ANZ Research

Labour Market Statistics – Q3 2024

6 November 2024

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Contact

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Data summary – Q3 2024

		Latest	RBNZ
Labour market			
HLFS unemployment rate (sa)		4.8%	5.0%
HLFS participation rate (sa)		71.2%	71.5%
HLFS employment (sa)	q/q	-0.5%	-0.4%
HLFS employment	y/y	-0.4%	0.2%
Wages – LCI			
Private sector wages (all salary and wage rates)	q/q	0.6%	0.7%
Private sector wages (all salary and wage rates)	y/y	3.3%	3.5%
Wages – QES			
Private sector hourly earnings (ordinary time)	q/q	1.2%	N/A
Private sector hourly earnings (ordinary time)	y/y	3.2%	2.9%

Not a game changer

Bottom line

- The unemployment rate rose from 4.6% to 4.8% in Q3, lower than our forecast of 4.9% and the RBNZ's August MPS pick of 5.0%.
- The underlying details continue to paint a picture of softening labour demand, but also show that labour supply is responding to that. Employment contracted 0.5% q/q, close to our forecast, but the labour force participation rate fell a little more than expected. Meanwhile, the underutilisation rate fell slightly, but remains elevated compared to recent lows.
- Wages were a mixed bag too, with slightly weaker-than-expected growth in the Labour Cost Index (LCI) but slightly stronger than expected growth in hourly earnings. Importantly for the RBNZ, annual wage growth continues to moderate to levels consistent with stable inflation at 2%.
- All in all, today's data provides further confirmation that past monetary tightening has done what it says on the tin, with stagnant economic momentum now very clearly translating into rising unemployment. And given typical lags, today's data won't be the worst of it.
- Given the RBNZ's confidence that inflation has been tamed and that an OCR above 4% is considered contractionary, we don't view today's data as a roadblock to a 50bp cut later this month, but the marginally tighter-than-expected vibe could quiet talk of a 75bp cut.

Overview and monetary policy implications

The Q3 labour market data provided further confirmation that stagnant economic activity (driven largely by tight monetary conditions) is translating into a widening degree of spare economic capacity, and therefore receding wage and inflation pressures. The unemployment rate lifted 0.2%pts to 4.8% as employment contracted 0.5% q/q (-0.4% y/y) and a 0.3% rise in the working-age population was offset by a 0.5%pt fall in the participation rate to 71.2%.

Relative to the RBNZ's expectation, today's data paints a slightly tighter view of the labour market than expected, but given typical volatility in these data and uncertainty around "long and variable lags", we certainly wouldn't describe the forecast miss as a game changer for the monetary policy outlook. The RBNZ's August MPS forecast was for the unemployment rate to lift to 5%, with employment contracting 0.4% q/q. At face value, demand for labour appears to be evolving broadly as they expected, but the supply response to that (the discouraged worker effect) is looking a little more marked than they anticipated (but this isn't outside the usual bounds of uncertainty).

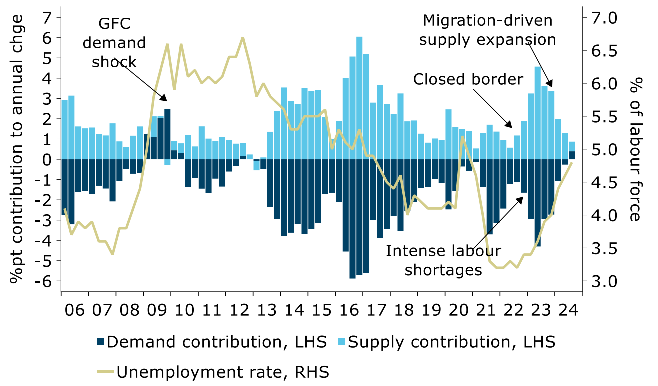
Given the Monetary Policy Committee's confidence that inflation risks are contained and that bringing the OCR back to more neutral settings quickly is therefore a relatively low-risk strategy, today's data doesn't appear to be a roadblock for another 50bp cut this month. But we wouldn't be surprised to see markets pare odds of a 75bp cut somewhat.

