

Q3 Labour Market Data Preview

29 October 2020



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It depends

- Labour market data out next week will have been flattered by wage subsidies, with some firms still dependent on these supports over Q3.
- We expect that employment fell and the unemployment rate rose, but how much is uncertain, depending on how much these supports have reduced or delayed job losses. Volatility in the data is also expected, given disruption and measurement difficulties seen last quarter.
- With challenging times ahead and temporary supports rolling off, we expect the labour market to deteriorate further. But for now, the picture could have been much worse.

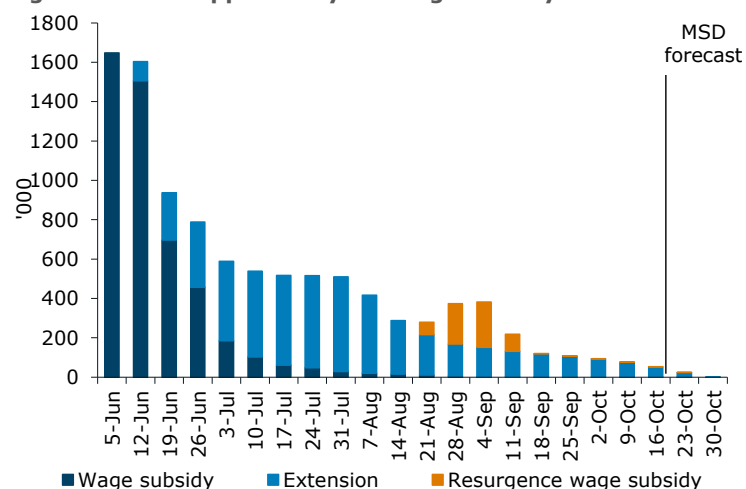
Key points

September quarter labour market statistics are released Wednesday 4 November. July-September is a period when firms were still dependent on temporary fiscal supports, in particular the wage subsidy scheme (figure 1).

September 2020 Quarter

		Exp	Prev
Labour Market			
Unemployment rate (sa)	%	5.3%	4.0%
Participation rate (sa)	%	70.5%	69.9%
Employment (sa)	q/q	-0.4%	-0.3%
Employment	y/y	0.7%	1.5%
Wages			
LCI private sector wages (ex-overtime)	q/q	0.4%	0.3%
LCI private sector wages (ex-overtime)	y/y	1.5%	1.8%
QES private sector hourly earnings	q/q	0.3%	0.4%
QES private sector hourly earnings	y/y	2.2%	2.5%

Figure 1. Jobs supported by the wage subsidy scheme



Source: Ministry of Social Development

Because of this, some job losses have been avoided or delayed, muting the impact of the current crisis on the labour market – so far at least. It is unclear how much of an impact this has had, and the vigorous post-lockdown rebound in GDP will have had a cushioning effect too, even if we think the recovery is set to become more challenging. Short-term indicators point to stability or a modest decline in employment, but it is unclear how much signal to take from this data, especially in the current unprecedented environment when usual relationships may not hold. We've pencilled in a fall of -0.4% q/q, which includes a teeny bit of "catch up" after a surprisingly small 0.3% fall in Q2.

The labour market data was also affected by disruption and measurement difficulties last quarter, which is likely to lead to an overlay of volatility in the next few quarters. This could impact employment, and will almost certainly impact labour force participation, which fell dramatically as a result of lockdown last quarter. These moves are very hard to predict, but we expect a partial bounce in participation. Hours worked are also expected to see a rebound after last quarter's steep decline.

There are a wide range of possible outcomes for the unemployment rate this quarter, after Q2's surprise decline from 4.2% to 4%. Last quarter, weakness in the labour market was understated, difficult to measure, and masked by disrupted labour force participation. Without the abrupt shift seen in the participation rate, the unemployment rate might have printed at 4.6-4.8%.

