

Decline to boom, and back again: The Australian labour market in the COVID-19 era (2020 to 2024)

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Outline

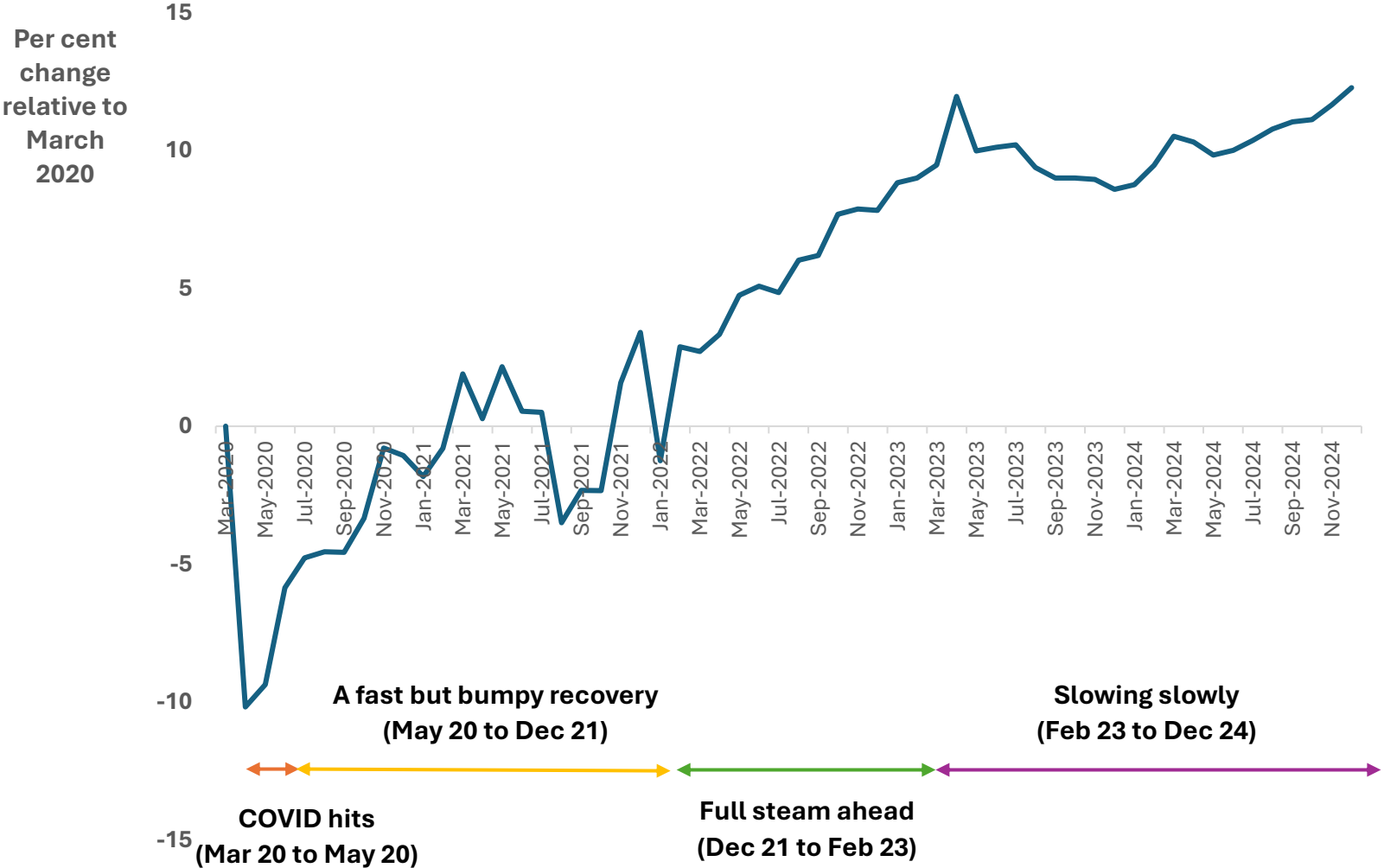
- An overview of developments in the Australian labour market in the years following the onset of COVID-19 (2020-24).
- **First aim** to describe what happened: combines a chronological narrative with coverage of major themes in the time periods where they became prominent or were most relevant.
- **Second aim** is to draw general lessons that can be applied in analysis of labour market and in policy design – both in present and in any future crises.

Outline

- **Overview of this talk**
- **1]** How developments in Australia's labour market from 2020 to 2024 can be thought of in four phases + Key stylised facts.
- **2]** Two major themes (on adjustment):
 - Phases 1 and 2: The speed of adjustment in employment and the key role of 'recalls'
 - Phases 3 and 4: How adjustment happens in a strong labour market
- **3]** A summary of main lessons:
 - How the labour market operates
 - Policy lessons

Australia's labour market from 2020 to 2024

Monthly hours worked, Australia, March 2020 to December 2024 (sa)



Australia's labour market from 2020 to 2024

Before opening up		After opening up	
Decline			
Mar 20 to May 20			
<ul style="list-style-type: none">• The hit: Dramatic fall in employment and hours worked, along with a rise in labour underutilisation.			

Australia's labour market from 2020 to 2024

Before opening up		After opening up	
Decline	Recovery		
Mar 20 to May 20	May 20 to Dec 21		
<ul style="list-style-type: none"> • The hit: Dramatic fall in employment and hours worked, along with a rise in labour underutilisation. 	<ul style="list-style-type: none"> • Remarkable recovery: E/POP rate 1.6 ppts higher and the rate of unemployment 1 ppt lower than March 2020. • But a bumpy path, with the labour market going backwards with each shut down. • Important influence of policy. 		

