



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Benefit System Update

2021



Author

Catherine Harrow, Monitoring and Analysis Team, System Performance,
Ministry of Social Development

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Published February 2022

Ministry of Social Development (MSD)

PO Box 1556

Wellington 6140

New Zealand

Telephone: +64 4 916 3300

Web: www.msd.govt.nz

ISBN: 978-1-99-002364-4 (PDF)

Recommended citation

Ministry of Social Development. (2022). *Benefit System Update*. Wellington, New Zealand.



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Introduction

Overview

The previous August 2020 Benefit System Update (Ministry of Social Development; MSD, 2020b) described the initial impacts of the COVID-19 pandemic on main benefits and hardship assistance, the economy, and the labour market up to early August 2020, with a focus on the period surrounding the first national Alert Level 3 and 4 restrictions in March 2020. This Benefit System Update builds on the previous report by exploring the impacts of subsequent shifts to higher Alert Levels, and provides a cohesive picture of how and why the benefit system has changed from July 2020 to June 2021. Initial trends seen in response to the second national-level shift to higher Alert Levels in August 2021 are also described. This report also explores how well our priority groups (youth, sole parents, women, Māori, Pacific Peoples, and people with health conditions or disabled people) have fared over the last year. See Table 1 for the Alert Level 3 and 4 periods referenced in this report.

Table 1: Time periods for Alert Level 3 and 4 restrictions¹

Lockdown periods	Alert Levels	Dates
First national lockdown	3 and 4	23 March – 13 May 2020
Resurgence- first Auckland lockdown	3 only	12 August – 30 August 2020
Second Auckland lockdown	3 only	14 February – 17 February 2021
Third Auckland lockdown	3 only	28 February – 7 March 2021
Second national lockdown	3 and 4	17 August – 7 September 2021
Auckland (only) lockdown	3 and 4	17 August – 2 December 2021 ²

This report draws on published analysis, evidence, commentary, and both published³ and unpublished MSD administrative data, to highlight the influence of economic conditions, policy responses, and operational changes on key main benefits⁴ and hardship assistance.

Background

On 28 February 2020, the first COVID-19 case was reported in Aotearoa New Zealand, and by 23 March the country moved into Alert Level 3, followed shortly after by Alert Level 4. The higher alert level severely restricted economic activity with only essential businesses operating as usual. However, there were some early signs of COVID-19 affecting some parts of the economy before the first shift to higher Alert Levels.

¹ For more information on the history of the COVID-19 Alert System, see: <https://covid19.govt.nz/about-our-covid-19-response/history-of-the-covid-19-alert-system/>

² This marks the end of the COVID-19 Alert System, and the move to the COVID-19 Protection Framework

³ Weekly, monthly, and quarterly reporting are available here: <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/index.html>

⁴ Main benefits include: Jobseeker Support (JS), Sole Parent Support (SPS), Supported Living Payment (SLP), Emergency Benefit (EB), Emergency Maintenance Allowance (EMA), Jobseeker Support Student Hardship (JSSH), and Youth Payment/Young Parent Payment (YP/YPP). Main benefit numbers referenced in this report are the number of working-age people (18–64 years old) who are in primary receipt only.



There was reduced demand for exports and a reduction in tourists and international students (MSD, 2020b). The return to Alert Level 3 opened some parts of the economy, but activity was still considerably below normal levels. Key impacts on the economy⁵ and labour market⁶ included:

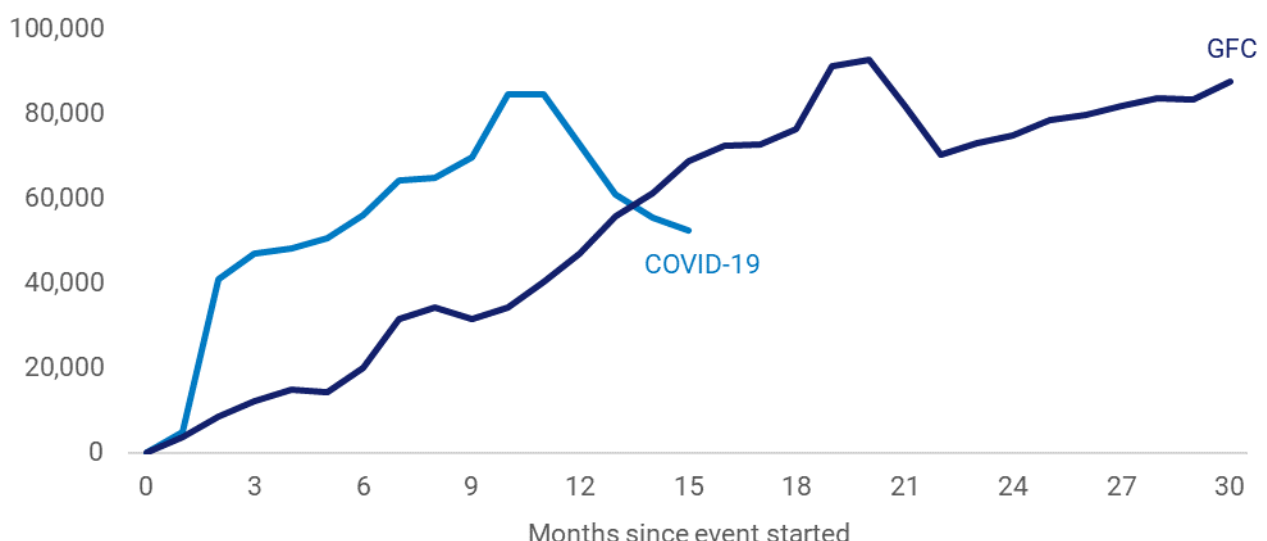
- economic activity falling by 1.3 percent in the March 2020 quarter, and 10.3 percent in the June 2020 quarter
- the underutilisation rate rising to 10.4 percent in the March 2020 quarter and 12.1 percent in the June 2020 quarter, largely because of more people working fewer hours than they would have liked
- the unemployment rate decreasing from 4.2 percent in the March 2020 quarter to 4.1 percent in the June 2020 quarter, as a result of less people actively seeking work during the higher Alert Levels⁷, and the mitigating effect of the Wage Subsidy.

Trends in the benefit system

Following March 2020, benefit numbers increased more quickly than during the GFC, but peaked lower and decreased more quickly

The first national shift to Alert Levels 3 and 4 had a sharp impact on the benefit system. In the 10 weeks between 20 March 2020 to 29 May 2020, just over 50,000 people came onto a main benefit. Main benefit numbers then continued to increase through the remainder of 2020. Although the number of people receiving a main benefit increased more rapidly than during the Global Financial Crisis (GFC), it also fell more quickly (see Figure 1).

Figure 1: Monthly change in main benefit numbers following the GFC and COVID-19⁸



⁵ Gross domestic product (GDP). Seasonally adjusted, as at September 2021 (Statistics New Zealand, 2021d).

⁶ Measured using the Household Labour Force Survey (HLFS), seasonally adjusted as at September 2021. Statistics New Zealand (2021c) releases revised numbers each quarter (for the previous seven quarters).

⁷ To be categorised as unemployed, a person must not have a job, be available to start work, and have been actively seeking work in the last four weeks or be due to start a new job in the next four weeks.

⁸ Change in benefit numbers from May 2008 for the GFC, and February 2020 for COVID-19 (one month prior to each event starting).



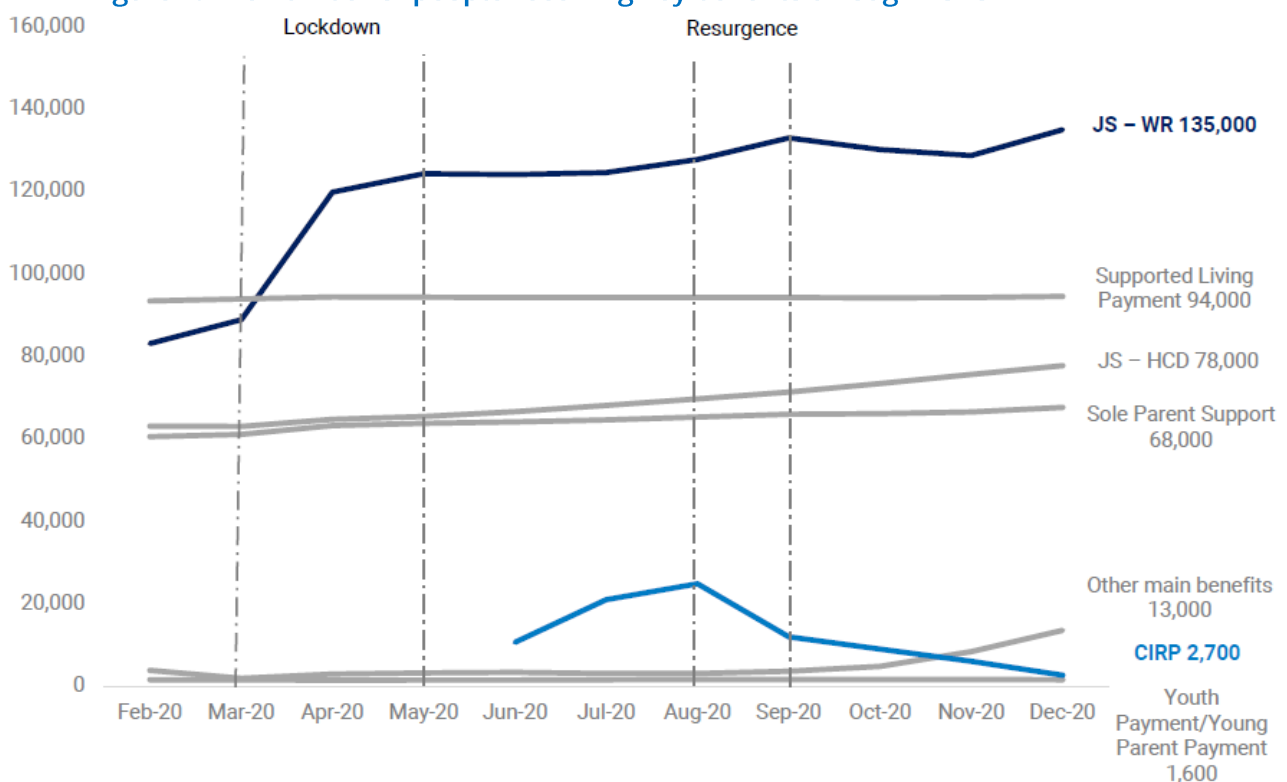
The proportion of the working-age population on benefit rapidly increased, but remained lower than following previous economic shocks

During the GFC⁹, the percentage of the working-age population (those aged 18–64) receiving a main benefit peaked at 12.4 percent (for the year ending June; see MSD, 2020c). From this point, the percentage largely trended downwards, reaching historic lows in the late 2010's. Benefit numbers began to increase from around 2019, then increased rapidly from March 2020 following the first national lockdown. The percentage of the working-age population receiving a main benefit reached 11.5 percent in June 2020. However, due to the low base this was not as high as the annualised rates following the GFC. It also remained lower than in previous economic shocks: 15.8 percent during the Asian Financial Crisis, and 16.1 percent during the early 1990's.

Growth in main benefit numbers was largely driven by changes in JS – WR

As seen in Figure 2, changes in Jobseeker Support – Work Ready (JS – WR) drove most of the increase in recipients of main benefits (~60 percent) between March and December 2020 (MSD, 2021b). The immediate impacts of changes in the labour market are often seen in JS – WR due to the relative closeness of this group to the labour market. In the five years prior to COVID-19, JS – WR also made up around 25 percent of main benefit recipients, and this peaked at around 37 percent in September 2020.

Figure 2: The number of people receiving key benefits through 2020¹⁰



⁹ The GFC has been widely used to contextualise the impacts of COVID-19, but there are limitations with the comparability of these two events (Danielsson et al., 2020). The GFC was primarily a financial shock, while the COVID-19 pandemic is a public health crisis and its impacts on the economy do not necessarily reflect typical recessionary patterns.

¹⁰ Reproduced from MSD. (2021b).



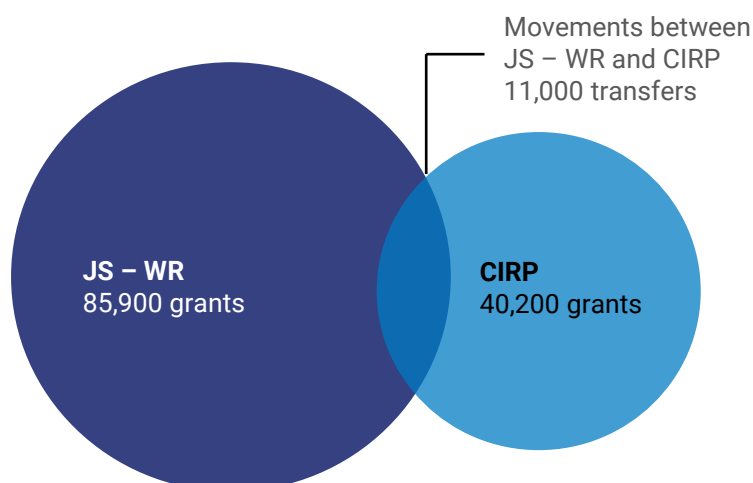
In contrast, throughout 2020 the number of benefits for a health condition, injury, or disability (Jobseeker Support – Health Condition or Disability (JS – HCD) or Supported Living Payments (SLP)) and Sole Parent Support (SPS) did not see the same level of growth. The labour market has some influence on these benefits, although to a lesser degree, given these people are further from the labour market.

The COVID-19 Income Relief Payment was introduced to support people to find new employment or retrain

When exploring demand for unemployment related benefits in 2020, it is important to consider both JS – WR and the COVID-19 Income Relief Payment (CIRP), as uptake of CIRP is likely to have partially offset growth in JS – WR. CIRP was introduced on the 8 June 2020 as a temporary 12-week benefit to cushion the economic impact for those who lost their job or business due to COVID-19, and support them to get back into work quickly and efficiently. Availability of this benefit ended on 4 February 2021. Initially it was expected that demand for CIRP would peak in August 2020 at around 160,000 people, however demand peaked at 25,000 people (MSD, 2021b). Numbers of people receiving CIRP started to fall in September, as many recipients reached the end of their entitlement at that point.

