

AUSTRALIAN MARKETS WEEKLY

The pandemic crunches labour demand and labour supply



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Analysis – The pandemic crunches labour demand and labour supply

- Australia has entered a deep recession and unemployment could soon reach 12%, a level surpassed only by the depressions of the 1890s and 1930s.
- There has been a massive drop in the demand for labour reflecting a steep drop in customers and forced shutdowns. Some companies have taken the wrenching decision to let go staff, others have stood them down for the time being, while others have cut hours worked. Applications for unemployment benefits have surged, while the largest fall in job ads since at least the mid 1970s points to further pain.
- Labour supply is also contracting, with labour shortages the second-largest problem for firms after the collapse in sales. Reduced supply will temper the rise in the measured unemployment rate, but still represents a large drop in household income that also feeds back to weaker spending.
- An unprecedented third fiscal package has been announced, providing extensive wage subsidies to firms to hold on to staff. This is a very welcome policy and will help mitigate the sharp rise in unemployment ahead.

The week ahead – AU RBA Board minutes; CH Caixin PMI; US payrolls

- **Australia/NZ.** The RBA Board minutes are due, covering its recent emergency meeting. The discussion of unconventional policy will be interesting if it extends to other options that the RBA might adopt if the economy weakens further. Weekly ANZ Bank/Roy Morgan Research consumer confidence has collapsed to almost a record low and could fall further. Australian retail sales and approvals pre-date the worsening of the pandemic. In NZ, Tuesday delivers the revised/full ANZ business survey results for March, where the results could imply a worse recession than currently forecast by analysts. March housing reports are due.
- **International.** The Chinese Caixin PMI for March should bounce from a record low, but remain depressed. US payrolls should show the initial effect of job losses, where recent weekly initial jobless claims surged to a record 3.3mn persons

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Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.6134	5.1	RBA cash	0.22	-3.0
AUD/CNY	4.35	6.2	3y swap	0.38	-0.1
AUD/JPY	66.2	2.0	ASX 200	5181	14.0
AUD/EUR	0.554	1.8	Iron ore	82.0	-1.3
AUD/NZD	1.021	0.0	Brent oil	22.9	-15.5

Source: Bloomberg

The pandemic crunches labour demand and labour supply

- Australia has entered a deep recession and unemployment could soon reach 12%, a level surpassed only by the depressions of the 1890s and 1930s.
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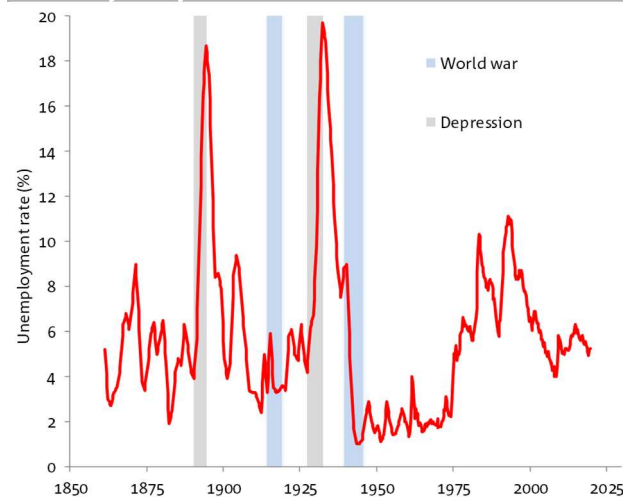
Australia has entered a deep recession

The economy has entered recession for the first time since the early 1990s, with a sharply rising number of coronavirus cases in Australia prompting tougher public health measures aimed at slowing the pandemic. The measures are focused on social distancing, with Commonwealth and state government shutting down more businesses, further restricting gatherings, banning international travel and restricting interstate travel, and encouraging individuals to stay at home.

The large economic cost of these necessary public health measures means the recession under way is likely to be deep. While the situation is very fluid, the type of steep falls seen offshore of around 5% in GDP in Q2 could well occur in Australia. Indeed, the fall in output may end up much larger if the government introduces tighter containment measures.

NAB will formally update its forecasts following the release of the NAB monthly business survey in mid-April, but unemployment is expected to rise very sharply and could well be around 12% by mid year. To place this in perspective, it would exceed the post-WW2 peak of 11% in the early 1990s recession and in the past 160 years would only be surpassed by the 19% peak of the 1890s depression and the 20% peak of the 1930s depression.