Australia's labour market from 2020 to 2024

Before opening up		After opening up	
Decline	Recovery	Boom	
Mar 20 to May 20	May 20 to Dec 21	Dec 21 to Feb 23	
<ul style="list-style-type: none"> • The hit: Dramatic fall in employment and hours worked, along with a rise in labour underutilisation. 	<ul style="list-style-type: none"> • Remarkable recovery: E/POP rate 1.6 ppts higher and the rate of unemployment 1 ppt lower than March 2020. • But a bumpy path, with the labour market going backwards with each shut down. • Important influence of policy. 	<ul style="list-style-type: none"> • Strong expansion continues: Growth in hours worked and employment at a similar rate as in the previous year. • But slower increase in E/POP rate and decrease in the rate of unemployment, as the growth now being driven in part by rapid population growth. 	

Australia's labour market from 2020 to 2024

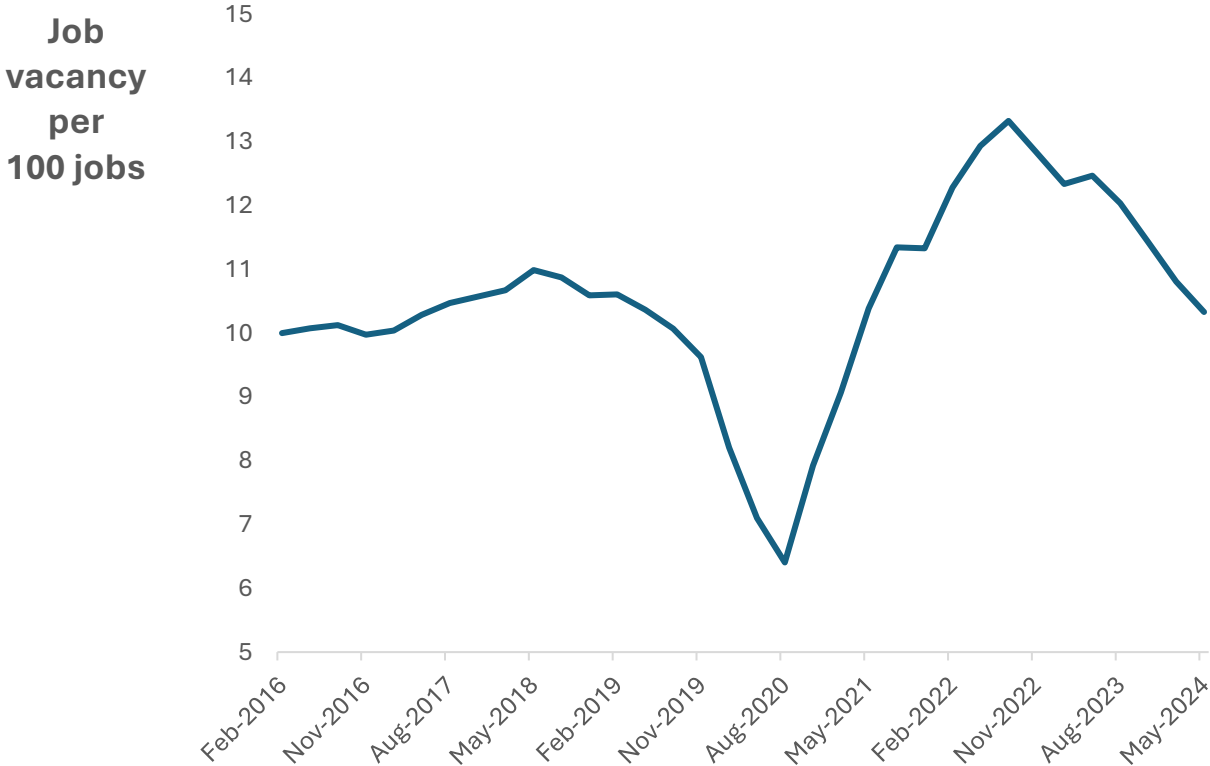
Before opening up		After opening up	
Decline	Recovery	Boom	Slowing
Mar 20 to May 20	May 20 to Dec 21	Dec 21 to Feb 23	Feb 23 to Dec 24
<ul style="list-style-type: none"> • The hit: Dramatic fall in employment and hours worked, along with a rise in labour underutilisation. 	<ul style="list-style-type: none"> • Remarkable recovery: E/POP rate 1.6 ppts higher and the rate of unemployment 1 ppt lower than March 2020. • But a bumpy path, with the labour market going backwards with each shut down. • Important influence of policy. 	<ul style="list-style-type: none"> • Strong expansion continues: Growth in hours worked and employment at a similar rate as in the previous year. • But slower increase in E/POP rate and decrease in the rate of unemployment, as the growth now being driven in part by rapid population growth. 	<ul style="list-style-type: none"> • Slowing growth: E/POP rate stalls, and the rate of unemployment begins to increase. • Critical role of growth in non-market employment.