However, transfers to other benefits, particularly JS – WR were limited (see Figure 3). When CIRP was first introduced, 20 percent of grants were transfers from JS – WR. This proportion decreased significantly in the months following. Similarly, around 20 percent of those granted CIRP at any point since its introduction were subsequently transferred to JS – WR.

Figure 3: JS – WR and CIRP grants and transfers between both benefits¹¹



The limited number of transfers to JS – WR suggests that CIRP may have supported people who become unemployed as a result of COVID-19 to find new work, or retrain, as intended. Other people may have preferred to draw on their own financial resources. In addition, some people who were eligible for CIRP were not eligible for JS – WR as CIRP had higher income thresholds.

¹¹ In the period since CIRP was introduced (June 2020) to the end of that year. Reproduced from MSD. (2021b).



Subsequent shifts to Alert Levels 3 and 4 had less of an impact on benefit numbers

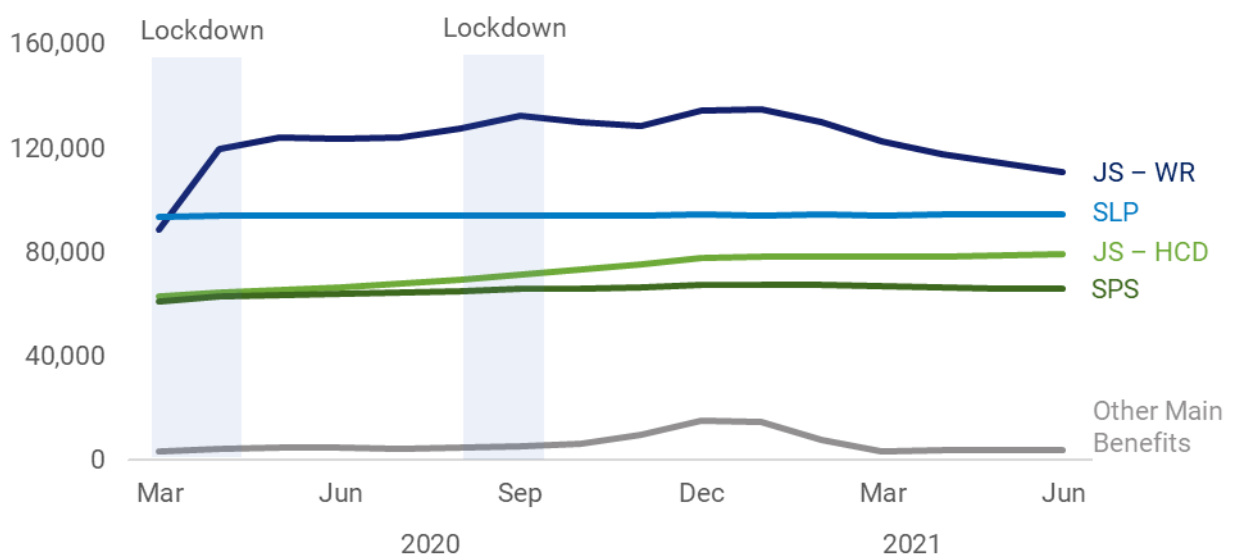
Benefit numbers rose in response to the August 2020 COVID-19 outbreak (the ‘resurgence’) and associated shift to higher Alert Levels, although not as steeply as in March 2020. Potential reasons for this include:

- Alert Levels in August 2020 were less restrictive. Although Auckland moved to Alert Level 3, the rest of the country only went as far as Alert Level 2.
- Firms may have been better prepared and adapted their business models to operate closer to their usual capacity at higher Alert Levels.
- The Wage Subsidy may have helped some employers retain their employees, or, firms may have already shed workers following the March 2020 period spent at higher Alert Levels.
- As time went by, people were increasingly more able to re-engage with the labour market. Cancels into work for JS – WR and CIRP during 2020 continued to be higher than during 2019, even during the resurgence (MSD, 2021b).
- Macroeconomic factors, including the significant monetary and fiscal stimulus by the Government during this period.

The decrease in main benefit numbers in 2021 was again largely driven by changes in JS – WR

As shown in Figure 4, main benefit numbers continued to increase through the end of 2020, peaking in January 2021. The number of people on JS – WR usually begins to increase in November-December each year. Hiring can slow down towards the end of the year, and many seasonal workers reach the end of their contracts (MSD, 2021b). Main benefit numbers then decreased steadily through the first half of 2021. Most of the change in main benefit numbers was again driven by changes in the number of people receiving JS – WR, although JS – HCD also saw continued increases.

Figure 4: The number of people receiving key main benefits, by month, through 2020 and 2021

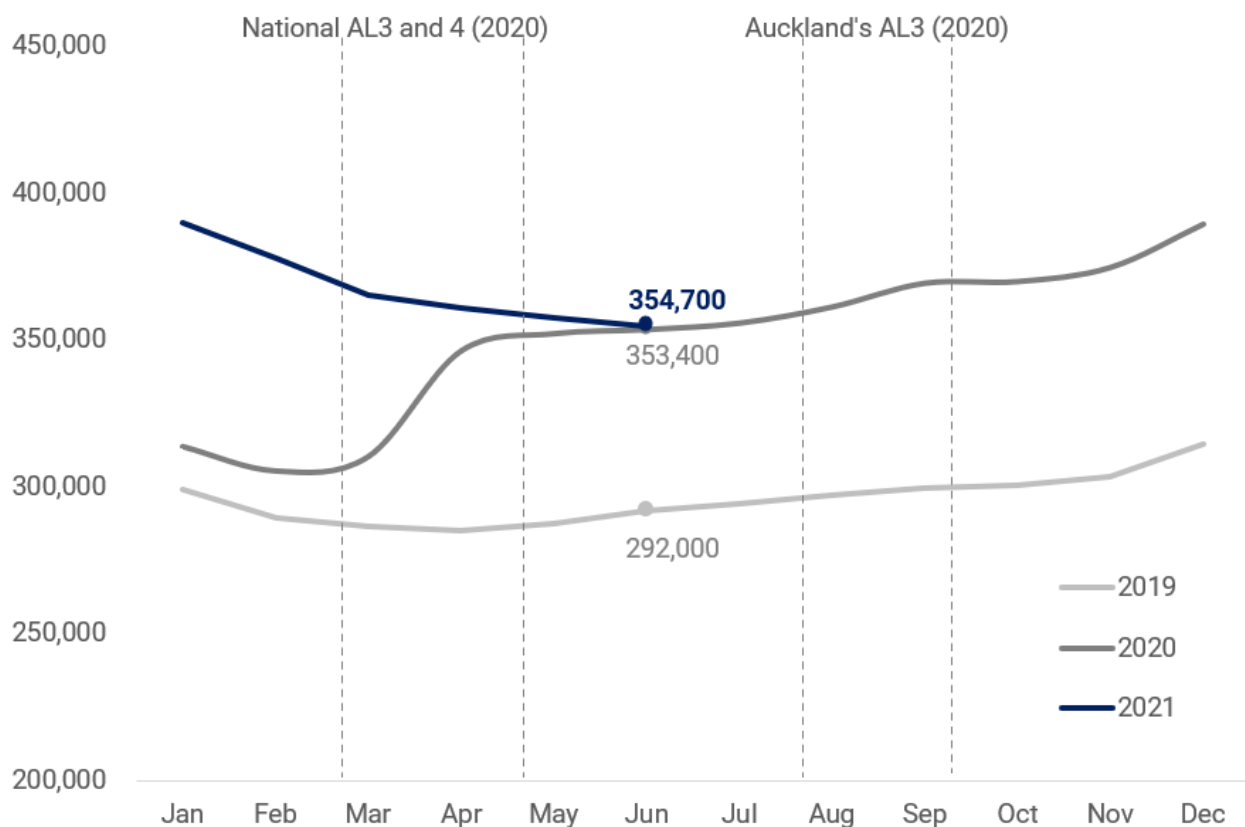




Decreases in main benefit numbers continued into winter, in contrast to usual seasonal trends

As shown in Figure 5, the number of people on main benefits continued to follow similar downward trends seen in previous years, from a high point in December and January then decreasing between February and April. In contrast to usual trends, decreases were sustained through to June and into the winter months, although numbers were still elevated relative to pre-March 2020 levels. We would usually see JS – WR numbers increasing over winter as some industries slow down in the off-season and fewer people are able to find work. By the end of June 2021, around 354,700 people were in receipt of a main benefit, a drop of around 34,900 from the peak in January 2021.

Figure 5: The number of people receiving a main benefit through 2019, 2020, and 2021



A discussion of more recent benefit number trends, including the impact of the second nationwide shift to Alert Levels 3 and 4 in August 2021, is covered in the final section of this report.

The decrease in benefit numbers reflected higher-than-usual exits into work and study

More people continued to exit than enter benefit through to June 2021. An increasing trend in work exits from the beginning of the year is normal, as employment begins to pick up again after December. However, the overall work exit rate¹² was higher than recent years.

¹² The work exit rates reported in this brief has been calculated by dividing the total number of cancels into work during the period by the total number of benefit recipients as at the end of the immediately preceding period.



The number of exits into work for the year to June totalled 113,400 for the financial year 2020/2021, which was the highest since electronic records began. Despite the high number of benefit cancellations seen throughout the year, there was still over 44,800 more people receiving a main benefit in June 2021 compared to March 2020, although this gap is closing. There were also significantly more cancels into training or full-time study than in recent years with around a 60 percent month-on-month increase (excluding Jobseeker Support – Student Hardship (JSSH)) in March 2021 compared to last year. This is in line with reports of a large influx of domestic students enrolling in tertiary education (Gerritsen, 2021). This increase was particularly significant among those aged 18–24 (up 71 percent), which is similar to the trend observed during the GFC.

Benefit cancellations increased following the reinstatement of the 52-week reapplication process

The number of exits from main benefits, including reported exits into work, also increased following the reinstatement of the 52-week reapplication process. Jobseeker Support and SPS clients are generally required to reapply for their benefit every 52 weeks. This process ensures clients are receiving the right support and that MSD holds up-to-date information on their circumstances. However, from 30 March 2020 to 23 February 2021, this reapplication process was deferred. As a result of this process being reintroduced we saw a higher than usual number of automatic cancellations from benefit due to people not completing the process. This peaked at around 2500 in May followed by 1400 in June, up from between 500–1000 cancels per month seen previously. We expect the monthly number of automated 52-week exits to remain higher than pre-March 2020 levels out to April 2022 (12-months from May 2021), as people receiving a benefit come up for their first 52-week reapplication since the process was resumed.

Trends in hardship assistance

Hardship assistance helps people meet essential costs that cannot be met by other means

Hardship assistance refers to payments to help people meet essential costs such as food, housing, medical needs, or other essentials that cannot be met by any other means. This type of assistance is available for both people receiving main benefits and very low-income working families, subject to an income and asset test. Reduced income or sudden unemployment contribute to increased rates of hardship in economic downturns (MSD, 2020d). Changes in public awareness, acceptance, and the accessibility of assistance can also affect the numbers of hardship grants.

This section explores trends in two of the main types of one-off hardship assistance¹³ provided by MSD: Special Needs Grants (SNGs, excluding SNGs for emergency housing which is explored on pp.18-19) and Benefit Advances. SNGs can be recoverable (needs to be paid back, interest free) or non-recoverable, whereas Benefit Advances are advances of up to 6 weeks of a person's benefit and are recoverable.

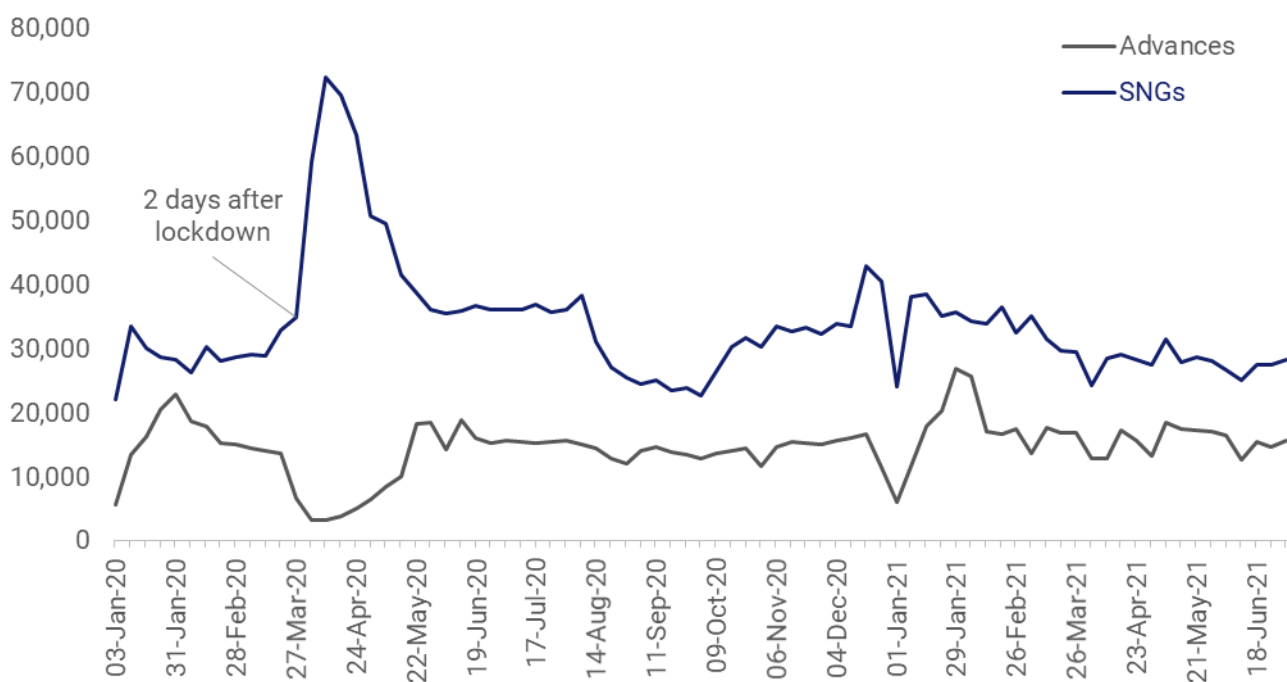
¹³ Other forms of hardship assistance include Recoverable Assistance Payments, which is recoverable support for people not receiving a main benefit.



