WESTPAC ECONOMIC BULLETIN

NZ labour market review, Q1 2023.

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Who's growing, who's slowing.

- The unemployment rate held steady at 3.4% in the March quarter, in line with our forecast.
- Wage growth has continued to pick up, lagging behind the trend in consumer price inflation.
- Much of the strength in employment over the last year can be linked to the return of overseas tourists. However, that won't provide the same growth impulse going forward.

The March quarter labour market surveys were a mixed bag as far as the Reserve Bank will be concerned, coming in broadly in line with their expectations. The jobs market remains tight, but has eased a little from the extremes that it reached last year. And while wage growth hasn't yet peaked on an annual basis, it seems to be approaching that point. Overall, there's enough reason to believe that the labour market has reached a turning point and is set to soften in the year or so ahead. But whether it softens quickly enough to bring inflation under control remains an open question.

The unemployment rate held steady at 3.4% in the March quarter. That was in line with our forecast, and marginally lower than the 3.5% that the market and the Reserve Bank were

	Quarterly actual		Quarterly expected		Annual
	Q4	Q1	Market	Westpac	Q1
Household Labour Force Survey					
Unemployment rate	3.4	3.4	3.5	3.4	-
Underutilisation rate	9.3	9.0	-	-	-
Employment growth	0.5	0.8	0.5	0.8	2.4
Participation rate	71.7	72.0	71.8	71.8	-
Quarterly Employment Survey					
FTE employment	1.2	1.0	-	0.8	2.8
Hours paid	0.7	0.2	-	0.8	2.3
Private average hourly earnings	0.9	1.9	-	1.3	7.6
Labour Cost Index					
All sectors, ordinary time	1.1	1.0	-	1.1	4.3
Private sector, ordinary time	1.1	0.9	1.1	1.1	4.5
Private sector, all salary & wage rates	1.1	0.9	1.1	1.1	4.5

expecting. The number of people employed rose by 0.8%, also in line with our view (and the December quarter was revised up from 0.1% to 0.5%).

The growth in employment is in part being driven by the fact that there are more people around to hire – migrant inflows have surged again since New Zealand reopened its border last year. The working-age population grew by 0.5% over the March quarter, compared to zero growth a year ago.

Even so, employment still outstripped population growth, suggesting that the demand for workers remains a driving force. That demand led to more people being drawn into the labour force – the participation rate rose from 71.7% to 72.0%, a fresh record high.

The Labour Cost Index for the private sector rose by 0.9% for the March quarter, after a 1.1% rise in December. However, this measure is usually a little softer in March quarters; in seasonally adjusted terms, this represents a continuation of the recent growth pace rather than a slowdown. Public sector labour costs rose by 1.3% as collective pay agreements, particularly in healthcare, came into effect this quarter.

The Quarterly Employment Survey (QES) measure of average hourly earnings provides a better gauge of what workers are actually receiving, as it includes the effects of people receiving pay rises through promotions, or by changing jobs or even industries. However, it tends to be choppier on a quarterly basis, so we don't put much stock in the fact that the 1.9% rise for the quarter exceeded the 1.3% that we had pencilled in.

Both wage measures were higher on an annual basis – 4.3% for the LCI, and 7.6% for the QES. Wage inflation tends to be one of the most lagging aspects of the economic cycle, so it's not surprising that these measures would continue to rise even when consumer price inflation has clearly passed its peak. We suspect that these measures are also nearing their peaks, but have a little further to go yet.

Who's growing, who's slowing

The aggregate employment figures don't always tell the clearest story of how the economy is evolving – things may seem placid on the surface, but can be churning wildly underneath. The following charts break down the figures in various ways to provide some more insights.

Firstly, while the overall unemployment rate has risen from its lows over the last year, that isn't the case across the whole country. Unemployment has actually fallen further in Auckland, and has been steady in Canterbury. Meanwhile, the biggest rise in unemployment has been in the middle part of the North Island.

The performance by sector is a little tricky to discern, not helped by the fact that the stories being told by the HLFS and the QES are polar opposites in many respects. In this case we've used the monthly employment indicator, which is drawn from tax data and hence is much more comprehensive than any survey.

