

Q1 Labour Market Data Preview

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Labour pains

- We expect the unemployment rate rose from 4.0% to 4.6% in Q1, but this is just the beginning of the labour market deterioration underway. Weakness in the labour market will be understated this quarter due to measurement issues and the precise number is of little import.
- Unemployment is expected to increase rapidly in coming quarters on account of the enormous economic contraction underway, even if we can restart the economy as we expect. Uncertainty is much greater than usual and volatility should be expected.
- Momentum in wage inflation was creeping higher before the current crisis began and we expect a moderate print in Q1. But a significant deflationary impulse is expected to be borne out in coming quarters.

Key points

March quarter labour market statistics are released next Wednesday 6 May. This will include some early impacts of the COVID-19 crisis. The crisis escalated through the quarter, with our lockdown beginning in late March. We expect that jobs were lost on an ongoing basis as developments unfolded. New Zealand was hit by the outbreak a bit later than other countries, but deterioration in the labour market will have occurred from early on, with export markets like tourism and forestry being immediately directly impacted.

Due to measurement issues, the labour market deterioration seen over the quarter will not be fully reflected in next week's Q1 release. Statistics NZ has said that survey response rates dropped significantly once the lockdown took effect. Those responses that were not received had to be imputed. This means that the results will be biased by more positive responses received earlier in the quarter, but to what extent is unknown.

Taking into account these measurement issues, we are picking the unemployment rate to print at 4.6% next week, but one shouldn't look for meaning in deviations from this estimate. If the survey response rate had not been impacted, we think that the unemployment rate would have landed somewhere in the 5-6% range. We see employment dropping 0.5% q/q to sit at 0.4% y/y, and the participation rate is expected to dip a little to 69.9%.

More important than any measurement issues, the labour market deterioration in Q1 is just the beginning of the significant impact we see playing out in coming quarters. Although the Government is doing what it can to support employment, particularly through the wage subsidy scheme, job losses are unfortunately inevitable. We see the unemployment rate tracking higher to peak at 11% in Q3, before dipping to 8½% at the start of next year and gradually improving thereafter.

There is considerable uncertainty about the outlook at present. The impacts of the current downturn are difficult to quantify and will depend on how a number of things unfold – the COVID-19 outbreak, our path out of lockdown, business resilience, and policy stimulus, to name a few key factors. Added to that, disruption impacts associated with lockdown are hard to quantify and continued measurement issues are on the cards. Volatility should be expected.

March 2020 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	4.6%	4.0%
Participation rate (sa)	%	69.9%	70.1%
Employment (sa)	q/q	-0.5%	0.0%
Employment	y/y	0.4%	1.0%
Wages			
LCI private sector wages (ex-overtime)	q/q	0.4%	0.6%
LCI private sector wages (ex-overtime)	y/y	2.5%	2.4%
QES private sector hourly earnings	q/q	0.6%	0.1%
QES private sector hourly earnings	y/y	2.5%	3.0%

Wage developments tend to lag developments in employment. Before the COVID-19 crisis began, wage inflation had been tracking higher, with the labour market close to full employment and domestic inflationary pressures building. Consistent with that, we expect wages rose moderately in Q1, with a 0.4% q/q lift in the Labour Cost Index. This would see annual inflation edge higher, from 2.4% y/y to 2.5%. The more volatile QES series is expected to lift 0.6% q/q after a weak print last quarter.

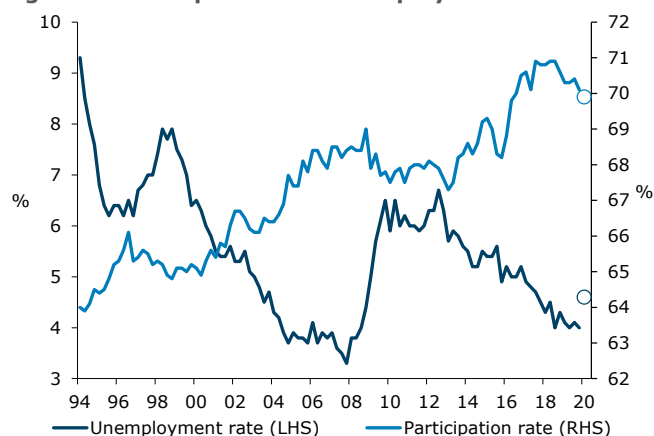
However, wage inflation is expected to turn south in coming quarters. Slack is opening up in the labour market abruptly, eroding workers' bargaining power at the same time that firms' ability to employ workers, let alone pay them more, is becoming severely impaired. Also providing a weak backdrop is the fact that broader price pressures have rapidly eroded. Petrol prices have plunged, firms are facing much weaker demand (or an inability to trade at all), and there are many anecdotes of wage cuts that may or may not prove temporary. All of this will swamp the recent increase in the minimum wage and other Government policies to keep people employed. We see wage inflation moderating this year to hover at around 1% y/y – and only edging higher once the recovery in the labour market is well entrenched.

For the RBNZ, the outlook is precarious. The labour market is moving away from full employment – and quickly. And there is a clear risk that inflation and wage expectations move lower persistently. The RBNZ will do what it takes to shore up the outlook and we think further stimulus will be needed to see our expected recovery in the labour market and wages, with the RBNZ's QE programme expected to roughly double.

The Government will play a crucial role in supporting the recovery, too. The wage subsidy scheme is currently keeping many people in work, but it is a stop-gap that for some is unfortunately delaying the inevitable. It is possible the scheme will be extended, but it would need to be well targeted and isn't sustainable beyond the short term because of its very high cost. More initiatives to support the economic recovery will be required – and are expected in the upcoming Budget. But difficult decisions will need to be made too, to ensure that those initiatives are affordable long term.

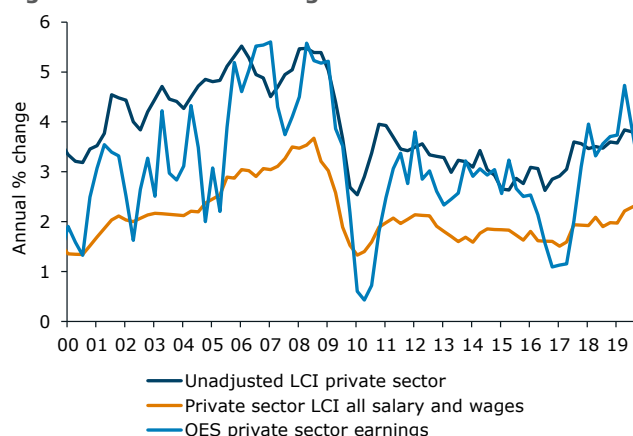
We will have more details on the labour market outlook in our ANZ Weekly Focus on Monday. We will also be releasing previews of the Budget and RBNZ MPS next week with further thoughts on what to expect.

Figure 1. Participation and unemployment rates



Source: Stats NZ, ANZ Research

Figure 2. Measures of wage inflation





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