ECONOMIC BULLETIN

Preview of Q1 labour market statistics: 1 May, 10:45am.

24 Apr 2024 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Slow leak

- **We estimate that the unemployment rate rose further from 4.0% to 4.2% over the March quarter.**
- **Unemployment has risen from its lows as the economy has slowed, but it's been a slow leak rather than a dramatic change.**
- **Job growth is still positive, but is no longer enough to absorb the migration-led surge in population.**
- **We expect wage growth to slow, as the forces that kept it high last year give way.**
- **Our forecasts are similar to the Reserve Bank's most recent estimates, so we don't expect the results to provide any fresh direction for monetary policy.**

	Q4 actual	Q1 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	4.0	4.2	-
Employment growth	0.4	0.4	2.0
Participation rate	71.9	71.9	-
Labour Cost Index			
All sectors, ordinary time	1.1	0.7	4.0
Private sector, ordinary time	1.0	0.7	3.7

Next Wednesday's reports are likely to show a further softening in labour market conditions over the first quarter of this year. We expect the unemployment rate to rise from 4.0% to 4.2% – that's still a low level compared to history, but it's a substantial lift from the record low of 3.2% that was set two years ago. We also expect an easing in the pace of wage growth, even more so compared to the December quarter which was boosted by a public sector pay agreement.

Our unemployment rate forecast is in line with the Reserve Bank's view. Employment is tracking ahead of what the Reserve Bank expected in its February *Monetary Policy Statement*, but so is the migration led growth in the workforce; we think these two factors will balance each other out. Our wage growth forecast is a bit lower, though the difference is trivial.

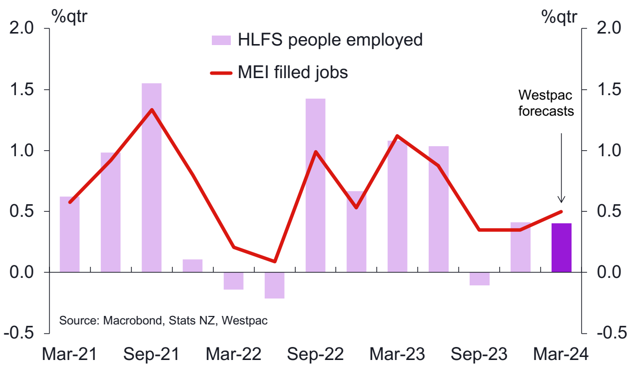
The upshot is that we're not expecting next week's report to offer much to shift the RBNZ's thinking. While supporting employment is no longer directly part of the RBNZ's mandate, the labour market remains a valuable gauge of the strength of the New Zealand economy, and the extent of home-grown inflation pressures. To date, the softening in the labour market has proceeded more slowly than the RBNZ was expecting, which could partly account for why 'core' inflation is proving to be stickier than hoped.

Forecast details.

Our key gauge of the state of the labour market is the monthly employment indicator (MEI). This has proven to be a fairly good predictor of the Household Labour Force Survey (HLFS) in recent years, though there are some conceptual differences – for instance the MEI doesn't distinguish people who are working multiple jobs.

The MEI shows that despite the slowing economy, the number of jobs has continued to grow at a modest pace. The results for the March month aren't released until next Monday, but the weekly snapshots that Stats NZ provides suggest no change in that trend. We've pencilled in a 0.2% rise for the month, which we translate into a 0.4% rise in HLFS employment for the quarter.

Quarterly employment growth

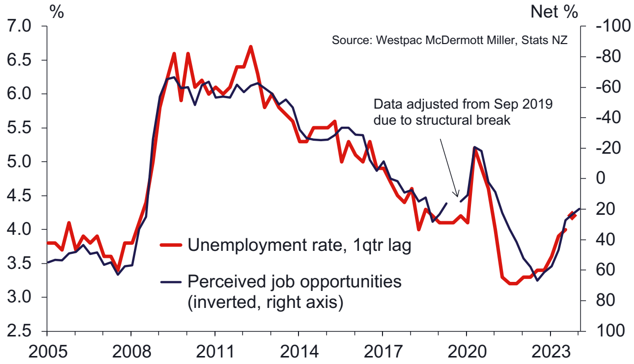


At the same time, population growth has surged higher on the back of record net migration flows. Stats NZ has already reported that the working-age population rose by a seasonally-adjusted 0.6% for the quarter, and is up 3.1% on a year ago. The overall effect is that, in a softening economy, labour demand has not been strong enough to absorb the growth in the labour force, leading to a rise in the unemployment rate.

