

Economic Note

Q1 2021 Labour Market Data Review

5 May 2021

Labour market firmly on the road to recovery

- The unemployment rate fell by more than expected in the March quarter, to 4.7%. The market median expectation was for the unemployment rate to remain unchanged at 4.9%.
- Employment lifted by more than expected, up a robust 0.5% over the quarter.
- Annual wage growth was steady, and is poised to lift over the coming quarters.

Household labour Force Survey	Actual	ASB	Market
Employment growth (QoQ)	0.5	0.0	0.3
Unemployment Rate (%)	4.7	4.8	4.8
Participation Rate (%)	70.4	70.0	70.3
Labour Cost Index			
Private Sector (% , QoQ)	0.4	0.5	0.3
Private Sector (% , ann)	1.6	1.6	1.5



Source: Macrobond, ASB

Implications

The labour market was stronger than expected in the March quarter, with the unemployment rate falling by more than expected and wage growth remaining firm and showing tentative signs it will pick up firmly over the coming quarters. We expect wage growth will lift over the coming year and the

RBNZ will see growing evidence of the labour market recovering toward “maximum sustainable employment”. Nonetheless, the labour market still has some way to go, with the rate of unemployment still above pre-pandemic levels and the underutilisation rate also elevated. The lift in wage inflation is merely in line with the RBNZ’s forecasts and it remains appropriate for the RBNZ to keep monetary conditions stimulatory until the global pandemic is brought under control and NZ can reopen its border.

Labour market firms in Q1

The March quarter labour market figures revealed a slightly stronger labour market than expected, echoing recent survey data highlighting tighter labour market conditions and growing concerns around labour shortages. The data provide further evidence of how well the NZ economy has performed through the global pandemic, with the level of employment higher than pre-pandemic levels.

The unemployment rate fell to 4.7% over the March quarter – this fall was larger than expected by ourselves, the market and the Reserve Bank of New Zealand. The fall was led by stronger-than-expected employment growth, up 0.5% over the quarter and up 0.3% on year-ago levels. The unemployment rate does remain above pre-pandemic levels, which is to be expected given some areas of the economy remain impacted by border closures. The COVID-19

induced peak in the unemployment rate was also revised down a notch, to 5.2% in the September quarter (previously reported at 5.3%).

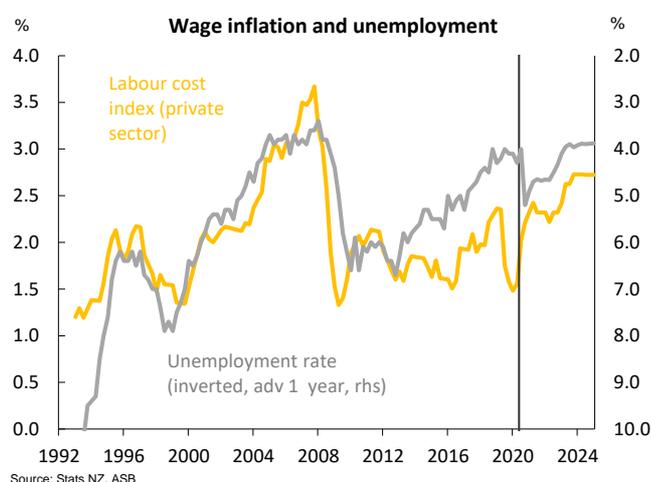
The fall in the unemployment rate has been driven by a decline in the female unemployment rate, down to 4.7% from a peak of 5.7% in Q3. Both male and female unemployment lifted due to the pandemic, but over the past 6 months the unemployment rate for females has declined while the unemployment rate for males has largely trended sideways. Prior to the pandemic the unemployment rate for females tended to be higher than the unemployment rate for men. Further analysis of the data will be required to understand this development.

In contrast to the stronger headline figures, the underutilisation rate increased to 12.2% from 11.8% over Q1. The lift in the underutilisation rate may reflect Auckland returning to higher Alert Levels intermittently through February and March. Nonetheless, the underemployment rate remains below its peak of 13.1% in the September quarter.

Over the past year, the sectors which have experienced job losses tended to be those most exposed to the pandemic and the impact of the closed border. It was unsurprising to see annual declines in the numbers employed in transport, postal and warehousing (-5.8%) and retail trade and accommodation (-4.6%). Weakness in these industries appears to have spilled over into general business services (professional, scientific, technical, administrative, and support services), down 6.2%. Meanwhile, it was surprising to see a fall in the number employed in manufacturing (-4%). Providing offset are the booming construction sector (up 3.3%), rental hiring and real-estate services (4.3%) and lifts in the wholesale trade (2.7%) and education (7.6%).

Wages on the up

Annual wage growth remained steady, while on a quarterly basis wages picked up by more than the market expected in Q1 (but slightly less than ourselves and the Reserve Bank of New Zealand were expecting). The private sector labour cost index lifted by 0.4% over the quarter, with annual wage growth of 1.6%. We expect to see a strong lift in wage growth over the coming year, with a larger lift to come through in the June quarter. 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.



Implications for the RBNZ

The labour market is now firmly on the road to recovery, but there is a long journey ahead. Although the NZ economy has weathered the COVID-19 pandemic exceptionally well, it has not got away unscathed and there is still some slack in the labour market and scope for conditions to improve, and as a result the RBNZ is still some way from its monetary policy mandate of “maximum sustainable employment”. 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, but there is still a long way to go as the pandemic continues to rage out of control offshore. We continue to expect the RBNZ will wait until the second half of 2022 before starting to lift the Official Cash Rate off its low of 0.25%.

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Jane Turner
Mark Smith
Mike Jones
Chris Tennent-Brown
Nat Keall
Judith Pinto

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
mike.jones@asb.co.nz
chris.tennent-brown@asb.co.nz
nathaniel.keall@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5957
(649) 301 5657
(649) 301 5661
(649) 301 5915
(649) 301 5720
(649) 301 5660

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