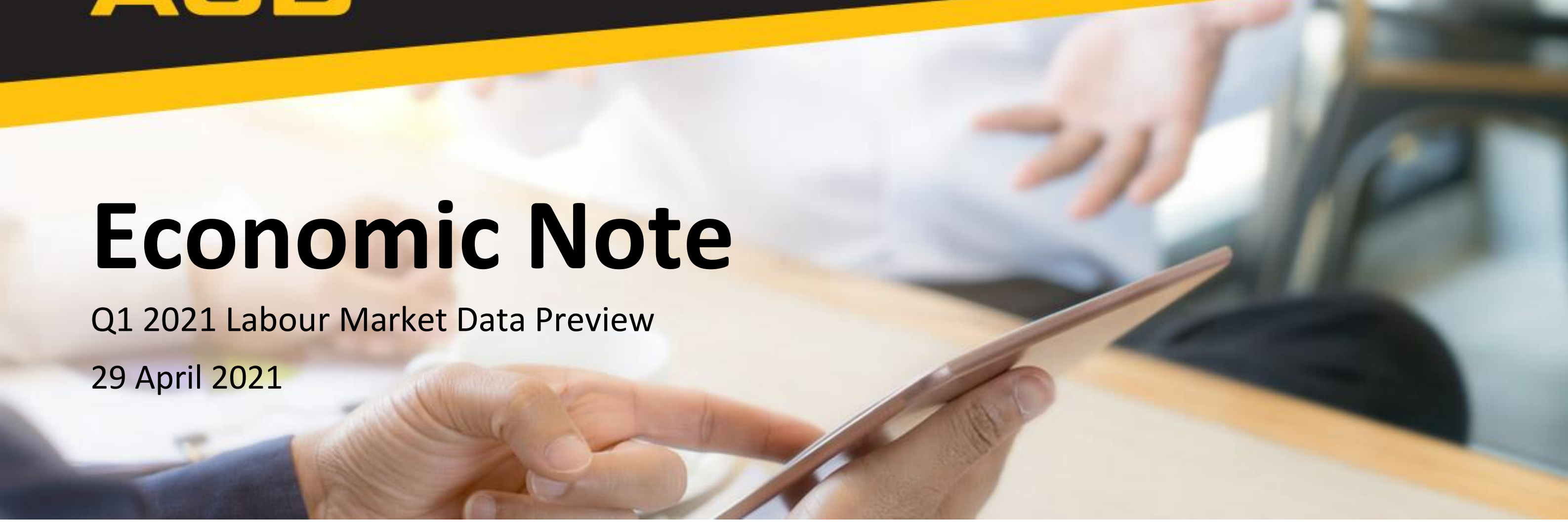

Economic Note

Q1 2021 Labour Market Data Preview

29 April 2021

Labour market may be tighter than it seems

- The level of employment likely remained steady over the March quarter, and we expect to see a small fall in the unemployment rate.
- Labour market conditions are uneven across sectors, and a skills mismatch may prevent marked falls in the unemployment rate over the coming year.
- Wage inflation pressures should start to pick up over the coming year, as the inability to recruit offshore increases competition for domestic candidates in sectors with labour shortages.

Key figures to watch

StatsNZ release a range of Q1 labour market data on Wednesday 5th May (10:45 NZT), which includes:

- the official estimate of the unemployment rate (Household Labour Force Survey - HLFS);
- measures of wage inflation (the Labour Cost Survey - LCI);
- additional measures of employment and income (Quarterly Employment Survey – QES).

Q1 Labour Market Forecasts			
HLFS	**ASB (f)**	Prior	RBNZ
Employment growth (QoQ)	0.0	0.6	0.0
Employment growth (YoY)	-0.4	0.7	-0.3
Unemployment Rate (%)	4.8	4.9	5.0
Participation Rate (%)	70.0	70.2	70.2
Labour Cost Index			
Private Sector (%, QoQ)	0.5	0.5	0.5
Private Sector (%, ann)	1.6	1.5	1.6

Q1 Labour Market Data suggest steady as she goes

Labour market conditions likely remained broadly steady over the first quarter of 2021. In saying that, uncertainty around official unemployment estimates remains high as the relatively unusual impacts of the COVID-19 pandemic make forecasting particularly challenging (notwithstanding the usual quirks and volatility of the HLFS survey).

The NZ labour market has proved remarkably resilient throughout the pandemic. The fall in employment over 2020 was much smaller than expected – indeed one year on from the start of the pandemic we expect that total employment was only 0.4% below year-ago levels. As a result, the lift in the unemployment rate over 2020 was more muted than expected, and likely peaked at 5.3% back in the September quarter.

