ECONOMIC BULLETIN

Preview of Q3 labour market surveys:
1 November, 10:45am.

20 Oct 2023 | **Darren Gibbs**, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Labour market continuing to ease; wage growth likely still robust (for now).

- **While still positive, jobs growth appears to have slowed in recent months.**
- **Strong migrant inflows are continuing to boost the size of the labour force.**
- **We expect the unemployment rate to rise 0.3ppts to a two-year high of 3.9%.**
- **Given the lagged impact of a tight jobs market, wages growth will likely remain firm.**

	Q2 actual	Q3 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	3.6	3.9	-
Employment growth	1.0	0.4	3.2
Participation rate	72.4	72.5	-
Labour Cost Index			
All sectors, ordinary time	1.0	1.1	4.2
Private sector, ordinary time	1.1	1.0	4.2

Following this week's CPI report, the next key entry in the local economic calendar is the release of the September quarter labour market statistics on 1 November. While this week's CPI has likely taken a rate hike off the table at the RBNZ's 29 November meeting, developments in the labour market will have a bearing on the tone of the commentary in the accompanying Monetary Policy Statement and on prospects for a rate hike early next year. After all, a projected loosening of the labour market is a critical part of our forecast – and that of the RBNZ – that domestic inflation will moderate by enough to allow overall CPI inflation to move back into the target range over the coming year or so.

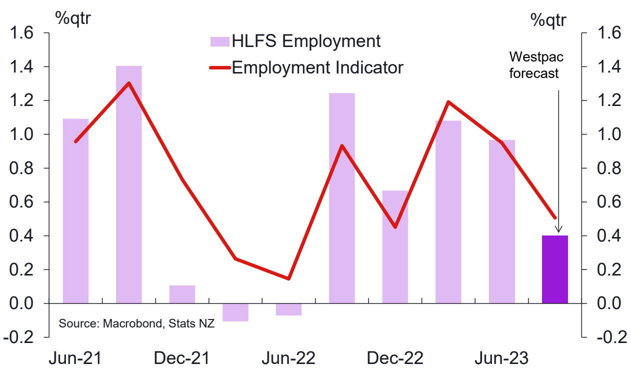
After several quarters of very strong growth, indicators to hand suggest that employment growth has begun to slow in recent months. And so with growth in the labour force likely to have continued at a rapid pace – fuelled by another large inflow of migrants – the unemployment rate is likely to have increased in the September quarter. Assuming a further small rise in aggregate labour force participation, we estimate that the unemployment rate will increase 0.3ppts to 3.9% – still a little below what the RBNZ would probably regard as sufficient to apply concerted downward pressure on inflation. Given the usual lags, we expect that measures of wage growth will likely remain robust in the September quarter, but hint that wage pressures have passed the peak.

Forecast details.

As usual our estimate of employment growth in the September quarter is guided by the monthly employment indicator (MEI). The MEI differs conceptually from the Household Labour Force Survey (HLFS) measure of employment – the former measures filled jobs rather than people and does not capture the self-employed. Even so, the two measures usually move similarly from quarter to quarter.

The MEI points to further growth in filled jobs during July and August, but at a slower pace than seen earlier this year. While we don't have official MEI data for the September month – this will be released on 30 October – weekly information suggests a continuation of the more recent trend. As a result, we estimate that the MEI will point to a 0.5% lift in filled jobs in the September quarter – half the pace recorded over the first two quarters of the year. Industry-level data suggests that the public sector has been a key driver of that growth, with increased job numbers evident in the healthcare industry and the public administration and safety industry. Allowing for the possibility of some people taking second jobs in response to the increasing pressures on household finances, we estimate that the HLFS will report a 0.4% lift in household employment. Assuming no revisions, this would cause annual growth to slow to 3.2% from 4.0% previously.

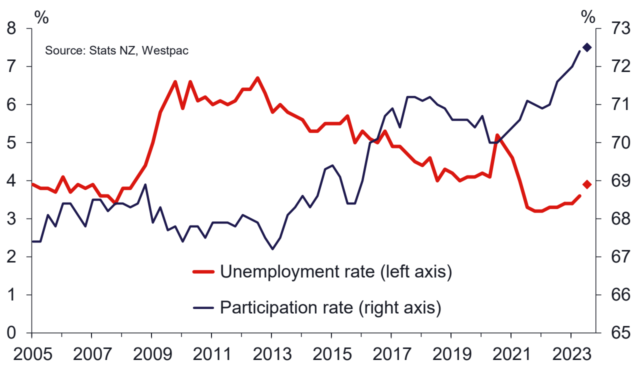
Employment



We think that ongoing employment growth has been facilitated by the ongoing inflow of migrant arrivals, which has continued to allow some employers to fill longstanding vacancies. At the same time, the surge in migrant arrivals has also significantly lifted the pool of potential labour. Indeed, Statistics New Zealand has already reported that the working age population increased by 0.6% in the September quarter, lifting annual growth to a new high of 2.6%.

