



Input to your Strategy for Adapting to Challenges

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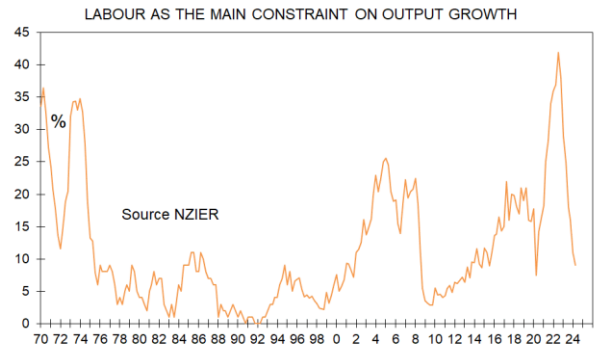
The changing labour market

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In response to economic weakness stemming from the Reserve Bank's fight against the inflation they created over 2021-22 the labour market in New Zealand is weakening. In fact we have essentially had no net jobs growth since the middle of last year and the rise in the unemployment rate from 3.2% to 4.3% is likely to continue through to somewhere between 5% and 6% next year.

From the monthly Business Survey I run with sponsorship from Mint Design we gain some insight into how businesses are responding to the easing of labour market conditions.

Up until a year or so ago these conditions were exceptionally tight. In the NZIER's Quarterly Survey of Business Opinion a record net 42% of businesses in mid-2022 said the main reason they cannot increase output is not enough staff. That dropped to 18% a year ago and now sits at just 9% which is as good as bang on the average reading for this measure since 1970.



My survey shows that a net 10% of firms this month consider labour availability to be a concern.

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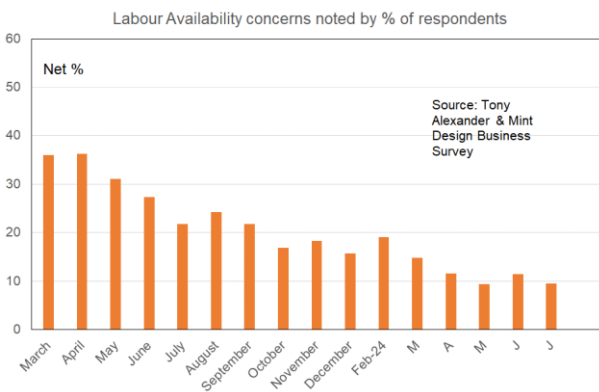
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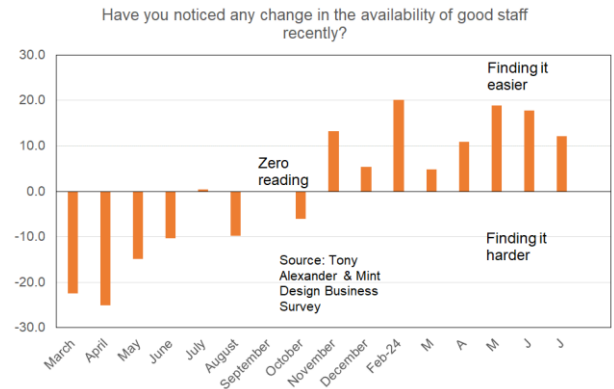
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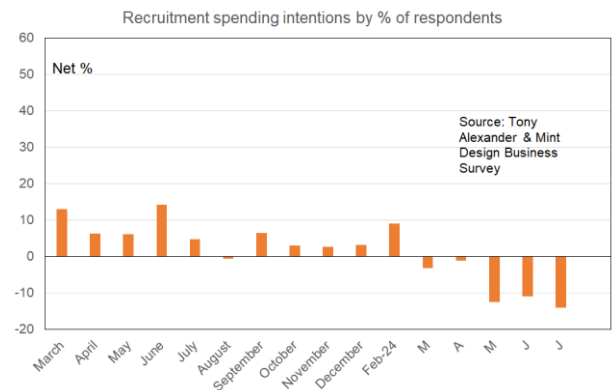
Last month the reading was 11% and six months ago it was 19%. These results suggest the much-watched NZIER number will decline again when the September quarter results are released in a couple of months time.



Backing this result up, a net 12% of businesses report that good staff are relatively easy to find. The main change in this measure was at the turning of the year.



A net 14% of firms now say they will reduce spending on recruitment in the near future. The trend in this measure is down but not achingly so.



Spending on workplace culture is going down the same path as intentions of spending on climate change – downward. A net 13% of businesses plan more workplace culture spending as

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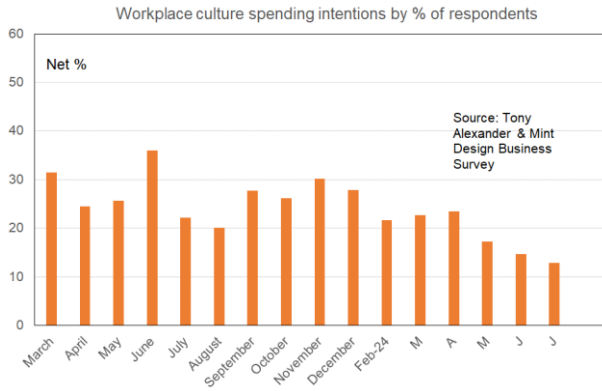
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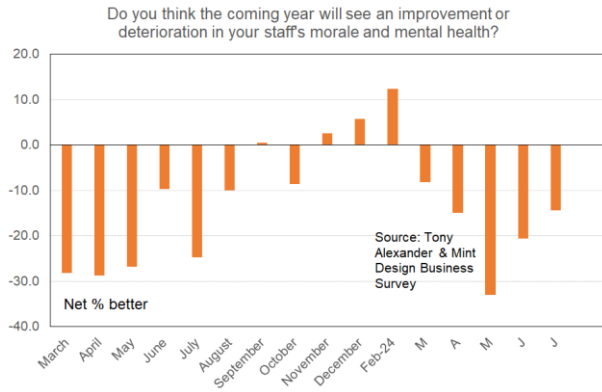
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compared with 15% in June and 22% six months ago. The trend is firmly down.



