

December 2024 Quarter Labour Market Preview

28 January 2025



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December 2024 Quarter

	Exp	RBNZ	Prev
Labour Market			
Unemployment rate (% , sa)	5.1%	5.1%	4.8%
Participation rate (% , sa)	71.1%	71.1%	71.2%
Employment q/q (sa)	-0.2%	-0.3%	-0.5%
Employment y/y	-0.9%	-1.0%	-0.4%
Wages - LCI			
Private sector wages (all salary and wage rates) q/q	0.5%	0.5%	0.6%
Private sector wages (all salary and wage rates) y/y	2.9%	2.8%	3.3%
Wages - QES			
Private sector hourly earnings (ordinary time) q/q	0.3%	N/A	1.2%
Private sector hourly earnings (ordinary time) y/y	3.0%	2.8%	3.2%

Adjusting to the past slowdown

Summary

- We expect the Q4 labour market data (released 10.45am on 5 February) to show further loosening, with the unemployment rate rising 0.3%pts to 5.1%, in line with the RBNZ's November MPS forecast.
- This is the last major piece of domestic data ahead of the RBNZ's February Monetary Policy Statement. While typical volatility in the Household Labour Force Survey (HLFS) can lead to surprises on the day, an outturn reasonably close to our forecast shouldn't stand in the way of the RBNZ delivering a 50bp cut in February.

The view

While the New Zealand economy appears to have bottomed out and is now recovering, the labour market is still playing catch-up to the past slowdown in activity.

We expect the unemployment rate lifted from 4.8% in Q3 to 5.1% in Q4, in line with the RBNZ's November MPS forecast. Underpinning the rise in the unemployment rate, we expect employment contracted 0.2% q/q to be down 0.9% y/y as firms continue to realign headcount to the level of demand.

While labour demand continues to weaken, supply continues to respond with the labour force participation rate expected to fall 0.1%pts to 71.1%. Higher search costs are expected to see some jobseekers continue to exit the labour force. These discouraged worker effects, while a reflection of a weaker jobs market, temper the rise in the unemployment rate, though aren't sufficient to offset the impacts of contracting employment and growth in the working-age population, which is expected to expand 0.3% q/q. The response of labour supply to waning labour demand is also evident in the sharp falls in net-migration inflows over the past year as fewer migrants come to New Zealand for work, while more New Zealanders look to opportunities offshore.

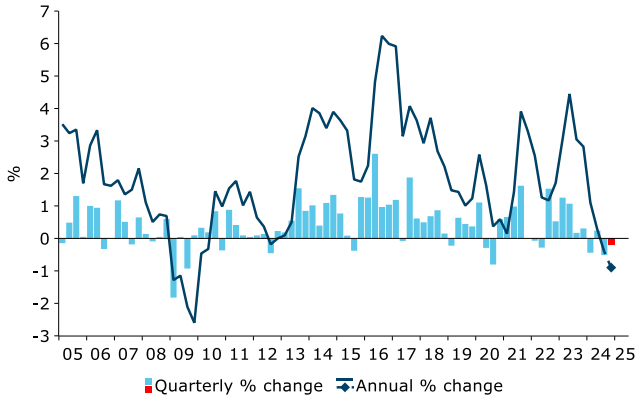
A reflection of spare capacity in the labour market, wage growth continues to ease back to levels consistent with inflation at the RBNZ's target. We expect annual growth in the private sector Labour Cost Index (including overtime) to slow from 3.3% to 2.9%. Growth in private sector average hourly earnings (ordinary time), which can be volatile on a quarterly basis, is expected to slow from 3.2% y/y to 3.0% y/y, around levels historically consistent with target inflation.

Just as the labour market tends to lag the broader economic cycle, wage growth tends to reflect *past* labour market conditions. As such, wage growth measures are very much a look in the rear-view mirror. Providing a timelier assessment, forward indicators of wage growth in our ANZ Business Outlook survey suggest the adjustment in wages has already occurred and wages are no longer a threat to domestic inflation, even if the productivity-adjusted private sector Labour Cost Index, a measure of pure wage inflation, remains a little above the 2% mark where the RBNZ would typically like it to be. But that is likely a matter of timing.

