7 September 2020

AUSTRALIAN MARKETS WEEKLY

The uneven impact of job losses

In this issue

Analysis – The uneven impact of job losses

- Despite strong job gains in June and July, there are still over half a million people who have lost work since March and an unknown number supported by JobKeeper. Job losses to date have been concentrated in lower paid industries, in keeping with trends seen in other major advanced economies given the common nature of the shock.
- Household income on the other hand has actually risen during the pandemic with the government's massive JobKeeper wage subsidy and JobSeeker programs bolstering incomes. The ABS estimates households received $67.6bn in support in the June quarter, while GDP data shows household income rose 2.2% even as compensation of employees fell 2.2%. This continues to raise the question as to the outlook for the economy when this support begins to taper from the end of this month.

Victoria's protracted re-opening plan

- Victoria unveiled its re-opening plan on Sunday. The protracted timetable has been widely criticised by business with the trigger points for an easing of restrictions akin to the state pursuing an elimination strategy instead of a suppression strategy.
- The plan sees the current lockdown extended for two weeks until September 28, or until the average daily case count is 30-50 a day over a fortnight. However, most businesses will not be able to return to normal operations until a more stringent threshold of less than 5 cases a day for two weeks is achieved (pencilled in for Oct 26), while gathering sizes will restrict the recovery in the hospitality sector until a final easing of restrictions that requires no new cases for two weeks (Nov 23 pencilled in).
- The plan – unless revised – will mean Victorian activity will drag on national activity for somewhat longer-than-previously expected. In that environment the RBA and the government will likely continue to think what more they could do to assist the recovery. The government is set to unveil its budget on October 6 where speculation centres around the bringing forward of income tax cuts, business investment incentives and labour market and regulatory reform.

Week ahead

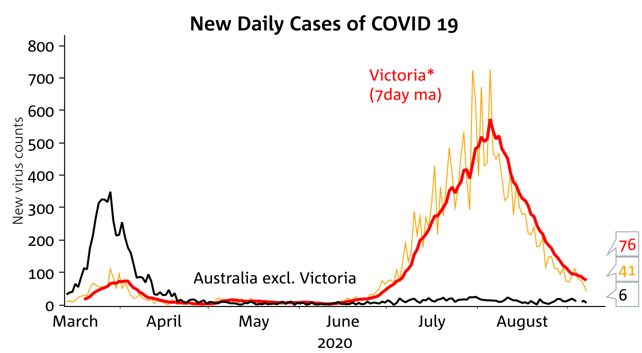
- **Australia:** Payrolls are on Tuesday for the week to August 22 and will be closely watched to see to what degree job losses in Victoria are being offset by gains in other states and territories, we expect an overall decline. The NAB Business Survey is also Tuesday and this month's report will be the first survey to pick up the impact from Victoria's stage 4 lockdown, while Home Loan Approvals data is on Wednesday.
- **China:** CPI and PPI is on Wednesday where disinflationary pressures are likely to remain. Aggregate financing figures are also due anytime from Thursday. **US:** Labour Day public holiday on Monday makes for a quiet start. Jobless Claims on Thursday will continue to be closely watched to track the recovery in the labour market. The CPI is also Friday amid continuing debate on the trajectory for inflation. **EZ:** The ECB meets

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7285	-1.4	RBA cash	0.13	0.0
AUD/CNY	4.98	-1.6	3y swap	0.18	0.0
AUD/JPY	77.4	-1.0	ASX 200	5920	-2.3
AUD/EUR	0.616	-0.5	Iron ore	122.8	3.7
AUD/NZD	1.086	-0.8	Brent oil	42.3	-6.6

Source: Bloomberg

Chart of the week: Victorian virus cases continue to fall



* Dark re line represents Victoria's 7-day moving average
Source: National Australia Bank, government sources gathered by covid19data.com