The number of SNGs, particularly for food, increased significantly as a result of the shift to Alert Levels 3 and 4, before returning to more normal levels

As shown in Figure 6, there was a large spike in demand for SNGs as a result of the first nationwide shift to Alert Levels 3 and 4. During late March 2020 and early April 2020 there was growth from around 29,000 SNGs on average per week to a peak of around 72,000 grants for the week ending 10 April 2020. Since 2019, trends in SNGs have been driven by food grants (approximately 90 percent of total SNGs, excluding emergency housing). As part of MSD's immediate response to the unprecedented demand presented by COVID-19, changes were made to ensure support was available without delay to those who needed it. Food grant limits, or the maximum available over a rolling six-month period, were temporarily increased to \$400. People were also able to access more food grants online via the MyMSD portal or over the phone during the Alert Level 3 and 4 restrictions while MSD service centres were shut (MSD, 2020b).

Figure 6: Weekly SNGs¹⁴ and Advances from Jan 2020 to June 2021



The number of grants for hardship assistance, particularly SNGs for food, increased for both beneficiaries and non-beneficiaries¹⁵ in response to the first nationwide shift to higher Alert Levels. For the week ending 10 April 2020, SNGs for food for beneficiaries more than tripled to around 62,100 (from 19,400 in the week ending 13 March), but also doubled for non-beneficiaries (5,200, from 2,300). In line with the increase in main benefit numbers, this trend indicates increasing levels of hardship in the general population, as well as MSD supporting a larger proportion of the population than we may otherwise have during a non-pandemic period.

¹⁴ Excluding Emergency Housing SNGs (EH SNGs).

¹⁵ People not in primary receipt of a main benefit.



Trends in SNG grants through 2020 reflect operational changes, including those in response to COVID-19

The number of SNGs fell back to around 36,000 a week through June and July, and in early August MSD reverted the food grant limits back to their original levels. This saw grants fall back to lower levels throughout August and September. Grants then increased somewhat from October. The Winter Energy Payment (WEP) finishes on 1 October 2020, which usually translates into a temporary increase in demand for SNGs for a few weeks after as clients adjust back to their regular weekly benefit income levels.¹⁶ Trends in hardship assistance from this point were largely in line with main benefit numbers, increasing through to early 2021 and then falling to around pre-March 2020 levels. Changes to both the number of grants per person and the number of people receiving grants have both contributed to the trends seen in hardship grants. However, the analysis of the relative impacts of these has been significantly affected by the multiple operational changes and Alert Level shifts, which makes drawing robust conclusions about movements difficult.

Trends in Advances through 2020 and 2021 reflect availability of items and services, and main benefit numbers

Grants for Advances decreased rapidly during late March to mid-May 2020, as a result of the first national shift to Alert Levels 3 and 4, in contrast to the trend seen with SNGs (as shown in Figure 6). This reflects the fact that the items and services that many Advances are granted for (eg. car repairs, dentures/glasses, beds/furniture) were not readily available during higher Alert Level restrictions.

Between the end of May to early June we saw grants slightly higher than usual for a few weeks. This likely reflects a catch-up period. However, the peaks and troughs at the end of 2020 and through 2021 reflect seasonal patterns and public holidays. Outside these effects, Advances largely followed the path of main benefit numbers, rising slowly throughout the second half of 2020, and falling through the first half of 2021.

Factors driving the reduction in the number of people receiving a benefit

A range of factors contributed to the benefit system responding better than expected

There were around 355,400¹⁷ people receiving a working-age benefit in June 2021. This is 75,200 fewer than we expected in our initial forecast following the first nationwide shift to high Alert Levels, and 18,100 below the BEFU 2021 forecast (Budget Economic and Fiscal Update; Treasury, 2021). The forecast peak in January 2022 was also revised down in the Half-Year Economic and Fiscal Update (HYEFU 21; MSD, 2021e).

¹⁶ The Winter Energy Payment is a benefit paid with a beneficiary's main benefit to assist them to meet their household heating costs during the winter period, and was temporary doubled as part of the additional support provided in response to the first nationwide shift to Alert Levels 3 and 4.

¹⁷ The month average benefit numbers quoted in this section are the month average figures used to produce the expenditure forecasts. This is because expenditure is determined by the number of people during the month, rather than as at one day at the end of the month. They will differ slightly from the official benefit counts, which are as at month-end.



The better-than-expected reduction in the number of people on benefit from January 2021 is likely to be driven by a combination of:

- the Government's policy response to COVID-19, including the substantial monetary and fiscal stimulus
- the better-than-expected performance of the economy and labour market
- MSD's sustained focus on supporting people into work and the move to proactive case management.

The following sections will explore these factors, with the caveat that limited causal evidence is available, and the specific effect of some changes are difficult to isolate and quantify.

The Government substantially increased spending in response to COVID-19

The Government's fiscal and economic response to COVID-19 has been substantial and wide-ranging. It was originally costed at \$12.1b (KPMG, 2021). This has since been updated to \$25 billion allocated to 2019/20 and \$16.1 billion for 2020/21, with a total of 62.2 billion over five years (Office of the Auditor General, 2021).¹⁸

This package includes:

- funding to support businesses, the self-employed, and jobs
- additional assistance to vulnerable groups, including those receiving benefits
- a Business Finance Guarantee Scheme for small and medium-sized businesses (short-term credit to cushion financial distress)
- additional health funding, to improve the COVID-19 response
- funding to support the aviation sector.

This report focuses on some key initiatives that have been directly linked to changes in the benefit system, namely the Alert Level restrictions themselves, the Wage Subsidy scheme, the COVID-19 Income Relief Payment (CIRP), as well as the additional assistance provided to those receiving benefits.

The Government provided additional assistance to support the wellbeing of vulnerable groups

Additional assistance to support the wellbeing of vulnerable groups included temporary changes made to the Winter Energy Payment and food grant limits described earlier, as well as increases to main benefit rates and abatement thresholds. On 01 April 2020 there was a one-off \$25 increase to weekly main benefit payment rates. This was on top of annual increases to main benefit rates, including those as a result of average wage increases each April.¹⁹

¹⁸ For more information on Government measures see <https://www.treasury.govt.nz/information-and-services/new-zealand-economy/COVID-19-economic-response/measures>

¹⁹ All benefit rates increased by \$20 a week from 1 July 2021. A second increase will occur on 1 April 2022 that will see main benefits lifted in line with a key Welfare Expert Advisory Group (WEAG; 2019b) recommendation. Families and whānau with children will also receive a further \$15 per adult per week. In addition, main benefit rates are also now indexed to average wage increases, resulting in a 3.1 percent increase on 1 April 2021.



Increases to main benefit abatement thresholds, the amount benefit recipients can earn from work or other income before their benefit is affected, were also announced as part of the 2019 Budget. These thresholds were increased on 1 April 2021 to \$160 for most main benefits.²⁰ This change was intended to make most clients²¹ better off by keeping more of what they earn.

The size of the increase varied across different main benefits:

- For those on Jobseeker Support benefits abatement thresholds increased by \$70 (from \$90 before 1 April 2021).
- For other benefits, including Sole Parent Support, Supported Living Payment, and NZ Super/Veteran's Pensions, the thresholds increased by \$45 (from \$115 to \$160).

This investment in people's wellbeing may have had the flow-on effect of supporting the economic recovery.

The economy has been resilient and continues to recover from the shock of COVID-19

Sustained reductions in the number of people receiving a benefit partially reflects the better-than-expected performance of the economy. After the sharpest contraction on record in the June 2020 quarter, GDP rebounded by 13.9 percent in the September 2020 quarter, and continued to improve through the first half of 2021. Following a 1.5 percent increase in the March 2021 quarter, GDP rose by 2.4 percent in the June 2021 quarter (Statistics New Zealand, 2021d). The country was also successful in eliminating COVID-19 in the community throughout most of the 2021 fiscal year. This enabled most of the economy to operate relatively normally. The economy was also more resilient to Alert Level changes than expected. The May 2021 BEFU estimated further Alert Level 4 restrictions would reduce economic activity by 25 to 30 percent, down from 40 percent estimated in May 2020 (Treasury, 2021). The estimated impacts of other Alert Levels have also been reduced.

Other indications of the economic recovery include:

- Demand for our exports remained firm. The economic recovery in China has supported demand for Aotearoa New Zealand's export commodities, especially dairy products (RBNZ, 2021)
- Swift recoveries in private consumption and residential investment offset an 8.5 percent annual fall in business investment. The largest contributor to private consumption growth was durable goods spending, as households made one-off purchases with savings accumulated during higher Alert Levels, fuelling solid growth in retail trade (Treasury, 2021).
- Seasonally adjusted Electronic Card Transactions increased 5.5 percent when comparing transactions in December 2020 to June 2021, up 443 million dollars²² (Statistics New Zealand, 2021b).
- Improving consumer confidence also suggests that people's financial situations are improving (ANZ Research & Roy Morgan, 2021).

²⁰ For more information on changes to abatement thresholds, see: <https://www.workandincome.govt.nz/about-work-and-income/news/2021/income-abatement-changes.html>

²¹ There were some exceptions to this. For more information on the Transitional Assistance Programme 2021 introduced to address this issue, see: <https://www.msd.govt.nz/about-msd-and-our-work/about-msd/legislation/notice-of-change/2021/abatement-threshold-increase.html>

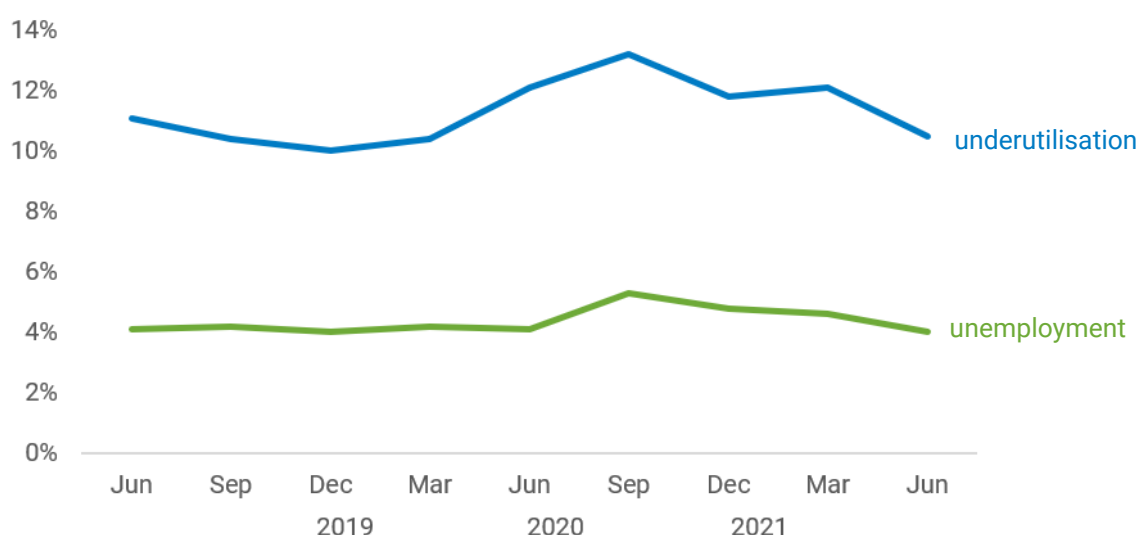
²² Seasonally adjusted, as at September 2021



The labour market largely returned to pre-COVID-19 levels by June 2021

Sustained reductions in the number of people receiving a benefit also reflected the better-than-expected performance of the labour market. Several headline employment indicators, including the employment rate, underutilisation rate, and participation in the labour market, returned to pre-COVID-19 levels in the June 2021 HLFS. For example, the unemployment rate peaked in the September 2020 quarter at 5.3 percent of the labour market, before falling through 2021. As shown in Figure 7, by the June 2021 quarter, the unemployment rate was at 4.0 percent, similar to pre-COVID-19 levels. Similarly, underutilisation peaked at 13.2 percent in September 2020, before returning to pre-COVID-19 levels in June 2021.

Figure 7: HLFS unemployment and underutilisation rates for the June 2019 to June 2021 quarters²³



In line with the improved HLFS statistics:

- As of May 2021, general business sentiment improved. Businesses became increasingly confident to invest and hire more workers (RBNZ, 2021).
- Strong consumer confidence supported the improvement in job prospects. The Quarterly Survey of Business Opinion's (QSBO) hiring intentions measure suggests robust growth in employment over the coming year, particularly in the building sector (NZIER, 2021).
- The Jobs Online monthly data for June 2021²⁴ showed strong growth in online job advertisements compared to a year ago (Ministry of Business, Innovation and Employment; MBIE, 2021d). Online advertisements grew by 19.4 percent during the June 2021 quarter and by 85.6 percent over the year.

However, the positive trends seen in the economy and labour market impacted different population groups to varying degrees, and there have been indications of weakness or uneven recovery. This is explored further from page 17.

²³ Seasonally adjusted, as at September 2021.

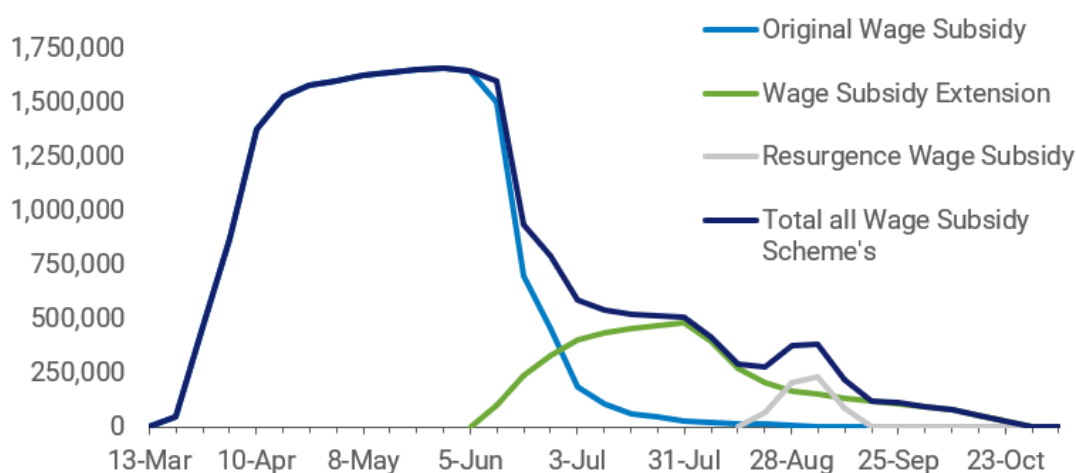
²⁴ Seasonally adjusted, as at September 2021.

