

Q2 Labour Market Data Preview

30 July 2020



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Contact

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June 2020 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	5.7%	4.2%
Participation rate (sa)	%	68.6%	70.4%
Employment (sa)	q/q	-3.2%	0.7%
Employment	y/y	-2.3%	1.6%
Wages			
LCI private sector wages (ex-overtime)	q/q	0.4%	0.3%
LCI private sector wages (ex-overtime)	y/y	1.8%	2.4%
QES private sector hourly earnings	q/q	1.0%	1.4%
QES private sector hourly earnings	y/y	3.0%	3.3%

Still in the dark

- Data for Q2 will shed little light on how the labour market has fared due to measurement issues. We are picking a lift in the unemployment rate to 5.7%, but this understates true weakness and uncertainty is massive.
- Underutilisation measures will be a better gauge of labour market weakness in this environment, but only a little.
- Looking ahead, official data will unfortunately give a poor steer on the true state of the labour market for a while, due to volatility and temporary policy supports that are delaying job losses.

Key points

June quarter labour market statistics are released next Wednesday 5 August. This period includes New Zealand's lockdown – a time for which all data has been noisy and volatile. Labour market survey collection has been affected by a number of specific issues and data should be interpreted with caution.

The stated unemployment rate will understate true weakness. Assessing workers' labour market status was complicated by lockdown. Some unemployed workers were unable to look for or start work, meaning they may be allocated as outside the labour force – resulting in a fall in participation. Although employment is expected to have been hit hard, this fall in participation will mute the impact of job losses on the unemployment rate.

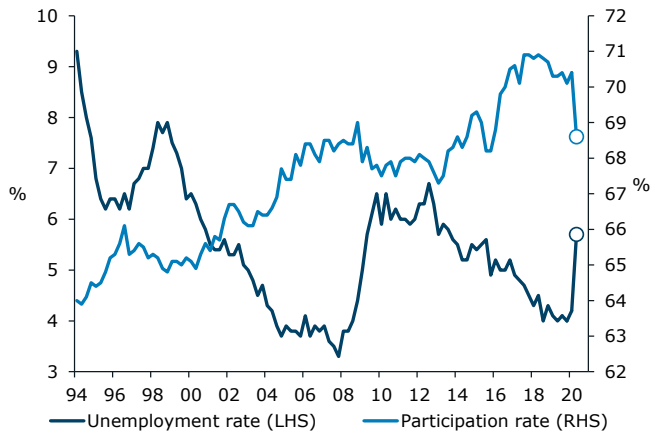
A significant hit is also expected to have occurred to hours worked (but not hours paid, due to the wage subsidy). Volatility in hours will cause noise in measures of wages and productivity. Quality adjustment of wages has been difficult due to missing information. All these factors cloud the picture, over a period for which data is already expected to be difficult to interpret.

Bearing in mind these issues, both forecasts and reported data should be taken with a grain of salt. Where these will print is unknown – with scant data to provide any guide, bands of uncertainty are very wide. For what they're worth, our picks are for employment to fall 3.2% q/q, participation to fall 1.8%pts to 68.6%, and the unemployment rate to lift 1.5%pts to 5.7%. We have pencilled in a modest 0.4% q/q lift in the labour cost index, with the minimum wage hike boosting the index by roughly 0.2%pts, but uncertainty and a weak outlook weighing on bargaining power. QES average hourly earnings may be boosted by compositional effects, given job losses have likely been concentrated in lower-paid areas like tourism and retail.

Underutilisation will be a better measure of labour market weakness in Q2, in that it includes potential jobseekers who are outside the labour force and those who would prefer to work more hours. But even then, temporary policy supports mean the data will understate the underlying weakness.

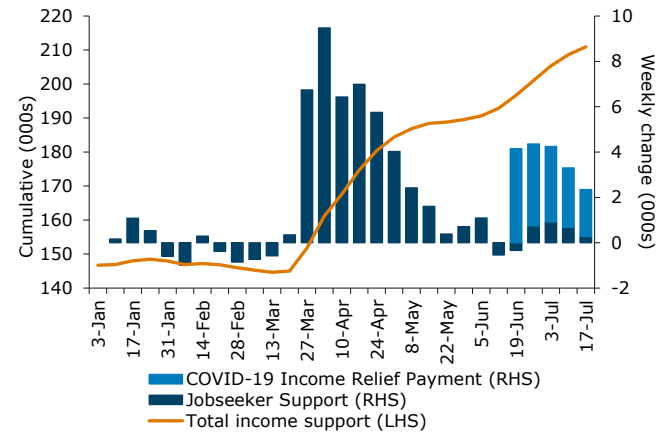
More job losses are coming, with firms cautious about hiring, and the wage subsidy delaying the inevitable in some cases. The effects of the recession are expected to become more evident later this year; significant weakness in the labour market is expected, weighing on wages and broader inflation. We continue to expect that unemployment will peak at 10%, but timing is very uncertain. The RBNZ will be alert to the grim outlook for the labour market and inflation, providing good reason to keep its foot firmly on the QE accelerator, even if the recent bounce in economic activity is encouraging.

Figure 1. Participation and unemployment rates



Source: Statistics NZ, ANZ Research

Figure 2. Jobseeker and income support recipients



Source: Ministry of Social Development



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