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Initial assessment of the impact of a COVID-19 induced economic downturn on NSW and Australian workers

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Introduction

The COVID-19 pandemic is one of the biggest global health challenges in recent history. Since its emergence in Wuhan, China in December 2019, the virus has now spread to over 100 countries, infected over 200,000 patients and led to the deaths of more than 8000 people worldwide as of March 19, 2020.

Australia has proven to not be immune from the impacts of COVID-19. As of March 19, 2020, over 500 Australians had been infected.

While COVID-19 is first and foremost a healthcare challenge, it creates a real and unprecedented set of challenges for the Australian economy.

The policy levers pulled by both Commonwealth and State Governments – social distancing measures, emergency powers, and unprecedented travel bans – have impacted every sector of the economy, due to impositions on consumers' ability to spend, and the perceived uncertainty and anxiety throughout the population which has led to a rapid collapse in aggregate demand.

These impacts will be felt economy wide. State and Commonwealth Governments have each considered these impacts and enacted first round economic stimuli. The Commonwealth's \$17.6 billion stimulus focused on delivering cash payments to those on Commonwealth payments, like Newstart and the aged pension, as well as incentives for business to invest and retain staff, including apprentices.

This analysis does not assess the merits of the first round stimulus. It does, however, highlight other cohorts that will be acutely and immediately impacted by the significant economic downturn that is now evident, looking at both Australia-wide and New South Wales specific data.

It notes, in particular, the sections of the labour-market that are not currently in receipt of Government stimulus payments that are highly vulnerable, including low-income workers and workers without access to paid leave.

It explores size of workforces immediately impacted by the downturn: those working in non-food retail trades, accommodation and food services, creative and performing arts, airlines, and sports and recreation. These industries are feeling immediate impacts, and are disproportionately composed of workers without the security required to weather a loss in hours, income or job.

It then notes the impact job losses have on older Australians, outlining that during the last major shock – the Global Financial Crisis – job searches for workers aged over 45 increased significantly, leading to the early retirement for many aged 55 and over. Assistance should be considered to ensure these workers remain employed.

Key Findings

National

- 3.7 million working Australians have no access to paid leave.
 - 2.6 million *employees* in Australia have no access to paid leave.
 - There are a further 1.1 million *contractors* without paid leave entitlements across Australia.
- 1.86 million workers in Australia are employed in five sectors immediately impacted by the downturn: accommodation and food services, retail trades (excl. food retailing), creative and performing arts, sports and recreation, and airlines. While workers in these fields are *immediately* impacted, the economic ramifications will be felt economy wide.
- 57.8 per cent of workers in industries identified as most immediately impacted are female.
- 3.2 million Australian workers earn under \$800 per week, with the overwhelming majority not able to access stimulus payments from the 17.6 billion stimulus package. This includes 557,000 employed Australians who *earn under \$200 per week*.
- Low paid workers are the least likely to have paid sick leave, and the most likely to be working in industries most immediately impacted by the slowdown: accommodation and food services, retail trade, sports and recreation activities, the airline industry, arts and creative sectors.
- 13.3 per cent of Australians and 12.6 per cent of New South Wales residents do not have the capacity to find \$2000 within a week for emergencies.

New South Wales

- 831,400 NSW employees do not have access to paid leave.
- There are 330,000 independent contractors working in New South Wales without access to paid leave.
- There are also 380,000 workers categorised as self-employed in New South Wales without access to paid leave.

Stimulus Round 1: Low-Income Workers Not Protected

On March 12, the Morrison Government announced its economic \$17.6 billion first round stimulusⁱ. The stimulus provided income support for those on Newstart and other Commonwealth payments, including the aged pension. The Government announced further support for small businesses to hold onto apprentices, as well as various investment incentives for almost all businesses.

The Governments' focus on those receiving Commonwealth payments is based on historic precedents that these cohorts have a higher propensity to consumer than others.

However, given the unprecedented nature of these economic challenges, these precedents might not be replicated in today's environment.

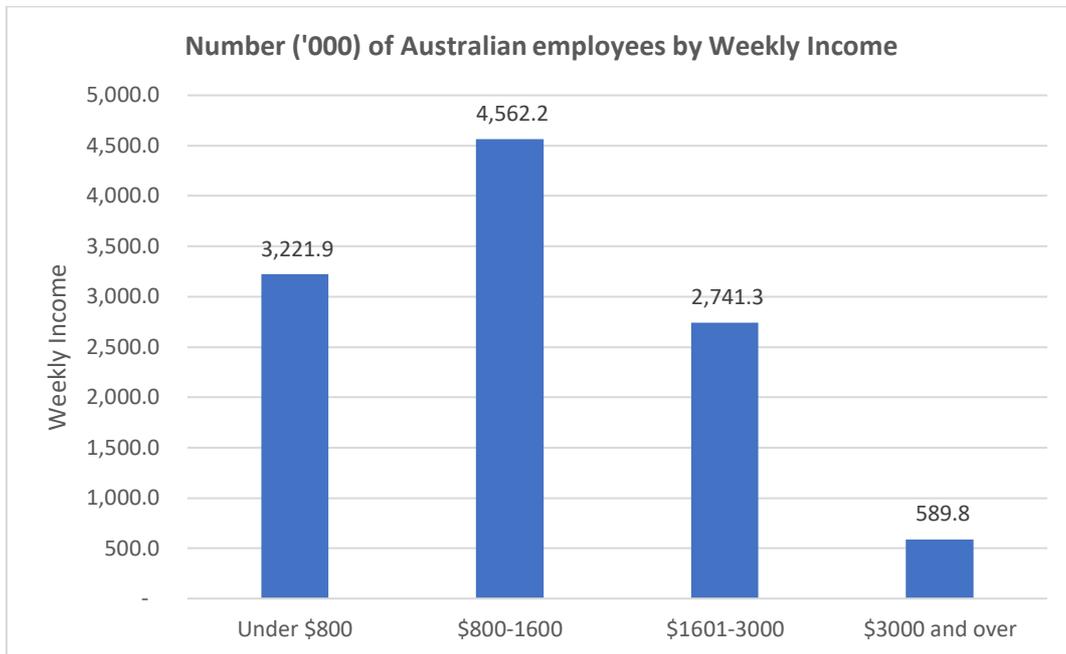
There are concerns in particular about those on the aged pension spending their \$750 cash payments, given broader societal concern about the health and wellbeing of that aged cohort if they participate in society at all during the pandemic. While it is fair to ensure these low income Australians are financially supported, the extent to which this payment will deliver the necessary stimulus to the economy is uncertain.