The Wage Subsidy schemes were effective at keeping people employed

One of the reasons for the lower-than-expected number of people that came onto benefit through 2020 is the effectiveness of the Wage Subsidy schemes. These schemes supported employers to continue to pay employees and protect jobs for businesses affected by the changing COVID-19 Alert Levels. The initial scheme in response to the March 2020 higher Alert Level restrictions was also followed by an extension, and a resurgence payment for the shift to Alert Level 3 for Auckland in August 2020.

The total number of unique jobs supported by a Wage Subsidy peaked in June 2020 and decreased through the remainder of the year, with the exception of the resurgence period in August 2020. At the peak in 2020, the initial Wage Subsidy Scheme supported just over 1.65 million jobs (see Figure 8) or 62 percent of all jobs (as recorded by Inland Revenue).²⁵

Figure 8: Weekly count of unique jobs supported by a Wage Subsidy between March and October 2020²⁶



Modelling by the Reserve Bank of New Zealand suggests that the Wage Subsidy was effective in keeping employees attached to employers, saving an estimated 183,600 jobs in the labour market (Graham & Ozbilgin, 2021). It was initially expected that the end of the Wage Subsidy schemes would be followed by large job losses as the economy and labour market would not be able to support the jobs. However, no large-scale job losses occurred, Jobseeker Support numbers did not increase as much as expected, and unemployment fell following the end of the schemes. Investment through the COVID-19 Response and Recovery Fund may have also created and protected jobs across different regions and sectors (New Zealand Government, 2020).

MSD has maintained a focus on supporting people into employment

The downward trend in benefit numbers through the first half of 2021 also reflects MSD's sustained focus on supporting people into work, at the same time as processing a record level of applications for support.

²⁵ For more information on wage subsidies, including industry breakdowns, see the MSD COVID-19 Evidence page:

<https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/covid-19-evidence.html>

²⁶ Reproduced from MSD. (2020g).



While the COVID-19 Alert Level restrictions meant there was significantly higher demand for immediate income support, MSD has retained a strong focus on employment. Case managers dedicated to employment or intensive support are complemented by work brokers and a suite of employment, education, training, and community-based support initiatives for clients, such as Flexi-wage, Mana in Mahi, and the Rapid Return to Work service. These initiatives are designed to equip people to get the skills and experience they need to enter or re-enter the workforce.

For example, Flexi-wage provides a wage subsidy and extra assistance to support employers to take on people who do not meet the entry level requirements of a job. This helps people get the employment skills and experience they need, with the intended outcome being that the person stays in employment after the subsidy has ended.

To support businesses and workers affected by the disruptions of COVID-19, the Flexi-Wage scheme was expanded through widened eligibility and increased rates. The Rapid Return to Work (RRtW) service also started in April 2020 to help clients affected by a recent job loss to return to work. This service is designed to equip people to become work-ready or enable them to exit benefits into employment. Key points for the service include: CV, cover letter, and interview support, as well as free online courses to help clients upskill.

Trends in benefit numbers and the labour market were not fully aligned

Although the overall recovery in employment statistics may be a key contributor to the decrease in main benefit numbers, particularly JS – WR, benefit numbers did not fall as fast and remained higher than pre-March 2020 levels. JS – WR numbers generally move in-line with the HLFS unemployment rate over time, but this relationship could be disrupted due to the pandemic. These numbers do generally move in a similar direction, but periods of divergence have occurred previously and we expect this will happen again in the future (MSD, 2020a). In addition, there are key measurement differences between JS – WR and the HLFS, with each only partly reflecting the overall state of the economy and labour market.

- The HLFS provides a consistent and internationally comparable measure of labour market capacity, or the ‘degree of slack’ in the economy.
- In contrast, benefit numbers count the number of people receiving income assistance through MSD. These numbers can also be affected by policy and operational changes.
- Benefit numbers are an administrative count of the number of people on benefit, while the HLFS statistics are estimates based on a sample survey (of around 15,000 households).
- Each also measures different groups of people. For example, the two capture different age ranges (Statistics NZ, 2017).

These factors mean there are compositional differences between the two groups. That is, not all people who are unemployed are receiving a benefit, and not all people on benefit are unemployed. For example, a person working part time hours will not be counted as unemployed in the HLFS but may still be on JS – WR. On the other hand, a person could be counted as unemployed but not be on JS – WR.



Areas of weakness and uneven recovery

The impact and recovery from COVID-19 has varied across sectors, with ongoing impacts on tourism

While the country's economic recovery has been strong, it was uneven across sectors. Job growth was concentrated in healthcare, construction, professional, scientific and technical services, education and public administration (Filled Jobs and HLFS), with construction firms continuing to report skill shortages. Most of the increase in employment was also in higher skilled industries, such as Professional and Scientific Services, while some of the decrease in employment was in lower skilled industries, such as hospitality. Housing-related sectors, such as construction and durable goods (eg. appliances) retail, fared better than those most exposed to international tourism (RBNZ, 2021). However, regions also began reporting supply chain issues. For example, some Auckland businesses reported difficulty in procuring basic building supplies such as paint and nails, although by the September 2021 quarter we had not yet seen evidence of a fall in imports from international trade statistics.

On-going border restrictions strongly affected industries such as international education and tourism, and regions more reliant than others on these sectors have been disproportionately impacted (MSD, 2021b). Tourism Filled Job indicators from Statistics NZ²⁷ show that the Auckland, Wellington, and Christchurch regions contributed the most to the decrease in tourism-related jobs, with 23,100 fewer filled jobs between March 2020 and March 2021. In the same period, there were also large 20-30 percent decreases in tourism-related filled jobs in Lake Wānaka and Queenstown, Mackenzie, and Kaikoura regions. Domestic spending in the first quarter of 2021 (Brundson, 2021) and the trans-Tasman bubble only partly offset decreases associated with the border closure.

Auckland was slower to recover due to more time spent at higher Alert Levels

There was also regional variation in the recovery from COVID-19. Alert Levels have been more restrictive in Auckland than in rest of the country, compounding the impact of the reduction in tourism-related jobs, and contributing to a slower recovery in the region (MSD, 2021b). Through 2020 the Auckland region also had the highest proportion of jobs supported by the Wage Subsidy (around 70 percent). This may be because Auckland's biggest industries in 2019 were Professional, Scientific and Technical Services, Manufacturing, Health Care and Social Assistance, and Retail Trade, which each made up about one in ten employees in Auckland. Except for Health Care and Social Assistance, these industries also had a higher-than-average proportion of jobs supported by the original Wage Subsidy scheme at a national level. Measures such as the Monthly Employment Index also suggested small percentage job losses in Auckland through to June 2021, with the effects realised more through people working reduced hours.

The labour market faced complexities, with reports of skill shortages but also indications of limited capacity

Firms increasingly reported difficulties in finding skilled and unskilled labour, with the QSBO reporting both indicators at record highs in the June 2021 quarter (QSBO; NZIER, 2021).

²⁷ Not seasonally adjusted. Data is for Regional Tourism Organisations (RTO's) made available by Statistics New Zealand. For additional information and access to this data, see Tourism by Monthly filled jobs- tourism by RTO in the COVID-19 data portal <https://www.stats.govt.nz/experimental/covid-19-data-portal>



Skill shortages were particularly acute in the construction and Information Technology (IT) sectors, with construction and horticulture also experiencing labour shortages (RBNZ, 2021). In a tight labour market, we would expect to see limited capacity. However, while there was some job growth, part-time and self-employment also increased. The June 2021 quarter underutilisation rate also indicated some untapped potential in the labour market. Although, the underutilisation rate was not high relative to the previous decade. In a labour or skill shortage, we would expect to see changes to employers' behaviour (for example, through offering increased wages or better conditions) to attract workers. However, wages were slow to respond to labour and skill shortages to any great degree. Wage growth was modest for the year to June 2021. Taken together, this indicates that the labour market was facing unique complexities.

There were signs of wage movement in the June quarter data, particularly for lower skill levels. But, this may have been partially driven by an increase in the minimum wage, collective employment agreement renegotiations and the impact of pay equity settlements. It is likely that some people were available to work that had the skills to do the jobs on offer, but were not attracted by the wages, terms, or working conditions (eg. hours of work).

Reported shortages were likely due to a mismatch in the jobs available and the location or skillset of people looking for work. There was large variation in job growth across different sectors, and it may not have been as simple as a worker being employed in a sector with little growth (for example, in hospitality) or shifting to a new job in a new industry (for example, construction).

The COVID-19 pandemic has also highlighted that some sectors were likely relying on the immigration system to meet their workforce needs, including for some requiring people with higher-level or specialist skills that were scarce in the domestic workforce. As it takes time to develop the necessary qualifications, skills, and experience for these roles, border closures have led to reported skill shortages as they are less easily filled or substituted by the domestic workforce in the short term. Opening the borders is likely to be a gradual process, so firms that have increasingly relied on migrant workers in the past have an opportunity to employ and upskill the domestic workforce. This also suggests that there is a need for government, industries, and the education sector to work together to attract and train people in skills and industries reporting on-going shortages.

People on benefit typically have higher barriers to work than others, and where they also have unmatched skills or qualifications to the industries reporting shortages, they will require additional training.

Demand for housing support has continued to increase over the past year

Housing is another area where we have seen evidence of poor outcomes for some groups. Housing cost pressures have been evident for some time, and the pace of our economic recovery over the last year has contributed to ongoing price increases (Ninness, 2021). Increasingly, some people and families are facing challenges in accessing, affording, and sustaining suitable housing. While the number of applications on the Public Housing Register and demand for emergency housing have been increasing for several years, we saw accelerated growth throughout 2020/21. On 30 June 2021, there were around 29,200 applicants on the Social Housing Register (including the Transfer Register).²⁸ This represents an increase of 33.3 percent compared with the end of June 2020.

²⁸ The Transfer Register includes applicants already in public housing who need to be rehoused for reasons such as health reasons or there being too few or too many bedrooms in their current public house.



The number of households living in emergency housing (receiving EH SNGs) also increased sharply in response to the March 2020 shift to Alert Levels 3 and 4, from approximately 2000 households to approximately 4000 at any one time. Demand remained high and reasonably stable through to the first half of 2021.²⁹

Housing can affect health and employment outcomes for benefit recipients

Access to suitable housing is important for people's wellbeing, as housing, employment, and health outcomes are intrinsically linked. Warm and dry housing helps people to maintain their health and employment and have fewer days off work due to illness (Howden-Chapman et al., 2007). Issues with housing affordability and supply can also act as a barrier to accessing employment opportunities. If benefit recipients cannot readily access housing in areas where suitable employment is available this may limit their opportunities.

Outcomes for different groups

Benefit duration

People who entered the benefit system throughout 2020 have generally returned to the labour market quickly

The decrease in main benefit numbers through the first half of 2021 was partially a reflection of the characteristics of those who came onto benefit over 2020. Compared with those in 2019, the people receiving JS – WR grants in the first national shift to higher Alert Levels were younger and had little to no recent benefit history (MSD, 2021b).

People that started receiving a benefit during 2020 and had no previous benefit history were able to find work more easily than those who had been on benefit for a while and were not as close to the labour market. In line with this, the number of people on JS – WR with a short-term duration (less than one year) has now reduced to near 2019 levels and the number of people who are between one- and two-years continuous duration, is reducing. The resumption of the 52-week reapplication process and associated work assessments is likely to be contributing to this.

People who were already receiving a benefit prior to the shift to higher Alert Levels in March 2020 have not fared as well

Since 2018, we have seen increases in the number of people staying on benefit longer term, compared to cohorts that entered around 2015 and 2016. The effects of the COVID-19 pandemic have exacerbated this trend. People already on benefit in March 2020, when the first national shift to Alert Levels 3 and 4 occurred, have been experiencing more difficulty returning to the labour market. For example, around half of the September 2019 cohort are still receiving a main benefit after 24 months, whereas for earlier cohorts this is around 40 percent. There has also been growth in the number of clients with longer durations (3 years or more).³⁰

²⁹ For more information on trends in housing support over the past year, see <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/housing/index.html>

³⁰ Based on unpublished analysis of MSD data, as at September 2021.

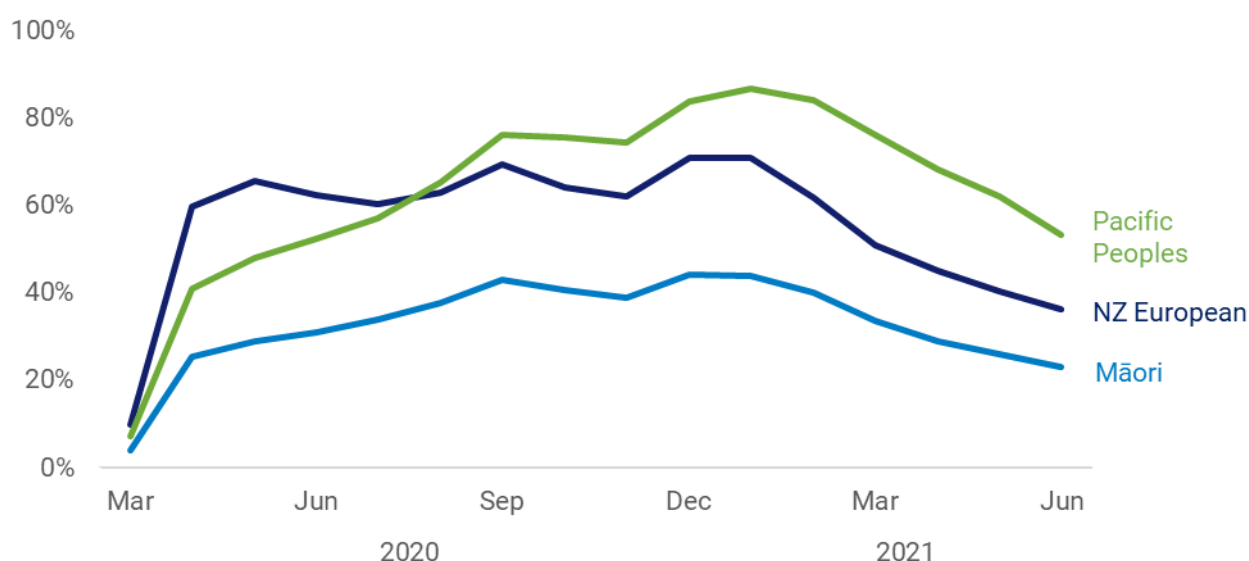
People with longer durations on benefit may have been outcompeted for jobs by more recent entrants, who are closer to the labour market. Longer duration on benefit is associated with increased difficulty in re-entering the workforce so these groups may need targeted and additional support. There may also be an opportunity to better support people either at risk of entering the benefit system or with shorter benefit durations, to reduce the likelihood that they escalate into a longer-term group.

