WESTPAC ECONOMIC BULLETIN

Preview of Q1 labour market surveys: 3 May, 10:45am.

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Michael Gordon, Senior Economist
+64 9 336 5670
michael.gordon@westpac.co.nz

Second wind.

- We expect the unemployment rate to hold steady at 3.4% for the March quarter.
- Jobs growth appears to have picked up momentum in recent months.
- In part that's because the return of migrants means there are more people to hire.
- But the overriding factor is that businesses are still in hiring mode.
- Our forecast is similar to the RBNZ's for the March quarter. But the RBNZ will need to see things slowing down by next quarter to be convinced that interest rates have gone high enough.

	Q4 actual	Q1 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	3.4	3.4	-
Employment growth	0.1	0.8	2.2
Participation rate	71.7	71.8	-
Quarterly Employment Survey			
FTE employment	1.2	0.8	2.6
Hours paid	0.8	0.8	3.2
Private average hourly earnings	0.9	1.3	7.4
Labour Cost Index			
All sectors, ordinary time	1.1	1.1	4.4
Private sector, ordinary time	1.1	1.1	4.7

While New Zealand's GDP figures have been quite choppy in recent times, labour market data has painted a much steadier picture of the economy. Next Wednesday's surveys, covering the March quarter, are likely to continue that trend. We expect the unemployment rate to hold steady at 3.4%, not quite at the record lows seen last year, but close to it. The labour market remains tight even with a resurgence of inflows of workers from overseas.

The Reserve Bank has emphasised that bringing inflation under control will most likely require them to engineer a recession, with a corresponding rise in unemployment. But that doesn't really come into play in their forecasts until the June quarter – for March they assumed just a slight uptick in unemployment to 3.5%. A flat outturn in line with our forecast probably wouldn't move the dial in terms of the May policy decision; we expect a further 25 basis point hike to 5.50%. But for the RBNZ to be satisfied that that's enough, it's going to need to see some evidence pretty soon that the labour market is losing steam.

Forecast details.

One of the key indicators of the economy that we're watching is Stats NZ's monthly measure of filled jobs. This is drawn from tax data, so it's quite comprehensive, and it has tended to be a good predictor of the Household Labour Force Survey (HLFS) measure of employment (although they are slightly different in concept – number of filled jobs vs number of people employed). Filled jobs were up by 1.1% over the March quarter, which we've translated into an expected 0.8% rise in HLFS employment.

Filled jobs have been growing at a fairly consistent pace over the last year, and if anything they've picked up the pace in the last couple of months. That will be at least in part because there are more people around to hire. As New Zealand reopened its border last year, net migration has rapidly switched from a modest net outflow to a strong net inflow. Stats NZ estimates that the working-age population grew by 0.5% in the March quarter, compared to effectively zero growth a year ago. The bottom line, though, is that businesses are still firmly in hiring mode – hardly a sign that the economy is already in recession.

With employment outstripping population growth, we've assumed a small uptick in the labour force participation rate, which was already at a record high of 71.7%. Last year, a large share of the growth in employment was among teenagers, with many of them likely going into roles that would have otherwise been filled by migrant workers. However, the growth in jobs over the March quarter looks to have been more balanced across age groups.

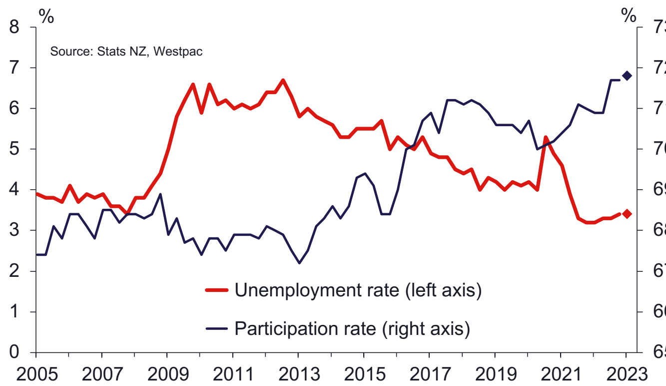
We're expecting the unemployment rate to hold steady at 3.4%. Jobseeker Benefit numbers improved over the quarter, down about 5% on the same time last year. But this is only a loose guide to HLFS unemployment, as there isn't a large overlap between them. (They diverged significantly in 2020 and 2021, but have been converging again in the last year.) We read these figures as being consistent with a steady unemployment rate rather than a decline.

Wage growth tends to be the most lagging element of the economic cycle – we didn't really see it start to take off until early 2022, long after inflation had surged and the RBNZ had started raising interest rates. With that in mind, we think that the current upturn in wage growth has further to go, even with consumer price inflation now clearly past its peak. We expect a 1.1% rise in the Labour Cost Index (LCI) for the March quarter, which would take the annual growth rate to a fresh record high of 4.4%.

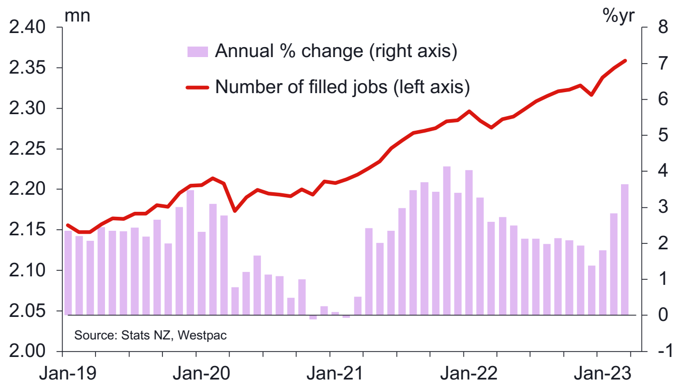
The Quarterly Employment Survey (QES) measure of average hourly earnings is a better gauge of what workers are actually getting in hand, as it captures the impact of people changing jobs or even industries in order to get a pay rise. However, it is much choppier than the LCI from quarter to quarter. We've pencilled in a 1.3% rise in private sector earnings for the March quarter, but without a high level of confidence around that number.

Note that our QES forecast would see the annual growth rate fall for the second time in a row. We don't see that as a conflicting signal with the LCI though. Rather, it reflects a narrowing of the unusually large gap that opened up between the two measures in 2022.

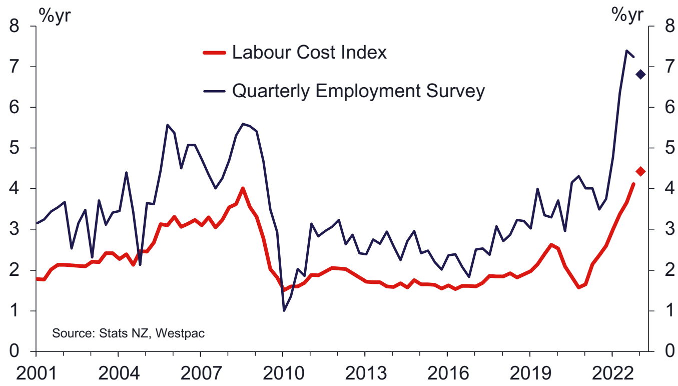
Unemployment and participation rates



Monthly employment indicator



Wage growth, all sectors ordinary time



Contact the Westpac economics team

Kelly Eckhold, Chief Economist
+64 9 348 9382

Michael Gordon, Senior Economist
+64 9 336 5670

Satish Ranchhod, Senior Economist
+64 9 336 5668

Nathan Penny, Senior Agri Economist
+64 9 348 9114

Paul Clark, Industry Economist
+64 9 336 5656

Any questions email:
economics@westpac.co.nz

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