



ECONOMIC BULLETIN

Preview of Q3 labour market statistics:
6 November, 10:45am.



30 Oct 2024 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Part of the plan

- We expect the unemployment rate to rise from 4.6% to 5.0% in the September quarter.
- The prolonged downturn in the economy is finally resulting in outright job losses, rather than simply slowing growth.
- We expect the unemployment rate to keep rising over the next year, even as lower interest rates start to revive economic growth.
- Wage growth should continue to ease, with no expected impacts from public sector pay agreements this time.
- Our forecasts are in line with the Reserve Bank. With inflation pressures easing, the path is open for a 50bp cut to the OCR next month, but labour market conditions would have to be even weaker than expected to make the case for an even larger move.

	Q2 actual	Q3 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	4.6	5.0	-
Employment growth	0.4	-0.6	0.0
Participation rate	71.7	71.4	-
Labour Cost Index			
All sectors, ordinary time	1.1	0.7	3.8
Private sector, ordinary time	0.9	0.7	3.5

The September quarter labour market surveys will be released next Wednesday. Once again, they're shaping up to be crucial for the near-term outlook for interest rates ahead of the Reserve Bank's *Monetary Policy Statement* on 27 November. Market opinion has firmly shifted to another 'jumbo' OCR cut of at least 50bps next month, and possibly as large as 75bps. The labour surveys are the last major data release that could tip the balance towards the latter, if the results prove even weaker than expected.

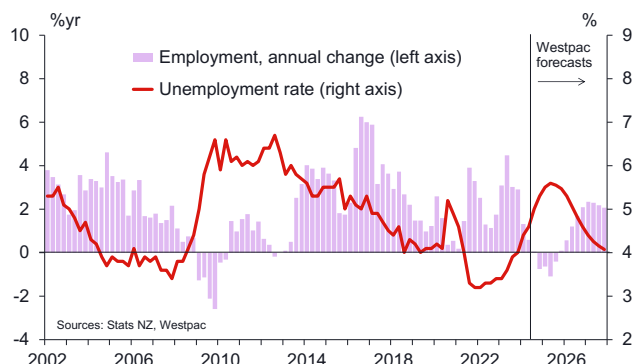
That's a fairly high hurdle though, as the RBNZ is already braced for some substantial softness in the labour market figures. In their most recent published forecasts in August, the RBNZ expected the unemployment rate to rise to 5.0% in the September quarter, with private sector wage growth falling to its slowest pace in over two years.

Our forecasts are in line with the RBNZ's, and the information we've received over the last three months haven't changed our view. We'd view these results as consistent with a 'controlled descent' for the economy, rather than something that would require more drastic action. Hence, we favour a 50bp OCR cut as the most likely move next month.

Details.

We estimate that the unemployment rate rose to 5.0% for the September quarter, compared to 4.6% in the June quarter. Aside from the brief spike to 5.2% following the 2020 Covid lockdown, this would be the highest rate since 2016. Our forecast encompasses a sizeable fall in employment, partly offset by a lower participation rate, with some of those who lost their jobs dropping out of the active labour force.

Employment growth and unemployment rate



The Monthly Employment Indicator (MEI) provides our best gauge of changes in employment. The number of filled jobs fell between April and July, and while they were steadier in August and September, the average level over the quarter was 0.7% lower compared to the June quarter. We expect to see a similar result in the Household Labour Force Survey (HLFS) measure of employment, where we've pencilled in a 0.6% fall.

There are some conceptual differences between these two measures, but the former has generally been a reasonable predictor of the latter. That said, there have been some more notable divergences between them over the last year, though we think that's most likely due to sampling error in the HLFS (whereas the MEI is taken from income tax data, making it more or less a complete record of paid employment).

Quarterly employment change



The fall in employment is likely to be accompanied by a fall in the participation rate, as some people drop out of the labour force rather than actively seeking work. Job

losses have been concentrated among younger people – perhaps even more than usual in this cycle, as this group had been strongly drawn into the workforce in previous years, when the economy was running hot and the border closure meant that employers couldn't tap migrant workers to meet their demand. Younger people are more likely to drop out of the labour force when times get tougher, one reason being that they may choose to stay in study for longer.

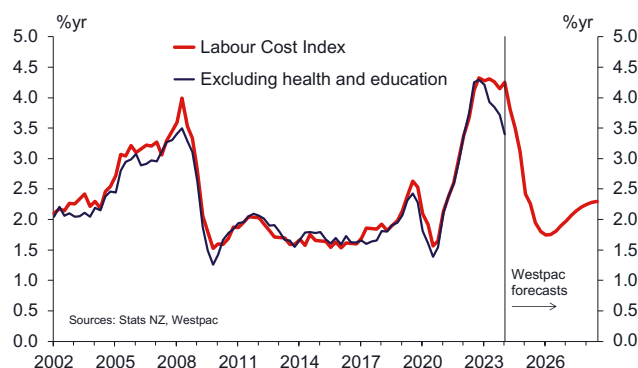
The jobs market is typically one of the more lagging elements of the economic cycle, and that's proven to be the case again this time. While GDP has effectively stalled since late 2022 (and has shrunk markedly in per-capita terms), it's only in the last year that we've seen a meaningful rise in the unemployment rate. Similarly, we expect the unemployment rate to keep rising to a peak of 5.6% in the year ahead, even as lower interest rates provide the spark for a pickup in economic growth.

Wage growth tends to be even more of a laggard than jobs – indeed, at face value it might seem that the adjustment process has yet to begin, with the Labour Cost Index accelerating to a 4.3% increase in the year to June. However, the LCI has been driven to an unusual degree by pay settlements that were signed by the previous government and phased in over a couple of years. Once we exclude the relevant sectors (health and education), it's clear that wage inflation has begun to respond to the softening in the jobs market.

We expect a 0.7% rise in the LCI for the September quarter. To our knowledge there were no 'legacy' pay agreements during this quarter, so this should provide a relatively clean reading on the strength of wage pressures. (There is a final increase of 3.9% for teachers that takes effect in December.) On our forecast, this would see annual wage growth slow from 4.3% to 3.8% (and from 3.6% to 3.4% for the private sector).

Looking ahead, we expect to see a marked slowing in wage growth over the next year. This reflects both the cyclical high in unemployment, which reduces workers' bargaining power, and a moderation in inflation expectations back to the 2% target, which means that cost-of-living pay increases will be smaller than in previous years.

Wage growth forecasts



CONTACT

Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer.

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures.

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure.

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

