

AUSTRALIAN MARKETS WEEKLY

Measuring spare capacity amid an exodus from the workforce



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Analysis – Measuring spare capacity amid an exodus from the workforce

- Historically, the unemployment rate has been the most reliable summary measure of slack in the labour market. This is not the case at the moment as record job losses saw only a moderate rise in unemployment to 6.2% in April. Unemployment rose by less than expected due to an unprecedented exodus from the workforce, where many people wanted work but did not meet the official definition of unemployment because they were not actively searching for a job and able to start work.
- Instead, total hours worked provides a more complete measure of labour market slack, with a 9% fall in April capturing the massive job losses, as well as a record decline in hours worked by existing workers where 5.6% of employees are currently working zero hours.
- Another way to gauge the size of the shock to the labour market is via the unprecedented extent of government assistance. About 1.8 million Australians are on unemployment benefits, while the JobKeeper wage subsidy covers 6.1 million workers, such that a total of almost 2 in 5 adults are currently receiving government assistance. The JobKeeper and JobSeeker policies are slated to end in September, but we think they may have to continue in a narrower form because ending them too soon may place the economic recovery at risk.

The week ahead – AU payrolls, retail sales, RBA Lowe & minutes; NZ real retail trade

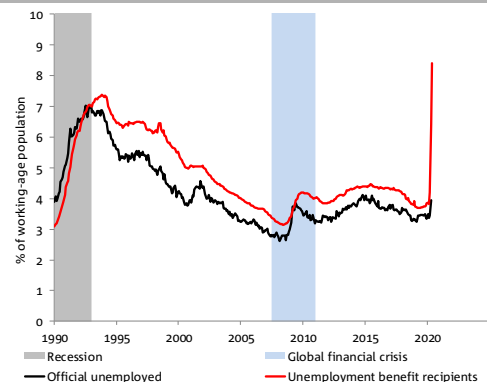
- Australia.** Payrolls data on Tuesday should show further job and wage losses in the last two weeks of April, albeit at a much slower rate. April retail sales on Wednesday should show a large 7% fall in spending after panic buying drove a record 8.5% rise in March, with the risk of a larger fall. On Thursday, RBA Governor Lowe speaks on a panel of regulators and may touch on risks to financial stability. RBA minutes on Tuesday should echo the bank's recent Statement on Monetary Policy. **NZ:** As an input to Q1 GDP we expect Friday's Q1 retail trade volumes to fall by 2.5%, with downside risk.
- CH:** The National People's Congress starts Friday. **US:** On Tuesday, Fed Chair Powell testifies before the Senate Banking Committee. Powell has recently rejected adopting negative interest rates and may expand on his views at this forum. The FOMC minutes and Thursday's jobless claims are important. **EZ:** Flash May PMIs on Friday could mark a turning point for activity, at least for services. **UK:** Labour market data and retail sales for April are due, with sales expected to be very weak as they have been around the world. The flash PMI for May on Friday will likely show a slight improvement.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.6426	-1.0	RBA cash	0.13	-1.0
AUD/CNY	4.57	-0.6	3y swap	0.20	0.0
AUD/JPY	68.9	-1.4	ASX 200	5461	-0.1
AUD/EUR	0.594	-1.1	Iron ore	86.4	3.1
AUD/NZD	1.081	1.2	Brent oil	33.5	13.1

Source: Bloomberg

Chart of the week: Unemployment understates slack



Measuring spare capacity amid an exodus from the workforce

- Historically, the unemployment rate has been the most reliable summary measure of slack in the labour market. This is not the case at the moment as record job losses saw only a moderate rise in unemployment to 6.2% in April. Unemployment rose by less than expected due to an unprecedented exodus from the workforce, where many people wanted work but did not meet the official definition of unemployment because they were not actively searching for a job and able to start work.
- Instead, total hours worked provides a more complete measure of labour market slack, with a 9% fall in April capturing the massive job losses, as well as a record decline in hours worked by existing workers where 5.6% of employees are currently working zero hours.
- Another way to gauge the size of the shock to the labour market is via the unprecedented extent of government assistance. About 1.8 million Australians are on unemployment benefits, while the JobKeeper wage subsidy covers 6.1 million workers, such that a total of almost 2 in 5 adults are currently receiving government assistance. The JobKeeper and JobSeeker policies are slated to end in September, but we think they may have to continue in a narrower form because ending them too soon may place the economic recovery at risk.

