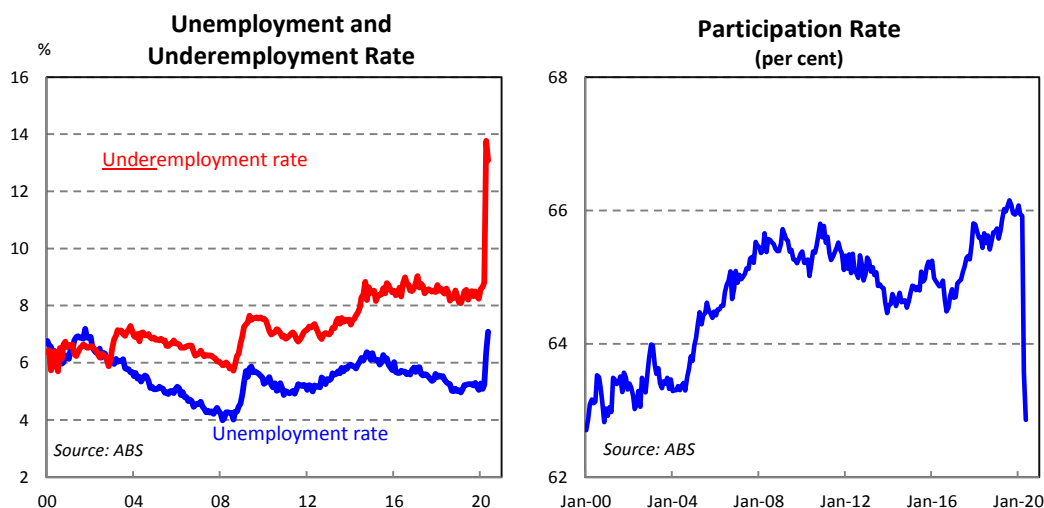


Thursday, 18 June 2020

# Labour Force

## COVID-19 Impact Grows

- The shock of COVID-19 continued to batter the labour market in May, even as restrictions began to ease. May's labour force outcome completes a one-two punch to the labour market. The economy shed a further 228k jobs in May, which is the second biggest drop in the series history and follows a record-sized decline of 607k in April.
- The unemployment rate jumped to 7.1% in May from 6.4% in April, the highest since 2001.
- The participation rate fell again, to 62.9% from 63.6% in April. A lower participation rate has prevented a sharper rise in the unemployment rate. Had the participation rate held steady, the unemployment rate would have reached 8.1%.
- Belying this sober analysis there is a brighter side. JobKeeper has limited the increase in the unemployment rate by subsidising the wages of employees. Employees on JobKeeper who resumed work would not have counted as newly employed. There might have also been a chunk of workers stood down in April, who were not counted as unemployed until this month.
- The Australian Bureau of Statistics (ABS) estimated around 1 in 5 of those employed had their hours reduced for economic reasons in May. The hours worked measure fell just 0.7%, after a record 9.5% fall in April. Whilst there is an improvement in hours worked, weakness in the labour market is persisting. It likely reflects a proportion of workers re-starting employment after restrictions began to ease.
- The enormous shock to the economy and the significant government intervention in the labour market means that the return to normal labour market conditions will take time. We continue to expect the unemployment rate to edge higher. The biggest-sized job losses might be behind us, although the ending of JobKeeper in September threatens a re-acceleration of job losses.



The shock of COVID-19 continued to batter the labour market in May, even as restrictions began to ease. The economy shed a further 228k jobs in May, the second largest monthly decline in the series history behind the 607k jobs lost in April. A total 859k employment has been lost over the two months to May.

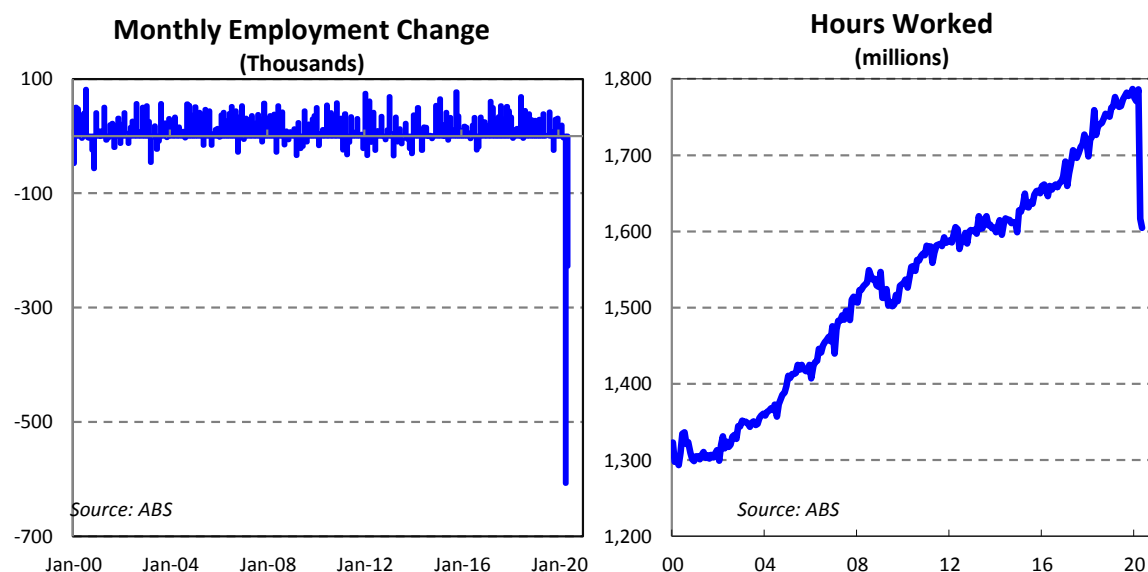
An additional lurch lower in employment led to another jump higher in the unemployment rate to 7.1%, a huge increase of 0.7 percentage points from 6.4% in April. It was the highest unemployment rate since October 2001.

