Economic Bulletin.

30 July 2020

Preview of Q2 labour market surveys: 5 August, 10:45am.

- We expect the June quarter unemployment rate to rise from 4.2% to 5.0%.
- So far the impact of COVID-19 on employment, while large, has been much less than initially feared.
- The early removal of domestic restrictions and the Government's wage subsidy scheme have played a major part in avoiding layoffs.
- However, many employers will have reduced hours and/or pay rates, particularly during the Level 4 lockdown.

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	Q1 actual	Q2 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	4.2	5.0	-
Employment growth	0.7	-1.5	-0.6
Participation rate	70.4	69.6	-
Quarterly Employment Survey			
Filled jobs	1.0	-2.0	-0.5
Private average hourly earnings	1.4	0.7	2.9
Labour Cost Index			
All sectors, ordinary time	0.3	0.3	2.2
Private sector, ordinary time	0.3	0.3	1.8
Private, all salary & wage rates	0.3	0.3	1.8

The official labour market surveys for the June quarter will be released next Wednesday. The results are extremely uncertain this time, due to both the impact of the COVID-19 lockdown and the measurement challenges that this created. We've relied on a range of indicators – some of which have emerged only recently in response to the COVID crisis – to help fill in our understanding of labour market conditions, but none of them are as comprehensive as the quarterly surveys.

It's inevitable that the surveys will be somewhat dated, given how rapidly things changed over the course of the quarter. The Household Labour Force Survey (HLFS) is surveyed continuously and represents an average over the quarter, encompassing both the lockdown in April and the removal of domestic restrictions in June. The Quarterly Employment Survey (QES) and the Labour Cost Index (LCI) will fare even worse – they were surveyed in mid-May, when the country was just moving from Alert Level 3 to 2. So although hours paid will be down sharply, they won't be representative of activity over the whole quarter.

We expect the HLFS to show that the hit to employment, while large by historic standards, has been much more modest than was feared at the start of the crisis. We estimate that the unemployment rate rose to 5% in the June quarter, from 4.2% in March. That's far lower than our previous forecasts, which ranged from 7% to as high as 9.5%.

One of the reasons behind this is New Zealand's unexpected success in eliminating the spread of the virus and the early lifting of restrictions; some of the jobs that were lost during the lockdown have since returned. Another factor has been the Government's substantial support measures such as the temporary wage subsidy scheme. That in turn gave employers the flexibility to adjust in other ways – that is, through reduced hours and/or pay rates rather than layoffs.

The most compelling evidence we have on jobs is Stats NZ's Monthly Employment Indicator (MEI). This is drawn from income tax data, giving it a very high level of coverage. The number of filled jobs fell by 35,000 in April, but has since recovered almost all of this decline. As a result, the average number of jobs for the quarter was down by just 1%.

The MEI has closely followed the trend in the HLFS employment series over time. However, it hasn't been a great predictor of the HLFS from quarter to quarter, most likely due to sampling error in the latter (the HLFS covers less than 1% of households). In our forecast we've erred on the side of a slightly larger 1.5% drop in employment, which equates to about 40,000 workers.

We can also look at benefit numbers to gauge the extent of job losses, though these need to be treated with caution. On average over the June quarter around 183,000 people were receiving the Jobseekers Support benefit, an increase of 36,000 from the March quarter. Taken on its own, this would imply an unemployment rate of around 5.5%. However, we suspect that this overstates the case a little. The eligibility criteria for receiving the benefit are not the same as the HLFS definition of unemployment, and these criteria have been loosened since the start of the lockdown in March.

It's important to understand how the extreme circumstances of the Level 4 lockdown will have been treated in the labour market surveys. Stats NZ has advised that workers who were receiving the wage subsidy will be recorded as employed, even if they didn't work any hours during the survey week. Also, 'unemployed' is defined as those actively seeking work; not many people will have been actively job-hunting during the Level 4 lockdown in April, at a time when few businesses were hiring anyway.

