ANZ Research

Labour Market Statistics – 2020Q3

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Contact

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Data summary

		Latest
Labour market		
HLFS unemployment rate (sa)		5.3%
HLFS participation rate (sa)		70.1%
HLFS employment (sa)	q/q	-0.8%
HLFS employment	y/y	0.2%
HLFS hours worked (sa)	q/q	9.4%
QES filled jobs (sa)	q/q	-0.4%
QES filled jobs	y/y	0.0%
QES paid hours (sa)	q/q	1.6%
Wages		
LCI private sector wages (ex-overtime)	q/q	0.4%
LCI private sector wages (ex-overtime)	y/y	1.6%
QES private sector hourly earnings	q/q	1.4%
QES private sector hourly earnings	y/y	3.4%
QES private sector gross earnings	y/y	2.7%

Weaker, but could have been worse

Bottom line

- The labour market has deteriorated, with the unemployment rising to 5.3%, employment very weak, and wage inflation decelerating from already low levels. This picture is set to weaken further as the economic recovery stagnates, but could have been much worse.
- So far the deterioration has been noticeable in certain pockets. Tourism-exposed jobs appear to have been significantly affected and remain vulnerable as the impacts of the closed border are increasingly felt over summer. But recessionary impacts will likely see these effects broaden going forward. Meanwhile, skills shortages are still a problem in some areas.
- Today's release is another domestic data read that's more positive than the RBNZ's August expectations. This will take some of the pressure off the RBNZ to take the OCR lower. But given the outlook, with weak inflation and slack in the labour market already evident, more stimulus is expected. An FLP is expected to be announced next week – and the balance of risks still point to a negative OCR in time.

The details

The labour market has deteriorated, but the picture could have been much worse. Wage subsidies and other temporary supports have cushioned the slowdown. The outlook is still for conditions to worsen as the economic recovery stagnates and the full brunt of this crisis becomes clear, but we are sitting at a more resilient starting point than was first feared when the slowdown was getting underway.

Turning to the details:

- The unemployment rate rose to 5.3%, in line with our forecast (and market consensus). We estimate that if it were not for disruption in participation, the unemployment rate would have sat at 4.6-4.8% last quarter, meaning today's deterioration was not as large as the record jump in the headline unemployment rate (from 4.0%) would suggest on the face of it.
- That said, under the hood, the deterioration in the labour market was a little more marked at the margin, with employment falling a bit more than expected (-0.8% q/q versus -0.4% expected). The participation rate rose by less than expected (to 70.1% versus 70.5% expected). It is possible that more of a recovery in labour force participation is on the way, which, combined with very weak employment growth, may point to a more substantial increase in the unemployment rate in coming quarters than otherwise.
- Overall, employment growth is very soft, at just 0.2% y/y. The QES measure is similarly anaemic, falling 0.4% q/q to be flat over the year. Of those people who are employed, perceptions of job security have improved, reflecting the bounce in economic activity out of lockdown and consistent with the recent improvement in consumer confidence.
- Broader measures of labour market utilisation also deteriorated. The underutilisation rate has risen from 12.0% to 13.2%. This indicates widening slack in the labour market, with increases in both those who are unemployed and those who wish to work more but can't.

- Consistent with GDP recovering sharply (though not completely) in Q3, HLFS hours rose 9.4% after slumping 10.2% in Q2. QES weekly paid hours rose 1.6% q/q (last: -3.5%) – a less pronounced dip and recovery, with this measure having been supported by the wage subsidy through Q2.
- Wage growth is very weak. Our preferred measure of wages – the private sector Labour Cost Index (LCI) – increased 0.4% q/q, seeing annual wage inflation soften from 1.8% y/y to 1.6%. Last quarter, wages were flat, once the minimum wage rise is taken into account. Today's data show no catch up. QES private sector hourly earnings saw a solid bounce (1.4% q/q; 3.4% y/y), but this data can be volatile and skewed by compositional changes.

Reflecting the early phase in the downturn, the weakening in the labour market has been particularly pronounced in certain pockets. First, employment in retail, accommodation and food services has fallen 7% since March (a loss of 29k jobs). Second, and relatedly, women and young people have been disproportionately affected. There are 31k fewer people in employment since March, with two-thirds of these women. And 16.2% of women are underutilised. Unemployment in the 15-19 age group has jumped to 19.5%, though this data can be noisy. Slack is emerging in particular pockets, while other industries, such as construction and horticulture, grapple with labour shortages. As the downturn evolves, tourism-exposed industries remain vulnerable to further job losses, especially with the loss of international tourism through summer, but the deterioration in the labour market is expected to broaden to some degree through the economy as the usual recessionary dynamics become evident.

Today's rise in the unemployment rate was smaller than the RBNZ's August MPS forecast for a rise to 7%. However, the RBNZ has been clear that it will discount near-term strength in the data to some degree, given the grim outlook ahead. We do think that the RBNZ will acknowledge that the picture could have been much worse, and this, plus a range of other more positive starting-point news, does reduce the probability that the OCR is taken negative. But with unemployment set to rise further and wage inflation very weak, today's data reaffirm that more stimulus is coming, with a Funding for Lending Programme (FLP) expected to be unveiled next week at the November MPS. The implementation of an FLP could also see OCR cuts occur later or more gradually. But overall, given the outlook and the balance of risks, we remain of the view that a negative OCR is more likely than not, with a 50bp cut expected in April.

Figure 1. Employment and GDP growth

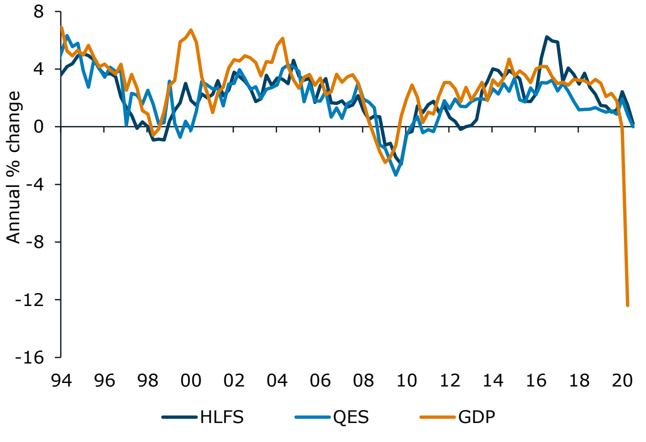
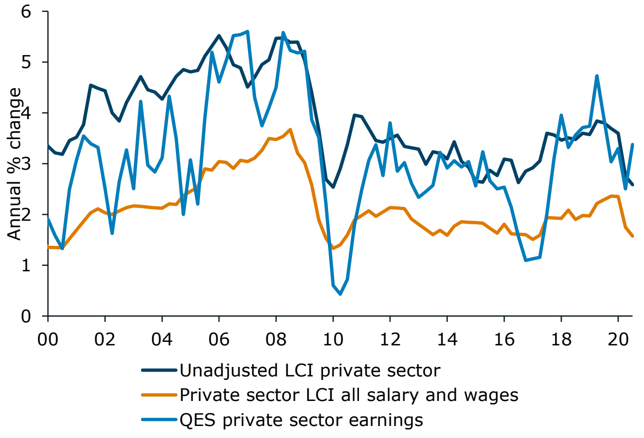


Figure 2. Wage growth – private sector[1]



Source: Statistics NZ

[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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