Australia's labour market from 2020 to 2024

- **Five key aspects of Australia's labour market:**
- Why 'key'?
- Critical for understanding labour market outcomes at the time + Influencing labour market outcomes today
- 1] The rise (and persistence) of job vacancies
- 2] The role of non-market employment
- 3] The procyclical responsiveness of labour supply
- 4] The decline in real wages
- 5] Stagnant labour productivity

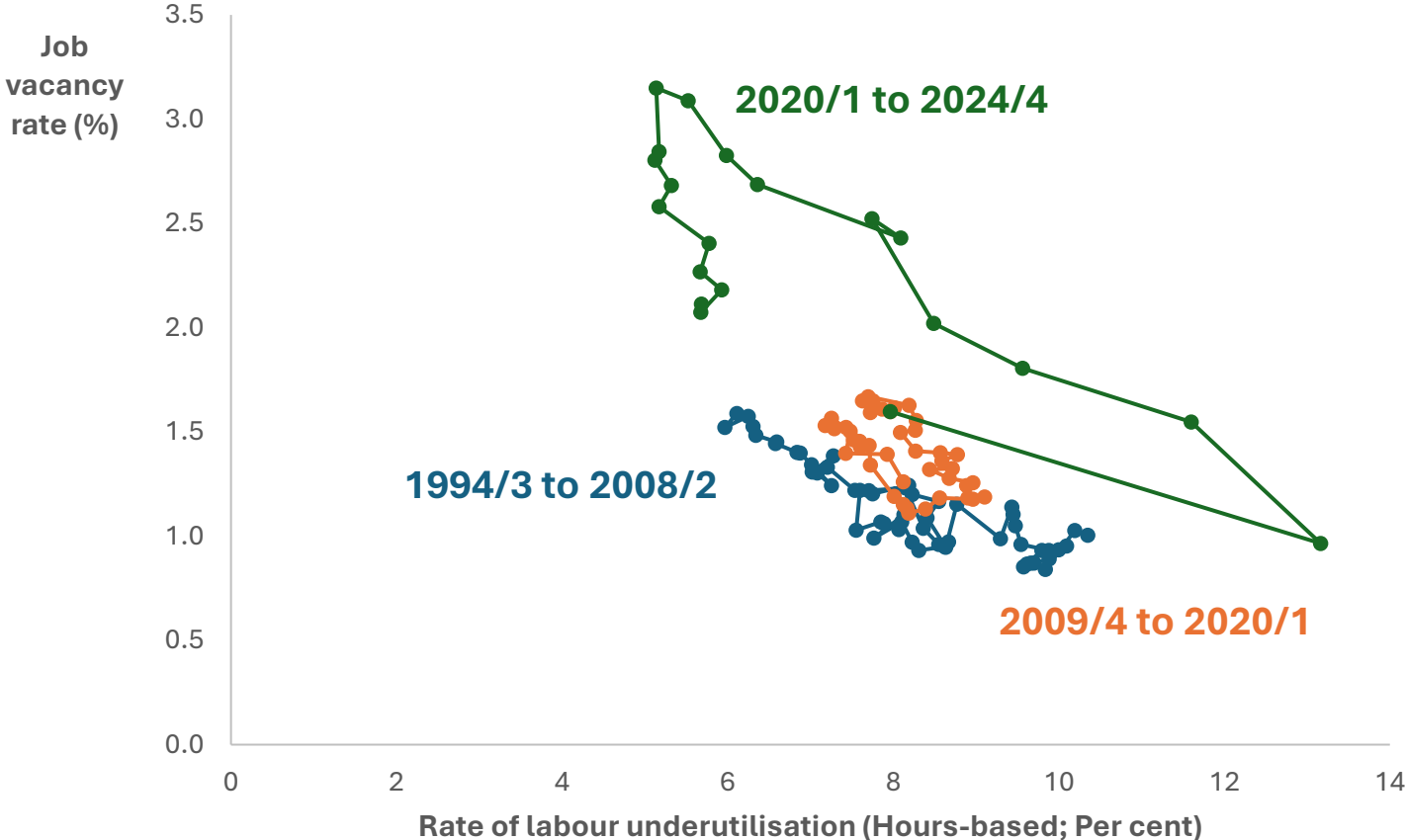
Australia's labour market from 2020 to 2024

1a] Vacancies: Available job vacancies per 100 jobs, Australia, 2016/qtr1 to 2024/qtr2



Australia's labour market from 2020 to 2024

1b] Vacancies: Beveridge curve, Australia, 1994/qtr3 3 to 2024/qtr4 (sa)