Māori

Māori experienced lower growth in JS – WR, unemployment, and underutilisation when compared to New Zealand Europeans

Māori experienced lower proportionate growth in JS – WR when compared with New Zealand Europeans through 2020 and 2021, although the gap did narrow over time (see Figure 9). The relatively lower growth for Māori may partially reflect how Māori were already over-represented in benefit numbers (MSD, 2020c).

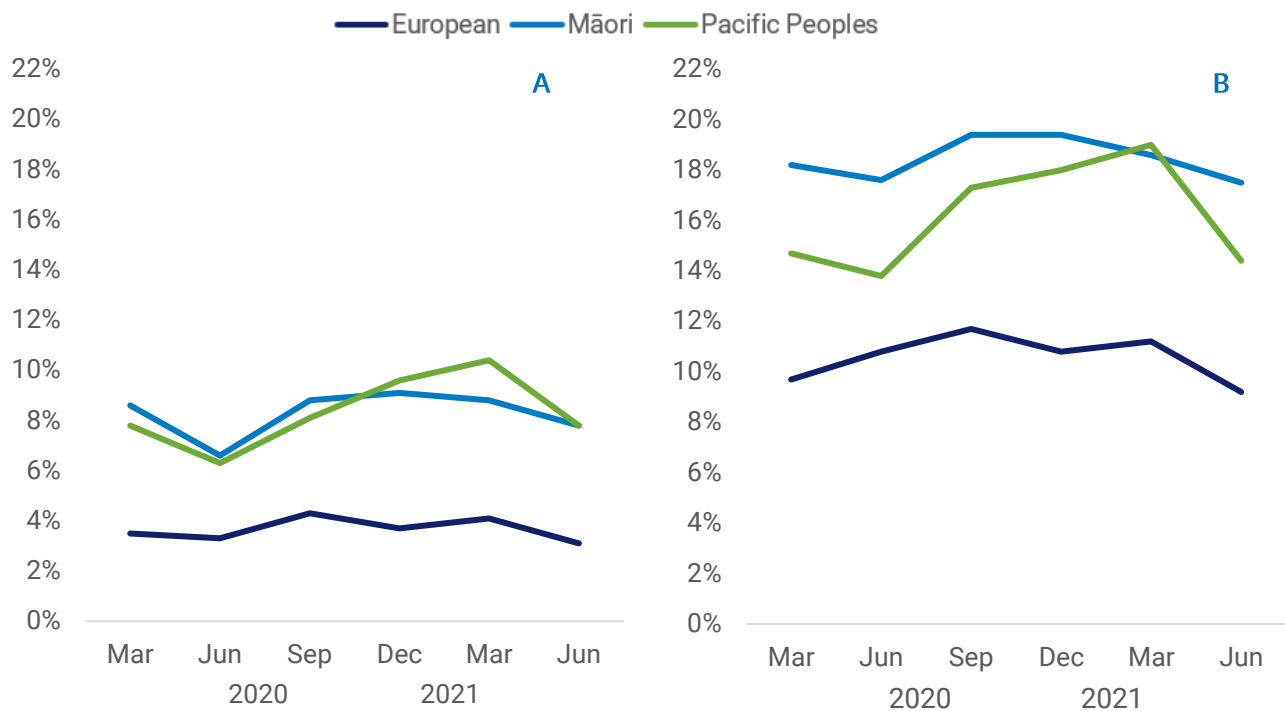
Figure 9: Monthly percentage change in JS – WR by ethnicity³¹



However, it is also in line with lower growth in unemployment and underutilisation when compared with New Zealand Europeans (see Figure 10A and B, overleaf). The Māori population is also younger than the overall population, and employment outcomes for youth have held up better than expected (ANZ Research, 2021b). These trends contrast with those seen in the GFC (see Appendix 1). During the GFC, youth and industries where Māori are more likely to be employed (retail, manufacturing, construction), were much harder hit, and took longer to recover, and Māori also had greater growth in main benefit receipt over time. When considering growth in all main benefits, although New Zealand Europeans initially experienced greater growth compared to Māori, six months from March 2020 growth was comparable (see Appendix 1). This partially reflects Māori experiencing greater growth in other main benefits over time.

³¹ Change in benefit numbers from February 2020 (one month prior to first national shift to Alert Levels 3 and 4).

Figure 10: Quarterly unemployment(A) and underutilisation(B) rates by ethnicity³²



Pacific peoples

Pacific peoples experienced greater growth in JS – WR, unemployment, and underutilisation when compared to other groups

When compared to New Zealand Europeans and Māori, Pacific peoples experienced greater percentage growth in both all main benefits and JS – WR. This could partially reflect the relatively small base numbers for Pacific Peoples (around 25,500 main benefit recipients at the end of the March 2020 quarter, compared to around 116,500 New Zealand Europeans and 114,100 Māori). However, Pacific Peoples also experienced greater growth in unemployment and underutilisation, and these indicators were slower to return to pre-COVID-19 levels when compared with other ethnicities. This may reflect the large Pacific population in Auckland, which was slower to recover than other regions. Through 2020 and 2021, around two-thirds of Pacific Peoples labour force was in Auckland (MBIE, 2021b).

There have also been indications that Pacific women were heavily affected following the March 2020 change in Alert Levels, which may reflect intersecting disadvantage (Ministry for Women, 2020). In the earlier stages of COVID-19 there were indicators showing women had been more adversely affected than men (this is explored further in the following section). However, additional work is needed to understand longer term trends for Māori and Pacific Peoples, including Pacific women. Smaller breakdowns in the HLFS can be very volatile, and caution is needed in interpreting these statistics³³.

³² Not seasonally adjusted.

³³ There are also limitations with the comparability of the HLFS and benefit number trends, as this report uses a prioritised ethnicity approach, while the HLFS uses total response ethnicity. MSD has undertaken work to move to a total response ethnicity approach.



There are on-going vulnerabilities for Māori and Pacific Peoples

However, some vulnerabilities remained for Māori and Pacific Peoples.

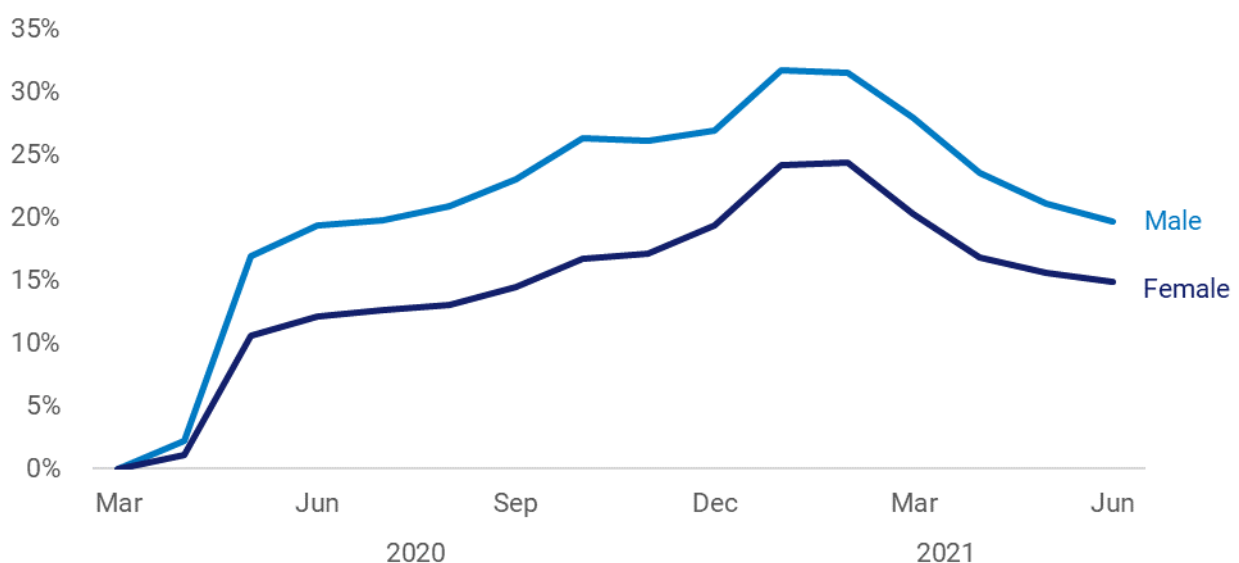
- Previous recessions have also shown that Māori and Pacific Peoples are at greater risk of remaining on benefits for a longer period than other ethnicities, even as the economy improves. Lower work exit rates for Māori and Pacific peoples compared to New Zealand Europeans observed through 2020 and 2021 are in line with this (see Appendix 2).
- Overall, Māori and Pacific Peoples remain overrepresented in the benefit system.
- By the June 2021 quarter, rates of unemployment and underutilisation for both Māori and Pacific Peoples returned to 2019 levels, but they also remain high relative to New Zealand Europeans.

Women

Women experienced less growth than men in overall main benefit numbers, but numbers were also slower to decrease

Following the first shift to higher Alert Levels in 2020, women had greater proportionate growth than men in the number of grants and cancels for JS – WR and CIRP, compared with the same period in 2019 (MSD, 2021b). However, when considering the growth in all main benefits by gender, men came onto benefit in greater numbers, and numbers decreased slightly faster (see Figure 11). Differences in trends between men and women for JS – WR and all main benefits may reflect gender-based patterns in uptake of different benefits. Women are more likely than men to go onto SPS instead of JS – WR if they have children. The number of people on SPS, where a large majority are female, increased by around 7,100 (11.8 percent) from February 2020 (the month prior to lockdown) to December 2020, significantly below the levels seen for JS – WR or CIRP. There may also be an element of undercounting, as partners are not included in reported numbers of people receiving a benefit (MSD, 2021b).

Figure 11: Monthly percentage change in main benefits, by gender³⁴



³⁴ Change in benefit numbers from February 2020 (one month prior to first national shift to Alert Levels 3 and 4).



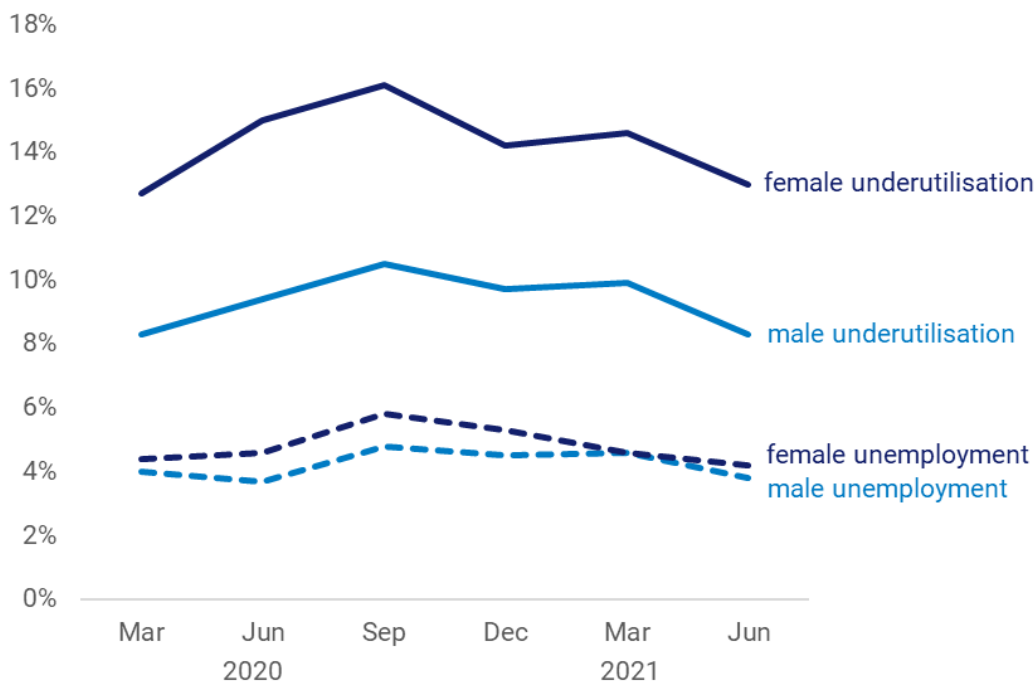
Greater growth in main benefit rates for men compared to women was also seen in response to the GFC. However, the difference between the genders was larger during the GFC (see Appendix 1). This pattern is likely driven by the fact that industries that were most affected by the GFC, such as manufacturing and construction, also employ the highest proportion of men (Statistics NZ, 2014).

Labour market outcomes for women have improved, but high levels of underutilisation remain

In line with the greater proportionate growth for women in JS – WR and CIRP, in the earlier stages of COVID-19 there were indicators women had been more adversely affected than men. Underutilisation for women grew faster than for men initially, but by the peak in September 2020 the percentage growth from February was comparable. Women also experienced greater growth in unemployment than men (see Figure 12). The overall trend began to reverse from December, with unemployment falling for both, but to a greater extent for women. By the June 2021 quarter the unemployment rate had returned to pre-COVID-19 levels for both men and women. However, disparities for women remained, particularly for underutilisation.

A reason for the increased unemployment and underutilisation for women is that they are more likely to be employed in jobs related to tourism, such as hospitality, accommodation, retail, and private sector administrative and support services. These are industries that were more affected by the COVID-19 pandemic initially. For example, the June 2020 Quarterly Employment Survey (QEM) for the June 2020³⁵ quarter found that full-time jobs for women in the Retail and Trade industry fell by 3,200 jobs, compared with only 500 fewer jobs for men (Statistics New Zealand 2021c).

Figure 12: Underutilisation and unemployment rates for men and women from March 2020 to June 2021 quarters (seasonally adjusted)



Women are also more likely to work part-time or be in other forms of less secure employment, and there may have been a one-off increase in this in response to the COVID-19 pandemic.

³⁵ As at September 2021, not seasonally adjusted.



