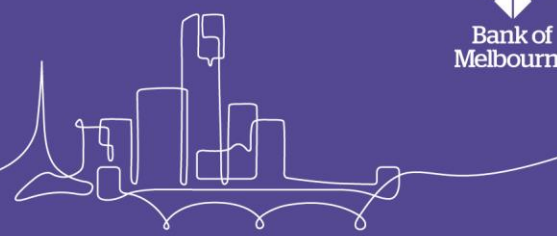




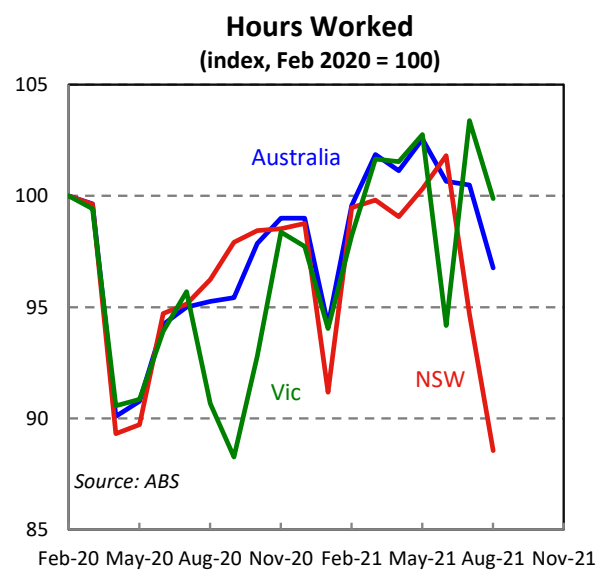
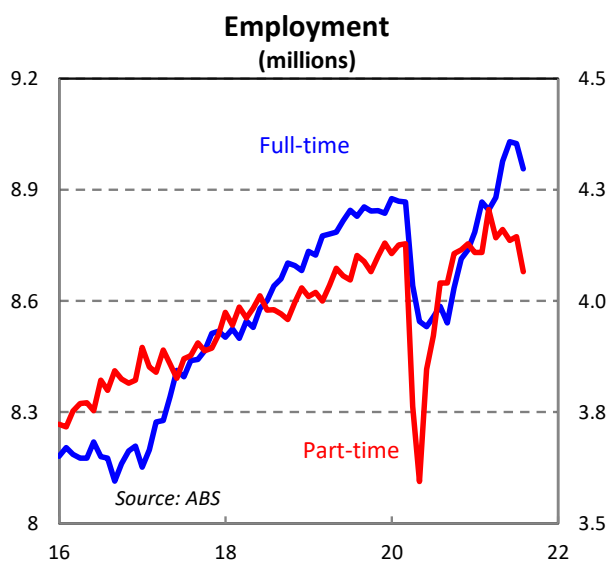
Thursday, 16 September 2021



Labour Force

Lockdowns Pummel Jobs & Hours Worked

- Employment numbers saw their first big hit from the Delta outbreak in August, with a 146.3k (-1.1%) decline in jobs. The fall was driven by a large drop in NSW of 172.8k. Employment in the state has now fallen by almost 220k over the past three months.
- The unemployment rate fell by 0.1 percentage points to 4.5% in August. This is the lowest unemployment rate for over 12½ years. However, this is no cause for celebration. Rather, the fall in the rate reflects a large drop in the participation rate.
- Hours worked paints the true picture of the impact of lockdowns. This is because during lockdowns, employers tend to reduce the hours worked of their staff, rather than letting them go. In August, hours worked nationally fell by a sizeable 3.7% in the month.
- Hours worked in NSW have now fallen by 13.0% since June and are at their lowest point since the pandemic began.
- Another important measure of slack in the labour market, the underemployment rate, increased sharply in August to 9.3%, its highest level since November last year.
- We expect to see more job losses over the months ahead, and that the unemployment rate will tick up into the 5s in the coming months. However, we continue to anticipate that most of the adjustment in the labour market will come through a fall in hours worked.
- On the upside, once the economy reopens, we expect the unemployment rate will resume its downwards trajectory and head towards 4.0% by the end of 2022.



Employment numbers saw their first big hit from the Delta outbreak in August, with a 146.3k decline in jobs. This follows a revised increase of 3.1k in July. The outcome was weaker than market expectations of a reduction of 80k but in line with our estimate of a fall of 150k.

The fall was felt across both full-time (-68.0k) and part-time (-78.2k) employment. While the fall in employment is significant, the total number of people employed remains above the pre-pandemic level in March 2020.

The survey covered the first two weeks of August, when NSW, Victoria, Queensland and the ACT were impacted by lockdowns. The fall was driven by a large drop in NSW of 172.8k, following the 36.9k decline in July. NSW employment has now fallen by almost 220k over the past three months.

