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Treasurer

Address to the Australian Chamber of Commerce and Industry

Labour market update and the future of JobKeeper

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CHECK AGAINST DELIVERY

Introduction

Good morning.

It's a pleasure to be here speaking to the Australian Chamber of Commerce and Industry.

As leaders of business, you don't need reminding that it's businesses that create jobs, not governments.

We merely help create the environment for you to start and to grow a business.

As our Economic Comeback from the COVID-19 recession gathers pace, I want to talk to you about the immediate outlook of the labour market and the evolution of the temporary JobKeeper program.

It goes without saying that JobKeeper has been one of the most significant, and successful, Government programs in our nation's history.

There has been three distinct phases to the JobKeeper program:

- The first phase - which saw the JobKeeper program stood up for an initial six months until the end of September 2020.
- The second phase - which saw JobKeeper extended for an additional six months and businesses transition off the program as the test moved from one based on a forecast decline in revenue to one based on an actual decline.
- And the third phase, as we prepare to wind down the temporary JobKeeper program and move to more targeted support.

The first phase of JobKeeper was successful in keeping Australians in work and businesses in business.

At the time of JobKeeper's development the country was staring into the abyss.

COVID-19 cases were accelerating at home and aboard.

In Australia, there were around 350 new cases per day.

We were facing double digit falls in GDP and a tripling in the unemployment rate to more than 2 million people.

Sadly for many other nations they went into this abyss.

Across our major trading partners we saw a 25 per cent fall in GDP in India, a 19 per cent fall in the United Kingdom, a 12 per cent fall in the euro area and an 11 per cent fall in New Zealand in the June quarter and an average of more than 10 per cent fall across the OECD.

Here in Australia, we avoided these worst case scenarios, but our economy was still hit hard by the health measures we needed to put in place to suppress the virus and to protect lives and livelihoods.

GDP fell by 7 per cent in the June quarter, the largest quarterly fall on record.

But it wasn't just economic growth that was hit.

Sadly some 1.3 million people either lost their job or were stood down on zero hours.

While jobs were being lost across the economy, the nature of the restrictions meant that some industries and people were hit harder than others.

Between February and May last year around a third of the reduction in employment was in the Accommodation and Food Services industry, an industry which in 2019 accounted for 7 per cent of all employment.

Another quarter of the fall in employment was in the Transport, Postal and Warehousing, Arts and Recreation and Retail Trade industries combined.

In this period, we saw that more than half of those (55 per cent) that lost their jobs between February and May were female and around 60 per cent were less than 35, largely reflecting the age, gender and employment characteristics of the industries that were hardest hit.

But this would have been far worse if we hadn't introduced the temporary JobKeeper payment.

Between March and September, just under $70 billion in JobKeeper payments supported just under a half of all Australian businesses and one-third of all Australian workers.

From the start, the whole design of the program, and our support more broadly, was geared around ensuring that businesses stayed afloat and that workers stayed connected to those businesses.

It is now clear that has happened.

Take Julia, small business owner of two bakeries across Melbourne and Sydney employing 13 staff. Upon the announcement of JobKeeper Julia said "I re-employed my Sydney team and restored the hours of my Melbourne team. Whilst we couldn't run cake making classes, we had the staffing and time to be able to turn our business model completely around." "If it wasn't for JobKeeper this would not have happened."

It is stories like Julia's, which were repeated around the country.

And while it is those stories that truly capture the impact on lives and livelihoods the data also clearly demonstrates how effective JobKeeper has been as an economic lifeline for businesses and workers.

RBA research estimates that overall job losses would have been at least twice as large over the first half of 2020 without JobKeeper, saving at least 700,000 jobs.

What may not be obvious to some is that a key part of the recovery in the labour market in this first phase of JobKeeper between March and September is that a large number of people returned to their previous jobs or had their hours increased in their existing job.

