

## Overview

The Ministry of Social Development (MSD) regularly reports on trends in the benefit system on a weekly, monthly, and quarterly basis<sup>1</sup>. This Benefit System Update aims to take a longer-term perspective and explores the impact of COVID-19, along with the broader influence of the economy and labour market.

This report focuses on the 12 months to June 2021, and explores how well our priority groups have fared over the last year. It concludes with a description of some initial trends seen in response to the August 2021 shift to Alert Level 3 and 4 restrictions, along with some observations on the outlook for the labour market and benefit system.

The actions required to prevent COVID-19 entering the community led to rapid growth in the number of people receiving a benefit, however the benefit system responded better than expected.

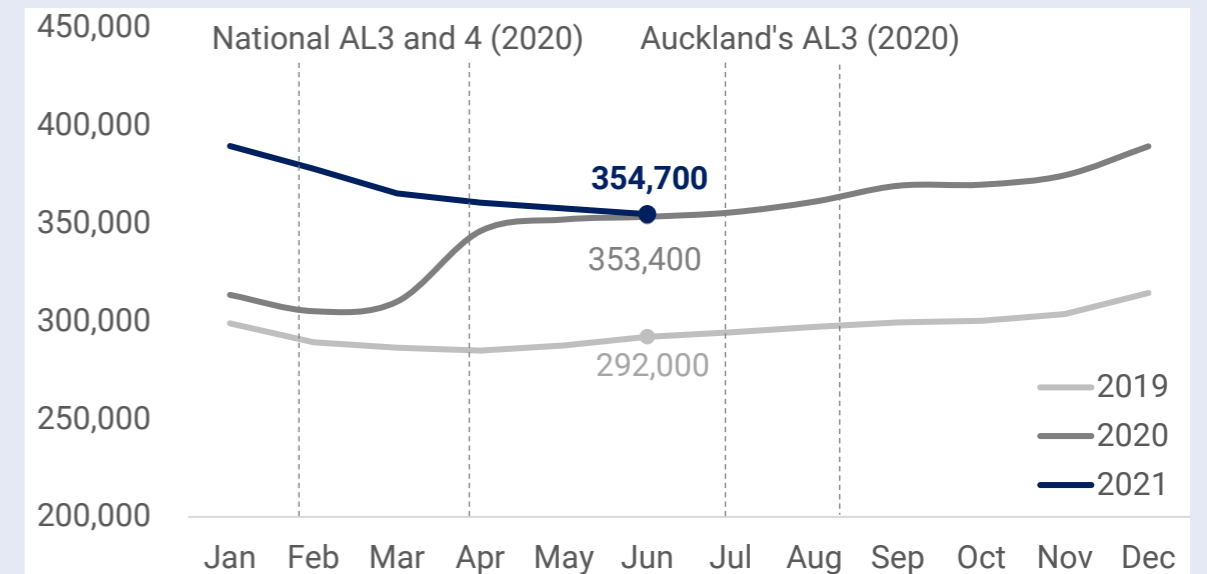
- Following the shift to Alert Levels 3 and 4 in March 2020, we saw a sharp increase in the number of people entering the benefit system, reflecting restricted economic activity and high levels of uncertainty at that time. However, the benefit system responded better than expected, with growth in benefit numbers peaking lower and more quickly than forecast.
- While benefit numbers grew through to January 2021, throughout the rest of the year, we saw a sustained downward trend that continued until the August 2021 nationwide lockdown. This pattern of month-on-month decreases contrasts with typical seasonal trends, which normally see increases throughout the middle of the year.
- This sustained decrease in benefit numbers reflects historically high rates of exit into study or work, mostly for people leaving Jobseeker Support – Work Ready (JS – WR). In the year to June 2021, 113,400 people moved from a benefit into employment, the highest number in the last 20 years.
- In June 2021, there were around 354,800 people receiving a main benefit, a drop of around 34,900 from the peak in January. While this number remains higher than in March 2020, before the pandemic, this gap continues to narrow over time.

