

Cochrane, William; Poot, Jacques; Roskrug, Matthew

Working Paper

Urban Resilience and Social Security Uptake: New Zealand Evidence from the Global Financial Crisis and the COVID-19 Pandemic

IZA Discussion Papers, No. 15510

Provided in Cooperation with:

IZA – Institute of Labor Economics

Suggested Citation: Cochrane, William; Poot, Jacques; Roskrug, Matthew (2022) : Urban Resilience and Social Security Uptake: New Zealand Evidence from the Global Financial Crisis and the COVID-19 Pandemic, IZA Discussion Papers, No. 15510, Institute of Labor Economics (IZA), Bonn

This Version is available at:

<https://hdl.handle.net/10419/265731>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

DISCUSSION PAPER SERIES

IZA DP No. 15510

**Urban Resilience and Social Security
Uptake: New Zealand Evidence from the
Global Financial Crisis and the COVID-19
Pandemic**

William Cochrane
Jacques Poot
Matthew Roskrug

AUGUST 2022

DISCUSSION PAPER SERIES

IZA DP No. 15510

Urban Resilience and Social Security Uptake: New Zealand Evidence from the Global Financial Crisis and the COVID-19 Pandemic

William Cochrane

University of Waikato

Jacques Poot

University of Waikato and IZA

Matthew Roskruge

Massey University

AUGUST 2022

Any opinions expressed in this paper are those of the author(s) and not those of IZA. Research published in this series may include views on policy, but IZA takes no institutional policy positions. The IZA research network is committed to the IZA Guiding Principles of Research Integrity.

The IZA Institute of Labor Economics is an independent economic research institute that conducts research in labor economics and offers evidence-based policy advice on labor market issues. Supported by the Deutsche Post Foundation, IZA runs the world's largest network of economists, whose research aims to provide answers to the global labor market challenges of our time. Our key objective is to build bridges between academic research, policymakers and society.

IZA Discussion Papers often represent preliminary work and are circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be available directly from the author.

ISSN: 2365-9793

IZA – Institute of Labor Economics

Schaumburg-Lippe-Straße 5–9
53113 Bonn, Germany

Phone: +49-228-3894-0
Email: publications@iza.org

www.iza.org

ABSTRACT

Urban Resilience and Social Security Uptake: New Zealand Evidence from the Global Financial Crisis and the COVID-19 Pandemic

This paper focuses on the spatial variation in the uptake of social security benefits following a large and detrimental exogenous shock. Specifically, we focus on the Global Financial Crisis (GFC) and the onset of the COVID-19 pandemic. We construct a two-period panel of 66 Territorial Authorities (TAs) of New Zealand (NZ) observed in 2008-09 and 2020-21. We find that, despite the totally different nature of the two shocks, the initial increase in benefit uptake due to the COVID-19 pandemic was of a similar magnitude as that of the GFC, and the spatial pattern was also quite similar. We link the social security data with 146 indicator variables across 15 domains that were obtained from population censuses that were held two years before each of the two periods. To identify urban characteristics that point to economic resilience, we formulate spatial panel regression models. Additionally, we use machine learning techniques. We find that the most resilient TAs had two years previously: (1) a low unemployment rate; and (2) a large public sector. Additionally, but with less predictive power, we find that TAs had a smaller increase in social security uptake after the shock when they had previously: (3) a high employment rate (or high female labour force participation rate); (4) a smaller proportion of the population stating ethnicities other than NZ European; (5) a smaller proportion of the population living in more deprived area units. We also find that interregional spillovers matter and that resilient regions cluster.

JEL Classification: 21, C45, C52, H53, R23

Keywords: urban economic resilience, social security, Global Financial Crisis, COVID-19, panel data, model selection, spatial econometrics, machine learning

Corresponding author:

Jacques Poot
Te Ngira: Institute for Population Research
University of Waikato
New Zealand
E-mail: jacques.poot@waikato.ac.nz

1. Introduction

Despite its remote location in the South Pacific, New Zealand (NZ) is tightly integrated with the global economy through trade, tourism, capital & migration flows, and strong digital connectivity (e.g., Plater & Claridge, 2000). Nonetheless, the country weathered the 2008 Global Financial Crisis (GFC) relatively well. More recently, effective public health and economic policies – including the strictest but relatively short lockdown measures among OECD countries – muted in 2020 the adverse economic impact of the onset of the COVID-19 pandemic. Despite these favourable national outcomes, there were nonetheless large differences across people (Clyne & Smith, 2022) and places (Dyason et al., 2021) in the impact of these sudden and large exogenous shocks that arrived from abroad.

In this paper, we focus on one important indicator of socio-economic impact, namely the increase in social security benefit uptake in the initial 6 months following each of the two shocks. This follows earlier work on determinants of social security benefit uptake in NZ labour market areas (Cochrane & Poot, 2009; Cochrane et al. 2013). Unlike other recent subnational-level work that has tended to focus on the COVID-19 shock and specifically the effect of lockdowns, such as Bauer and Weber (2021), we pool data from the pandemic with those from the GFC. We construct a two-period (2008-09 and 2020-21) spatial panel of social security data across urban areas. We use data at the level of Territorial Authorities (TAs), which are the local government areas in New Zealand. The 66 TAs we distinguish can be considered to be local labour market areas (LMAs) since they contain mostly just one urban labour market and have little cross-boundary commuting.¹

We find that, despite the totally different nature of the two shocks, the initial increase in benefit uptake due to the COVID-19 pandemic was of a similar average magnitude as the increase due to the GFC. Moreover, the spatial pattern of the impact was also similar. This has been the case even though the initial policy responses to these shocks were entirely at the national level and, therefore, not spatially differentiated. Thus, there appear to be some stable underlying factors that inform the magnitude of the impact on the labour market, specifically in terms of job loss and/or income loss, that urban areas may experience following an unanticipated – and locally exogenous – shock arriving from abroad. When these factors operate similarly in the case of such distinct shocks, namely a financial markets disturbance and a public health threat, respectively, they may plausibly point to determinants of urban economic resilience, i.e., a certain level of resistance to the shock and a ‘built-in’ ability to recover relatively quickly.

During the last two decades, regional and urban economic resilience has become an important topic for understanding how economies at various spatial scales adjust to large

¹ In Cochrane & Poot (2009) we used 58 functional LMAs, based on travel to work data. These LMAs mostly overlap with the TA regions used here. Rural populations are included in the TA data, but this has minimal impact on the data because New Zealand is highly urbanised (only 14 percent of the New Zealand population lives in rural areas). Hence, we can interpret our geographical unit of analysis as being predominantly urban. Before the amalgamation of Auckland TAs into one ‘supercity’ in 2010, data were available for 72 TAs (of which 7 made up the Auckland metropolitan area). Following the amalgamation, the TA database consists of Auckland and 65 other TAs. The data for Auckland were obtained by aggregating data from its 19 constituent Local Board Areas.

exogenous shocks, although there have also been strong criticisms of the concept (Hassink, 2010). The literature makes it clear that there are a wide range of conceptualizations of economic resilience (Martin & Sunley, 2015). A common distinction is made between the ‘engineering’ perspective, in which a resilient system returns to the previous stable equilibrium after a shock and an ‘ecological’ perspective, in which the system moves to a new steady state (e.g., Groenewold, 2020; Modica & Reggiani, 2015). Martin & Sunley (2015) add to this the broader concept of ‘adaptive resilience’, which does not emphasise the long-run steady-state but instead focuses on the robustness of a complex system to exogenous shocks throughout paths of adjustment, either through ‘built-in’ mechanisms or through policy interventions. A distinction is usually made between the initial ‘resistance’ phase following the shock and the subsequent ‘recovery’ phase. However, there is some evidence to suggest that LMAs may experience a long-run ‘scarring’ effect of an external shock-induced recession (Hershbein & Stuart, 2020). This is particularly the case in harder-hit metropolitan areas. Using Australian data, Andrews et al. (2020) find that these scarring effects of recessions are particularly present among young workers, who are, of course, a relatively large demographic group in metropolitan areas.

Faggian et al. (2018) argue that any empirical study of regional economic resilience should start with answering three fundamental questions: (1) “Resilience to what?”; (2) “Resilience of what?”; and (3) “Resilience over what period?”. For the present paper, these questions have very specific answers. Firstly, we are investigating the resilience of NZ TAs to the onset of the GFC and COVID-19 shocks. Secondly, we are considering spatial variation in the extent to which the uptake of social security (and hence the associated public expenditure) remained close to the level observed in the relatively buoyant pre-shock period. Thirdly, we focus on the initial impact only by limiting the time frame to a 12-month period, with the initial shock occurring halfway through this period. This implies that we are specifically concerned with resistance and not with subsequent recovery.²

Using Italian data, Faggian et al. (2018) define regional ‘resistance’ to the GFC as the growth in employment between 2007-08 and 2009-10, relative to national growth. ‘Recovery’ is defined as subsequent employment growth in 2011. They find considerable regional heterogeneity in both resistance and recovery. As is often the case in Italy, there is also a strong North-South divide, with the South being less resistant and having a slower recovery.

