ECONOMIC BULLETIN

NZ labour market review, March quarter 2024.

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

Slow progress

- **The labour market has continued to soften, with the unemployment rate picking up to 4.3% in the March quarter.**
- **The rise in unemployment to date has been a gradual one, and has fallen unevenly across age groups and industries.**
- **Wage pressures have been slow to ease, partly due to collective pay agreements as public sector pay rates have played catch-up with the private sector and with the cost of living.**
- **With significantly more slack in the labour market compared to a year ago, the Reserve Bank will be expecting a more substantial slowdown in wage growth in the year ahead.**

The March quarter labour market surveys were a mixed bag that don't lend themselves to an easy interpretation. There's no doubt that the jobs market is steadily softening, in keeping with the economic slowdown that the Reserve Bank has been trying to engineer over the last couple of years. What's less clear is whether we're seeing a commensurate easing in the pressures on wage growth. The legacy of collective pay agreements is still holding up the overall figures, but that's not the whole of the story.

Overall, we suspect that today's releases don't change the picture much for the RBNZ. Employment was only slightly weaker than was forecast in the February *Monetary Policy Statement*, and labour costs were in line. There will be some relief that the broad path for the labour market seems intact, which will be required to reduce the ongoing domestic inflation pressures that remained clearly evident in the March quarter CPI report.

	Quarterly actual		Quarterly expected		Annual
	Q4	Q1	Market	Westpac	Q1
Household Labour Force Survey					
Unemployment rate	4.0	4.3	4.2	4.2	-
Underutilisation rate	10.7	11.2	-	-	-
Employment growth	0.4	-0.2	0.3	0.4	1.3
Participation rate	71.9	71.5	71.9	71.9	-
Hours worked	0.9	0.4	-	-	2.2
Quarterly Employment Survey					
Private sector average hourly earnings	0.5	0.3	-	-	4.8
Labour Cost Index					
All sectors, ordinary time	1.1	0.9	-	0.7	4.1
Private sector, all salary & wage rates	1.0	0.8	0.8	0.7	3.8
- Unadjusted LCI ordinary time	1.5	0.9	-	-	5.4
Public sector, all salary & wage rates	1.5	1.2	-	-	5.6

Details.

The unemployment rate rose to 4.3% in the March quarter, from 4.0% in December. That wasn't far from the 4.2% rate, that we and the Reserve Bank had been expecting. The rise in unemployment over this cycle has remained a gradual one, although it has picked up the pace over the last year.

While the overall result was close to our expectations, there were some surprises in the details. The number of people employed fell by 0.2% for the quarter, according to the Household Labour Force Survey (HLFS). We had expected a 0.4% rise, based on the already-published Monthly Employment Indicator (MEI) – which would still have been a subdued result given that the working-age population had grown by 0.6% over that time.

The reason that this didn't result in a sharper rise in the unemployment rate was that the labour force participation rate also fell, from 71.9% to 71.5%, the lowest in almost two years. Participation does tend to fall during an economic slowdown, as people who are finding it hard to get work stop actively looking. But this was an unusually large drop for one quarter.

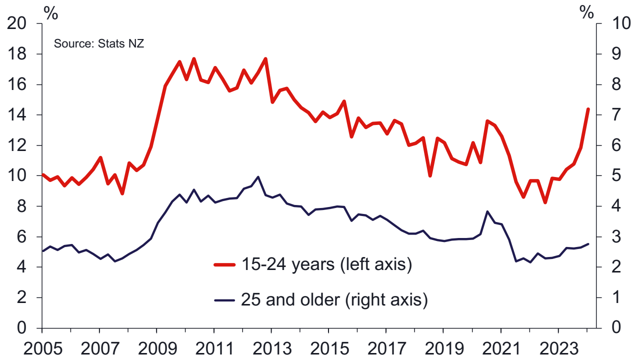
What's more, the Quarterly Employment Survey (QES), which surveyed from the employers' point of view, showed a 0.7% rise in filled jobs and a 0.6% rise in full-time equivalent workers. And both the HLFS and the QES showed a solid lift in the total number of hours worked.

Overall, we're more inclined to believe the MEI when it comes to the level of employment – because it's drawn from tax data, it provides far greater coverage than either of the surveys. While sampling error can affect the level of employment in the HLFS, that's less of an issue for the unemployment rate.

One notable aspect of the rise in unemployment to date has been the extent to which it has been a youth-based story. That's not unusual as a cyclical story – youth unemployment is typically both higher and more variable than for older groups. However, the rise in youth unemployment over the last few quarters has taken it to its highest since 2015, while unemployment rates for those over 25 are still below their pre-Covid levels.

