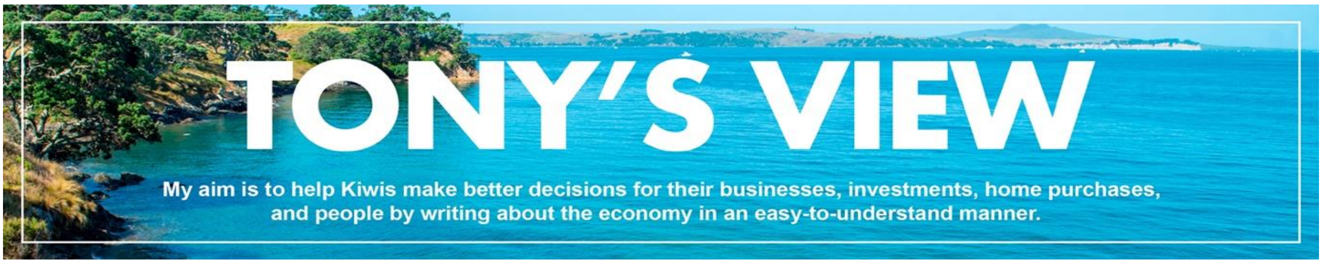


Input to your Strategy for Adapting to Challenges

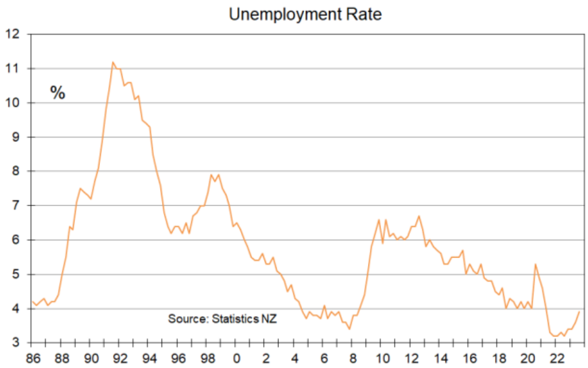
Feel free to pass on to friends and clients wanting independent economic commentary

ISSN: 2703-2825 2 November 2023
Sign up for free at www.tonyalexander.nz

Labour market easing – too slowly for the RB

The highlight on the local statistical calendar for us economists this week was yesterday's release of data on the state of New Zealand's labour market by Statistics NZ. What we were looking for primarily were signs that the labour market is easing and the pace of wages growth slowing. The data generally show this but not to sufficiently firm a degree for the Reserve Bank to feel relaxed about the path ahead for inflation.

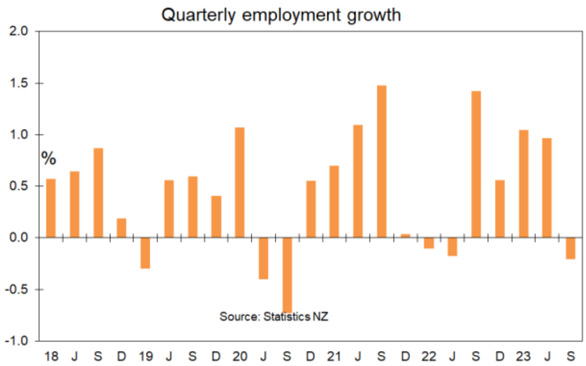
Let's start with the headline grabbing number on unemployment. The unemployment rate rose in the September quarter to a seasonally adjusted 3.9% from 3.6% in the June quarter and a multi-decade low (1960s) of 3.2% a year ago.



This is still a very low proportion of the labour force out of work and actively looking for a job, and the rate is well away from the predicted peaks of 5.4% or so envisaged by the Reserve Bank and Treasury in a couple of years as a result of the slowdown in the economy.

So, we should expect the unemployment rate to keep climbing over the coming year.

The number of people in work in the quarter was down 0.2% which is the first decline since the middle of last year where we had three unusual quarters in a rose of flat to falling job numbers, surrounded by strong quarterly growth numbers before and after.



This pattern is important to note. Just because job numbers fall does not mean they are going to keep falling for an extended period of time. That is what the graph above tells us. But the graph also tells us we should expect a weak result for the December quarter when that appears in three months time.