When comparing March 2020 to March 2021, there was an increase of 24,700 more people who were self-employed, and women made up most of this increase. Self-employment may support people's preferences but can be associated with higher instability (for hours and income) and poorer resilience to economic shock.

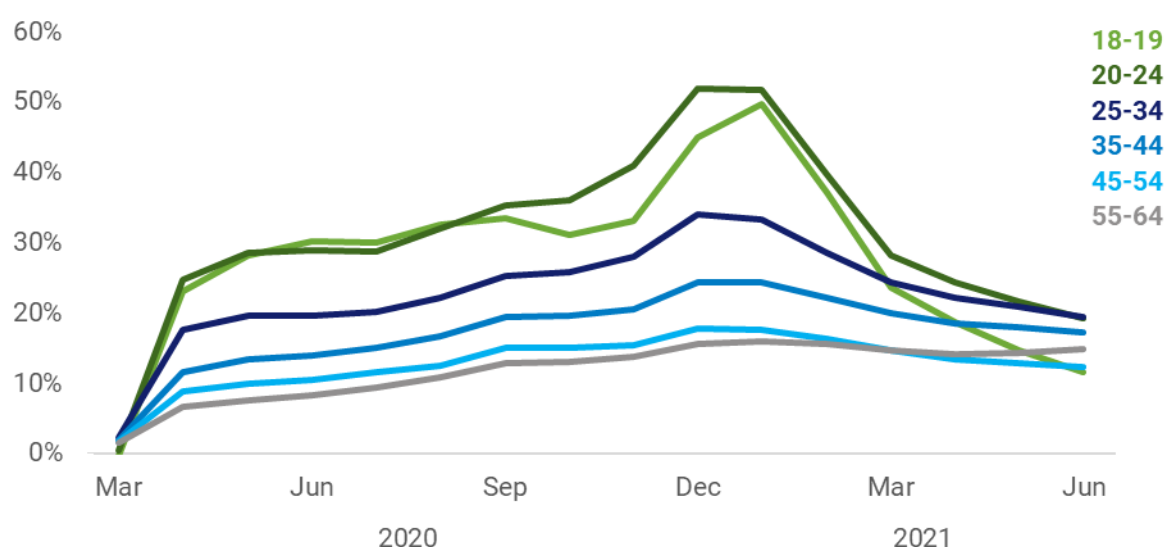
Youth

Outcomes for youth have held up better than expected

Young people tend to be a group severely affected by economic shocks, which reflects their more vulnerable position in the labour market. Youth generally have lower skill levels, more casual employment arrangements, and high levels of employment in sectors like the service industry, which are more exposed to the effects of a recession (Graham & Ozbilgin, 2021). Benefit number trends for youth following the March 2020 shift to higher Alert Levels reflect this general vulnerability.

As shown in Figure 13, following the March 2020 shift to higher Alert Levels there was a sharp increase in the number of 18- to 24-year-olds entering the benefit system, mostly for people entering JS – WR. Growth in the number of younger people drove the overall increase in benefit numbers throughout this period, with 18- to 34-year-olds accounting for 60 percent of the total increase in grants across all working-age people (MSD, 2021b). However, while young people are typically more effected by economic shocks, they also tend to recover more quickly.

Figure 13: Monthly percentage change in all main benefit numbers for different age groups³⁶



For example, between March and December 2020, younger people leaving JS – WR made up most of the cancels into work (MSD, 2021b). This recovery occurred at a much faster rate than following the GFC, when high benefit numbers for youth were sustained for a longer period (see Appendix 1). Employment outcomes for young people have also held up better than expected and generally returned to pre-COVID-19 levels by June 2021. As outlined in Table 2 (overleaf), the June 2021 quarter HLFS data shows the unemployment, employment, and participation rates of 15-24-year-olds are consistent with June 2019, suggesting general recovery for youth in the labour market.

³⁶ Change in benefit numbers from February 2020 (one month prior to first national shift to Alert Levels 3 and 4).



However, while the NEET rate (not in employment, education, or training) has decreased from June 2020, it remained higher than in 2019, suggesting this should remain an area of focus.

Table 2: Unemployment, Employment, Participation, and NEET rates for youth 15-24 years, not seasonally adjusted)

		Jun-21	Jun-20	Jun-19	Jun-16
Unemployment rate	15-19 years	17.9%	14.0%	17.8%	18.7%
	20-24 years	6.3%	8.0%	6.6%	9.2%
	Total	3.9%	3.9%	3.9%	4.9%
Employment rate	15-19 years	38.5%	36.1%	37.3%	35.4%
	20-24 years	74.3%	70.7%	73.8%	69.0%
	Total	67.5%	66.8%	67.5%	66.2%
Participation rate	15-19 years	46.9%	42.0%	45.4%	43.5%
	20-24 years	79.2%	76.9%	79.0%	76.0%
	Total	70.2%	69.6	70.2%	69.7%
NEET rate	15-19 years	8.3%	8.3%	7.4%	6.5%
	20-24 years	13.3%	15.0%	12.0%	14.3%
	Total	10.8%	11.8%	9.8%	10.5%

There are several other factors that may have supported the quick recovery for younger people. Research on the impact of the Wage Subsidy shows the subsidy disproportionately benefited service sector jobs and young workers, who were the groups most adversely effected by the Alert Level 3 and 4 restrictions. The Wage Subsidy saved 17.1 percent of jobs for workers under the age of 30, compared to just 3.1 percent of jobs for those aged over 50 (Graham & Ozbilgin, 2021). There is some evidence young people adapted to the challenges of COVID-19 by increasing their time in education and training. This trend was also observed following previous recessions. More young people exited main benefit into study in early 2021, with exits from benefits into study increasing by 71 percent in March 2021 compared to last year (for those aged 18 to 24 years). There has also been growth in the number of people accessing apprenticeships throughout this period. There has been rapid recovery in sectors like construction, which have larger numbers of entry-level roles. Engagement in training and education can be a positive pathway to improved labour market outcomes longer-term.

Sole Parents

The number of Sole Parent Support recipients has decreased, following growth during the pandemic

Over the past 20 years, we have generally seen a sustained downward trend in the number of sole parents on benefit. This trend reflects long-term societal and economic factors, like the decreasing number of sole parent families, the high employment rate of sole parents (which is now comparable to the overall employment rate for women) and the decreasing number of teenage parents. More recently, from 2019, there was slight growth in the number of Sole Parent Support (SPS) recipients, likely reflecting the softer economic conditions at that time and operational changes.

Since the impact of COVID-19, this growth accelerated, with a relatively strong increase in the number of SPS recipients throughout 2020, with growth of around 7,100 recipients from February (60,400) and December (67,600). This December figure represents a 10.4 percent increase from the year prior, with 61,200 people accessing SPS in December 2019.



This increase was mostly due to fewer people leaving the benefit system, rather than more sole parents entering benefit, which is consistent with the weaker labour market conditions following the pandemic. In line with main benefit numbers, SPS numbers initially increased at a faster rate (although from a lower baseline), peaked lower, and recovered more quickly when compared with the GFC (see Appendix 1). After increasing throughout 2020, the number of SPS recipients fell month-on-month throughout the first six months of 2021, dropping to around 66,000 by June. These numbers remain significantly below the forecast peak from BEFU 2021 of 74,100 in January 2023 (Treasury, 2021).

The relatively quick decrease in SPS numbers is also reflected in the unemployment rate for sole mothers³⁷, which dropped to 8.7 percent in the June 2021 HLFS (from 11.5 percent at the peak in the December 2020 quarter). While the number of SPS recipients was influenced by the economic shock following the pandemic, the rate of growth remained well below increases for JS – WR recipients, who are generally closer to the labour market. For example, the number of SPS recipients increased by 5.4 percent in the first three months of the pandemic, compared to comparable growth of 49.6 percent for JS – WR. Despite recent decreases in the number of SPS recipients, this group will continue to require support to re-engage with the labour market, such as childcare support, given they face additional barriers. For more information on the longer-term trends around sole parent numbers, including details on the drivers for the sustained decreases generally observed prior to the pandemic, see MSD (2021c).

People with health conditions and disabled people

There has been a long-standing gap between outcomes for disabled people and the wider population, and this continues to persist

A key finding from the Statistics New Zealand (2021a) annual Labour Market Statistics (Disability) Survey for the June 2021 quarter was that 42.5 percent of disabled people aged 15–64 are employed, compared to 78.9 percent of non-disabled people. In the five years this survey has been running, the gap in employment rates between disabled and non-disabled people has remained roughly the same. This indicates that although COVID-19 does not seem to have had a statistically significant impact on rates of employment, poorer outcomes for disabled people have persisted.

There is some indication the gap has widened in regard to median weekly earnings and hours worked. For example, In June 2021 median weekly earnings for a disabled person aged between 15–64 years was \$395, compared with a non-disabled person at \$932. This gap has been widening since June 2017, when the median income for disabled people was \$335, compared to \$767 for non-disabled people. However, there have been some improvements in employment outcomes for disabled people since June 2020. For example, the underutilisation rate for disabled people decreased by 1.9 percentage points in the June 2021 quarter, to 19.8 percent (compared to 10.0 percent of non-disabled people).

Deferrals of some review processes have affected entries and exits for health or disability related benefits

As part of MSD's response to the COVID-19 pandemic, people were no longer required to provide subsequent medical certificates or have a work reassessment. Higher Alert Level restrictions created difficulties for people with getting a new medical certificate to demonstrate they could not work.

³⁷ The Sole Mother population (defined as a sole mother with a dependent child aged 0–18 years) is a customised series provided by Statistics New Zealand, based on the HLFS. Not seasonally adjusted.



This deferral ran from 30 March 2020 to 23 July 2021 for Supported Living Payments (SLP). Medical certificate deferrals for JS – HCD have been extended to January 2022. From the end of February 2020 to the end of June 2021, the number of people on JS – HCD increased by around 16,500 (up 26.2 percent) to 79,500 (see Figure 14). For JS – HCD the medical certificate deferral has resulted in a shift in the composition of Jobseeker Support overall (more people on JS – HCD and fewer on JS – WR), as people are no longer transferring to JS – WR at the same rate. As a result, trends for this benefit are also much more in line with trends seen in response to the GFC than other benefits like JS – WR.

Figure 14: Monthly percentage growth in JS – HCD numbers in response to the GFC and COVID-19³⁸



SLP has not seen the same growth in numbers following the March 2020 national shift to Alert Levels 3 and 4. Between February 2020 and June 2021, numbers of people receiving SLP only increased by around 1,400 people (up 1.5 percent), to around 94,700 people. This may reflect a reduction in transfers from JS – HCD because of the deferred medical review process. There was a more pronounced increase in SLP benefit numbers following the GFC (see Appendix 1). However, this was likely driven by operational changes to the medical certificate process at the time which resulted in many clients transferring from JS – HCD to SLP.

Work exit rates for people receiving JS – HCD were higher in 2021 than 2019

Previous recessions have shown that employment opportunities for people with disabilities tend to drop significantly and do not improve as fast in the subsequent recoveries (OECD, 2010, as cited in WEAG, 2019a). However, through 2021 work exit rates for people receiving JS – HCD have been higher than 2019 (see Appendix 2). Further work is required to understand this trend, as it may be due to a number of factors.

³⁸ Percentage change in benefit numbers from May 2008 for the GFC, and February 2020 for COVID-19 (one month prior to each event starting).



These include:

- Exit rates being affected by the cohort of people who would have moved to JS – WR if the medical certificate review process was still in place. Those on JS – WR tend to have higher work exit rates as they are closer to the labour market.
- The stronger and faster than expected recovery of the economy and labour market.
- The reintroduction of the 52-week reapplication process in February 2021.

Work exit rates for SLP did not change to the same degree as JS – HCD, and returned to 2019 levels in 2021.

Health or disability related benefit numbers may continue to increase over time

We may see increasing growth in health or disability related benefits as time goes on, due to the psycho-social impacts of the COVID-19 pandemic, as well as social isolation from the Alert Level 3 and 4 restrictions (MSD, 2020e). Recent experience also suggests that following recessions, as the economy starts to recover there is a rapid reduction in unemployment-related benefits but also flows from unemployment-related benefits to incapacity-related benefits (MSD, 2020c; OECD, 2010, as cited in WEAG, 2019a). These benefits also have longer durations of benefit receipt, in part due to health issues or disabilities impacting peoples' work-readiness. Given this, and the long-standing gap between employment outcomes for disabled people and the wider population, people with health issues and disabled people are likely to continue to need targeted and additional support.

Initial trends following the August 2021 national lockdown

On 17 August 2021, a community case of COVID-19 was detected and the country moved into an Alert Level 4 restrictions on the same day. This final section provides a brief overview of initial trends seen in response to this shift to higher Alert Levels, including a comparison with the March 2020 lockdown. However, at the time this report was written the lockdown was still on-going, and an in-depth analysis of trends will be explored in future reporting.

Compared to March 2020, the impact of the August 2021 move to higher Alert Levels was less sharp

The number of people receiving a main benefit dropped below last year's level in July, after continuous decreases throughout the year. However, main benefit numbers increased as a result of the second national shift to Alert Levels 3 and 4 in August. There were around 5,600 more people receiving a main benefit in August (358,000), compared to the previous month (up 1.6 percent). The second national shift to higher Alert Levels coincided with the start of the COVID-19 resurgence in August-September in 2020 and was also similar in size (around 5,500 more people from July to August 2020). This is despite being at different Alert Levels than at the same time last year (Level 4 in 2021 vs Level 3 in 2020). However, there were some key differences in the conditions surrounding the two lockdowns (see Table 3, overleaf).