The details

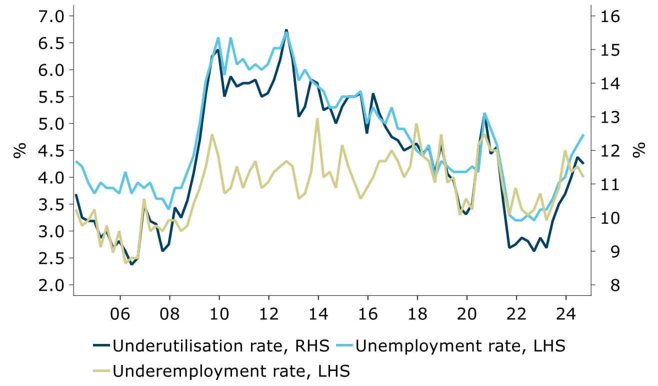
- The unemployment rate rose 0.2%pt to 4.8% (sa), as a 0.5%pt fall in the participation rate to 71.2% was offset by a 0.3% rise in the working-age population and a 0.5% q/q fall in employment. QES filled jobs were broadly consistent with HLFS employment, down 0.3% q/q. Compared to our and the RBNZ’s forecast, demand for labour is looking about in line with expectations, but the supply of labour is contracting in response to waning demand a little bit more than expected. The lower unemployment rate than expected certainly doesn’t suggest economic momentum is stronger than previously thought; rather it suggests workers are perhaps a little more discouraged by weak labour market conditions than expected.
- Providing a broader read on untapped capacity in the labour market, despite the lift in the unemployment rate in Q3, the underutilisation rate actually fell 0.2%pt to 11.6%. However, it remains well above recent lows. This measure includes those working part time but wanting more hours (underemployed), available potential jobseekers (want work, but aren’t actively looking – aka ‘discouraged workers’), and unavailable jobseekers (can’t start work now, but will be able to within a month). While this measure confirms the labour market and economy more broadly is operating with a degree of spare capacity, it does reinforce the slightly tighter-than-expected vibe of today’s data.
- The youth unemployment rate remains high, falling 0.4%pts to 20.3% for those aged 15-19 years and rising 0.3%pts to 8.4% for those aged 20-24 years. Youth are always at the pointy end of the labour market.
- Turning to wages, annual growth in private sector wages slowed further:
  - The private sector labour cost index (including overtime, and adjusted for productivity) rose 0.6% q/q, with annual growth slowing 0.3% pts to 3.3% y/y (weaker than our and the RBNZ’s forecast of 3.4% and 3.5% respectively).
  - The unadjusted private sector labour cost index was up 4.5% y/y, down from 4.8% y/y in Q2. Meanwhile, the overall proportion of workers (all sectors) receiving wage increases in the past year fell 2% pts to 63%. The proportion of wage increases that were in excess of 5% eased 5%pts to 27%. That’s still elevated, but is going the right way for the RBNZ.
  - Private sector average hourly earnings (ordinary time) rose 1.2% q/q, stronger than our expectation of 1.0% q/q. That saw the annual rate fall from 4.0% to 3.2%, a touch above our and the RBNZ’s forecast of 3.0% and 2.9% y/y respectively.
  - Public sector average hourly earnings (ordinary time) were up 0.1% q/q (following a strong 2.3% rise in Q2), taking annual growth from 7.9% to 5.1%. Despite the weaker quarterly growth, past public sector pay agreements (which spanned multiple years) mean public sector wage growth is poised to outpace that of the private sector for a while yet.
- All in all, the details of the Q3 labour market data point to a marginally tighter labour market than anticipated, but not enough to move the dial on the monetary policy outlook. The labour market is soft in an absolute sense, and given it lags the broader economic cycle, the Q3 release won’t be the worst of it. The RBNZ’s strategy to get the OCR back to more neutral settings quickly remains appropriate, but we are comfortable with our forecast that the pace of easing will be slower next year after another 50bp cut this month. As always, it will depend on the data, but even more than usual, given the 12-week gap to the following RBNZ decision in February.

The labour market in charts

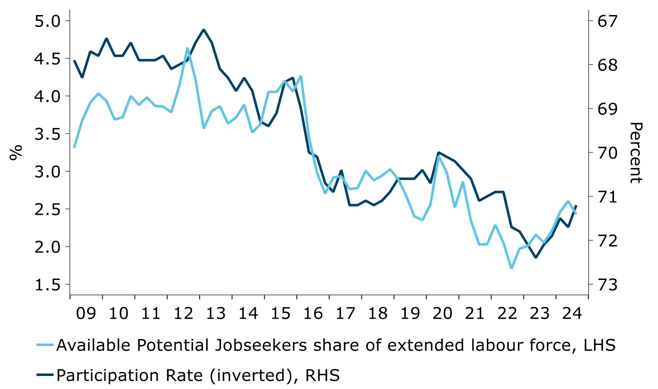
Unemployment lifted as demand for labour weakened