Unemployment is not a reliable indicator of slack at present because of a record fall in the workforce

Historically, the unemployment rate has been the best summary measure of the state of the labour market, but we think it is currently significantly understating the initial damage to the labour market from the coronavirus pandemic.

This is seen in the detail of the April labour force survey. There was record 4.6% fall in employment in the month with 0.6 million people losing their job (moreover, more weekly payroll data point to further job losses after the survey was undertaken). Normally some people who lose their job are discouraged from looking for work and leave the workforce. However, in April, almost everyone who lost their job – or 0.5 million persons – left the workforce.

This unprecedented exodus saw a record fall in the participation rate, such that the unemployment rate rose by significantly less than had been expected. The number of unemployed rose by only 0.1 million to 0.8 million, with the unemployment rate increasing from 5.2% in March to 6.2% in April.

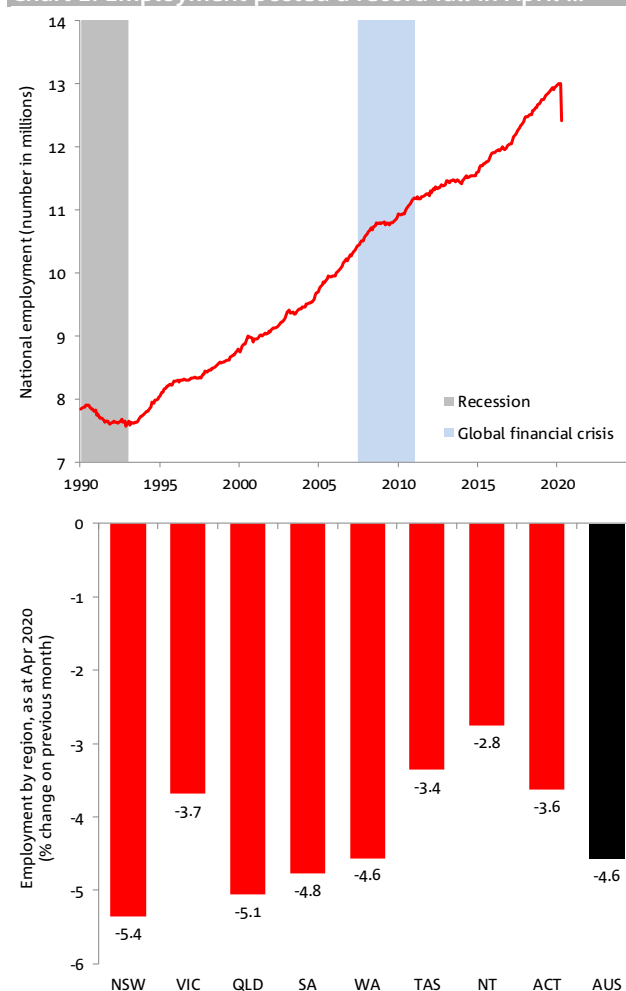
In our view, the exodus from the workforce mainly captures people who would still like a job, but did not meet the definition of an unemployed person that requires that they are actively seeking a job and available to start work.

If this is correct, then we should see it in the detailed labour market data released later this week, which report on people who would still like a job, but are treated as “not in the labour force” because they either did not actively seek a job and/or were not available to start work.

The Australian Bureau of Statistics regards such people as having a marginal attachment to the workforce, unlike the more usual make-up of those not in the labour force, which includes retirees, people who are medically unable to work, and many full-time students.