Kaixin Owyong, Economist, Markets

Victoria's re-opening plan

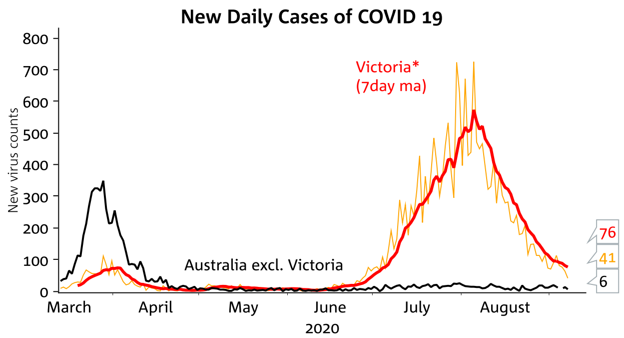
Victoria's unveiled its re-opening plan on Sunday. The timeline has been widely criticised by business with the trigger points for an easing of restrictions akin to the state pursuing an elimination strategy according to some commentators, though the Victorian government has termed their strategy as "aggressive suppression" which minimises the chances of another lockdown.

The plan sees the current lockdown extended for two weeks until September 28, or until the average daily case count is 30-50 a day over a fortnight. However, most businesses will not be able to return to normal operations until a more stringent threshold of less than 5 cases a day for two weeks is achieved (pencilled in for October 26), while gathering sizes will restrict the recovery in the hospitality sector until a final easing of restrictions that requires no new cases for two weeks (pencilled in for November 23). To illustrate the stringency of these thresholds, NSW would currently fail to meet the stage three requirement and QLD would currently fail to meet the stage four requirement. Please see this link for details.

It is possible those thresholds will be met earlier with modelling behind the timeframe being seen as on the conservative side with the halving rate of new infections assumed to be 18 days, where it is currently estimated at 8.9 days. Over the past 24 hours there were only 41 virus cases in Victoria, suggesting that an easing of the first phase of restrictions by September 28 is likely (Chart 1).

However, if restrictions are eased in accordance to the timeframe (where significant further easing does not occur until October 26 and November 23), then Victorian activity is likely to remain a drag on national activity for somewhat longer than previously expected. In that environment the RBA and the government will likely ask what else they could do to assist the recovery. The risk of a credit rating downgrade for Victoria is also likely higher than before given S&P's prior comments.

Chart 1: Vic virus cases drop, but re-opening protracted



* Dark re line represents Victoria's 7-day moving average
Source: National Australia Bank, government sources gathered by covid19data.com

The uneven impact of job losses

- This week we report on job losses and income support during the pandemic. We note that despite strong job gains in June and July, there are still over half a million people who have lost work since March with most of those job losses concentrated in lower paid industries. A further unknown number continue to have their jobs supported by JobKeeper.
- Household income on the other hand has actually risen during the pandemic with the government's massive JobKeeper wage subsidy and JobSeeker schemes bolstering household incomes. GDP data shows household income rose 2.2% in the June quarter even as compensation of employees fell 2.2%.
- The tapering of both the JobKeeper and JobSeeker programs at the end of September will see a hit to household incomes. Given the uneven impact of the pandemic, continuing support targeted to the hardest-hit industries and to lower to middle income households would likely be appropriate. The JobKeeper program has been extended and will apply – albeit at reduced rates – until the end of March 2021.

Over half a million people have not regained work since the pandemic hit

The pandemic has severely impacted many households, with there having been widespread job losses and cuts in working hours since March. At the peak of the pandemic, over April and May, around 0.9 million people lost work. That's on top of around 700,000 people who were stood down or working zero hours in April. As such, total hours worked in the economy fell around 10%.

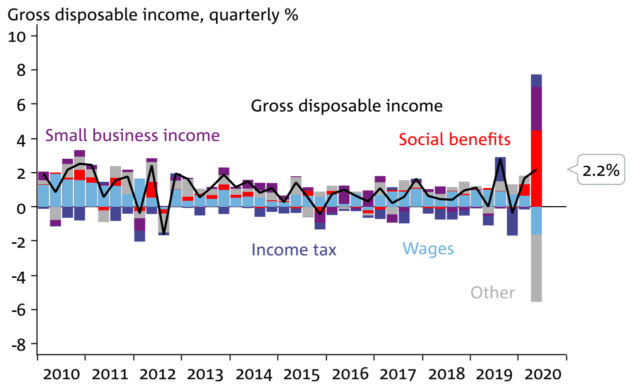
Since the peak of restrictions in April and May, around two-fifths of the jobs lost have been regained, with 340,000 people gaining employment in recent months. The number of people working zero hours has fallen and hours worked have improved. Nevertheless, employment and hours remain well below pre-virus levels and are expected to take years to recover to pre-virus levels. As such, government support to households will remain important going forward.

