

Economic Bulletin.

5 May 2021

NZ labour market review, March quarter 2021.

- The unemployment rate fell to 4.7% in the March quarter, stronger than our forecast of a flat result.
- Employment rose by more than expected, in part due to an ongoing lift in self-employment.
- Labour market conditions are improving, but we're still some way from a 'tight' market.
- So it's not surprising that wage growth remains subdued compared to the pre-Covid trend.

New Zealand's labour market showed further steady improvement through the March quarter. The unemployment rate fell to 4.7%, compared to 4.9% in December. While the unemployment rate can be choppy, this was the second consecutive drop, which gives us more confidence that the 5.2% rate in September marked the peak for this cycle.

Prior to the Covid-19 shock, the unemployment rate had dropped to around 4%. At the time the Reserve Bank judged this to be at or above 'maximum sustainable employment', according to their mandate. We've still got some way to go before we would expect to see a sustained lift in wage and prices pressures. But the gap is closing, and a little faster than expected.

Details.

The March result was better than our forecast of a flat unemployment rate, reflecting a stronger than expected lift in

| | Quarterly actual | | Quarterly expected | | Annual |
|---|------------------|------|--------------------|---------|--------|
| | Q4 | Q1 | Market | Westpac | Q1 |
| Household Labour Force Survey | | | | | |
| Unemployment rate | 4.9 | 4.7 | 4.9 | 4.9 | - |
| Underutilisation rate | 11.8 | 12.2 | - | - | - |
| Employment growth | 0.6 | 0.6 | 0.3 | 0.3 | 0.3 |
| Participation rate | 70.2 | 70.4 | 70.3 | 70.4 | - |
| Quarterly Employment Survey | | | | | |
| FTE employment | 1.8 | -1.2 | - | 0.2 | -1.3 |
| Hours paid | 1.8 | -1.0 | - | 0.5 | -1.5 |
| Private average hourly earnings | 0.9 | 0.2 | 0.7 | 0.6 | 2.9 |
| Labour Cost Index | | | | | |
| All sectors, ordinary time | 0.4 | 0.4 | - | 0.3 | 1.6 |
| Private sector, ordinary time | 0.5 | 0.4 | 0.3 | 0.3 | 1.6 |
| Private sector, all salary & wage rates | 0.5 | 0.4 | 0.4 | 0.3 | 1.6 |



the number of people employed. That may have been due to differences in coverage: the Household Labour Force Survey (HLFS) reports a solid lift in self-employment over the last year, which wouldn't be captured in other measures such as the Monthly Employment Indicator of filled jobs.

Unfortunately, the March survey leaves us none the wiser as to where the jobs growth is happening. The results were mixed across regions, and by industry the main driver was a sharp jump in 'not specified'. We've seen a strong bounce in job advertisements in areas such as healthcare, construction and manufacturing, but there's no clear evidence on whether this is translating into hiring.

In contrast to the drop in unemployment, the underutilisation rate rose to 12.2% for the quarter. However, one factor was a temporary lift in Covid alert levels in Auckland during the quarter, which left many people 'jobless' but not actively seeking work. Over time, broader measures such as the utilisation rate have tended to move in sync with the unemployment rate, and the past year has been no different.

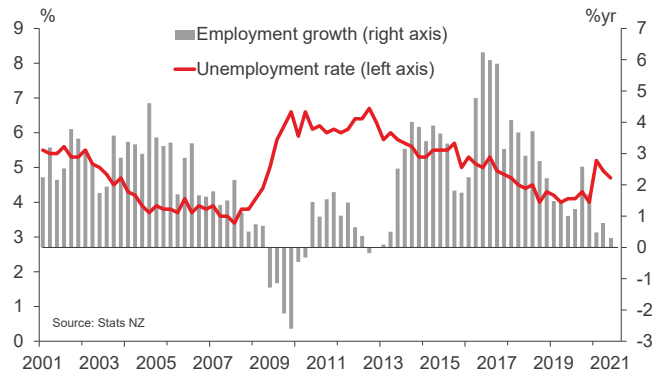
The Labour Cost Index (LCI) rose by 0.4% for the quarter, leaving annual growth steady at 1.6%. That was slightly above our forecast (bearing in mind that the LCI is normally a slow-moving measure anyway). But it's still well down from the peak of 2.6% at the end of 2019, when the labour market had clearly tightened.

We do expect some pickup in labour costs in the short term, partly due to base effects (pay increases were basically off the table in the June quarter last year, during the Covid lockdown) and partly due to another sizeable lift in the minimum wage (which affects a greater share of the workforce each time). But a sustained lift in wage growth will require a tighter labour market. And that's probably more a story for 2022 and beyond, once the borders can reopen more widely.

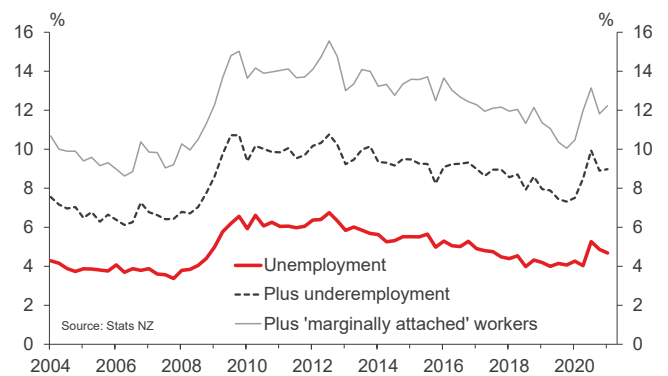
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Unemployment rate and employment growth



Broader measures of labour market slack



Wage growth (all sectors, ordinary time)



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