

Labour market snapshot #56 April 2020

Jeff Borland
Department of Economics
University of Melbourne

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COVID-19 and the Australian labour market: The immediate impact

Key points

- The impact of COVID-19 on the Australian labour market will mean substantial impacts on labour demand and labour supply.
- The immediate impact on labour demand has been striking for its speed, magnitude and concentration on a subset of industries (where consumption is being prohibited). In November 2019, about 2.7 million workers were employed in the subset of industries most likely to be affected by decreases in labour demand – of which I estimate that the immediate and short-term employment loss may be as much as 910,000.
- Effects on labour supply will begin to occur due to workers withdrawing to care for children or ill family members; due to illness; and to avoid catching COVID-19.
- Some key points about labour market adjustment:
 - 1] The magnitude of the decreases in labour demand in affected industries means that adjustment is likely to mainly happen through layoffs rather than reductions in hour worked or wages;
 - 2] The balance between decreases in labour demand and labour supply will vary

over the course of the pandemic. Initially, most impact has been on labour demand, with the result that there will be a large spike in the rate of unemployment. I estimate that the rate of unemployment is likely to rise to around 10 percent as a result of the immediate impacts on employment – although this depends on the extent to which workers who are laid off withdraw from looking for work;

- 3] The need to quickly reallocate workers from shrinking to expanding industries is a more important aspect of the current episode than other downturns; and
- 4] The relation between the official measure of labour supply (labour force participation rate) and the amount of labour actually available at a point in time will widen due to extra workers needing to take leave for caring responsibilities or illness.

Introduction

The COVID-19 pandemic is a reminder that, when it comes to the makings of human well-being, health is at the top of the pyramid. At the same time, economic circumstances will be a critical element to how most Australians experience the pandemic – and primarily this will depend on what happens to them in the labour market.

This Snapshot describes potential immediate effects on labour supply and labour demand due to the pandemic – and discusses the implications for labour market adjustment and outcomes in Australia.

Effects on labour demand

Several features of the impact of the pandemic on labour demand make this a very different episode from a 'standard' downturn or recession:

- First, the incredibly rapid speed and massive scale of the decrease in labour demand in a concentrated set of industries;
- Second, the high degree of variability in the impact of the pandemic on labour demand between industries; and
- Third, both negative and positive impacts on labour demand occurring simultaneously.

The immediate impact of the pandemic on labour demand has mainly come from changes in spending by Australian consumers (and international tourists).

The negative effect on labour demand due to a decrease in consumption is being manifested in several ways. First, consumers are being prevented from undertaking specified activities by the government and are avoiding activities where they believe they are at risk of catching COVID-19. Examples are eating at cafes, attending sporting and arts events and travel for holidays. [With government restrictions growing daily, the list of activities where consumption is effectively being forced to zero will only continue to grow.]

¹ Calculated using the Household Expenditure Survey, Australia (6530.0) for 2015/16: I assume that the effect includes spending on clothing and footwear (100%); household

Second, a range of factors - including uncertainty, loss in wealth and reduced time available for buying activity - is meaning less spending on semi-durable and durable consumption goods. Examples are buying whitegoods and motor vehicles.

A back-of-the-envelope estimate is that spending on the set of goods and services affected already by the pandemic account for about 22 per cent of total weekly spending of an average Australian household (or 28.5 per cent of non-housing spending).¹

Who works in the industries that produce these goods and services? I have had a rough attempt to identify the industries likely to be most adversely affected by decreases in consumption. Table 1 lists the industries and employment in February 2020 grouped into three categories. The first category is industries where employment has been affected by government closures – These mainly involve eating out, accommodation and recreation activities and account for about 1.4 million workers. The second category is industries where reduced spending by consumers on discretionary and durable goods is occurring – At present these mainly involve retail trade and personal services where about 900,000 workers are employed. The third category is industries where factors such as government

furnishings and equipment (100%); household services and operation (50%); transport (25%); recreation (66.6%); personal care (50%); miscellaneous (10%).

restrictions or supply chain constraints may adversely affect employment in the future. Overall, I estimate that about 2.7 million workers are in the full set of industries.

Table 2 provides selected information on characteristics of workers (in the first two categories where the initial impact on employment is occurring) from the 2016 Census. The workers are predominantly young with over 50 per cent being under 35 years of age); and just over 80 per cent are employees. There is a slightly higher proportion of females than males employed in the industries. Workers are fairly evenly distributed by full-time/part-time status.