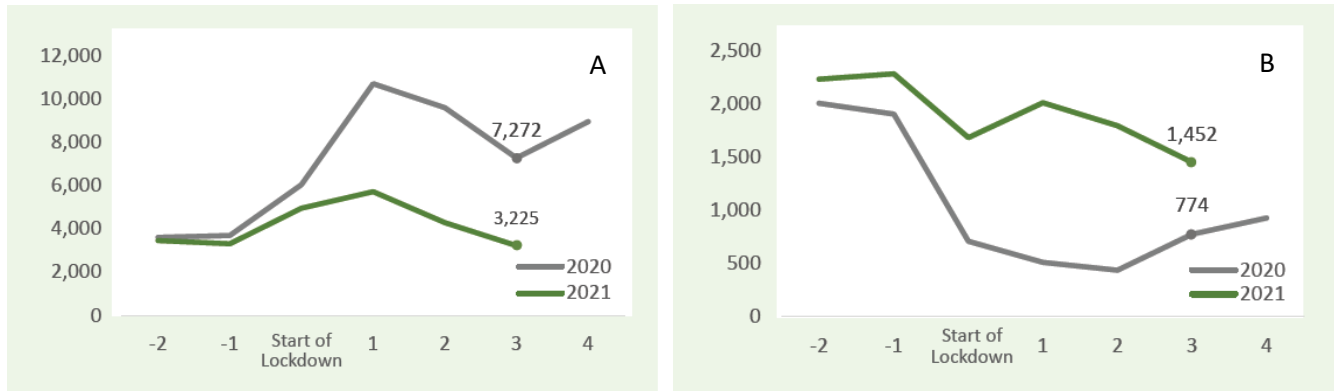


Table 3: Key differences between the shift to higher Alert Levels in August 2021 and March 2020

August 2021	March 2020
Winter Energy payment was available. The Winter Energy Payment is paid from 1 May to 1 October each year.	Winter energy payment not available.
Off-season for employment in most primary industries.	Peak season for employment in primary processing.
Shorter lockdown – 3 weeks (excluding Auckland, where Alert Level restrictions continued).	Longer lockdown – 7 weeks, which ended simultaneously in all regions.
Leave support scheme expanded, Short-term absence payment and COVID-19 Resurgence Support Payment (RSP) added. ³⁹	Leave Support Scheme and CIRP available.

Differences between the March 2020 and August 2021 shift to higher Alert Levels in the number of people receiving main benefits largely reflect patterns of entry and exit to main benefits. Following August 2021, the number of weekly grants peaked much lower (see Figure 15). The number of benefit cancellations, including cancellations into work, decreased in response to both lockdowns, but again this was not as sharp in 2021.

Figure 15: Weekly increases in benefit grants (A) and decreases in benefit exits (B) across the March 2020 and August 2021 shifts to higher Alert Levels⁴⁰



Across both lockdowns, most of the increase in main benefit numbers was driven by an increase in JS – WR recipients, the majority of which were from the Auckland region (MSD, 2020f). However, there were initial indications of differences in the demographic composition of the people coming onto benefit. In 2021, most of the increase in JS – WR was in people who identified as Māori or Pacific Peoples, compared with a smaller decrease of NZ European. This is different to what we saw after the first shift to Alert Levels 3 and 4 in March 2020, when the number of New Zealand Europeans that came onto benefit was higher than other ethnicities, and also left faster in the months following. This may reflect a return to pre-COVID-19 trends, however this will need to be explored in future reporting.

³⁹ The Short-Term Absence Payment was added to help pay employees and those who are self-employed if they are required to self-isolate while they wait for a COVID-19 test result and cannot work from home. The RSP is a payment to help support businesses or organisations with expenses, where they have experienced a decline in revenue due to an Alert Level increase to Level 2 or higher, for seven days or more.

⁴⁰ Reproduced from MSD (2021a).

In both national lockdowns, additional support was provided to keep people employed, but with key differences

The Government introduced wage subsidies in response to shifts to higher Alert Levels which were administered by MSD. This assistance was vital in keeping employees engaged with their workplace. The original March 2020 Wage Subsidy was paid for a 12-week period. In contrast, in 2021 a series of two-week subsidies were made available (Wage Subsidy August 2021, #1, #2, etc). Although businesses initially applied for the August 2021 #1 subsidy faster than the original, by the two-week point the number of applications was comparable (342,500⁴¹ and 343,500, respectively). Uptake also appeared to be decreasing with each additional August 2021 subsidy.

Uptake between the schemes may have differed due to several additional reasons, such as:

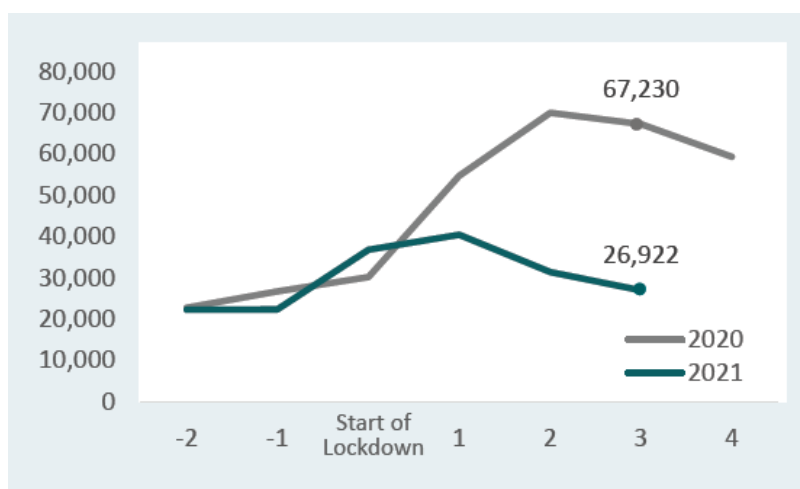
- the starting date for each scheme being under different Alert Level settings (eg. Level 4 for the current one, Alert Levels not having been yet introduced for the original scheme)
- differences in eligibility criteria, including income threshold, days of loss in revenue accounted for, and level of revenue loss
- businesses may have become more resilient to potential shifts to higher Alert Levels by adjusting their operative models.

Further work is planned to evaluate the process and outcomes of the 2021 Wage Subsidies.

Trends for SNGs and Advances were similar across both national lockdowns

In response to the Alert Level 3 and 4 restrictions from August 2021, we largely saw the same pattern for SNGs and Advances as the first shift to higher Alert Levels in March 2020. However, there are some differences between the trends for SNGs for food. The number of SNGs rose across both, but peaked lower in 2021 (see Figure 16).

Figure 16: Weekly SNGs for food across both the March 2020 and August 2021 shifts to higher Alert Levels⁴²



⁴¹ Data as at week ending 3 December, 2021. Revised application numbers after the closing date of each Wage Subsidy scheme reflect administrative processes, rather than new applications received from clients.

⁴² Reproduced from MSD (2021a).



This is likely because no changes were made to food grant limits, which contributed to the increase in grants during the first lockdown period. Raising recommended limits enabled people to more readily access this type of support. In 2021, most of the increase in SNGs for food was granted to people who reside in Auckland, which is in line with what we normally see given its population size. SNGs for food dropped below pre-August 2021 levels for most of the country from mid-September, but remained higher for longer in Auckland, where higher Alert Level restrictions remained for longer.

Across both national lockdowns, MSD made other changes to increase the accessibility of food grants. MSD made it easier for case managers to use their discretion when granting food grants, and the need for manager sign off was temporarily removed. Following the August 2021 Alert level shifts, MSD also provided an additional \$300,000 to the New Zealand Food Network (NZFN), with \$100,000 of this being ring-fenced for Auckland Iwi and Māori-led organisations. This funding is being used to purchase food at a discounted rate (50 percent of retail). MSD has also reprioritised \$7m worth of funding and directed it to frontline services who are providing food support.

Despite the August 2021 lockdown, the labour market and exits into work were at historic strengths in the September 2021 quarter

Across the board, the labour market has fared much better than following the first national shift to higher Alert Levels in March 2020, with most HLFS indicators at historic strengths despite the August 2021 lockdown (Statistics New Zealand, 2021d). The number of people exiting benefits into work in the September 2021 quarter (around 28,200) was also the highest since electronic records began in 1996. The June 2021 quarter was the second highest. The September 2021 labour market results were also strong for Auckland despite this region remaining under Alert Levels 3 and 4 for longer than the rest of the country. People also continued to seek work during the Alert Level 3 and 4 restrictions in August 2021.

Employment indicators for some of MSD's key priority groups also improved in the September 2021 quarter. Employment and participation growth was strong, especially for women, Māori, and Pacific Peoples. The number of employed people increased by 55,000 over the quarter, with 39,000 more women and 15,000 more men employed (MBIE, 2021c). This growth was mainly driven by increases in full-time and permanent work. The unemployment rate for both Māori and Pacific Peoples was also historically low. For example, in the September 2021 quarter the employment rate for Māori was at the highest since around 2013, at 63.9 percent (not seasonally adjusted). The unemployment rate for Pacific Peoples is at the lowest rate since records began in 2007, at 5.5 percent (not seasonally adjusted).

One key observable effect of the delta outbreak on employment indicators was a reduction in hours worked, with 257,100 people reporting working fewer hours than usual for COVID-19-related reasons in the September 2021 quarter. The number of hours worked also decreased following the March 2020 higher Alert Level restrictions. However, total hours worked in the September 2021 quarter remained higher than in the June 2020 quarter.

Overall, the strength of these results suggests that many firms were better prepared and had changed their business models to operate closer to their usual capacity at Alert Levels 3 and 4. Firms were also supported by the Wage Subsidy, with 42.0 percent (around 1.2 million jobs) of paid employees having received Wage Subsidy #1 (MSD, 2021d).⁴³

⁴³ Data as at 3 December, 2021.



Conclusion

Looking forward, there is still some uncertainty about the ongoing effects of the pandemic on the economy, labour market, and benefit system

While the economy, labour market and benefit system have been less impacted by the shift to Alert levels 3 and 4 in August 2021, there continued to be mixed labour market outcomes for industries and regions. As at September 2021, the labour market continued to tighten with skill shortages still being reported across regions, sectors, and skill levels. Wage growth also continued, which suggests firms were adjusting wages to meet the high labour demand. Although, increases in inflation reduced the effect of wage increases in real terms. Regions also reported that the wider effects of the pandemic could be seen in both changing consumer behaviour and further disruption to supply chains.

Although COVID-19 will keep impacting the wider economy, the large adjustments seen in the first shift to higher Alert Levels in March 2020 are unlikely to happen again. Firms and people are more aware of the support systems available. However, there is still some uncertainty about the on-going effects of the COVID-19 pandemic.

Looking forward, the country's economic outlook will depend on several factors, including:

- how businesses and regions can operate under the COVID-19 Protection Framework ('traffic light' system)
- the impact of the COVID-19 Care in the Community Framework, and the support provided to those who need to self-isolate at home
- how well New Zealand manages emerging COVID-19 variants such as Omicron, including preventing or reducing the spread in the community
- how quickly the border re-opens and sectors like tourism and international education recover
- how global economic conditions change and affect our local industries, such as the construction sector, that are facing supply chain challenges.

The COVID-19 Protection Framework aims to give less disruptions from COVID-19 related restrictions and more certainty for businesses and consumers. However, the impact of the framework remains uncertain as firms' uptake of the vaccine certificate model affects how many firms can take advantage of the new system. The impact of COVID-19 vaccine mandates for essential services on employment is also uncertain. People who remain unvaccinated may have fewer job opportunities in the future, which may lead to some changes in the number of people receiving benefits, or the ability of people to exit benefits into work. However, we expect that most people in sectors with vaccine mandates have already taken the necessary steps to protect themselves and those around them so impacts should be minor.

These points will be explored in more detail in the next report in this Benefit System Update series, which will be published in 2022. The 2021 HYEPU (MSD, 2021e), published on 15 December 2021, also provides updated forecasts for benefit system numbers over the next five years.



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Appendix 1: Supplementary figures

Note for all following percentage growth figures, this is calculated as percentage change in benefit numbers from May 2008 for the GFC, and February 2020 for COVID-19 (one month prior to each event starting).

Figure 17: Percentage growth in JS – WR during the GFC, by ethnicity

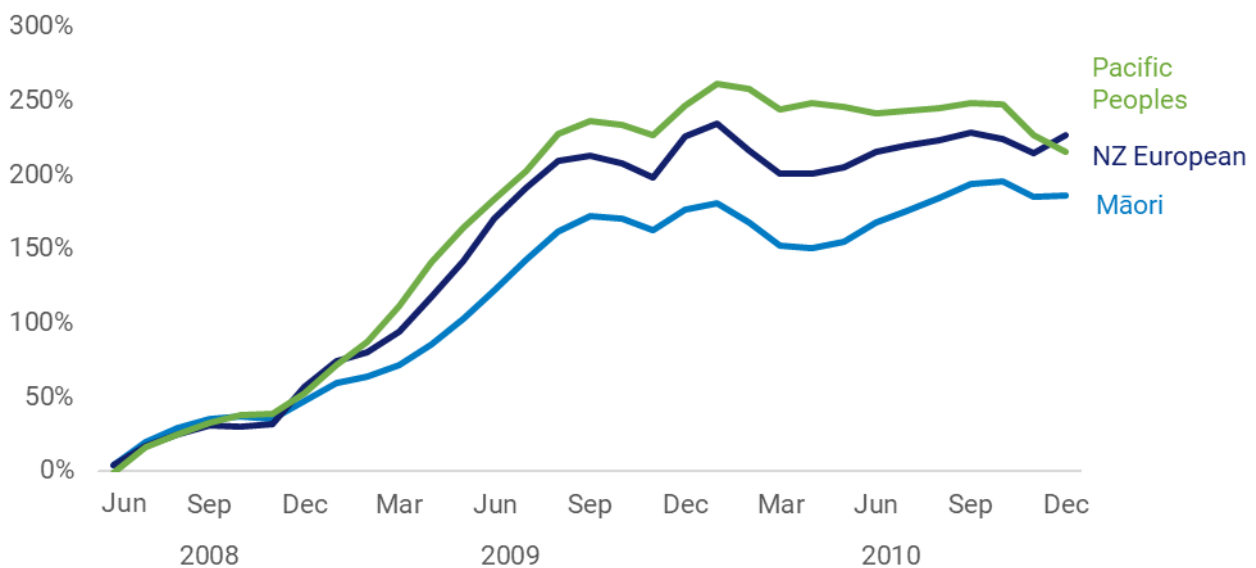


Figure 18: Percentage growth in all main benefits in response to COVID-19, by ethnicity