Further stimulus will be announced throughout the crisis in several tranches, as the Government has suggested but has not yet formalised.

This initial assessment highlights the key groups who will be impacted by the immediate and ongoing fallout of the pandemic induced crisis, and identifies the key groups that should be supported in future stimulus rounds.

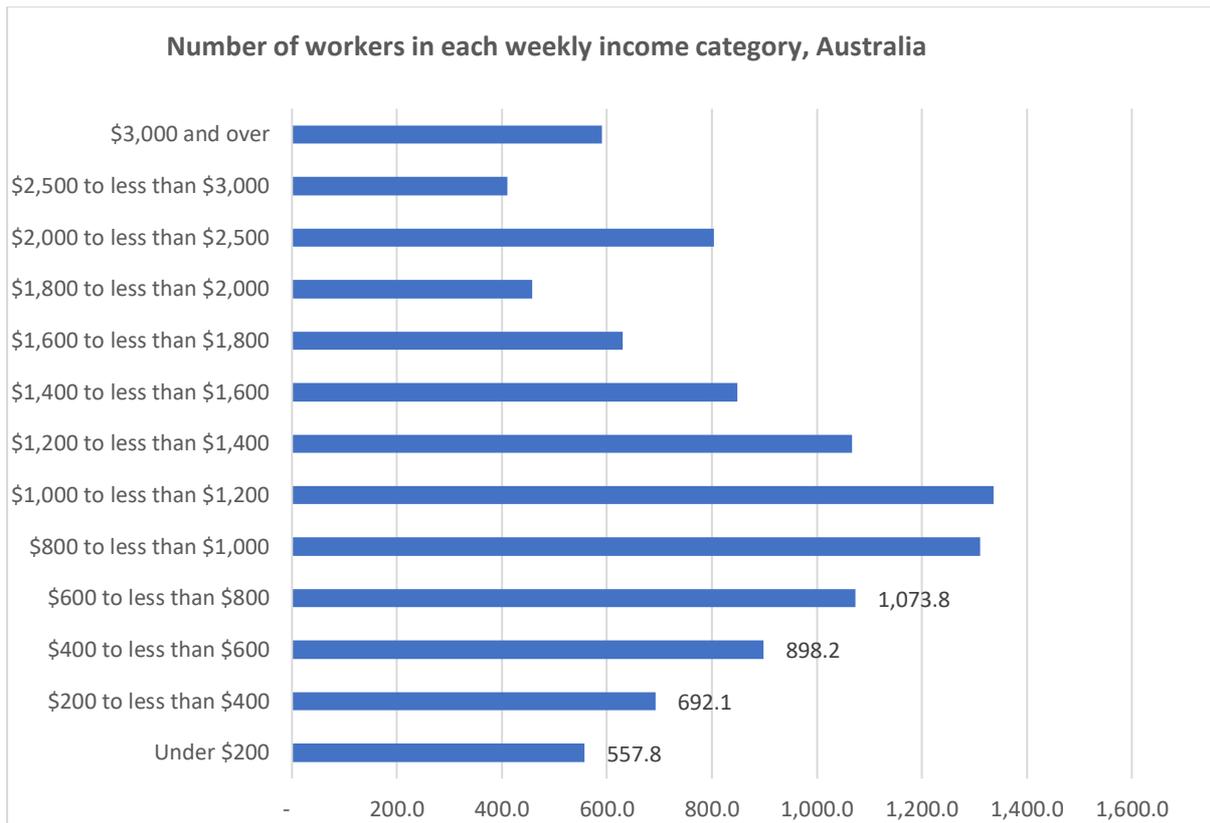
It is essential that workers without access to paid leave are granted financial support from the Government, or are provided special paid leave by their employer. This is required not only to deliver economic justice to those already in an economically vulnerable position, but to dissuade workers without leave from working while ill, and potentially spreading COVID-19.

A Large Number of Low-Income Workers Not Able to Access Stimulus Payments



Source: ABS CAT 6333.2. *Characteristics of Employment*ⁱⁱ.