Additionally, Faggian et al. reconfirmed an earlier finding by Dijkstra et al. (2015) for all European regions that remote rural regions and large urban regions were more vulnerable to the GFC than intermediate urban and rural regions close to a city. It is well known that the size of an urban area can be an important predictor of vulnerability to the COVID-19 shock as well. Using Difference-in-differences (DID) analysis in the United States, Cho et al. (2020) find that employment rates decreased more in metropolitan areas than in non-

² We can plausibly argue that during the resistance phase the shock is totally exogenous and unanticipated. The study of determinants of resilience during the recovery phase must consider endogenous responses of firms and policymakers at national, regional and local levels. Other shocks may also emerge concurrently that make it difficult to define an endpoint for measurement of impact. For example, the final phase of the global COVID-19 pandemic and the start of the war in Ukraine overlap – which will thwart empirical assessments of the respective contributions of both events to the emerging period of stagflation.

metropolitan areas. High employment density probably amplified the effect of population density COVID-19 on infection rates.

The heterogeneity in the regional response to an exogenous shock is, not surprisingly, also related to the industry mix in the region. In the case of Italy, this has been confirmed by Rota et al. (2020). Using data on US states, Kim et al. (2022) conclude that regional industrial structure is a strong determinant of the level of vulnerability of a region to unexpected recessionary shocks. Kim et al. find for example that essential industries with low personal interactions (such as non-store retailers and professionals working online) were the most resistant to the COVID-19 shock, while non-essential industries with high interpersonal interactions (such as tourism) were the most affected.

Using data from all 368 local authority districts in Great Britain, Houston (2020) finds that the pre 'lockdown' unemployment rate is an important predictor of the rise in unemployment in the first month of the lockdown at the onset of the COVID-19 pandemic. Pre-lockdown unemployment appears to matter more than the local industry mix. We shall see that this result holds in the NZ context also.

Whether the industry mix of a region is favourable or detrimental for weathering an exogenous shock would depend on the nature of the shock: consider, for example, the effect of COVID-19 on tourist destinations and that of the GFC on cities specialising in financial services. In general, we may expect that a diverse industry mix boosts regional resilience when the shock is strongly selective of certain industries. Using data from Ohio counties between 1997 and 2011, Brown & Greenbaum (2017) find that counties with more diverse industry structures fared better during times of national employment shocks. Giannakis & Bruggeman (2017) find that the dominance of manufacturing in a region in Europe lowered resilience to the GFC. Hundt & Grün (2022) reconfirm this with data on German Spatial Planning Regions. Additionally, Hundt & Grün find that regions with a greater share of public sector services are more resilient. We shall show that this is also the case in New Zealand.

NZ evidence on the impact of the COVID-19 pandemic on the labour market remains still relatively limited, largely descriptive, and at the national level. Using their own survey (n=2002) designed to study life under the strict March-May 2020 nationwide lockdown, Fletcher et al. (2022) found that this lockdown represented an unprecedented shock to the labour market. The national unemployment rate effectively doubled by week 3 of the lockdown. Particularly those on low incomes were affected, and close to 44 percent of individuals lived in a household where at least one-member experienced job or income loss. Clyne & Smith (2022) constructed an index of economic insecurity between 1999 and 2019 that reconfirmed the vulnerability of those on low incomes to the GFC shock and, by implication, to the COVID-19 shock. The indigenous Māori population and Pacific peoples more generally face the highest level of insecurity, but the Pākehā (i.e., the non-Polynesian population) faced the greatest percentage increase in insecurity following the GFC. Again, this analysis was only conducted at the national level.

Hence the present paper is the first econometric analysis of the initial impact of the onset of the GFC and of the COVID-19 pandemic at the sub-national TA level. Given the likely impact on employment and income, we focus on social security benefit uptake as the indicator of impact, given that data on this are readily available at the TA level, while the available survey data that inform directly on income and employment in New Zealand are subject to relatively large sampling errors at this level of spatial disaggregation. Internationally, we are also the first study to identify determinants of urban resilience following the GFC and COVID-19 shocks in one unified panel data setting. Brada et al. (2021) specify a spatial econometric model of relative employment change in 199 NUTS-3 regions in Central and Eastern Europe. While, like us, they consider regional resilience after the GFC as well as the COVID-19 shocks, their estimation is cross-sectional only – with data reflecting the regional resistance to and subsequent recovery from the GFC. The estimated coefficients are then used subsequently to simulate the likely impact of COVID-19 in the regions. In our case, we fully exploit the panel structure in the data and estimate the effects of the GFC and COVID-19 shocks simultaneously.

To uncover determinants of urban resilience, we link the social security data with 146 regional indicator variables across 15 domains that were obtained from population censuses that were held two years before our specified GFC and COVID-19 observation windows. To identify urban characteristics that point to economic resilience, we are guided by stepwise model selection procedures (Lindsey & Sheather, 2010). For this, we first run the models with cross-sectional data in each of the two periods (2008-09 and 2020-21). We then pool the two cross-sections to apply panel estimation techniques and account for spatial spillovers through designing spatial econometric models, broadly following the approach developed by Halleck Vega & Elhorst (2015). Finally, we use machine learning (ML) techniques implemented in Stata (Ahrens et al., 2020), given that stepwise regression modelling can lead to the selection of over-fitted specifications (e.g, McNeish, 2015), to identify local predictors of resilience

The NZ research reconfirms several of the findings briefly reviewed above. We find that the most resilient TAs had two years previously: (1) a low unemployment rate; and (2) a large public sector. Additionally, but with less predictive power, we find that TAs had a smaller increase in social security uptake after the shock when they had: (3) a high employment rate (or high female labour force participation rate); (4) a smaller proportion of the population stating ethnicities other than NZ European; (5) a smaller proportion of the population living in more deprived area units. We also find that interregional spatial spillovers matter and that resilient regions cluster.

The paper has six sections. Following this introduction, Section 2 describes the data and provides an exploratory analysis of determinants of the initial impact on social security uptake of the GFC and COVID-19 shocks by means of stepwise selection algorithms. Section 3 then reports on non-spatial and spatial panel models that are obtained after pooling the two cross-sections. Section 4 revisits the modelling by considering the results of applying new machine learning techniques to the data. Finally, section 5 provides general conclusions and suggests avenues for further research.

2. Data and exploratory analysis

Data are predominantly drawn from NZ administrative sources and from the 2006 and 2013 population censuses. The spatial unit is the Territorial Authority (TA). Before the amalgamation of Auckland TAs into one local government area (Auckland Super City) in 2010, data were available for 72 TAs, of which seven constituted the Auckland metropolitan area. To obtain pre-2010 data for Auckland Super City, data from the seven TAs that made up Auckland were aggregated by means of population weights. Hence, our TA database consists of 66 cross-sectional areas: Auckland and 65 other TAs.³

To define the time window for measuring the initial impact of the GFC and the COVID-19 pandemic on social security benefit uptake, no single time series of aggregate uptake is available due to sweeping welfare reforms in 2013 that affected the types of social security available and the eligibility for these (SNZ, 2022). Instead, we used two sources of high-frequency labour market indicators: the monthly online job advertisements index and the quarterly unemployment rate. Due to a range of factors, including the importance of the primary sector and tourism in the NZ labour market, high-frequency labour market and other economic indicators display strong seasonality. Fortunately, the initial impact of the two shocks was felt in roughly the same months in 2008 and 2020, respectively. Hence seasonality does not impact our estimation with the panel dataset that pools the two periods.

Fig. 1 clearly demonstrates that the appropriate timeframe for measuring the initial impact is to compare the third quarter (Q3) of 2009 with Q3 of 2008 for the GFC; and Q3 of 2020 with Q3 of 2019 for the COVID-19 pandemic. The monthly online job advertisements index declined from 101.4 to 52.4 over the former year and from 149.8 to 118.2 over the latter (Fig. 1a).⁴ Similarly, the unemployment rate divided by the unemployment rate four quarters previously peaked in Q3 2009 at 1.56 and in Q3 2020 at 1.28 (Fig. 1b). Fig.1 shows that in both cases some recovery has taken place immediately beyond the observation window. However, when comparing the shocks, the recovery takes place at a different pace (slower after the GFC), and as noted previously, this is not part of the analysis in this paper.⁵

Fig.1 about here

The dependent variable, *growth_ben*, measures the growth in social security benefit uptake.⁶ For the GFC shock, *growth_ben* is defined as the sum of the average number on

³ Census data are also available for 19 Local Board Areas that make up the Auckland Super City TA. Given that the Local Board Areas may all be considered as part of one Auckland LMA, these data were not used. Hence the paper does not focus on intra-urban spatial differentials in social security benefit take up.

⁴ Job advertisements are always at their lowest during the December month. The effect of the strict lockdown from 25 March until 13 May 2020 (Alert Level 4 until 27 April, followed by Alert Level 3) is clear from the very low level of job advertisements in April and May 2020.