There was once again a reduction in the labour force in May, as potential workers were discouraged from looking for work and population growth slowed due to border closures and movement restrictions. The labour force is the number of people of working age who can start work immediately and are actively looking for work. It fell 142k in May after declining by 482k in April.

The participation rate (which measures the portion of the total population over 15 years of age who are in the labour force) fell to 62.9% in May from 63.6% in April. It was the lowest participation rate since January 2001. A lower participation rate has prevented a sharper rise in the unemployment rate. Had the participation rate held steady, the unemployment rate would have reached 8.1%.

Further limiting the rise in the unemployment rate over the past two months has been the Federal Government's JobKeeper payment scheme. People who are paid through the JobKeeper wage subsidy are classified as employed, regardless of whether they were stood down and worked no hours.

The distortions from JobKeeper on the official labour force statistics are evident in the large increase in the number of individuals who worked reduced, or zero hours, but were still counted as employed in May. The Australian Bureau of Statistics (ABS) estimated that approximately 2.3 million people, or around 1 in 5 of those employed, had their hours reduced for economic reasons in May.



The nature of JobKeeper is that any workers on the program who resumed working did not count as newly employed. Furthermore, any workers who were temporarily stood down in April and were still not working in May were counted as newly unemployed. The ABS said that there were 450k people who worked zero hours in April, but were subsequently counted as not employed in May.

The decline in employment over May was more pronounced in part-time workers (-138.6k) compared with full-time (-89.1k).

### **Hours worked & underemployment**

Other indicators can help to provide a more complete picture of labour market conditions, such as hours worked.

Despite the sharp fall in employment in May, hours worked fell just 0.7%. It was still a decline, but it was much smaller than the more sizeable 9.5% fall in April. On a year ago, hours worked fell 9.0%, the largest annual decline since the series began in 1978.

The smaller fall in May corresponds with other signals on the labour market from the weekly payrolls data and business surveys. There is an improvement underway, but still pointing to further weak conditions in the labour market. It likely reflects a proportion of workers re-starting employment after restrictions began to ease. However, weak spending and demand are also likely weighing on employment more broadly.

The underemployment rate is another measure which helps determine the degree of spare capacity in the labour market. It measures the proportion of the labour force consisting of part-time workers who would prefer and would be available to work more hours.

The underemployment rate fell from 13.8% in April to 13.1% in May, supporting the theory that the deterioration in the labour market was not as severe as suggested by the headline fall in employment. It would suggest that some part-time workers may have increased their hours, which corresponds with the re-opening of some businesses. That being said, the decline in hours worked is highlighting overall weakness in labour demand. The underemployment rate remains elevated. May's underemployment rate was the second highest on record, after the record high in April.

### **States and Territories**

All States and territories extended their decline in jobs over May after sharp falls in April.