- **3.21 million Australian workers earn under \$800 per week.**
- Current stimulus announcements are not designed to flow through to this working cohort, unless they are on other entitlements programs in addition to their employment.
- This cohort of workers typically has a **higher propensity to consume**ⁱⁱⁱ than cohorts higher on the income distribution. However, this propensity to consume is lower when this cohort believes their jobs are threatened: a stimulus needs to both alleviate financial pressures, and provide job certainty.
- This cohort consists of part time workers, casuals and independent contractors, and is disproportionately female.



Source: ABS CAT 6333.2^{iv}

- The lower-middle class is most vulnerable to the immediate impact of the downturn:
 - 557,000 Australians earn under \$200 per week.
 - 692,100 workers earn between \$200 and \$400 per week.
 - 898,200 workers earn between \$400 and \$600 per week.
 - 1,073,000 workers earn between \$600 and \$800 per week.
- The overwhelming majority of these workers will not be included in the existing Round 1 Stimulus unless they are also on a form of income support in addition to their paid employment.

How Many Australians Have Leave Entitlements?

Composition of Non-Permanent Workforce: National

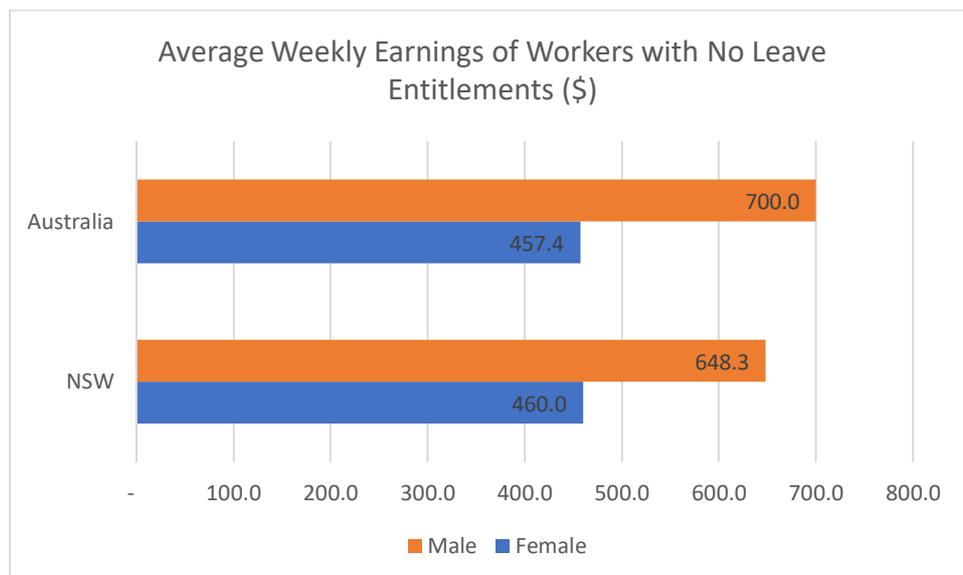
| <i>Worker groups</i> | <i>Number</i> |
|---|---------------|
| <i>Casual workers</i> | 2.6m |
| <i>Contractors</i> | 1.1m |
| <i>Self-employed/other</i> | 1.3m |
| <i>Total</i> | 5m |
| <i>Percentage of total working age population in non-permanent work</i> | 37% |

Source: ABS CAT 6333.1;6333.10.v

- 3.7 million Australian workers, excluding self-employed, don't have access to aid sick leave and are acutely vulnerable to any economic downturn. A further 1.3 million are self-employed, and similarly vulnerable.

Workers without leave are typically the lowest income earners

- Australian and New South Wales workers without access to leave typically earn considerably less than those with paid leave. The average female worker in New South Wales without access to paid leave, for example, only earns \$460 per week – barely enough to cushion any shock or loss of employment.



Source: ABS CAT 6333.1a^{vi}

Division of Workers by Access to Leave

| <i>Full Time in Main Job ('000)</i> | | |
|-------------------------------------|------------------|------------|
| | Australia | NSW |
| <i>With Paid Leave</i> | 6,390.9 | 2,119.5 |
| <i>Without Paid Leave</i> | 784.6 | 243.3 |

| <i>Part Time in Main Job ('000)</i> | | |
|-------------------------------------|------------------|------------|
| | Australia | NSW |
| <i>With Paid Leave</i> | 1,690.2 | 493.6 |
| <i>Without Paid Leave</i> | 1,817.2 | 588.1 |