In the meantime, we note that the bureau said that if the people who dropped out of the workforce in April had actively sought work and been able to start a job, the number of unemployed would have increased to 1.3 million and the unemployment rate would have risen to 9.6%.¹

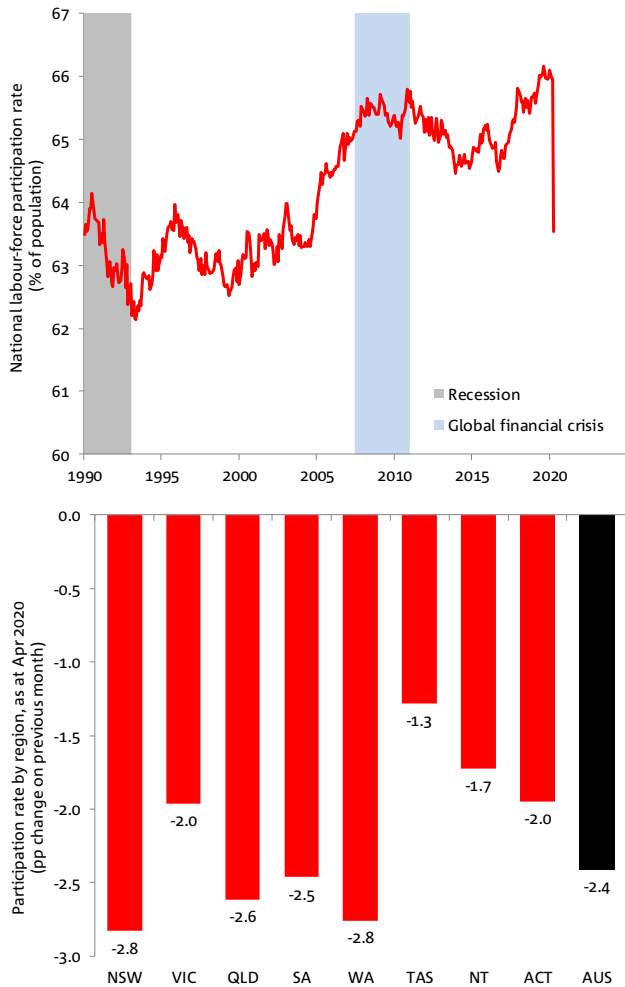
Chart 1: Employment posted a record fall in April ...



Source: Australian Bureau of Statistics, Melbourne Institute, National Australia Bank

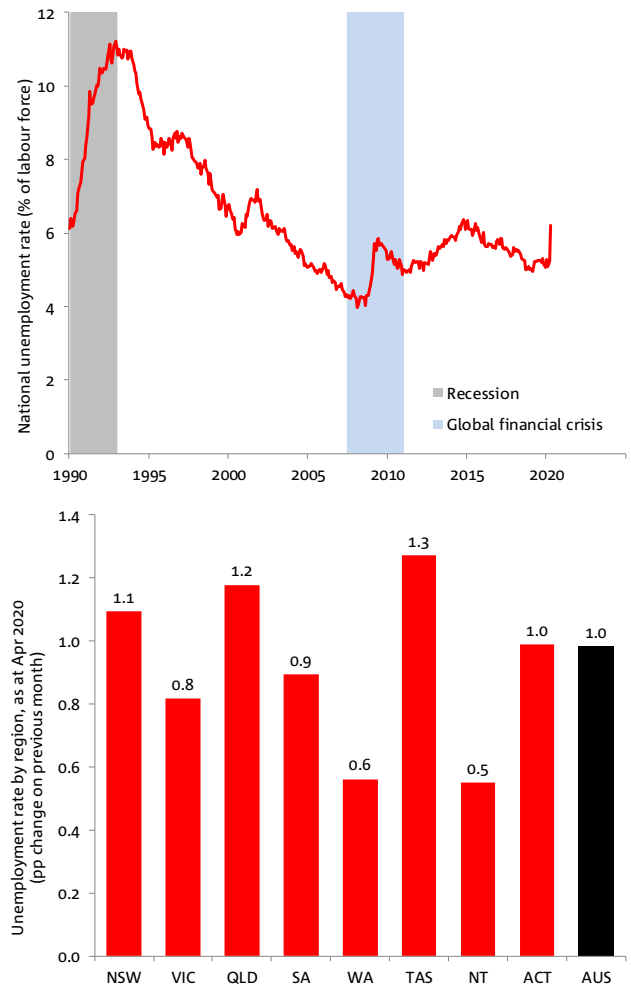
¹ See Australian Bureau of Statistics, *People who lost a job or were stood down: Flows analysis*, 6202.0 Labour force, Australia, April 2020.

