Economic Note

Q3 2020 Labour Market Review

4 November 2020

No surprises here

- Little to surprise from Q3 labour market figures.
- Labour market conditions have deteriorated and are expected to continue to do so, but government support and NZ's relative COVID success have been effective in limiting the damage.
- Both the labour and housing markets are tracking much stronger than RBNZ forecasts. Still, the deteriorating global picture will keep the Bank cautious. We expect more monetary stimulus and further falls in retail interest rates from here.

Household labour Force Survey	Actual	ASB	Market
Employment growth (QoQ)	-0.8	-0.7	-0.7
Unemployment Rate (%)	5.3	5.4	5.3
Participation Rate (%)	70.1	70.4	70.0
Labour Cost Index			
Private Sector (%, QoQ)	0.4	0.3	0.2
Private Sector (%, ann)	1.6	1.5	1.4

Summary and implications

Third quarter data provided a reasonably 'clean' read on the state of NZ's labour market. Last quarter's oddities have mostly washed out of the data, and the impacts of lockdown, other shifts in Alert Levels, and the wage subsidy are largely behind us. The picture we're left with is one of a modest deterioration in labour market conditions, which has brought about the expected slowdown in wage growth. Undoubtedly, the picture is much less gloomy than it could have been were it not for the wage subsidy, NZ's relative COVID success, and the surprisingly rapid recovery in economic activity.

Looking ahead, how the labour market fares as fiscal support fades will be a critical factor in how the economy recovers. The latest signs are encouraging, but there is still plenty of uncertainty here. We think it's likely unemployment will continue to nudge higher in coming quarters, but our forecast peak of 6.5% next year, if realised, would amount to a sterling result when set against global peers.

In a refreshing change for quarterly labour market data, there wasn't lot in today's numbers to surprise anyone. Employment fell 0.8% qoq and unemployment lifted from 4.0% to 5.3% - very close to our own and market expectations. We consider this quarter's unemployment rate to be a roughly "fair" reading on NZ labour market slack. Recall that measurement issues clouded last quarter's numbers and produced an artificially low 4.0% unemployment read.

Evidence of NZ's impressive post-lockdown revival was littered amongst the details, again all largely as expected. The

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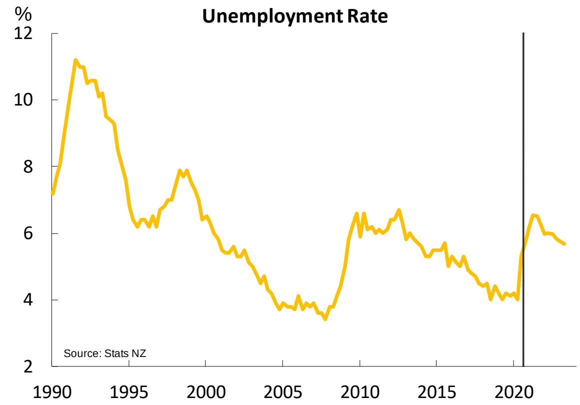
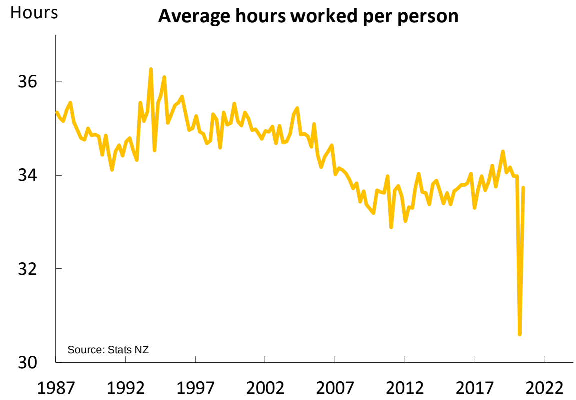
labour force participation rate rose back above 70% as workers locked down last quarter re-entered the labour force. And hours worked registered a whopping 9.4%qoq bounce as economic activity roared back to life.

Stats NZ did highlight the disproportionate falls in female employment that have occurred to date. In fact, women have accounted for 71% of the 31k reduction in (seasonally-adjusted) employment since March. It appears most – around 80% – of these job losses were in tourism or tourism-related industries.

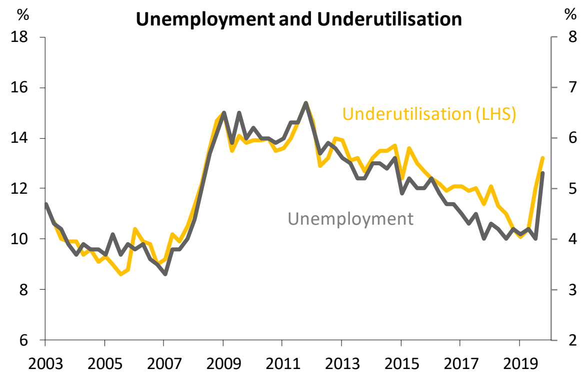


One thing that surprised us a little was the further increase in underutilisation, to 13.2% from 12% in Q2. We had thought this measure might give back some of last quarter's big increase as workers underutilised during lockdown increased their hours again. This series can be choppy quarter-to-quarter so we will put it to one side for now. We also note that wage measures were generally on the firmer side of expectations, supporting our view of a measured deterioration in the labour market.



Wages slowing less rapidly than expected

The most closely watched of the various wages measures – the private sector Labour Cost Index (LCI) – rose 0.4% qoq. For a slow moving and fairly predictable series this was noticeably stronger than the market's (0.2%) expectation, but closer to our forecast (0.3%). Public sector wage growth was outright strong at 0.8% for the quarter. There's now a growing wedge between the two with annual growth in the private sector LCI at 1.6% vs. the public sector at 2.5%.



Source: ASB, Statistics NZ

Overall, we wouldn't get too hung up on this quarter's wage surprise. The restoration of some salary cuts instituted in lockdown looked to have played a role here, and the latest round of the primary schools pay settlement was also a feature of the public sector wage figures (Education and Training subcomponent +1.7% qoq). The broader wages picture – evident across most measures of such – is one of clearly slowing wage growth. We expect this trend to continue through most of next year.

Labour and housing much stronger than RBNZ expectations

For the RBNZ, today's data are yet another confirmation that both the housing and labour markets are in a materially stronger state than it has been assuming. The August *MPS* forecast the unemployment rate to be 8.1% by the end of the year (ASB: 6.0%) and annual house price inflation to be down 7% (ASB: *up* 9%). Housing wealth and labour incomes are big engines for the economy and the RBNZ will need to lift its forecast for both by a lot. Still, we think it's too soon to take the foot off the monetary stimulus gas. A summer without tourism and the wage subsidy beckons, and global growth is now heading south again. The path of least regret for the Bank will thus be to keep pushing monetary policy easier. A Funding for Lending programme is the next cab off the rank. We continue to expect further falls in retail interest rates.

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