Through preserving employer-employee connections and ensuring business remained open for workers to go back to, the unemployment rate is being driven lower faster than that experienced in previous recessions.

The RBA is forecasting the unemployment rate to reach around its pre-COVID level of 5¼ per cent by June 2023.

This is three times faster than what occurred in the early 90's recession and will be critical in minimising the damaging impacts of labour market scarring on individuals and the economy more broadly.

In large part thanks to JobKeeper, 94 per cent of the 1.3 million people who lost their jobs or were stood down on zero hours are now back in work.

The transition to the second phase of JobKeeper has been successful and is ensuring support is targeted to those who need it most

Australia's labour market was performing strongly as we moved from the first to the second phase of JobKeeper.

More than 2.1 million workers employed in 520,000 businesses graduated off JobKeeper at the end of September with improvements across all states and territories, regions and sectors.

Western Australia saw the greatest fall in the number of people on JobKeeper in the December quarter compared to the first phase of the program (from April to September), decreasing by 70 per cent.

New South Wales saw a 60 per cent decrease, Queensland a 64 per cent decrease and South Australia a 67 per cent decrease while Victoria recorded a 44 per cent decrease as it confronted a second wave of the virus.

Across industries, retail trade saw a 68 per cent decrease, accommodation and food services a 52 per cent decrease and education and training a 50 per cent decrease.

This shows how broad based the improvement has been.

Importantly for those businesses and workers that graduated off the first phase of JobKeeper in September, the transition has been relatively smooth with businesses having job levels in December broadly at the same level as they were at the start of March.

These positive outcomes show that the second phase of JobKeeper remains well calibrated, ensuring support has been going to those who require it the most.

They also show how dynamic the Australian labour market has been despite economic support delivered through JobKeeper, the Coronavirus supplement and Cashflow Boost having halved between the September and December quarters falling by $30 billion.

And at the same time the support was tapered the economy added 320,000 jobs.

In addition, in the three months to November 2020, we saw record numbers of previously unemployed people finding new jobs.

In the same period we saw a record 170,000 previously unemployed people switch into a new occupation or industry, which is around 40 per cent above the usual level.

This provides confidence that new opportunities will be available for those people who are looking for work.

However, while some businesses were able to transition off JobKeeper, we continued to provide significant support to those businesses that needed it.

In the December quarter around $13 billion in JobKeeper payments were made to around 520,000 businesses employing around 1.6 million Australians.

But conditions in those businesses also improved over the quarter.

New analysis of tax microdata by Treasury shows that the number of phase two JobKeeper workers who are working zero or very low hours has been decreasing over time.

Of the around 1.6 million people receiving JobKeeper support at the start of the second phase in late September, Treasury estimates around 200,000 were on zero or low hours at the time.

By the end of December the number of these workers had decreased to around 120,000 with 40,000 of these workers in Melbourne.

With the end of Victoria's lockdown, opening of state borders and continued improvements in the labour market, this number is expected to continue to decline over the coming months.

We are well placed for the end of JobKeeper, though some targeted, proportionate and temporary support may be needed

This brings us to today.

Where we are now and where we are headed post JobKeeper.

Preliminary data from the ATO show that business conditions in JobKeeper firms have continued to improve, with even more workers and businesses graduating off JobKeeper in January 2021.

For the month of January the ATO data indicates that there are around 140,000 fewer businesses and nearly 600,000 fewer individuals relying on the temporary JobKeeper payment in the month of January to date compared with the month of December.

Together with those that transitioned off the first phase of program, this shows that around 2.7 million individuals across around 650,000 businesses have now graduated from JobKeeper.

As a result Treasury now expects the number of individuals relying on the payment to be 1.1 million in the March quarter - a reduction of 200,000 compared to the MYEFO estimate of 1.3 million.

Of the 1.1 million people expected to be on JobKeeper in the March quarter, we are expecting the overwhelming majority to remain in their existing jobs following the conclusion of the program.

