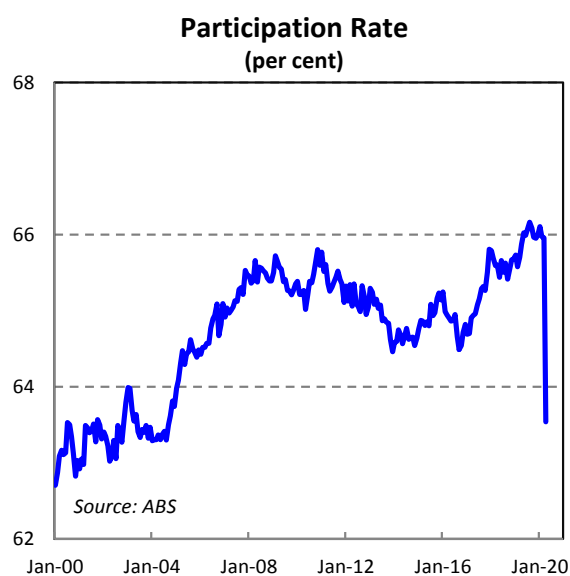
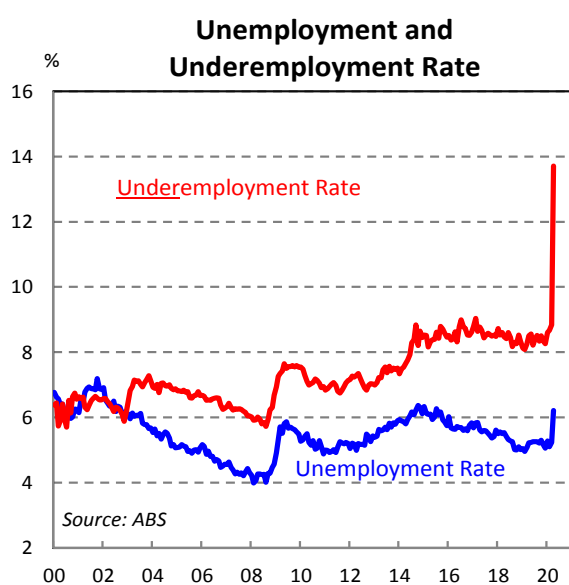


Thursday, 14 May 2020

Labour Force

COVID-19's Big Impact

- COVID-19 and the associated measures to prevent its spread have had a significant impact on the labour market. A substantial number of jobs were lost in April after major restrictions on businesses took effect in late March. Employment declined 594k, the biggest monthly decline in the history of the series which began in 1978.
- The big fall in employment led to a sharp spike in the unemployment rate to 6.2%. The 1 percentage point increase from March was the biggest one-month increase ever, and it was the highest unemployment rate since September 2015.
- While the rise in the unemployment rate was significant, it greatly underestimates the amount of spare capacity in the labour market. The underemployment rate rose to 13.7% in April from 8.8% in March, the highest in the history of the series. Hours worked fell by 9.2% over the month, the largest on record.
- The unemployment rate was also held lower by a plunge in the participation rate. Had the participation rate held steady, the unemployment rate would have been closer to 9.7%.
- There is some positive news with the containment of the outbreak in Australia and plans to re-open economic activity. The scale of job losses witnessed over April is therefore unlikely to be repeated. Nonetheless, further weakness in employment is likely and the unemployment rate is expected to lift further in coming months.



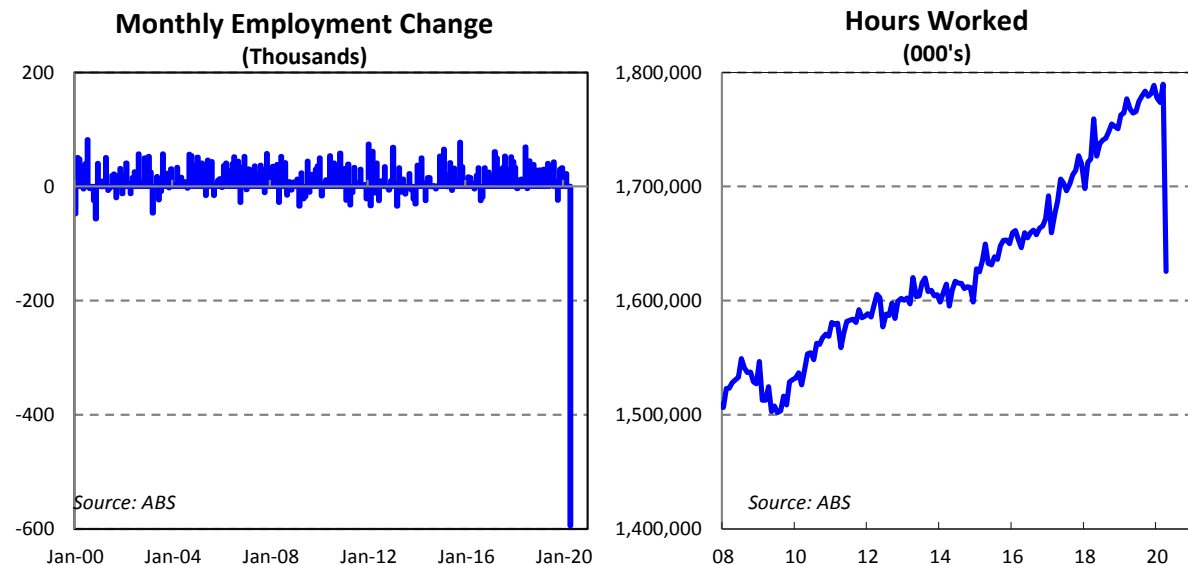
COVID-19 and the associated measures to prevent its spread have had a significant impact on the labour market. A substantial number of jobs were lost in April after major restrictions on businesses took effect in late March – employment declined 594k the biggest monthly decline in the series history which began in 1978.