A positive effect on labour demand from consumption thus far appears to be mainly in the retail grocery industry and associated logistic services; and for office supplies needed to work at home. While spending on office supplies for working at home may be a one-off, a higher level of spending at retail grocery outlets seems likely to be a permanent feature of the pandemic (since households are likely to have to substitute in some degree from eating out to home-prepared meals).²

In a relatively short period, we would also expect more broadly-based negative effects on labour demand as consumption

² In 2010 about one-third of spending by the average household in Australia on food was for meals out and fast foods – see ABS, 6530.0, 2009-10, Table 3A.

³ Stimulus is probably a misnomer. Given that there is little scope to affect demand for goods and services prohibited by government,

falls due to the decrease in income for workers who lose their jobs or have reduced work hours. At the same time, an increase in labour demand will come from the greater need to use health care and health services. Other areas where increased labour demand seems likely are for home delivery of goods bought online, cleaning services and services usually undertaken by volunteers.

There will be a range of other potential influences on labour demand in the coming months. [Of course, it is important to say that the evolution of consumption and other determinants of the demand for labour will obviously also depend on the impact of the government stimulus packages.³ My discussion here of labour demand in the coming months is therefore of what the consequences might be in absence of government intervention.]

First, some businesses, which remain in operation, may have to increase labour demand in order to offset effects of illness in their existing workforces. This will depend on the scale at which businesses continue to operate and the extent to which their method of supplying output allows them to cover for having workforce absent. Second, there is likely to be a decrease in business investment due to businesses reducing size, lower profit

the packages are better seen as being about preservation – preserving the capacity of households to pay for essential goods and services and allowing businesses to be able to resume operations once the pandemic is controlled.

expectations and lacking the time for decision-making about investments. This will affect labour demand in industries producing capital goods. Third, disruption to global and local supply chains will affect industries whose production is most integrated in this way. Fourth, international trade may bring a mixed story for labour demand. The reduced scope for trade and decreases in the incomes of trading partners will reduce demand for exports; but the lower value of Australian dollar will have an offsetting effect. As well, the reduced scope for trade and higher cost of imports (plus countries directing their productive resources to their own purposes) may promote production of import-competing goods in Australia.

Effects on labour supply

Thus far there has been little impact of the pandemic on labour supply. But it seems certain that will change in the coming months. First, illness from COVID-19 will cause workers to need to withdraw from their employment. Second, workers will need to withdraw to provide care - for family members who become ill and for children when schools and childcare centres close (with the latter effect being accentuated by parents not wanting to risk having grand-parents look after their children). Third, some workers may

withdraw from employment out of concern for becoming ill or due to being required to undergo a quarantine period.

It is difficult to be precise about the magnitude of withdrawal from the labour market, but the number is potentially large. In the immediate period, most of the impact seems likely to come from withdrawal for caring or to avoid the illness. For example, in 2019 there were 1.21 million families where either both partners work or the sole parent was employed and with children aged from 0-9 years⁴; and in 2016 there were 634,500 persons aged 65 to 84 years undertaking voluntary work⁵.

Subsequently, COVID-19 may also have a substantial impact. Under a (hopefully pessimistic) scenario that COVID-19 continues its current rate of growth over the next three weeks, with those infected in the previous two weeks then unable to work, this would be about 67,500 persons out of work due to illness at that point in time.⁶

Some workers who need to have a period out of work due to illness or caregiving may retain their job during that time – for example, being on sick or carer’s leave or unpaid leave. Others, however, will have to leave their job and withdraw from the labour force.

⁴ ABS Characteristics of Employment Survey, 2019, TableBuilder.

⁵ ABS Census 2016, TableBuilder.

⁶ This calculation assumes: i] 75,000 extra cases in the second and third weeks – based on the number of cases quadrupling every

week; ii] 90 per cent of those cases being in the population aged 20 to 69 years (<https://www.health.gov.au/resources/publications/covid-19-cases-in-australia-by-gender-and-age>); and iii] All cases withdrawing from employment for two weeks.

Adjustment to changes in labour demand and labour supply: Some considerations

1] The balance between changes in aggregate labour demand and labour supply is going to vary over time.

Just now, there are large negative effects on consumption and labour demand being observed in some industries – at a time when there has been little change in labour supply. Hence, it is certain that there will be a large spike up in the rate of unemployment in March and later months.

