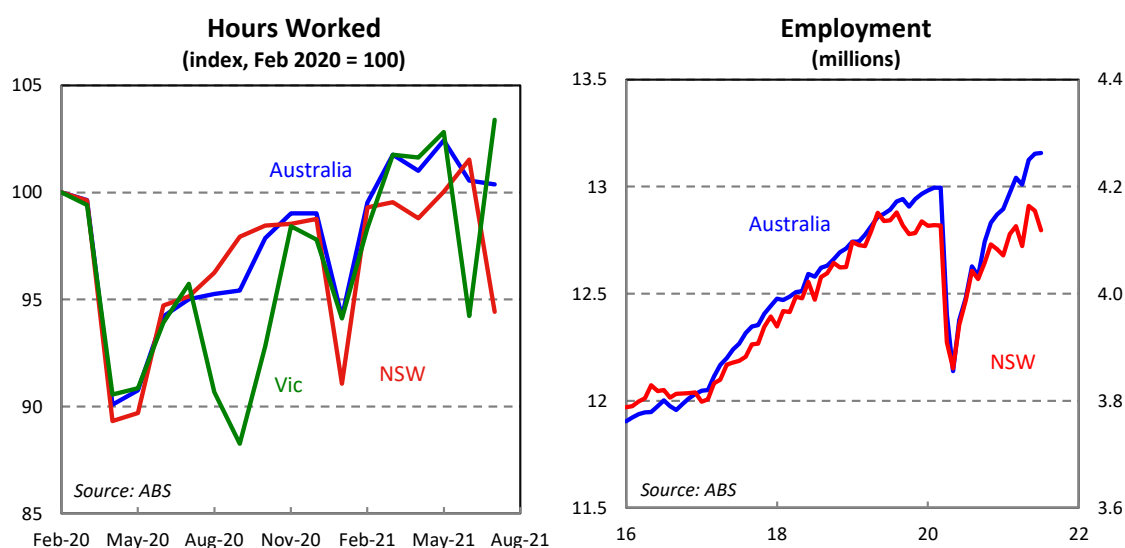


Thursday, 19 August 2021

## Labour Force

# Jobless Rate Falls But Turbulence Ahead

- With much of the country in lockdown for some or all of July, it might seem a little counterintuitive that employment actually increased by 2.2k in the month and the unemployment rate fell to 4.6%, its lowest level in 12 years. But the devil is in the detail.
- The labour force survey was conducted in early July, too early to capture the full extent of the impact of recent lockdowns. It was in the first few weeks of the NSW lockdown, before construction was shutdown. Plus, Victoria was reopening following its snap lockdown in June.
- The fall in the unemployment rate in July mostly reflects a decline in the participation rate from 66.2% to 66.0%. Participation typically declines in lockdowns as people give up looking for work.
- Hours worked is usually a more accurate measure of the impact of lockdowns on the labour market than jobs numbers since employers tend to favour cutting hours over headcount.
- In aggregate, hours worked declined 0.2% in July. But this disguises significant offsetting movements across the states. Hours worked fell drastically in NSW, dropping 7.0%, while they shot up 9.7% in Victoria.
- The number of people working zero hours for economic reasons – which effectively captures workers who have been stood down – increased to 182k, or highest level since September 2020.
- We expect to see significant job losses over the coming months. We anticipate the unemployment rate will increase to the high 5s. However, we expect a fast rebound. We have forecast the unemployment rate will reach near 4% at the end of 2022.



With much of the country in lockdown in July, it might seem a little counterintuitive that employment actually increased by 2.2k in the month and the unemployment rate fell to 4.6%, its lowest level in 12 years. But the devil is in the detail.

The reference period for the labour force survey was 4–17 July, too early to capture the full extent of the impact of lockdowns around the country. This period was during the initial phase of the NSW lockdown, capturing the second and third week, and before construction was shutdown. Plus some of the deterioration in NSW was partly offset by a reopening boost from Victoria as it came out of its June lockdown.