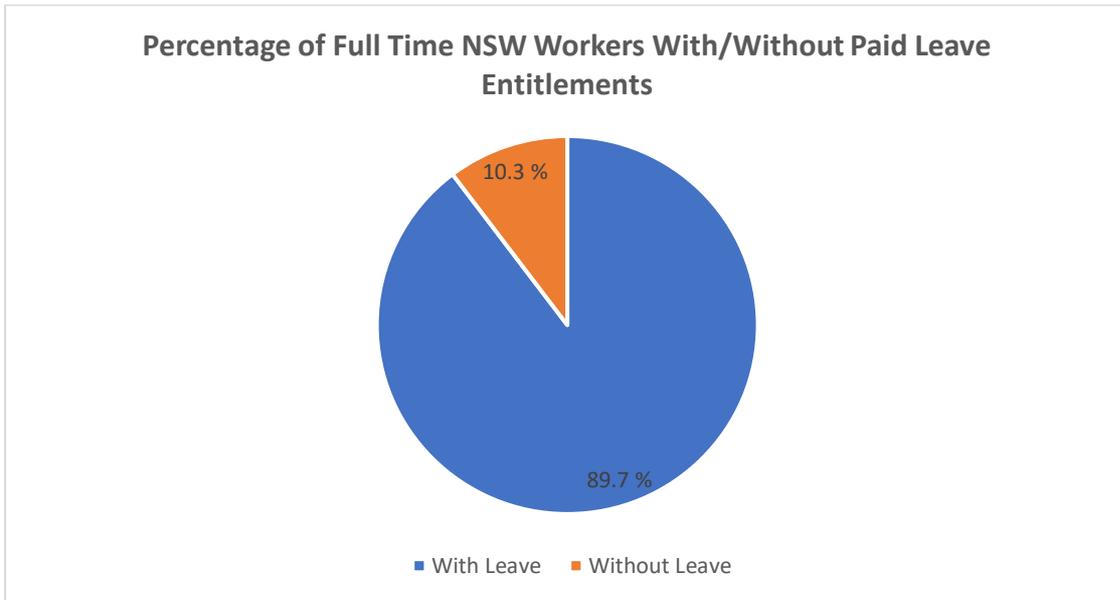
| <i>Total ('000)</i> | | |
|---------------------------|------------------|------------|
| | Australia | NSW |
| <i>With Paid Leave</i> | 8,081.2 | 2,613.1 |
| <i>Without Paid Leave</i> | 2,601.8 | 831.4 |

Source: ABS CAT 6333.1c^{vii}

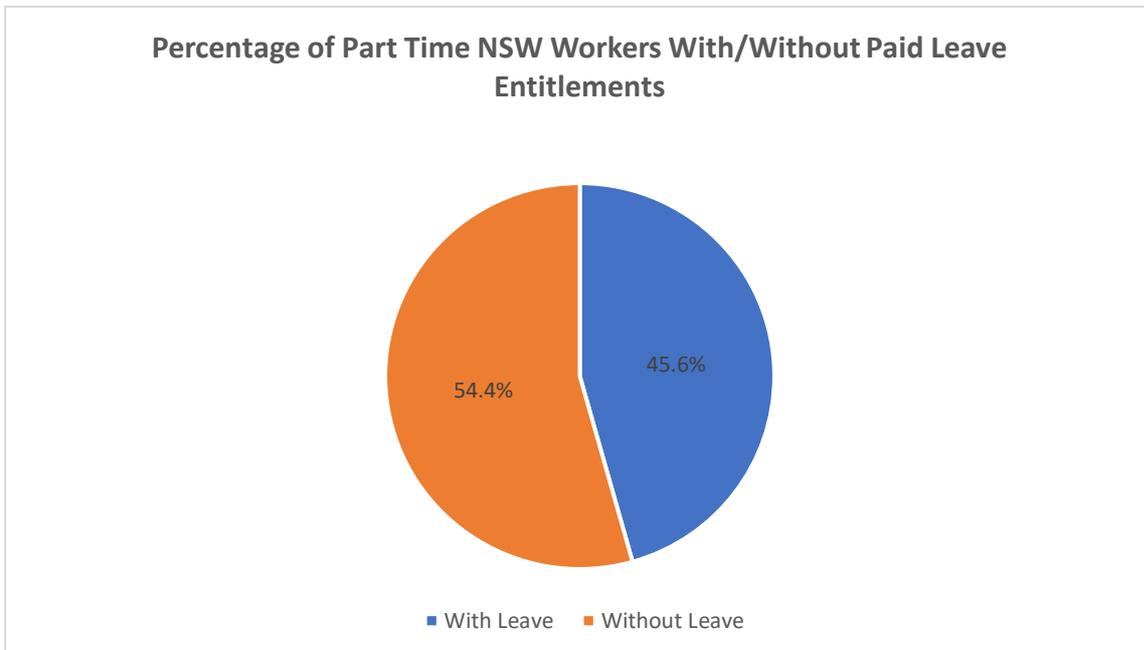
- There are 6.39 million full time workers in Australia with leave entitlements, and 2.12 million in New South Wales.
- There are 784,600 full time workers in Australia *without* leave entitlements, and 243,300 in New South Wales.
- There are 1.69 million part time workers in Australia with leave entitlements, and 493,600 in New South Wales.
- There are 1.82 million part time workers in Australia *without* paid leave entitlements, and 588,000 in New South Wales.
- **There are 8.081 million workers in Australia with paid leave entitlements, and 2.613 million in New South Wales.**
- There are 2.6 million Australian workers *without* paid leave entitlements, and 831,400 in New South Wales.
- These numbers reflect *employees*, ie: no independent contractors nor gig economy workers. The overall number of individuals in insecure work and without access to leave is therefore higher than the 2.6 million identified in ABS' Characteristics of Employment survey.