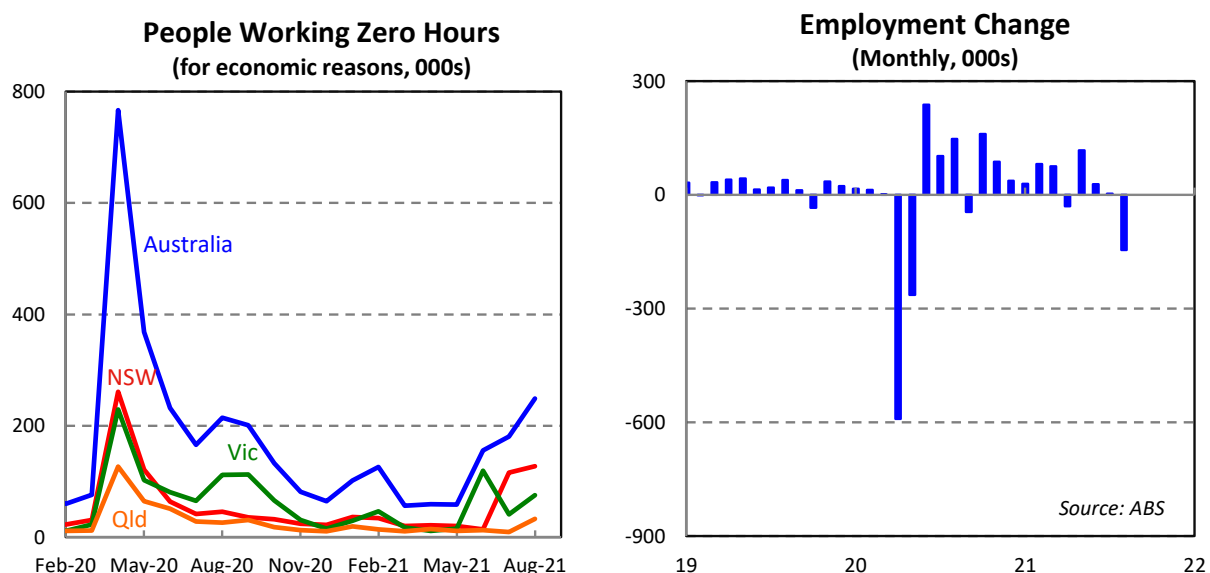
The unemployment rate declined to 4.5% from 4.6% in July. However, hours worked paints the true picture of the impact of lockdowns. This is because many people give up looking for work in lockdowns, or in other words, the participation rate declines.

Hours worked

During lockdowns, employers tend to reduce the hours worked of their staff, rather than letting them go. This helps employers maintain a relationship with their employees and ramp hours worked back up once lockdowns lift. Plus, some government support programs, notably JobSaver in NSW, incentivise businesses to maintain headcount. Many businesses are also mindful that ahead of the recent outbreak it was challenging to find labour.

In August, hours worked nationally fell by a sizeable 3.7% in the month. This contrasts with the 1.1% fall in employment. The decline was driven by large falls across states that were impacted by lockdowns during the survey period, including NSW, Victoria, Queensland and the ACT.

In NSW, hours worked plunged by 6.5% in August. This follows an even larger fall of 7.0% in July.



Hours worked in NSW have now fallen by 13.0% since June and are at their lowest point since the pandemic began. In fact, hours worked in NSW have fallen to their lowest level since December 2014.

One of the important differences between the lockdown this year and last year is that the construction industry in NSW has faced harsher restrictions. This has contributed to the hit to hours worked being larger in the current episode.

The number of people working zero hours due to economic reasons, which captures people who

have been stood down, increased to 248.9k. This was the highest number since May 2020. The increase was driven by rises in Queensland, Victoria and NSW. All states were affected by lockdowns during the survey period.

Unemployment rate and participation rate

The unemployment rate fell by 0.1 percentage points to 4.5% in August. This is the lowest unemployment rate for over 12½ years. However, this is no cause for celebration. Rather, the fall in the rate reflects the large drop in the participation rate.

In August, the participation rate fell sharply to 65.2%. This is down from 66.0% in July. The participation rate has now fallen by 1.0 percentage point over the past two months and is at its lowest level since September 2020.

The fall in the participation rate is consistent with previous lockdowns. This reflects the challenge in searching for work during lockdowns for those that are unemployed. In addition, people with caring responsibilities may also need to temporarily remove themselves from the labour force. This tends to impact women to a greater degree and is likely reflected in the larger fall in female participation (down 0.9 percentage points) versus male participation (down 0.7 percentage points) in August.