We expect employment numbers will worsen markedly in the months ahead when the survey better captures the hit from lockdowns. But the start of the JobSaver scheme on 13 July will help limit the rise in unemployment in NSW.

### Full-time vs part-time

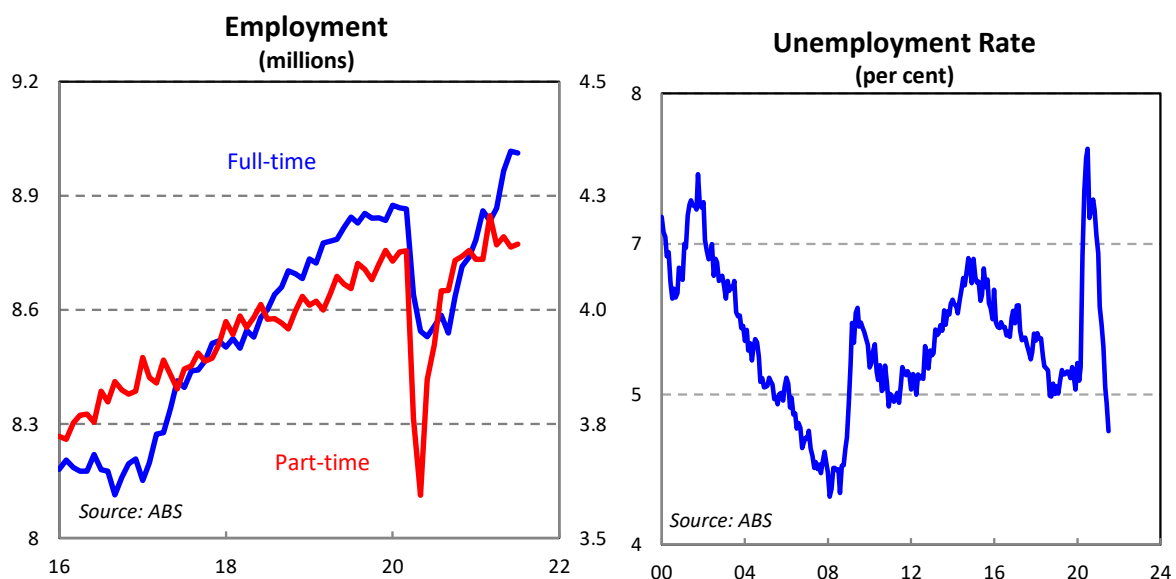
Full-time jobs declined 4.2k in July, while part-time employment increased 6.4k. As a result, the total number of people employed increased to around 13.2 million – a record high. This partly reflects the strong momentum in the labour market in the lead up to the recent disruptions.

Both part-time and full-time employment are higher than their pre-COVID level.

### Unemployment rate

The unemployment rate declined by 0.3 percentage points to 4.6% – the lowest level since December 2008 – a testament to the strength of the labour market in the lead up to the recent lockdowns. It marks a 2.8 percentage point decline from the 7.4% peak in the unemployment rate in July 2020.

While employment increased in the month, the fall in the unemployment rate mostly reflects a decline in the participation rate from 66.2% to 66.0%. The participation rate typically declines in lockdowns. People tend to stop looking for work during lockdowns, or might have to withdraw from the labour force temporarily because of caring responsibilities.



### The states

NSW accounts for 31% of national employment, making what happens in the NSW jobs market a significant driver of the overall labour market for Australia. NSW 36.4k jobs in July reflecting the