Chart 1: Unemployment could reach a post-WW2 peak of 12% by mid year



Source: Australian Bureau of Statistics, Melbourne Institute, Ville and Withers (2015), National Australia Bank

The exact path of both GDP and unemployment will very much depend on how long it takes to bring the virus under control and the success of government health and economic measures. The aggressive easing of fiscal and monetary policy – where the Commonwealth has announced a \$130b wage subsidy for workers – will provide significant support for the economy, but cannot entirely offset the very large near-term shock from the pandemic.

There has been a massive drop in the demand for labour

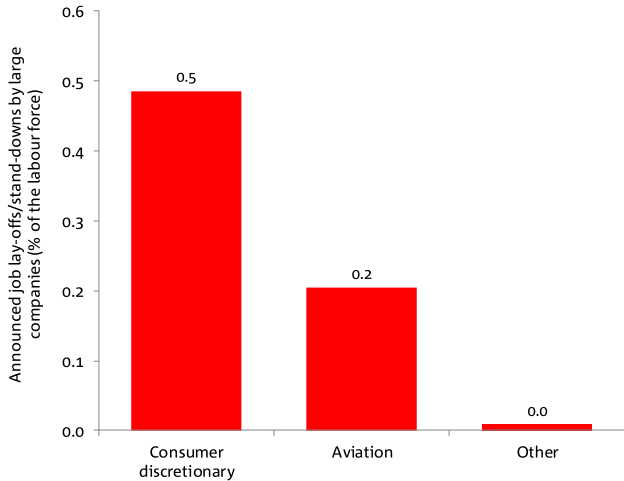
Unlike past recessions, there has already been a sharp and immediate reductions in both labour demand and labour supply. The size of the rise in the measured unemployment rate will be determined by how much the fall in demand exceeds the fall in supply, but both point to a large fall in household income that reinforces the weakness in spending.

On labour demand, faced with a steep drop in customers and forced shutdowns, many businesses are already taking painful decisions, forcing workers to “stand down” and take leave, while others have let go of workers entirely. Other businesses have sharply cut the hours worked by their employees, many have asked their staff to work from home where possible and most appear to have put hiring on hold.

Job losses and stand-downs are clearest in tourism, hospitality, entertainment and discretionary retail, where a larger number of stores have wound back business and some have closed either temporarily or permanently (recent large lay-offs/stand-downs of almost 100k equate to 0.7% of the labour force). The supermarkets and some parts of government are notable for bucking this trend by hiring staff, but this is swamped by job losses. Staff that are stood down and draw on their leave entitlements will continue to be counted as employed by

the Australian Bureau of Statistics, but if their entitlements are exhausted then they will be counted as unemployed once four weeks have passed.¹

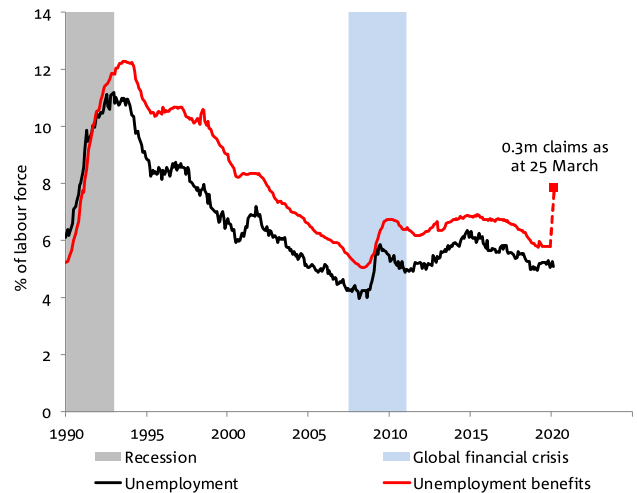
Chart 2: Large announced lay-offs/stand-downs have been concentrated in consumer and air travel companies



Note: From 1 March to 29 Mar 2020, as a percentage of the February labour force.
Source: Australian Financial Review, National Australia Bank

Official unemployment figures for March are due next month, but there has already been a sharp rise in the number of applications for welfare assistance, with widespread news footage of long queues at Centrelink offices. Statistics on unemployment benefit claimants are usually published with a lag, but Services Australia has reported that 0.3 million persons had filed an electronic “intent to claim” benefits as at 25 March.² This suggests that the welfare measure of the unemployment rate – which is loosely related to the official unemployment rate – has already increased from 5.8% to 7.8%.