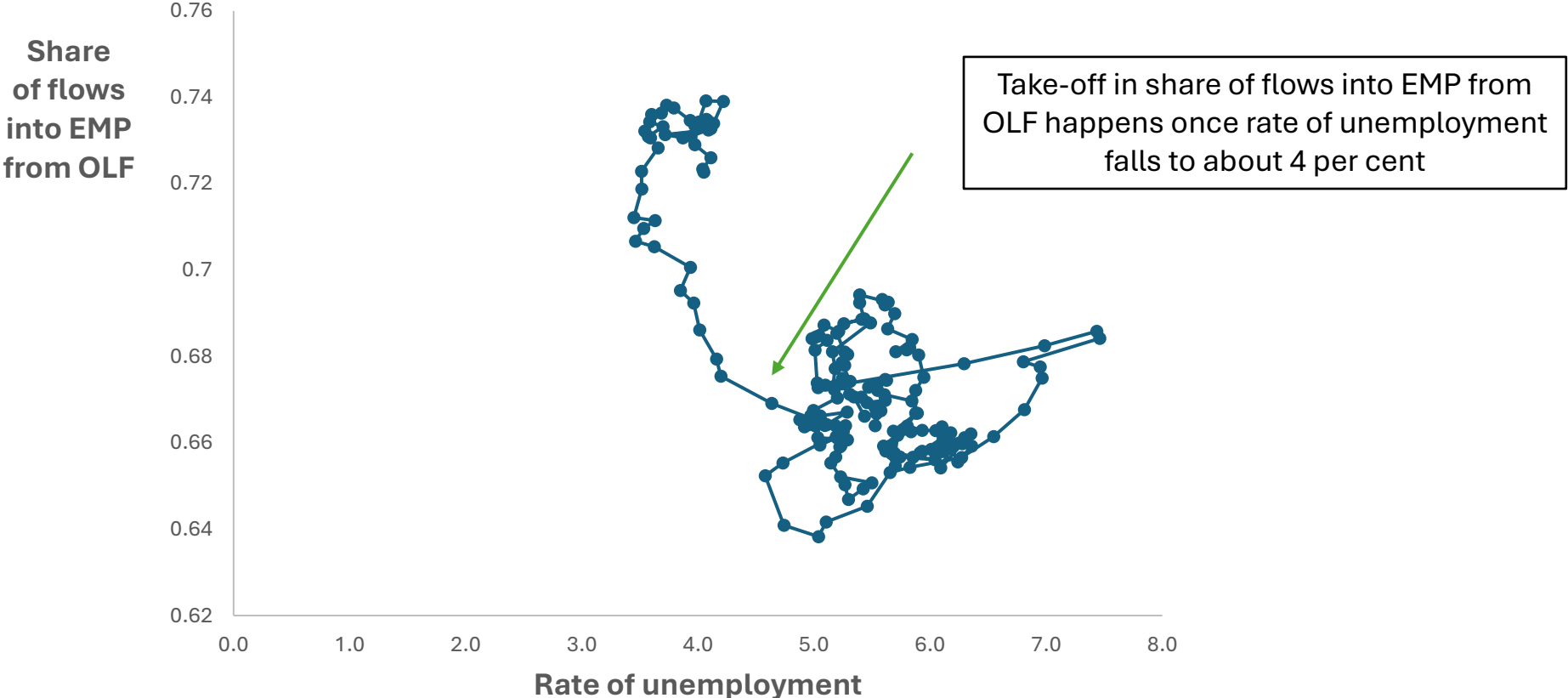
Australia's labour market from 2020 to 2024

2] Rates of growth in actual hours worked (Per cent), Non-market and Market sectors, March qtr 2020 to December qtr 2024 (sa)

	Non-market	Market
Mar 2020 to Jun 2020	-1.6	-10.4
Jun 2020 to Jun 2021	+4.0	+11.1
Jun 2021 to Mar 2023	+13.8	+6.8
Mar 2023 to Dec 2024	+10.5	+0.6

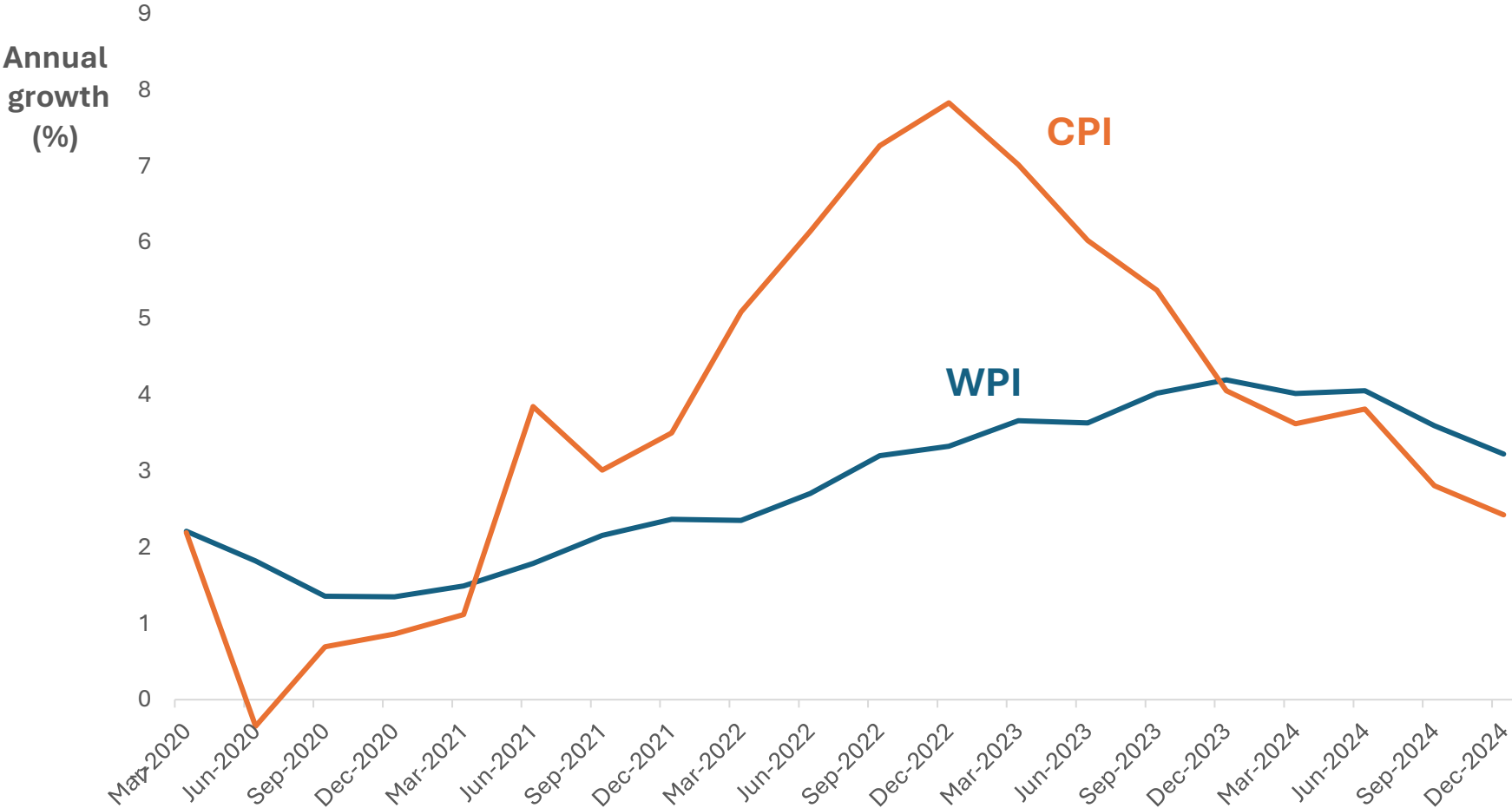
Australia's labour market from 2020 to 2024

