

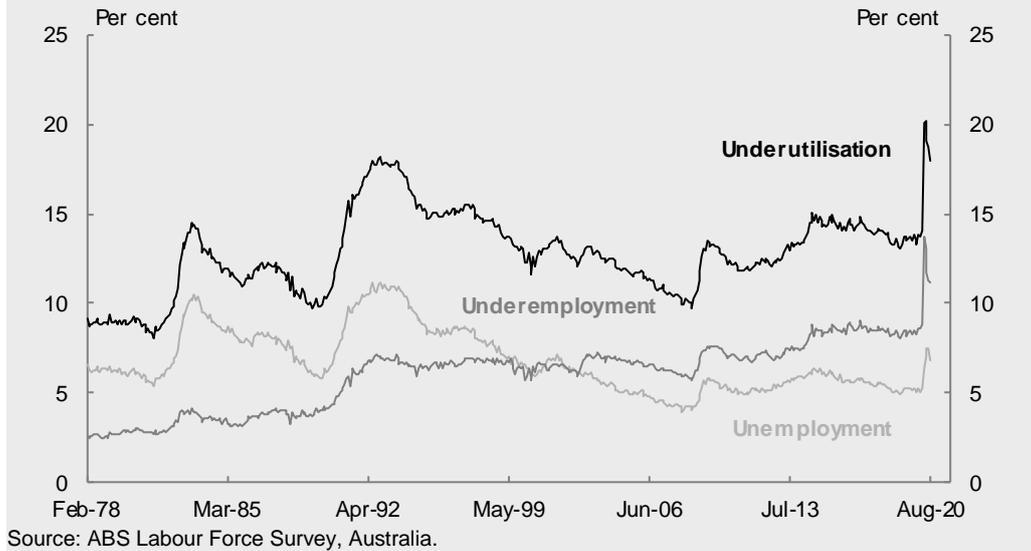
**Box 3: Labour market capacity through the COVID-19 pandemic**

Economic downturns not only see an increase in the number of people looking for work, but also typically increase the number of people looking for more hours or who want work but are discouraged from looking for work.

The COVID-19 pandemic has exacerbated the extent to which the unemployment rate may underestimate the additional capacity in the labour market. As areas of Australia have been placed under stringent health restrictions, a larger-than-usual share of people may not physically be able to look for work or may be discouraged due to the dramatic change in economic conditions. Further, the JobKeeper Payment has seen a large number of employees remain in employment relationships, but work zero or minimal hours. In these circumstances, labour market indicators that take into account these additional sources of spare capacity provide a better understanding of labour market conditions than the unemployment rate.

In the initial months of the COVID-19 pandemic, measures of underutilisation in Australia rose more sharply than the unemployment rate (Chart 11). The underemployment rate, which captures employed persons seeking more hours, rose by 5.0 percentage points from 8.8 per cent in March to 13.8 per cent in April. The underutilisation rate, which captures both unemployment and underemployment, rose by just over 6 percentage points between March and May to peak at 20.2 per cent.

**Chart 11: Underutilisation**



Since May, the dynamics in the labour market recovery have been consistent with the easing of restrictions and the return towards more-normal working patterns for people who have been working zero or few hours. There has been a pick-up in average hours worked by those in employment and a rise in the proportion of part-time workers who are seeking more hours. In addition, part-time jobs have made up just under 90 per cent of the total increase in employment between May and August, consistent with these jobs being hardest hit by the restrictions.

**Box 3: Labour market capacity through the COVID-19 pandemic (continued)**

Since their peaks in April and May, the underemployment rate has recovered to 11.2 per cent, and the underutilisation rate to 18.0 per cent in August.

Looking forward, it is reasonable to expect that measures of underutilisation will take more time to decline to pre-COVID-19 levels than the unemployment rate. Recoveries from previous economic downturns, including in the Global Financial Crisis and the early 1990s recession, were characterised by a pick-up in hours worked by employed people and an increase in part-time employment, rather than growth in full-time positions. Reflecting this, and abstracting from long-run trends toward part-time employment, broader measures of labour market underutilisation have tended to remain elevated in the aftermath of these downturns even as the unemployment rate has fallen.

The July Update included estimates of a COVID-19 ‘effective’ unemployment rate. The effective unemployment rate counts the changes in unemployed persons, employed persons working zero hours, and changes in the size of the labour force relative to its size prior to the beginning of the COVID-19 pandemic.<sup>1</sup>

Similar to other underutilisation measures, the COVID-19 ‘effective’ unemployment rate peaked in April at close to 15 per cent, relative to an unemployment rate of 6.4 per cent, reflecting that there were around 1.3 million additional people who were either unemployed, working zero hours or had left the labour force. By August, the effective unemployment rate had declined to around 9¼ per cent, with around 760,000 people back in work despite some upward pressure from the Stage 4 lockdown in Victoria. The effective unemployment rate is expected to converge back toward the unemployment rate as labour market conditions improve (Chart 12).

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1 A more detailed methodological description published by the Australian Bureau of Statistics is at [www.abs.gov.au/articles/understanding-unemployment-and-loss-work-during-covid-19-period-australian-and-international-perspective](http://www.abs.gov.au/articles/understanding-unemployment-and-loss-work-during-covid-19-period-australian-and-international-perspective).