

March 2024 Quarter Labour Market Preview

24 April 2024



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March 2024 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	4.2%	4.0%
Participation rate (sa)	%	71.8%	71.9%
Employment (sa)	q/q	0.3%	0.4%
Employment	y/y	1.7%	2.4%
Wages			
LCI private sector wages (ex-overtime)	q/q	0.8%	1.0%
LCI private sector wages (incl overtime)	y/y	3.8%	3.9%
QES private sector hourly earnings	q/q	1.4%	0.5%
QES private sector hourly earnings	y/y	5.9%	6.6%

On borrowed time

Summary

- We expect the Q1 labour market statistics (released 1 May) to show a further increase in spare capacity and a moderation in wage growth that will reinforce expectations that further domestic disinflation lies ahead.
- The unemployment rate is expected to rise from 4.0% to 4.2%, with continued expansion in employment more than offset by substantial labour supply growth.
- We expect wage growth continued to ease, albeit gradually. Growth in the private sector labour cost index (incl overtime) is expected to come in at 3.8% y/y vs 3.9% in Q4, while growth in private sector average hourly earnings (ordinary time) is expected to fall 0.7%pt to 5.9% y/y.
- All up, we don't expect the Q1 labour market data to materially change the monetary policy outlook. The labour market is evolving broadly as the RBNZ expects, with forward indicators suggesting the labour market will deteriorate further from here.

The view

We expect the labour market shifted further into disinflationary territory in Q1. However, despite the weakness evident in economic activity over the past year, employment growth has held up longer than anticipated. While that reflects the continuation of the catch-up in employment levels following the period of intense labour shortages, forward-looking indicators of labour demand suggest the expansion in employment is near its end.

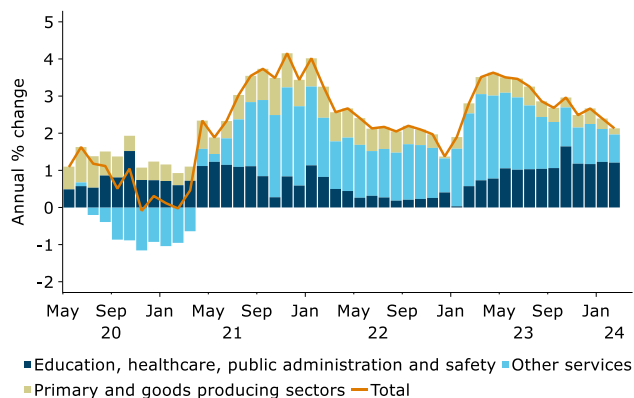
The monthly employment indicator (MEI) has been printing a little stronger than our prior expectation, with data for the final month of the quarter released Monday. While we don't expect all of this strength to be reflected in the HLFSS measure of employment next week, we have revised up our forecast for employment growth 0.1%pts to 0.3% q/q in Q1 and will be watching next week's MEI closely to gauge the risks around our pick.

The relative resilience of employment growth continues to surprise, but there are signs that the catch-up dynamic in employment levels has now run its course. Employment growth in recent months has been driven by the continued expansion in industries that don't tend to follow the economic cycle: education and training, healthcare and social assistance, and public administration and safety (figure 1). Expansion in these sectors is very likely being supported by stimulatory fiscal settings over the past few years that are still flowing through the economy. In February, employment growth in these sectors was running at 4.6% y/y. Outside of these sectors, weakness is emerging.

GDP per hour worked across the economy also suggests employment levels have broadly adjusted back toward their pre-pandemic levels across the economy as a whole. Rather than signalling a persistent decline in labour productivity, we view this as reflecting a readjustment back to more normal levels. That's not to say the pandemic hasn't impacted productivity, but it's

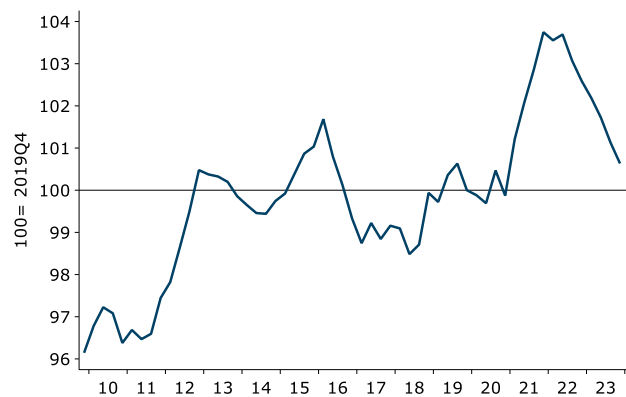
hard to take a strong view on this until employment levels have stabilised following the disruption. GDP per hour worked could certainly keep falling below pre-pandemic levels temporarily, but labour shedding would very likely commence if this were to be sustained. In the current environment of squeezed margins, firms are likely to find it difficult to absorb a sustained decline in labour productivity.

