

Monday, 6 April 2020

How High Can Unemployment Jump?

Just how large will job losses be? That is the big question being asked, as stories of businesses cutting staff and standing down workers mount. The difficulty in answering this question lies in how long social distancing measures will be in place, which depends on whether the spread of COVID-19 can be contained. There is also the prospect of further government action, including a widening of containment measures and further stimulus.

In estimating the unemployment rate, our central forecast is for the unemployment rate to rise and peak this year at around 9%. This figure has a higher than usual degree of variability attached to it. However, we have focused on providing a range to highlight the level of uncertainty in forecasting in the current climate and to help businesses in their planning of different scenarios.

If job losses were to fall in the lower end of our forecast range, it would equate to job losses witnessed over the 1990-91 recession or an unemployment rate peaking at just below 8%. A result towards the higher end of our forecast range would see a loss of nearly 9% of total employed or an unemployment rate of around 14%.

In the US, the signs for their labour market have been dismal. On Friday, US data revealed a 701k job decline in March, the largest fall since 2009. The unemployment rate spiked from 3.5% to 4.4%. And there is likely worse to come, given that containment measures since the survey was taken have ramped up across the US. Another worrying sign of how conditions in the labour market are deteriorating is the record high number of jobless claims, which have equated to 10 million over the past two weeks.

In Australia, the Australian government has chosen to issue a wage subsidy (aka the Job Keeper package) given via employers, rather than only increasing unemployment benefits. This policy incentivises businesses to keep employees on the payroll rather than joining the unemployment queue. Several countries in Europe have also issued wage subsidies to weather the fallout from COVID-19.

We have to wait until next week to obtain economic data to gauge the very early impacts of COVID-19 on the labour market. In the meantime, economic data dated from February or earlier, continues to seem less relevant. Trade data and housing finance data this week, released on Tuesday and Wednesday, respectively, are some examples. However, trade data out on April 7 will help gauge the impact of China's quarantine measures, which were in full force in February.

The Reserve Bank (RBA) board meets tomorrow. We should receive from its accompanying statement clues as to how the RBA is thinking about this crisis and the impact on the economy. The RBA's Financial Stability Review on Thursday will also be of interest given the significant ructions in financial markets over the past few weeks. Markets have seen some stresses ease over the past few days, but there are still questions about how some companies will deal with the sharp loss of revenue and what this means for credit and money markets.

Of course, of all data and statistics that are being watched, it is the number of new cases of

COVID-19 that grabs the most attention. Total cases globally now stand at 1.1 million as of April 5, with new confirmed cases in the past 24 hours at 82,061. A week ago, daily cases were at 63,160. While conditions vary greatly across countries it suggests that there is some way to go before we see some relaxing in containment measures.

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Forecasts

Due to the rapid change of recent, current and future developments, there is greater than usual uncertainty surrounding the forecasts.

| End Period: | 2020 | | | | 2021 | |
|------------------------------|---------------|--------|--------|--------|--------|--------|
| | Close (Apr 3) | Q2 (f) | Q3 (f) | Q4 (f) | Q1 (f) | Q2 (f) |
| Aust. Interest Rates: | | | | | | |
| RBA Cash Rate, % | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| 90 Day BBSW, % | 0.26 | 0.30 | 0.30 | 0.35 | 0.35 | 0.40 |
| 3 Year Swap, % | 0.34 | 0.35 | 0.35 | 0.40 | 0.40 | 0.45 |
| 10 Year Bond, % | 0.76 | 0.75 | 0.70 | 0.75 | 0.75 | 0.80 |
| US Interest Rates: | | | | | | |
| Fed Funds Rate, % | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| US 10 Year Bond, % | 0.59 | 0.60 | 0.65 | 0.70 | 0.75 | 0.80 |
| USD Exchange Rates: | | | | | | |
| AUD-USD | 0.5997 | 0.62 | 0.64 | 0.67 | 0.68 | 0.68 |
| USD-JPY | 108.55 | 107 | 105 | 106 | 107 | 107 |
| EUR-USD | 1.0801 | 1.07 | 1.07 | 1.06 | 1.06 | 1.07 |
| GBP-USD | 1.2269 | 1.22 | 1.23 | 1.24 | 1.25 | 1.25 |
| NZD-USD | 0.5878 | 0.60 | 0.62 | 0.64 | 0.65 | 0.65 |
| AUD Exchange Rates: | | | | | | |
| AUD-USD | 0.5997 | 0.62 | 0.64 | 0.67 | 0.68 | 0.68 |
| AUD-EUR | 0.5541 | 0.58 | 0.60 | 0.63 | 0.64 | 0.64 |
| AUD-JPY | 65.06 | 66.3 | 67.2 | 71.0 | 72.8 | 72.8 |
| AUD-GBP | 0.4887 | 0.51 | 0.52 | 0.54 | 0.54 | 0.54 |
| AUD-NZD | 1.0226 | 1.03 | 1.03 | 1.05 | 1.05 | 1.05 |

| | 2018 | 2019 (f) | 2020 (f) |
|-----------------------|------|----------|----------|
| GDP, % | 2.2 | 2.2 | -5.0 |
| CPI (Headline), % | 1.8 | 1.8 | 1.5 |
| CPI (Trimmed mean), % | 1.8 | 1.6 | 1.9 |
| Unemployment Rate, % | 5.0 | 5.2 | 7.3 |
| Wages Growth, % | 2.3 | 2.2 | 2.1 |

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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