New South Wales: Percentage Breakdown of Workforce by Leave Entitlements

- The overwhelming majority of full time workers in New South Wales (89.7 per cent) have access to paid leave entitlements.
- The inverse is true for part-time workers: **54.4 per cent of all part time workers in New South Wales have no access to paid leave entitlements.**

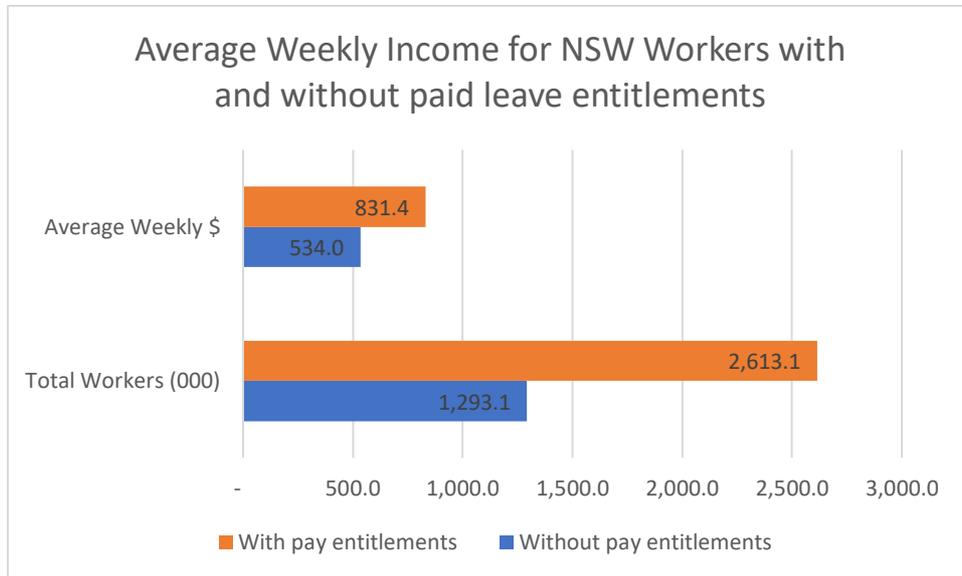


Source: ABS CAT 6333.1c; author analysis.^{viii}



Source: ABS CAT 6333.1c; author analysis.

- This cohort of NSW workers are also typically lower paid than full-time workers and workers with paid-leave.
- The average weekly income for NSW workers without paid leave is \$534.



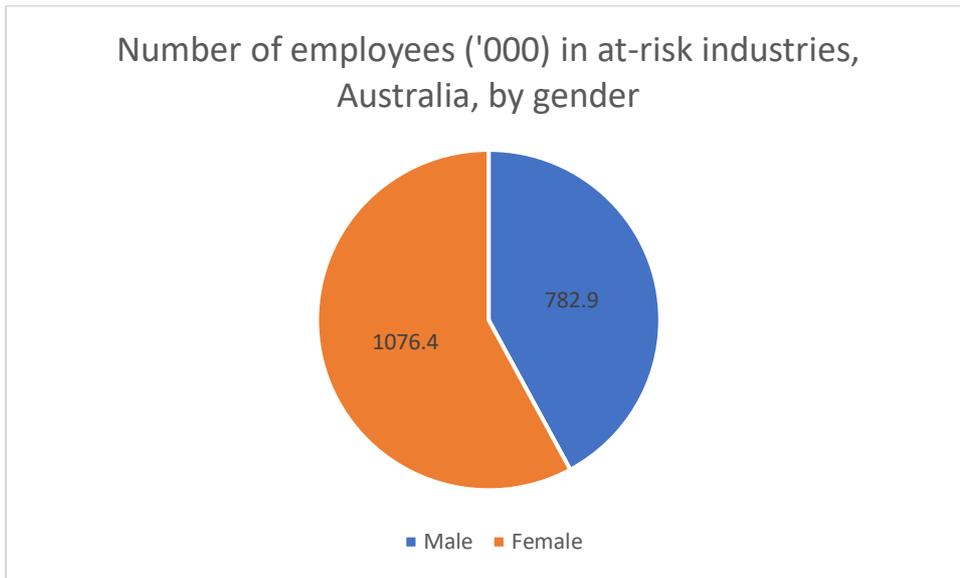
Composition of Employment in Sectors Facing Immediate Challenges

- The likely economic ramifications from a COVID-19 induced downturn impact all industries to varying degrees.
- However, there are key industries most vulnerable to an immediate collapse in aggregate demand imposed on the community by strict social isolation measures and travel restrictions.
- These industries include:
 - *Retail trade (with a potential exception for supermarket food retail, where hiring has been increased to meet demand induced by stockpiling)*
 - *Accommodation and food services*
 - *Creative and performing arts industry*
 - *Airline industry*
 - *Sports and recreation.*
- There is also a risk, in future months, of the forced closures of schools and pre-schools, both in New South Wales and Australia-wide/ Though the Commonwealth has argued this is currently unnecessary, all countries with major COVID-19 outbreaks – including the UK and the US – have imposed strict school closures. This potentially impacts casuals working within that sector – particularly pre-school workers and early-childhood educators. This cohort is not included in this analysis.