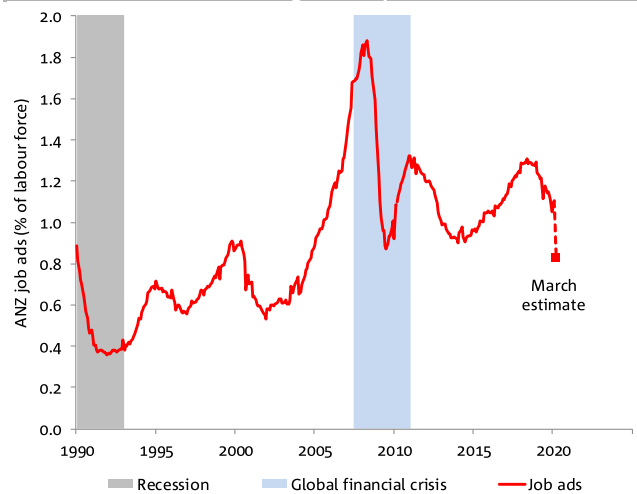
Chart 3: There has been a spike in applications for unemployment benefits



Note: Unemployment benefits are seasonally adjusted by National Australia Bank.
Source: Australian Bureau of Statistics, Department of Human Services, National Australia Bank

Rapidly falling job ads also point to a further fall in labour demand. The latest 7-day average of ads posted at Indeed is down about 25% from February, which suggests that the longstanding ANZ job ads series should post its largest monthly fall since its inception in 1975.

Chart 4: Job ads are falling at a rapid rate



Note: Newspaper ads were spliced with total ads to generate a longer history. The March 2020 observation is a National Australia Bank estimate.
Source: ANZ Bank, Australian Bureau of Statistics, Indeed, National Australia Bank

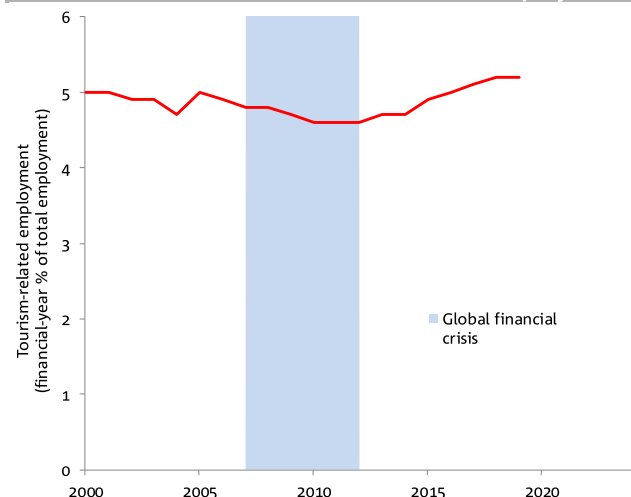
¹ See Australian Bureau of Statistics, *Spotlight: Insights into detailed labour force hours worked data*, Labour Force, Australia – Detailed, Catalogue No. 6291.0.55.001, February 2020.

² See Minister for the National Disability Insurance Scheme and Government Services, *Update on government services*, Media release, 25 March 2020. Note that the Newstart Allowance was renamed the JobSeeker Payment on 20 March 2020.

Job losses are likely to be skewed towards household services and non-food retail trade

Job losses are likely to be initially concentrated in tourism, where the Commonwealth has banned international travel and state governments have stopped interstate travel. Tourism-related jobs currently stand at 0.7 million, or 5.2% of total employment. On the strong assumption that the output split of tourism holds for employment, international tourism accounts for 1.5% of employment and domestic tourism 3.7% (households 2.9% and business/government 0.8%).

