ANZ Research

June 2024 Quarter Labour Market Preview

30 July 2024

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June 2024 Quarter

	Exp	Prev	RBNZ
Labour Market			
Unemployment rate (%, sa)	4.7%	4.3%	4.6%
Participation rate (%, sa)	71.3%	71.5%	71.5%
Employment q/q (sa)	-0.2%	-0.2%	0.1%
Employment y/y	0.0%	1.3%	0.3%
Wages - LCI			
Private sector wages (all salary and wage rates) q/q	0.9%	0.8%	0.9%
Private sector wages (all salary and wage rates) y/y	3.6%	3.8%	3.6%
Wages - QES			
Private sector hourly earnings (ordinary time) q/q	0.9%	0.3%	N/A
Private sector hourly earnings (ordinary time) y/y	3.8%	4.8%	3.8%

A little deeper into disinflationary waters

Summary

- We expect the Q2 labour market statistics (released 7 August) to provide further evidence that spare economic capacity is building, and that disinflationary progress is set to continue.
- We expect the unemployment rate to rise from 4.3% to 4.7%. That's a touch above the RBNZ's May MPS forecast of 4.6%, driven by slightly softer labour demand and supply than they expected.
- Wage growth is expected to ease further, with growth in the private sector labour cost index (including overtime) expected to come in at 3.6% y/y vs 3.8% in Q1, while growth in private sector average hourly earnings (ordinary time) is expected to slow 1.0%pt to 3.8% y/y.
- This is the last big piece of data ahead of the August MPS, where the market is currently pricing more than a 65% chance of a cut. We think something close to our forecast is unlikely to push the RBNZ into action this early, but if recent weakness in forward-looking indicators persists, confirmation from the Q2 data that the labour market is loosening could increase the odds of an October kick-off.

The view

The Q2 labour market data is expected to provide further evidence that spare economic capacity is building, and that disinflationary progress is set to continue. The big question on the day will be whether the Q2 data suggests this is happening at a faster pace than the RBNZ expects. Forward indicators suggest that could well be the case, but it is perhaps something we won't see in the "hard data" until the next read or even the Q4 data.

We expect the unemployment rate to lift to 4.7% from 4.3% in Q1. While that's very close to the RBNZ's May MPS forecast of 4.6%, the details are expected to be a touch softer than their expectation. In particular, monthly filled jobs softened over the quarter, and at face value suggests Q2 employment growth will be a touch weaker than our previous forecast (-0.1% q/q) and the May MPS forecast (+0.1% q/q). Accordingly, we've now pencilled in a 0.2% q/q contraction for the HLFS measure of employment.

It's clear that economic momentum is slowing, and that services industries, which tend to be a little slower to turn than goods-producing industries, are now no exception. Services industries account for around 70% of GDP and over 75% of filled jobs, and so the question now is how long it takes for it to flow through to employment. Given the labour market is transitioning from a position of *extreme* labour scarcity following the pandemic stimulus and closed borders, "labour hoarding" dynamics might be a little more prevalent through the current downturn than is typical (that certainly appeared to be the case in 2022-2023). But sustained weak demand requires businesses to make tough decisions; demand for labour will continue to deteriorate. Q1 GDP data suggests this dynamic is indeed occurring, with output per hour worked falling by less than prior quarters, tentatively suggesting labour input is gradually adjusting to weaker demand for goods and services.

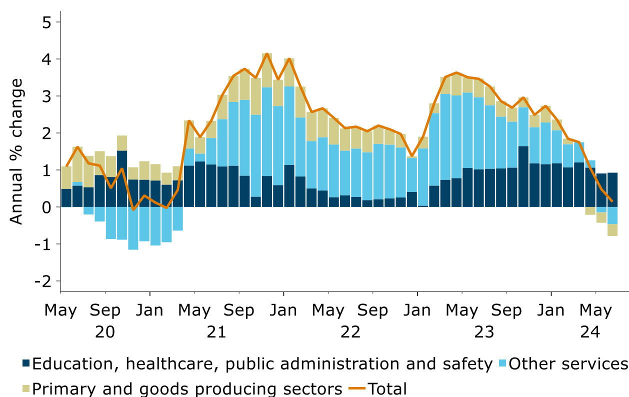
Of course, there are some industries where monetary conditions do not have a lot (if any) influence on demand for labour, and where fiscal settings are more important (eg education and training, healthcare and social assistance, and public administration and safety). But a lot has changed since the last Government's significantly pro-cyclical fiscal stance, with the overdue (albeit gradual) fiscal consolidation suggesting there are limits to how much these industries will continue to offset slipping demand for labour more broadly. Figure 1 shows that outside of these fiscally dominated industries, annual growth in filled jobs is now negative.

