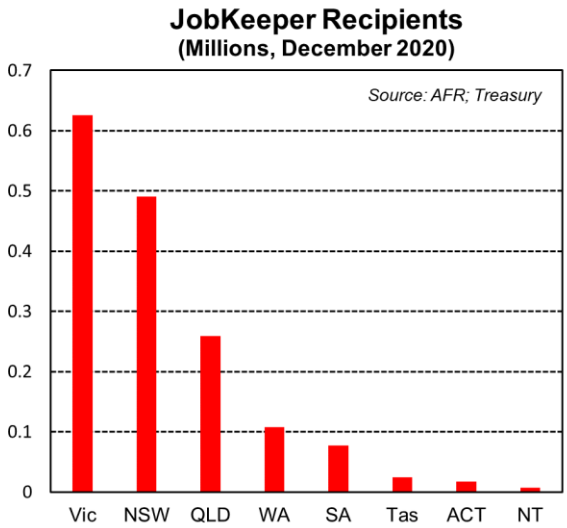
Thursday, 11 March 2021

The End of JobKeeper

No Crash in Sight

- **JobKeeper has provided extraordinary support to individuals and businesses since the onset of the COVID-19 pandemic.**
- **The conclusion of the program at the end of March has raised the question: can the economy weather its expiry?**
- **In our view, yes. We expect, overall, the unwinding of JobKeeper will only temporarily slow the recovery in the labour market. However, some industries will face significant challenges, in particular, the arts and recreation, and accommodation and food services.**
- **The support provided by JobKeeper has already stepped down significantly over recent months. What could have been a 'fiscal cliff' has become more of a 'fiscal slope'.**
- **Employment is almost back to pre-pandemic levels and large saving buffers accumulated by households will support spending in the months ahead.**
- **We estimate that the unemployment rate will land in a range of 6.2% to 6.7% at the end of June before it continues to fall over the second half of the year.**



JobKeeper Payments by Industry
December Quarter 2020

Industry	**Level ($b)**	**Relative to COE* (%)**
Arts & recreation	0.5	25.0
Accommodation & food	1.2	16.6
Other services	0.9	14.8
Agriculture, forestry & fishing	0.3	10.6
Rental, hiring & real estate	0.4	9.2
Construction	1.7	9.1
Transport, postal & warehousing	0.8	7.7
Administrative & support	1.0	7.1
Retail trade	0.8	5.6
Professional services	1.5	5.5
Manufacturing	0.8	4.7
Media & telecommunications	0.2	4.3
Wholesale trade	0.4	3.4
Education & training	0.5	2.1
Finance & insurance	0.3	2.0
Health & social assistance	0.5	1.6
Utilities & waste services	0.0	0.8
Mining	0.0	0.5
Public administration & safety	0.1	0.3

*Compensation of employees (COE) measures total wages.
Source: ABS

JobKeeper has been crucial to the recovery

The program was announced on 30 March 2020 alongside a series of economic support packages introduced by the government. The payment is made available to eligible employers and passed on in full to eligible employees. It is amongst the largest one-off fiscal measures in Australia's history and is estimated to cost $101.3 billion over the course of the program. It has played a pivotal role in supporting the economy through the COVID-19 crisis – the Reserve Bank of Australia (RBA) estimates that JobKeeper saved at least 700,000 jobs between April and July 2020.

By state

JobKeeper has provided important support across the country, although the reliance on the program has varied by state. **NSW** and **Victoria** had the largest take up of the program both in terms of numbers of workers and relative to the size of the labour force in each state. These states were hardest hit by the virus and subsequent mobility restrictions. They were also were more affected by international border closures. Victoria had around 630,000 workers on the program at the end of December. This is equivalent to around one in five workers in the state, using pre-COVID employment as a baseline. In the same period, in NSW there were around 490,000 JobKeeper recipients, or around one in ten workers in the state.

By industry

Organisations and individuals across all industries have been supported by JobKeeper but some more than others, reflecting their relative exposure to public health restrictions. Sole traders and other small businesses made up a large share of the organisations on JobKeeper since, by number, they dominate businesses in Australia.

The payments received by each industry in dollar terms is indicative of the size of the industry and the amount of support they have required. In the December quarter, the **construction** and **professional services** industries accounted for the largest amount of JobKeeper payments. This largely reflects that these industries simply employ more people than others.

