

Economic Bulletin.

4 November 2020

NZ labour market review, September quarter 2020.

- The unemployment rate rose to 5.3% in the September quarter, close to our forecast.
- Conditions were relatively steady over the quarter, with little impact from the renewed Covid-19 restrictions in August.
- The results support our view that the unemployment rate will top out at a much lower level than was initially feared.
- Wage growth was stronger than expected, though the distribution appears to have been quite skewed.

After some surprising results in the June quarter, a period that was dominated by the Covid-19 lockdown, the September quarter labour market surveys were largely free of surprises. The unemployment rate rose to 5.3%, from a previous cycle-low of 4.0%. Employment fell further but is still up slightly on a year ago. Wage growth was modest, although a little stronger than we expected.

While the unemployment result was close to our forecast of 5.5% and in line with the market median, it was significantly better than official forecasts. The Reserve Bank's August *Monetary Policy Statement* forecast a rise in the unemployment rate to 7.0%, while the Treasury's pre-election update in September assumed a rate of 6.4%. Admittedly these forecasts were already somewhat dated, but the point remains that the economy has continued to bounce back more readily than policymakers expected.

	Quarterly actual		Quarterly expected		Annual
	Q2	Q3	Market	Westpac	Q3
Household Labour Force Survey					
Unemployment rate	4.0	5.3	5.3	5.5	-
Underutilisation rate	12.0	13.2	-	-	-
Employment growth	-0.3	-0.8	-0.7	-0.6	0.2
Participation rate	69.9	70.1	70.0	70.5	-
Quarterly Employment Survey					
FTE employment	-0.3	-0.5	-	-0.3	0.3
Hours paid	-3.5	1.6	-	2.5	-0.7
Private average hourly earnings	0.4	1.4	0.3	0.0	3.4
Labour Cost Index					
All sectors, ordinary time	0.2	0.6	-	0.3	1.8
Private sector, ordinary time	0.2	0.4	0.2	0.3	1.6
Private sector, all salary & wage rates	0.2	0.4	0.3	0.3	1.6



While Covid-19 has been a major shock to the New Zealand economy, the rapid elimination of the virus and early broad-based government support has meant that the impact on jobs has been much less severe than was initially feared. Three months ago, there was concern about a fresh wave of job losses once the temporary wage subsidy scheme expired. But the evidence now suggests there was a very limited impact, supporting our view that the unemployment rate is likely to plateau somewhere south of 7%.

We're still quite some way from maximum sustainable employment – both a stated goal of the Government's Covid-19 response package and a part of the Reserve Bank's policy targets. And there are plenty of risks ahead, with the rest of the world a long way from getting on top of the pandemic. But the economy's faster than expected rebound does put a question around the degree of policy stimulus that will ultimately be needed.

Details.

The Household Labour Force Survey (HLFS) recorded an unemployment rate of 5.3% in the September quarter, compared to 4.0% in June. The previous quarter was affected by the Covid-19 lockdown, which made it impractical to actively look for work. Further questioning by Stats NZ suggested a more comparable unemployment rate of 4.6% for the June quarter, with unemployment trending higher from week to week.

The September quarter doesn't appear to have been affected in the same way, despite the temporary increase in alert levels in August. Importantly, the unemployment rate showed no clear upward trend over the quarter, with the weekly rate bouncing around between 4% and 6%. (The margins of error are large when the survey sample is broken down to this extent.) That suggests the unemployment rate may be close to topping out.

We get a similar message from the weekly Jobseeker Support benefit numbers, which have flattened out lately and even fallen a little in October. We shouldn't get too excited about the latter part – the same thing happened this time last year, which suggests that it's part of the usual seasonal pattern. Nevertheless, the gap in benefit numbers between this year and last year is no longer widening.

The number of people employed fell in both the HLFS and the Quarterly Employment Survey (QES), though it was still up slightly compared to a year ago. Within that, the effects of Covid-19 have fallen distinctly unevenly. The biggest gains in employment have been in sectors that weren't affected by the lockdown (agriculture, government) or have quickly got back on track (construction). The biggest losses have not surprisingly been in retail and accommodation (including hospitality and tourism), but also in professional and business services.

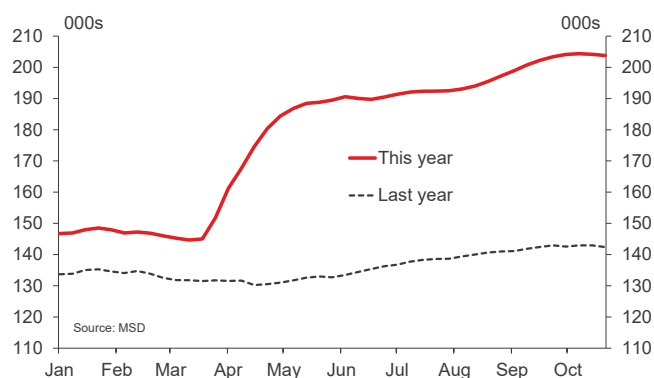
Hours worked rose by 9.4% in September, reversing much of the 10.2% drop in the previous quarter. This adds to the evidence that the New Zealand economy bounced back readily as the Covid lockdown was lifted, and that the renewed restrictions in August had a relatively muted impact on activity and employment. The September quarter GDP figures, which are released towards the end of this year, are likely to show a similar bounce after a 12.2% drop in the June quarter.

Wage growth was a little stronger than we forecast, with the Labour Cost Index (LCI) rising by 0.6%. We expected that wage increases would be hard to come by in the post-Covid environment, and that was indeed the case – fewer than half of all jobs have seen a pay increase at all in the last year, the lowest share in a decade. However, for those who did receive a pay rise, the average increase rose sharply (but the median did not), which suggests there may have been some unusually large pay increases at the top end of the range. That may also explain the surprisingly strong 1.4% rise in average hourly earnings in the QES, which isn't adjusted for composition effects.

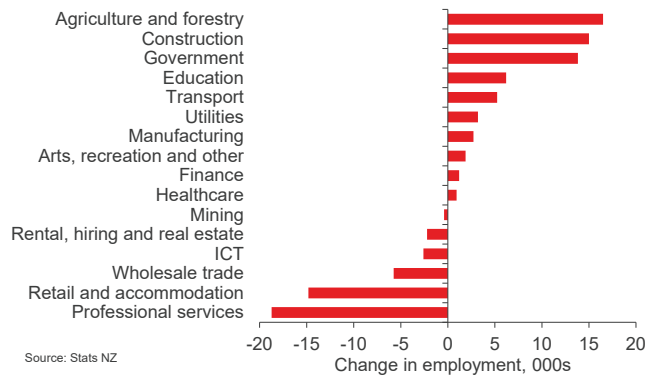
Unemployment rate and employment growth



Jobseeker support benefits



Changes in employment vs a year ago



Wage growth (all sectors, ordinary time)



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