ANZ Research

Labour Market Statistics – Q1 2023

3 May 2023

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Contact

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Data summary – Q1 2023

		Latest
Labour market		
HLFS unemployment rate (sa)		3.4%
HLFS participation rate (sa)		72.0%
HLFS employment (sa)	q/q	0.8%
HLFS employment	y/y	2.5%
HLFS hours worked (sa)	q/q	-0.3%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.9%
LCI private sector wages (ex-overtime)	y/y	4.5%
QES private sector hourly earnings (ex-overtime)	q/q	2.1%
QES private sector hourly earnings (ex-overtime)	y/y	8.2%

Labour market still super-tight in Q1

Bottom line

- The labour market remained extremely tight in Q1. The unemployment rate was unchanged at 3.4%, higher than the 3.3% we had pencilled in but lower than the RBNZ's February MPS forecast of 3.5%.
- Employment growth accelerated, rising 0.8% q/q, much stronger than the RBNZ's forecast of 0.2% q/q and our expectation of a 0.5% q/q lift, and suggesting firms are still working through previously unmet demand for labour. The previous quarter was also revised up.
- Solid growth in labour supply appears to have provided a decent bump, though employment growth outpaced working age population growth. The participation rate lifted 0.2ppt to a record high of 72.0%, likely reflecting people being drawn into the labour force by both opportunities and cost-of-living pressures.
- The underutilisation rate fell 0.3ppt to 9.0%, suggesting untapped capacity in the labour market remains very low.
- Annual wage growth accelerated, but was mixed relative to our expectations. Private sector labour costs (productivity adjusted, ex-overtime) lifted 0.9% q/q (4.5% y/y), a little lower than the RBNZ's (February) forecast of 4.7% y/y and our forecast of 4.8% y/y. On the other hand, QES private sector average hourly earnings (ex-overtime) rose a solid 8.2% y/y close to our expectations (8.3% y/y), but above the RBNZ's expectation of 7.6% y/y.
- All up, today's data show the labour market remained white-hot in Q1, and well beyond 'maximum sustainable' levels, although slightly weaker LCI wage growth than expected will be a welcome development for the RBNZ given its importance for non-tradables inflation. Broadly speaking, the labour market is a little tighter than the RBNZ's February forecast, but not outside the bounds of typical survey volatility. Taken together with the weaker-than-expected Q1 CPI print, starting point surprises at the upcoming May MPS certainly aren't one-way traffic.
- We maintain our expectation for just one further 25bps OCR hike (this month). Looking forward, we expect labour market pressures to ease over the rest of the year and into 2024 as labour demand continues to soften and labour supply via migration recovers.

The view

The NZ labour market was yet to turn in Q1, with the unemployment rate remaining near historic lows, and annual wage growth still elevated. Today's data show that despite a strong increase in labour supply, the labour market was in broad terms a bit tighter than the RBNZ's expectation in Q1. But that does not imply that monetary policy isn't gaining traction. The labour market typically lags the broader economic cycle, and there are unmissable signs of a slowing in the latter. Nonetheless, today's data continued to highlight the persistence of inflationary labour supply-demand imbalances, and suggest there remains a real risk that the RBNZ might yet have a little more work to do down the track as it tries to guide the labour market towards a sustainable position.

Looking at the details of the Q1 release:

- The unemployment rate remained unchanged at 3.4% against our expectation of 3.3% and the Reserve Bank's forecast of 3.5%. The underutilisation rate fell to 9.0% (9.3% previously).
- The participation rate increased 0.2ppt to a fresh record high of 72.0%, as the tight labour market and wage rates prove attractive amidst the cost-of-living crunch.
- Employment growth strengthened, lifting a solid 0.8% q/q (2.5% y/y) in Q1, lower than implied by the monthly filled jobs data (up 1.8 % q/q), but stronger the RBNZ's February MPS forecast (0.2% q/q). Employment growth in the preceding quarter was revised up as well, from 0.2% to 0.5% q/q. Strong employment growth is, however, not necessarily inflationary, so long as it's met by a corresponding increase in labour supply. There's likely a mix of both supply and demand factors at play. On the one hand, previously unmet labour demand is being worked through as more labour supply becomes available – primarily via strong net migration but also a lift in the labour force participation rate to a fresh record high. But it's also clear that labour demand was still robust in Q1, despite easing employment intentions in the ANZ Business Outlook survey.
- Wage growth remained elevated, symptomatic of the tight labour market and elevated household inflation expectations. The two most closely watched measures were mixed relative to the RBNZ's expectation.
    - The private sector labour cost index (LCI, adjusted for productivity) rose 0.9% q/q (4.5% y/y). That was lower than both our and the RBNZ's expectation (ANZ 4.8% y/y, RBNZ: 4.7% y/y). Slower-than-expected LCI growth will be welcomed by RBNZ given the importance of wage inflation to the outlook for non-tradables inflation.
    - Private sector average hourly earnings growth (ordinary time) accelerated to 2.1% q/q in Q1, taking annual growth to 8.2% y/y, broadly in line with our forecast, but above the Reserve Bank's forecast of 7.6% y/y. It's worth noting, however, that the RBNZ tends to focus on the LCI rather than the QES when considering the outlook for non-tradable inflation, as it is conceptually a better measure of labour costs for firms.

