Economic Bulletin.

6 May 2020

NZ labour market review, March quarter 2020.

- The March quarter surveys provided a mixed picture of the strength of the labour market, ahead of the impact of the Covid-19 outbreak.
- The unemployment rate rose to 4.2%, a smaller increase than expected, and employment and participation both rose.
- However, wage growth softened after a strong run-up in 2019.
- We expect unemployment to rise sharply in the near term, but there's a lot of uncertainty about where it will peak.

It was always going to be difficult to draw a clear message from today's labour market releases. Covering the March quarter, they were only ever going to capture at most a fraction of the impact of the Covid-19 pandemic and the subsequent lockdown of activity that began in late March. So while the reports painted a moderately encouraging portrait of the economy's starting point, they give us little insight into how bad things could get in the coming months.

As it turns out, the March quarter reports provided some surprises in both directions. Employment fared better than expected, but wage growth lost some of the momentum that had been building over the last year.

The unemployment rate rose to 4.2% in the March quarter, compared to 4.0% in the December quarter which was the equal-lowest rate since the Global Financial Crisis. That was a smaller increase than the market was expecting, though it's not entirely surprising that it might come out on the lower side. Stats NZ had emphasised before the release that only

	Quarterly actual		Quarterly expected		Annual
	Q4	Q1	Market	Westpac	Q1
Household Labour Force Survey					
Unemployment rate	4.0	4.2	4.4	4.3	-
Employment growth	0.1	0.7	-0.2	-0.2	1.6
Participation rate	70.1	70.4	70.0	70.0	-
Quarterly Employment Survey					
FTE employment	0.4	0.8	-	0.0	2.1
Hours paid	0.6	0.6	-	0.0	1.9
Private average hourly earnings	0.1	1.4	0.9	1.1	3.3
Labour Cost Index					
All sectors, ordinary time	0.7	0.3	-	0.5	2.5
Private sector, ordinary time	0.6	0.3	0.5	0.5	2.4
Private sector, all salary & wage rates	0.6	0.3	0.5	0.5	2.4

a fraction of the March quarter survey would capture the lockdown period.

In addition, the Monthly Employment Indicator (MEI) released yesterday showed that the number of filled jobs was steady even through March. That was broadly consistent with the rise in employment that we saw in both the Household Labour Force Survey (HLFS) and the Quarterly Employment Survey (QES).

The timing of the surveys will have blunted the impact of the Covid-19 outbreak to some degree – the HLFS is an average over the quarter, while the QES is a snapshot from mid-February. It's not as though the outbreak had no impact on jobs before the lockdown, however: travel and tourism were hit by the ban on visitor arrivals from China in early February, and industries such as logging were hit by the lockdown in China.

The MEI will be a valuable indicator going forward. First, it fills the demand for a high-frequency indicator of the jobs market. Second, because it's based on tax data it provides near-complete coverage of paid employment, whereas the quarterly surveys are subject to sampling error from quarter to quarter. However, it does have some drawbacks. It's a count of jobs rather than workers, so it doesn't account for people who work more than one job. It also doesn't capture changes in working hours, which could play a significant part in how employers respond to this crisis.

The measures of wage growth were mixed. The Labour Cost Index (LCI) rose by just 0.3% for the quarter. That was a weaker than expected result, following some stronger than expected gains in the previous few quarters. QES average hourly earnings rose by 1.4%, largely a seasonal increase which saw annual growth hold steady at 3.6%.

Outlook.

The hit to economic activity from the Covid-19 lockdown will see a sharp spike in unemployment in the near term. That spike is likely to reduce quickly at first as businesses are able to reopen, but a return to pre-Covid levels of unemployment will be many years away.

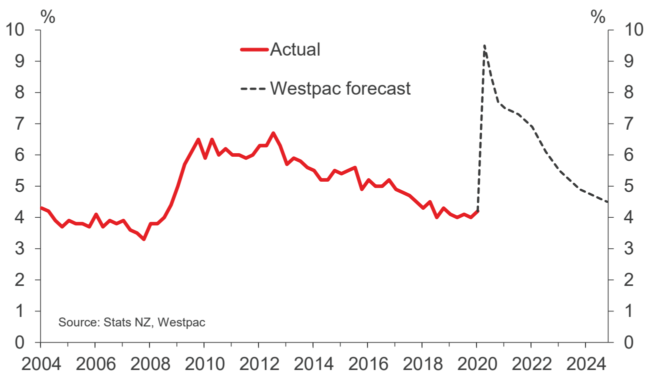
Our current forecast is for the unemployment rate to peak at 9.5% in the June quarter. However, there's a lot of uncertainty as to how this will play out, and we'll be closely watching how the jobs market progresses.

So far, the rise in the number of people receiving the jobseekers benefit has been a steady climb, compared to the off-the-charts spike that we've seen in the US. The New Zealand Government's wage subsidy scheme has been a clear point of difference, allowing firms to keep employees on the books during the lockdown. Without that scheme, we would probably have been forecasting an unemployment rate well into the double digits.

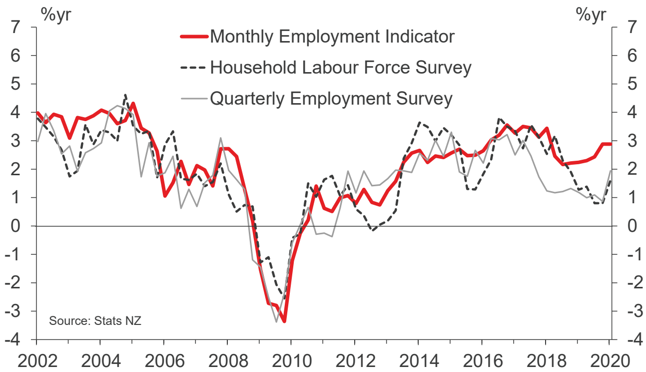
It's possible we'll see a surge in layoffs when the wage subsidy runs out at the end of June. But with that in mind, the Government is no doubt already considering what support measures it can provide beyond then.

With unemployment likely to remain above pre-Covid levels for some time, we suspect that wage growth will be minimal in the coming quarters, outside of Government-mandated increases such as minimum wage hikes and public sector pay settlements. In fact we could see outright pay cuts in some areas, a response that generally hasn't featured in previous downturns.

Unemployment rate



Measures of employment growth



Wage growth (all sectors, ordinary time)

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