Chart 2: ... but most people who lost their job left the workforce ...



Source: Australian Bureau of Statistics, Melbourne Institute, National Australia Bank

Chart 3: ... such that the unemployment rate rose by less than expected



Source: Australian Bureau of Statistics, Melbourne Institute, National Australia Bank

Official data on unemployment benefit recipients point to a large amount of slack in the labour market

Our view that most of the people who dropped out of the workforce would still like a job is supported by government data on the number of people on unemployment benefits.

Previously, we used the number of people on unemployment benefits – i.e., JobSeeker and Youth Allowance payments – to construct an alternative measure of the unemployment rate and compared it with the official unemployment rate.²

Given the problems around measuring the labour force, we have taken a much simpler approach and expressed the number of unemployed and unemployment benefit recipients as a share of the working-age population. On this basis, unemployment rose from 3.5% of the population in March to 4.0% in April. In contrast, unemployment benefit recipients rose from 4.2% of the population in March to 6.4% in April.

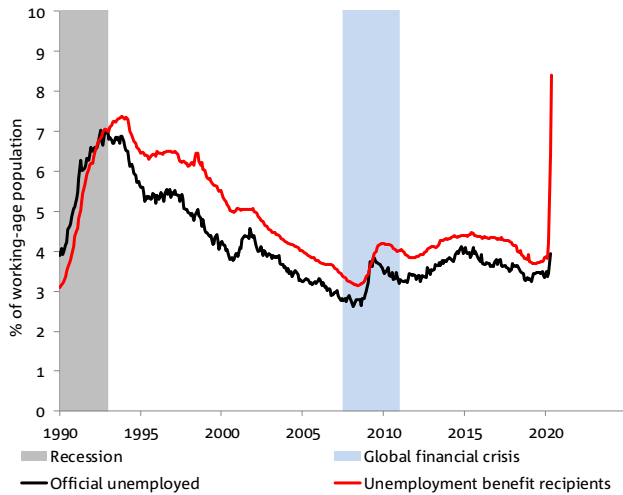
Based on data for early May and assuming the population increases in May at the same much-reduced rate as April, unemployment benefit recipients have increased further to a new post-WW2 high of 8.4% of the

² Note that the JobSeeker payment recently replaced the Newstart allowance.

working-age population.³ This points to a massive amount of slack in the labour market and highlights how the official unemployment rate is understating that slack.

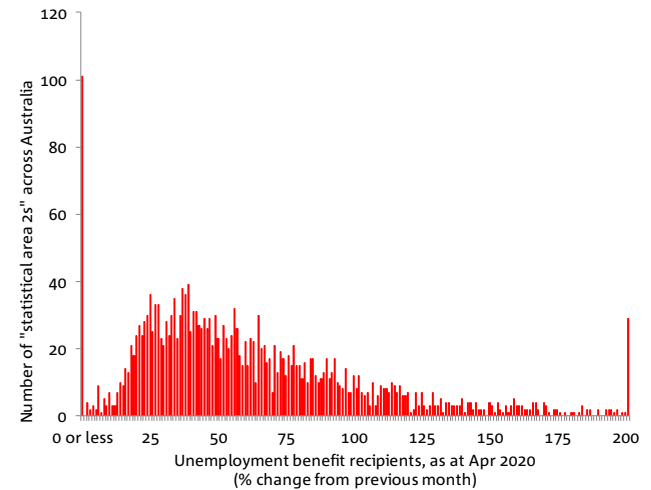
Welfare recipients are usually required to look for work, but the government has suspended this mutual obligation test, which might explain why some of the people picked up in the labour force survey were not actively looking for work.⁴ Unless the suspension is extended on Treasury advice, the 1.8 million people who are on benefits will have to search for work when the mutual obligation test resumes on 2 June.