Huge government support kept household income growing in Q2

Despite the huge hit to hours worked, household income actually rose in Q2, by 2.2%, as government support more-than-offset the impact on households' incomes from the pandemic. In particular, the government's JobKeeper wage subsidy and boost to JobSeeker unemployment benefits provided substantial support.

The ABS notes the increase in government payments was worth some $48bn to household income. Other payments not included in the ABS' definition of income were worth a further $19.6bn with early superannuation access of $18.1bn and home loan and rent deferrals reducing income payable by $1.5bn. Overall that means the household sector has received some $67.6bn in extra support – roughly a 24% boost to household income.

Chart 2: Income supported by government transfers



Source: National Australia Bank, Australian Bureau of Statistics

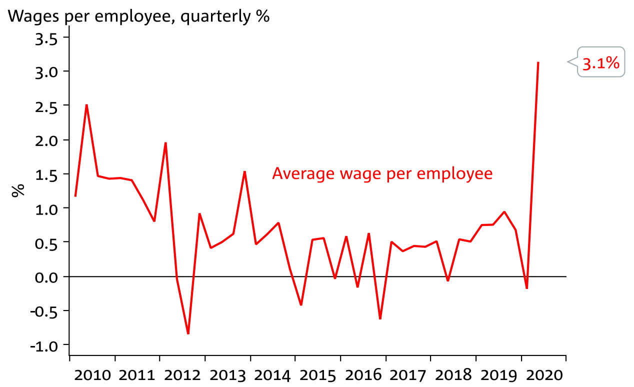
This support is thought to have been behind strong retail sales (10% above pre-virus levels – though retail sales misses much spending on services) and the housing market remaining generally well supported (interest deferrals have also been important). This support will begin to taper from the end of September. However, with unemployment expected to remain elevated for a number of years, the government will likely need to do more to support households. The October 6 Budget and potential pull forward of scheduled income tax cuts are the likely next opportunity for such continued support.

In this weekly, we show that lower-paid industries have seen the biggest job losses. This suggests that ongoing targeted support to lower- to middle- income households and heavily impacted industries will be helpful for the recovery.

Lower-paid industries saw the biggest job losses

Q2 GDP data showed that wage income only fell 2.5%, despite the huge 10% hit to hours worked. This means that the average wage per hour worked actually rose in Q2, quite sharply.

Chart 3: Average wage per employee spiked in Q2

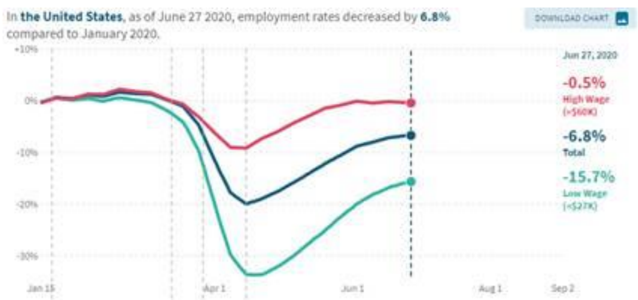


Source: National Australia Bank, Australian Bureau of Statistics

While this partly reflects the government's JobKeeper wage subsidy scheme, the rise in average wages also reflects the change in composition of the workforce. Namely, lower-paid workers were more likely to lose their job.

This is the case overseas, where US data shows high-income jobs were better insulated from job losses. Those jobs have almost fully recovered. In contrast, low-income jobs fell more sharply at the peak of the pandemic and remain well below pre-virus levels. This of course in part reflects the sectors most hit by the virus, which tend to be lower paying.