⁵ Several fiscal and monetary policies were implemented very quickly in 2020 to provide income support and stimulate demand during and after the COVID-19 lockdowns. For a summary of measures, see for example <https://home.kpmg/xx/en/home/insights/2020/04/new-zealand-government-and-institution-measures-in-response-to-covid.html> (last updated 14 October 2020).

⁶ The data have been sourced from <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index.html>

the four types of benefits (unemployment, sickness, domestic purposes and invalid) in the third quarter of 2009 in each TA minus the corresponding number in the third quarter of 2008, expressed as a percentage of the TA census usually resident population in 2006.

Following the 2013 Social Security (Benefit Categories and Work Focus) Amendment Act, the social security terminology and types of benefits have been changed. Consequently, for the Covid-19 shock, *growth_ben* is defined as the aggregated number in a TA in the categories: 'Jobseekers – Work Ready Benefit' (JS-WR); 'Jobseekers – Jobseeker Support – Health Condition and Disability'; and 'Benefit – Other' (average of months of July, August, and September 2020) minus the corresponding number in the third quarter of 2019, divided by the TA census usually resident population in 2018. Recent research has shown that the aggregated number of people receiving any kind of income-tested social security benefit is a more effective indicator of excess labour supply (and therefore of the short-run impact of the GFC and COVID-19) than JS-WR because the former is more highly correlated with the surveyed national unemployment rate than the latter (Rea & Maloney, 2021).

Table 1 provides descriptive statistics on the change in social security benefit uptake in a TA at the onset of either of the two shocks and a range of potential local determinants. Guided by the literature, we identified 15 domains of socioeconomic data that could potentially provide indicator variables that could predict resistance to the shocks, i.e., a relatively smaller increase in social security benefit uptake. Data on one pre-selected indicator in each of the 15 domains is reported in Table 1. A total of 146 indicators are available in the dataset. The selected domains capture population scale, age structure, ethnicity, openness, wealth, the elasticity of labour supply, human capital, public sector activity, casualization of employment, social capital, labour market disequilibrium, industry structure, industry diversity, deprivation, and income.

Table 1 about here

The indicator variables are all sourced from the census previous to the shock considered, i.e., the 2006 census for the GFC shock and the 2018 census for the Covid-19 shock. The exception is the industry structure variable, which measures the expected total employment growth that would have occurred in the TA during the twelve months observation window (i.e., Q3 2008 to Q3 2009 for the GFC shock and Q3 2019 to Q3 2020 for the Covid-19 shock) if the TA industries grew at national industry growth rates.⁷ This is also referred to as the Bartik index (Cochrane & Poot, 2020).

Table 1 shows that the initial impact of the GFC on social security benefit uptake was of a similar magnitude to that of the COVID-19 pandemic: a mean increase across TAs of 1.86 percent versus 2.21 percent respectively. The standard deviation was almost the same in both cases (about 0.8). Besides the standard descriptives, Table 1 also shows the correlation of each indicator variable with benefit uptake.⁸ This provides a first indication of which

⁷ The source is the quarterly Household Labour Force Survey.

⁸ Here, and in the subsequent regression analyses, observations are weighted – when the estimator allows it – by analytical weights that are proportional to TA population size.

variables are likely to play a role as predictors of TA-level resistance to the GFC and COVID-19 shocks.

Figure 2 compares the spatial distribution of the increase in social security benefit recipients between the GFC and COVID-19 shocks. The impact is mostly felt in the north and along the East Coast of the North Island. The south of the South Island is much less affected. The maps also show spatial clustering of the effect of the shocks, which needs to be considered in the econometric modelling. This will be done in the next section.

Figure 2 about here

Following the GFC, benefit uptake is greater in the urban areas with larger populations (*Inpop*). This is not surprising since the initial impact of a large financial shock is mostly felt in metropolitan areas. The correlation between benefit uptake growth and population is not statistically significant at the 5 percent level in the COVID-19 pandemic case.

Given that New Zealand provides a relatively generous old age pension from age 65 that is not income tested, the effect of a shock is more likely to be felt among those with young dependents, where social security support is less, and recipients must pass low-income and wealth tests. We measure age structure by *youth_dep*, the population aged 0-14 as a percentage of the population aged 15-64. This variable has a statistically significant correlation with benefit uptake after both shocks.

Another strong predictor at this descriptive level is ethnic composition. The indigenous Māori population and non-western migrant groups (particularly those from the Pacific Islands) have worse social and economic outcomes than other groups. Table 1 shows that TAs with a larger non-European population share (*pnoneuro*) experienced greater increases in benefit uptake after both shocks.

Geographic mobility is often considered an important mechanism for a local area to adjust to an exogenous shock. Table 1 shows that this does not appear to be the case at the time of the GFC. However, TAs where a large percentage of the population lived at a different NZ address five years previously (*geo_mob*) were less affected by the COVID-19 shock in terms of benefit uptake.

The percentage of households that rent the dwelling they occupy (*prental*) may be considered a proxy for wealth, given that equity in a dwelling is the main source of wealth of NZ households. TAs with a larger percentage of households renting were more affected by COVID.

It is well known that the wage elasticity of labour supply is greater among females than among males. Consequently, we would expect TAs with a relatively large female labour supply to have a buffer against negative labour demand shocks. We find indeed that the TAs where the female labour force participation (*fem_lfpr*) was high experienced less of an impact on social security uptake. The correlation is statistically significant for both the GFC and COVID-19 shocks. On the other hand, the percentage of total employment by industry whose employment status is self-employed, *self_emp*, is not correlated with TA benefit uptake.

The level of human capital of the TA labour force (measured by *ptertiary*, the percentage of the population aged 15 and over who had obtained a Bachelor's degree or higher) had no statistically significant effect on the post-shock increase in benefit uptake. In contrast, the percentage of total employment by industry employed in the public sector (*pubsector_emp*) was, in terms of simple correlation, a strong predictor of which TAs were the least affected by the shocks in terms of benefit uptake.

The descriptive cross-sectional correlations do show a relationship with a common social capital variable: the percentage of the population aged 15 and over who volunteered for one hour or more per week (*pvol*). TAs with relatively high levels of social capital, as proxied by volunteering, experienced a lower increase in social security benefit uptake.

The strongest predictor of a post-shock increase in benefit uptake is the census unemployment rate observed two years previously (*ue_r*). The correlation of TA industry structure (measured by the sum of regional industry shares times national industry employment growth, *pprjempch*) with TA benefit uptake growth is, as expected, negative for both the GFC and the COVID-19 pandemic but not statistically significant. Industry diversity, measured by one hundred minus one hundred times the sum of shared shares of industries in total employment (*pdiversity_ind*), was only correlated with the benefit uptake increase after the GFC. Interestingly, TAs with greater industry concentration were less affected.

Socio-economic vulnerability in New Zealand is measured by a deprivation index that can be calculated at a fine spatial scale, such as a census area unit (e.g., Salmond et al., 1998). We find that TAs in which the percentage of the population in area units with a deprivation index value in the 9th or 10th decile nationally (*pnzdep910*; i.e. they are the most deprived) are, as expected, also the TAs where the increase in benefit uptake following the two shocks was the greatest. Deprivation is a much stronger predictor of benefit uptake than TA median income. The negative correlation between benefit uptake and the natural logarithm of median personal income (*Inmedpinc*) is only statistically significant in the case of the COVID-19 pandemic.

Most of the 15 indicator variables that are listed in Table 1 are correlated with the cross-sectional variation in the growth in benefit uptake for at least one of the two shocks (*ptertiary*, *self_emp* and *pprjempch* are the exceptions) and a plausible mechanism can be suggested for the correlation in each case. Even with this small subset of 15 out of 146 indicators, there are potentially more than half a million regression models to consider. We use the leaps-and-bounds algorithm (Furnival & Wilson, 1974) implemented in Stata to identify the best regression model for each given number of regressors.⁹ Among these, we select the most parsimonious model (i.e. with the least number of regressors) by means of the Bayesian Information Criterion (BIC), given that this criterion penalises most for additional regressors and that stepwise selection procedures tend to yield over-fitted models (Lindsey & Sheater, 2010). The results are shown in Table 2.

⁹ The command is *vselect*. The observations are weighted by the Census Usually Resident Population of each TA.

Table 2 about here

Using the BIC criterion, the optimal number of regressors (out of 15) in the case of the GFC data is four. The census unemployment rate ue_r is present in every step and is, therefore, the most robust predictor. We conclude that the TAs that were the most resistant to the onset of the GFC had the lowest unemployment rates two years previously. Interestingly, in the case of COVID-19 the unemployment rate at the time of the previous census is also the strongest predictor of benefit take-up, except in the first step when the indicator of deprivation $pnzdep910$ was selected. The optimal number of regressors for predicting social security benefit increase following the onset of COVID-19 is six. Although the fit of the optimal models is equally good (with an R-squared of 0.709 and 0.738, respectively), the predictors do tend to vary. However, the unemployment rate and the rate of self-employment do also feature in both optimal models. Hence, on balance, having a relatively large proportion of the workforce being self-employed is a sign of vulnerability rather than entrepreneurship. Many of these self-employed are likely to be casual workers.