I have tried to make a rough estimate of the magnitudes of the immediate impact on employment and unemployment. First, I have made assumptions about the proportions by which employment in the industries in Table 1 (first and second categories) might already have been or be about to be reduced due to COVID-19. As two examples, I assume that 60 per cent of employment in cafes, restaurants and takeaway services has been lost; but only 5 per cent of employment in adult education. This exercise gives an estimated employment loss of 910,000 workers. Second, I use the estimated employment loss to predict the impact on the rate of unemployment. If that loss in employment was to occur with an unchanged size of labour force, the rate of

unemployment would increase to 12.1 per cent.⁷ Increases in employment in other industries, and some withdrawal from the labour force, will obviously lessen the size of increase in the rate of unemployment.⁸ For example, suppose that employment increases by 100,000 in other industries and that 100,000 workers who have been laid off withdraw from the labour force. In that scenario the rate of unemployment would be 10.7 per cent.

At some point, labour supply will also begin to decrease – for example, now that decisions to close schools are being made. The changes in labour demand and supply that happen will occur more quickly and be a bigger size than we are used to observing. As a result, as well as looking at the rate of unemployment, it will be important to look at the numbers for labour demand and supply to understand what is happening to the labour market.

With the pace at which changes in labour demand and supply will occur during the pandemic, I am wondering whether economic management would be assisted by providing extra funding to the ABS to conduct a twice-monthly Labour Force Survey and to allow more rapid processing of the data. [Postscript: Since preparing the initial version of this Snapshot I've been made aware of what will be a hugely valuable ABS site:

<https://www.abs.gov.au/covid19>]

⁷ In February 2020 the numbers of persons unemployed and in the labour force were respectively 764,500 and 13,821,000 (ABS, Labour Force Survey Australia), catalogue no.6202.0, Table 1, original series.

⁸ Some withdrawal from the labour force seems likely due to discouraged worker effects – for example, among young workers who are living at home and may not have financial pressure to be earning income.

2] The distinction between official labour supply measures and amount of labour actually available to work at any point in time will become more important.

Where a worker has to leave their job and withdraw from the labour force, this reduces both the official measure of labour force participation and the amount of labour actually available to work.

But many workers who need to have a period out of work due to illness or caregiving will retain their job during that time – for example, being on sick or carer's leave or unpaid leave. In this case, the official measure of labour force participation remains unchanged, but the amount of labour actually available to work is reduced.

What seems likely to happen during the pandemic is that the gap between the official labour force participation measure and the amount of labour actually available at a point in time will widen – as more people are on leave away from their jobs than would usually happen.

3] Structural mismatch is likely to be a problem (at least more so than in other downturns). First, both increases and decreases in labour demand are happening at the same time across different industries. Second, the decrease in labour supply is likely to be spread across industries. Hence, there will be some production activities where extra workers are needed and in some there will be a surplus of workers.

The scope to deal with structural mismatch will depend on several factors. A key factor is the match of skills between workers who are laid off and skills required in the new jobs. In some cases, a match may be easy to find – see for example Grattan Institute's proposal for childcare workers to work as nannies for healthcare workers. More generally, the capacity to adjust likely to depend on the scope for rapid training of jobseekers for new roles; and their willingness to take on those roles. Given the critical importance of many of the occupations where extra jobs will be created (such as caring jobs and roles in the healthcare industry), and the necessity to match speed of adjustment to the speed of changes in labour demand and labour supply, I think there is a strong case for governments to take a central coordinating role in matching new workers to jobs and facilitating training in those occupations.

[The scope to deal with structural mismatch will also depend on other factors. First, the size of changes in aggregate labour demand and labour supply. Other things equal, it is easier to fill shortages when substantially outweighed by the number of extra jobseekers. Second, the capacity to meet the short-term increase in labour demand in some industries will be aided by the fact that at least some proportion of the workforce made redundant have been in effect laid off temporarily, with opportunity resume old job once pandemic concludes.]

4] The effect of the decrease in labour demand (absent government intervention) seems mainly likely to be manifested in adjustments in employment (rather than hours of work or wages). In the short-term, for businesses which plan to remain in operation, a decrease in labour demand can be addressed via rearrangement of leave. But that has a limited time horizon. Then, a choice must be made between reductions in hours worked and layoffs. The scale of decrease in labour demand in industries that have been affected most immediately by the pandemic suggests that layoffs will be necessary.