Chart 4: In the US there is a clear disparity between high and low income jobs

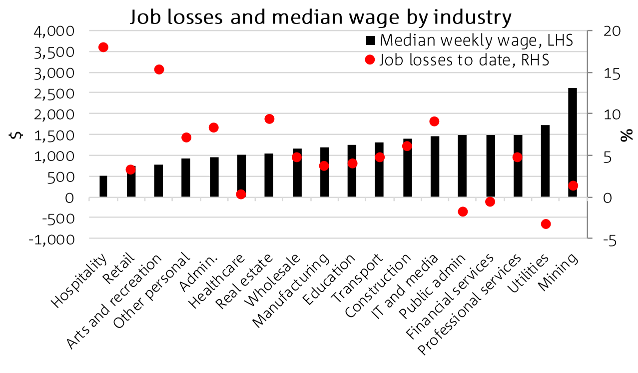


Source: Opportunity Insights

In Australia, there isn't timely data on employment by high or low paying job. Instead, we can see from the fortnightly report on weekly payrolls data which industries have been most impacted. This can be compared to data on median wages by industry from the ABS employee earnings and hours report.

Using these data, we show that job losses to date – including the partial recovery since April/May – have also been skewed towards lower paid industries.

Chart 5: Job losses tend to have hit lower paid industries the hardest

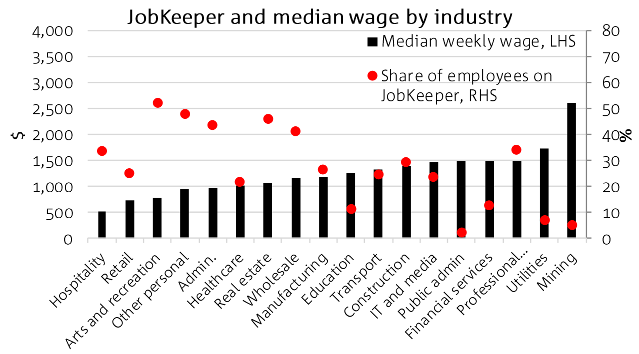


Note: Job losses from 14 March to 8 August
Source: NAB, ABS

JobKeeper support has also been skewed towards lower-paid industries. But support will taper significantly after September.

While job losses have hit lower-paid industries the hardest, the JobKeeper wage subsidy has also been skewed towards these industries. This suggest that the hit to lower and middle income households would have been much larger, if the scheme had not been in place.

Chart 6: JobKeeper also more prevalent in lower-paid industries

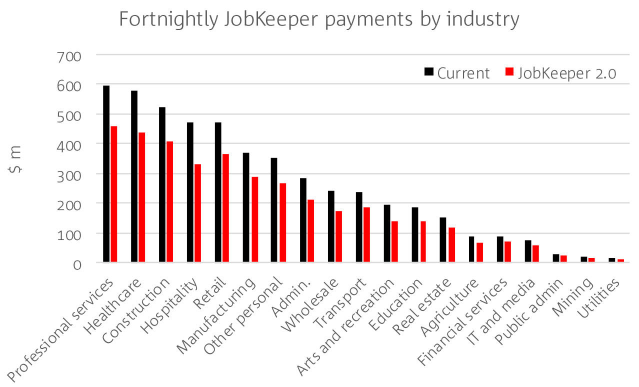


Note: Number of JobKeeper employees in April
Source: NAB, ABS, Treasury

The JobKeeper scheme currently supports around 3.3 million workers. This is around a quarter of the workforce, though not all these workers would lose their jobs if JobKeeper was not present.

This support is set to begin to taper from the end of September. Even if all the same businesses and employees continue to receive the JobKeeper payment, the cost of the scheme would fall from around $10.7 bn per month, to $8.2 bn. The actual fall in payments is likely to be larger as the revenue of some businesses recovers sufficiently for their employees also to be removed from the scheme.

Chart 6: JobKeeper payment will fall in October



Note: These figures are based on the number of eligible employees at JobKeeper supported businesses in April.
Source: NAB, Treasury

Further support will likely be necessary, given unemployment will remain elevated for years.

A full recovery in the labour market is expected to take some years, with NAB and policymakers expecting unemployment to remain above 7% into 2022.

