

Economic Bulletin.

1 May 2020

Preview of Q1 labour market surveys: 6 May, 10:45am.

- We expect a small drop in employment for the March quarter, and a rise in the unemployment rate to 4.3%.
- The March quarter surveys are likely to have captured only a fraction of the impact of the Covid-19 outbreak.
- Other indicators suggest that the labour market maintained some positive momentum through the start of the year, but deteriorated significantly by late March when the lockdown began.

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	Q4 actual	Q1 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Employment growth	4.0	4.3	-
Unemployment rate	0.0	-0.2	0.7
Participation rate	70.1	70.0	-
Quarterly Employment Survey			
FTE employment	0.3	0.0	1.3
Hours paid	0.6	0.0	1.3
Private avg hourly earnings	0.1	1.1	3.0
Labour Cost Index			
All sectors, ordinary time	0.7	0.5	2.7
Private sector, ordinary time	0.6	0.5	2.5
Private, all salary & wage rates	0.6	0.5	2.5

Next Wednesday's labour market reports, covering the March quarter, will capture only a fraction of the impact of the Covid-19 pandemic and New Zealand's temporary lockdown in response to it. We expect a modest rise in the unemployment rate from 4.0% to 4.3%, jobs growth close to flat, and a continuation of the momentum in wage growth that we saw last year.

It's unlikely that the market will put much weight on these surveys, as they will provide little guidance as to how bad things could get in the coming months. In our latest forecasts we predicted a peak unemployment rate of 9.5% in the June quarter – and we'd be looking at a much higher number if it weren't for the Government's multi-billion dollar wage subsidy scheme, which will allow many businesses to keep workers on during the lockdown period. Even with Government support measures we expect the recovery to be gradual, with unemployment still above 7% by the end of next year.

In terms of what to expect next week, it's important to note the timing of the surveys. The Household Labour Force Survey



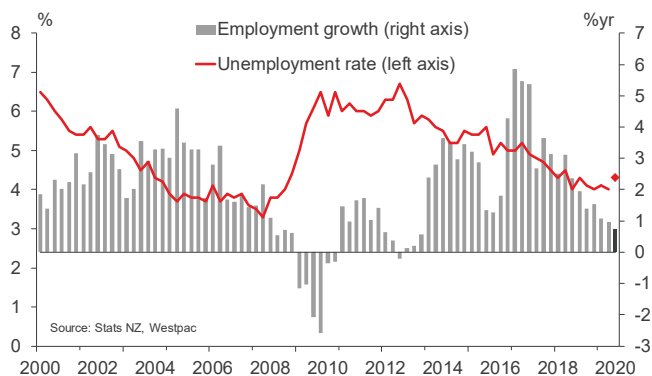
(HLFS) is surveyed continuously, so the result represents an average for the quarter – and averages can hide a lot. Stats NZ’s experimental measure of filled jobs, based on tax data, was steady over January and February, and the number of people receiving the Jobseeker Support benefit didn’t really pick up until the last week of March, when the lockdown began. What’s more, it’s not clear how well the HLFS will capture the late-quarter weakness, as Stats NZ has noted that survey response rates dropped off sharply around this time.

Our estimate is for a modest decline in employment of 0.2%. That broadly translates to a rise in the unemployment rate to 4.3%, though it’s possible that some of the impact could come through a fall in labour force participation instead. The issue will be how many laid-off workers considered themselves to be ‘actively looking for work’, at a time when few businesses were hiring.

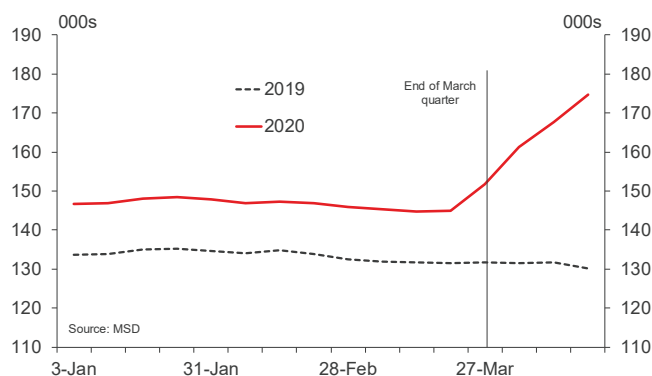
The Quarterly Employment Survey (QES) was conducted in mid-February, so it will capture even less of the Covid-19 impact than the HLFS. That said, there certainly were some industries that were already under pressure by that time, most notably forestry (as exports to China virtually halted) and travel and tourism (after non-resident visitor arrivals via China were barred). We’re expecting broadly flat outturns for the employment measures.

The Labour Cost Index (LCI) was also measured in mid-February, missing the impact of the lockdown. Moreover, the LCI measures of wage growth tend to evolve slowly and with a lag to employment trends. Wage growth was noticeably picking up (and by more than expected) by the end of last year, suggesting that the labour market had truly moved into ‘tight’ territory. We’re expecting that momentum to continue into the March survey, with a 0.5% rise in wage costs for the quarter lifting annual growth slightly to 2.7%. Going forward, though, it’s likely that wage increases will be hard to come by, apart from government-mandated increases such as minimum wage hikes and public sector pay agreements.

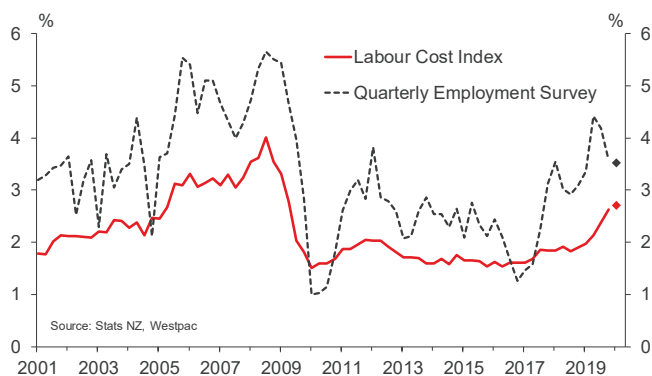
Unemployment rate and employment growth



Jobseeker Support benefits, weekly



Wage growth (all sectors, ordinary time)



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