Figure 1. Monthly filled jobs growth by industry



Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Annual GDP per hour worked



Source: Stats NZ, Macrobond, ANZ Research

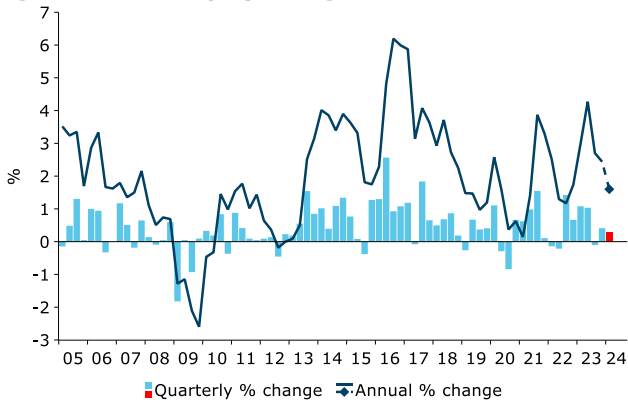
Turning to the unemployment rate, we expect to see employment growth more than offset by a sizable expansion in the working-age population. Stats NZ's estimate, released in advance, showed the working-age population rose 0.7% q/q in Q1, buoyed by continued strength in net migration inflows. Meanwhile the labour force participation rate is expected to fall 0.1%pts to 71.8%. The significant increase in competition in the labour market is likely to see fringe workers who were pulled in at the height of tightness in the labour market continue to exit. Putting it all together, the unemployment rate is expected to rise from 4.0% to 4.2%.

On the wages front, spare capacity is continuing to emerge in the labour market, and accordingly we expect wage pressures to continue moderating. We expect the private sector Labour Cost Index (incl overtime) rose 0.8% q/q, seeing annual growth moderate from 3.9% to 3.8%. While that doesn't suggest a rapid loosening in wage pressures on the face of it, the Q1 wage data is largely a reflection of past labour market conditions, and as we saw in last week's Q1 CPI data, the persistence of high services inflation suggests there's likely still some labour cost momentum still flowing through. We expect private sector average hourly earnings (ordinary time) to moderate from 6.6% y/y to 5.9% y/y in Q1. While wage pressures are easing, they remain above levels consistent with inflation at target.

Monetary policy implications

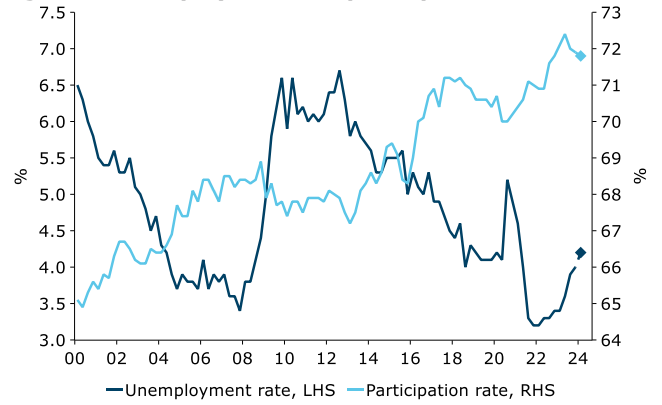
We're not expecting the Q1 labour market data to cause a change in tune from the RBNZ. Extreme labour market pressures have faded over the past year, and while the Q1 report is likely to show a relatively resilient picture for employment, forward-looking indicators are pointing to a substantial loosening over the year ahead. The RBNZ will certainly be looking for a moderation in wage growth, though the lagged response of wages means the Q1 data will tell them where the labour market has been, rather than where it's heading. On that front, high labour cost pressures (and therefore pressure on domestic CPI inflation) are highly unlikely to persist much longer given weak economic momentum and the emergence of spare capacity in the labour market.

Figure 3. HLFS employment growth



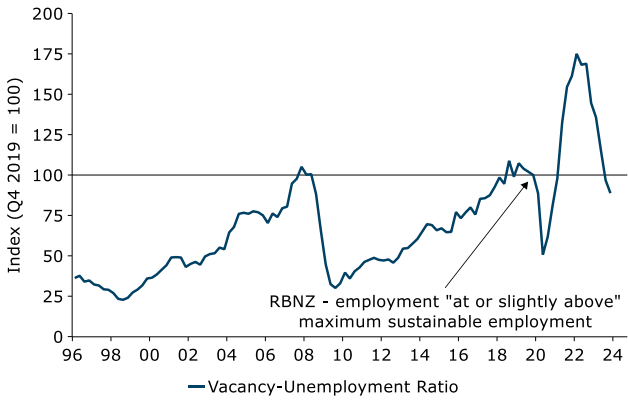
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Unemployment and participation



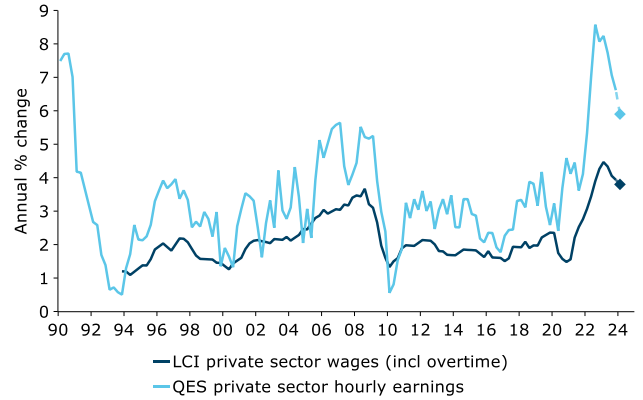
Source: Stats NZ, Macrobond, ANZ Research

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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