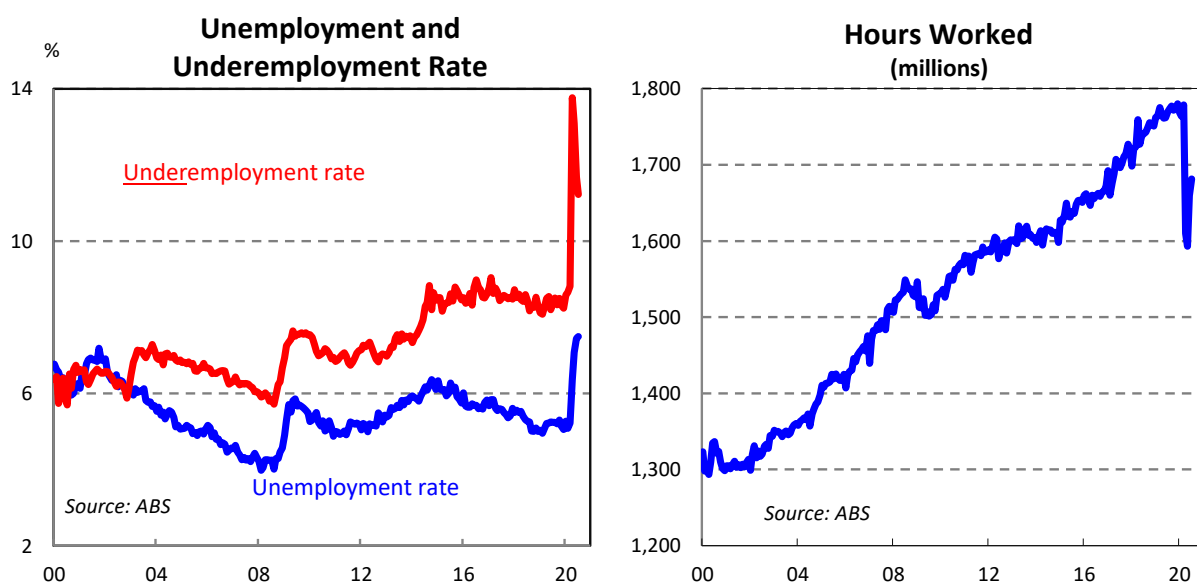


Thursday, 13 August 2020

Labour Force

Getting Back to Work

- There was another bumper month of employment in July as more Australians found work despite escalating COVID-19 infections in Victoria.
- Employment surged 114.7k in July, the second largest monthly increase on record, trailing only the 228.4k increase registered in June. Nevertheless, employment remains 532k (or 4.1%) below its February level.
- The unemployment rate continued its upward trajectory as more Australians entered the labour force. There was a 0.1 percentage point increase in the unemployment rate to 7.5% in July, the highest since November 1998.
- The participation rate recorded another increase to 64.7% in July from 64.1% in June, as more potential workers re-joined the labour force.
- Other measures of the labour market were encouraging. Hours worked increased by 1.3% in July after rising 4.2% in June. Underemployment decreased for the third consecutive month to 11.2% in July, further below the peak of 13.8% in April.
- The further rebound in jobs and hours worked is an encouraging indication that the labour market recovery that started in June maintained momentum in July. However, August will be a sterner test as Victoria entered a stage 4 lockdown and growing clusters emerged in NSW. We expect that the unemployment rate will rise further and will stay high for some time.



There was another bumper month of employment in July as more Australian's found work despite escalating COVID-19 infections in Victoria. Employment surged 114.7k in July, the second largest monthly increase on record, trailing only the 228.4k increase in June. The July labour force survey reference weeks spanned 28 June – 11 July, before Melbourne entered a stage 4 lockdown and only partially covered the Stage 3 lockdowns for metropolitan Melbourne and Mitchell Shire on July 8.

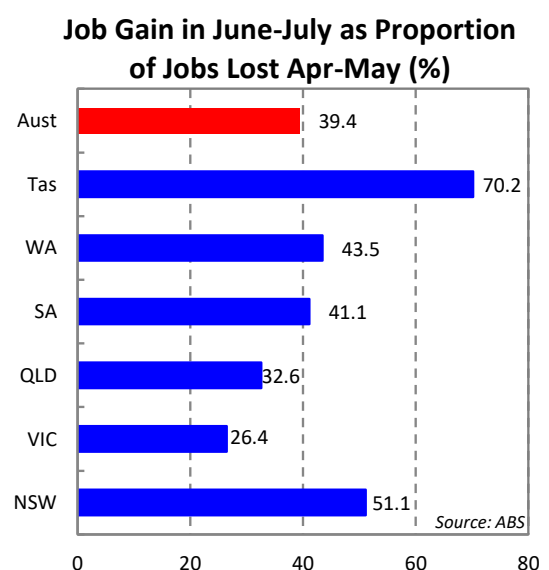
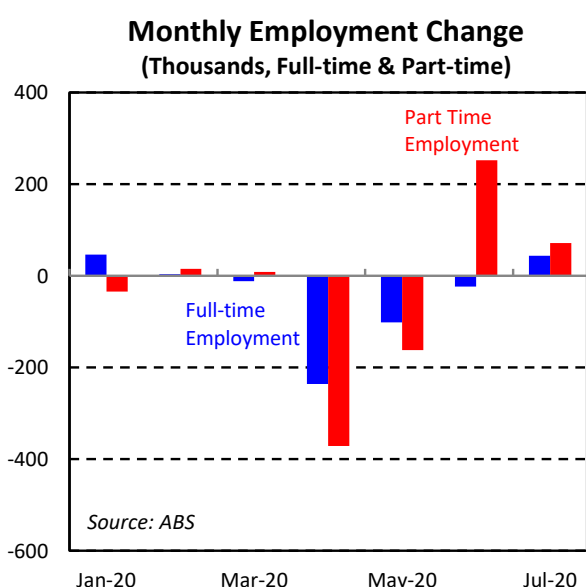
July's outturn caps a remarkable two-month period of job growth in June and July, in which 343k new jobs have been recorded. Nevertheless, employment remains 532k (or 4.1%) below its February level.