3] Relation between OLF flows into EMP and rate of unemployment, Jan-10 to Mar-25



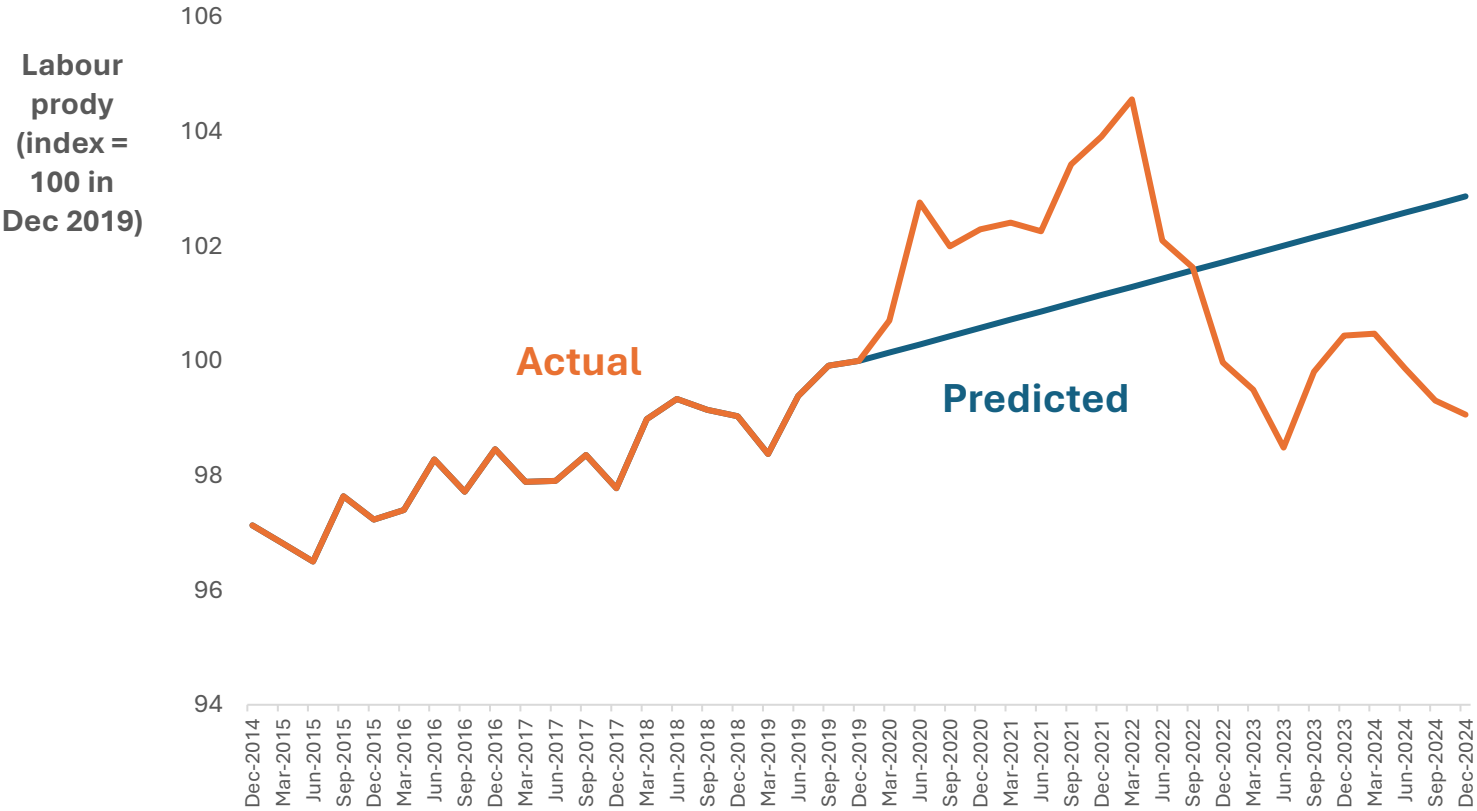
Australia's labour market from 2020 to 2024

