

Labour market snapshot #76 March (3) 2021

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Another step forward, but how many steps backward are we about to go?

Key points

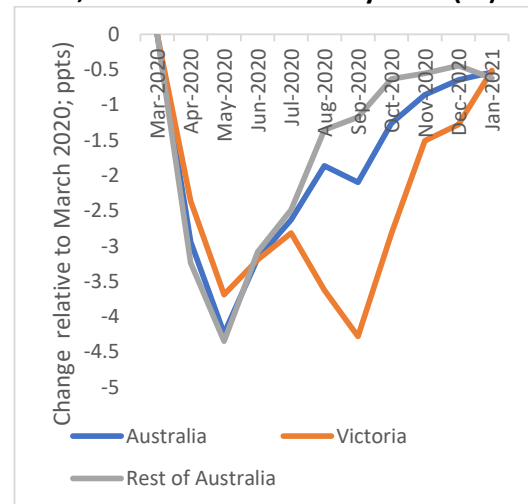
- The employment/population rate in Australia improved slightly in the month to January 2021, by 0.1ppt. In the same period, the convergence of the Victorian labour market to the rest of Australia was completed – the state's employment/population rate increased by 0.75ppt.
- As another measure of recovery, by the end of January 2021, the number of jobs per capita in Australia had returned to about the same level as a year before.
- Monthly hours worked went haywire due to a much larger than usual number of workers taking holidays in January – most notably in NSW and Victoria.
- The young are experiencing more persistent negative consequences from COVID-19. The impact has been concentrated on a loss of full-time employment for young people not studying full-time. It raises the concern that a scarring type episode is underway for young people needing to make the transition from education to work.
- I present a framework for forecasting the size of decrease in employment that will occur due to JobKeeper ending. Using the framework to make a forecast is a difficult exercise due to data limitations. But, assuming that the extent of suppressed adjustment due to JobKeeper is not too large, my best guesstimate is that 125,000 to 250,000 persons might lose work when the program finishes at the end of March.

Introduction

Employment growth continued in Australia from December to January. The number of persons employed rose by 29,100; and the employment/ population rate increased by 0.1 ppt to 61.9 per cent. This left the employment/ population rate 0.5 ppt below the level in March 2020.

January also brought the final stage of the Victorian labour market's catch-up to the rest of Australia – as shown in Chart 1. Victoria's employment/population rate increased by 0.75 ppt, while the rest of Australia went slightly backwards.

Chart 1: EMP/POP rate, Australia and by state, March 2020 to January 2021 (sa)



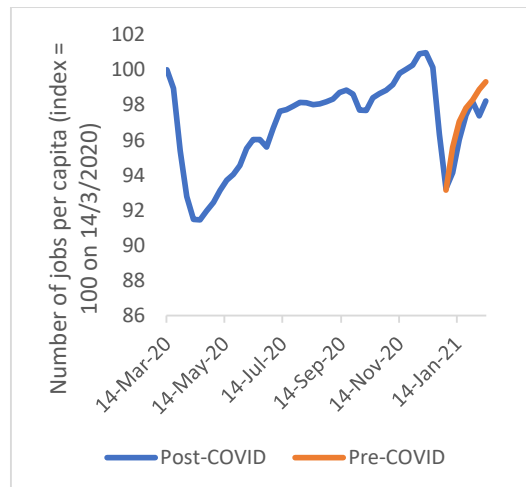
The jobs picture

ABS data on payroll jobs in Australia also show an almost completely recovery by the end of 2021. Chart 2 presents the index for the number of payroll jobs adjusted for population growth. The chart separates observations from before and after the onset of COVID-19. This allows a

comparison between January and February from prior to and following COVID-19 (that is, 2020 and 2021). Being able to compare the same months is valuable with the jobs data, which are not seasonally adjusted.

By the end of January 2021, the number of jobs per capita (using civilian population from the ABS LFS) was at about the same level as a year prior.¹

Chart 2: Number of jobs data per capita, Australia, 2 January 2020 to 13 February 2021

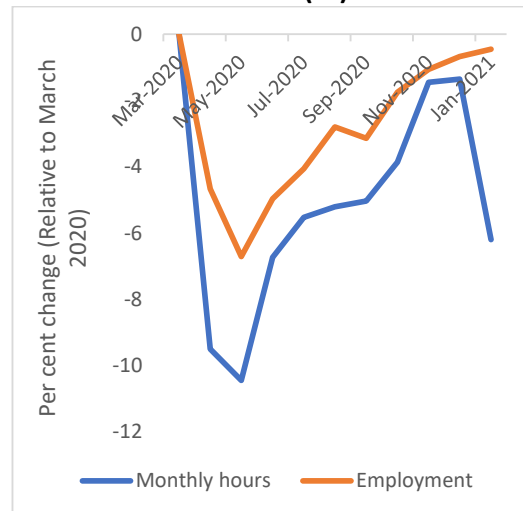


How good is a holiday?

