

## September 2024 Quarter Labour Market Preview

30 October 2024



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## Contact

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## September 2024 Quarter

	Exp	Prev	RBNZ
<b>Labour Market</b>			
Unemployment rate (% <sub>sa</sub> )	4.9%	4.6%	5.0%
Participation rate (% <sub>sa</sub> )	71.4%	71.7%	71.5%
Employment q/q (sa)	-0.4%	0.4%	-0.4%
Employment y/y	0.2%	0.6%	0.2%
<b>Wages - LCI</b>			
Private sector wages (all salary and wage rates) q/q	0.7%	0.9%	0.7%
Private sector wages (all salary and wage rates) y/y	3.4%	3.6%	3.5%
<b>Wages - QES</b>			
Private sector hourly earnings (ordinary time) q/q	1.0%	1.1%	N/A
Private sector hourly earnings (ordinary time) y/y	3.0%	4.0%	2.9%

## Sailing into the wind

## Summary

- The Q3 labour market data (released 6 November) are expected to reveal yet another lift in the unemployment rate (to 4.9%) and a further slowing in wage growth.
- Big picture: the labour market is now well into disinflationary territory, and given typical lags and continued monetary restriction, the Q3 data won't be the worst of it.
- This is the last big piece of data ahead of the November MPS. Given the RBNZ's confidence that inflation has been tamed and that an OCR above 4% is considered contractionary, we think it would take a significantly lower unemployment rate than their forecast (5.0%) to take a 50bp cut off the table in November. A higher unemployment rate than that would very likely see market pricing shift further in favour of a 75bp cut.

## The view

Tight monetary conditions have clearly taken the wind out of the New Zealand economy's sails. In fact, the sails are furled and the ship stranded on the rocks for two years and counting (the level of GDP is yet to lift above Q3 2022 levels). Its crew – the labour force – is becoming increasingly concerned as the labour market continues to cool. And all the while, both passengers and crew are still dealing with the scars of the turbulent inflation episode that led to the stranding in the first place.

The Q3 labour market data will reveal just how much pain the recent inflation-correcting monetary tightening has inflicted on the labour market to date. That's an impact that's felt directly (via job losses) and indirectly (via discouraged worker effects, reduced bargaining power and opportunities, and heightened job insecurity).

We expect the unemployment rate to lift from 4.6% in Q2 to 4.9% in Q3. That would be very close to the RBNZ's August MPS forecast of 5.0%, and certainly not a large enough variance to change the broad narrative or direction of travel.

Monthly filled jobs data gave a poor steer on quarterly HLFS employment growth in Q2, with the HLFS measure defying all expectations and lifting 0.4% q/q (the small contraction that the monthly data had indicated did turn up in QES filled jobs declining 0.5% q/q). Looking through the noise in quarterly growth, the trajectory for annual growth in both filled jobs and HLFS employment is clearly southbound. Annual growth in monthly filled jobs turned negative for the first time since the Global Financial Crisis in July, suggesting that if the HLFS measure doesn't follow in Q3 (our forecast is for annual growth to slow to +0.2%), then it's just a matter of time (figure 1, over page). Demand for labour is clearly very weak.

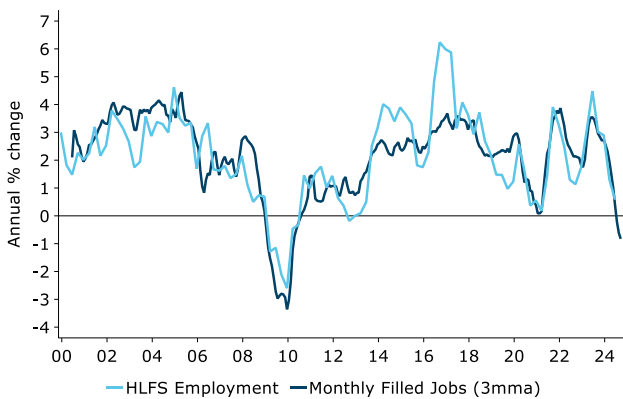
Labour force participation tends to move together with employment: people are drawn into or discouraged out of looking for work depending on how easy it is to find a job. It was a surprise to see the participation rate lift in Q2, but like the surprise lift in employment, we'd tee that up to survey

volatility more than underlying momentum. For Q3, we've pencilled in a 0.3%pt dip in the participation rate to 71.4%, but note this always carries a considerable degree of uncertainty. A sharper fall in participation would take the edge off the rise in the unemployment rate, all else equal (and vice versa).

While lower labour force participation is expected to subtract from labour supply, growth in the working-age population of 0.3% q/q is expected to add to it. Recent data suggest the migration cycle is turning rapidly as the labour market cools, meaning the loosening we're seeing in the labour market is becoming increasingly driven by weak labour demand rather than rising labour supply, which drove the process initially.

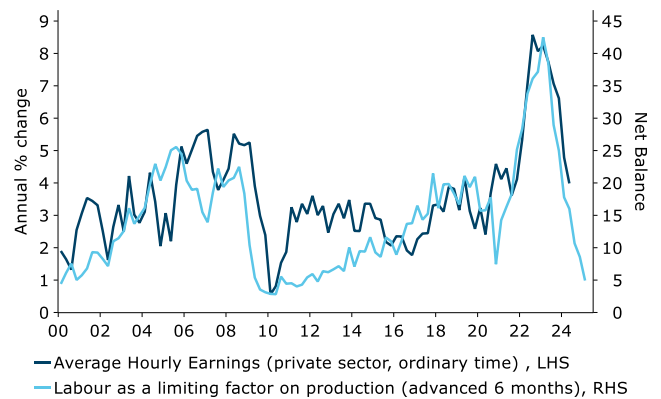
Wage growth is expected to slow further as bargaining power continues to shift from workers to firms. We expect growth in the private sector Labour Cost Index (including overtime) to come in at 0.7% q/q, with annual growth slowing from 3.6% to 3.4%. Growth in private sector average hourly earnings (ordinary time) is expected to slow from 4.0% y/y to 3.0% y/y. And while wage growth won't be weak in an absolute sense, it's important to note that wages tend to lag labour market conditions, which themselves lag economic activity. In light of that, it's clear that the trajectory for the labour market remains southbound. The NZIER's labour as a limiting factor indicator (and our ANZ Business Outlook wage indicators) suggest wage growth is poised to slow meaningfully over coming quarters (figure 2).