Labour force participation tends to move together with employment: people are drawn into or discouraged out of looking for work depending on how easy it is to find a job. That means the headline unemployment rate doesn't tell the full story. A rise in unemployment driven by much weaker employment growth outweighing a slightly lower participation rate would send a much softer signal about the state of economic momentum than would, say, the same lift in unemployment where stronger employment growth was outweighed by rising participation. So the details will matter hugely. We've pencilled in a small dip in the participation rate to 71.3%, but note this always carries a considerable degree of uncertainty.

While lower participation is expected to subtract from labour supply, growth in the working-age population (bolstered by elevated net migration) of 0.4% q/q is expected to add to it. That said, recent data suggest the migration cycle is turning rapidly, with departures surging. At face value, that corroborates our suspicion that the loosening labour market is increasingly being driven by softening demand, rather than growth in labour supply.

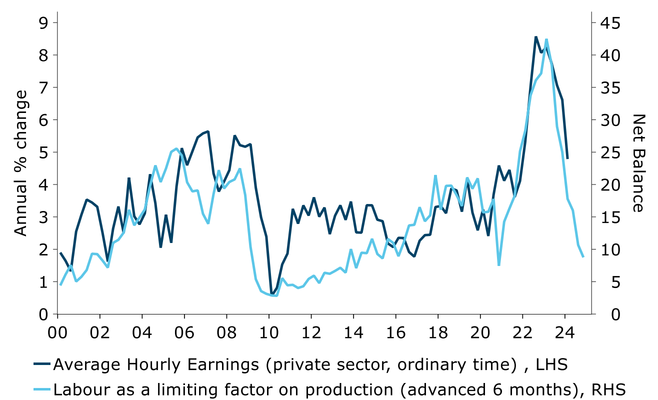
We expect wage pressures to continue moderating as bargaining power continues to shift from workers to firms. We expect growth in the private sector Labour Cost Index (including overtime) to come in at 0.9% q/q, with annual growth slowing from 3.8% to 3.6%. Growth in private sector average hourly earnings (ordinary time) is expected to slow from 4.8% y/y to 3.8% y/y. While wage pressures are easing, they are likely to remain above levels consistent with inflation at target. However, wage data largely reflect past labour market conditions, meaning the trajectory can be more important than the overall level. And on that front, the NZIER's QSBO labour as a limiting factor indicator (and our ANZBO wage indicators) suggest wage growth is poised to slow meaningfully over the course of the year (figure 2).

Figure 1. Monthly filled jobs growth by industry



Source: Stats NZ, ANZ, Macrobond, ANZ Research

Figure 2. Wage growth and labour as a limiting factor



Source: Stats NZ, NZIER, Macrobond, ANZ Research

Indeed, looking beyond the Q2 data, it's fair to say that the recent downturn in almost all the forward-looking indicators (eg job ads and business and consumer survey data), suggests downside risks are emerging around our GDP, labour market and therefore CPI outlook. At face value, that suggests

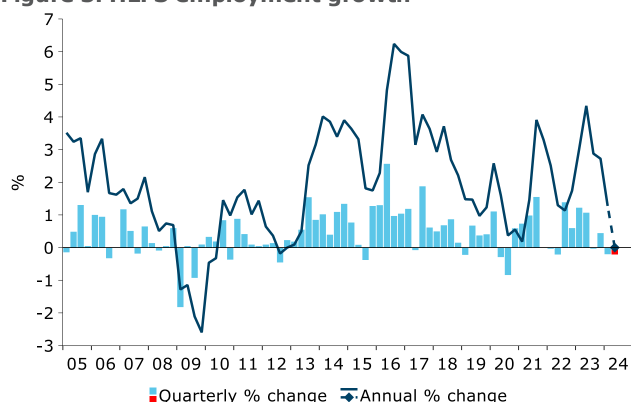
the gradual loosening we've seen in the labour market over the past year or so could be on the cusp of accelerating. That might not be a Q2 story, but could well become evident in the hard data by the end of the year. We'll certainly have a lot to weigh up when we update our labour market forecast following the Q2 release.