A curious development in January was a substantial decrease in monthly hours worked – while employment slightly increased. This is shown in Chart 3. At the end of 2020, recovery in employment

and hours worked was pretty similar. But in January, monthly hours worked returned to 6.2 per cent below March 2020, whereas employment was only 0.45 per cent below.

Chart 3: Monthly hours and employment, Persons, Australia, Per cent change relative to March 2020 (sa)



The ABS has provided an excellent explainer [article](#) for this apparent anomaly. The divergence between monthly hours worked and employment was due to a large increase in the number of workers taking leave in January and working zero or shorter hours than usual.² This is even after controlling for the usual seasonal increase in workers taking holidays.

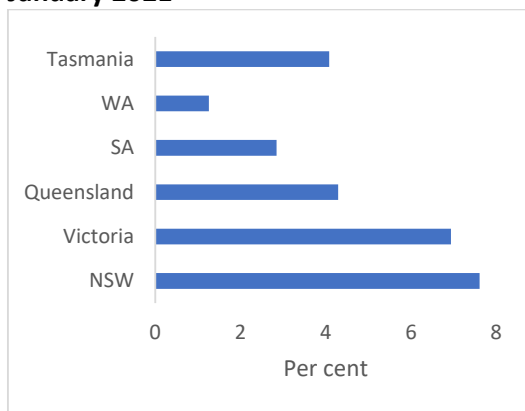
The extra leave taking gave me the idea for a ‘How good is a holiday index’ – since

¹ Based on previous experience, the subsequent gap in February is likely to reduce in future releases of the Payroll job data.
² Note that this difference from previous years is not always evident in the original series published as ABS, Labour Force Australia, EM2a. This is because – as the explainer

article notes – the reference period for the January LFS can begin as early as December 31 or as late as January 6, which can have a large effect on the proportion of workers on annual leave. In making seasonal adjustments to create the monthly hours worked series, the ABS takes into account this timing effect.

a notable feature of the increase in employed persons who worked less hours than usual is variation by state. Chart 4 shows the gap between the per cent changes in employment and monthly hours worked in January 2021 compared to March 2020 – which can primarily be attributed to differences in holiday leave taking between the states.³

Chart 4: The How good is a holiday index, January 2021



The index suggests that extra holiday taking was most prevalent in NSW and Victoria, and least evident in WA and SA. This pattern might be seen to reflect differences in pent-up demand for holidays – with workers in the states that had experienced most substantial lockdowns during 2020, NSW and Victoria, feeling themselves most in need of a holiday. But there is also the cost side of taking holidays – and a big cost of going on holidays just at the moment is the risk of being locked out of your state or having to quarantine on return. This might be another explanation for why workers in

³ A small part of differences in the index is also due to differences between states in changes

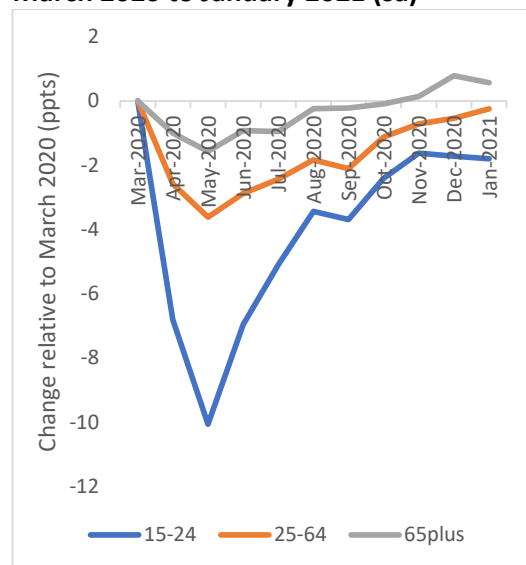
WA and SA were apparently less willing to take extra holidays in January.

The young

I've highlighted the impact of COVID-19 on labour market outcomes for the young in previous Snapshots. Current developments mean that it seems important to do that again.

Chart 5 shows that in recent months something of a holding pattern has developed in differences in employment outcomes between age groups. The employment/population rate of the young has stalled at about 2 ppts below its level in March 2020; whereas, for example, the rate for persons aged 65 and above has increased by about 0.6 ppt.