Chart 5: Tourism accounts for about 5% of employment



Source: Australian Bureau of Statistics, Indeed, National Australia Bank

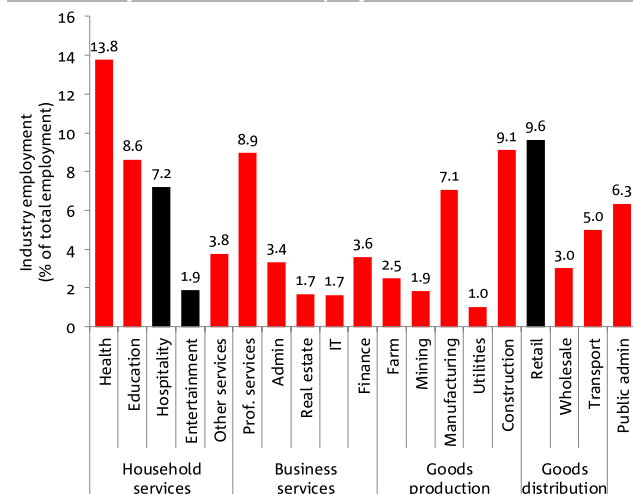
Tourism-related jobs are spread across several industries, but are concentrated in entertainment and hospitality, where they make up about 40% and 35% of employment, respectively. That suggests many businesses and jobs in entertainment and hospitality will already have been impacted, separate to job losses related to business closures and government-mandated shutdowns that are also affecting non-supermarket retail trade.

Table 1: Tourism spans many hospitality and entertainment jobs

Industry of main job	Tourism-related workers:		
	'000	% of industry employment	% of total employment
Education	60	5	0.5
Entertainment	97	41	0.7
Hospitality	307	34	2.4
Retail trade	110	9	0.8
Transport	71	11	0.5
Total	645		5.0

Source: Australian Bureau of Statistics, National Australia Bank

Chart 6: Retail, hospitality and entertainment account for almost 20% of total employment



Note: As at Q1 2020. Source: Australian Bureau of Statistics, Indeed, National Australia Bank

Casual workers may be greatest at risk of job losses

In the early 1990s recession, firms substituted casual workers for permanent employees. From 1989 to 1992, the number of casual workers rose by 9%, while the number of employees with paid leave entitlements fell by 5%.³ This time appears different in that casual workers appear more at risk of job loss.

This is because the industries reporting the biggest disruptions from coronavirus also have a high proportion of casual workers. There are 2.6 million workers, or 20% of employment, who are employed on a casual basis in Australia. The sectors that have been hardest hit by pandemic – hospitality, retail and entertainment – are industries employing close to 1 million casual workers (casual employees form the majority of employment in hospitality (56%), with large shares in retail (34%) and entertainment (33%).

A casual worker is already more vulnerable to losing their job than a permanent employee, where an employer does not have to provide a casual worker with guaranteed hours of work and can end employment without notice, unless required by a registered agreement, award or employment contract.⁴ This means that a casual worker that is “stood down” for more than a month will no longer be counted by the Australian Bureau of Statistics as employed because they are not entitled to paid leave.⁵

³ The casual worker estimate includes owner-managers. See Geoff Gilfillan, *Characteristics and use of casual employees in Australia*, Parliamentary Library, January 2018.

⁴ By the same token, a casual worker does not have to commit to all the work offered by an employer.

⁵ According to the bureau, a person away from a job, business or farm for one month or more will only be considered employed if they were paid for some part of the previous four weeks. If that person is actively seeking and available to start work they will be counted as unemployed. Otherwise they will be treated as not in the labour force.

Table 2: Casual employment is concentrated in hospitality, retail trade and entertainment

Casual workers:			
Industry of main job	'000	% of industry employment	% of total employment
Hospitality	501	56	3.8
Retail trade	417	34	3.2
Entertainment	79	33	0.6
Sub-total	997		7.7
Healthcare	311	18	2.4
Construction	191	16	1.5
Education	189	17	1.5
Manufacturing	148	17	1.1
Transport	123	19	0.9
Administration	114	24	0.9
Prof. services	108	9	0.8
Other services	91	18	0.7
Public admin.	75	9	0.6
Wholesale trade	57	14	0.4
Farm	54	17	0.4
IT	35	17	0.3
Mining	35	15	0.3
Finance	30	7	0.2
Real estate	28	13	0.2
Utilities	16	10	0.1
Total	2,602		20.0