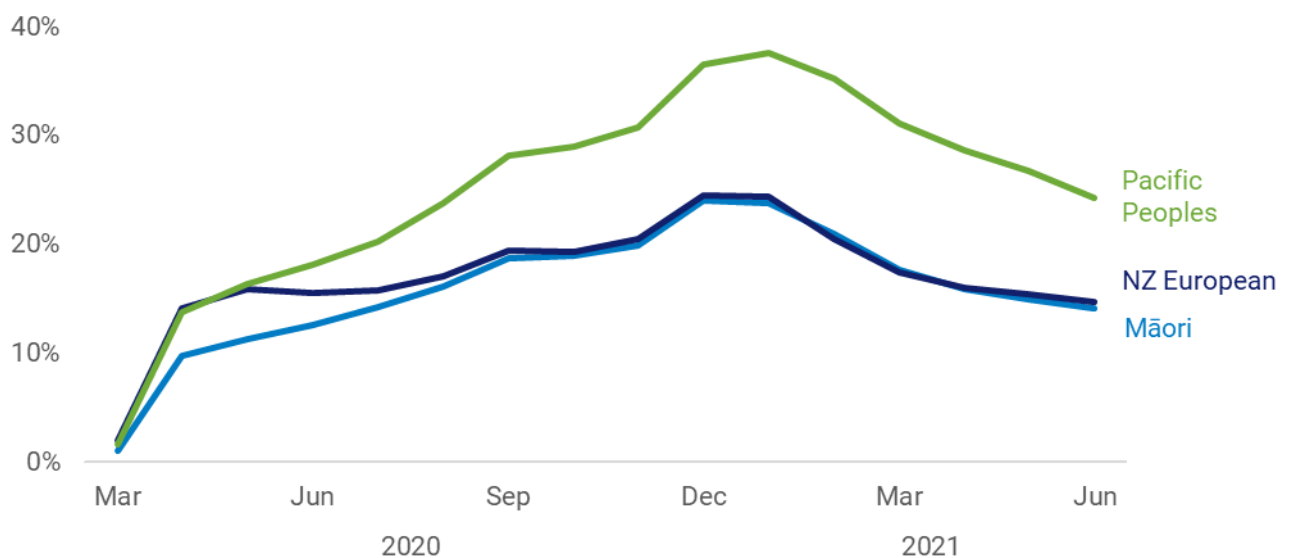




Figure 19: Percentage growth in all main benefits during the GFC, by gender

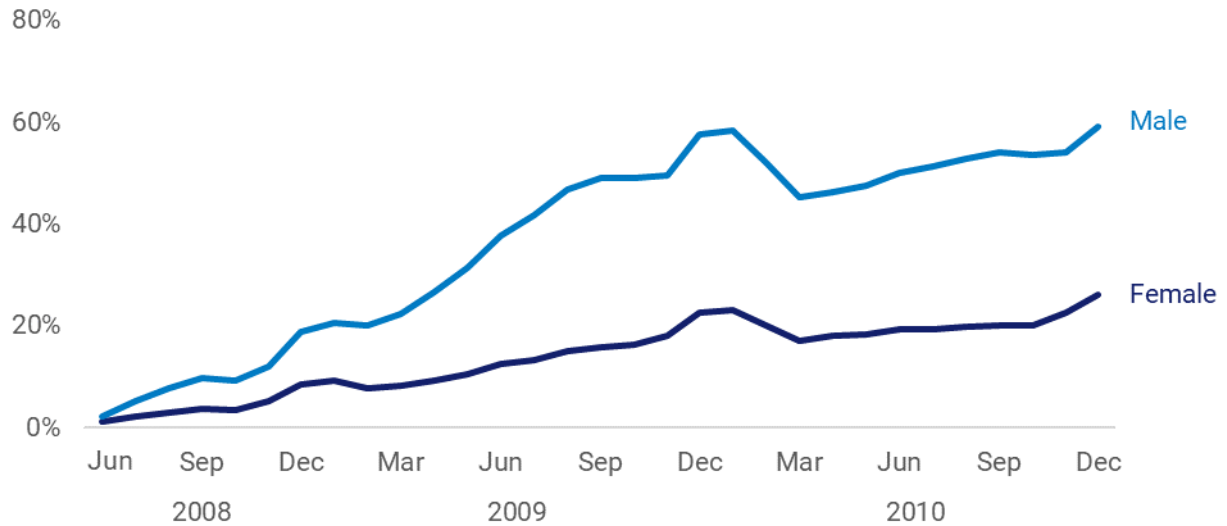


Figure 20: Percentage growth in all main benefits during the GFC, by age group

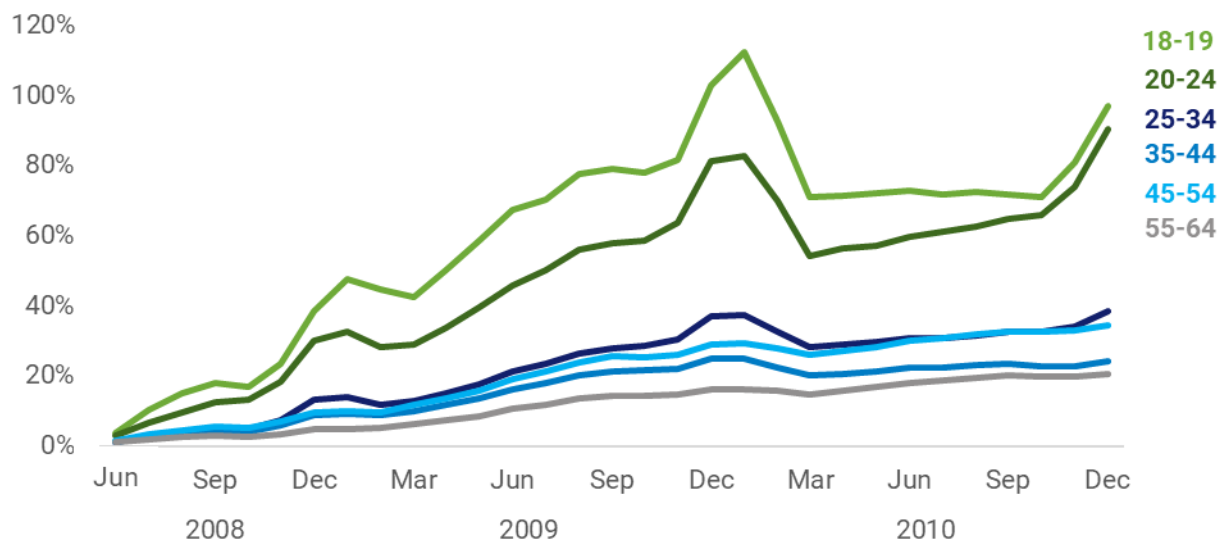




Figure 21: Percentage growth in SPS, following the GFC and COVID-19

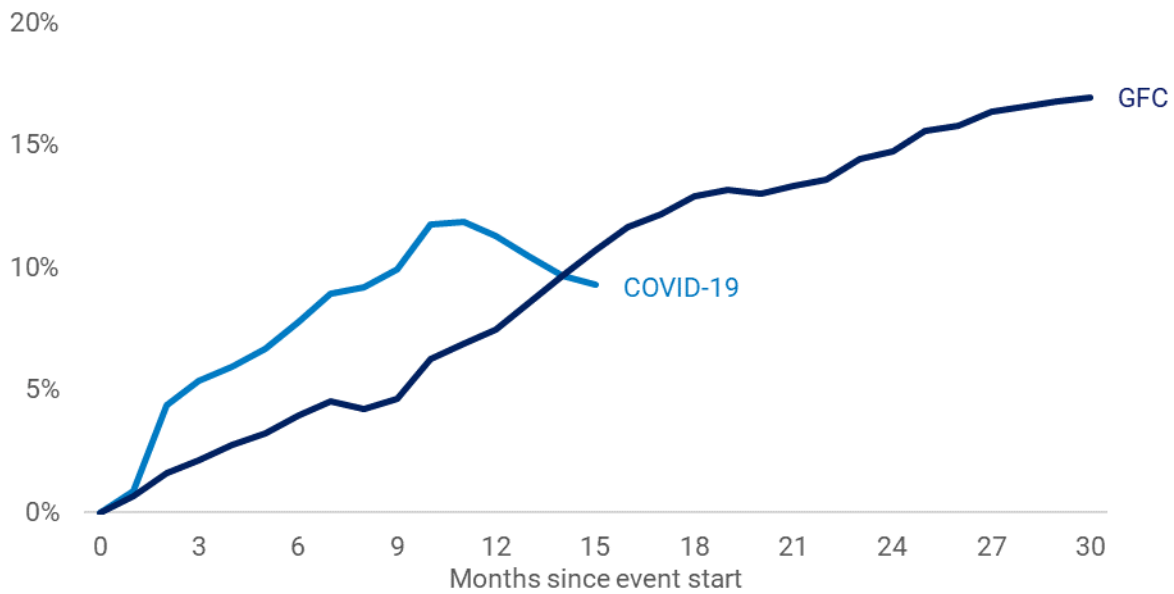
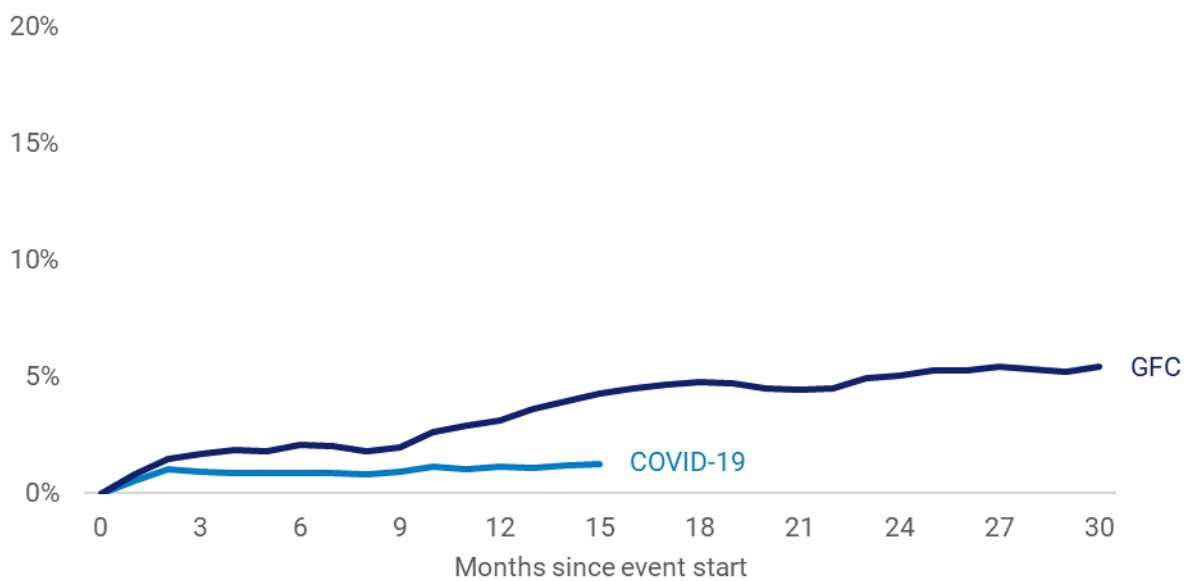


Figure 22: Percentage growth in SLP numbers following the GFC and COVID-19





Appendix 2: Work exit rates

Table 4: Work exit rates for Māori, Pacific Peoples, and New Zealand Europeans in 2019, 2020, and 2021

Year	Month	Ethnicity		
		Māori	Pacific Peoples	NZ European
2019	Jan	4.0%	4.6%	5.3%
	Feb	4.9%	5.7%	6.4%
	Mar	6.5%	6.6%	7.2%
	Apr	5.4%	5.6%	6.1%
	May	5.4%	6.5%	6.6%
	Jun	4.3%	5.6%	5.4%
	Jul	3.8%	4.3%	5.3%
	Aug	4.3%	6.6%	6.6%
	Sep	4.2%	6.3%	6.0%
	Oct	4.8%	6.5%	7.1%
	Nov	5.8%	7.4%	7.3%
	Dec	3.8%	4.8%	4.9%
2020	Jan	4.5%	6.1%	6.2%
	Feb	5.4%	6.9%	7.3%
	Mar	4.4%	5.7%	5.4%
	Apr	2.1%	1.7%	2.9%
	May	2.8%	4.1%	5.1%
	Jun	3.3%	3.4%	6.7%
	Jul	3.3%	3.6%	6.4%
	Aug	2.9%	3.2%	6.0%
	Sep	3.4%	4.1%	6.6%
	Oct	4.1%	5.0%	7.3%
	Nov	4.8%	5.6%	7.3%
	Dec	3.4%	3.9%	5.5%
2021	Jan	3.8%	4.0%	6.2%
	Feb	4.9%	5.1%	7.4%
	Mar	6.0%	6.7%	8.7%
	Apr	4.9%	5.6%	6.7%
	May	5.5%	7.0%	7.7%



	Jun	5.8%	7.8%	7.2%
	Jul	5.8%	8.3%	7.8%
	Aug	4.9%	7.1%	6.5%
	Sep	4.1%	5.1%	6.5%

Table 5: Work exit rates for JS – WR, JS – HCD, and SLP

Year	Month	Benefit type		
		JS – WR	JS - HCD	SLP
2019	Jan	4.6%	1.0%	0.1%
	Feb	5.7%	1.5%	0.2%
	Mar	6.9%	1.7%	0.2%
	Apr	5.8%	1.2%	0.1%
	May	6.1%	1.3%	0.2%
	Jun	5.1%	1.1%	0.1%
	Jul	4.6%	1.1%	0.1%
	Aug	5.6%	1.3%	0.1%
	Sep	5.2%	1.1%	0.1%
	Oct	6.0%	1.2%	0.2%
	Nov	6.6%	1.2%	0.1%
	Dec	4.4%	0.9%	0.1%
2020	Jan	5.4%	1.1%	0.1%
	Feb	6.4%	1.5%	0.2%
	Mar	5.0%	1.4%	0.1%
	Apr	2.4%	0.5%	0.1%
	May	4.1%	0.7%	0.1%
	Jun	5.0%	0.9%	0.1%
	Jul	4.8%	1.1%	0.1%
	Aug	4.4%	1.0%	0.1%
	Sep	4.9%	1.1%	0.1%
	Oct	5.7%	1.4%	0.1%
	Nov	6.1%	1.5%	0.1%
	Dec	4.4%	1.1%	0.1%
2021	Jan	4.9%	1.3%	0.1%
	Feb	6.0%	1.6%	0.2%
	Mar	7.2%	2.1%	0.2%



	Apr	5.9%	1.7%	0.2%
	May	6.8%	1.9%	0.2%
	Jun	6.7%	2.1%	0.2%
	Jul	7.0%	2.1%	0.2%
	Aug	6.0%	1.8%	0.2%
	Sep	5.2%	1.5%	0.2%