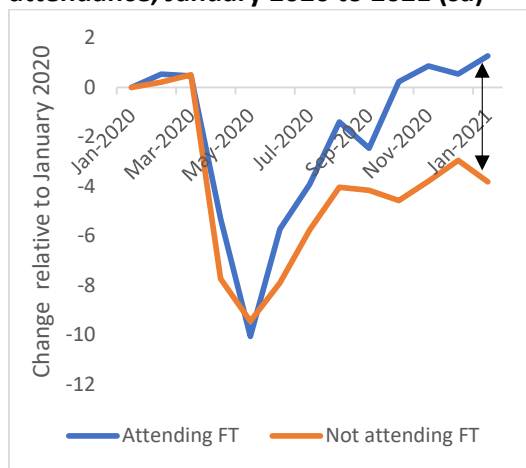
Chart 5: Change in EMP/POP rate, By age, March 2020 to January 2021 (sa)



in the proportion of employed persons working less hours for other reasons.

But what is becoming increasingly notable is that the impact on the young is entirely concentrated on the young who are not studying full-time. Chart 6 shows changes in the employment/population rates of young persons who are and are not in full-time education (with my own seasonal adjustment factor applied).⁴

Chart 6: Change in EMP/POP rate, Persons aged 15-24 years, By education attendance, January 2020 to 2021 (sa)



The chart is quite striking. It shows that the employment/population rates for both groups saw the same large decrease from March to May 2020. Both recovered through to August, but since then have diverged. The employment/population rate for full-time students has continued to increase, but for those not attending education full-time has plateaued. By

⁴ Making this seasonal adjustment (which I do using data for 2015 to 2019) is important as there is large seasonal variation (following timing of the school year) across the year in employment/population rates.

⁵ Why the employment/population rate of full-time students would increase, is an interesting question. My gut feeling is that it is due to lower numbers of international

students. Some international students who are in Australia for less than 12 months, are not counted in the LFS (and others here for a longer period may be difficult to count). Hence, the decrease in international students may mean that a larger proportion of jobs are being taken by young people who are 'observable' to the LFS.

January 2021 the employment/population rate of those not studying full-time remained 3.8 pts below in March 2020. A gap of 5.1 pts (shown by the black arrow) has emerged between the groups.⁵

Table 1 provides further breakdowns of the impact on employment outcomes for the young who are not studying full-time. The persistent negative impact has been even across females and males. It is completely accounted for by a decrease in full-time employment.

Table 1: Changes in employment/population rates for non full-time students, January 2020 to 2021, ppts

| | |
|-----------|------|
| Females | -3.7 |
| Males | -4.0 |
| Full-time | -4.2 |
| Part-time | 0 |

Table 2 shows changes in employment from 2019 to 2020 for those not studying full-time, by their level of education attainment. Here, there is another dimension of concentration of employment losses – on those who do not have a university-level qualification.

Table 2: Per cent change in employment, Non full-time students, By education attainment, 2019 to 2020

| | |
|-------------------------------------|-------|
| Bachelor degree plus | +10.4 |
| Advanced Diploma/Certificate III/IV | -17.5 |
| High school year 11/12 | -9.8 |
| High school year 10 and below | -14.1 |

The concern in all this is that it is an early warning signal for scarring effects on the young. That is, young people who have completed their full-time education are finding it increasingly difficult to move into employment as a result of the impact of COVID-19; thereby exacerbating the long-run trend underway since the GFC.

The impact of ending JobKeeper

Usually I prefer to stay away from forecasts. But the topic of how many workers will lose their jobs when JobKeeper finishes at the end of March is critical to Australia's labour market outlook. So I am going to chance my arm.

To address this question, it's useful to begin with a framework for thinking about what jobs might be destroyed with the end of JobKeeper. There are two types of jobs. First, there are jobs that would have been lost over the past year due to regular causes such as business failure and low demand, even had COVID-19 not happened. These jobs may have survived longer than otherwise due to the JobKeeper wage subsidy, but with its ending will become unprofitable for firms to retain. An example might be jobs in a bricks and mortar retail outlet facing

competition from online retailers.

Second, there are jobs that in the absence of COVID would be retained, but that it will be unprofitable for businesses to retain once JobKeeper ends because the effect of COVID on them is not entirely undone. An example is jobs in the aviation industry.

How could we go about measuring these components? Well, for those of us relying on publicly available data, with great difficulty is the answer.