The fall in job numbers actually seems unusual in light of the migration boom adding an extra 110,000 to the NZ population over the past year. This is where we start to go down the ever-present rabbit hole which is the Household Labour Force Survey from which these numbers appear. The country's labour force is reported to have held steady in the quarter despite soaring immigration. That seems odd and suggests the unemployment rate may be biased unusually downward, and/or the jobs change of -0.2% as well.

In other words – we economists always take the HLFS data with a large grain of salt and quickly move on to gauging the state of the labour force with other measures. These include the ANZ's Business Outlook survey which is showing a trend rise in business hiring intentions.

Switching now to the other area of interest in the labour market statistics beyond jobs growth – wages growth.

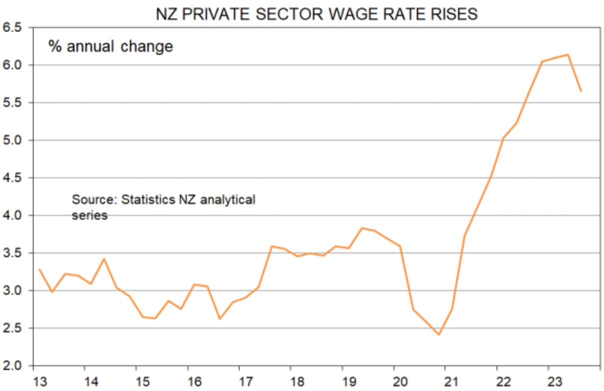
The Quarterly Employment Survey shows that average hourly earnings in the private sector grew by 2% in the September quarter. This is essentially the same as growth of 1.9% in the June quarter and 2.1% in the March quarter but down from 2.6% a year earlier.

This tells us that the underlying pace of growth in wages is probably slowing. But the extent of that slowing is very minor. The annual rate has eased to 7.1% from 7.7% in the June quarter and 8.6% a year ago.

But as the above graph easily shows, at 7.1% wages growth is running at a pace not consistent

with that which produced inflation averaging 2.1% a year in the three decades after 1991. There is not enough of a decline underway in wages growth for the Reserve Bank to feel that the surge in net migration inflows is having a pleasingly strong negative impact on the pace of wages growth. That might be what happens, but it hasn't kicked in yet and the Reserve Bank cannot take the risk that it in fact does not.

The other measure of wages growth which we usually look at comes from the Labour Cost Index. This measure attempts to calculate an underlying rate of wage inflation by focussing on unchanging job positions. This measure for the private sector showed a rise of 1.1% in the September quarter from 1.6% in the June quarter and a year earlier. The annual rate has eased to 5.7% from 6.1% three months ago. The rate a year ago was 5.6%.



This measure also is easing. But again, the pace is slow and at 5.7% the annual change is well above the average of 3.2%.

Overall, the labour market data show that there is eroding strength in the NZ jobs market and wage inflation is easing to reflect this. But at 3.9% the unemployment rate is too low to feel comfort about inflation settling back below 3% from the current 5.6%. And, at 7.1% and 5.7% the two private sector wage growth numbers are much too high for comfort.

In case you missed it

This week I released results from my monthly survey of residential property investors undertaken with Crockers Property Management. The key results include these.

- For the fourth month in a row landlords have reported that it is getting increasingly easy to secure good tenants.
- Upward pressure on rents remains.
- We can see evidence of the election outcome impacting investors including through decreased concerns about loss of interest expense deductibility, a jump in plans to sell in order to buy again, and decreased concerns about tenant legislation.

10-crockers-tony-alexander-investor-insight-october-2023.pdf

If I were a borrower, what would I do?

Wholesale interest rates have fallen slightly this week in response to yesterday's data showing slowing wages growth, a rising unemployment rate, and an unexpected 0.2% fall in employment in the September quarter. I have my doubts about the accuracy of the employment decline and the Household Labour Force Survey from which the number comes has in the past shown some unusual blips in job numbers.

Nonetheless, things are moving in the right direction with regard to easing capacity pressures in the economy and the chances of another increase in the official cash rate from 5.5% are not strong. As for decreases, in these very uncertain times in which we are living the Reserve Bank will be placing less reliance on old relationships between capacity measures and inflation than in the past. They will want quite solid indications of actual wage inflation falling away before risking cuts in interest rates which might have to be quickly reversed.

The first easing of monetary policy is not likely until late next year.

If I were borrowing at the moment, I'd probably fix 12-18 months.

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.