Given it will take time for these jobs to be regained, many households will still be feeling the economic and financial impact of the pandemic for some time. These data suggest continuing to focus government support on key industries and low- to middle- income earners will help support those most affected.

In this environment both the RBA and the government will likely be asking what more can they do to assist the recovery. The latest RBA Interest Rate Decision noted “The Board will maintain highly accommodative settings as long as is required and continues to consider how further monetary measures could support the recovery” (see RBA September Statement).

Fiscal policy meanwhile is very likely to be tweaked further, and unlike monetary policy is able to be targeted at specific parts of the economy. On 6 October the government is set to bring down the budget, where it is likely to announce further measures to support households and businesses. The latest speculation centres around the bringing forward of income tax cuts already scheduled for June 2022 and possibly also those cuts scheduled for June 2024 (though these latter cuts are opposed by Labor as they chiefly benefit high income earners). Business investment incentives and industrial and regulatory reform are also likely to be on the menu. Treasurer Frydenberg noted recently: “We are considering the timing of those tax cuts, and any announcements would be made in the budget, but it is fair to say these are very substantial reforms” (see AFR for details).

Kaixin Owyong

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday 07 September 2020								
US, CA	**Public holiday - Labour day**							**7 Sep**
CH	Trade Balance	Aug		49.2		62.33		8 Sep
CH	Exports YoY	Aug		7.5		7.2		9 Sep
CH	Imports YoY	Aug		0.5		-1.4		7 Sep
AU	AiG Perf of Services Index	Aug		--		44	21.30	8.30
AU	ANZ Job Advertisements MoM	Aug		--		16.7	0.30	11.30
GE	Industrial Production WDA YoY	Jul		-6.3		-11.7	5.00	16.00
Tuesday 08 September 2020								
JN	GDP SA QoQ	2Q F		-8.1		-7.8	22.50	9.50
JN	BoP Current Account Balance	Jul		1926		167.5	22.50	9.50
AU	NAB Business Conditions	Aug		--		0	0.30	11.30
AU	NAB Business Confidence	Aug		--		-14	0.30	11.30
AU	Payrolls	22-Aug		--		--	0.30	11.30
EC	GDP SA YoY	2Q F		-15		-15	8.00	19.00
US	NFIB Small Business Optimism	Aug		98.9		98.8	9.00	20.00
Wednesday 09 September 2020								
NZ	ANZ Truckometer Heavy MoM	Aug		--		2.7	21.00	8.00
AU	Westpac Consumer Conf Index	Sep		--		79.5	23.30	10.30
NZ	ANZ Business Confidence	Sep P		--		-41.8	0.00	11.00
AU	Home loan approvals	Jul		--		6.2	23.30	10.30
CH	PPI YoY	Aug		-1.9		-2.4	0.30	11.30
CH	CPI YoY	Aug		2.4		2.7	0.30	11.30
CA	Housing Starts	Aug		222		246	11.15	22.15
CA	Bank of Canada Rate Decision	Sep 9		0.25		0.25	13.00	0.00
JN	Core Machine Orders YoY	Jul		-20.3		-22.5	22.50	9.50
Thursday 10 September 2020								
NZ	REINZ House Sales YoY	Aug		--		24.6		10 to 14 Sep
CH	Money Supply M2 YoY	Aug		10.7		10.7		10 to 15 Sep
CH	New Yuan Loans CNY	Aug		1280		992.7		10 to 15 Sep
AU	Consumer Inflation Expectation	Sep		--		3.3	0.00	11.00
EC	ECB Deposit Facility Rate	Sep 10		-0.5		-0.5	10.45	21.45