Social capital, measured by the percentage volunteering $pvol$ and a favourable industry structure ($pprjempch$) did boost resilience after the GFC but were not predictors in the optimal model for COVID-19. In contrast, lower growth in benefit uptake after COVID was found in TAs where a larger share of the workforce was working in the public sector ($pubsector_emp$), where a smaller proportion of households rented their home ($prental$) and, interestingly, where industry diversity ($pdiversity-ind$) was less, i.e., industry concentration was greater.

While the simple descriptive analysis of this section has yielded some interesting similarities and differences between the onsets of GF and COVID-19 on TA-level resilience, there are three major deficiencies. The first is that as yet, we have not into account the panel structure of the data, i.e., repeated observations from the same TAs. Panel data estimators can account for unmeasured time-invariant features of TAs that may impact on resilience. Secondly, even though the initial GFC and COVID-19 shocks are exogenous and locally identical, the effects they have on TAs may lead to spatial spillovers. These two deficiencies will be addressed by the spatial panel data estimations that we report on in the next section.

The third issue is whether the selected potential predictor of resilience for each of the 15 domains is the best among the variables that can be extracted from the available data sources. In Section 4, we will apply machine learning techniques to test the robustness of the patterns we observe in the selection of indicator variables.

3. Panel data estimation

Considering that the census unemployment rate turned out to be the strongest predictor of benefit uptake in the descriptive analysis, we proceed with estimating a fixed effects (FE) panel model with a time trend. The TA data are weighted by the average population over the 2006-2018 period. The coefficient of ue_r with a panel FE estimator is 0.265, which is in

between the values shown in Table 2 and statistically significant at the 5 percent level (with robust standard errors). The time trend is not statistically significant. A Hausman test suggests that the random (RE) estimator is more efficient, but the RE and FE estimates are in fact quite similar.¹⁰ Estimated without a time trend, this suggests that an increase in a TA's unemployment rate of 1 percentage point between 2006 (pre-GFC) and 2018 (pre-COVID) would imply a 0.21 to 0.25 percentage point increase in social security benefit uptake in the short-run following an exogenous shock. Figure 3 shows the scatterplot of the pooled data. The size of circles is proportional to the TA populations.

Figure 3 about here

To identify additional variables that robustly enhance the RE panel model of benefit uptake we resort again to the *vselect* algorithm. This yielded *self-emp*, *pubsector_emp* and *pdiversity_ind* as important additional variables. The estimated coefficients of this RE panel model are reported in column (1) of Table 3.

Table 3 about here

All variables in this panel model are statistically significant at the 5 percent level or better. The coefficient of the unemployment rate increases to about 0.3. TAs with a relatively large share of the workforce being self-employed see a slightly greater increase in benefit uptake following an exogenous shock. On the other hand, a larger share of the workforce in public sector employment lowers the social security effect of the initial shock. Greater concentration of industry (i.e., lower *pdiversity_ind*) reduced the impact of a shock. The impact of regional specialization on social security uptake following a shock is theoretically ambiguous. In the case of the COVID-19 shock, regions that specialised in tourism would have benefited from the Government's wage subsidy scheme that provided income even if the businesses had a significant drop in revenue or were temporarily closed. In other TAs with a high concentration of certain sectors, firms' market power may have provided sufficient capital to weather the shocks; or demand was pre-dominantly export-oriented and, at least initially, less affected.

The remainder of Table 3 reports the results of estimating a range of spatial econometric panel models.¹¹ These models take account of spatial spillovers. Ignoring these may bias upward the effect of the variables included in the non-spatial panel model and also lead to lower estimated standard errors, i.e., yielding greater statistical significance than is actually the case.

The most general spatial model is the General Nested Spatial (GNS) model (see e.g., Elhorst, 2014, p.38), which in a panel setting takes the following form:

$$\mathbf{y}_t = \rho \mathbf{W} \mathbf{y}_t + \alpha \mathbf{1}_N + \mathbf{X}_t \boldsymbol{\beta} + \mathbf{W} \mathbf{X}_t \boldsymbol{\theta} + \boldsymbol{\mu} + \zeta_t \mathbf{1}_N + \mathbf{u}_t \quad (1a)$$

$$\mathbf{u}_t = \lambda \mathbf{W} \mathbf{u}_t + \boldsymbol{\varepsilon}_t \quad (1b)$$

¹⁰ Without the time trend, the RE estimate is 0.249 and the FE estimate is 0.208, both significant at the 1 percent level. The Hausman test statistic is 0.44, which is not statistically significant (df =2).

¹¹ The Stata command is *spxtregress*.

where \mathbf{y}_t is here a 66×1 vector consisting of one observation of benefit uptake increase for each TA at time t ($t = 2008-09$ or $2019-20$); $\mathbf{1}_N$ is a unit vector associated with the constant term α ; \mathbf{X}_t is a $66 \times K$ matrix of K explanatory variables observed at time t and $\boldsymbol{\beta}$ is the associated $K \times 1$ parameter vector of effects of these variables on benefit uptake. The spatial weights matrix \mathbf{W} is a positive 66×66 matrix which describes the structure of dependence between spatial units. In this application, the spatial weights are proportional to the reciprocal of the distance between pairs of TAs. The weights are normalised to add to one. $\mathbf{W}\mathbf{y}_t$ are the endogenous spatial spillover effects among the dependent variable, i.e., growth in benefit uptake, while $\mathbf{W}\mathbf{X}_t$ are the exogenous spillover effects of the independent variables across TAs. The model also includes spatial and period-specific effects, $\boldsymbol{\mu}$ and $\zeta_t \mathbf{1}_N$ respectively. These may be treated as fixed effects or as random effects. However, given that we only have two periods (shocks) in our data, estimation with FE estimators is not likely to be precise and we will display RE estimates only.¹² $\mathbf{W}\mathbf{u}_t$ represents the interaction effects among the disturbance terms of the different observations. The strength of spatial dependence between TAs is measured by the spatial diffusion parameters ρ and λ . Similarly, $\boldsymbol{\theta}$ is a $K \times 1$ vector of response coefficients that measure the average impact of variation in exogenous explanatory variables in surrounding areas.

The estimates of the most general case we consider are found in column (6). Using the notation of Eq. 1(a) and 1(b), $\boldsymbol{\mu}$ represents random effects and, given that only two periods are considered, the time fixed effect $\zeta_t \mathbf{1}_N$ has been deleted (the time dummy was insignificant in any case in the non-spatial panel model). Columns (2) to (5) and (7) represent models that result from applying restrictions to the model in column (6). Column (2) shows estimates of the spatial lag model which has $\boldsymbol{\theta} = 0$ and $\lambda = 0$. Column (3) represents the spatial error model, in which $\boldsymbol{\theta} = 0$ and $\rho = 0$. The estimates in column (4) are those of the Durbin spatial lag model, which has $\lambda = 0$. The estimates of the Durbin spatial error model with $\rho = 0$ are shown in Column (5). Finally, column (7) only allows for spatial lags of the exogenous variables and hence has $\lambda = \rho = 0$.

Figure 2 already suggested the presence of spatial correlation. The spatial lag model (column (2)) and the spatial error model (column (3)) confirm this. The spatial correlation coefficients are 0.538 and 0.638 respectively. As expected, the coefficients of the explanatory variables are now smaller than those in the case of the non-spatial model (column (1)). Statistical significance is generally less as well. However, bringing in the spatial lags of the explanatory variables renders both ρ and λ to be no longer statistically significant, but several of the spatial lags of the explanatory variables are statistically significant. The general spatial model is over-parameterised which can be seen from the relatively high values of AIC and BIC. We conclude that the statistically best supported specification is that of the spatial lagged X (SLX) model of column (7); which is also the model that Halleck Vega and Elhorst (2015) consider the preferred model where there are no a priori theoretical considerations regarding which spatial model is appropriate.

¹² Estimates of the various models estimated with fixed effects are available from the authors upon request.

The SLX model suggests that there are two variables that robustly predict local resistance to the onset of an exogenous shock: a history of lower structural unemployment and the abundance of public sector jobs. The coefficients of these two variables are, as expected, a bit smaller than in the case of the non-spatial model: 0.236 and -0.047 respectively. However, the spatial model shows that the abundance of public sector jobs in surrounding regions is also beneficial (the coefficient is -0.130). Additionally, when the self-employed in surrounding TAs lose employment following a shock, benefit uptake in the TA at the centre increases (the coefficient is 0.086). Finally, the spatial effect of industry diversity is interesting. Specialization in surrounding TAs (lower values of *pdiversity_ind*) lowers the social security impact of the shock on the region of interest (with a relatively large coefficient of 0.378).

4. Machine learning approaches

Up to this point, we have been considering a set of 15 specific variables, one for each of the 15 domains of socio-economic indicators, that were motivated by the literature to date. However, we have available 146 indicators in each of the 66 TAs that we observe twice (once for the onset of the GFC shock and once for the onset of the COVID-19 shock). In principle, we could repeat the analysis of the previous section with various alternative subsets of variables. This process has the danger of generating a set of predictors that fit the available data very well but may not yield accurate predictions in the case of other shocks. Since the objective of our paper is to identify indicators at the TA level that will predict socio-economic resilience to a future, as yet unspecified, global shock, regression methods that penalise both overfitting and the bias introduced by omitting relevant variables are expected to have superior performance.