4] WPI and CPI, Annual rate of growth, March 2020 to December 2024



Australia's labour market from 2020 to 2024

5] Labour productivity, Australia, 2014/qtr4 to 2024/qtr4 (sa)

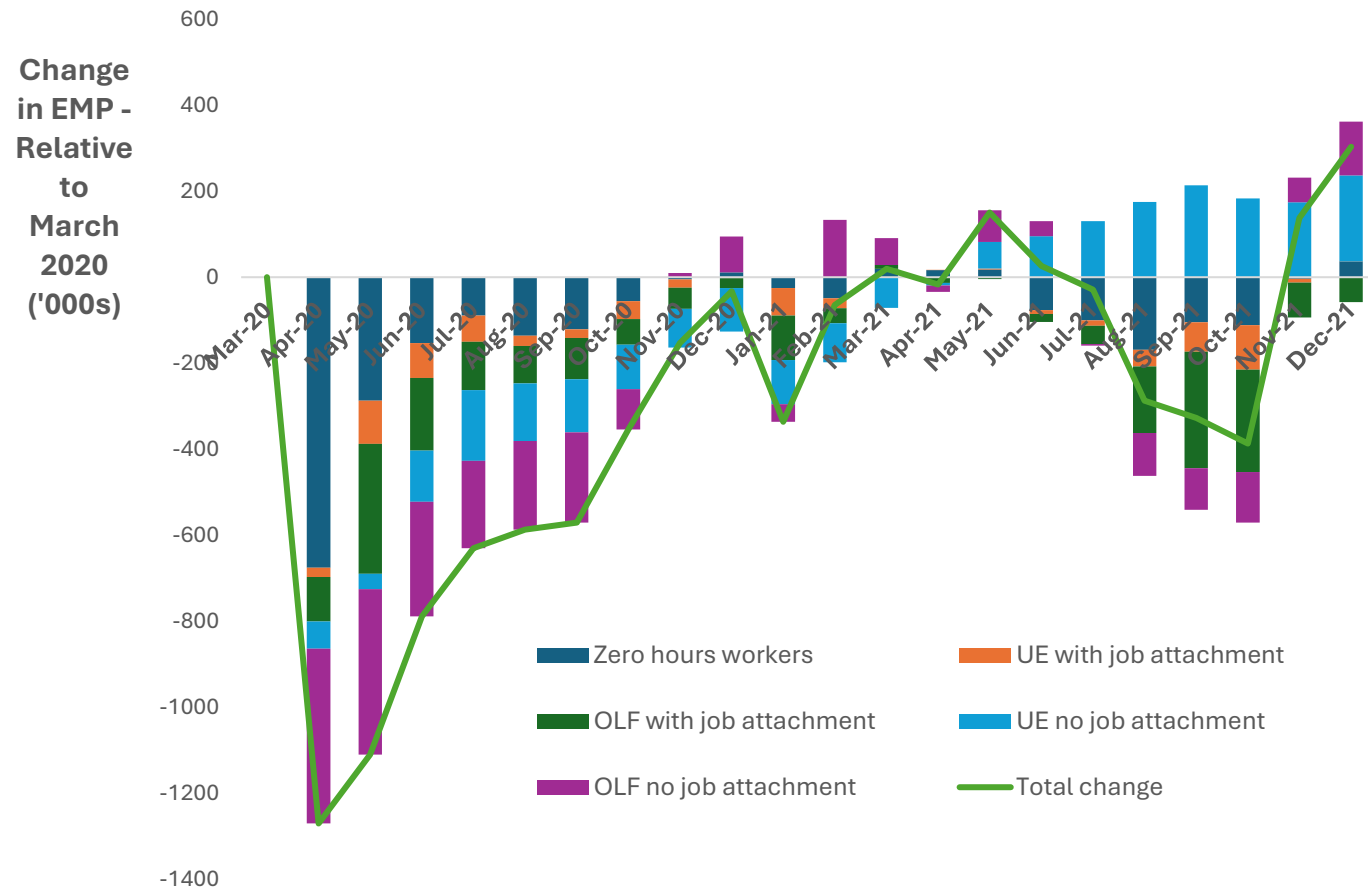


Two major themes - Adjustment

- **Phase 1/2:**
 - The speed of adjustment in aggregate employment -> Why?
 - a] The importance of recalls (OLF/UE with job attachment)
 - b] The role of zero hours workers in 2020 (Job Keeper)
 - c] A relatively flexible labour market
- **Phase 3/4:**
 - How adjustment happens in a strong labour market? -> The COVID era as a textbook case