EC	ECB Marginal Lending Facility	Sep 10		0.25		0.25	10.45	21.45
EC	ECB Main Refinancing Rate	Sep 10		0		0	10.45	21.45
US	Initial Jobless Claims	Aug 29		950		881	11.30	22.30
US	PPI Final Demand YoY	Aug		-0.4		-0.4	11.30	22.30
US	Wholesale Inventories MoM	Jul F		-0.1		-0.1	13.00	0.00
Friday 11 September 2020								
NZ	BusinessNZ Manufacturing PMI	Aug		--		58.8	21.30	8.30
NZ	Food Prices MoM	Aug		--		1.2	21.45	8.45
JN	PPI YoY	Aug		-0.5		-0.9	22.50	9.50
GE	CPI YoY	Aug F		0		0	5.00	16.00
UK	Monthly GDP (MoM)	Jul		--		8.7	5.00	16.00
UK	Industrial Production YoY	Jul		-8.7		-12.5	5.00	16.00
US	CPI YoY	Aug		1.2		1	11.30	22.30
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		Sep 9	0.25	0.25		0.25		
Europe, ECB		Sep 10	-0.50	-0.50		-0.50		
Japan, BoJ		Sep 17	-0.10	-0.10		-0.10		
US, Federal Reserve		Sep 16	0/0.25	0/0.25		0/0.25		
UK, BOE		Sep 17	0.10	0.10		0.10		
New Zealand, RBNZ		Sep 23	0.25	0.25		0.25		
Australia, RBA		Oct 6	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				2022			
Australia Forecasts	**2019**	**2020**	**2021**	**2022**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Household Consumption	1.4	-5.0	1.7	2.9	0.4	0.3	0.1	0.5	-1.1	-7.0	1.5	0.9	0.8	1.0	1.1	0.4	0.7	0.8	0.7	0.7
Underlying Business Investment	-1.7	-23.6	-26.5	3.2	0.8	-0.2	-1.7	-1.5	-1.0	-17.6	-15.5	-8.7	-7.7	-1.8	0.6	0.1	1.4	1.1	1.4	1.2
Residential Construction	-6.9	-16.0	-7.9	14.5	-1.7	-3.5	-0.7	-4.1	-1.7	-10.5	-4.5	-3.8	-2.8	0.9	2.6	3.5	4.0	3.5	4.3	3.1
Underlying Public Spending	4.9	4.7	3.8	3.1	1.1	1.7	1.8	0.4	1.5	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Net Exports (a)	0.9	1.7	-0.5	-0.8	0.2	0.6	0.1	-0.1	0.5	1.6	-0.2	-0.1	0.0	-0.2	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2
Inventories (a)	-0.2	-0.5	0.8	0.1	0.0	-0.4	0.1	0.2	-0.2	-1.5	1.4	0.3	0.2	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Domestic Demand (q/q %)	--	--	--	--	0.3	0.4	0.4	0.2	-0.5	-6.0	-0.5	-0.1	0.1	0.8	1.0	0.7	0.9	1.0	0.9	0.9
Dom Demand (y/y %)	1.3	-4.8	-0.5	3.6	1.2	1.3	1.2	1.3	0.5	-5.9	-6.8	-7.0	-6.4	0.4	1.9	2.6	3.4	3.6	3.5	3.7
Real GDP (q/q %)	--	--	--	--	0.5	0.6	0.6	0.5	-0.3	-6.1	0.5	0.3	0.6	1.0	0.9	0.5	0.7	0.7	0.7	0.6
Real GDP (y/y %)	1.8	-3.8	0.8	2.9	1.7	1.6	1.8	2.2	1.4	-5.4	-5.5	-5.7	-4.8	2.4	2.9	3.1	3.2	2.9	2.7	2.8
CPI headline (q/q %)	--	--	--	--	0.0	0.6	0.5	0.7	0.3	-1.9	1.6	0.7	0.4	0.3	0.3	0.4	0.2	0.3	0.5	0.7
CPI headline (y/y %)	1.6	0.8	1.6	1.4	1.3	1.6	1.7	1.8	2.2	-0.3	0.7	0.5	0.6	2.9	1.5	1.4	1.2	1.2	1.5	1.7
CPI underlying (q/q %)	--	--	--	--	0.2	0.4	0.4	0.4	0.5	0.0	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.3	0.4	0.5
CPI underlying (y/y %)	1.4	1.3	1.1	1.0	1.4	1.4	1.5	1.4	1.7	1.3	1.2	1.1	1.0	1.3	1.2	1.1	0.8	0.8	1.1	1.4
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	0.5	0.5	0.5	0.5
Private wages (y/y %)	2.3	1.8	1.2	2.0	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5	1.8	2.0	2.0	2.0
Unemployment Rate (%)	5.1	7.5	8.6	7.0	5.1	5.1	5.2	5.2	5.2	7.1	8.4	9.2	9.6	8.9	8.2	7.6	7.3	7.1	6.8	6.6
Terms of trade	5.1	0.1	2.2	1.3	3.3	1.4	0.2	-5.2	2.9	0.1	1.1	1.0	0.1	0.9	0.2	0.2	0.2	0.5	0.5	-0.1
Current Account (% GDP)	0.6	2.8	2.9	2.2	-0.6	1.0	1.4	0.3	1.7	3.4	3.2	3.2	3.1	3.1	2.8	2.7	2.5	2.3	2.2	2.0