For next week's data, our best educated guess is that the unemployment rate will sit at 5.2-5.4%, representing a modest deterioration in the labour market. Wage inflation is also expected to remain very weak. It's a picture that would have looked a lot worse if not for the wage subsidy and other supports. That said, the data has plenty of scope to surprise us, with a wide range of plausible outcomes for employment (-0.7% to +0.4%) that could see the unemployment rate in the range of 4.4-6.1% (table 1). We can also imagine the data printing outside this range, though we don't consider it likely.

How we interpret data on the day will depend on the extent to which the data appears to be impacted by noise. And to some extent, we – and policymakers – will look through whatever the data throws up, waiting to see the scale of further deterioration as supports continue to roll off and the economic recovery stagnates. But broadly speaking, an unemployment rate near our expectations would be consistent with the labour market undergoing a modest deterioration that we see accelerating in Q4 and continuing over 2021.

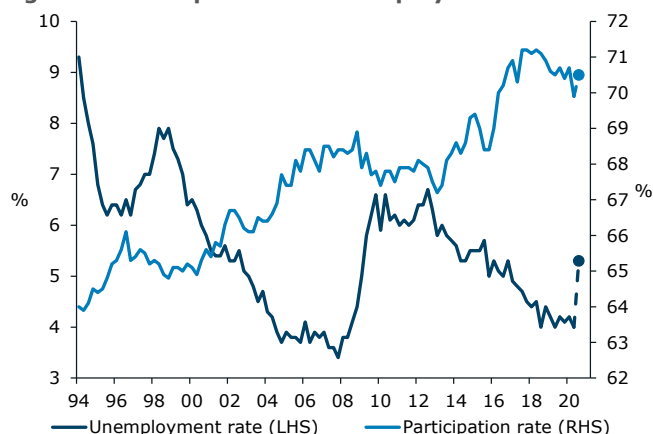
Table 1. Range of possible unemployment rate outcomes

		Participation (last: 69.9% after fall from 70.7%)		
		Unchanged 69.9%	Partial bounce Central: 70.5%	Strong 71.0%
Employment	Darker blue = more likely			
	Resilient +0.1 to 0.4%	3.7-4.0%	4.5-4.8%	5.2-5.5%
	Modest fall -0.3% to -0.5% Central: -0.4%	4.4-4.6%	5.2-5.4% Central: 5.3%	5.9-6.1%
	Big fall -0.7% to -1%	4.8-5.1%	5.6-5.9%	6.3-6.5%

Source: Stats NZ, ANZ Research

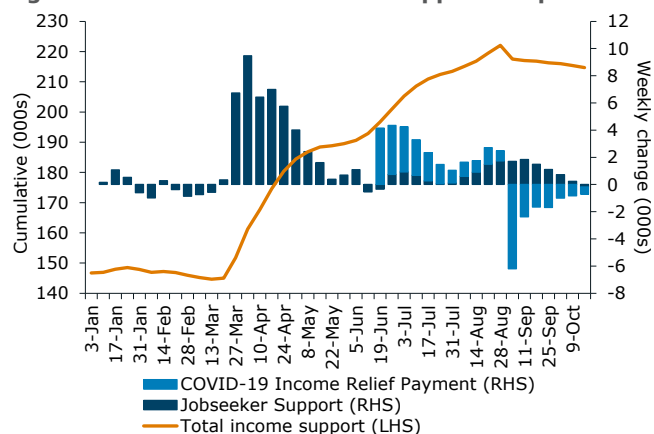
Stronger employment and a lower unemployment rate than we expect would imply the economic rebound and wage subsidy have provided more support, pointing to a better starting point ahead of the challenging time to come. On the other hand, weaker employment and higher unemployment would point to a faster deterioration and less resilience as supports wane. But overall, conditions look set to get tougher and next week's data are unlikely to change that broader picture. We expect employment growth to remain weak and that unemployment will eventually peak at 7½% at the end of 2021.

Figure 2. Participation and unemployment rates



Source: Statistics NZ, ANZ Research

Figure 3. Jobseeker and income support recipients



Source: Ministry of Social Development



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