Chart 4: The giant increase in the number of welfare recipients points to substantial labour market slack ...



Note: See Footnote 2. Assumes that the working-age population grows at the same rate in May 2020 as in April.
 Source: Australian Bureau of Statistics, Department of Social Security, Minister for Employment, Skills, Small and Family Business, National Australia Bank

Chart 5: ... and the increase in unemployment benefits has been widely spread across the country



Note: "Statistical area 2s" are communities defined by the Australian Bureau of Statistics with an average population of about 10,000. In cities they can represent one or more related suburbs. An area that reported fewer than 5 people receiving benefits was assumed to have 2 people on unemployment assistance.
 Source: Department of Social Security, National Australia Bank

Total hours worked offer a more complete picture of the slack in the labour market

While the huge increase in the number of people on unemployment benefits gives a better perspective on slack in the labour market, a more complete picture is currently provided by total hours worked because of the government’s wage subsidy scheme (total hours worked also gives a better measure of the initial hit to household income).

Total hours worked captures both the job losses and the greatly reduced hours worked by many people still in employment. In April, total hours worked fell a record 9.2%, with employment down 4.6% and average hours worked by remaining employees falling by 4.8% to 30 hours per week.

The steep drop in average hours worked includes a huge number of people that worked zero hours in the survey period that spanned the first half of April. Adjusting for the small number of people who at any point in time work zero hours, there was an additional:

- 0.4 million people that worked zero hours in April because they were stood down (this equals 3.2% of total employment); and
- 0.7 million people who worked zero hours in April because they had no work, not enough work or were stood down (i.e., 5.6% of total employment).

The people who are not working any hours at present have most likely been retained because of the government’s JobKeeper wage subsidy. 0.9 million firms have registered for the subsidy, which represents almost 40% of the 2.4 million businesses that were actively trading as at mid 2019. This means that their turnover has fallen or will likely fall by 30% or more because of

February. See Minister for Employment, Skills, Small and Family Business, *Transcript of doorstep interview*, Parliament House, 14 May 2020.

⁴ There are still income and asset tests for the JobSeeker payment.

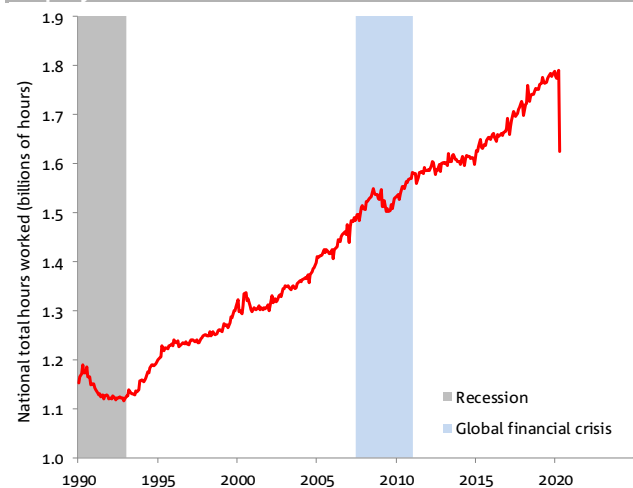
³ According to Senator Cash, there were 1.6 million people on the JobSeeker payment in early May. Assuming that the number of persons on Youth Allowance increased at the same rate as the number on the JobSeeker payment, this puts the total seasonally adjusted number of unemployment benefit recipients at 1.8 million in early May, up from 0.8 million in

the virus (the threshold is a fall of 50% or more for large companies).⁵ The subsidy currently extends to 6.1 million workers, or about half of total employment. Payments commenced in May, but are backdated to as early as March.

Treasury is currently reviewing the policy, which is legislated to end on 27 September. The prime minister has previously stressed that the policy would end at that point, although we suspect it could continue in a narrower form. Otherwise there could be a very large spike in unemployment if people who are still working zero hours are made redundant.

- For example, using the April numbers as a guide, counting the people who worked zero hours because they were stood down as unemployed would lift the unemployment rate from 6.2% to 9.3%. Adding in everyone who worked zero hours would further increase it to 11.7%.