In recent years machine learning (ML) techniques have been developed that can provide a robust set of predictors among a very large set of potential predictors. Molina and Garip (2019) provide a short introduction to these new developments in the social sciences.¹³ The subset of ML techniques that is appropriate in the present context is that of Supervised Machine Learning (SML), where training data on inputs \mathbf{X} (in our case characteristics of TAs) are linked to a desirable outcome \mathbf{y} (i.e. low social security benefit uptake after a shock) with the goal of learning what function of \mathbf{X} would give the best prediction of \mathbf{y} once a new set of data on \mathbf{X} is obtained.

Essentially SML accepts a trade-off between bias and variance by minimising

$$(\mathbf{y} - f(\mathbf{X}))'(\mathbf{y} - f(\mathbf{X})) + \pi R(f) \quad (2)$$

in which the left-hand side of (2) reduces to the residual sum of squared errors in Ordinary Least Squares (OLS) regression when $f(\mathbf{X}) = \mathbf{X}\boldsymbol{\beta}$. The right-hand side of (2) is called the regulariser, which penalises functions that generate variance in predictions. The weight π can be thought of as the relative price of variance. In OLS that price is zero, but a function f

¹³ For further details, see e.g., Hastie et al. (2009). A review for economists is given by Mullainathan & Spiess (2017).

is then created in which some strong predictors of \mathbf{y} in the sample data are given too much influence in prediction out of sample. The least absolute shrinkage and selection operator (LASSO) adds a regulariser that equals the sum of the absolute value of the estimated parameters of f (e.g. Hastie et al. 2015). Hence, if $f(\mathbf{X}) = \mathbf{X}\boldsymbol{\beta}$ and each variable is given equal weight, then

$$R(f) = \sum_{k=1}^K |\beta_k| \tag{3}$$

This approach is particularly useful in the case of high dimensional data in which the selection of regressors that yield the lowest sum of squared residuals within sample are likely to give some variables that would perform badly in another sample too much influence.¹⁴

An important issue is to set the relative price of variance π . In rigorous LASSO this is done in a way that is grounded in statistical theory and takes into account the possibilities of heteroscedastic, non-Gaussian and cluster-dependent errors (e.g., Belloni et al., 2014). Ahrens et al. (2020) have introduced a suite of model selection and prediction programs, referred to as *lassopack* in Stata, that include rigorous LASSO and that can be seamlessly compared with estimates obtained by means of classical regression methods.

The results of SML estimation can be found in Table 4. In set (1) we pool the data from the two shocks and give all observations equal weight. Hence this situation reduces to finding the best predictor variables among a set of 146 in order to predict 132 benefit increase values. Removal of variables due to perfect collinearity is built in. However, the unconstrained LASSO estimation requires relatively high computational effort given that it estimates, besides π , also predictor-specific penalty loadings.¹⁵

Table 4 about here

It is clear that LASSO reconfirms the panel data analysis regarding the identification of the most important predictors: they are the census unemployment rate *ue_r* and public sector employment as a share of total employment, *pubsector_emp*. However, two additional variables emerge: *emp_rate* (the percentage of the population aged 15 and over in employment) and *pnoneuro* (the percentage of the population that did not state European ethnicity).¹⁶ As expected, a high value of *emp_rate* reduces benefit uptake while a high value of *pnoneuro* increases it. Comparing the LASSO results with OLS it is clear that LASSO is a shrinkage estimator: all coefficients are closer to zero. This highlights the drawback of SML techniques: the resulting model may yield robust predictors, but the influence of the individual variables may not be correctly estimated. The effect of the employment rate is clearly not statistically significant in the case of OLS.

¹⁴ Other regulariser functions that are commonly use are the sum of squared parameters (the associated technique is referred to as ridge regression) or a weighted average of the regulariser function with absolute values of parameters and the function with squared parameters. The latter is referred to as elastic net regression.

¹⁵ The calculations took about 15 minutes on a high-performance laptop with Intel(R) Core (TM) i7 processor.

¹⁶ Census respondents in New Zealand can state to identify with multiple ethnicities.

Given that we have panel data, and the stochastic disturbances of the regression model are likely to be clustered, rigorous LASSO is a more suitable SML technique than ordinary LASSO. Block (2) shows the results of applying rigorous LASSO to the GFC data. Again, the unemployment rate and public sector employment are the dominant regressors, but *pnoneuro* and the female labour force participation rate, *fem_lfpr*, play also a role and with a negative sign, as expected (more elastic labour supply). The effect of ethnic composition appears more important after the GFC shock than after the COVID-19 shock.

The danger of interpreting individual LASSO coefficients as behaviour parameters is clearly seen by comparing the coefficient of *ue_r* in block (3) with all other estimates of this coefficient in this paper (from an average that is greater than 0.2 down to 0.018). This is possibly related to the introduction of the deprivation variable *pnzdep910* into the model: the correlation between the two variables is relatively high (0.83). *pnoneuro* features also in block (3) but is no longer present when the GFC and COVID-19 data are pooled. This can be seen from block (4). Here, industrial specialization *pdiversity_ind* returns again as an influential variable. This is probably because rigorous LASSO procedures have yet to fully encompass parameter estimation of spatial spillover effects (but see Higgins & Martellosio, 2022, for a recent contribution). The spatial panel estimations of the previous section showed that once spatial spillovers had been accounted for, *pdiversity_ind* is no longer statistically significant.

5. Conclusion

In this paper, we focus on the spatial variation across New Zealand in the initial socio-economic impact – in terms of uptake of social security benefits – of the Global Financial Crisis (GFC) and the COVID-19 pandemic. To the best of our knowledge, this is the first model at the regional level that pools the data from the GFC and the pandemic. Using a two-period panel of 66 Territorial Authorities (TAs) observed in 2008-09 and 2020-21, we find that despite the totally different nature of the two shocks, the initial increase in benefit uptake due to the COVID-19 pandemic was of a similar magnitude as that of the GFC, and the spatial pattern also quite similar. We linked the social security data with 146 indicator variables across 15 domains that were obtained from population censuses that were held two years before each of the two periods.

To identify urban characteristics that point to economic resilience, we formulate spatial panel regression models guided by stepwise model selection procedures. Additionally, we use machine learning (ML) techniques – given that stepwise regression modelling can lead to over-fitted specifications.

We find that the most resilient TAs had two years previously: (1) a low unemployment rate; and (2) a large public sector. Additionally, but with less predictive power, we find that TAs had a smaller increase in social security uptake after the shock when they had previously: (3) a high employment rate (or high female labour force participation rate); (4) a smaller proportion of the population stating ethnicities other than NZ European; (5) a smaller

proportion of the population living in more deprived area units. We also find that interregional spatial spillovers matter and that resilient regions cluster.

Clearly, our results point to a challenge for labour market policy and regional policy, given that regional disparities in unemployment rates are rather persistent. A place-based approach may then be needed to address regional disparities (e.g., Van Dijk & Edzes, 2016). The results suggest that greater spreading of public sector employment across the TAs may be helpful in dampening the effect of exogenous shocks. This is consistent with Faggian et al. (2018) and Webber et al. (2018). The latter find that “regions with greater employment shares in sectors that are less susceptible to demand fluctuations are likely to experience more stable growth rates and be more resilient to economic downturns” (p. 355). Public sector employment shares in TAs varied in our data from 6 percent to 29 percent, but these employment shares were virtually constant between the GFC and the COVID-19 pandemic.

Resilience to exogenous shocks might also be built through active labour market policies (ALMP), which have been shown to be effective in reducing structural unemployment (Miyamoto & Suphaphiphat, 2021; Sahnoun & Abdennadher, 2018; Vooren et al., 2019). This is particularly true at the regional level where tailored ALMP and other place-sensitive policies have enjoyed some success (Wapler et al., 2018).

There are clearly many ways in which the present analysis can be extended. The time window considered only covered the initial six months after the shock, i.e., up to the end of September 2020 in the case of COVID-19. An analysis with a longer time frame could assess the implications of the varying levels of subsequent restrictions on mobility and behaviour, including the reopening of the border. Hence the present paper focuses only on the resistance aspect of regional resilience and not the recovery phase.

Finally, it will be important for policy evaluation to move from the regional level of analysis to micro-level local labour market analysis that accounts for spatial heterogeneity in impacts on employment status, industry, occupation, mobility, etc. In the NZ context, the required microdata is available through the Integrated Data Infrastructure (IDI) of administrative and survey data, collected and managed by Statistics New Zealand (Stats NZ).¹⁷ It is expected that new developments in machine learning may be particularly helpful in formulating models for identifying determinants of local level resilience by means of such very large and complex datasets.