This is supported by the RBA which is forecasting that the unemployment rate will continue to fall from 6.4 per cent in January to reach 6 per cent by the year's end.

As the RBA Governor Philip Lowe has said:

> *"... when the JobKeeper program finishes at the end of March we expect some additional job losses, but over time these are expected to be offset by the jobs created by the ongoing recovery of the economy."*

While Jobkeeper has been a remarkable program, it will no longer be fit for purpose beyond March.

In Treasury's review of the JobKeeper program last June they found that:

> *"JobKeeper has a number of features that create adverse incentives which may become more pronounced over time as the economy recovers. It dampens incentives to work, it hampers labour mobility and the reallocation of workers to more productive roles, and it keeps businesses afloat that would not be viable without ongoing support."*

However, we know that the transition will be a difficult dismount with some businesses needing to adjust and workers seeking out more sustainable roles.

But it is one that can be managed and one that must be managed as keeping in place an economy-wide JobKeeper program is not the best way to deal with the areas of the economy that remain disproportionately affected.

Young people continue to be the most impacted, with employment of those aged 15-34 3.3 per cent lower in January 2021 than in March 2020, while employment of those aged 35 and over increased by 1.2 per cent.

The sectors impacted by continued international travel restrictions as well as state health-based restrictions had the highest proportion of zero or low hour JobKeeper workers in December.

Around 20 per cent were in just four out of around 500 narrowly defined industry classes: Cafes and Restaurants, Travel Agencies and Tour Arrangement Services, Accommodation, and Air and Space Transport.

And it is the CBDs that have been affected by COVID to a far greater extent than suburban and most regional businesses.

One quarter of individuals at JobKeeper recipient firms with sales declines of more than 50 per cent are in the Sydney and Melbourne CBDs.

The decline in payroll jobs in the Sydney CBD was 6.9 per cent at the end of December compared with the middle of March 2020 which was more than double the state-wide average in NSW of a decline of 3.2 per cent.

Payroll jobs were 9.8 per cent lower in Melbourne's CBD compared to a statewide average of 5.1 per cent.

That said, these areas and the wider economy will benefit from the Morrison Government's economic support which continues to be rolled out across the country.

Importantly there is still around $100 billion of $251 billion of committed Morrison Government support still to be delivered to households and businesses to support them in the recovery.

And while some of the $150 billion in support that has been delivered has been spent, much of it has bolstered household and business balance sheets.

This is evidenced by the fact that household and non-financial business deposits are almost $240 billion higher compared to a year ago with household cash savings having increased by $126 billion over the last year to record levels and business cash holdings increased by $112 billion.

These savings, together with record low interest rates, means that businesses and households are well placed to invest and consume as the recovery takes hold.

And although a number of programs are winding down, fiscal support will continue in the form of the JobMaker Hiring Credit, the JobTrainer Fund, the bringing forward of Personal Income Tax cuts, tax incentives for business investment and infrastructure investment amongst others.

However, we are considering further support in targeted areas.

The next stage of the recovery needs to target those who require support, whilst not getting in the way of the broader economic recovery.

Any targeted support needs to be proportionate, temporary and accompanied by a clear exit strategy.

The transition from the first to the second phase of JobKeeper went relatively smoothly.

This next transition may be more difficult, however the positive outcomes we observed in the first transition and the improving labour market hold us in good stead.

As the RBA Governor said earlier this month:

> *"the recovery has started earlier and has been stronger than we were expecting", beating even their most optimistic forecasts from August last year.*

We stand ready to support the economy as required but it is important to note the economic recovery is well underway.

Conclusion

To conclude, the temporary JobKeeper program helped the Australian economy get through the unprecedented economic shock from COVID-19.

But it has served its purpose.

It has supported nearly half of all Australian businesses and one-third of all Australian workers.

Over the coming weeks we will have more to say on targeted support for various sectors.

But just as we had your back through the height of the crisis we will continue to have your back as our economic comeback continues.

Ends.