Monetary policy implications

The labour market remains exceptionally tight and undoubtedly still above the RBNZ's assessment of 'maximum sustainable employment'. While today's data shows that in Q1 the labour market was tighter than the RBNZ's expectation as at the February MPS, it's important to bear in mind that the labour market typically lags the broader economic cycle. With forward-looking indicators of both employment and wage growth well off their peaks, we're confident that monetary policy is gaining traction.

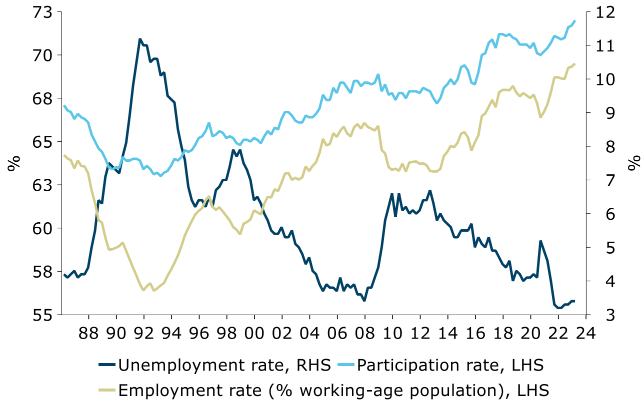
That said, today's data still highlight that the economy has a long way to go before we see the degree of labour market slack required for inflationary pressures in the labour market to dissipate. With annual non-tradables inflation still accelerating, and with wage growth being an important driver of this, easing labour market pressures is a crucial part of the RBNZ's plan for bringing inflation sustainably lower.

While the labour market is yet to turn, it's typically the last cab off the rank in terms of responding to monetary policy. With 5%pts of tightening delivered at breakneck speed since August 2021, we're yet to see the full transmission through the economy. The RBNZ will take these lags into account when considering today's data.

As has become the new normal across the COVID period, there's also the added challenge of data volatility. It's always a factor with the HLFS, but the recent surge in migration, and the wild revisions to which that data is subject, adds noise to the estimated population of working age. Migrants are also likely to have a higher labour force participation rate than the incumbent population. This "noise" factor likely increases the size of the forecast "miss" that it would take in practice for any surprise to be read as a clear signal.

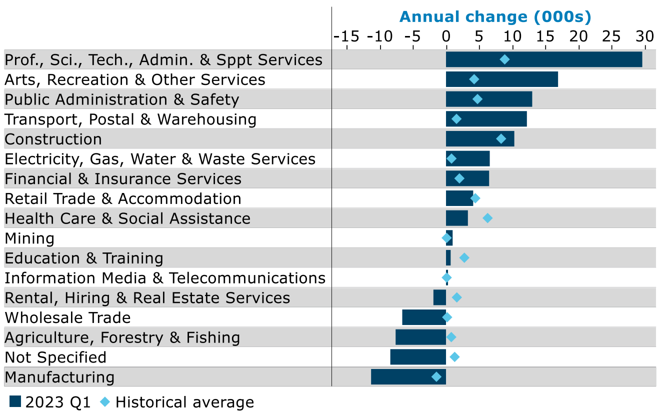
All up, we still think it's appropriate that the RBNZ step down the pace of hikes to deliver one more 25bps increase to the OCR in May to reach a terminal rate of 5.50%, before a pause to "watch, worry and wait". However, there's still the Budget to be delivered on 18 May, with the RBNZ noting the risks from expansionary fiscal policy that may require monetary policy to do more to cool demand in the economy.

Figure 1. Unemployment, employment, and participation rates



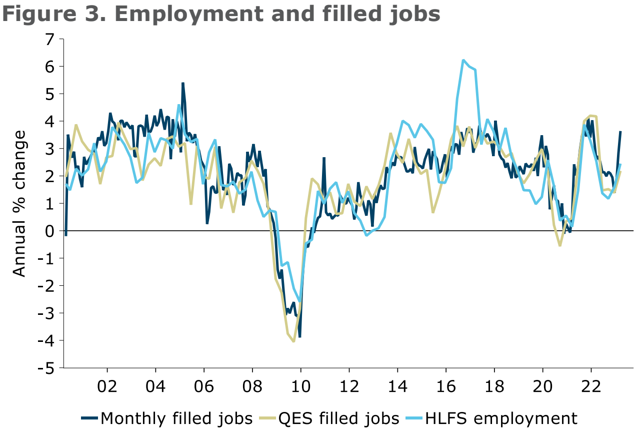
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Employment by industry



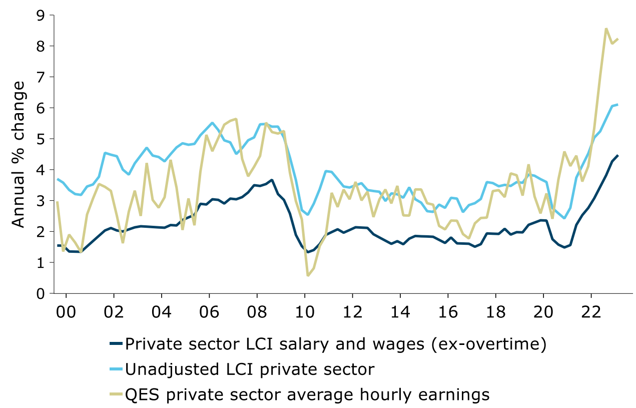
Source: Stats NZ, Macrobond, ANZ Research

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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