Monetary policy implications

The Q2 labour market release is the last big piece of data ahead of the August Monetary Policy Statement, and with markets currently pricing in more than a 65% chance of a cut at this meeting, there appears to be a lot hanging on the vibe of these data. We certainly agree that the Q2 labour market data will be important for the RBNZ's calibrations, but if the details are close to our (and the RBNZ's) expectations, we don't think it's a smoking gun for the imminent rate cuts that the market is putting relatively high odds on.

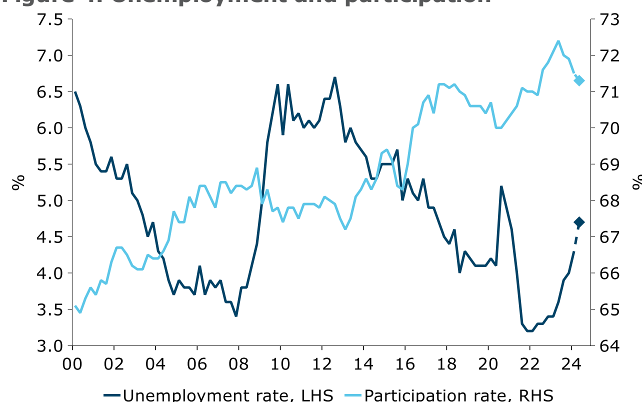
All that said, should recent weakness in the broad range of forward indicators persist over coming months, that, combined with confirmation from the Q2 labour market data that momentum is indeed softening, would see the odds of the cutting cycle kicking off as early as October increase. But for now, given what we've seen so far, we think November remains the likeliest timing for the beginning of the cutting cycle.

Figure 3. HLFS employment growth



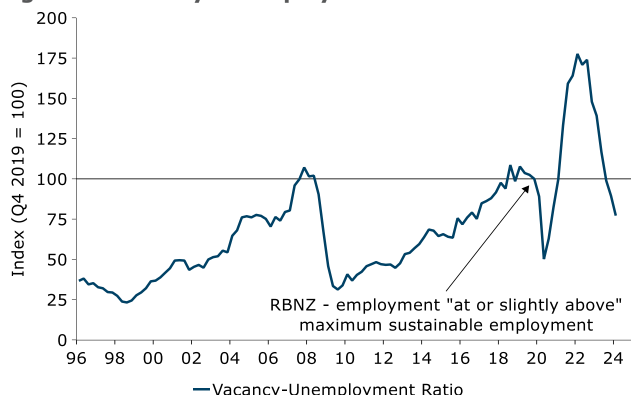
Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Unemployment and participation



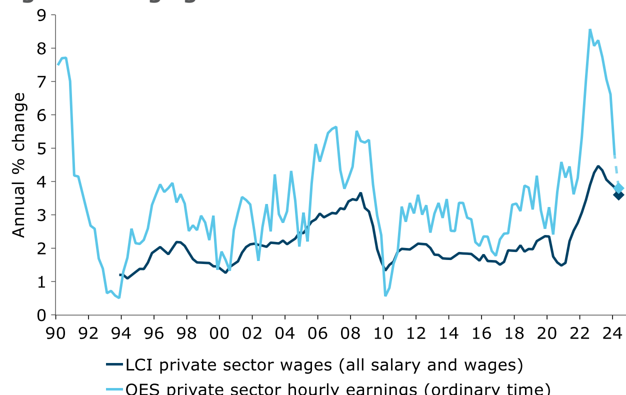
Source: Stats NZ, Macrobond, ANZ Research

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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