

Economic Bulletin.

30 April 2021

Preview of Q1 labour market surveys: 5 May, 10:45am.

- We expect the unemployment rate to hold steady at 4.9% for the March quarter.
- Employment appears to have held up better than we expected through summer, when the absence of international tourists was most pressing.
- Job advertisements are rising strongly, though this hasn't translated through to hiring to the same degree.
- Unemployment remains above the levels that we would need to see to drive a pickup in wage growth.

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	Q4 actual	Q1 forecast	
	Quarter	Quarter	Annual
Household Labour Force Survey			
Unemployment rate	4.9	4.9	-
Employment growth	0.6	0.3	0.0
Participation rate	70.2	70.4	-
Quarterly Employment Survey			
FTE employment	1.1	0.2	0.6
Hours paid	1.3	0.5	0.0
Private average hourly earnings	1.1	0.5	3.5
Labour Cost Index			
All sectors, ordinary time	0.4	0.3	1.6
Private sector, ordinary time	0.5	0.3	1.5
Private, all salary & wage rates	0.5	0.3	1.5

We expect some modestly positive signals from the March quarter labour market surveys, to be published next Wednesday. Recent data suggests that while the New Zealand economy did take a hit due to the absence of overseas tourists through the summer months, the jobs market has probably held up better than we expected, and may be starting to regain momentum.

We're forecasting a small lift in employment for the quarter, and a steady unemployment rate at 4.9%. We should note that the unemployment rate has been subject to some very large forecasting errors over the past year, and is coming from a remarkably low starting point – even given what we now know about the speed of the economy's post-Covid rebound. Our best assessment of the last three months is 'steady', but we recognise that the survey could surprise in either direction.

A result in line with our forecast wouldn't faze the Reserve Bank, which assumed a slight rise in unemployment to 5% in its February *Monetary Policy Statement*. As recently



noted by one of the Monetary Policy Committee members, the economy is still falling short of maximum sustainable employment (as judged by a broad suite of labour market indicators), and monetary stimulus will be needed for quite some time.

Forecast details.

For the Household Labour Force Survey (HLFS), we expect an unemployment rate of 4.9% for the March quarter, the same as for the December quarter. That in itself was a surprising drop from the (apparent) post-Covid peak of 5.3% in the September quarter.

The HLFS results are an average over the quarter, so it's helpful to look at developments within the quarter. Stats NZ has provided a week-by-week breakdown of the survey for the last three quarters; this suggests a broadly sideways trend in unemployment at the end of last year. The weekly figures on Jobseeker Support benefits tell a similar story: benefits ticked up over the Christmas/New Year period, but that appears to be nothing more than the usual seasonal pattern.

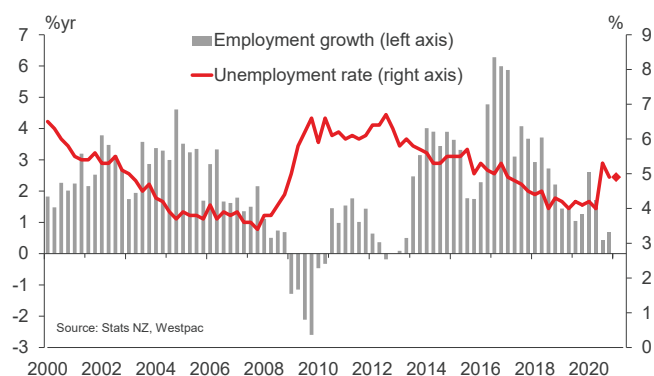
Meanwhile, the Monthly Employment Indicator fared better than we expected, with the number of filled jobs up by 0.3% over the quarter – just enough to soak up the growth in the working-age population. Job advertisements have been even stronger than that, and by March were up almost 20% on their pre-Covid levels. But it may be that employers are struggling to fill some roles, due to a mismatch between the areas of high demand and the skills of those who have been put out of work as a result of Covid.

Although the rebound in the labour market has been unusually swift, the unemployment rate remains above its pre-Covid level, and above what we would consider to be an 'inflation-neutral' rate. As a result, the pickup in wage growth that was emerging by 2019 has since lost its momentum, and we expect it will take some time to return.

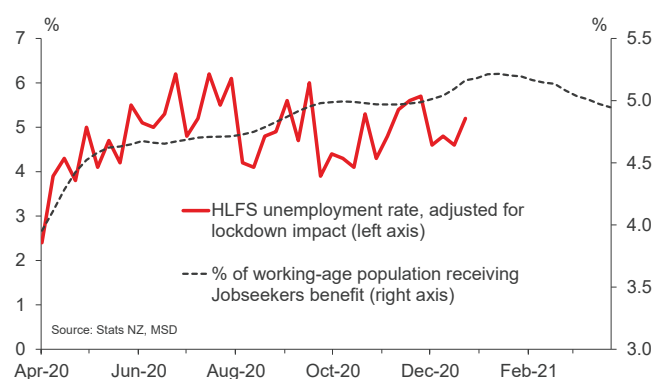
We're forecasting a 0.3% rise in the Labour Cost Index (LCI) for the quarter, which would hold the annual growth rate at 1.6%. The index typically sees smaller increases in the March quarter anyway (pay reviews are more common in the second half of the year), and there were no specific factors such as minimum wage hikes or public sector pay agreements during the quarter.

The Quarterly Employment Survey (QES) measure of average hourly earnings is more volatile than the LCI, and can be affected by changes in the composition of jobs. That was particularly noticeable over 2020, when a loss of relatively low-paying jobs in the tourism sector actually dragged up the average wage rate. We expect a more modest lift in the QES measure for March as that force starts to dissipate.

Unemployment rate and employment growth



Unemployment and benefit rates



Monthly Employment Indicator filled jobs



Wage growth all sectors, ordinary time



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