A better measure of reliance on JobKeeper, which abstracts from the size of the industry, is the support payments as a share of compensation of employees (COE). COE is a measure of total wages paid.

According to this metric, **arts and recreation** was worst hit sector in the December quarter, with JobKeeper payments accounting for 25.0% of COE. In other words, one out of every four dollars paid to employees in the sector came from JobKeeper. This industry has been hit hard by COVID-19, with sport stadiums, cinemas and theatres closed or operating at limited capacity.

Accommodation and food services sector was the second most reliant on JobKeeper, with payments accounting for 16.6% of COE. The hospitality industry has suffered immensely from lockdowns, border closures and capacity restrictions. With international borders due to remain closed until late this year at the earliest, the lack of foreign tourists will continue to weigh on this sector for some time.

JobKeeper was also an important support for **other services**, at 14.8% of COE. This captures a range of personal services including hairdressers, laundries and day spas. COVID-19 has proved particularly challenging for this industry, from both mandated social distancing and as people have voluntarily sought to avoid unnecessary close contact with others.

For all other sectors, JobKeeper accounted for around 10.0% or less of COE in the December quarter. Note the aggregation of these data likely masks the reliance of some sub-industries on government support. For example, **air transport**, which falls under transport, postal and warehousing services, is likely to have a large share of workers on JobKeeper. The airline industry has been decimated by border closures – notably, Qantas stood down two thirds of their 30,000 employees and Virgin Australia went into voluntary administration. Similarly, **travel agencies and tour arrangements**, which fall under administrative and support services, are also likely to rely heavily on JobKeeper.

Support from JobKeeper has already stepped down significantly

When JobKeeper was first due to expire back in September 2020, it was referred to as a 'fiscal cliff'. The program was extended to the end of March and the approaching expiry we now think is more like a 'fiscal slope'. JobKeeper payments in the December quarter were estimated at $11.9 billion, down from $38.5 billion in the September quarter. This reflects several factors:

- The payment rate was changed at the end of September from a flat $1500 to a two-tier system, based on hours worked, with lower rates. Eligibility requirements to qualify for the program were also tightened.
- The payment rates were reduced further on 4 January.
- Economic conditions improved significantly, so businesses' turnover improved and fewer organisations needed to rely on JobKeeper.

Relatedly, the number of JobKeeper recipients has fallen significantly. In September, there were 3.6 million workers on JobKeeper. By the end of January, the number of workers receiving JobKeeper had declined to 960,000. The Federal government has indicated this will likely increase a little over the coming months; the government has estimated 1.1 million workers will be on JobKeeper when the program concludes at the end of March.

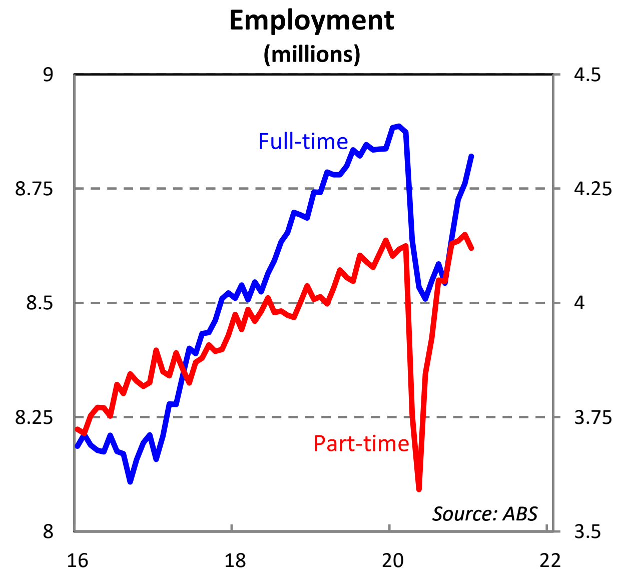
All in all, these steps represent a considerable reduction in the support provided by JobKeeper. This will soften the impact of the program's expiry at the end of March.