Source: Australian Bureau of Statistics, Indeed, National Australia Bank

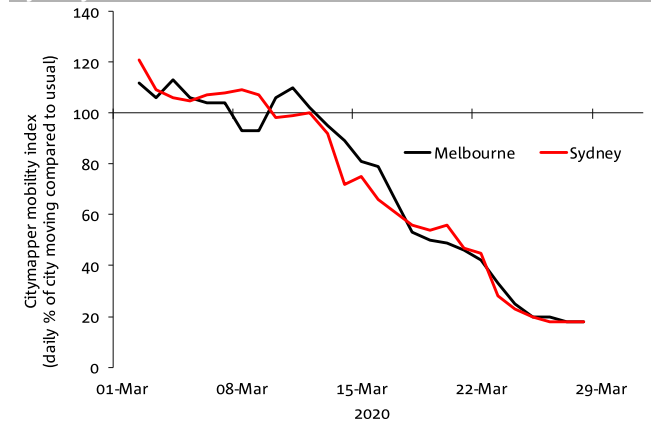
Labour supply is also contracting

Labour supply is also contracting. This is not surprising given modelling work on the economics of a pandemic led by now-Treasury Secretary Steven Kennedy also suggests that there is likely to be a sharp drop in labour supply as persons leave the workforce because they are either sick, caring for someone who is sick or vulnerable, or afraid of becoming sick.⁶

The recent business survey by the Australian Bureau of Statistics focused on the impact of the coronavirus, reporting that reduced demand was the key problem for firms, with closures, job losses and cash flow front of mind. However, labour shortages were the second-most common problem, with shortages experienced by 36% of businesses. This problem is growing, with that share expected to increase to 59% in coming months. Labour shortages are occurring as staff are affected by illness, quarantine, school closures and transport disruptions.

Labour supply is likely to be further disrupted until the pandemic is contained, with containment measures limiting the mobility of workers.

Chart 7: Worker mobility has almost ground to a halt in Sydney and Melbourne



Note: Citymapper is an app providing travel directions via private and public transport. Source: Citymapper, National Australia Bank

The policy response needs to focus on confidence and restoring the workforce

The macroeconomic policy response to the pandemic has been unprecedented. The Reserve Bank has practically exhausted conventional monetary policy and adopted unconventional measures aimed at cementing low interest rates and shoring up liquidity in key fixed income markets.

The Commonwealth has focused on supporting the cash flow of the most-affected businesses and households, with an emphasis on keeping individuals employed. The just-announced wage subsidy by the Commonwealth should temper job losses, particularly as it is directed at all employees of the worst-affected firms. In such an instance, the Australian Bureau of Statistics will treat a subsidised worker as still employed. Such measures will be helpful, keeping workers attached to their employers such that an economic recovery will be quicker once the pandemic comes under control.

Kaixin Owyong, Kieran Davies

⁶ See Kieran Davies, *The economics of a coronavirus outbreak – Insights from the Kennedy paper*, NAB Australian Markets