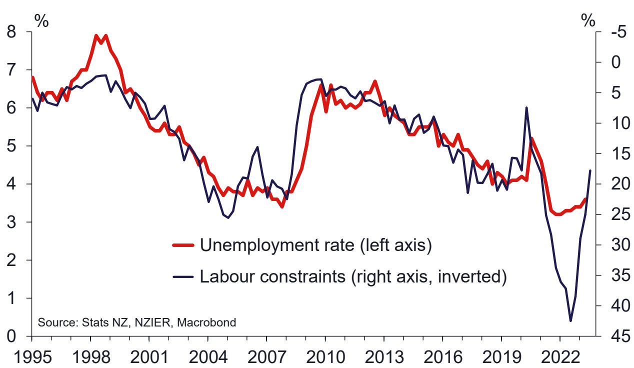
Given Statistics New Zealand's estimate of the working age population and our estimate of employment, the implications for the unemployment rate hinge on developments in labour force participation. The labour force participation rate recorded its fifth consecutive increase in the June quarter, rising by 0.4ppts to a new record high of 72.4%. Pressures on household finances, due to high inflation and rising mortgage interest rates, may be causing more people to seek work. It also seems likely that migrants' labour force participation rate exceeds that of the general population. After such a large increase last quarter, we have assumed a much more modest 0.1ppt increase in participation to 72.5% in the September quarter.

Unemployment and participation rates



Given the above, we estimate that the unemployment rate increase by 0.3ppts to 3.9%, continuing the uptrend evident since early last year. As always, we caution that even a small deviation in the labour force participation rate can have a large impact on the unemployment rate. All else equal, an unchanged labour force participation rate would see the unemployment rate increase to 3.8%, while a larger increase in the labour force participation rate would see the unemployment rate rise to 4.0% or more.

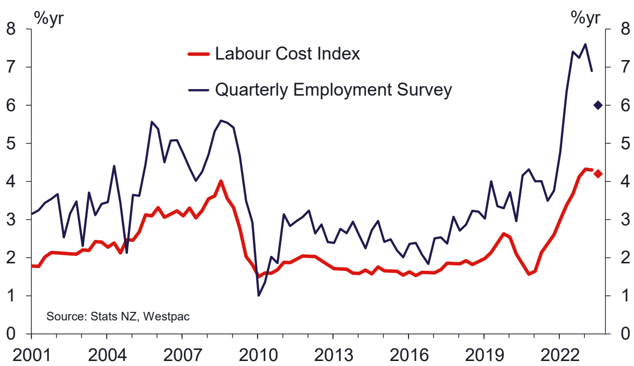
Unemployment and labour constraints



Our forecast of an increase in the unemployment rate is supported by several indicators. For example, we note that the NZIER's September QSBO survey pointed to a marked reduction in perceived skilled shortages and a sharp reduction in the proportion of firms citing labour as a constraint on output. Meanwhile, the uptrend in the number of people on Jobseeker benefits – only loosely correlated with the unemployment rate – has continued at a similar pace as seen during the June quarter (recent migrants will not be eligible to receive these benefits).

Turning to wages, we expect that the overall Labour Cost Index (LCI) will increase 1.1% in the September quarter, causing annual growth to nudge down to 4.2%. Pay settlements in the healthcare and education sectors should contribute to a large increase in the public sector. Perhaps more importantly for the RBNZ, we expect the private sector LCI to increase by 1.0% in the September quarter. This is less than the 1.1% growth recorded in the June quarter – which was influenced by the 7% lift in the minimum wage – and 0.2ppts lower than the same quarter a year earlier. Such an outcome would lower annual growth by 0.2ppts to 4.1% – still very high by historical standards, reflecting past tightness in the labour market. The Quarterly Employment Survey, which has narrower coverage and is influenced by compositional changes in employment, reported a 6.9% lift in average hourly earnings in the year to June, down from a peak of 7.6% in the year to March. This measure is likely to ease further in the September quarter.

Wage growth, all sectors ordinary time



If the labour market data pan out much as we expect they will likely have little impact on the RBNZ's view of the economy or policy outlook. We expect employment to be fractionally stronger than the 0.3% growth forecast by the RBNZ back in August. However, with migrant inflows also boosting the labour force, our estimate of the unemployment rate is fractionally higher than the RBNZ's forecast. Our forecast for the increase in the (private sector) LCI is in line with the RBNZ's forecast.

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