

Labour Market Statistics – 2020Q2

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Contact

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Hard slog ahead

Bottom line

- The headline unemployment rate unexpectedly fell to 4%, due to measurement issues as a result of lockdown. Adjusting for this, unemployment rose to 4.6%.
- But more importantly, both the adjusted measure and headline unemployment rate showed a very steady increase over the quarter, reaching 6.2% in the final week of the quarter, though sampling errors are very wide.
- Underutilisation increased from 10.4% to 12.0%, with slack emerging in the labour market, which is only set to increase. Wage growth was also very modest (up 0.2% q/q), despite the minimum wage rise.
- This picture and the outlook for the labour market to deteriorate significantly from here will be concerning for the RBNZ. We continue to expect [more stimulus next week](#).

The details

Today's data massively understate the weakness that was prevailing in the labour market in Q2, due to measurement issues. Collection and allocation of responses to the household survey (HLFS) was complicated by lockdown, while impacts in the business survey (QES) were clouded by the wage subsidy. These issues reduce signal from the data and will cause further volatility.

Data summary

		Latest
Labour market		
HLFS unemployment rate (sa)		4.0%
HLFS participation rate (sa)		69.7%
HLFS employment (sa)	q/q	-0.4%
HLFS employment	y/y	1.2%
HLFS hours worked (sa)	q/q	-10.3%
QES filled jobs (sa)	q/q	-0.5%
QES filled jobs	y/y	0.8%
QES paid hours (sa)	q/q	-3.4%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.2%
LCI private sector wages (ex-overtime)	y/y	1.8%
QES private sector hourly earnings	q/q	0.4%
QES private sector hourly earnings	y/y	2.5%
QES private sector gross earnings	y/y	1.0%

- The unemployment rate unexpectedly dropped from 4.2% to 4.0%, understating weakness in the labour market. During lockdown, measurement issues were severe, with unemployment reported to have reached a simply unbelievable low of 1.5% in the early weeks of the quarter.
- Taking into account those who were outside the labour force due to lockdown, the unemployment rate was 4.6% on average over the quarter.
- As the quarter progressed, conditions steadily deteriorated, with unemployment (headline and adjusted) rising to 6.2% by the final week of the quarter, though sampling errors are very wide. This steady rise partly reflects measurement issues resolving, and job losses genuinely rising as the crisis unfolded.
- Measures of underutilisation are a better guide to the degree of slack emerging in the labour market, with the underutilisation rate rising from 10.4% to 12.0%, which includes those who want to work but can't and those who are keen to work more hours. This is the highest level since 2004.
- Consistent with the slump in GDP, HLFS hours worked fell 10.3%, with a massive drop in hours worked per person. QES weekly paid hours fell a more modest 3.4%, supported by the wage subsidy, but there was a massive drop in overtime hours of 31%. These were all the largest falls ever.
- Wages were on the softer side, even with a boost from the minimum wage increase. Our preferred measure of wages – the private sector Labour Cost Index (LCI) – increased 0.2% q/q to 1.8% y/y. Without the impact of the minimum wage, the labour cost index would have been flat – an extremely weak result for this series.

The three key areas of signal in today's data are:

- Unemployment increased steadily over the quarter, even if it is understated;
- Broader labour market utilisation has worsened meaningfully; and
- Wage inflation is very weak.

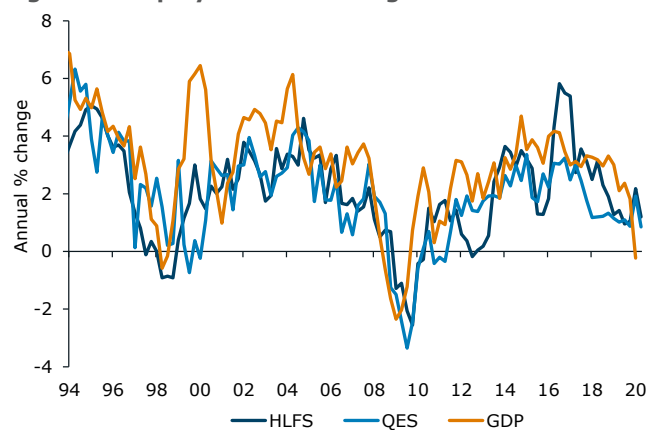
The headline unemployment rate from today's release should be discounted, and there are some worrying trends that are starting to emerge that are only set to worsen.

Temporary policy supports have delayed the impact of the current crisis on the labour market. But in many cases, job losses have been delayed and not avoided. The COVID-19 disruption seen over the June quarter has now passed, but the impact of the closed border and grim global outlook will weigh, with the crisis now morphing into an unfolding domestic recession that will have significant impacts. These will become more evident over time, [particularly later this year](#), with the labour market tending to be a lagging indicator.

More stimulus is needed [from the RBNZ](#) given that inflation and unemployment are set to move well away from their targets. More fiscal stimulus to support the recovery is also needed to help get the economy going again and keep as many in employment as possible. Greater [labour market flexibility](#) could help to move workers to jobs where they are needed.

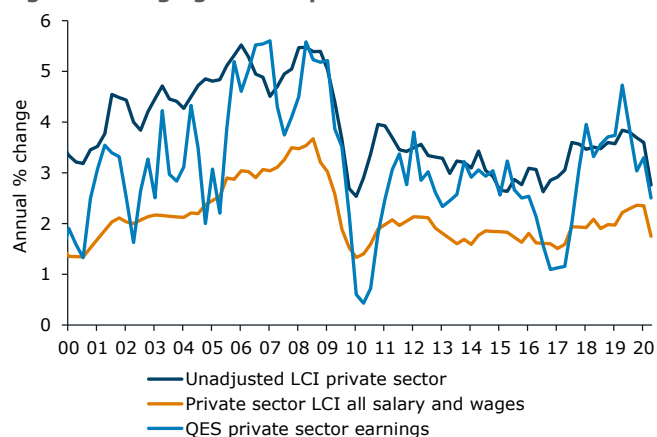
Although New Zealand is fortunate in managing to avoid a lot of the health impacts of the COVID-19 crisis, the human impacts of rising unemployment are extremely worrying, and today's data should be no cause for complacency.

Figure 1. Employment and GDP growth



Source: Statistics NZ

Figure 2. Wage growth – private sector¹



¹ The unadjusted LCI does not adjust for productivity improvements within a given occupation but does adjust for improvements that arise from changes in the composition of the workforce. The adjusted LCI takes into account both. QES average hourly earnings adjust for neither.



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