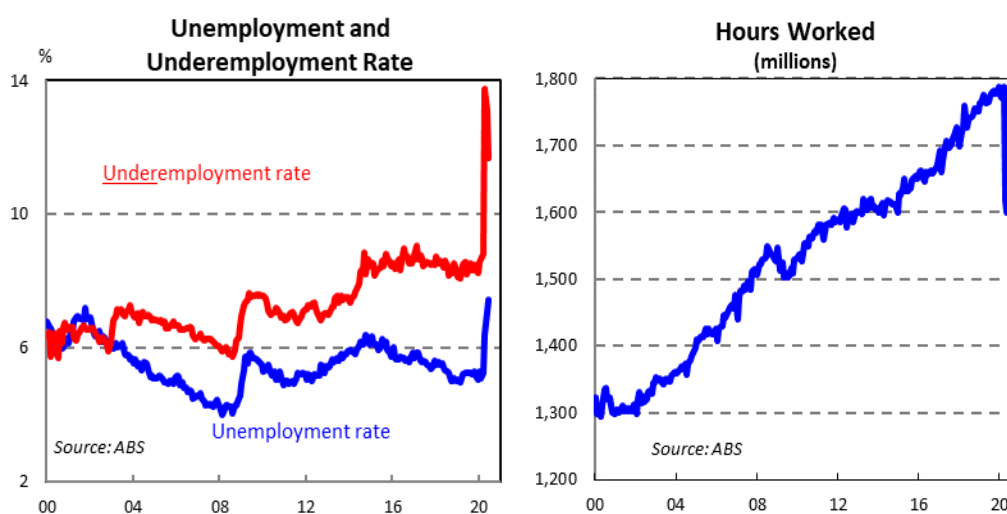


Thursday, 16 July 2020

Labour Force

Bumpy Road Ahead

- Last month, the labour market benefited from the easing of restrictions and the re-opening of many businesses. Employment surged 210.8k in June, regaining nearly a quarter of the jobs lost in the two months prior.
- The increase in employment failed to prevent the unemployment rate rising from 7.1% in May to 7.4% in June, the highest since November 1998. However, the lift in the unemployment rate in June was a result of a large proportion of people returning to the workforce, after leaving over the previous two months.
- The participation rate jumped from 62.7% in May to 64.0% in June. The participation rate is still much lower than its pre-pandemic levels. Had the participation rate held its March level of 65.9% in June, the unemployment rate would have exceeded 10%.
- All States and territories recovered jobs in June, except for the NT. The recovery was uneven and correlated with the speed of easing restrictions across the country. NSW regained around 30% of the jobs lost over April and May. At the other end of the spectrum, Victoria regained just 15% of jobs lost over the two-month period, the smallest proportion of all States.
- We have not yet reached the peak in the unemployment rate. The economy is still facing a significant headwind with COVID-19, particularly given the renewed lockdown measures currently in place in Metropolitan Melbourne and Mitchell Shire. There are further downside risks with the threat of further restrictions in NSW given a growing cluster of cases in Sydney. It would suggest that employment will remain weak and is at risk of falling again in the near term.



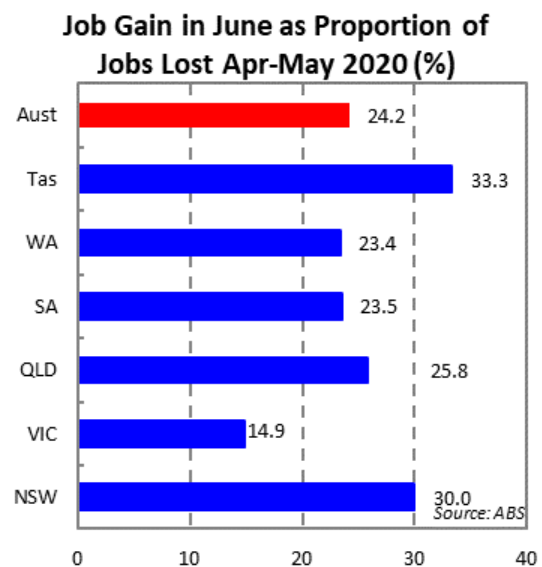
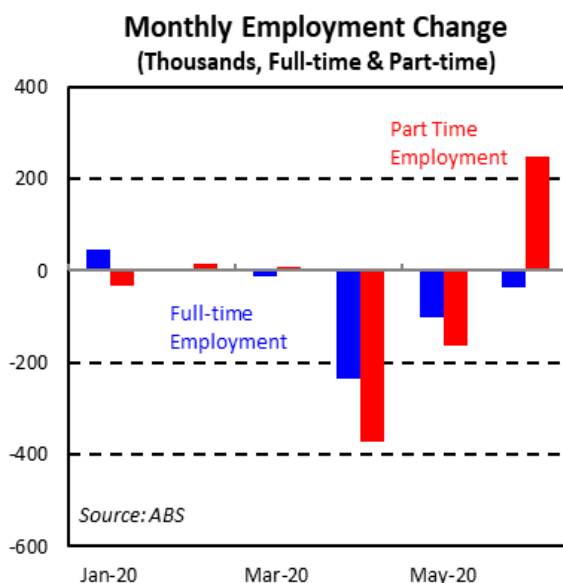
Last month, the labour market benefited from the easing of restrictions and the re-opening of many businesses. Employment surged 210.8k in June, regaining nearly a quarter of the jobs lost in the two months prior. June's increase was the largest in the history of the series, which began in 1978. However, it followed a fall in employment over the period between March and May, employment of 871.5k.