Of course, the scope to adjust in short-term via rearrangement of leave is not available to all workers. From the ABS Characteristics of Employment Survey for 2019, for my selected set of industries, casual employees made up 34.7 per cent of total employment; and owner/managers make up another 17.5 per cent.

In the past couple of years there has been a debate over whether casual employment has been rising or falling. Perhaps what the pandemic will do is to return attention to question of the level of casual employment – in the context of the pandemic revealing that it is a mechanism by which costs of adjustment to a major

downturn in labour demand can be forced onto workers.⁹

[The other potential adjustment mechanism is wages. Given that non-price related factors are driving large decreases in demand in some industries, a decrease in wages does not seem sufficient or the most effective means for employers in those industries to adjust to lower demand. Nevertheless, there may be concerns about the potential for wage theft in jobs where there has been a large reduction on labour demand relative to the available pool of workers.]

⁹ The recent article by Inga Lass and Mark Wooden shows that on average casual workers receive only a 5 per cent wage premium compared to permanent workers; and speculate that casual employees – especially at the bottom of the earnings

distribution – are being underpaid ('The structure of the wage gap for temporary workers: Evidence from Australian panel data', *British Journal of Industrial Relations*, 2019, 57(3): 453-78).

Appendix

Table 1: Employment in selected industries, February 2020 ('000s)

Industry	Rationale for inclusion	Employment (February 2020; Thousands)
1] Affected by closures ordered by government		
Cafes, restaurants and takeaway food services	Closure ordered by government – Takeaway still currently available	689.8
Pubs, taverns and bars	Closure ordered by government	92.5
Clubs (hospitality)	Closure ordered by government	51.7
Air and space transport	Negative impact on air travel due to border closures	51.7
Accommodation	Negative effect due to government mobility restrictions	97.8
Motion pictures and videos	Closure due to government restrictions	32.6
Museum operations	Closure ordered by government	12.1
Parks and gardens operations	Some closures ordered by government	26.3
Creative and performing arts activities	Closure ordered by government	45.4
Sports and physical recreation activities	Some closures due to government policy	114.0
Gambling activities	Likely negative effect due to closure of major sporting competitions	31.3
Real estate services	Restrictions on activities ordered by government	130.2
Tourism and travel-related services	Restrictions on activities ordered by government	42.8
Sub-total		1418.2
2] Households reduce purchases of durable goods and discretionary spending		

Retail – Clothing, footwear and personal accessories	Negative impact due to households reducing purchases of durable goods	151.6
Retail – Recreational goods retailing	Negative impact due to households reducing discretionary purchases	48.2
Retail – Furniture, floor coverings,	Negative impact due to households reducing purchases of durable goods	61.7
Retail – Department stores	Negative impact due to households reducing purchases of durable goods	66.8
Retail – Motor vehicles	Negative impact due to households reducing purchases of durable goods	64.0
Wholesale – Motor vehicles and motor vehicle parts	Negative impact due to households reducing purchases of durable goods	21.2
Furniture manufacturing	Negative impact due to households reducing purchases of durable goods	40.3
Tertiary education	Negative impact due to reduced number of international students – especially English language colleges	255.2
Adult, community and other education	Decrease in demand due to avoidance of COVID-19	208.4
Personal care services	Decrease in demand due to avoidance of COVID-19; Could be affected by future government closure	110.9
Other personal services (Parking services etc)	Negative impact due to reductions in household travel	55.5
Sub-total		932.2
3] Potential future effects		
Automotive repair and maintenance	Decrease due to reduced motor vehicle travel and reduced discretionary spending	146.4
Preschool education	Would be affected by government shut-down decision	51.1
Non-residential building construction	Possible supply chain impacts	60.4

Heavy and civil engineering construction	Possible supply chain impacts	107.2
Sub-total		365.1
Total		2715.5

Table 2: Characteristics of workers in selected industries, 2016 (Census)

	Per cent
Age	
15-24	29.6
25-34	22.3
35-44	17.3
45-54	16.2
55-64	11.2
65-79	3.4
Status of employment	
Employee	83.9
Owner/manager – With employees	6.2
Owner/manager – Without employees	8.2
Contributing family worker	1.7
Sex	
Male	42.5
Female	57.5
Hours of work of employees	
Full-time	46.3
Part-time	53.7

Note: Data are for selected industries listed in Table 1.

Table 3: Employment Status, Selected industries, 2019

	Per cent
Employee – Permanent	44.2
Employee – Casual	39.5
Owner/manager	18.3

Note: Data are for selected industries listed in Table 1.