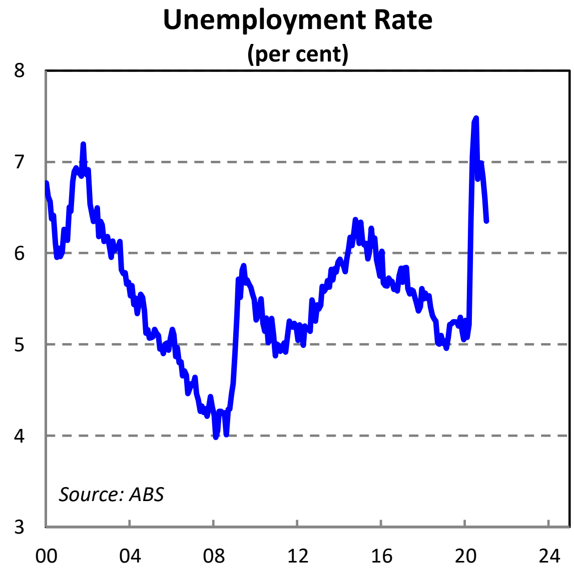
Employment is almost back to pre-pandemic levels

Employment has recovered 93% of the jobs lost during the height of the crisis last year (March to May). Part-time employment has returned to its levels from early 2020 while full-time employment is yet to fully recover. The unemployment rate has declined to 6.4%, but remains 1.3 percentage points higher than it was at its low in February 2020. Unemployment is particularly elevated amongst young people. However, the damage to the labour market was far less severe than initially feared, with the unemployment rate peaking at 7.5%, well below the 10% originally predicted by policymakers.

Notably, the number of people employed working zero hours for economic reasons has returned to its pre-COVID level, around 80,000 people after peaking at 770,000 last April. This refers to people who were employed but stood down, or where there was insufficient work available. This cohort is likely to be receiving the JobKeeper payment and would be vulnerable to unemployment in the absence of program.

Leading indicators of labour market demand, like job advertisements and vacancies, point to further jobs growth over the coming months. While the labour market still has a way to recover, it has made up a lot of ground from the height of the crisis, and the ongoing momentum will help cushion the impact of the end of JobKeeper.





Large saving buffers will support spending over the year ahead

Households have accumulated large saving buffers since the onset of the pandemic. Households are estimated to have saved around $187 billion in 2020. The household savings ratio has come off its peak but remains elevated at 12.0%. The increase in savings reflects a combination of reduced opportunities to consume, with shops closed and people forced to stay home, as well as precautionary savings from households concerned about future income. Some of the build-up of savings also came from funds withdrawn from superannuation accounts and government assistance payments.

The big question is whether these savings will be spent or hoarded for a rainy day. We expect a mix of both, but more will leak out into spending as the recovery deepens and broadens. Consumer confidence is near a ten-year high and should underpin the leakage. This spending will support economic activity over the months ahead as temporary fiscal support is withdrawn.

The jobs market will be resilient but vulnerable industries will face challenges

Inevitably, there will be job losses at the conclusion of JobKeeper. Our base case is that the recovery in the labour market will slow temporarily. Our baseline scenario is that the unemployment rate will remain around 6.4% until the end of June before it resumes declining to reach 6.0% by the end of 2021. While this is elevated relative to pre-pandemic levels, these are far better circumstances than we saw in 2020.

There is greater uncertainty than usual around this forecast because it is difficult to know with precision how many people will lose their jobs when JobKeeper ends. The government has been at pains to underscore that it will be a small share of recipients. We agree, based on strength of the recovery to date.

However, given the uncertainty over exactly how many jobs will be lost, we also considered upside and downside scenarios. On this basis, we find that it is plausible that unemployment rate will land anywhere between 6.2% and 6.7% at the end of June. Importantly, we do not expect the unemployment rate will get anywhere near its 2020 peak.

While the overall picture looks relatively sanguine, there are vulnerable pockets of the economy which will face challenges when JobKeeper ends. Job losses are likely to be concentrated in industries exposed to travel restrictions and ongoing social distancing regulations, where there are more employees working zero or low-hours. We expect the following industries are the most at risk for job losses:

- Accommodation and food,
- Arts and recreation,
- Travel agencies and tour arrangement services, and
- Air transport.

It remains an open question whether the government will implement targeted support in aid of these industries after JobKeeper ends.

Outlook

The conclusion of JobKeeper marks a significant, but manageable, reduction in fiscal support. We expect the unemployment rate will land between 6.2% and 6.7% at the end of June. The current momentum in the labour market and large household saving buffers will help support economic activity over the coming months. We expect the unemployment rate will decline in the second half of the year after the unwind of JobKeeper washes out and the vaccine deployment leads to a further relaxation of restrictions. The decline in the unemployment rate will be underpinned by low interest rates, infrastructure spending, an upturn in housing and solid spending by consumers.

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