The unemployment rate continued its upward trajectory as more Australians entered the labour force. There was a 0.1 percentage point increase in the unemployment rate to 7.5% in July, the highest since November 1998. Despite the JobKeeper wage subsidy and a large fall in participation, the unemployment rate remains well above the pre-pandemic level of 5.1% in February. For the first time in history, the number of people classed as statistically unemployed surpassed 1 million in July.

The participation rate recorded another jump to 64.7% in July from 64.1% in June, as potential workers re-joined the labour force. An increase in the participation rate is generally a positive signal for the economy, as it means there are more people available and willing to work. However, a higher participation rate increases the pool of workers counted as unemployed and highlights the greater spare capacity in the labour market.

Other measures of the labour market were encouraging. Hours worked increased by a further 1.3% in July after rising 4.2% in June. Employers have scheduled more staff hours as restrictions have gradually eased. Hours worked remained 5.5% below their March level, highlighting the sobering effect on output due to the pandemic.

Underemployment decreased for the third consecutive month to 11.2% in July from 11.7% in June, further below the peak of 13.8% in April. The ABS reported that the fall in the underemployment rate mainly reflected a decline in the number of full-time employed who worked less than 35 hours per week. The underemployment rate is still high by historical standards and is suggesting that there is a significant amount of spare capacity in the labour market.



The breakdown between full-time and part-time work illuminates the unique impact of COVID-19 on the labour market and the policy prescriptions designed to blunt its impact. Part-time employment once again drove the increase in employment, rising 71.2k in July following a 252.0k increase in June. Full-time employment registered its first increase since February, rising 43.5k in July following a 23.6k fall in June.

Part-time workers are more prevalent in sectors most affected by COVID-19 containment measures and might have been more sensitive to changes in restrictions. Additionally, casual workers were less likely to be able to qualify for JobKeeper which required the employee to have been with their employer for more than a year. Those on JobKeeper who returned to work would have always been considered employed. However, those who did not qualify and were stood down during the shutdown period would have been counted as newly employed when their businesses re-opened.

States and Territories

All States and territories recovered jobs in July, except for Queensland and the Northern Territory, where employment declined by 3.7k and 0.5k, respectively.

Victoria was somewhat resilient, recording a 22.9k increase. The gain was despite the ramping up of infections and restrictions in some areas in the first half of July. Victoria was nevertheless the worst performing State in terms of employment recovery from the June quarter lockdown. Over June and July, 26% of the jobs lost over April and May had been recovered, compared with over 30% in all other States and territories.

The stricter containment measures, including a stage 4 lockdown and curfew across metropolitan Melbourne introduced in early August is expected to heavily dent the labour market. Indeed, the Federal government has estimated that between 250,000 and 400,000 people would be stood down as a result of the enhanced lockdown.

NSW recorded a solid increase in employment of 56.8k in July, building on the 80.8k jobs added in June. Employment in NSW has recovered 51% of the jobs lost in April and May.

There were also gains in Western Australia (19.1k), South Australia (8.5k) and Tasmania (7.0k). Employment over June and July across these States has recovered 43%, 41% and 70% of the jobs lost in April and May, respectively.

The ACT added 1.3k jobs in July. Over June and July, 54% of the jobs lost in April and May were recovered.

A lift in the unemployment rates in NSW (from 6.9% to 7.2%) and Queensland (7.7% to 8.8%) outweighed improvements elsewhere, due to sharp increases in the participation rate, especially in NSW.

Victoria's unemployment rate fell to 6.8% in July from 7.5% in June. It was the only State to record a fall in the participation rate (to 64.6% in July from 64.7% in June), likely due to concerns over employability amid heightened infections and containment measures.

The unemployment rate declined in South Australia (8.8% to 7.9%), Western Australia (8.7% to 8.3%) and Tasmania (6.9% to 6.0%).

Outlook and Implications

The further rebound in jobs and hours worked is an encouraging indication that the labour market recovery that started in June maintained momentum in July. August will be a sterner test for the labour market, as restrictions became more onerous, especially in Victoria, and the prospects of a prolonged lockdown have heightened.

Regardless of the near-term developments of COVID-19, we have not yet reached the peak in the unemployment rate. Additional slack in the labour market will be created when the participation rate returns to more normal levels. The ongoing shock to demand also means that employment growth will remain weak and that the unemployment rate will remain elevated.

There are also further downside risks with the threat of further restrictions in NSW given a growing cluster of cases in Sydney. We expect that the unemployment rate has further to rise and there is a risk that the unemployment rate will hit the double-digits.

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