<sup>1</sup> See: <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/index.html>



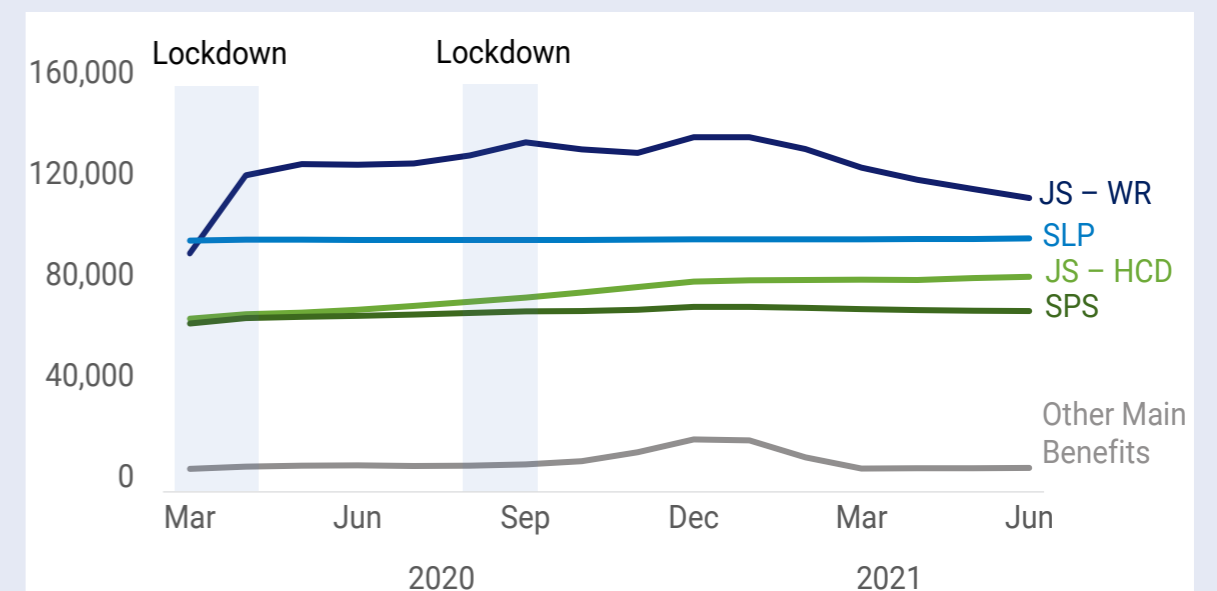
The number of people receiving a main benefit increased through 2020, and then decreased through the first half of 2021

Figure 1. The number of people receiving a main benefit through 2019, 2020, and 2021



Both the increase and decrease in main benefit numbers were driven by changes in JS – WR

Figure 2. The number of people receiving key main benefits through 2020 and 2021



The performance of the benefit system reflects the policy response to COVID-19, the recovery of the economy and labour market, and MSD's sustained employment focus.



The Government's substantial fiscal and economic response to COVID-19 has supported the performance of the benefit system. Significant investment through the Wage Subsidy scheme enabled people to remain in employment and protected against large-scale job loss.

The COVID-19 Income Relief Payment may have helped offset growth in unemployment-related benefits. Investment through the Covid Response and Recovery Fund may also have protected jobs across different regions and sectors.

Throughout this period, the Government also provided additional assistance to support the wellbeing of vulnerable groups, including benefit rate increases, increased hardship assistance, and changes to abatement thresholds, which enable people on benefit to keep more of what they earn while working part-time.