¹⁷ A description of the features and applications of the IDI can be found at <https://www.stats.govt.nz/integrated-data/integrated-data-infrastructure/>

References

- Ahrens, A., Hansen, C.B., & Schaffer, M.E. (2020). Lassopack: Model selection and prediction with regularized regression in Stata. *The Stata Journal* 20(1): 176-235.
- Andrew, D., Deutscher, N., Hambur, J., & Hansell, D. (2020). The career effects of labour market conditions at entry. OECD Productivity Working Papers, Paris: OECD.
- Belloni, A., Chernozhukov, V., & Hansen, C. (2014). Inference on treatment effects after selection among high-dimensional controls. *Review of Economic Studies* 81: 608-650.
- Bauer, A. & Weber, E. (2021). COVID-19: how much unemployment was caused by the shutdown in Germany? *Applied Economics Letters* 28(12): 1053-1058.
- Brada, J.C., Gajewski, P., & Kutan, A.M. (2021). Economic resiliency and recovery, lessons from the financial crisis for the COVID-19 pandemic: A regional perspective from Central and Eastern Europe. *International Review of Financial Analysis* 74: 101658.
- Brown, L., & Greenbaum, R.T. (2017). The role of industrial diversity in economic resilience: An empirical examination across 35 years. *Urban Studies* 54(6): 1347-1366.
- Cho, S.J., Lee, J.Y., & Winters, J.V. (2020). Employment impacts of the COVID-19 pandemic across metropolitan status and size. IZA Discussion Paper No. 13468. Bonn: IZA Institute of Labor Economics.
- Clyne, D.V., & Smith, T.G. (2022). Economic insecurity during the COVID-19 pandemic: insights from the Great Recession. *New Zealand Economic Papers* 56(1): 81-89.
- Cochrane, W., & Poot, J. (2009). Regional labour market adjustment and social security benefit uptake. In: PS Morrison (ed.) *Labour, Employment and Work in New Zealand 2008 - Proceedings of the Joint LEW13/ALMRW Conference*, December 11&12. Wellington: School of Geography, Environmental and Earth Sciences, Victoria University of Wellington, pp. 343-354.
- Cochrane, W., & Poot, J. (2020). Did the post-1986 decline in the homeownership rate benefit the New Zealand labour market? A spatial-econometric exploration. *Asia-Pacific Journal of Regional Science* 4(1): 261-284.
- Cochrane, W., Poot, J., & Roskrige, M. (2013). The Global Financial Crisis and social security uptake: Spatial econometric evidence from New Zealand. Paper presented at the 60th Annual North American Meetings of the Regional Science Association International, Atlanta, GA, November 13-16.
- Dijkstra, L., Garcilazo, E., & McCann, P. (2015). The effects of the global financial crisis on European regions and cities. *Journal of Economic Geography* 15: 935-949.
- Dyason, D., Fieger, P., & Rossouw, R. (2021). Covid-19, the effect of lockdowns on retail expenditure and displacement effects on the regional economy. *Australasian Journal of Regional Studies* 27(1): 66-87.
- Elhorst, J.P. (2014). *Spatial Econometrics: From Cross-sectional Data to Spatial Panels*. Springer, Heidelberg.
- Faggian, A., Gemmiti, R., Jacquet, T., & Santini, I. (2018). Regional economic resilience: the experience of the Italian local labor systems. *Annals of Regional Science* 60: 393-410.
- Fletcher, M., Prickett, K.C., & Chapple, S. (2022). Immediate employment and income impacts of Covid-19 in New Zealand: evidence from a survey conducted during the Alert Level 4 lockdown. *New Zealand Economic Papers* 56(1): 73-80.
- Furnival, G. M., & Wilson, R. W. (1974). Regression by leaps and bounds. *Technometrics* 16: 499-511.
- Giannakis, E., & Bruggeman, A. (2017). Determinants of regional resilience to economic crisis: a European perspective. *European Planning Studies* 25(8): 1394-1415.

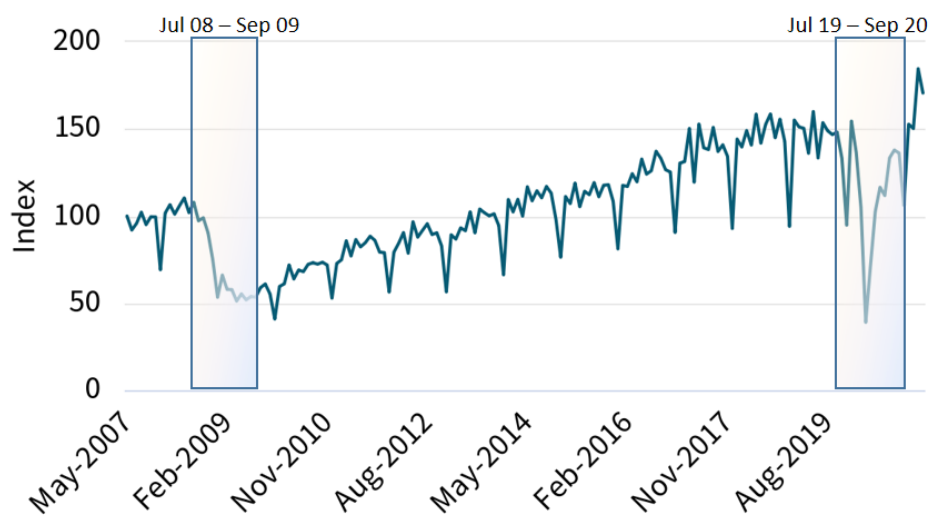
- Groenewold, N. (2020). The response of the Australian states to a national economic shock: a statistical analysis of regional economic resilience. *Australasian Journal of Regional Studies* 26(2): 186-208.
- Halleck Vega, S., & Elhorst, J.P. (2015). The SLX model. *Journal of Regional Science* 55(3): 339-363.
- Hassink, R. (2010). Regional resilience: a promising concept to explain differences in regional economic adaptability? *Cambridge Journal of Regions, Economy and Society* 3(1): 45–58.
- Hastie, T., Tibshirani, R., & Friedman, J. (2009). *The Elements of Statistical Learning: Data Mining, Inference, and Prediction*. 2nd ed. New York: Springer.
- Hastie, T., Tibshirani, R., & Wainwright, M. (2015). *Statistical Learning with Sparsity: The Lasso and Generalizations*. Boca Raton: CRC Press.
- Hershbein, B.J., & Stuart, B.A. (2020). The enduring local harm from recessions. *W.E. Upjohn Institute - Employment Research Newsletter* 27(3): 1-4.
- Higgins, A., & Martellosio, F. (2022). Shrinkage estimation of network spillovers with factor structured errors. *Journal of Econometrics*, <https://doi.org/10.1016/j.jeconom.2021.11.017>
- Houston, D. (2020). Local resistance to rising unemployment in the context of the COVID-19 mitigation policies across Great Britain. *Regional Science Policy & Practice* 12: 1189-1209.
- Hundt, C., & Grün, L. (2022). Resilience and specialization – How German regions weathered the Great Recession. *ZFW – Advances in Economic Geography*.
- Kim, A., Lim, J., & Colletta, A. (2022). How regional economic structure matters in the era of COVID-19: resilience capacity of U.S. states. *Annals of Regional Science*.
- Klein, E., Cook, K., Maury, S., & Bowey, K. (2021). Gendered impacts of changing social security payments during COVID-19 lockdowns: an exploratory study. *Australian Journal of Labour Economics* 24(2): 213-225.
- Lindsey, C., & Sheather, S. (2010). Variable selection in linear regression. *The Stata Journal* 10(4): 650-669.
- Martin, R., & Sunley, P. (2015). On the notion of regional economic resilience: conceptualization and explanation. *Journal of Economic Geography* 15: 1-42.
- McNeish, D.M. (2015). Using Lasso for predictor selection and to assuage overfitting: a method long overlooked in behavioural sciences. *Multivariate Behavioral Research* 50: 471-484.
- Miyamoto, H., & Suphaphiphat, N. (2021). Mitigating long-term unemployment in Europe. *IZA Journal of Labor Policy*. 11:3.
- Modica, M., & Reggiani, A. (2015). Spatial economic resilience: overview and perspectives. *Networks and Spatial Economics* 15: 211-233.
- Molina, M., & Garip, F. (2019). Machine learning for sociology. *Annual Review of Sociology* 45: 27-45.
- Mullainathan, S., & Spiess, J. (2017). Machine learning: an applied econometric approach. *Journal of Economic Perspectives* 31: 87-106.
- Plater, V., & Claridge, M. (2000). Facts about economic integration: how integrated is New Zealand with the rest of the world? New Zealand Treasury Working Paper No. 00/21. Wellington: The Treasury.
- Rea, D., & Maloney, T. (2021). Nowcasting the current rate of unemployment using administrative data. AUT Centre for Social Data Analytics.