The big fall in employment led to a sharp spike in the unemployment rate to 6.2%. The 1 percentage point increase from March was the biggest one-month increase ever, and it was the highest unemployment rate since September 2015.

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The lift in the unemployment rate was tempered by a large number of people, nearly 490k, who left the labour force. While there was a big increase in people who were no longer employed, the bulk of those people were not counted as unemployed as they did not actively look for work.

To be classified as unemployed, that person must not be employed but also be actively looking for work.



This has been reflected in the participation rate which fell significantly from 66.0% in March to 63.5% in April. Had the participation rate held steady, the unemployment rate would have been closer to 9.7%.

The Federal Government's JobKeeper payment would have also played a part in keeping the unemployment rate lower than it otherwise would be. People who are paid through the JobKeeper wage subsidy would be classified as employed, regardless of whether they were stood down and worked no hours.

The employment to population ratio also highlights the significant deterioration in labour market conditions. This ratio fell from 62.5% in March to 59.6% in April, and is the lowest since July 2003.

The sharp decline in employment over April was in both full-time and part-time jobs. Full-time employment declined 220.5k, while part-time employment fell 373.8k.

Hours worked & underemployment

The underemployment rate is designed to provide a broader indication of capacity in the labour market than unemployment. Notably, the unemployment rate counts all employment as equal and doesn't account for people working fewer hours than they would like. The underemployment rate is the percentage of people working fewer hours than they would like. Along with hours worked, it provides an added layer of detail to the labour force statistics.

During periods of economic contraction, there is typically a large increase in the underemployment rate. Unique to this contraction has been the introduction of the Federal government's JobKeeper payment program which incentivises eligible employers to retain employees by paying them a wage subsidy. Arguably, this makes alternative measures of the labour market more representative of spare capacity within the economy.

The underemployment rate rose to 13.7% in April from 8.8% in March, the highest in the history of the series. Meanwhile, hours worked fell by 9.2% over the month, its largest decline on record.

Taken together, the outsized increase in the underemployment rate and the large fall in hours worked suggest that the labour market has been dramatically shaken by the COVID-19 lockdown. The spike in spare capacity will take time to unwind. More positively, it shows the flexibility of the Australian labour market and that the JobKeeper program has supported employment. The retention of employer-employee relationships will assist with the recovery when activity begins to return to normal.

States and Territories

No State was immune to the sharp deterioration in labour market conditions in the wake of widespread movement restrictions to contain the spread of COVID-19. All States recorded their largest declines in employment on record, but the largest fall was registered in New South Wales, which saw decline of 221.4k. The second largest decline was in Queensland (-129.6k) followed by Victoria (-127.1k). Western Australian employment fell by 62.3k compared with falls of 40.8k and 8.7k in South Australia and Tasmania, respectively.

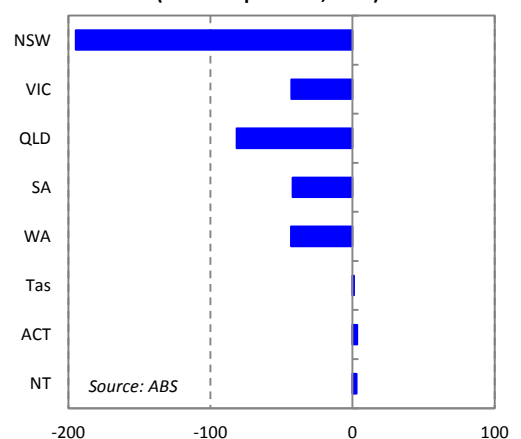
Note that the ABS has temporarily ceased the publication of its trend estimates due to the extreme volatility.

The plunge in employment in April had a drastic impact on the level of employment across all States. All States except for Tasmania had fewer employed people in April 2020 compared with April 2019. New South Wales and Victoria were both recording slowing rates of annual job growth in recent months, and both fell deeply into negative territory in April. New South Wales's employment total stands 194.6k lower than a year ago while Victoria (whose labour market was in a better position in the lead up to the health crisis) has 43.2k fewer jobs over the same period.

The tentative signs of life in the mining States of Queensland and Western Australia were wiped away in April. Queensland's annual employment total fell 81.6k while Western Australia's was down 43.4k. South Australia recorded 42.1k fewer jobs over the year while Tasmania saw a 0.9k increase.

Workers left the labour force in droves across all States, and the resultant fall in the participation

Employment Change by State
(Year to April 2020, 000s)



rate cushioned the rise in the unemployment rate. Still, the unemployment rate rose to at least 6% across all States. New South Wales, Victoria and Western Australia all recorded an unemployment rate of 6.0% in April. South Australia had the highest unemployment rate of 7.2%, followed by Queensland (6.8%) and Tasmania (6.2%).

Outlook and Implications

We had been anticipating a significant loss in jobs and a spike in the unemployment rate, given the significant disruption from the measures to stop the spread of COVID-19. The unemployment rate did not rise as sharply as we had expected, but the 6.2% unemployment rate severely underestimates the spare capacity in the labour market as illustrated by the drastic fall in hours worked, and the rise in the underemployment rate.

There is some positive news with the containment of the outbreak in Australia and plans to re-open economic activity. The scale of job losses witnessed over April is therefore unlikely to be repeated. Nonetheless, further weakness in employment is likely. The economy is unlikely to return to its previous level of activity any time soon and the unemployment rate is expected to lift further in coming months. Our central forecast is for the unemployment rate to peak at 9%. We cannot rule out the unemployment rate hitting double-digits, although the risk of this occurring has lessened after today's data.

Over medium term, the unemployment rate is likely to remain elevated as it will take time for spare capacity in the labour market to be absorbed.

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