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Friday 27 March 2020								
US	PCE Core Deflator MoM	Feb		0.2		0.1	12.30	23.30
US	PCE Core Deflator YoY	Feb		1.7		1.6	12.30	23.30
US	U. of Mich. Sentiment	Mar F		90		95.9	14.00	1.00
US	U. of Mich. Expectations	Mar F		77		85.3	14.00	1.00
Monday 30 March 2020								
EC	Consumer Confidence	Mar F		--		-11.6	9.00	20.00
GE	Retail Sales MoM	Feb		0.2		0.9		
GE	Retail Sales NSA YoY	Feb		1.5		1.8		
GE	CPI YoY	Mar P		1.4		1.7	12.00	23.00
GE	CPI MoM	Mar P		0.1		0.4	12.00	23.00
Tuesday 31 March 2020								
NZ	Crown financial accounts	Feb					21.00	8.45
NZ	Building Permits MoM	Feb		--		-2	21.45	8.45
NZ	Building Permits yoy	Feb	-2	--			21.45	8.45
NZ	Regional GDP	2018-19					21.45	8.45
JN	Jobless Rate	Feb		2.4		2.4	23.30	10.30
JN	Industrial Production YoY	Feb P		-4.9		-2.3	23.50	10.50
JN	Industrial Production MoM	Feb P		0.1		1	23.50	10.50
NZ	ANZ Business survey - net confidence (final)	Mar				-53.3 (prelim)	00:00	11:00
AU	Private Sector Credit YoY	Feb		2.6		2.5	0.30	11.30
AU	Private Sector Credit MoM	Feb		0.3		0.3	0.30	11.30
CH	Manufacturing PMI	Mar		44.6		35.7	1.00	12.00
CH	Non-manufacturing PMI	Mar		42		29.6	1.00	12.00
UK	GDP QoQ	4Q F		0		0	6.00	17.00
UK	GDP YoY	4Q F		1.1		1.1	6.00	17.00
GE	Unemployment Change ('000's)	Mar		20		-10	7.55	18.55
GE	Unemployment Claims Rate SA	Mar		5		5	7.55	18.55
EC	CPI Core YoY	Mar P		1.2		1.2	9.00	20.00
EC	CPI MoM	Mar P		0.5		0.2	9.00	20.00
EC	CPI Estimate YoY	Mar		0.8		1.2	9.00	20.00
CA	GDP YoY	Jan		--		1.9	12.30	23.30
CA	GDP MoM	Jan		--		0.3	12.30	23.30
Wednesday 01 April 2020								
US	Conf. Board Consumer Confidence	Mar		115		130.7	14.00	1.00
NZ	QIV House Prices YoY	Mar		--		5.3	16.00	3.00
AU	AIG Perf of Mfg Index	Mar		--		44.3	21.30	8.30
AU	CoreLogic House Px MoM	Mar		--		1.2	23.00	10.00
JN	Tankan Large Mfg Index	1Q		-10		0	23.50	10.50
JN	Jibun Bank Japan PMI Mfg	Mar F		--		44.8	0.30	11.30
AU	Building Approvals MoM	Feb	5	4		-15.3	0.30	11.30
AU	RBA Board minutes	18-Mar					0.30	11.30
CH	Caixin China PMI Mfg	Mar		45		40.3	1.45	12.45
AU	Commodity Index SDR YoY	Mar		--		-6.1	5.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Mar F		45.5		45.7	7.55	18.55
EC	Markit Eurozone Manufacturing PMI	Mar F		44.6		44.8	8.00	19.00
UK	Markit UK PMI Manufacturing SA	Mar F		47.5		48	8.30	19.30
EC	Unemployment Rate	Feb		7.4		7.4	9.00	20.00
US	ADP Employment Change	Mar		-100		183	12.15	23.15
Thursday 02 April 2020								
CA	Markit Canada Manufacturing PMI	Mar		--		51.8	13.30	0.30
US	Markit US Manufacturing PMI	Mar F		--		49.2	13.45	0.45
US	Construction Spending MoM	Feb		0.6		1.8	14.00	1.00
US	ISM Manufacturing	Mar		46		50.1	14.00	1.00
US	Trade Balance	Feb		-43.55		-45.3	12.30	23.30
Friday 03 April 2020								
US	Durable Goods Orders	Feb F		--		1.2	14.00	1.00
US	Factory Orders	Feb		-0.3		-0.5	14.00	1.00
AU	AIG Perf of Construction Index	Mar		--		42.7	21.30	8.30
AU	Retail Sales MoM	Feb	0.4	0.4		-0.3	0.30	11.30
CH	Caixin China PMI Services	Mar		39.5		26.5	1.45	12.45
GE	Markit Germany Services PMI	Mar F		34.3		34.5	7.55	18.55
EC	Retail Sales MoM	Feb		0.2		0.6	9.00	20.00
EC	Retail Sales YoY	Feb		1.5		1.7	9.00	20.00
US	Average Hourly Earnings MoM	Mar		0.2		0.3	12.30	23.30
US	Average Hourly Earnings YoY	Mar		3		3	12.30	23.30
US	Change in Nonfarm Payrolls	Mar		-61		273	12.30	23.30
US	Unemployment rate	Mar		208		3.5	12.30	23.30
Saturday 04 April 2020								
US	Markit US Services PMI	Mar F		--		39.1	13.45	0.45
US	ISM Non-Manufacturing Index	Mar		48		57.3	14.00	1.00
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		13 May	0.25	0.25		0.25		
Australia, RBA		Apr 7	0.25	0.25		0.25		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Time

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