One way to think about the first type of job is by using historical data on worker retrenchments (workers retrenched, made redundant, employer went out of business, no work was available) – as a proxy for the number of layoffs that might have been suppressed due to COVID-19. The ABS LFS (Table 29) shows that on average from 2017 to 2019, about 500,000 workers were retrenched annually. Of course, this is certain to over-estimate the extent of suppressed adjustment due to JobKeeper – first, because many workers who would usually be retrenched won't have been covered by JobKeeper; second, because many jobs that would have been lost in a regular year will still have been lost during 2020 (for example, during the initial decrease in employment from March to May); and third, because many new short-term jobs that would usually be created and from which workers would then be retrenched, won't have been created in 2020. On the first caveat, data from ABS Participation, Job Search and Mobility Survey for 2020 show that 94,300 workers who were

retrenched in the year to February 2020 were casual employees who had been in their job for less than a year. That reduces the potential suppressed adjustment to 400,000. But a lack of data to estimate the second and third caveats means that going further requires guesswork.

To think about the second component, it is possible (at least partly) to use data on the gap between decreases in employment and monthly hours worked since the onset of COVID-19. That gap should reflect the extent of increase in unused labour time due to JobKeeper (although may also reflect other factors such as a change in the industry composition of employment). Back in December 2020, the gap was 0.69 per cent – which would translate into 89,000 persons.⁶ Note that the gap does not take account that some reported working time may also only be happening due to JobKeeper and hence disappear when it ends. Offsetting this, however, is that a business may not lay off all workers on whom they believe they are losing money when JobKeeper ends, and instead engage in some labour hoarding for an anticipated improvement in conditions.

Using just the numbers I have been able to attach to the first and second components would leave a large potential range for the size of decrease in employment when JobKeeper ends. But if

⁶ I use December 2020 rather than January 2021 due to the effect of extra annual leave taking on monthly hours worked in January. The gap number is quite close to the increase in the number of employed persons who

we are prepared to assume that a sizable proportion of the adjustment that would usually occur did happen anyway in 2020 (which I think is plausible given the decrease in employment that did initially occur), it narrows down. My best guesstimate is then that the number of persons employed who might lose work when JobKeeper ends is from 125,000 to 250,000.

Another approach to making an estimate of employment losses is to try to get straight to the total number of jobs that might be destroyed when JobKeeper ends using data on the number of workers receiving JobKeeper. But there are two difficulties. First, the most recent data on the number of JobKeeper recipients I can obtain is for December 1 2020. At that time, 1.55m employees and eligible business recipients were receiving JobKeeper (Senate Standing Committee on COVID-19, Answers to Questions on Notice, Ref IQ20-000294). However, obviously what will matter is the number remaining on JobKeeper in the March quarter 2021. Second, it is only possible to guess at the proportion of those jobs that would be unviable in the absence of JobKeeper – although the revenue tests may place some bound on the proportion.

Suppose that the number of JobKeeper recipients stayed at 1.55m, that the proportion of revenue lost by business

worked less hours than usual due to economic reasons between December 2020 and 2019 – 116,300 persons ABS, Labour Force Australia – Detailed, EM2a.

receiving JobKeeper was 35 per cent, and that the number of unviable jobs is in proportion to revenue decreases. This would suggest employment losses could be 550,000 persons. But I think this number needs to be treated a pretty unlikely upper bound, for the reasons I have already described. It doesn't take too much to change for the number to look more like my guesstimate based on the LFS data. For example, if the average revenue loss of business receiving JobKeeper was only 15 per cent by end of March, it would mean 235,000 persons would lose employment.

As I've emphasised throughout this commentary, forecasting how much employment will decrease due to JobKeeper ending is fraught. But what numbers can be applied suggest to me that there will be a decrease in employment of between 125,000 and 250,000 persons (about 1 to 2 per cent of employment). Of course, that may be offset of other sources of employment growth; or exacerbated by other causes of lower employment such as another episode of re-emergence of COVID-19.

Data

- Chart 1: ABS, Labour Force Australia, Table 12.
- Chart 2: ABS, Weekly Payroll Jobs and Wages in Australia, Table 4.
- Chart 3: ABS, Labour Force Australia, Tables 1 and 19.
- Chart 4: ABS, Labour Force Australia, Tables 12 and 19.
- Chart 5: ABS, Labour Force Australia, Tables 1, 13 and 18.
- Chart 6 and Table 1: ABS, Labour Force Australia, Table 15.
- Table 2: ABS, Characteristics of Employment, Tablebuilder.