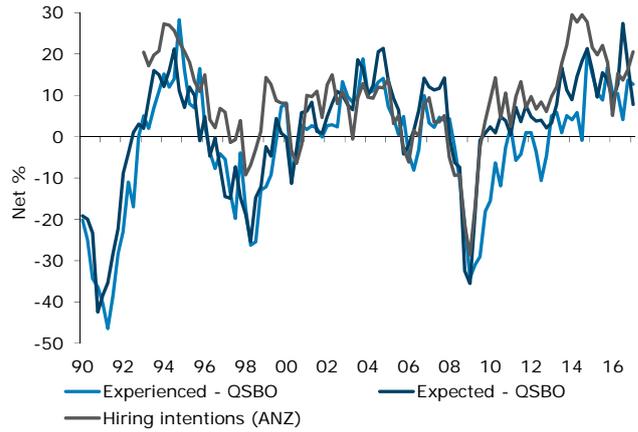


FIGURE 3. DIFFICULTY FINDING LABOUR

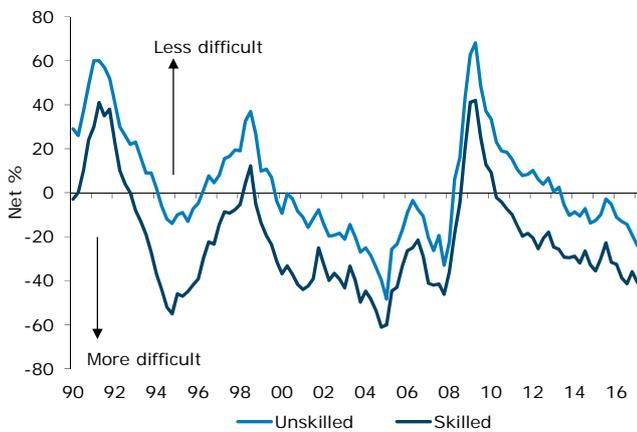


FIGURE 4. MEASURES OF WAGE INFLATION



Source: ANZ, Statistics NZ, NZIER

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