Despite the increase over the month, employment remains 5% lower than its level in February, equating to nearly 700k fewer employed than before nationwide restrictions were put into place.

The increase in employment failed to prevent the unemployment rate rising from 7.1% to 7.4%, the highest since November 1998, and exceeding the peak of 7.2% in October 2001. However, the lift in the unemployment rate in June was a result of a large proportion of people returning to the workforce, rather than lost employment, as witnessed over April and May. The participation rate jumped from 62.7% in May to 64.0% in June. The participation rate is still much lower than its pre-pandemic levels. In March, the participation rate was 65.9%. Had the participation rate held at these levels in June, the unemployment rate would have exceeded 10%.

There were some other encouraging signs of improved labour market conditions. Hours worked jumped 4.0%, the strongest monthly increase since the series began in 1978. However, following a significant fall of 10.4% in the previous two months, hours worked remains 6.8% lower than in March. It points to a substantial loss of economic output over the June quarter.

The breakdown between full-time and part-time work further highlights some underlying weakness in the labour market. The increase was entirely driven by part-time work while full-time work declined. Part-time jobs jumped 249k in June, while full-time employment declined another 38.1k. Full-time jobs have declined for four months straight, totalling a loss of 388k over the four-month period to June.



The relative strength in part-time jobs in June can be explained by the impact of the JobKeeper payment. Casual workers were less likely to be able to qualify for the subsidy and required the employee to have been with their employer for more than a year. While those on JobKeeper who returned to work would have always been considered employed, those who did not qualify and were stood down during the shutdown period would have been counted as re-joining the labour force.

Underemployment decreased for the second consecutive month to 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. That would suggest that the decline in underemployment does not represent a significant reduction in spare capacity in the labour market. The underemployment rate is still high on a historical comparison and has been in double-digits for three consecutive months – the first time on record.

Another worrying trend is the elevated level of unemployment among youth. The youth unemployment rate (for 15-24 years) rose to 16.4% in June, which was the highest since February 1997.

States and Territories

All States and territories recovered jobs in June, except for the Northern Territory, where employment declined 2.5k.

Nonetheless, the recovery was somewhat uneven and correlated with the speed of easing restrictions across the country. NSW regained 80.8k jobs in June, equating to 30% of the jobs lost over April and May. This was followed by Queensland, which added 52.9k jobs or 26% of jobs lost over the two months prior.

Victoria added 29.5k jobs in June, regaining just 15% of jobs lost over April to May, the smallest percentage of all States.

Other States and territories had modest gains, including Western Australia (22.2k), South Australia (11.4k), Tasmania (6.4k) and the ACT (4.3k).

These comprised 23%, 24%, 33% and 40% of the jobs lost in April and May, in their respective States, suggesting a sizeable but only partial recovery in employment.

Despite the gain in jobs, unemployment rates lifted in NSW (from 6.4% to 6.9%), Victoria (from 6.9% to 7.5%), South Australia (7.9% to 8.8%), Western Australia (8.1% to 8.7%) and Tasmania (6.3% to 6.9%). Queensland was the only State where the unemployment rate fell, edging down 0.1 percentage point to 7.7%.

Outlook and Implications

The rebound in jobs and hours worked are encouraging signs that a large chunk of employment lost over the last few months has been regained. However, the number of employed remains significantly less than before the pandemic. Reflecting these weak conditions, the unemployment rate is the highest since 1998. Moreover, the decline in hours worked over three months to June points to a significant fall in economic activity over the June quarter.

We have not yet reached the peak in the unemployment rate. The economy is still facing a significant headwind with COVID-19, particularly given the renewed lockdown measures currently in place in Metropolitan Melbourne and Mitchell Shire. There are further downside risks with the threat of further restrictions in NSW given a growing cluster of cases in Sydney. It would suggest that employment will remain weak and is at risk of falling again in the near term.

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