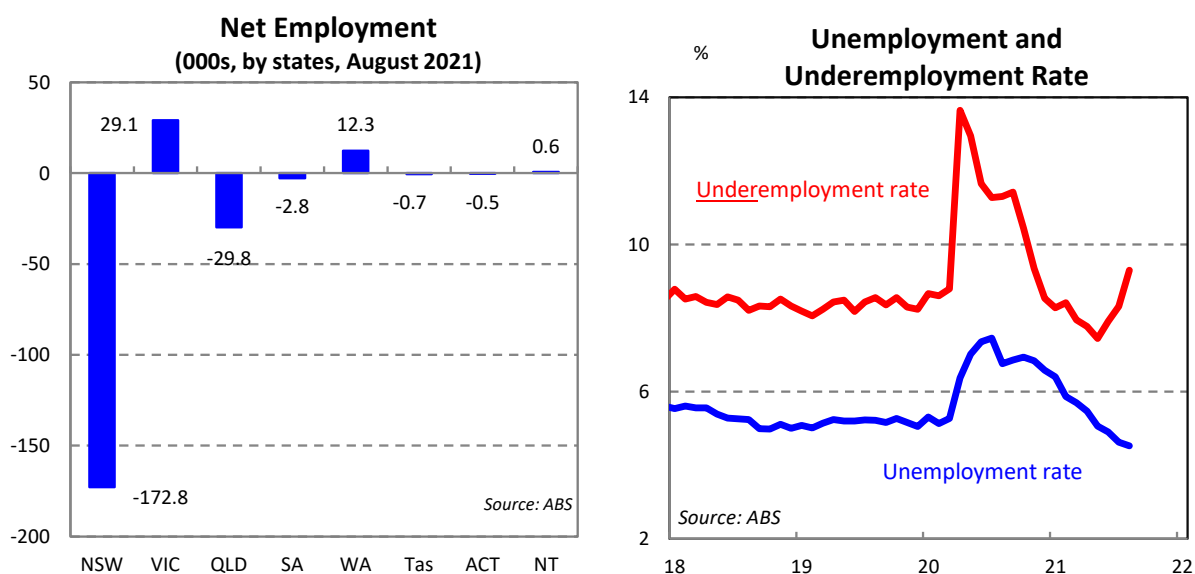
The states

The split across the states demonstrates Australia is operating as a two-speed economy: the states in lockdown, and those that are not.

The hit to jobs was driven almost entirely by NSW, where employment declined 172.8k in August, following the lockdown which commenced in late June. This follows a 36.9k decline in July and 9.5k fall in June. Over the three months, jobs have fallen by almost 220k. For comparison, jobs declined by 265.7k in NSW over April and May last year, at the height of the national lockdown.

Importantly, as mentioned above, hours worked dropped 6.5%, to their lowest level since December 2014.

The unemployment rate in NSW rose to 4.9% from 4.5%. Like the national figures, the increase in unemployment was partly offset by a big step down in the participation rate. In NSW, participation declined to 62.4% from 65.0%, its lowest level since May last year.



There was also a 29.8k fall in employment in Queensland alongside the lockdown which

commenced in late July. The unemployment rate also edged up to 5.3%.

Jobs actually increased in Victoria by 29.1k, despite the state entering its sixth lockdown in early August. We typically see more job shedding the longer lockdowns last, so it would be reasonable to expect a hit to jobs in Victoria in September. The jobless rate declined in Victoria to 4.1% – an all-time low. However, this is likely to be short-lived.

The results were mixed across the other states. Employment rose in WA (12.3k) and the NT (0.6k) but edged lower in SA (2.8k), Tasmania (0.7k) and the ACT (0.5k).

Other labour market measures

Another important measure of slack in the labour market, the underemployment rate, increased sharply in August to 9.3%, its highest level since November last year. This measure effectively captures people who are employed but want to be working more hours. The underutilisation rate, the combination of the unemployment and underemployment rates, increased to 13.8% from 12.9%. The sharp uptick in underemployment, alongside the drop in hours worked, is consistent with employers slashing hours but holding onto staff.

Job ads, a leading indicator of employment, declined for the second consecutive month in August. However, this is coming off record highs, reflecting the strong momentum in the economy and the labour market heading into the Delta outbreak.

Outlook

We expect to see more job losses over the months ahead, and that the unemployment rate will tick up into the 5s in the coming months. However, we continue to anticipate that most of the adjustment in the labour market will come through a fall in hours worked.

Government support, low rates, robust household and business balance sheets, resilient consumer and business confidence, and the strong momentum in the economy prior to the lockdowns will help to cushion the blow. But regardless, it will be a challenging period, particularly for NSW and Victoria.

Once the economy reopens, we expect the unemployment rate will resume its downwards trajectory and head towards 4.0% by the end of 2022.

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