Chart 6: Total hours worked slumped on massive job losses and much reduced hours for remaining employees



Source: Australian Bureau of Statistics, Melbourne Institute, National Australia Bank

The degree of government support for the labour market is immense but necessary

This analysis suggests that while the official unemployment rate may not reach either the Reserve

Bank’s forecast peak of 10% or NAB’s forecast high of 12% by June, the true damage to the labour market is much greater than currently indicated by the unemployment rate and looks to be the most severe since WW2.

While the record fall in total hours worked underscores this point, the same is clear from a tally of the extent of government assistance to the labour market.

- Total employment is currently 12.4 million, such that the 6.1 million workers covered by the JobKeeper programme means that about 1 in 2 workers are currently subsidised by the government.
 - The wage subsidy does not extend to public-sector employment, which is about 2 million. This means that private-sector employment is roughly 10.4 million, such that about 3 in 5 private-sector workers receive the subsidy.
- The working-age population is estimated at 20.9 million in May. The number of unemployment benefit recipients is about 1.8 million, meaning that almost 1 in 10 adults are on unemployment benefits. With 6.1 million persons on the JobKeeper subsidy, this equates to almost 1 in 3 adults. Adding the two policies, about 7.9 million people currently are on government labour market assistance, which is almost 2 in 5 adults.

This extensive labour market support has been critical in cushioning the hit to the economy. The unwinding of health restrictions marks the tentative start of economic recovery, which should begin to reverse some of the drop in hours worked and unemployment. However, there is a clear risk that the JobSeeker and JobKeeper programmes will need to be extended past their legislative end in September given that the labour market historically lags the recovery in activity. Otherwise, ending the policies too soon risks creating a setback to recovery after the biggest economic shock since the 1930s.

Kieran Davies

⁵ Banks and government are not eligible for the payment.

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday 18 May 2020								
UK	BOE's Teneryro speaks on COVID-19 response			--		--	14.00	1.00
Tuesday 19 May 2020								
AU	Weekly payrolls			--		--	0.30	11.30
AU	RBA minutes	May					0.30	11.30
JN	Industrial Production YoY	Mar F		--		-5.2	3.30	14.30
UK	ILO Unemployment Rate 3Mths	Mar		--		4	7.30	18.30
UK	Jobless Claims Change	Apr		--		12.2	7.30	18.30
GE	ZEW Survey Current Situation	May		--		-91.5	8.00	19.00
US	Housing Starts	Apr		950		1216	11.30	22.30
US	Fed's Powell testifies			--		--	13.00	0.00
EC	ECB's Lane speaks			--		--	13.00	0.00
US	Fed's Kashkari speaks			--		--	13.00	0.00
US	Fed's Rosengren speaks			--		--	17.00	4.00
Wednesday 20 May 2020								
NZ	Food Prices MoM	Apr		--		0.7	21.45	8.45
JN	Core Machine Orders MoM / YoY	Mar		-7 / -10.9		2.3 / -2.4	22.50	9.50
AU	Westpac Leading Index MoM	Apr		--		-0.84	23.30	10.30
AU	Preliminary retail sales	Apr	-7	--		8.5	0.30	11.30
UK	CPI MoM / YoY	Apr		--		0 / 1.5	7.30	18.30
EC	CPI MoM / YoY	Apr F		--		0.3 / 0.7	8.00	19.00
CA	CPI NSA MoM / YoY	Apr		--		-0.6 / 0.9	11.30	22.30
CA	CPI Core- Common YoY%	Apr		--		1.7	11.30	22.30
EC	Consumer Confidence	May A		--		-22.7	13.00	0.00
US	Fed's Bullard speaks			--		--	15.00	2.00
US	FOMC Meeting Minutes	Apr 29		--		--	17.00	4.00
Thursday 21 May 2020								
JN	Jibun Bank Japan PMI Mfg	May P		--		41.9	23.30	10.30
AU	RBA's Lowe takes part in panel on regulation			--		--	1.30	12.30
NZ	Credit Card Spending YoY	Apr		--		-8.2	2.00	13.00
UK	Markit UK PMI Manufacturing SA	May P		--		32.6	7.30	18.30
US	Philadelphia Fed Business Outlook	May		-40		-56.6	11.30	22.30
US	Markit US Manufacturing PMI	May P		--		36.1	12.45	23.45
US	Markit US Services PMI	May P		--		26.7	12.45	23.45
US	Fed's Williams speaks			--		--	13.00	0.00
US	Fed's Clarida speaks			--		--	16.00	3.00
US	Fed's Powell makes remarks			--		--	17.30	4.30
Friday 22 May 2020								
NZ	Retail Sales Ex Inflation QoQ	1Q	-2.5	--		0.7	21.45	8.45
JN	Natl CPI YoY	Apr		0.2		0.4	22.30	9.30
UK	Retail Sales Inc Auto Fuel YoY	Apr		--		-5.8	5.00	16.00
GE	Markit/BME Germany Manufacturing PMI	May P		--		34.5	6.30	17.30
GE	Markit Germany Services PMI	May P		--		16.2	6.30	17.30
EC	Markit Eurozone Manufacturing PMI	May P		--		33.4	7.00	18.00
CA	Retail Sales MoM	Mar		--		0.3	11.30	22.30
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		Jun 2	0.25	0.25		0.25		
Canada, BoC		Jun 3	0.25	0.25		0.25		
Europe, ECB		Jun 4	-0.50	-0.50		-0.50		
US, Federal Reserve		Jun 10	0/0.25	0/0.25		0/0.25		
Japan, BoJ		Jun 16	-0.10	-0.10		-0.10		
UK, BOE		Jun 18	0.10	0.10		0.10		
New Zealand, RBNZ		Jun 24	0.25	0.25		0.25		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