- Rota, F.S., Bagliani, M., & Feletig, P. (2020). Breaking the black-box of regional resilience: a taxonomy using a dynamic cumulative shift-share occupational approach. *Sustainability*, 12: 9070.
- Salmond, A., Crampton, P., & Sutton, F. (1998). NZDep91: A New Zealand index of deprivation. *Australian and New Zealand Journal of Public Health* 22(7): 835-837.
- Sensier, M., Bristow, G., & Healy, A. (2016). Measuring regional economic resilience across Europe: operationalizing a complex concept. *Spatial Economic Analysis* 11(2): 128-151.
- Sahnoun, M., & Abdennadher, C. (2018). The assessment of active labor market policies: evidence from OECD countries. *Economia Politica*, 35(2), 257-283.
- SNZ (2022). Investigating the relationship between unemployment and benefit receipt. Wellington: Statistics New Zealand.
- Van Dijk, J., & Edzes, A. (2016). Towards inclusive and resilient regional labour markets: challenges for research and policy. *Investigaciones Regionales – Journal of Regional Research* 36: 169-190.
- Vooren, M., Haelermans, C., Groot, W., & Maassen van den Brink, H. (2019). The Effectiveness of Active Labor Market Policies: A Meta-Analysis. *Journal of Economic Surveys*, 33(1),
- Wapler, R., Werner, D., & Wolf, K. (2018). Active labour market policies in Germany: do regional labour markets benefit? *Applied Economics*, 50(51), 5561-5578.
- Webber, D. J., Healy, A., & Bristow, G. (2018). Regional Growth Paths and Resilience: A European Analysis. *Economic Geography*, 94(4), 355-375.

FIGURES AND TABLES

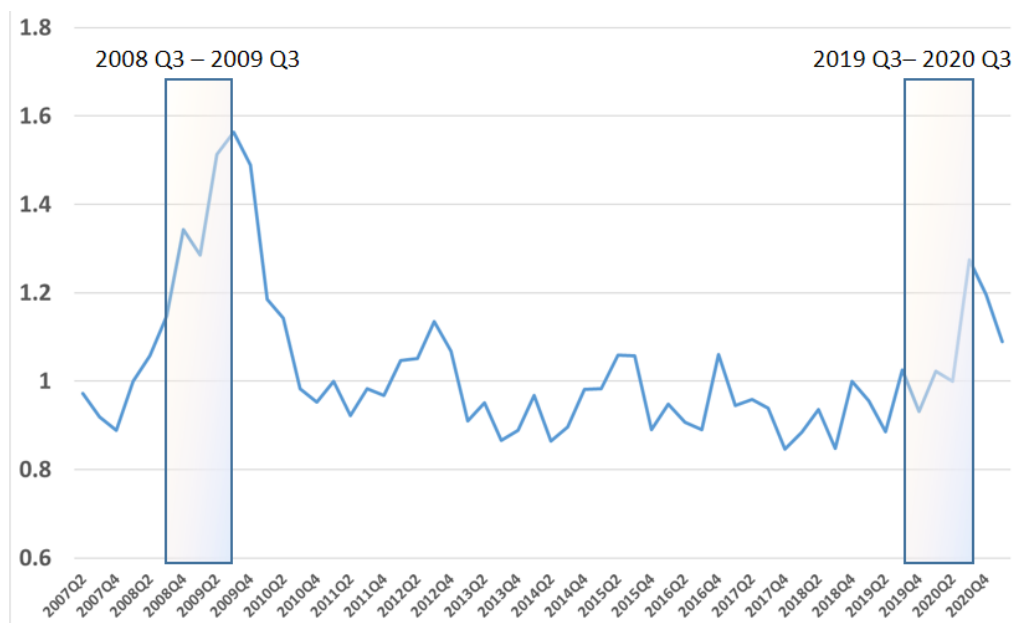
Fig. 1: Defining the window of initial impact by labour market indicators

Fig. 1a Monthly online job advertisements index



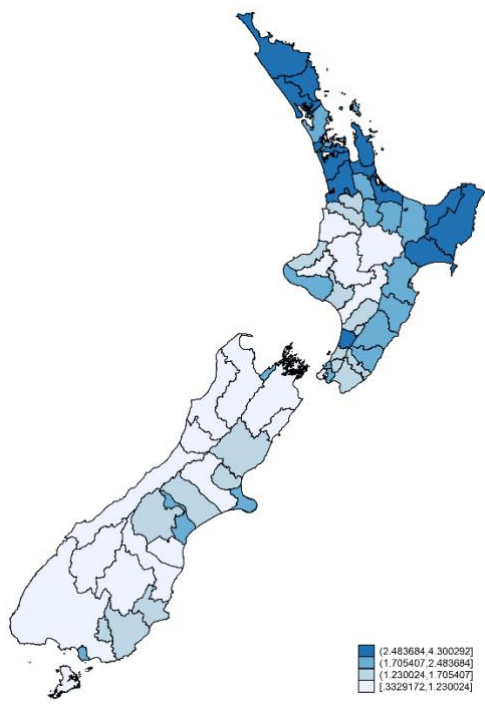
Source: <https://www.stats.govt.nz/experimental/covid-19-data-portal>

Fig.1b Unemployment rate divided by unemployment rate four quarters previously

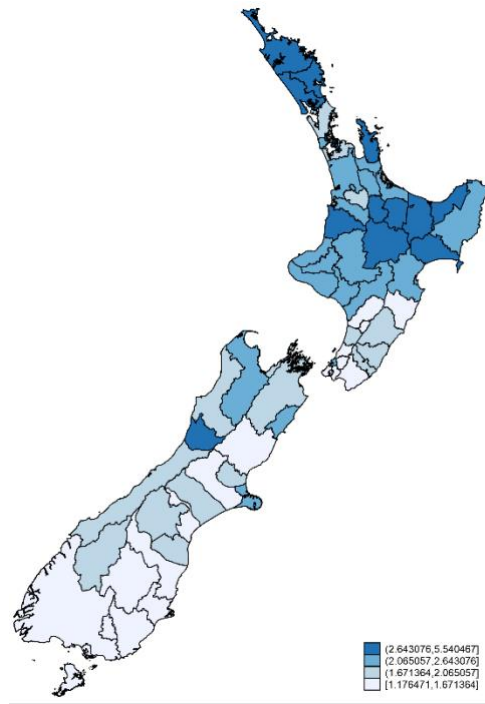


Source: <https://infoshare.stats.govt.nz>

Fig. 2: Social security benefit recipients increase – GFC vs. COVID-19



Increase in TA social security uptake (Q3 2009 minus Q3 2008) as a percentage of the 2006 TA census population



Increase in TA social security uptake (Jul-Sep 2020 average minus Jul-Sep 2019 average) as a percentage of the 2018 TA census population

Fig. 3: Pre-shock unemployment rates and post-shock social security uptake increase

