

Lockdowns hit Australia's employment

With about 50% of Australia's population in some form of lockdown in August, the only important questions about this labour report were simply how big a hit this would be and whether the unemployment rate would again be dominated by labour force participation...



-146.3 Employment (thousands)
Change from July

Worse than expected

The Delta variant and low vaccination don't mix well

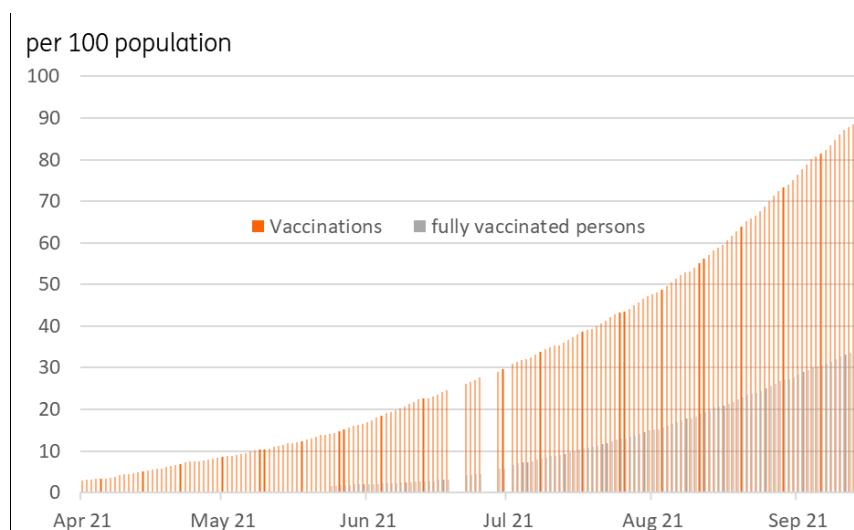
Australia's relatively low rates of vaccination in August left it having to rely more heavily on lockdowns to try to control the spread of the Delta-variant than some other nations. And that has taken a toll on the labour market, and will likely take its toll on GDP in the third quarter too.

Total employment fell 146.3 thousand, which was fairly cleanly split between part-time employment (-78.2 thousand) and full-time employment (-68.0 thousand). That was a fair bit

worse than the consensus expectation for about an 80 thousand decline. We had anticipated that more full-time jobs would survive the August shutdown than actually happened. The loss of part-time jobs is less surprising. It is also less likely to hit consumer spending than the large loss of full-time jobs. Consequently, the outlook for 3Q GDP is not looking very bright right now, especially as lockdowns still remain in place in many regions and are likely to do so for much of the rest of September.

Our 4.8% full-year GDP forecast is at some downside risk as a result, though with most of the growth front-loaded into the first half of the year, the forecast is unlikely to require substantial surgery.

Australian vaccination progress



Source: CEIC

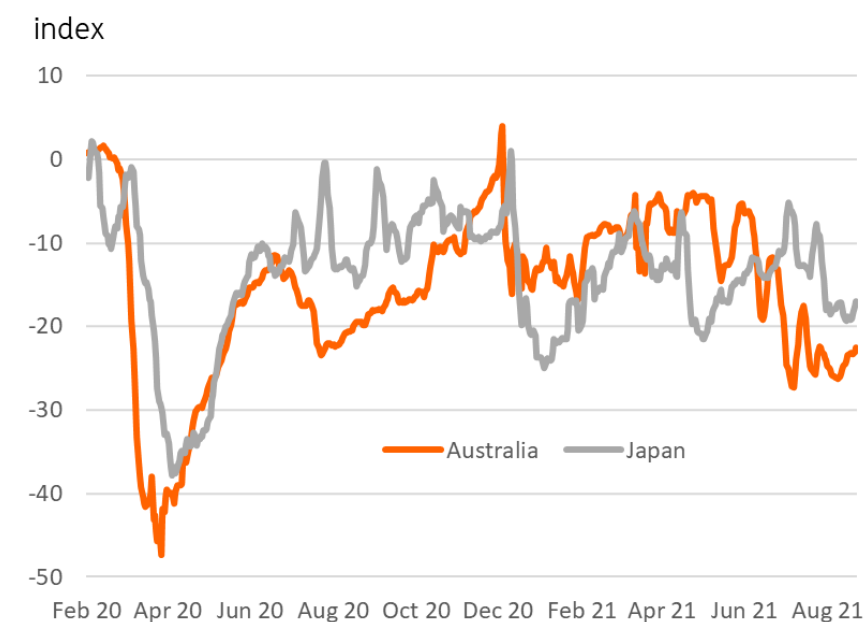
Time to look for an alternative to the unemployment rate

