30 August 2011

New and Improved

Statistics NZ releases monthly National Employment Indicator

- **Today Statistics New Zealand released a new monthly employment indicator.**
- **The indicator provides a useful, and considerably less volatile cross-check on the sometimes divergent official employment data in the Household Labour Force Survey and Quarterly Employment Survey. The indicator offers confirmation that a labour market recovery resumed late last year.**
- **The indicator's value added in terms of timeliness is limited, though it should give a read on the first two months of the quarter in advance of the quarterly labour data.**

Statistics NZ today released a new monthly National Employment Indicator (NEI) based on employer tax schedules from Inland Revenue. The release was for the month of June, and showed jobs growing by 0.1% (seasonally adjusted) over the month and 0.8% over June 2010. On a quarterly basis the indicator grew 0.3% in the three months to June.

What does it measure?

The NEI measures the number of filled jobs (like the Quarterly Employment Survey) rather than the number of people with jobs (like the Household Labour Force Survey). That means people holding down more than one job or switching jobs within the month (e.g. seasonal workers) get counted more than once. It also means that the self-employed only get measured if they pay themselves a wage or salary. On the other hand, the NEI is more comprehensive than the QES – the QES excludes the smallest businesses and the agricultural sector.

As Statistics NZ emphasise, the NEI is one series only – it isn't broken down in any way, and it provides no measure of labour supply (i.e. how many people choose to enter or exit the labour force).

The latest indicator to date is for the month of June, and it looks as if this pattern of a 2-month lag will continue. Generally, Statistics New Zealand will aim to put out the NEI on the last Tuesday of each month, a bit less than two months after the reference month. There will be additional delays for the October and November indicators, reflecting data supply and processing delays over the holiday period.

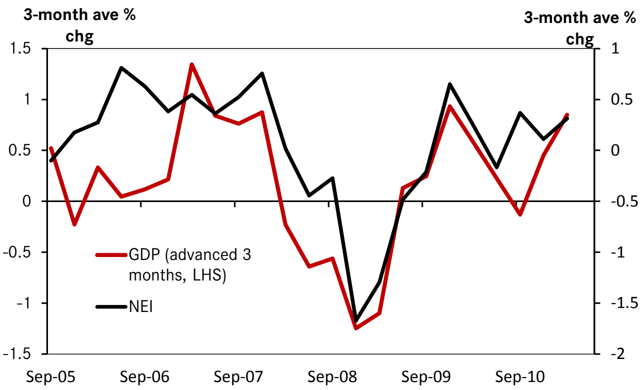
That means the NEI hasn't got huge benefits in terms of timeliness – today's June NEI comes out well after the June quarter employment data. That said, as a monthly indicator it will still give some lead information for the upcoming quarterly data. By the time the quarterly labour market data come out, we should have the NEI for the first two months of the quarter (except for the December quarter, when the extra delays mean we'll only have one month).

Statistics NZ have warned that the last two months are provisional estimates made while some tax returns are still coming in. A rate-up factor gets applied to the last two months to adjust for late submission of tax returns, but we will probably see some revisions in the indicator. We'll keep a watch on how large these revisions turn out to be. (Of course there'll be the usual revisions due to seasonal adjustment.)

How does it perform?

Given the timing of its release the NEI is probably best thought of as a cross-check to the official employment measures, which can be highly volatile and have diverged recently. And a quick comparison shows that it could be useful. The charts show how the indicator has so far tracked GDP and the quarterly employment measures (we've performed our own seasonal adjustment of QES filled jobs). We've taken the three-month average of the NEI to compare it to the quarterly data.

National Employment Indicator & GDP growth



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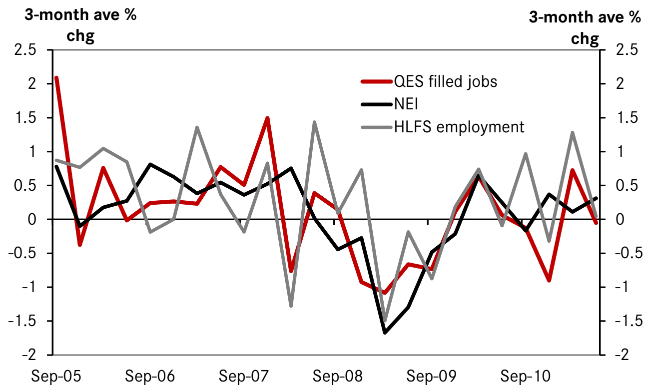
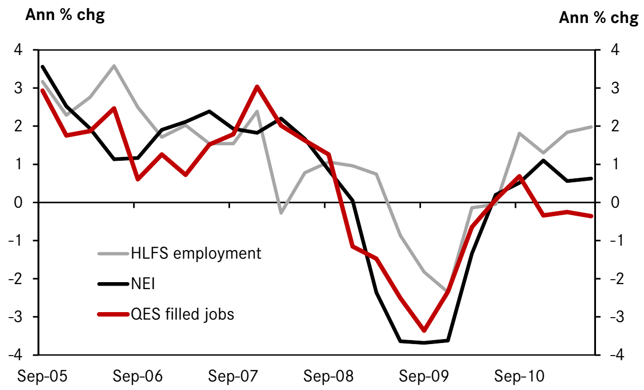
National Employment Indicator & official employment data (quarterly)



National Employment Indicator & official employment data (annual)



The thing that immediately stands out is that from quarter to quarter the NEI is much less volatile than the QES filled jobs or HLFS employment data. It's much easier to get a sense of the trends in labour demand by looking at the NEI. That's not too surprising given that the QES and HLFS measures are based on surveys (and hence subject to sampling error) whereas the NEI is based on actual tax returns.

And what the NEI is saying is that the labour market recovery that faltered in mid 2010 resumed late last year. That's pretty much in keeping with the message from GDP growth over the period. It's worth emphasizing that that doesn't make the NEI a good tool for forecasting GDP – labour market developments tend to lag changes in the broader economy, and it takes about a quarter for changes in GDP to show up in the NEI.

We can get around some of the volatility in the QES and HLFS employment measures by comparing annual growth rates. Doing so highlights divergences between the different employment measures over the past few years:

- The HLFS has been showing much stronger jobs growth than the QES. That probably reflects an undercount of new businesses and small businesses by the QES (which is where one would expect much of the new jobs growth following a recession to be). The NEI, which should count small businesses and new businesses so long as they file PAYE tax returns, seems to support the message from the HLFS that there's been positive jobs growth over the past year.

- The NEI and the QES both show a deeper and earlier response to the recession than the HLFS. That may be because they effectively give more weight to casual and part-time jobs, which tend to be the first to go in a downturn: if one person held down fewer jobs in the month, that gets counted in the NEI and QES, but not in the HLFS. (If one person experiences less job turnover within the month, that also gets counted as a drop in the NEI.)

Implications

Statistics New Zealand have flagged the National Employment Index as an experimental series. We think it'll end up getting a fair bit of attention – not so much as a means of forecasting next quarter's HLFS employment outturn, but because it appears to give a clearer sense of recent underlying labour market trends than the sometimes very volatile official measures. At the moment, it's yet another piece of evidence that the economy picked up late last year.

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