That said, other indicators suggest that the rise to date has been a modest rather than a dramatic one. The number of people on the Jobseeker Support benefit is up about 12% on a year ago, but there hasn't been an obvious acceleration from the recent trend. And in our Employment Confidence Index, people's perceptions about current job opportunities have softened a little, consistent with a small rise in the unemployment rate.

The data on job transitions suggests that the rise in the number of unemployed hasn't been driven by a meaningful rise in job losses – at least not so far. Rather, the issue that people who are out of employment are finding it harder to get in. Employers are looking to hold on to workers, but hiring has slowed.

Employment confidence and the unemployment rate



We've assumed an unchanged participation rate of 71.9% for the quarter. There are conflicting forces at work that make it difficult to predict where this measure will go in the near term. Migrants are a relatively high-participation group, and they account for a large share of the growth in the workforce at the moment. That's working against both the normal cyclical effects – rising unemployment usually sees a drop in participation as well – and the longer-term downward trend as a growing share of the population reaches retirement age.

Turning to wages, we expect a 0.7% rise in the overall Labour Cost Index (LCI) for the March quarter, which would see annual growth slow from 4.3% to 4.0%. The Quarterly Employment Survey (QES) measure of average hourly earnings is a better measure of what the average worker is actually getting in hand, but it's also more volatile from one quarter to the next; we expect the annual pace to slow from 6.9% to around 6%.

Wage growth, all sectors ordinary time

Surveys show that labour shortages have dropped well down the list of businesses' concerns compared to a year ago, reflecting both the increased availability of migrant workers and the slowdown in the domestic economy. That would suggest that the pressure to bid up to attract workers has largely faded.

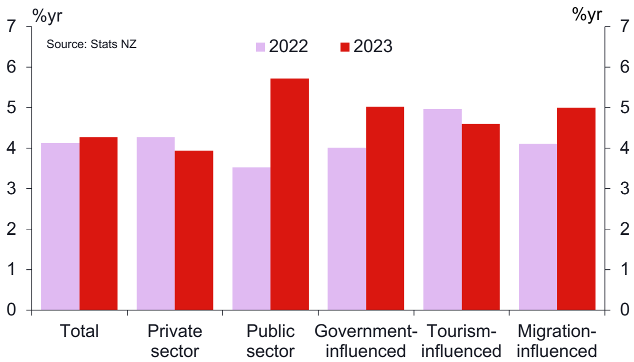
However, that's not obvious from looking at the wage growth measures to date; indeed, the LCI was still running at its cyclical high at the end of last year. In our last *Economic Overview* we tried to make sense of this by grouping different sectors into three broad, overlapping categories:

Government-influenced: Public sector pay growth picked up in 2023, partly as a catch-up on the trend in private sector pay rates. In addition, pay agreements for schoolteachers and nurses took effect in the second half of last year, and the 7.1% minimum wage increase last April boosted wage growth in sectors where there's a relatively high number of jobs at or near the minimum wage (hospitality, construction, recreational services).

Migration-influenced: The surge in the labour supply from the return of migrant workers hasn't obviously put downward pressure on wages so far. Why is that? Because the sectors that they have tended to concentrate in (construction, hospitality, healthcare) are also those where wages have been government-influenced in one way or another.

Tourism-influenced: As the border was reopened to international visitors over 2022, sectors such as transport, hospitality and recreation had to embark on a re-hiring boom, putting upward pressure on wages throughout 2023. There are also strong elements of both minimum-wage roles and migrant workers in this group.

Wage growth by sectoral groups



This year looks different to last year in many respects. The new Government has announced a minimum wage hike of just 2% for this year; that in turn will take some of the wage pressure out of sectors where migrants have been more prevalent. The current cost-cutting in the public sector suggests that they won't be bidding up to attract or retain workers. (However, the teachers' and nurses' wage agreements were multi-year and will see further increases over the June and December quarters.) Finally, the tourism sector has more or less completed its rehiring phase, and visitors numbers reaching at about 80% of pre-Covid levels, this won't be the growth area that it was previously. Together, this suggests that we should see a more meaningful moderation in wage growth over the year ahead.

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