We expect the unemployment rate to edge down to 4.8% over the March quarter (from 4.9% in Q4) on the back of flat employment growth. Monthly employment indicators point to the level employment remaining fairly steady over the first quarter of the year.

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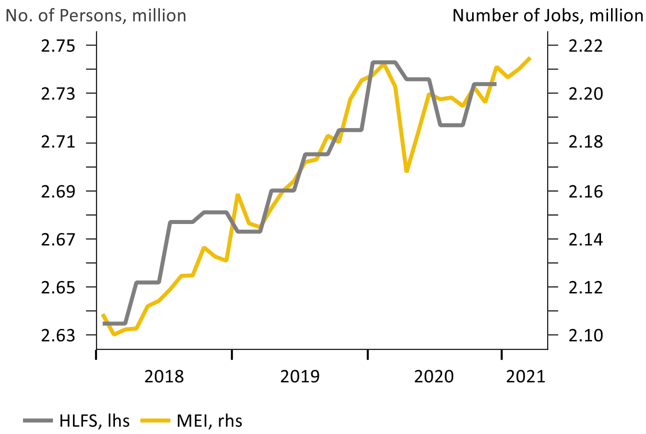
Please refer to the important disclosures at the end of this document.

Labour market conditions likely vary across different economic sectors

Economic recovery has been uneven across different sectors of the economy and as a result, labour market conditions are also likely to be very mixed across different industries. The construction sector is booming with strong evidence that output is held back by capacity constraints – both labour and materials. The construction sector has been at cyclical peaks for a few years now, so in order to grow its labour force it has either had to train staff itself (which takes time) or import skilled labour from abroad – the latter is currently not an option.

Meanwhile, closed international borders have hit the tourism sector hard, and from a labour market perspective this means there is likely to still be some spare capacity in the hospitality and tourism sectors. However, skills aren't necessarily easy to transfer across different sectors of the economy – just because one area is desperate for more staff, doesn't mean they can quickly and easily take on workers from other industries. These candidates may be in the wrong location, or need to retrain which can take time – in some cases, they could require study for many years.

New Zealand Employment Indicators



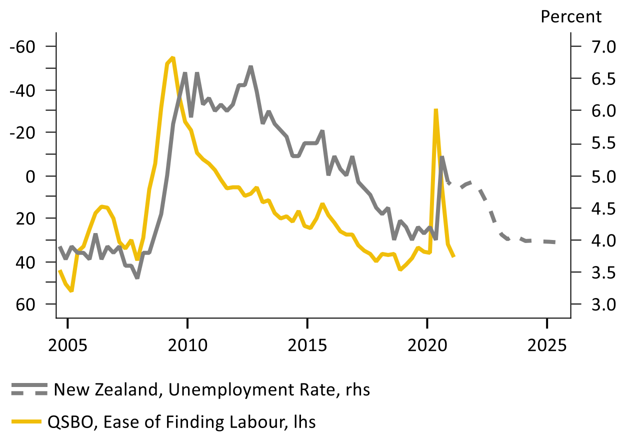
Source: Macrobond, ASB

Skills mismatch could keep unemployment elevated

Indicators and anecdotes suggest employment demand is strong and most firms are desperate for new staff. However, indicators also suggest new employment is heading sideways, which implies that firms are not finding the people they need. It is also possible new hires are from people shifting jobs rather than people moving out of unemployment. As a result, a skills mismatch across the economy means the unemployment rate could remain somewhat elevated for the rest of the year.

Going forward it will be interesting to see the RBNZ's take on this, as a skills mismatch effectively brings the RBNZ closer to 'achieving maximum sustainable employment', even if the unemployment rate is higher than pre-pandemic levels.

Difficulty Finding Labour & The Unemployment Rate



Source: Macrobond, ASB

Wage inflation to lift

The good news for those with skills in demand is that we also expect to see a steady lift in wage growth over the coming year. The inability to import labour from abroad and a cap on the number of NZers returning home due to MIQ constrains, suggest that firms have had to compete strongly for new hires domestically. We expect LCI private sector wage growth to lift 0.5% qoq and 1.6% yoy in Q1 – with wage inflation pressures set to step up further in the June quarter.

RBNZ implications

The RBNZ has similar forecasts for Q1 labour market conditions – and the RBNZ is also expecting a fairly strong lift in LCI inflation over the coming year. However, we believe the risks to the Q1 figures are skewed to a slightly stronger labour market than the RBNZ had pencilled in at the February MPS. An unemployment rate below our forecast of 4.8% is likely to prompt the market to shift forward its timing of OCR hikes (a full 25bp hike is not fully priced in until early 2023). Nonetheless, for the time being we expect the RBNZ to keep monetary conditions stimulatory over the coming year. There is plenty of time to reduce stimulus should inflation pressures pick up faster than expected given we are not out of the COVID-19 woods yet.

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