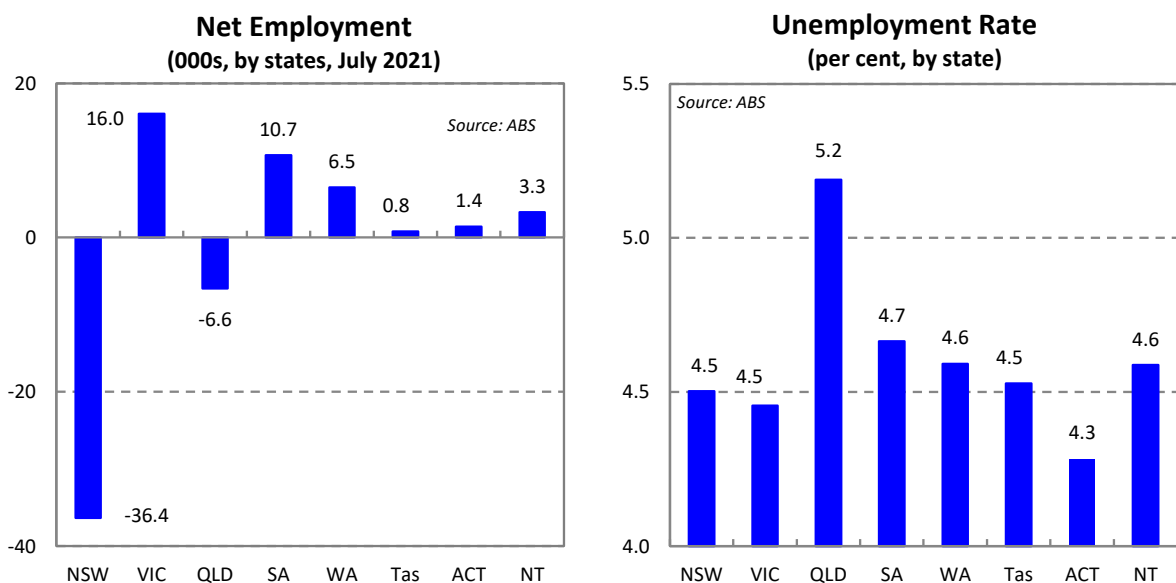
impact of the lockdown.

We expect more job losses in NSW in the coming months. However, there early signs are that NSW businesses are responding by reducing hours worked more so than shedding staff. Hours worked in NSW dropped a sharp 7.0% in July (see below). The JobSaver scheme began on 13 July, which will help cap a rise in unemployment in coming months in NSW, as it requires eligible businesses to not reduce headcount from this date to receive payments.

Queensland was the only other state to register a contraction in jobs in July. Jobs fell 6.6k in the month.

Jobs in Victoria rebounded in July, as the state emerged from its fourth lockdown on 11 June. Jobs jumped 16.0k in July, which more than made up for the 9.2k jobs lost in June.

Across other states and territories, jobs rose between 0.8k (Tasmania) and 10.7k (South Australia) in the month.



All states and territories had a 4 in front of their unemployment rate in July except for Queensland. The unemployment rate fell in NSW, SA, WA, ACT and the NT.

In NSW, it fell to 4.5%, which is the lowest rate since January 2020.

In SA, the unemployment rate fell from 5.3% in June to 4.7% in July, which is the lowest rate in 11½ years. South Australia's fall in the unemployment rate was all the more impressive because it was accompanied by a 0.3 percentage lift in the participation rate.

NSW meanwhile recorded a sharp drop in the participation rate, from 65.9% in June to 64.9% in July, which means the labour force shrunk and not as many jobs needed to be added to the economy to prevent the unemployment rate from rising or staying steady. NSW's participation rate is the lowest in a year and the size of the drop the biggest since April last year.

The unemployment rate is lowest in the ACT at 4.3% in July, down from 4.9% in June. The unemployment rose marginally in Victoria to 4.5% and Queensland to 5.2%. Tasmania's unemployment rate stayed steady at 4.5%.