FORECASTS

Economic Forecasts																
	Annual % change				Quarterly % change											
					2019				2020				2021			
	2019	2020	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																
Household Consumption	1.4	-5.3	2.2	--	0.4	0.3	0.1	0.4	0.5	-9.1	0.1	2.7	1.2	0.7	1.1	1.2
Underlying Business Investment	-2.0	-22.4	-8.1	--	0.6	-0.4	-1.8	-1.5	-4.7	-21.1	-1.5	-2.4	0.7	-0.3	0.1	0.3
Residential Construction	-7.1	-14.3	-4.3	--	-2.0	-3.5	-1.2	-3.4	-2.0	-7.5	-5.3	-3.4	-0.5	1.6	2.9	3.6
Underlying Public Spending	4.9	4.0	3.8	--	1.1	1.7	2.0	0.1	0.8	1.1	1.0	1.0	1.0	0.9	0.8	0.8
Net Exports (a)	1.1	2.5	-1.3	--	0.4	0.5	0.0	0.1	0.5	3.2	-0.4	-0.8	-0.3	-0.2	-0.3	-0.4
Inventories (a)	-0.2	-0.8	1.0	--	-0.1	-0.3	0.2	0.2	-0.3	-2.2	1.6	1.2	0.0	-0.1	0.1	0.0
Domestic Demand (q/q %)	--	--	--	--	0.3	0.4	0.4	0.1	0.0	-7.2	-0.1	1.4	1.1	0.8	1.1	1.2
Dom Demand (y/y %)	1.2	-4.7	1.6	--	1.2	1.2	1.2	1.3	1.0	-6.7	-7.1	-5.9	-4.9	3.2	4.4	4.2
Real GDP (q/q %)	--	--	--	--	0.5	0.6	0.6	0.5	-0.2	-8.4	1.0	4.1	2.0	0.4	0.8	0.8
Real GDP (y/y %)	1.8	-4.3	4.2	--	1.7	1.6	1.8	2.2	1.5	-7.6	-7.2	-3.9	-1.9	7.7	7.5	4.0
CPI headline (q/q %)	--	--	--	--	0.0	0.6	0.5	0.7	0.3	-2.0	0.6	0.7	0.2	0.2	0.1	0.3
CPI headline (y/y %)	1.6	0.4	1.6	--	1.3	1.6	1.7	1.8	2.1	-0.5	-0.5	0.5	0.5	2.7	2.3	0.9
CPI underlying (q/q %)	--	--	--	--	0.2	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.2	0.2	0.0	0.1
CPI underlying (y/y %)	1.4	1.5	0.9	--	1.5	1.4	1.4	1.4	1.6	1.5	1.6	1.5	1.3	1.1	0.6	0.4
Private wages (q/q %)	--	--	--	--	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.5	0.5
Private wages (y/y %)	2.3	1.7	1.2	--	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5
Unemployment Rate (%)	5.1	10.1	8.6	--	5.1	5.1	5.2	5.1	5.2	11.7	11.8	11.7	10.7	8.7	7.6	7.2
Terms of trade	5.2	-11.9	-2.0	--	3.3	1.5	0.2	-5.3	-2.5	-5.8	-3.4	-1.2	0.8	2.0	-0.1	-0.1
Current Account (% GDP)	0.5	0.9	-0.3	--	-0.4	0.9	1.3	0.2	0.1	2.4	1.2	0.0	-0.2	0.0	-0.4	-0.8