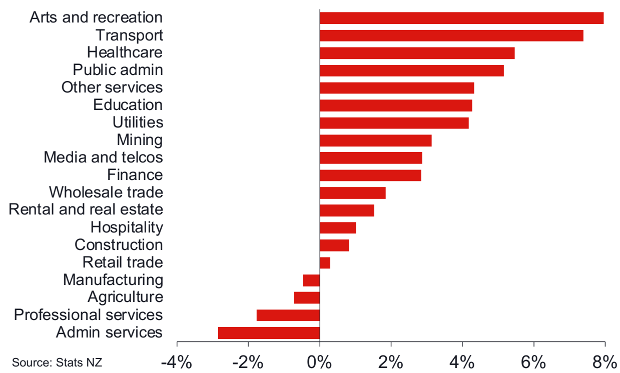
To some degree, this is an echo of the trends in migration. During the border closure, employers could no longer rely on new migrants to fill some roles. Instead, they had to draw on the parts of the local population that were available, including school-age children. Since the border was reopened in 2022, we've seen a reversal of this: employment for teenagers has fallen sharply again, while employment for those in the 25-44 year bracket (the age range for most migrants) has grown strongly.

Unemployment rates by age, seasonally adjusted



Employment by sector has been a mixed bag, and unfortunately the HLFS and the QES provide some conflicting results; here we've decided to resort to the monthly employment indicator again. The strongest growth over the last year has included those areas connected to the return of international tourism, such as transport and recreational services. The more notable areas of softness include construction, retailing and manufacturing. There's also been a notable downturn in professional services, a large and wide-ranging category.

Filled jobs by sector, annual change



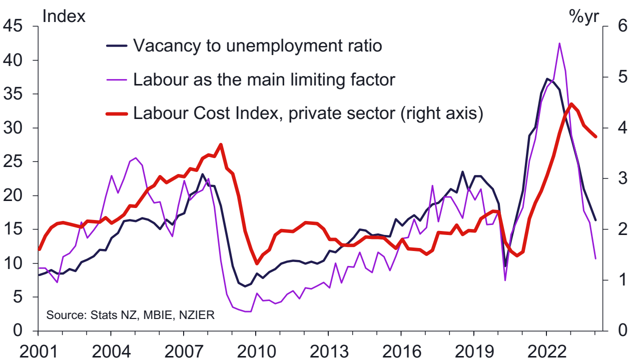
Turning to wage pressures, the Labour Cost Index (LCI) saw a 0.9% increase for the March quarter. That was only slightly slower than in previous quarters, and the annual growth pace of 4.1% hasn't fallen far from its cyclical peak of 4.3%. Public sector labour costs continued to rise faster than for the private sector.

Government pay agreements have accounted for some of the resilience in wage growth. The March quarter saw the Public Service Pay Adjustment take effect, and there appears to have been some follow-through from the pay agreements for the health and education sectors. (The latter ones also boosted the private sector wage growth measure, as large parts of these sectors are privately-run but publicly-funded).

There are some aspects of these agreements that are still to come, including further (smaller) pay increases for nurses and teachers from April. However, it is reasonable to expect that we'll see more restraint in public sector pay rates going forward. The government influence on wages is also set to wane next quarter, with the minimum wage rising by just 2% for this year.

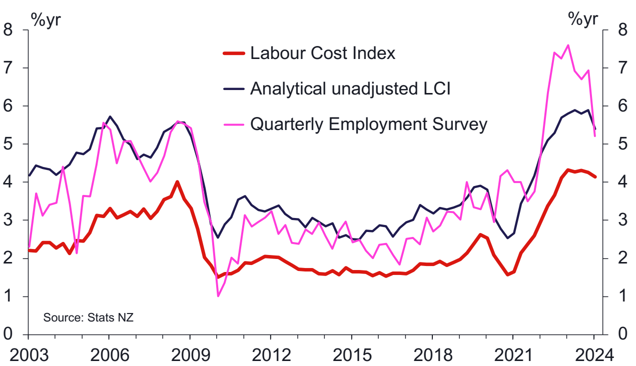
The RBNZ recently noted that it had refreshed its suite of favoured labour market indicators, narrowing it down to four in particular; the ratio of job vacancies to unemployment, businesses surveys of labour as a constraint on growth, the rate of transitions between jobs, and the unemployment rate itself. These measures were chosen specifically for how well they predict the LCI, and based on their recent performance, the RBNZ will be hoping to see a much faster easing in wage growth over the coming year than what we've seen to date.

RBNZ measures of labour market tightness



It's worth looking beyond the LCI, to other measures that correspond more closely with what workers actually receive in hand. The unadjusted analytical LCI, which doesn't adjust for changes in worker productivity, slowed by more than the headline measure did – annual growth fell from 5.9% to 5.4%. The QES measure of average hourly earnings saw an even sharper slowdown, up just 0.3% for the quarter. However, this measure is much more volatile than the others, and arguably the slowdown in the annual rate (from 6.9% to 5.2%) just brings it back into line with other measures.

Measures of wage growth



Whichever wage measure you look at, though, they're still running at a higher pace than what would be consistent with the Reserve Bank's 2% inflation target. As we've seen in recent CPI releases, domestically-focused sectors are increasingly accounting for the bulk of the rise in consumer prices. And since these tend to be more service-oriented and labour-intensive, taking the heat out of wage pressures is now the key to bringing overall inflation under control. That process is underway, but it's been happening slowly so far. And it will likely be a while longer before the RBNZ feels confident enough in this process to be able to start reducing interest rates. Our view remains that the first cut to the OCR won't come until early next year.

CONTACT

Westpac Economics Team | **westpac.co.nz/economics** | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

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

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. 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.

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.

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.

Westpac Banking Corporation.