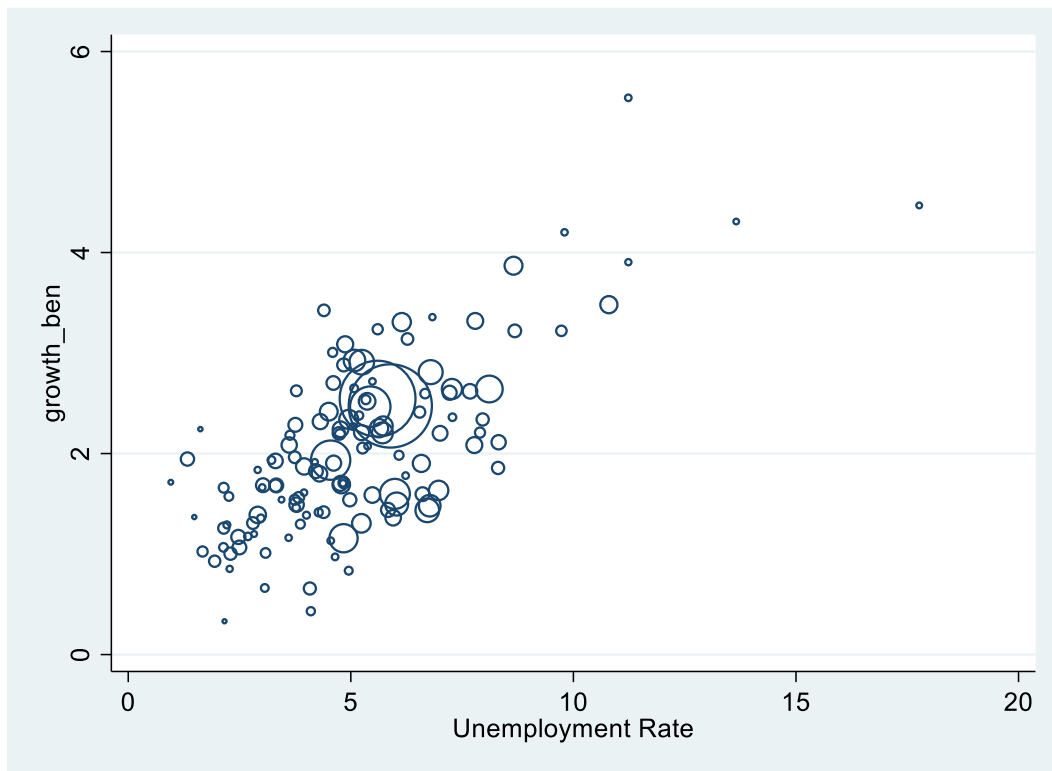


Table 1: Variable definitions and descriptive statistics

Domain	Indicator	Variable name	Variable definition	Period	Mean	SD	Min	Max	Correlation with growth_ben
Local labour market impact of global shock	Growth in social security benefit uptake	growth_ben	Growth in the total number of social security benefit recipients as a percentage of the total population	Q3 2008 - Q3 2009	1.86	0.86	0.33	4.31	1.00
				Q3 2019 - Q3 2020	2.21	0.83	0.78	5.54	1.00
1. Population scale	Territorial Authority population	lnpop	Natural logarithm of the census usually resident population	2006	9.98	1.04	7.95	13.79	0.39 *
				2018	10.17	1.07	8.10	14.04	0.22
2. Age structure	Youth Dependency Ratio	youth_dep	Population aged 0-14 as a percentage of the population aged 15-64	2006	34.60	4.98	21.73	47.41	0.43 *
				2018	32.19	4.15	22.10	42.77	0.37 *
3. Ethnicity	Ethnic composition	pnoneuro	One hundred minus the percentage of population stating European ethnicity	2006	26.96	9.47	15.68	55.18	0.58 *
				2018	18.25	11.19	6.17	50.46	0.48 *
4. Openness	Geographic Mobility	geo_mob	Percentage of population who lived at a different address five years ago	2006	51.15	4.41	40.13	66.42	0.00
				2018	43.24	4.29	33.09	55.06	-0.26 *
5. Wealth	Percentage in Rental Accommodation	prental	Percentage of households that rent the dwelling they occupy	2006	24.72	5.13	15.14	36.89	0.24
				2018	27.25	5.31	16.40	43.66	0.31 *
6. Elasticity of labour supply	Female Labour Force Participation Rate	fem_lfpr	Those employed or unemployed and actively seeking work as a percentage of the population aged 15 and over	2006	62.64	4.43	53.26	76.62	-0.46 *
				2018	63.47	4.56	53.78	78.25	-0.26 *
7. Human capital	Percentage of population with tertiary education	ptertiary	Percentage of population aged 15 and over who had obtained a Bachelor degree or higher	2006	7.19	3.73	2.25	27.04	-0.11
				2018	12.95	5.19	5.46	36.96	-0.15

Table 1: continued

8. Public sector	Percentage public sector employment	pubsector_emp	Percentage of total employment by industry who are employed in the public sector	2006	14.80	4.61	6.15	28.24	-0.33 *
				2018	14.19	4.78	6.28	28.75	-0.38 *
9. Casualisation of employment	Percentage Self Employed	self_emp	Percentage of total employment whose employment status is self-employed	2006	23.47	6.42	7.89	36.86	0.03
				2018	18.61	4.76	8.00	30.52	0.03
10. Social capital	Percentage volunteering	pvol	Percentage of the population aged 15 and over who volunteered for one hour or more per week	2006	16.38	2.27	11.30	21.60	-0.38 *
				2018	14.66	1.91	10.06	19.59	-0.30 *
11. Labour market disequilibrium	Unemployment rate	ue_r	Those unemployed and actively seeking work as a percentage of the labour force	2006	4.58	2.09	1.48	13.66	0.63 *
				2018	5.65	2.67	0.96	17.77	0.49 *
12. Industry structure	Projected Employment Change	pprjempch	Sum of regional industry shares times national industry employment growth during the year of the shock (Bartik index)	Q3 2008 -Q3 2009	-1.96	0.75	-3.28	0.35	-0.16
				Q3 2019 - Q3 2020	2.54	1.01	0.66	4.91	-0.12
13. Industry diversity	Industry diversity index	pdiversity_ind	One hundred minus one hundred times the sum of squared shares of industries in total employment	2006	89.37	3.33	79.04	92.57	0.29 *
				2018	90.25	2.43	81.72	92.45	0.24
14. Deprivation	Prevalence of deprivation in deciles 9 & 10	pnzdep910	Percentage share of TA population in area units with deprivation index in deciles 9 and 10 nationally	2006	21.88	23.64	0.00	100.00	0.46 *
				2018	24.85	25.49	0.00	100.00	0.57 *
15. Income	Log of median income	lnmedpinc	Natural logarithm of median personal income	2006	10.03	0.12	9.75	10.39	-0.05
				2018	10.29	0.15	0.93	10.66	-0.33 *

Note: * after a correlation coefficient indicates significance at the 5% level or better.

Table 2: Classic model selection by stepwise regression

	GFC			COVID-19		
	Number of regressors selected	BIC		Number of regressors selected	BIC	
	1	98.4509		1	95.3238	
	2	67.79925		2	62.87758	
	3	64.53109		3	61.07219	
	4	62.44913		4	62.02884	
	5	63.93597		5	58.05612	
	6	66.24296		6	53.4226	
	7	69.8397		7	55.78845	
	8	73.4433		8	58.12506	
	9	77.32888		9	61.68205	
	10	81.29644		10	65.42391	
	11	85.25761		11	69.24009	
	12	89.2736		12	73.20069	
	13	93.39363		13	77.26886	
	14	97.50691		14	81.45107	
	15	101.6961		15	85.63061	
Variable	Number of regressors when the variable is included	Coefficient when k=4	Robust std.err.	Number of regressors when the variable is included	Coefficient when k=6	Robust std.err.
ue_r	1,2,3,4	0.382	0.034	2,3,4,5,6	0.218	0.030
pnzdep910				1		
pubsector_emp	2,3			2,3,4,5,6	-0.074	0.010
pdiversity_ind				3,5,6	0.140	0.028
pvol	3,4	-0.126	0.020			
self_emp	4	0.060	0.013	4,5,6	0.050	0.018
prental				4,5,6	0.049	0.011
pprjempch	4	-0.254	0.063			
lnpop				6	-0.135	0.046
constant		0.320	0.351		-11.417	
Number of obs		66			66	
R-squared		0.709			0.738	
Root MSE		0.359			0.296	

Notes: Cross-sectional weighted least squares, with analytical weights given by the preceding census usually resident population

Table 3: Non-spatial and spatial random effects models

Variable	(1) Non-spatial RE model	(2) Spatial lag model	(3) Spatial error model	(4) Durbin spatial lag model	(5) Durbin spatial error model	(6) General spatial model	(7) Spatial lagged X model
ue_r	0.298 ***	0.249 ***	0.275 ***	0.234 ***	0.232 ***	0.231 ***	0.236 ***
self_emp	0.024 **	0.020	0.022	0.008	0.008	0.008	0.008
pubsector_emp	-0.062 ***	-0.048 ***	-0.050 ***	-0.047 ***	-0.048 ***	-0.047 ***	-0.047 ***
pdiversity_ind	0.059 ***	0.040 *	0.045 *	0.035	0.036	0.036	0.038
constant	-4.415 **	-3.681 *	-3.113	-33.500 **	-37.079 **	-35.790 *	-36.572 **
spatially weighted: growth_ben e (growth_ben)		0.538 ***		0.272		0.113	
ue_r			0.638 **	0.045	0.406	0.365	0.127
self_emp				0.078 *	0.154	0.117	0.086 **
pubsector_emp				-0.0105 *	0.087 *	0.084 *	-0.130 **
pdiversity_ind				0.343 *	-0.132 **	-0.121	-0.130 **
					0.384 **	0.369 *	0.378 **
N	132	132	132	132	132	132	132
AIC		203.6	210.9	203.9	203.2	205.1	202.5
BIC		226.7	234	238.5	237.8	242.6	234.2
R-squared	0.635	0.653	0.633	0.680	0.682	0.681	0.682
Legend: * p<0.05; ** p<0.01; *** p<0.001							

Table 4: Supervised machine learning approaches to identifying local predictors of resilience

	(1)		(2)		(3)		(4)	
	LASSO; GFC & COVID-19	Post-estimation OLS GFC & COVID-19	Rigorous LASSO; GFC	Post-estimation OLS; GFC	Rigorous LASSO; COVID-19	Post-estimation OLS; COVID-19	Rigorous LASSO; GFC & COVID-19	Post-estimation OLS; GFC & COVID-19
Number of observations	132	132	66	66	66	66	132	132
Number of predictors	146	4	15	4	15	4	146	3
ue_r	0.199	0.209 ***	0.123	0.266 ***	0.018	0.250 ***	0.156	0.268 ***
emp_rate	-0.010	-0.020						
pponeuro	0.005	0.012 **	0.015	0.014	0.004	0.005		
fem_lfpr			-0.019	-0.029				
pubsector_emp	-0.032	-0.057 ***	-0.019	-0.057 ***	-0.012	-0.071 ***	-0.029	-0.076 ***
pnzdep910					0.007	-0.001		
pdiversity_ind							0.017	0.071 ***
assuming homoskedasticity	yes	yes	no	no	no	no	no	no
weighting by TA population size	no	no	yes	yes	yes	yes	yes	yes
Legend: * p<0.05; ** p<0.01; *** p<0.001								
Significance levels based on robust standard errors								