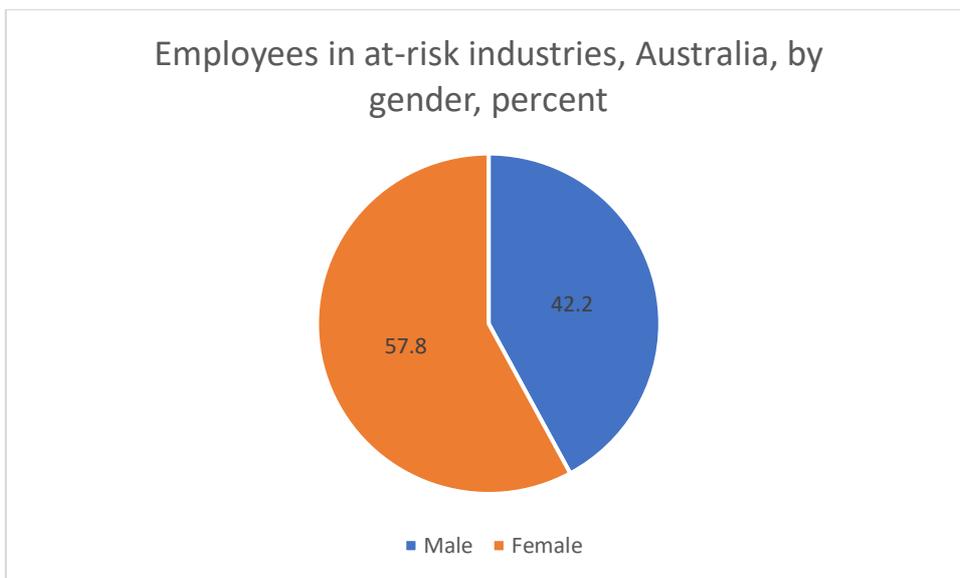
| | <i>Male Part Time ('000)</i> | <i>Male Full Time ('000)</i> | <i>Female Part Time ('000)</i> | <i>Female Full Time ('000)</i> | <i>Total Employed ('000)</i> |
|---|----------------------------------|----------------------------------|---|------------------------------------|---------------------------------------|
| <i>Store Based Retailing (non-food)</i> | 80.2 | 170.9 | 267.5 | 183.1 | 701.7 |
| <i>Accommodation</i> | 14.6 | 26.4 | 30.5 | 26.4 | 92.5 |
| <i>Food and Beverage Service</i> | 213.1 | 170.5 | 308 | 144.8 | 836.3 |
| <i>Air and space transport</i> | 7 | 21 | 6.2 | 12.5 | 46.7 |
| <i>Sports and Recreation</i> | 26.8 | 31.7 | 54.1 | 21.2 | 133.9 |
| <i>Creative and performing arts</i> | 6.0 | 14.7 | 15.1 | 7.0 | 42.8 |
| <i>Total</i> | <i>347.7</i> | <i>435.2</i> | <i>681.4</i> | <i>395</i> | <i>1853.9</i> |

Source: ABS. Cat. 6291.006.^{ix}

Workers in affected sectors are disproportionately female



Source: ABS. Cat. 6291006; author analysis.



Source: ABS. Cat. 6291006; author analysis.

- The retail, accommodation and food services, airline, arts and creative sectors face the most immediate economic impacts due to the COVID-19 downturn. Should school and pre-school closures occur, as is occurring across most of the world, casual and non-permanent workers in the pre-school and school education sectors will also feel the immediate impacts, should state governments not intervene and provide income support for these workers.
- Some sectors of retail trade will do well: the supermarket sector is not expected to be negatively impacted by the collapse in aggregate demand throughout the economy. However, other areas of retail trade will be significantly impacted as demand falls.
- These industries at immediately risk are composed of workforces that are disproportionately female, with only the airline industry being populated by more males than females. **57.8 per cent of those working in these immediately impacted industries nationwide are female.**

Millions of Australians are already financially stressed

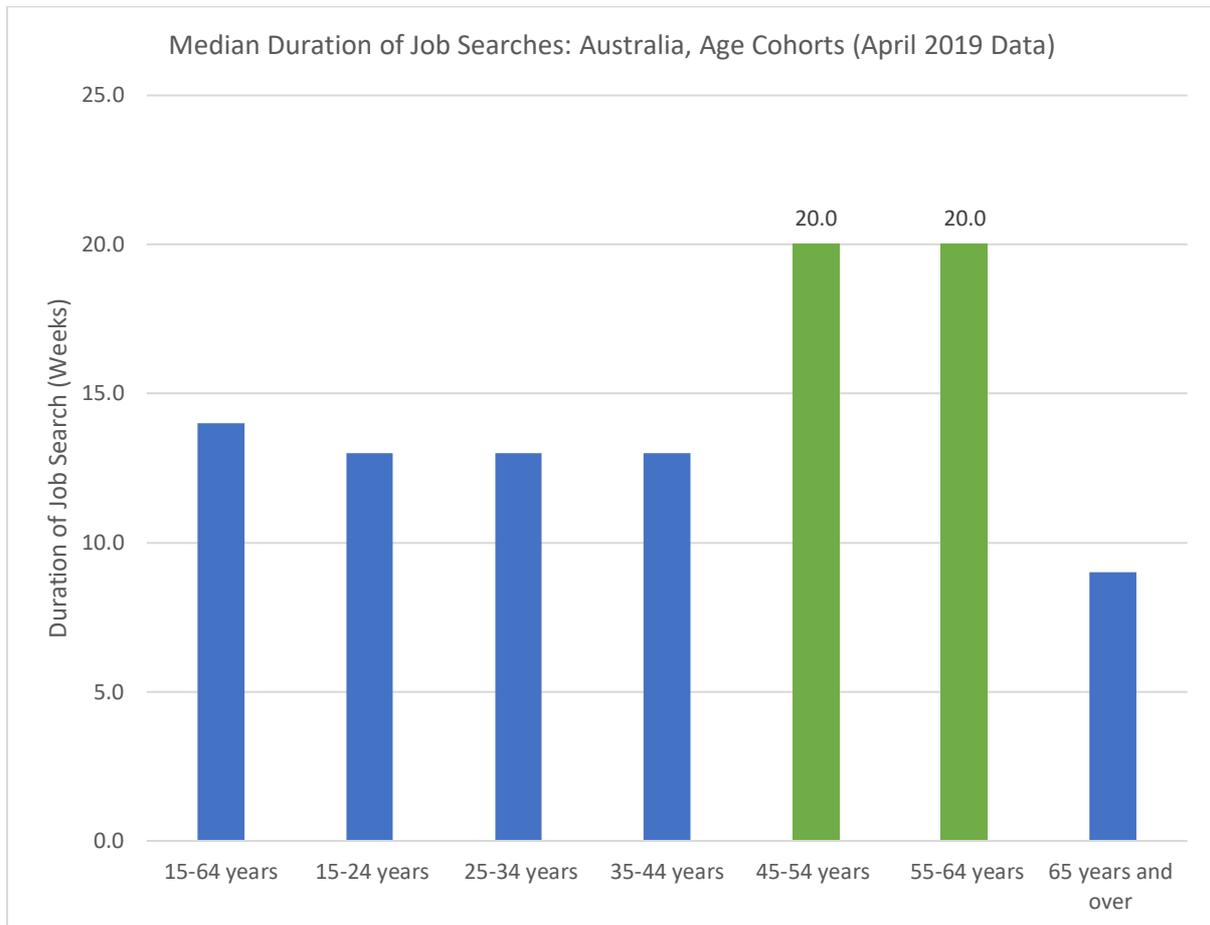
It's important to recognise that for millions of Australians – whether they are in work or not – financial stress is a daily challenge.