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts						
	18-May	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Majors						
AUD/USD	0.643	0.62	0.64	0.68	0.69	0.70
NZD/USD	0.59	0.59	0.60	0.62	0.64	0.65
USD/JPY	107.2	109	109	109	109	109
EUR/USD	1.08	1.08	1.10	1.12	1.13	1.14
GBP/USD	1.21	1.23	1.27	1.30	1.32	1.33
USD/CNY	7.12	7.00	6.90	6.85	6.80	6.80
USD/CAD	1.41	1.43	1.41	1.39	1.37	1.35
USD/CHF	0.97	0.98	0.97	0.96	0.96	0.95

Australian Cross Rates						
	18-May	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
AUD/NZD	1.08	1.05	1.07	1.09	1.08	1.07
AUD/JPY	68.9	68	70	74	75	76
AUD/EUR	0.59	0.57	0.58	0.60	0.61	0.61
AUD/GBP	0.53	0.50	0.50	0.52	0.52	0.52
AUD/CNY	4.57	4.34	4.42	4.62	4.69	4.73
AUD/CAD	0.91	0.89	0.90	0.94	0.95	0.94
AUD/CHF	0.62	0.61	0.62	0.65	0.66	0.66

Interest Rate Forecasts						
	18-May	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Australian Rates						
RBA cash rate	0.25	0.25	0.25	0.25	0.25	0.25
3 month bill rate	0.10	0.15	0.20	0.25	0.30	0.30
3 Year Swap Rate	0.20	0.24	0.25	0.30	0.30	0.30
10 Year Swap Rate	0.88	0.85	0.90	1.05	1.18	1.28
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
ECB deposit rate	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60
BoE repo rate	0.10	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20
RBNZ OCR	0.25	0.25	0.25	0.25	0.25	0.25
10-year Bond Yields						
Australia	0.91	0.90	0.95	1.05	1.15	1.25
United States	0.64	0.60	0.70	0.80	0.90	1.00
New Zealand	0.64	0.88	0.88	1.03	1.28	1.38

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP			
	2019	2020	2021
Australia	1.8	-4.3	4.2
United States	2.3	-6.6	6.7
Eurozone	1.2	-6.5	6.0
United Kingdom	1.4	-6.1	6.2
Japan	0.8	-5.0	3.9
China	6.1	1.0	9.8
India	5.3	2.0	7.6
New Zealand	2.2	-6.5	1.9
World	3.0	-2.6	6.3

Commodity prices (\$US)						
	18-May	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Brent oil	33.5	58	60	62	62	62
Gold	1763	1540	1560	1580	1580	1590
Iron ore	na	76	72	68	71	69
Hard coking coal*	115	152	150	148	151	147
Thermal coal	52	68	65	70	70	66
Copper	5156	5725	5750	5850	5900	5950
Aus LNG**	10	10	11	11	11	11

* FOB quarterly contract prices (thermal coal is JFY contract)

** Implied Australian LNG export prices

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