Economic Note

Q3 2020 Labour Market Data Preview

29 October 2020

The climb begins

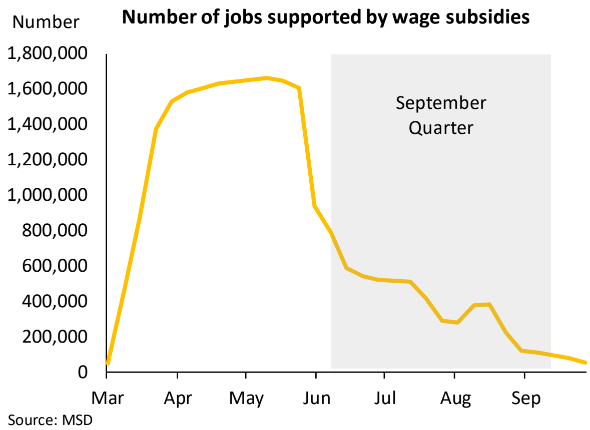
- Q3 data will provide a cleaner read on the labour market, following Q2's artificially low unemployment result.
- The wage subsidy and NZ's impressive economic rebound have cushioned recession impacts on the labour market. But we still see the unemployment rate rising to 5.4% in Q3, on its way to a peak of 6½% next year.
- Markets and policymakers will likely look through any surprise volatility that has increasingly become the norm. The RBNZ is already responding to the expected continued slackening in the labour market over the coming 12 months.

Q3 Labour Market Forecasts		
HLFS	ASB	Prior
Employment growth (QoQ)	-0.7	-0.3
Employment growth (YoY)	0.4	1.5
Unemployment Rate (%)	5.4	4.0
Participation Rate (%)	70.4	69.9
Labour Cost Index		
Private Sector (%, QoQ)	0.3	0.2
Private Sector (%, ann)	1.5	1.8

Quarterly labour market data have lost a little of their usefulness. In the COVID-era, more timely data like Stats NZ's Monthly Employment Indicator and MSD's Jobseeker figures are becoming more helpful in providing up-to-date information on the labour market. There are also the well-known issues with sampling difficulties and quarter-to-quarter volatility associated with the Household Labour Force survey (HLFS). These issues were heightened last quarter when it was revealed that the unemployment rate had bizarrely *fallen* in Q2 – to a 12-year low of 4% no less – even as lockdown crunched the economy.

Q3 figures should at least provide a cleaner read on NZ's labour market. We're still not totally out of the woods on this front though, there's a wide range of possible outcomes. Encouragingly though, Stats NZ have reported data collection issues have been much less of a problem this quarter than last.

We expect a 0.7% fall in employment over the quarter. Coupled with a ½ percentage point rebound in the labour force participation rate (to 70.4%), this would deliver an



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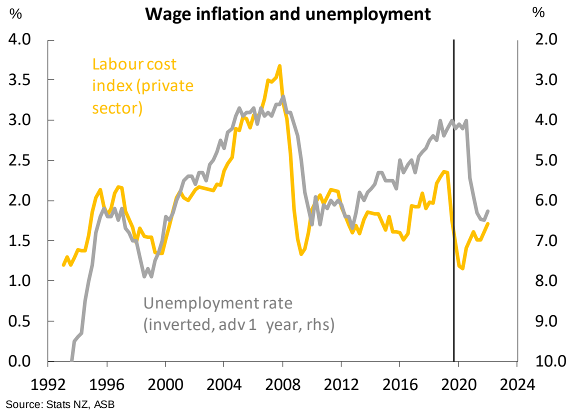
increase in the unemployment rate from 4.0% to 5.4%.

This is very unlikely to be end of the rising unemployment trend (we have the peak pegged at 6.5% in June 2021). Things will get tougher. This being the case, we suspect it would take a fairly big surprise from the data to change the Reserve Bank or anyone's view about the labour market. The Bank is already aggressively responding to the expected continued slackening in the labour market over the coming 12 months.

There's usually a pretty close link between economic activity and the jobs market in any given quarter. However, the wage subsidy has changed all that. The quick deployment and massive size of the subsidy undoubtedly cushioned the blow of the recession on the labour market. Some of the gloomier unemployment predictions have thus been revised to more palatable levels. But as wage support started to roll off from June (chart above), joblessness has increased. That's been the message from the more timely labour market indicators. Monthly filled jobs, for example, have actually recovered all of their COVID declines, but these jobs gains have still not quite kept pace with the likely growth of the labour force.



Third quarter labour figures will also feature a partial unwind of some of the lockdown effects that showed up clearly in the Q2 data. For example, hours worked collapsed 10% in Q2 and underutilisation leapt to 12% as large chunks of the work force were effective paid to sit at home and watch Netflix. We expect to see partial rebounds in both series in Q3, with the resulting levels to provide a better guide of the extent of current labour market slack.

The COVID-driven slackening we've seen to date has drained much of the wage pressure out of the labour market that had been steadily building through 2019 (albeit part of this was via legislated wage increases like for the minimum wage). As such, we expect another soft quarter for the various wage measures from the Labour Cost Index (LCI) and the Quarterly Employment Survey. The most closely followed of these – the private sector LCI – is expected show a 0.3% quarterly expansion, which would see annual wage inflation slow to 1.5%. We expect a further slowing to 1.2% over the coming two quarters as the labour market continues to soften.

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