The Household Expenditure Survey outlines the degree to which Australians are under financial pressure. Alarming, 13.3 per cent of Australians do not have the capacity to raise \$2000 in a week if they were required to.

| Indicator of financial stress experienced in last 12 months | NSW (% Population) | Australia (% Population) |
|--|---------------------------|---------------------------------|
| <i>Unable to raise \$2000 in a week for something important</i> | 12.3 | 13.3 |
| <i>Spend more money than received</i> | 12.5 | 12.8 |
| <i>Could not pay gas, electricity or telephone bill on time</i> | 8.6 | 9.7 |
| <i>Could not pay registration or insurance on time</i> | 3.2 | 3.9 |
| <i>Pawned or sold something</i> | 2.4 | 2.5 |
| <i>Went without meals</i> | 2.6 | 2.8 |
| <i>Unable to heat home</i> | 2.7 | 2.3 |
| <i>Sought assistance from welfare/community organisations</i> | 3.0 | 2.6 |
| <i>Sought financial help from friends or family</i> | 7.1 | 7.0 |
| <i>Could not afford holiday for at least one week a year</i> | 21.6 | 22.6 |
| <i>Could not afford a night out once a fortnight</i> | 15.3 | 16.6 |
| <i>Could not afford friends or family over for a meal once a month</i> | 7.8 | 7.3 |
| <i>Could not afford special meal once a week</i> | 10.7 | 11.9 |
| <i>Could only afford second hand clothes most of the time</i> | 8.9 | 11.0 |
| <i>Could not afford leisure or hobby activities</i> | 9.2 | 10.5 |

Source: ABS Cat. 6053.0*

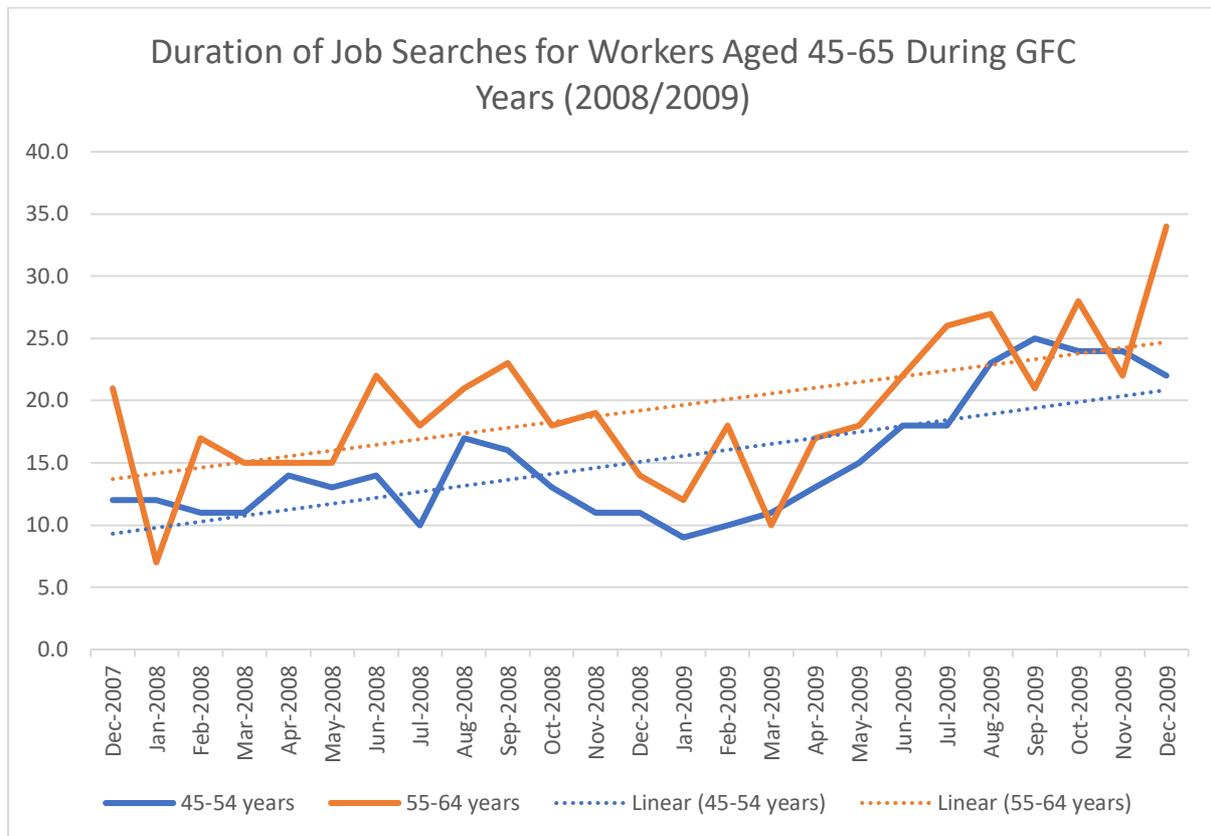
Older workers who lose jobs find it hard to find employment again