These spending plans are falling despite expectations that workplace mental health/culture will deteriorate in the coming year. Interestingly the net 14% result for this measure is an improvement from 33% two months ago but it is hard to see why this would be the case.



Unsurprisingly in light of the weakening labour market there is a strong downward trend in business plans for paying people more. This is good for inflation and exactly what the Reserve Bank needs to see.

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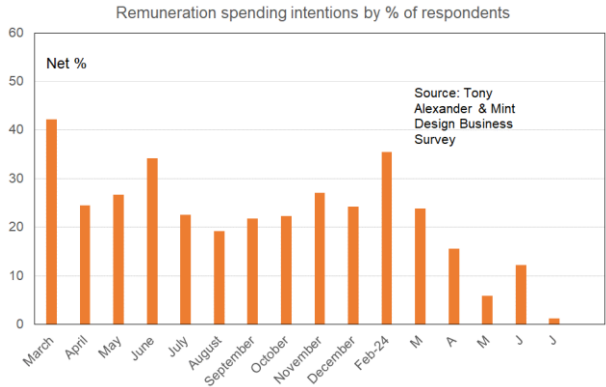
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Only a net 1% of businesses plan raising remuneration spending compared with a net 12% in June and 35% six months ago. This is another one of the many measures from my five monthly surveys which show the strong extra deterioration in the NZ economy over the first half of this year. It is this hastened deterioration which is causing predictions of monetary policy easing to be brought forward in time.

GLEN GARRY

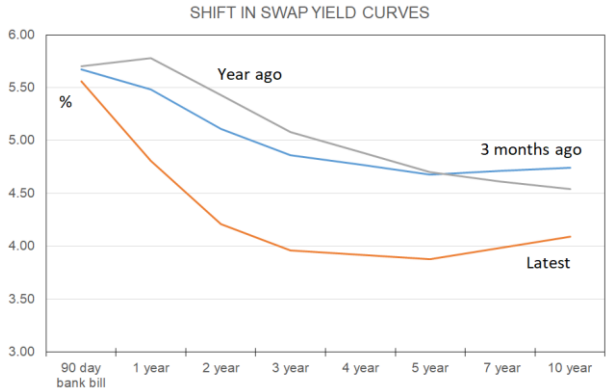
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The cost to banks of borrowing money at a fixed interest rate for one year is now near 4.8% from 4.9% last week and 5.4% a month ago. The three year rate is near 3.95% from 4.1% last week and 4.65% a month ago.

This graph shows the shift down in these wholesale interest rates recently.



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If I were a borrower, what would I do?

I'm afraid nothing much of fresh interest data-wise has occurred with regard to the interest rates outlook this week. But a casual scan through NZ newspapers during the week would have revealed more stories of hardship for businesses and challenges for people facing unemployment.

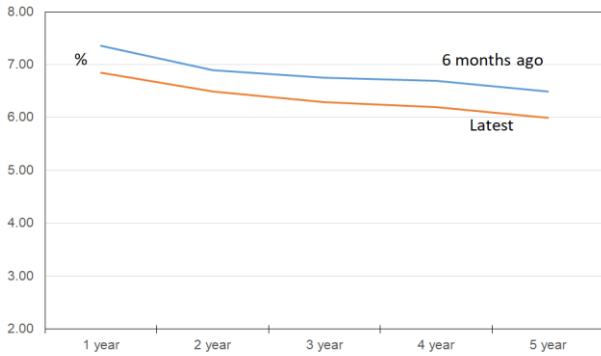
These articles and their reflection of a recessionary economy will assist the Reserve Bank in keeping things weak and depressing inflationary pressures.

Such poor sentiment and weak economic prospects have been getting increasingly factored into wholesale interest rates over the past few weeks and that continued this week.

Are these declines leading to reductions in bank fixed mortgage rates? Yes. The best one year rate amongst the large lenders I track now sits near 6.85% from 7.14% a month ago and 7.24% three months ago. But taking into account the wholesale borrowing cost the margin on this lending has risen from near 1.75% to near 2.05% now. The average margin the past couple of years has been 1.3%.



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Given that term deposit rates have yet to fall away much and that other bank costs have risen, one should not expect a sudden round of rate cuts taking the one-year fixed rate down to just above 6%.

But scope for additional reductions exists and this is the case for the other terms out to five years as well – mainly for fixing two and three years.

Because wholesale interest rates already reflect strong expectations of monetary policy easing soon, we should not expect eventual confirmation of easing in August, October, or November to cause much of an extra rally in rates. But when the cash rate cuts come, floating rates will start declining.

If I were borrowing at the moment, I would look to take advantage of the expected declines in rates from current levels by fixing for just six months.

When would I jump back to fixing 3-5 years? That is impossible to say at this stage given the proven inability of every person on the planet to accurately predict inflation these days – since the GFC in fact.

If I were borrowing at the moment, I would fix six months.

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