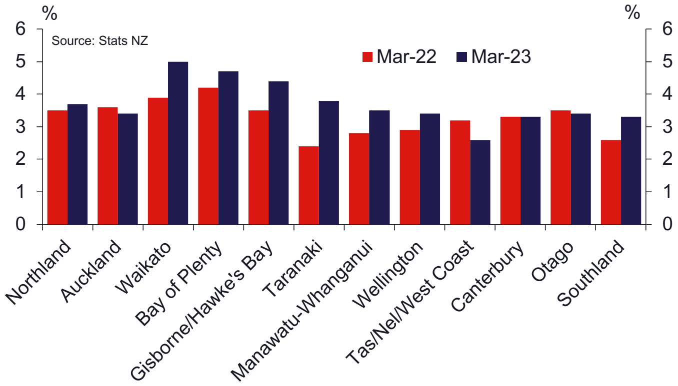
In terms of jobs growth, the standouts over the last year are in many cases linked to the return of overseas tourists – namely hospitality, recreational services, transport, and administrative services (a group that includes travel agents and tour operators). At the other end, sectors such as construction, manufacturing and retail are still growing but the pace has clearly slowed, and agriculture (including forestry) is now going backwards

Wage growth has picked up across every sector compared to a year ago. As before, we see some notable strength in areas that are linked to the return of overseas tourists, such as transport and hospitality. The latter also reflects the prevalence of jobs at the minimum wage, which rose by 6% last year (and 7.1% this year, effective from 1 April). A year ago, public sector wage increases were towards the lower end of the scale, but they have been playing catch-up to a degree in the past year.

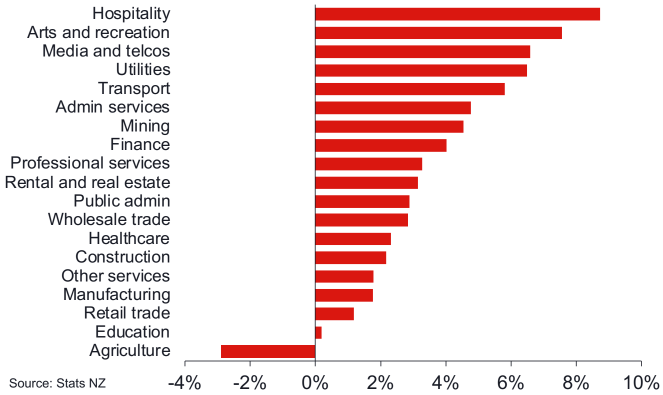
These sectoral distinctions are particularly important for the Reserve Bank, in terms of understanding whether the tightening of monetary policy over the last 18 months is getting traction. While the economy as a whole has continued to grow at a solid pace, there are signs that domestic demand is slowing. Retail trade has been going backwards for the last year, and things will only get tougher from here as higher mortgage rates put the squeeze on households' spending. And with overseas tourist numbers already back to two-thirds of pre-Covid levels, that's not going to provide the same growth impulse in the future as it has to date.

Putting this together, the New Zealand economy still looks set to slow down and tip into recession by the end of this year – even if the overall jobs figures don't hint at a softening at this point. The concern for the Reserve Bank, though, will be whether the economy slows by enough to bring inflation back down to the 1-3% target within an acceptable timeframe.

Unemployment rates by region

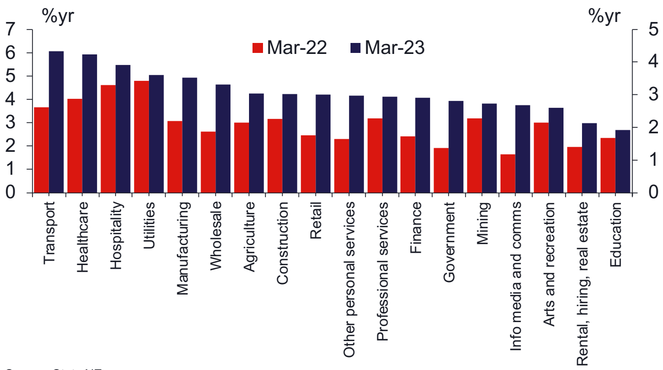


Filled jobs by sector, annual change



Source: Stats NZ

Labour Cost Index by sector, annual change



Source: Stats NZ

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