

Economic Bulletin.

29 January 2021

Preview of Q4 labour market surveys: 3 February, 10:45am.

- We expect the unemployment rate to rise to 5.6% in the December quarter.
- Unemployment benefits were broadly flat over the quarter, albeit at a higher level than in September.
- We expect that unemployment will reach its peak soon, at a much lower level than was expected in the early days of the pandemic.
- Nevertheless, the labour market is far from tight and wage growth has slowed.

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	Q3 actual	Q4 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	5.3	5.6	-
Employment growth	-0.8	0.0	-0.1
Participation rate	70.1	70.2	-
Quarterly Employment Survey			
FTE employment	-0.5	-0.1	-0.2
Hours paid	1.6	1.0	-0.2
Private average hourly earnings	1.4	0.3	3.5
Labour Cost Index			
All sectors, ordinary time	0.6	0.5	1.7
Private sector, ordinary time	0.4	0.5	1.5
Private, all salary & wage rates	0.4	0.5	1.5

Economic activity in New Zealand bounced back rapidly from the Covid-19 lockdown last year, but the impact has left longer-lasting scars on the labour market. We expect a rise in the December quarter unemployment rate to 5.6%, and a softening in the pace of wage growth.

Our forecast is in line with what the Reserve Bank assumed in its November *Monetary Policy Statement*, although they expect a higher peak this year than we do. The risks of low inflation are diminishing, but with employment well short of the 'maximum sustainable' level specified in the RBNZ's mandate, we expect monetary stimulus to remain in place for some time.

Forecast details.

For the Household Labour Force Survey (HLFS), we expect a rise in the unemployment rate from 5.3% to 5.6%. That's a substantial increase from the pre-Covid rate of around



4%, but much lower than was feared in the early stages of the pandemic.

The HLFS is an average over the quarter, so developments within the quarter are important for understanding the results. Stats NZ has provided a week-by-week breakdown of the data for the last two quarters, which highlight the impact of Covid and the efforts to control it. After a sharp rise over the June quarter, the weekly unemployment rate was volatile but largely sideways over the September quarter.

This pattern was broadly matched by the weekly Jobseeker Support benefit figures. Benefit numbers rose somewhat between June and September, as the wage subsidy scheme expired. The numbers flattened out over the December quarter, but the average over the quarter was still higher than before. That is why we're forecasting an increase in the quarterly unemployment rate.

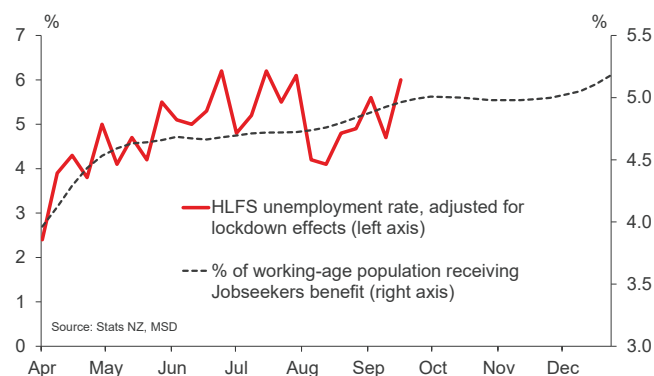
We expect employment growth to be broadly flat. Stats NZ's monthly employment indicator shows that the number of filled jobs has flattened out after the initial post-Covid rebound, apart from a lift at the end of the quarter.

Wage growth, as measured by the Labour Cost Index (LCI), started to pick up in 2019 as the labour market tightened, but promptly lost that momentum when Covid hit. We expect a 0.5% rise in the December quarter LCI, which would see annual growth slow from 1.9% to 1.6%. The Quarterly Employment Survey (QES) has fared better, but we see this as a less reliable gauge right now as it's affected by the composition of jobs. The loss of relatively low-paying jobs in tourism and hospitality will tend to drag up the average hourly pay rate.

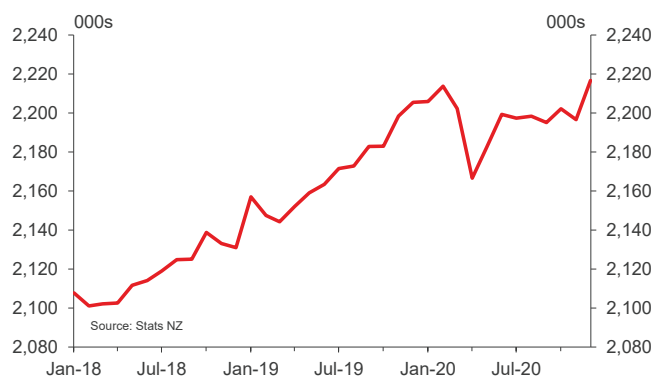
Unemployment rate and employment growth



Unemployment and benefit rates



Monthly Employment Indicator filled jobs



Wage growth all sectors, ordinary time



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