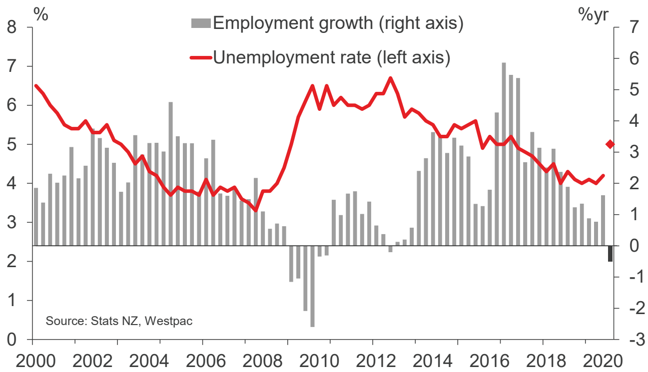
For these reasons, we'd expect that the impact of the COVID lockdown will come through more in the underutilisation rate than in the unemployment rate. This broader measure includes those working part-time who would like to work more hours, and those who would like a job but are not actively looking. That doesn't make it a better indicator of what to expect going forward, though – the divergence between the two measures is likely to narrow again in the September quarter, now that we're past the lockdown.

We've provided forecasts of wage growth for the QES and LCI surveys, but to be frank the range of possible outcomes is massive. One condition of the wage subsidy scheme is that employers should continue to pay workers at least 80% of their pre-crisis incomes, and various surveys suggest that many firms took up the option of reducing pay rates. Stats NZ has advised that this will be recorded in the wage measures only if a reduced hourly wage rate was explicitly negotiated; otherwise, it will be recorded as a drop in the number of hours paid. It's anyone's guess as to which employers took which approach.

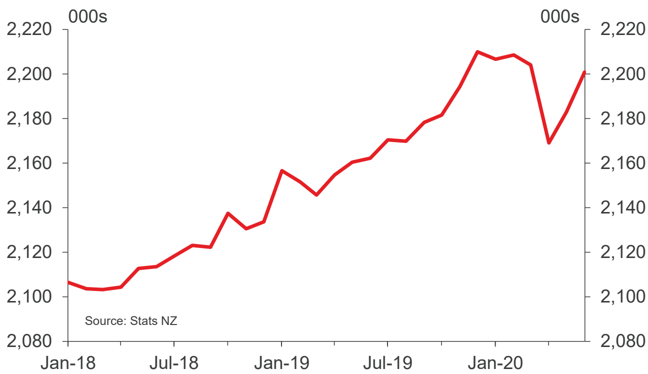
What we can more safely say is that pay increases would have been hard to come by during the quarter. The exception to this was the minimum wage hike on 1 April, which we estimate added around 0.3% to the LCI.

The QES measure of average hourly earnings will be further muddied by composition effects. It's likely that layoffs were more concentrated in lower-paying jobs, and that those who were able to work from home during lockdown would have been in higher-paying jobs on average. Both of these factors would skew the average pay rate upwards, notwithstanding the impact of reduced hours and/or wages as discussed earlier.

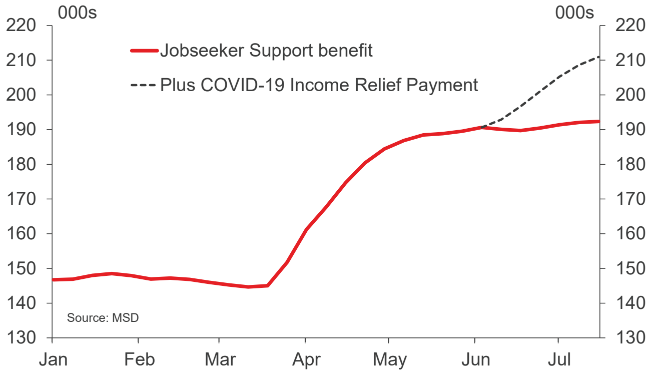
Unemployment rate and employment growth



Monthly Employment Indicator filled jobs



Unemployment benefits



Wage growth (all sectors, ordinary time)

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