WESTPAC ECONOMIC BULLETIN

NZ labour market review, Q4 2022.

1 February 2023

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

Turning point?

- The unemployment rate rose to 3.4%, slightly higher than forecast.
- While the jobs market is coming from a very strong starting point, there is good reason to expect a deterioration in the years ahead.
- In contrast, wage inflation remains on the rise, and the turning point is likely to come later.
- We continue to expect a 0.5% increase in the Official Cash Rate later this month.

Today's labour market surveys for the December quarter came in largely in line with expectations – fractionally on the softer side, but nothing to change the overall picture. The jobs market remains tight for now, and wage growth is doing its usual catch-up with the broader economic cycle. But with borrowers now starting to really feel the bite of higher interest rates, there's good reason to expect a turnaround in labour market conditions over the next year as the economy slows.

This was one of the last major data releases ahead of the Reserve Bank's next Monetary Policy Statement. Its November forecasts were already braced for some strong results for the December quarter, with the unemployment rate dipping to 3.2% and wage growth continuing to accelerate. Beyond that,

	Quarterly actual		Quarterly expected		Annual
	Q3	Q4	Market	Westpac	Q4
Household Labour Force Survey					
Unemployment rate	3.3	3.4	3.3	3.3	-
Underutilisation rate	9.0	9.3	-	-	-
Employment growth	1.3	0.2	0.3	0.3	1.3
Participation rate	71.7	71.7	71.7	71.8	-
Quarterly Employment Survey					
FTE employment	1.6	1.2	-	0.7	2.2
Hours paid	2.1	0.8	-	0.7	2.4
Private average hourly earnings	2.6	1.1	-	1.8	8.2
Labour Cost Index					
All sectors, ordinary time	1.1	1.1	-	1.1	4.1
Private sector, ordinary time	1.1	1.1	1.2	1.2	4.3
Private sector, all salary & wage rates	1.2	1.1	1.1	1.2	4.3

though, the RBNZ was looking for a rapid deterioration in the labour market, with unemployment rising to 4.8% by the end of this year alone. In that light, today's results were right in line with the RBNZ's broader view. At most, you could argue that the labour market has reached the turning point a few months earlier than they assumed.

Our forecast remains for a 50 basis point increase in the OCR at the February review. We had already shaded this down from a 75 basis point hike after last week's inflation figures, and today's labour market numbers leave us comfortable with our decision. That assessment seems to be shared more widely, with financial market pricing moving more firmly towards a 50bp increase.

Details.

The unemployment rate ticked up slightly to 3.4% in the December quarter. That was against our forecast of a flat outturn of 3.3%, though there wasn't a lot in it (the unrounded result was 3.35%). The details were also very similar to what we expected, with employment rising by a modest 0.2% and the participation rate holding at a record high of 71.7%.

This marks a year and a half where the unemployment rate has held in the low 3's – as good an indicator as any that the economy has hit the wall in terms of full capacity. Bear in mind that 'full employment' will never mean zero unemployment: there are always people in between jobs at any point in time. It often takes some time to match workers up with new employers, but most of them do indeed find their way back into the workforce – only a small share of unemployment is long-term.

Wage growth is typically a lagging element of the economic cycle, and that has proven to be the case this time – despite the mounting evidence of a tight labour market and rising inflation pressures over 2021, wage growth didn't really start to pick up until 2022. But once it took off, it really took off, with both of the major wage measures reaching the highest levels in the history of their respective surveys.

The Labour Cost Index (LCI) rose 1.1% for the quarter, lifting the annual growth rate to 4.1%. That was largely in line with both our forecasts and the RBNZ's, though again a touch on the lower side.

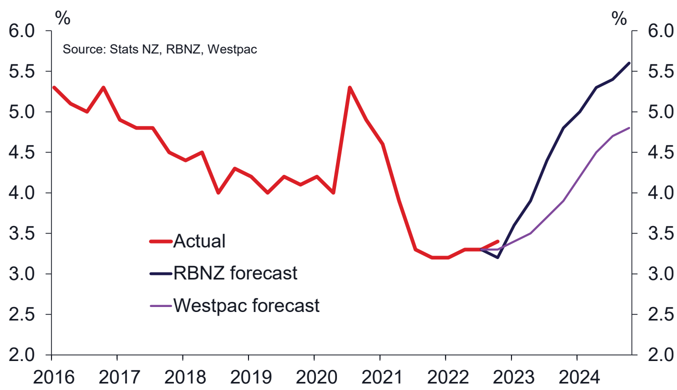
The Quarterly Employment Survey (QES) measure of average hourly earnings was more of a surprise, rising by just 0.9% in the December quarter. That followed two consecutive quarters of more than 2% growth. However, this measure is much more volatile than the LCI, so we don't put a lot of stock in our ability to forecast it anyway. Plus, the large and growing divergence between the two measures was already something of a puzzle, so the latest figures go some way towards reconciling them (but not completely).

If we're assessing the degree of surprise in the wage figures, we should also note that the RBNZ's forecasts are based on ordinary time pay rates for the private sector. As it happens, this measure misses quite a bit of what was going on in the December quarter: public sector wages are now accelerating as they play catch-up to the private sector, and overtime pay rates have surged.

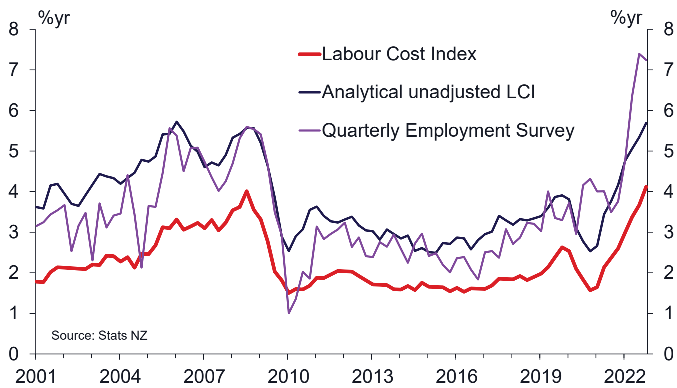
Looking ahead, we expect the unemployment rate to rise gradually over the next couple of years, as higher interest rates take the heat out of the New Zealand economy. However, our forecast is less dramatic than the RBNZ's – peaking at 4.8% compared to 5.7% – reflecting our view that the recession will be a shallow one.

Given the typical lag, we suspect that wage growth has a few quarters to go before it reaches its peak. That in turn means that consumer price inflation is likely to stay stubbornly above the RBNZ's target in the year ahead, with local price pressures remaining strong even as the effects of international price shocks start to recede.

Unemployment rate forecasts



Measures of wage growth



Contact the Westpac economics team

Michael Gordon, Acting Chief 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

Disclaimer

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

(i) Chinese Wall/Cell arrangements;
(ii) physical separation of various Business/Support Units;
(iii) and well defined wall/cell crossing procedures;
(iv) a "need to know" policy;
(v) documented and well defined procedures for dealing with conflicts of interest;
(vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.