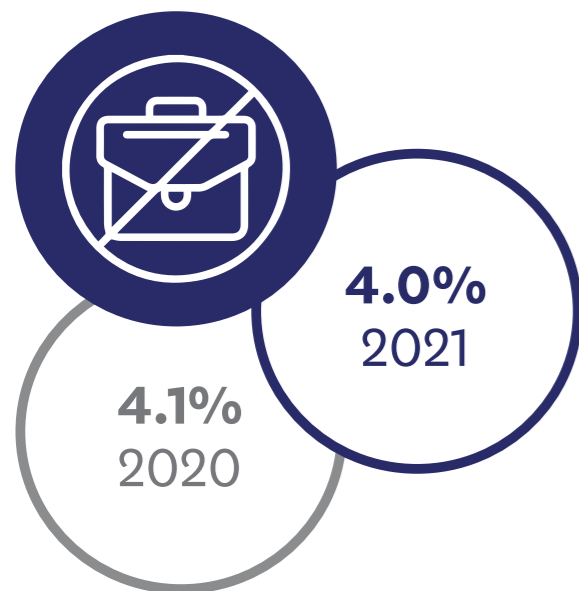


Sustained reductions in the number of people receiving a benefit also reflect the better-than-expected performance of the economy and the labour market. By June 2021, GDP and other unemployment<sup>2</sup> indicators had returned to pre-COVID-19 levels, with GDP growth of 2.4 percent in the June 2021 quarter, and the unemployment rate dropping to 4.0 percent.

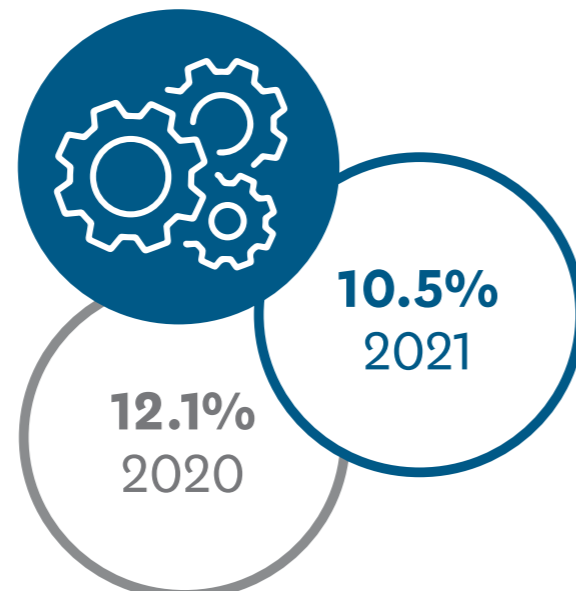


Decreases also reflect MSD's sustained focus on supporting people into work throughout this period, at the same time as processing a record level of applications for support. MSD employment or intensive support case managers connect clients to work brokers and employment, education, training, and community-based initiatives that are designed to equip people to get the skills and experience they need.

## Unemployment rate June quarter



## Underutilisation rate June quarter



### While the benefit system and economy have responded well, some indicators of weakness and uneven recovery across industries and regions remain.

- As expected, the impact and recovery from COVID-19 varied across sectors, with ongoing impacts on tourism and other associated sectors (hospitality, retail, accommodation, and food) in particular. Job growth throughout 2021 was uneven and was concentrated in higher skilled jobs and industries.
- There was also regional variation in the recovery from COVID-19, related to the use of different Alert Levels across the country and uneven patterns of recovery across sectors. For example, Auckland spent more time at higher Alert Levels than the rest of the country, compounding the reduction in tourism-related jobs, and contributing to a slower recovery in the region. Tourism dependent regions like Queenstown also saw large decreases in tourism-related jobs.
- The labour market has also faced complexities, with reports of labour and skill shortages, but also indications of spare labour market capacity. These patterns could reflect a mismatch between jobs available, the location or skillset of people looking for work, or the attractiveness of pay and conditions offered by firms. Although some businesses have been

continuing to seek experienced and skilled workers, there is an opportunity to invest in upskilling new or existing staff. There is also a need for the education sector, industries, and Government to work together to attract and train people in skills and industries reporting on-going shortages.

