Economic Bulletin.

28 October 2020

Preview of Q3 labour market surveys: 4 November, 10:45am.

- We expect the unemployment rate to rise to 5.5% in the September quarter.
- The June quarter results will have understated the impact of Covid-19 on unemployment.
- Even so, the impact has been much less than initially feared, with the economy rapidly rebounding from lockdown conditions.
- Wage growth is likely to remain muted.

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	Q2 actual	Q3 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	4.0	5.5	-
Employment growth	-0.3	-0.6	0.5
Participation rate	69.9	70.5	-
Quarterly Employment Survey			
FTE employment	-0.3	-0.3	0.5
Hours paid	-3.4	2.5	0.2
Private average hourly earnings	0.4	0.0	1.9
Labour Cost Index			
All sectors, ordinary time	0.2	0.3	1.6
Private sector, ordinary time	0.2	0.3	1.5
Private, all salary & wage rates	0.2	0.3	1.5

Pinning down the impact of Covid-19 impact on the New Zealand labour market has been difficult. There is certainly a range of indicators, some of which have cropped up only recently in response to the Covid crisis, but the messages have been rather mixed. Meanwhile, the official Household Labour Force Survey (HLFS) caught everyone off-guard by suggesting that the unemployment rate actually fell to 4% in the June quarter, in the midst of the Covid lockdown.

The September quarter survey, released next Wednesday, was relatively free of Covid disruptions and measurement issues (though some restrictions were re-imposed in August), so it should give us a cleaner read on labour market conditions. We expect the unemployment rate to rise to 5.5%, though there's a wide range of uncertainty around this number. Hours worked will recover most of the sharp drop in the previous quarter, but employment and wage growth are likely to remain soft.

To get to our unemployment forecast, we need to understand the starting point better. The Covid lockdown created a significant measurement issue: only those who are actively looking for work are classified as unemployed, but lockdown conditions made this impractical. Stats NZ including some additional questioning in June about whether people were not looking for work for Covid-related reasons. Adjusting for this effect, the 'true' unemployment rate appears to have been more like 4.6% – an increase on the previous quarter, but still well below the range of market forecasts.

The second issue is that the published unemployment rate reflects an average of responses for the quarter, whereas we'd expect that conditions deteriorated over the course of the quarter. Stats NZ published week-by-week results for the June quarter survey – not usually advisable, as the sample sizes become quite small and the results are noisy – which confirmed this trend: by June the weekly unemployment rate had risen to around 5%.

As for what's happened since then, we think the best indicator is the weekly figures on Jobseeker Support benefits. While this differs from the HLFS unemployment measure in several ways, it has tended to be a useful guide to the rate of change in unemployment. The benefit numbers rose gradually over the course of the September quarter, consistent with an unemployment rate rising from about 5% to about 6% – or a quarterly average of 5.5%.

We also checked our thinking against several other indicators, though none of them lend themselves to a precise forecast:

- Stats NZ's monthly employment indicator, based on income tax data, showed that the number of filled jobs had rebounded to around pre-Covid levels by September. However, it hasn't kept up with population growth in that time, suggesting a rise in joblessness.
- Online job advertisements have rebounded strongly since the lockdown, but are still down about 10% on a year ago. That level of hiring is consistent with an unemployment rate above 5%.
- The Westpac-McDermott Miller employment confidence survey showed a significant rise in the number of people out of work between June and September. However, the survey used a looser definition that corresponds more to the HLFS's broader measures of underutilisation rather than unemployment.

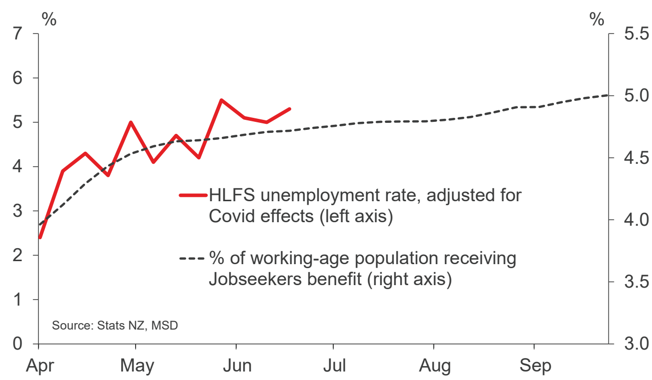
We've assumed a modest 0.6% fall in the number of people employed, after a surprisingly small 0.3% drop in the June quarter. If anything, the risks are towards an upside surprise on employment (and labour force participation), given the strength of the rebound in the monthly employment indicator.

The Government's wage subsidy scheme provided early and widespread support for workers during the lockdown, likely preventing a surge in layoffs. Instead, the adjustment largely occurred through a reduction in hours per worker, which should rebound strongly in the September quarter (though not fully, due to the renewed restrictions in August). One of the conditions of the wage subsidy was that workers had to receive at least 80% of their previous pay, even if their hours were cut by more than that. Consequently, the hours worked in the HLFS fell by more (-10.4%) than hours paid in the Quarterly Employment Survey (-3.4%).

We expect the wage measures in the QES and the Labour Cost Index (LCI) to be subdued again, with the annual rate of growth slowing sharply. Wage increases will have been hard to come by in the post-Covid environment, other than previously agreed increases such as the next stage of the primary school teachers' pay settlement.

Unemployment rate and employment growth

Unemployment and benefit rates



Wage growth all sectors, ordinary time

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