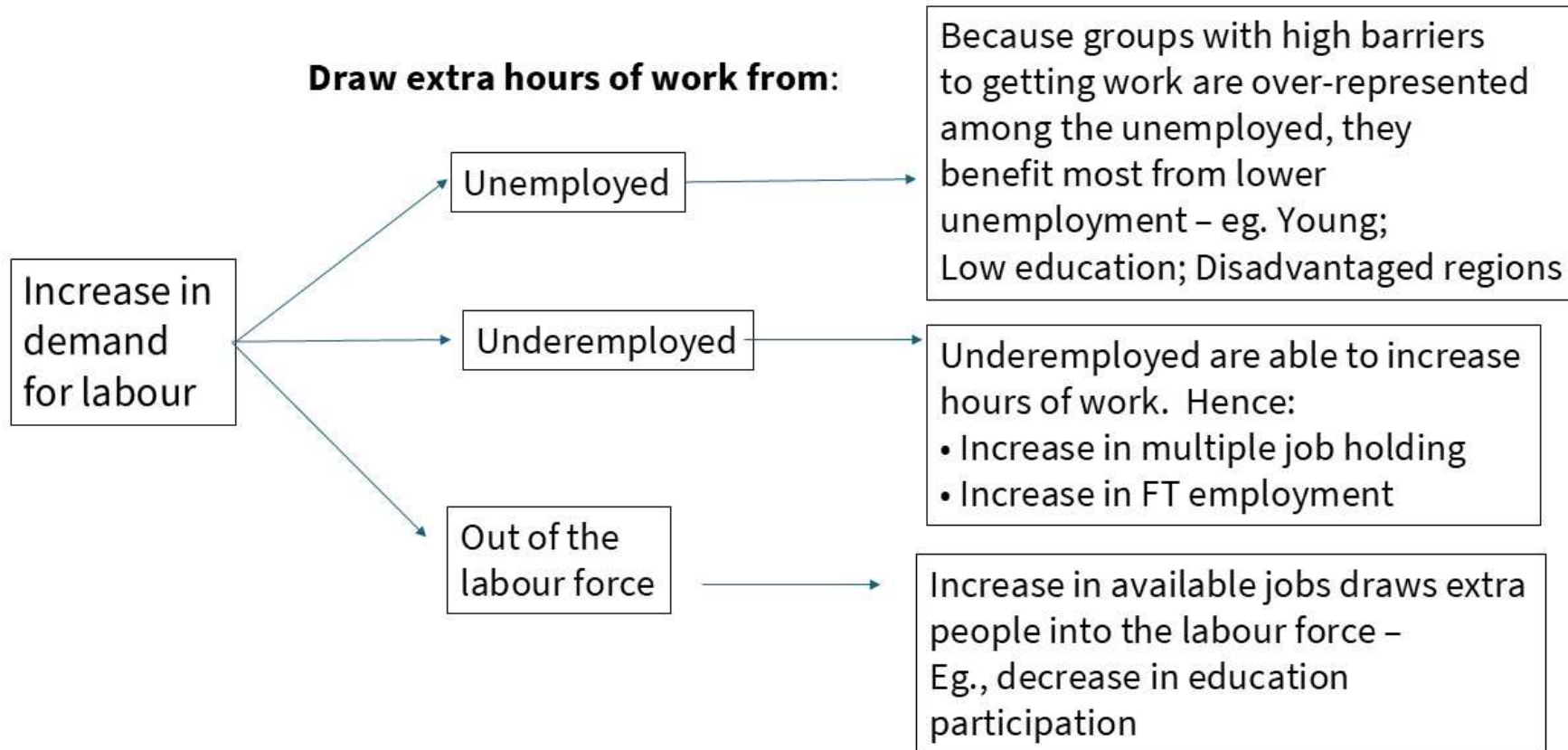
Phases 1/2 theme: Adjustment

How adjustment in employment happened, Australia, March 2020 to December 2021



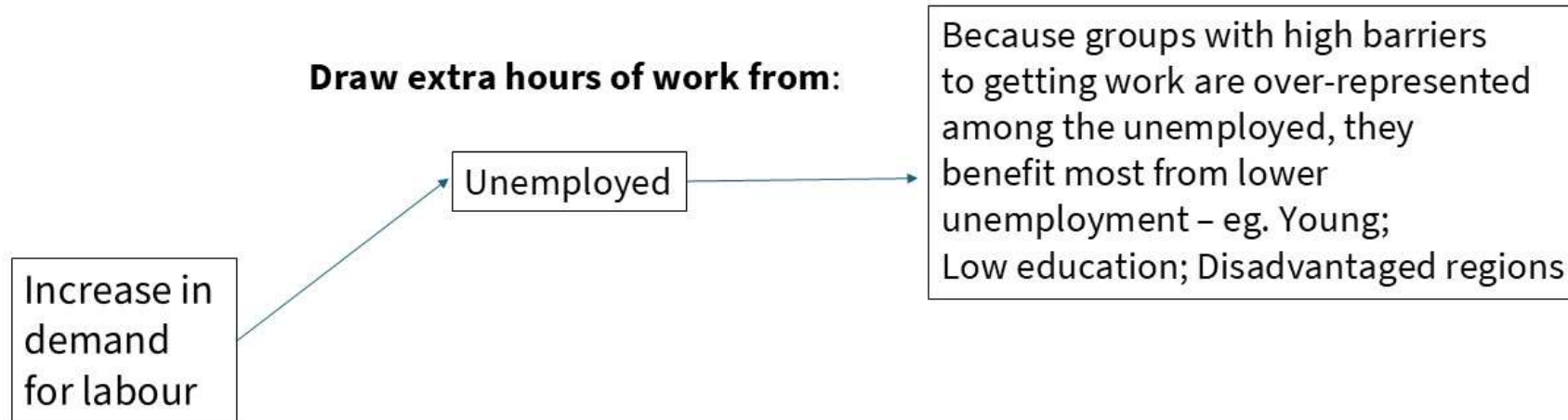
Phases 3/4 theme: Adjustment in a strong labour market