- The COVID-19 pandemic has highlighted that some sectors were likely relying on the immigration system to meet their workforce needs, including for higher-level or specialist skills that were scarce in the domestic workforce. Opening the borders is likely to be a gradual process, so firms will need to reorient to employing and upskilling the domestic workforce. However, as it takes time to develop the necessary qualifications, skills and experience for these roles, businesses cannot pivot quickly to hiring domestic workers in the short term.
- 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 and support.
- Housing is another area where we have continued to see evidence of poor outcomes for some groups. 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, following the pandemic.

<sup>2</sup> Official unemployment statistics are measured using the Household Labour Force Survey (HLFS), as opposed to benefit numbers.



**Some priority groups have done better than expected compared to previous recessions, while there is an opportunity to improve outcomes for others.**

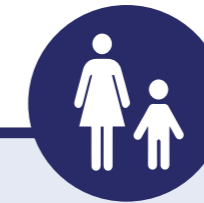
We have seen rapid recovery in employment outcomes for people who entered the benefit system throughout 2020, with this group generally returning to the labour market quickly. This partially reflects the characteristics of this group; who were younger, closer to the labour market, and had little to no recent benefit history; along with our focus on supporting people into work. Quickly returning to employment prevents this group becoming more detached from the labour market over time and enables job opportunities to be targeted to those on benefit for longer.



In contrast, people who were already accessing a benefit prior to March 2020 are exiting at lower rates than usual and are more likely to stay on benefit longer. People with longer durations on benefit may be outcompeted for jobs by more recent entrants, who are closer to the labour market. Having a longer duration on benefit is associated with increased difficulty in re-entering the workforce, so this group will continue to require targeted support.



Outcomes for youth held up better than expected, and recovery has occurred at a much faster rate than following the Global Financial Crisis. This could reflect the high numbers of youth accessing the Wage Subsidy, along with rapid recovery in sectors like construction, which have larger numbers of entry-level roles. Although labour market outcomes for youth have improved, the NEET rate (Not in Employment, Education, or Training) is yet to return to pre-COVID-19 levels, indicating some areas of vulnerability remain.



Similarly, Sole Parent Support numbers largely returned to pre-COVID-19 levels by June 2021. However, this group will continue to require support to engage with the labour market, such as childcare support, given they face additional barriers to employment.

## Māori

Unlike previous recessions, Māori experienced lower proportionate growth in JS – WR, unemployment, and underutilisation when compared to New Zealand Europeans. This may be due to the Māori population being younger than the overall population in New Zealand, and outcomes for youth held up better than expected. In addition, industries where many Māori are employed, such as construction, have also experienced some of the most robust recoveries.

## Pacific Peoples

However, Pacific Peoples experienced a larger percentage increase in JS – WR numbers, unemployment, and underutilisation than New Zealand Europeans and Māori, which may be associated with the large Pacific population in Auckland. There were also indications that women, particularly Pacific women, were more affected by the March 2020 period at higher Alert Levels. However, smaller breakdowns in the HLFS can be very volatile, and caution is needed in interpreting these statistics.



By June 2021 employment statistics and main benefit numbers returned to pre-COVID-19 levels for women, Māori, and Pacific Peoples, however some vulnerabilities remain. For example, previous recessions have 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.



There has been a long-standing gap between employment outcomes for disabled people and the wider population, and this issue continues to persist. However, work exit rates for Jobseeker Support – Health Condition or Disability have been higher in 2021 than in 2019, despite medical certificate requirements being eased over this period. Over time, we may see increasing flows from unemployment-related benefits to health or disability-related benefits, in line with previous recessions.

## Early trends suggest the higher Alert Levels in August 2021 had less of an impact on the benefit system than in March 2020.