Once again, the unemployment rate staged a surprise decline. Despite the hint last month that falling participation rates can dominate the swings in unemployment, the consensus was heavily betting on a big rise from 4.6% to 5.0% in August. In the event, the unemployment rate fell to 4.5%. The participation rate staged a big decline to 65.2% from 66.0%. It seems like a lot of people are re-evaluating their priorities in the latest lockdown. And a working life is the main victim of this introspection.

Ways and means

Japan has also had problems with the Delta variant in recent months, but Japan's inability to mandate effective lockdowns, and states of emergency which seem to be losing their teeth in terms of adherence, shows clearly in a comparison of the google mobility indices for these two economies. Whether, in due course, Australia's rigorous movement and social restrictions prove to be more effective in containing the spread of the virus remains to be seen. But in the short run, the damage is already becoming apparent.

Google mobility index, Australia and Japan



Source: CEIC

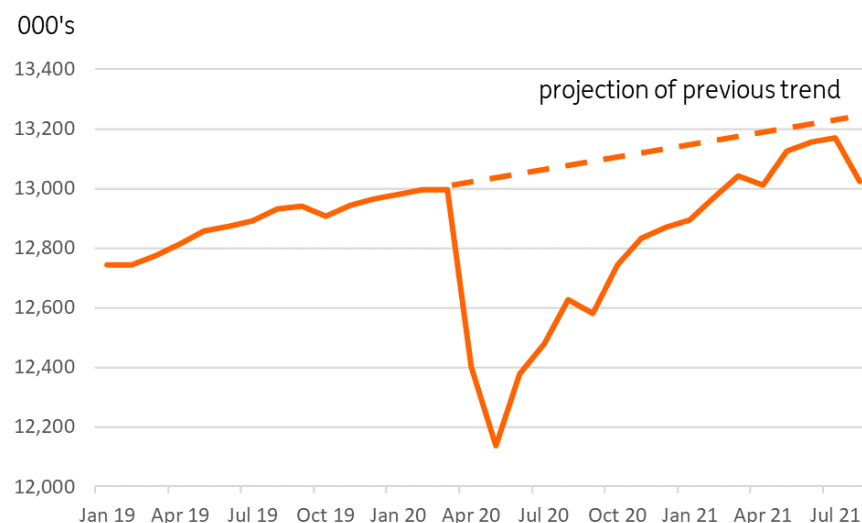
Impact already being felt in terms of more gradual taper

It looks clear that had it not been for the recent outbreak of the Delta variant and the steps taken to restrict its spread, Australian employment would have returned to a path projected from pre-Covid times. And while that was unlikely to have been enough to spur the Reserve Bank of Australia into aggressive action, it would have tallied with the very gradual unwinding of the asset purchasing that will get underway this month.

That process has already been slowed, with the AUD4bn pace of asset purchasing previously due to be reviewed in November now pushed out to at least mid-February 2022. What happens then will depend partly on the spread of the virus, partly on how much vaccination progress Australia makes between now and then, and partly on whether the authorities' reaction function adjusts to living with the virus.

That is frankly too many moving parts for any conviction forecast beyond the next few months, and markets are likely to tread warily as a result.

Australian employment (total)



Source: CEIC

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