Monetary policy implications

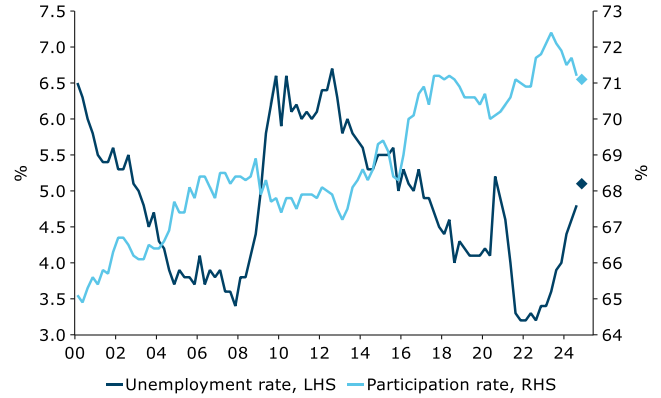
The Q3 labour market release is the last key piece of data ahead of the February Monetary Policy Statement (19 February). A 50bp cut has been well signalled by RBNZ policymakers and economic data releases since the November MPS haven't challenged that guidance. We don't expect the Q4 labour market data to shift the dial either. While typical survey volatility in the HLFS can deliver surprises on the day, we don't see it likely that such a surprise could alter the broader economic narrative. Past loosening in the labour market appears to have generated sufficient spare economic capacity to return underlying inflation to the target midpoint. Looking forward, timely indicators, such as our Business Outlook, suggest economic activity is gradually recovering. The pace of recovery from here, and how vigorously the labour market eventually responds to that will key for the RBNZ's policy assessment.

Figure 1. HLFS employment growth



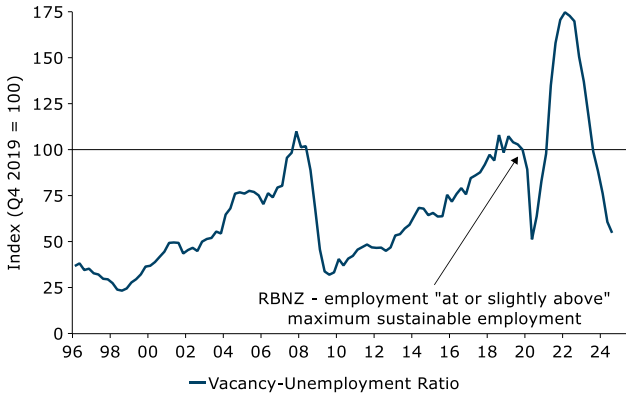
Source: Stats NZ, Macrobond, ANZ Research

Figure 2. Unemployment and participation rate



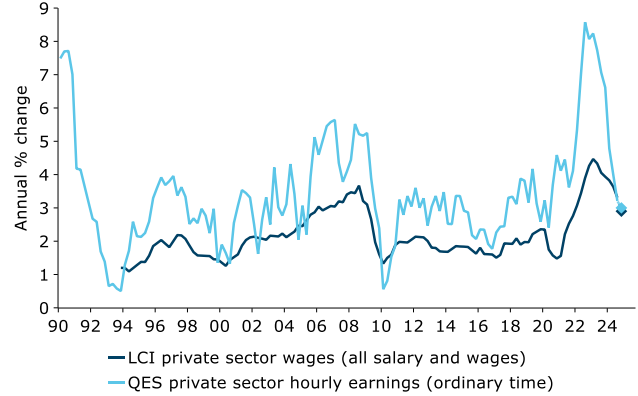
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Vacancy-Unemployment ratio



Source: Stats NZ, Macrobond, ANZ Research

Figure 4. Wage growth



Source: Stats NZ, Macrobond, ANZ Research



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Last updated: 19 November 2024

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