Source: ABS CAT 6226

- Job losses are expected in all age cohorts, particularly those working in the vulnerable sectors previously identified.
- The impact of job losses vary for individuals, but have a particularly damaging impact for those aged 45 and over.
- A year ago, it took an average worker 14 weeks to find a job. **For those aged between 45 and 65, average job searches during relatively normal economic times averaged 20 weeks – this is certain to be extended.** The employment prospects of all cohorts are threatened, but the increasing slack in the labour market will exacerbate the duration of job searches for older Australian workers. This extended period of joblessness needs to be factored into any economic stimulus.

How hard was it for workers to find jobs after the GFC downturn?



Source: ABS CAT 6226.15

- The nature of the COVID-19 economic downturn is different than that of the Global Financial Crisis. Initial estimates suggest the COVID-19 induced downturn could be more severe.
- However, the duration of job searches seen during the GFC years demonstrates the length of job searches extends significantly.
- There is a risk that the unemployed in the 55-64 year bracket will be forced into early retirement should job searches extend for durations greater than those evident during the GFC. It is important that Governments consider methods of incentivising employers to retain these workers.

Conclusion

Round 2 Stimulus must support workers without paid leave in vulnerable sectors

This analysis has highlighted the cohorts immediately vulnerable to a COVID-19 induced economic downturn.

It is clear that future stimulus should focus, as a priority, on delivering financial security and the capacity to consume to lower-income Australian *workers* who face immediate financial pressures as a result of reduced hours of work, or job losses.

These workers are predominately casuals, independent contractors or the self-employed, and do not have access to paid leave. Often, these workers are facing acute financial stress already, with many unable to draw on savings or credit in case of financial emergency.

Without support, workers in this cohort will have to decide whether to work or not when they present flu-like symptoms. It is essential that workers without access to leave are delivered a financial safeguard by the Government – both to dissuade them from working while sick and potentially spreading COVID-19, and delivering economic justice to a vulnerable cohort with a high marginal propensity to consume.

Workers in retail trades (with a potential exception for grocery and supermarket employees), accommodation and food services, creative and performing arts, sports and recreation, and other sectors at a high-risk of disruption, such as pre-school education, should be supported in a round two stimulus.

Lower-income Australians in the labour market are also more likely to be renting, and will not receive the pass-through of interest rate cuts. Government policy safeguarding these workers from evictions should be explored.

Workers' aged over 55 should be supported, and the Government should consider ways to keep as many workers in this age bracket employed. This would be preferential to other proposed policy solutions for this cohort, such as enabling them early access to superannuation which would likely exacerbate their long-term financial health.

The Government should pre-emptively assist this target cohort in its Round 2 stimulus.

End Notes

- ⁱ The Treasury. 'Economic Response to the Coronavirus'. Accessed online: <https://treasury.gov.au/coronavirus>
- ⁱⁱ Australian Bureau of Statistics, 2019. '6333.0 - Characteristics of Employment, Australia, August 2019. Accessed online: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6333.0>
- ⁱⁱⁱ Berger Thompson, L., Chung, E., & McKibbin, R. 2009. 'Estimating Marginal Propensities to Consumer in Australia Using Micro Data', Reserve Bank of Australia. Accessed online: <https://www.rba.gov.au/publications/rdp/2009/pdf/rdp2009-07.pdf>
- ^{iv} Australian Bureau of Statistics, 2019. '6333.0 - Characteristics of Employment, Australia, August 2019. Accessed online: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6333.0>
- ^v Australian Bureau of Statistics, 2019. '6333.0 - Characteristics of Employment, Australia, August 2019. Accessed online: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6333.0>
- ^{vi} Australian Bureau of Statistics, 2019. '6333.0 - Characteristics of Employment, Australia, August 2019. Accessed online: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6333.0>
- ^{vii} Australian Bureau of Statistics, 2019. '6333.0 - Characteristics of Employment, Australia, August 2019. Accessed online: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6333.0>
- ^{viii} Australian Bureau of Statistics, 2019. '6333.0 - Characteristics of Employment, Australia, August 2019. Accessed online: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6333.0>
- ^{ix} Australian Bureau of Statistics, 2020. '6291.0 – Labour Force, Australia, Detailed – Electronic Delivery, Jan 2020. Accessed online: <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.001Jan%202020?OpenDocument>
- ^x Australian Bureau of Statistics, 2019. '6503.0 – Household Expenditure Survey and Survey of Income and Housing'. 2015-16. <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6503.02015-16?OpenDocument>