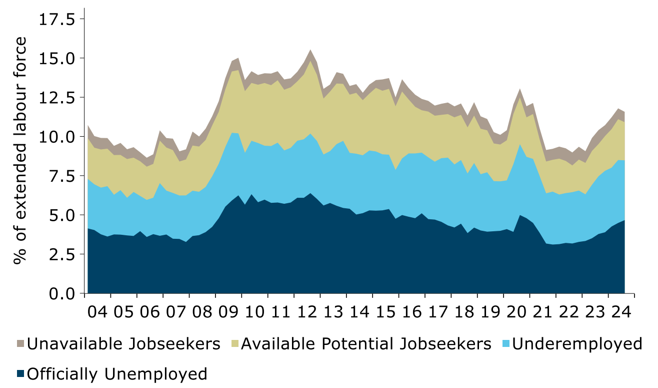
Spare capacity continues to emerge



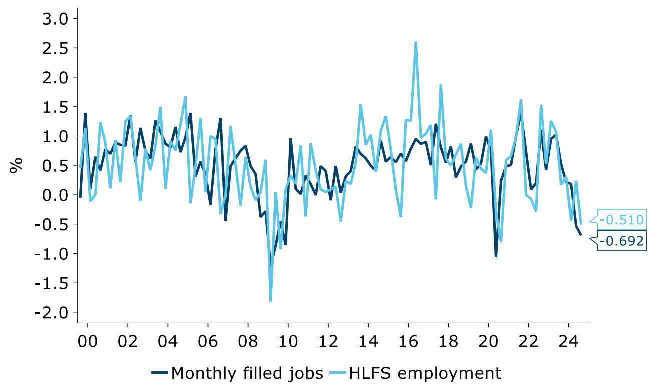
Discouraged worker effects are playing out as jobs become scarce



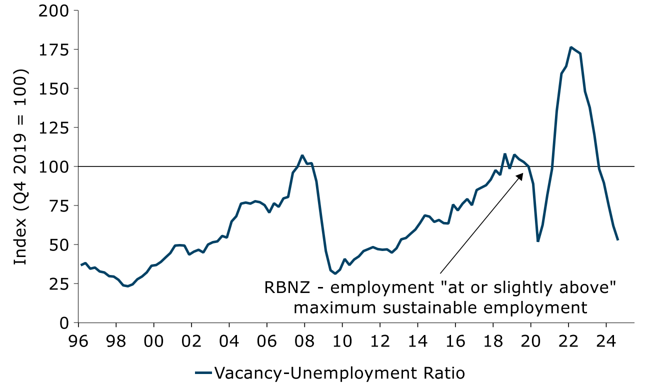
The components of the underutilisation rate show the lift in untapped labour resource is broad-based



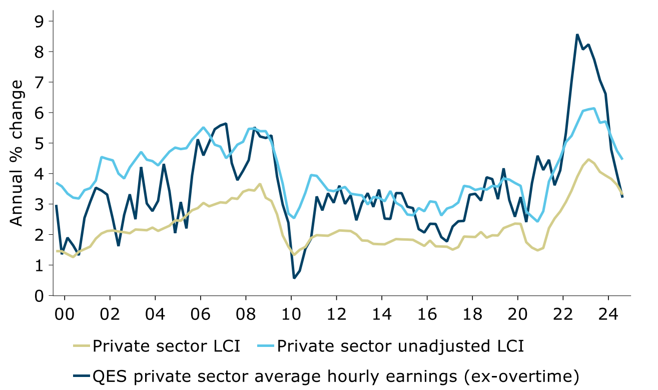
HLFS employment fell, broadly consistent with the signal from the monthly employment indicator



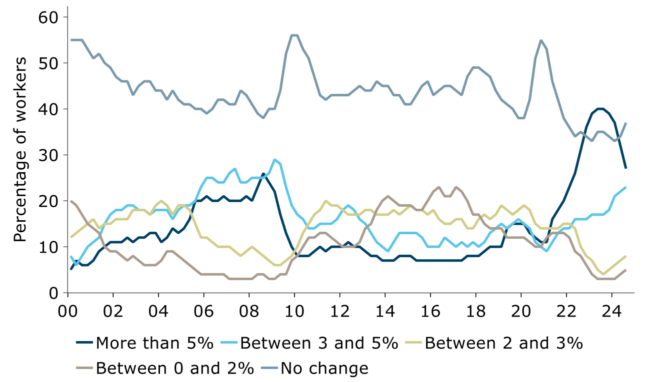
The vacancy-unemployment ratio fell, indicating an increase in labour market slack



Private sector wage growth continued to ease



The share of workers receiving large pay fell, but remains elevated



Source: Stats NZ, MBIE, Macrobond, ANZ Research

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