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

Exchange Rate Forecasts

	7-Sep	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Majors						
AUD/USD	0.729	0.74	0.76	0.77	0.77	0.78
NZD/USD	0.67	0.68	0.69	0.70	0.71	0.72
USD/JPY	106.3	103	103	100	100	100
EUR/USD	1.18	1.22	1.23	1.25	1.26	1.27
GBP/USD	1.32	1.36	1.40	1.40	1.43	1.44
USD/CNY	6.83	6.90	6.85	6.70	6.70	6.60
USD/CAD	1.31	1.34	1.33	1.30	1.23	1.24
USD/CHF	0.91	0.91	0.91	0.91	0.91	0.91
Australian Cross Rates						
AUD/NZD	1.09	1.09	1.10	1.10	1.08	1.08
AUD/JPY	77.4	76	78	77	77	78
AUD/EUR	0.62	0.61	0.62	0.62	0.61	0.61
AUD/GBP	0.55	0.54	0.54	0.55	0.54	0.54
AUD/CNY	4.98	5.11	5.21	5.16	5.16	5.15
AUD/CAD	0.95	0.99	1.01	1.00	0.95	0.97
AUD/CHF	0.67	0.67	0.69	0.70	0.70	0.71

Interest Rate Forecasts

	7-Sep	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Australian Rates						
RBA cash rate	0.25	0.25	0.25	0.25	0.25	0.25
3 month bill rate	0.09	0.15	0.20	0.20	0.20	0.20
3 Year Swap Rate	0.18	0.18	0.17	0.15	0.15	0.20
10 Year Swap Rate	0.87	0.90	1.00	1.15	1.25	1.30
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
ECB deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
BoE repo rate	0.10	0.10	0.10	0.10	0.10	0.10
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	0.25	0.25	0.25	-0.25	-0.50	-0.50
10-year Bond Yields						
Australia	0.96	1.05	1.15	1.25	1.35	1.35
United States	0.72	0.80	0.90	1.00	1.10	1.10
New Zealand	0.62	1.03	1.28	1.38	1.63	1.73

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

	2019	2020	2021
Australia	1.8	-3.8	0.8
United States	2.2	-5.1	3.7
Eurozone	1.3	-7.0	5.9
United Kingdom	1.4	-8.2	6.5
Japan	0.7	-6.2	3.0
China	6.1	1.5	9.5
India	4.9	-1.5	8.0
New Zealand	2.3	-7.8	3.0
World	3.0	-3.8	5.9

Commodity prices ($US)

	7-Sep	Dec-20	Mar-21	Jun-21	Sep-21
Brent oil	42.3	49	53	55	55
Gold	1938	2030	2050	2100	2200
Iron ore	na	87	85	90	80
Hard coking coal*	115	120	125	140	135
Thermal coal	54	59	59	61	62
Copper	6730	6000	6250	6500	6750
Aus LNG**	8	7	7	8	8

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

*** Implied Australian LNG export prices*

CONTACT DETAILS

Market Economics

Tapas Strickland
Senior Economist
+61 2 9237 1986
tapas.strickland@nab.com.au

Kaixin Owyong
Economist, Markets
+61 2 9237 1980
kaixin.owyong@nab.com.au

Markets Research

Ivan Colhoun
Global Head of Research
+61 2 9237 1836
ivan.colhoun@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan.oster@nab.com.au