- The country moved into Alert level 3 and 4 restrictions for the second time in August 2021, which immediately led to increases in benefit numbers, reversing the decreasing trend sustained through 2021.
- However, the shift to higher Alert Levels had less of an impact than in March 2020, with benefit numbers peaking at a much lower level and beginning to decrease again rapidly. Grants for hardship assistance also peaked earlier and at a lower level in 2021. There were key differences in the timing and conditions across the two national lockdowns. For example, the Alert Level 3 and 4 restrictions were for a much shorter period in 2021 (excluding Auckland).
- There were also initial indications of differences in the demographic composition of people coming onto benefit across the two national lockdowns. In 2021, most of the increase in JS – WR was in people who identified as Māori or Pacific Peoples, in contrast to 2020, when higher numbers of NZ Europeans entered benefits and also exited faster. This trend could reflect different sector or regional patterns and will need to be monitored going forward.

## The labour market and exits into work were also at historic strengths in the September 2021 quarter.

- Following the shift to Alert Levels 3 and 4 from August 2021, the labour market also fared much better than following the March 2020 shift to higher Alert Levels. Employment outcomes for the September 2021 quarter were historically strong, including in Auckland, despite on-going higher Alert Level restrictions.
- Employment indicators for women improved, while the unemployment rate for both Māori and Pacific Peoples was also historically low. In the September 2021 quarter, the employment rate for Māori was at the highest since around 2013. The unemployment rate for Pacific Peoples was also at the lowest rates since records began in 2007.
- In line with this, we continued to see historically high rates of people moving from benefit into work, with numbers in the September 2021 quarter the highest since electronic records began in 1996. The June 2021 quarter was the second highest.

## There is still some uncertainty about the on-going effects of the COVID-19 pandemic.

- Looking forward, there is still some uncertainty about the on-going effects of the COVID-19 pandemic. The longer-term performance of the economy and benefit system will depend on several factors, including vaccination rates, the new COVID-19 Protection Framework, vaccine mandates, emerging COVID-19 variants such as Omicron, international supply chains, and how quickly and safely borders reopen.
- The next report in this Benefit System Update series will continue to explore the impact of COVID-19, along with the shift to the COVID-19 Protection Framework and the Care in the Community Framework in more detail.
- The [2021 Half Year Economic and Fiscal Update \(HYEFU\)](#), which was published on 15 December 2021, also provides updated forecasts for benefit system numbers over the next five years.

## When compared to the shift to higher Alert Levels in March 2020, the number of benefit grants peaked much lower following August 2021. The decrease in benefit exits was also not as sharp.

Figure 3. Weekly benefit grants across the March 2020 and August 2021 shifts to higher Alert Levels

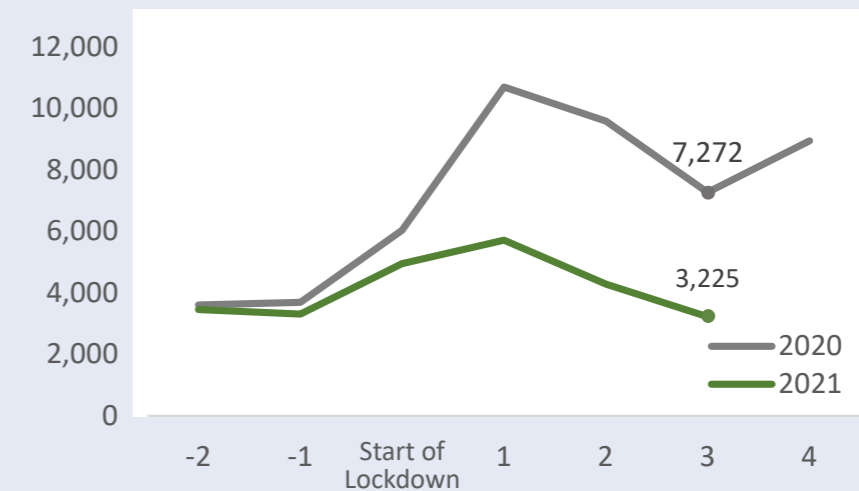


Figure 4. Weekly benefit exits across the the March 2020 and August 2021 shifts to higher Alert Levels

