

Judgement Day for the Labour Market?

Attempting to forecast the change in employment for April in the world of COVID-19 has been a unique experience.

A typical way of estimating employment relies on economic growth forecasts and leading indicators such as job ads. However, given the rapid pace in which workers have been laid off or stood down recently, we have needed to think about employment forecasts a bit differently. The scale of job losses has been difficult to estimate, particularly over just a one month period.

Thankfully, the Australian Bureau of Statistics (ABS) has provided a new weekly time series based on the Australian Taxation Office's payroll data. Based on this data and other sources, including responses to a range of surveys, we estimate that employment will decline by 450k in April, and for the unemployment rate to rise to 8.3% from 5.2% previously.

The range of estimates among economists vary widely, from as low as -125k to as high as one million jobs lost. The near 900k range dwarfs the 40k range of forecasts back in February – highlighting the uncertainty that we are currently facing, and the difficulty in forecasting in the current environment.

We received a gauge of just how significant the job losses in the US were on Friday night. Non-farm payrolls declined 20.5 million in April, which sent the unemployment rate skyrocketing from 4.4% in March to 14.7% in April.

Interestingly, the market reaction was positive, given the median expectation was for a 22 million job decline. A shocking result was already factored in to market pricing. Indeed, with the US economy beginning to ease lockdown restrictions, investors continue to look forward to the economy reopening once again.

A low number of COVID-19 infections in Australia and plans by Prime Minister Scott Morrison to re-open the economy by July provide some hope that the worst is behind us. However, it is unlikely that the economy can recover quickly to levels of activity before the crisis. Firstly, some form of social distancing will remain in place for some time, and secondly, uncertainty about the virus could continue to impact confidence. The risk of infections rising again and delaying the lifting of restrictions remains.

The unemployment rate is therefore likely to remain elevated for some time.

With the prospect of a recovery hampered by ongoing concerns around the virus, the risk is that those unemployed stay unemployed for longer. Workers who were initially temporarily stood down or laid off could face the prospect of more permanent unemployment.

It presents a significant social and economic problem globally. In Australia, by providing assistance through the JobKeeper package, it keeps employers engaged with employees, and may assist employment growth during the recovery phase.

The JobKeeper package should also prevent how much the unemployment rate will rise. Those

that are stood down and being paid through JobKeeper will be counted as being employed. We will receive the April employment data this Thursday.

This week will also see the release of wages data. Incomes are expected to weaken, and weekly payroll data point to wage incomes declining significantly over recent weeks. However, the wages data released on Wednesday will be data over the March quarter, and will not capture the recent weakness from the shutdown measures. It should also be noted that this data measures wages unaffected by the quantity and quality of work performed, and is designed to measure only pure price changes for the same type of work. Therefore this particular series would not be an accurate assessment of how incomes have changed due COVID-19. We expect just a modest easing in annual wage growth from 2.2% in the December quarter to 2.1% in the March quarter.

Business and consumer confidence will also be released on Tuesday and Wednesday, respectively and follow large-scale falls in the previous month.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Forecasts

Please note that due to the unprecedented nature of the coronavirus's impact on the economy and the rapid change of developments, there is greater than usual variability attached to these forecasts.

End Period:	2020				2021	
	Close (May 8)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.10	0.15	0.20	0.25	0.30	0.35
3 Year Swap, %	0.23	0.35	0.35	0.40	0.40	0.45
10 Year Bond, %	0.89	0.75	0.80	0.85	0.90	1.00
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.68	0.60	0.65	0.70	0.75	0.80
USD Exchange Rates:						
AUD-USD	0.6532	0.62	0.64	0.66	0.68	0.68
USD-JPY	106.65	107	105	106	107	107
EUR-USD	1.0839	1.07	1.06	1.06	1.07	1.08
GBP-USD	1.2410	1.22	1.23	1.24	1.25	1.25
NZD-USD	0.6136	0.60	0.61	0.61	0.63	0.64
AUD Exchange Rates:						
AUD-USD	0.6532	0.62	0.64	0.66	0.68	0.68
AUD-EUR	0.6027	0.58	0.60	0.62	0.64	0.63
AUD-JPY	69.68	66.3	67.2	70.0	72.8	72.8
AUD-GBP	0.5265	0.51	0.52	0.53	0.54	0.54
AUD-NZD	1.0645	1.03	1.05	1.08	1.08	1.06

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.2	-5.0
CPI (Headline), %	1.8	1.8	0.3
CPI (Trimmed mean), %	1.8	1.6	1.1
Unemployment Rate, %	5.0	5.2	7.8
Wages Growth, %	2.3	2.2	1.8

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Senior Economist

Janu Chan
chanj@stgeorge.com.au
(02) 8253 0898

Economist

Nelson Aston
nelson.aston@stgeorge.com.au
(02) 8254 1316

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George's agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