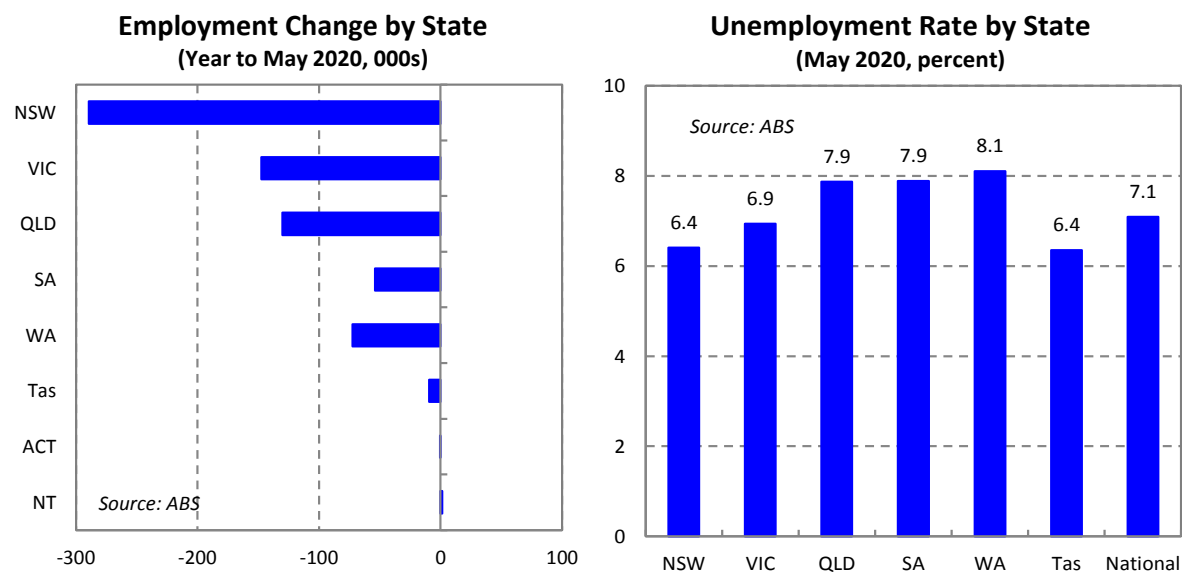
The largest monthly decline occurred in Victoria of 70.8k, which followed a 127.9k fall in April. Restrictions in Victoria were lifted a bit later in comparison to other States. NSW also had a large decline of 43.9k in May after a 225.2k fall in April. Employment also declined further in Western Australia (-30.2k), Queensland (-28.1k), South Australia (-11.1k), Tasmania (-9.9k), the ACT (-3.6k) and the Northern Territory (-2.1k).

In terms of annual totals (i.e. 12 months to May), all States, with the exception of Tasmania, had their largest fall on record. The series dates back to 1978. NSW (-289.5k), Victoria (-147.5k) and Queensland (-130.2k) were down sharply on a year ago. Record annual declines were witnessed in Western Australia (-72.4k), South Australia (-53.8k) and Tasmania (-9.3k) had its largest annual fall in employment since April 2012. There was an annual decline of 0.3k in the ACT, while employment rose 1.4k in the year in the Northern Territory.

Unemployment rates rose in all States and territories (excluding the ACT), reflecting the deterioration in employment.

NSW's unemployment rate edged up just 0.1 percentage points from April to 6.4% in May, but this was due to the participation rate falling 0.7 percentage points. There were bigger jumps in the unemployment rates in Victoria (from 6.3% to 6.9%), Queensland (from 7.0% to 7.9%), South Australia (7.2% to 7.9%), Western Australia (6.1% to 8.1%) and the Northern Territory (5.6% to 7.4%) while Tasmania's unemployment rate rose from 6.2% to 6.4%.

In ACT, the unemployment rate fell (from 4.3% to 4.1%), reflecting the increasingly larger role from the government in supporting the economic recovery nationally.



## Outlook and Implications

At face value, May's labour force outcome completes a one-two punch to the labour market. The large fall in headline employment, and the rise in the unemployment rate suggests an intensification of the economic impact of COVID-19, diminishing any hope of a V-shaped recovery following the gradual relaxation of restrictions. The ongoing weakness in the labour market also highlights the risk of some longer-lasting damage brought about by weaker demand. The unemployment rate is at its highest in nearly two decades, despite an unprecedented wage-subsidy supporting millions of workers.

Belying this sober analysis there is a brighter side. The JobKeeper wage subsidy meant that any workers on the program who began working more hours were already counted as employed, even though they were more economically productive. Indeed, the decline in hours worked slowed to a trickle in May compared with a deluge in April. Data from the weekly payrolls data, which show the number of employees registered by employers with the Australian Tax Office, suggest that the worst of the labour market deterioration may be over.

The enormous shock to the economy and the significant government intervention in the labour market means that the return to normal labour market conditions will take time, and the path will be uneven. We continue to expect the unemployment rate will edge higher.

Australia's success so far in containing the COVID-19 outbreak and the subsequent gradual

relaxation of restrictions will eventually support the demand for labour. So too will the unprecedented wave of stimulus. Still, the unemployment rate is likely to remain elevated over the medium term. We will need a much faster recovery to absorb the sea of spare capacity. Furthermore, there is a risk of a fresh re-acceleration of jobs losses if JobKeeper ends on September 27 as planned.

**Janu Chan, Senior Economist**

Ph: 02-8253-0898

**&**

**Nelson Aston, Economist**

Ph: 02-8254-1316

## Contact Listing

### Chief Economist

Besa Deda  
dedab@banksa.com.au  
(02) 8254 3251

### Senior Economist

Janu Chan  
chanj@banksa.com.au  
(02) 8253 0898

### Economist

Nelson Aston  
nelson.aston@banksa.com.au  
(02) 8254 1316

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

---

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.

---