

Economic Note

Q4 2020 Labour Market Data Preview

29 January 2021

Ch-Ch-Ch-Ch-Changes

- The outlook for NZ’s labour market has brightened. Outright declines in employment appear to be behind us.
- Unemployment is still expected to drift a little higher over 2021, as labour demand remains tepid.
- Beware the usual survey volatility in next week’s Q4 data. Markets/RBNZ likely most sensitive to a positive surprise.

Q4 Labour Market Forecasts		
HLFS	ASB (f)	Prior
Employment growth (QoQ)	0.1	-0.8
Employment growth (YoY)	0.1	0.2
Unemployment Rate (%)	5.6	5.3
Participation Rate (%)	70.2	70.1
<u>Labour Cost Index</u>		
Private Sector (% , QoQ)	0.5	0.4
Private Sector (% , ann)	1.5	1.6

Happily, the outlook for NZ’s labour market has taken a sharp turn for the better since Q3 figures revealed the largest ever increase in the unemployment rate. Of course, this is in keeping with an accumulation of other evidence confirming the NZ economy’s impressive spring back to life over the latter half of 2020.

So much has the outlook changed, that our forecasts are now consistent with annual employment growth troughing in Q1 of this year. In other words, the (net) culling of jobs looks to have run its course, absent any fresh COVID ‘shocks’. To the extent this pans out, it would be another positive marker for NZ’s economic recovery, particularly when set against the global backdrop. We’re also cognisant, given the same global backdrop, that things can change fast. Consider our chickens un-counted.

We still expect unemployment to rise further from here, but that is more a function of job creation failing to keep pace with the growth of the labour force, rather than mounting job losses. There are still some stark regional and sectoral differences, and pockets of weakness therein. But, at a macro level, the timely deployment of the wage subsidy, and various other support measures, appear to have mostly done the job in allowing firms to hold onto workers until we got to “the other side”.

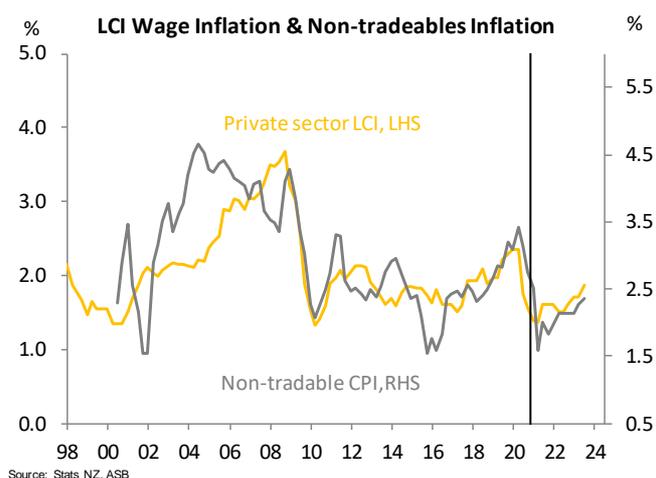
Symptomatic of improving labour demand, a key issue increasingly confronting the labour market is the growing skill shortages firms are reporting in some areas. Such is the reality of an improving demand picture set against stalling migration and a reduced ability to secure offshore workers. There will be implications for wages, investment, and output if shortages continue to intensify.

For next Wednesday’s fourth quarter labour market update, we expect to see unemployment lift to 5.6%, from Q3’s

5.3%. This is predicated on a small (0.1% qoq) rise in employment and a tick up in the labour force participation rate to 70.2% (from 70.1%). The government’s wage subsidy was wound up in September/October, thus predictions initially abounded of a big increase in Q4 unemployment. But partial labour market data like Statistics NZ’s Monthly Employment Indicator have tended to confirm the picture of steady-ish employment through the quarter, rather than any material declines.

Consistent with our projections for less slack in the labour market over 2021, we’ve also nudged up our wage inflation expectations. We’re forecasting a 0.5% quarterly increase in the private sector Labour Cost Index in December. This is around ‘trend’ and, in fact, may mark the low point in the wage inflation cycle. We expect the annual increase in the LCI to start (slowly) turning higher again from the 1.5% yoy print we expect in Q4.

For the RBNZ and hence financial markets, interest will centre on what the Q4 update to the ‘starting point’ for the labour market will mean for how the RBNZ is tracking in relation to its Maximum Sustainable Employment objective. With this, it will be important to look across a range of indicators of labour market slack (underutilisation, hours worked per person as examples) to get the full picture, given the often treacherous volatility in the Household Labour Force Survey measure of unemployment.



The Bank’s November forecasts pegged the unemployment rate at 5.6% in Q4, rising to a peak of 6.4% in mid-2021 (c.f. ASB forecasts for a lower peak of 5.9%). Broader economic momentum and inflation pressures have continued to surprise with their resilience. A stronger set of labour market numbers, implying MSE is not as distant a goal as the RBNZ thought, would further the current trend for a higher and steeper yield curve as rate cut pricing is removed.

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