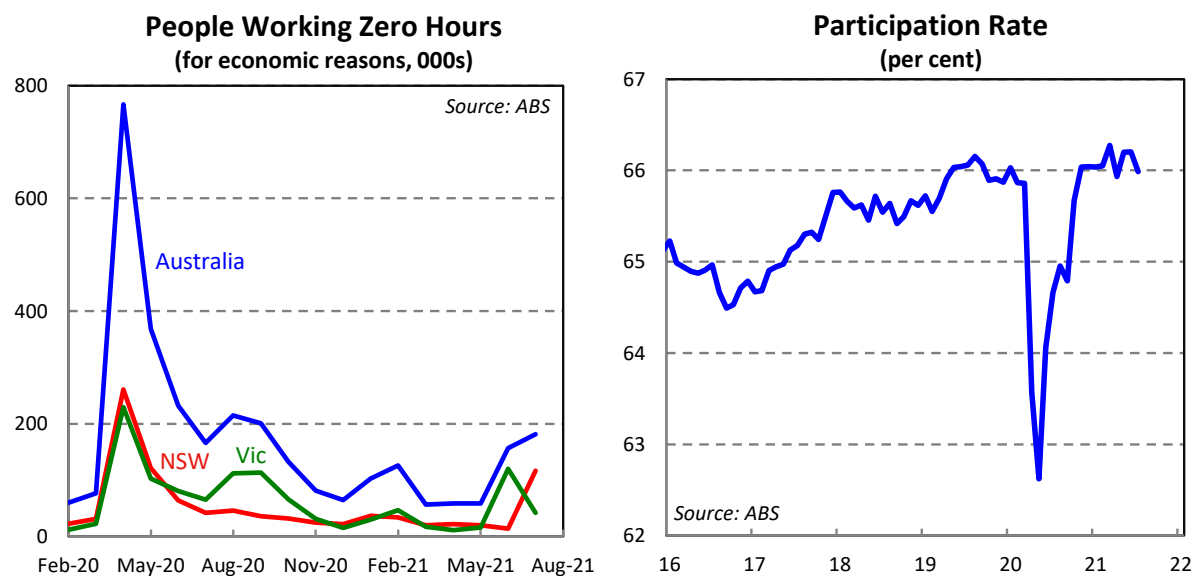
### Hours worked

Hours worked tends to be a more accurate measure of the impact of lockdowns on the labour market than jobs numbers. This is because much of the adjustment in the labour market comes via

employers cutting hours rather than headcount. Indeed, some government support, like the NSW JobSaver program, is designed to try to keep workers in jobs by requiring businesses to maintain headcount in order to qualify for the payment.

In aggregate, hours worked declined 0.2% in July. But this disguises significant offsetting movements across the states. Hours worked fell drastically in NSW – dropping 7.0% in the month. However, hours worked in NSW still remained higher than at the height of the national lockdown in April 2020 and in January 2021 – coinciding with the Northern beaches lockdown and a seasonal decline in hours worked alongside summer holidays. Meanwhile, hours worked in Victoria shot up 9.7% as the state bounced back from its snap lockdown in June.

Separately, the number of people working zero hours for economic reasons – which effectively captures workers who have been stood down – increased to 182k across the nation. This is the highest reading since September 2020, although is well down on the peak of 767k in April last year. In NSW, the number shot up from 14k in June to 117k in July, the highest print since May 2020.



### Other labour market measures

Forward looking indicators of labour demand remain solid, reflecting the strong momentum in the economy in the lead up to the recent lockdowns. However, job ads edged lower in July for the first time since May 2020. That said, jobs ads were still well up on their pre-pandemic level at over 36% higher in July 2021 than February 2020.

Other measures of slack in the labour market also deteriorated a little in July. The underemployment rate increased 0.4 percentage points to 8.3% and the underutilisation rate edged up to 12.9%, although both remain well down on their respective peaks in 2020.

### Outlook

We expect to see significant job losses over the coming months, as the stricter NSW lockdown starts to bite and the lockdown in Victoria impacts jobs. And as a result, we anticipate the unemployment could increase to the high 5s in the coming months, although this is much lower than the 7.4% peak in the unemployment rate last year. The impact of lockdowns will be partly cushioned by government support, labour shortages in pockets of the economy, and low interest rates.

However, once the economy reopens, we expect the jobs market to rebound quickly, and that the unemployment rate will resume its downwards trajectory. We expect the unemployment rate will reach near 4% at the end of 2022.

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