**Figure 1. Monthly filled jobs and HLFS employment**



Source: Stats NZ, Macrobond, ANZ Research

**Figure 2. Wage growth and labour as a limiting factor**

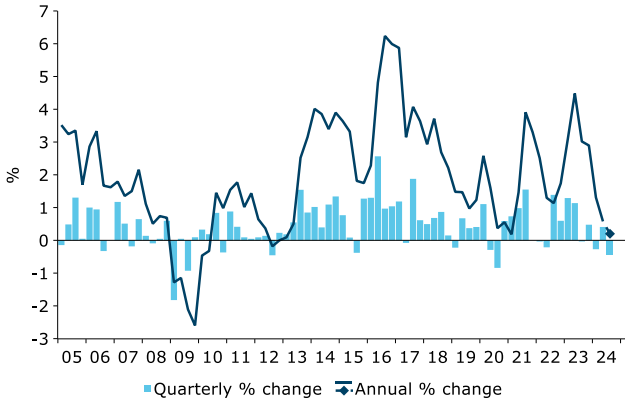


Source: Stats NZ, NZIER, Macrobond, ANZ Research

### Monetary policy implications

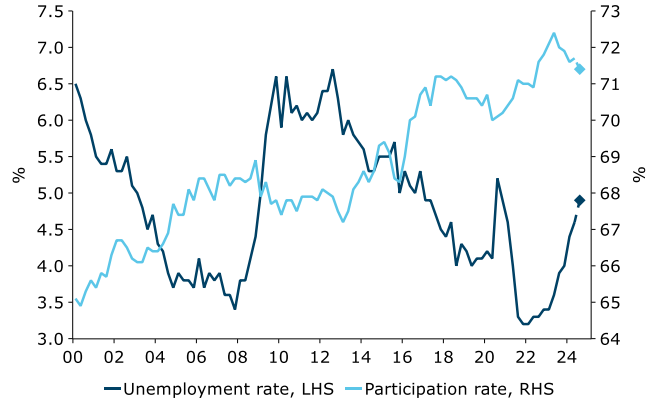
The Q3 labour market release is the last big piece of data ahead of the November Monetary Policy Statement (27 November). A 50bp cut is already fully priced for this meeting, with around 25% odds of a 75bp cut priced in. We think that's appropriate given the RBNZ's assessment that an OCR north of 4% is contractionary, and their confidence that underlying inflation pressures have been tamed. But while a 75bp cut could be justified by the long gap between the November and February OCR decisions, we'd caution that 75bp moves in the OCR have historically followed significant economic events and/or data surprises – neither of which appear relevant for the November meeting. Given typical volatility in the HLFS, we think it would take a significantly lower unemployment rate than the RBNZ's forecast of 5.0% to take a 50bp cut off the table in November. A higher unemployment rate than that, on the other hand, would very likely see market pricing shift further in favour of a 75bp cut – and may set economists equivocating.

**Figure 3. HLFS employment growth**



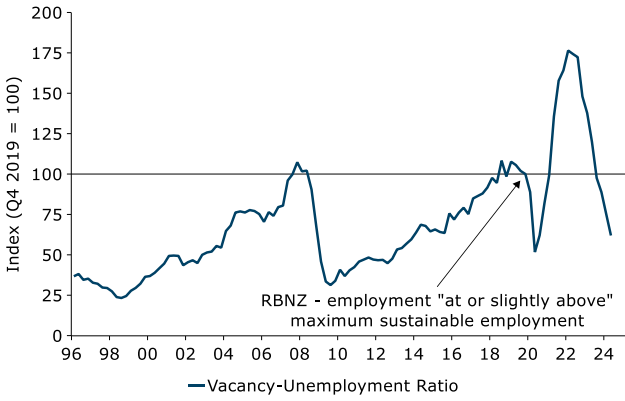
Source: Stats NZ, Macrobond, ANZ Research

**Figure 4. Unemployment and participation rate**



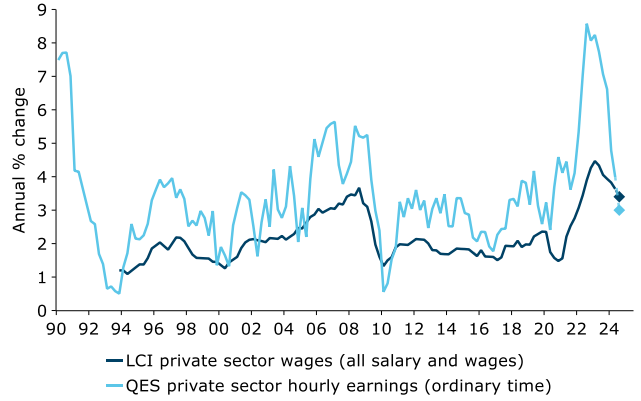
Source: Stats NZ, Macrobond, ANZ Research

**Figure 5. Vacancy-Unemployment ratio**



Source: Stats NZ, Macrobond, ANZ Research

**Figure 6. Wage growth**



Source: Stats NZ, Macrobond, ANZ Research



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