Modes of adjustment to an increase in demand for labour



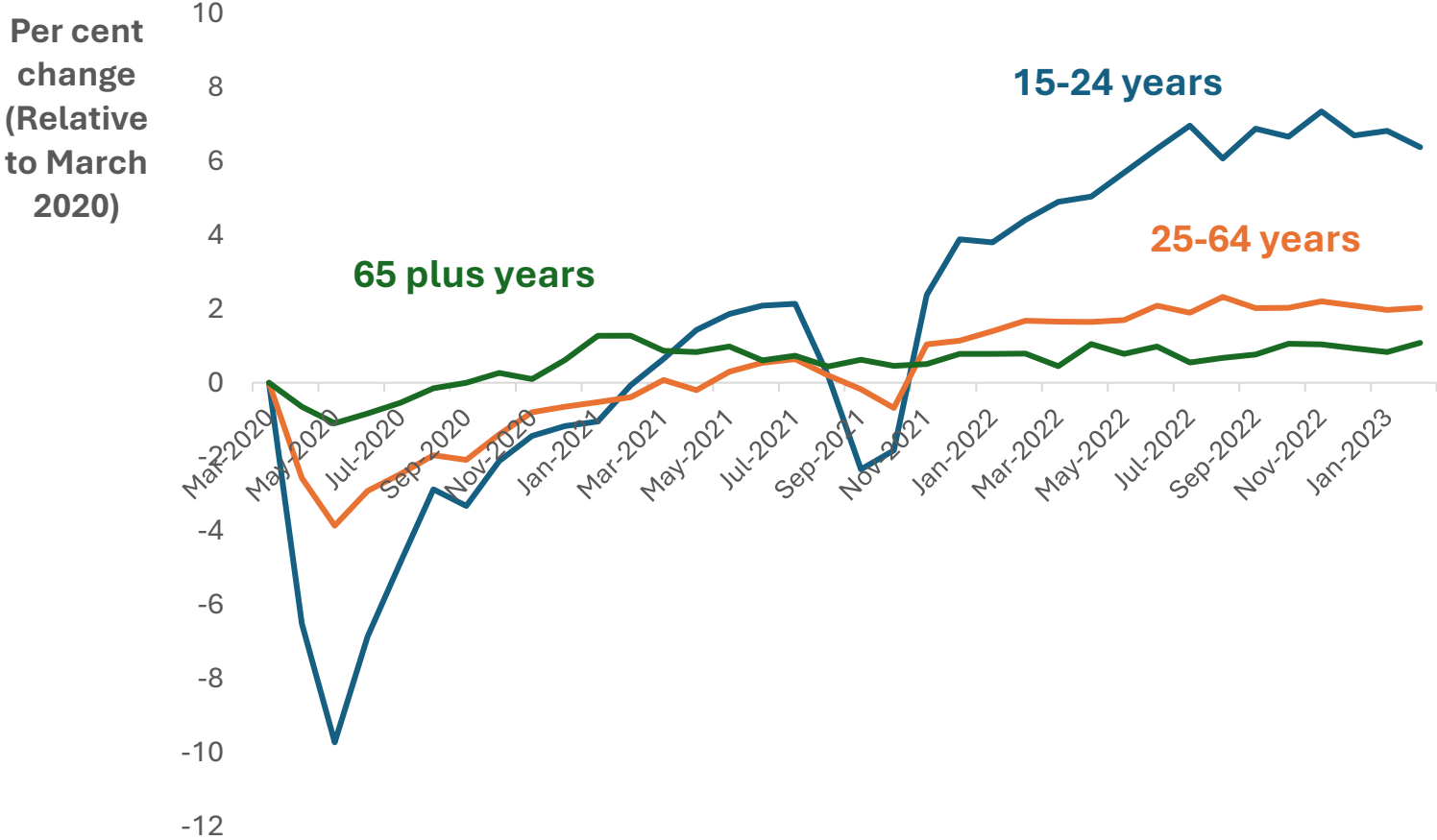
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Modes of adjustment to an increase in demand for labour



Phases 3/4 theme: Adjustment in a strong labour market

Employment/Population rate, By age, Australia, March 2020 to February 2023 (sa)

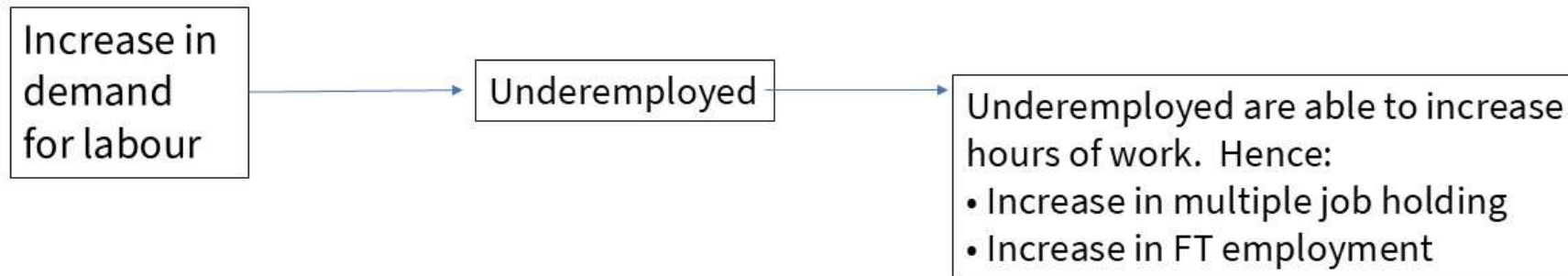


A lower rate of unemployment has the biggest benefit for groups who are over-represented among the unemployed

Phases 3/4 theme: Adjustment in a strong labour market

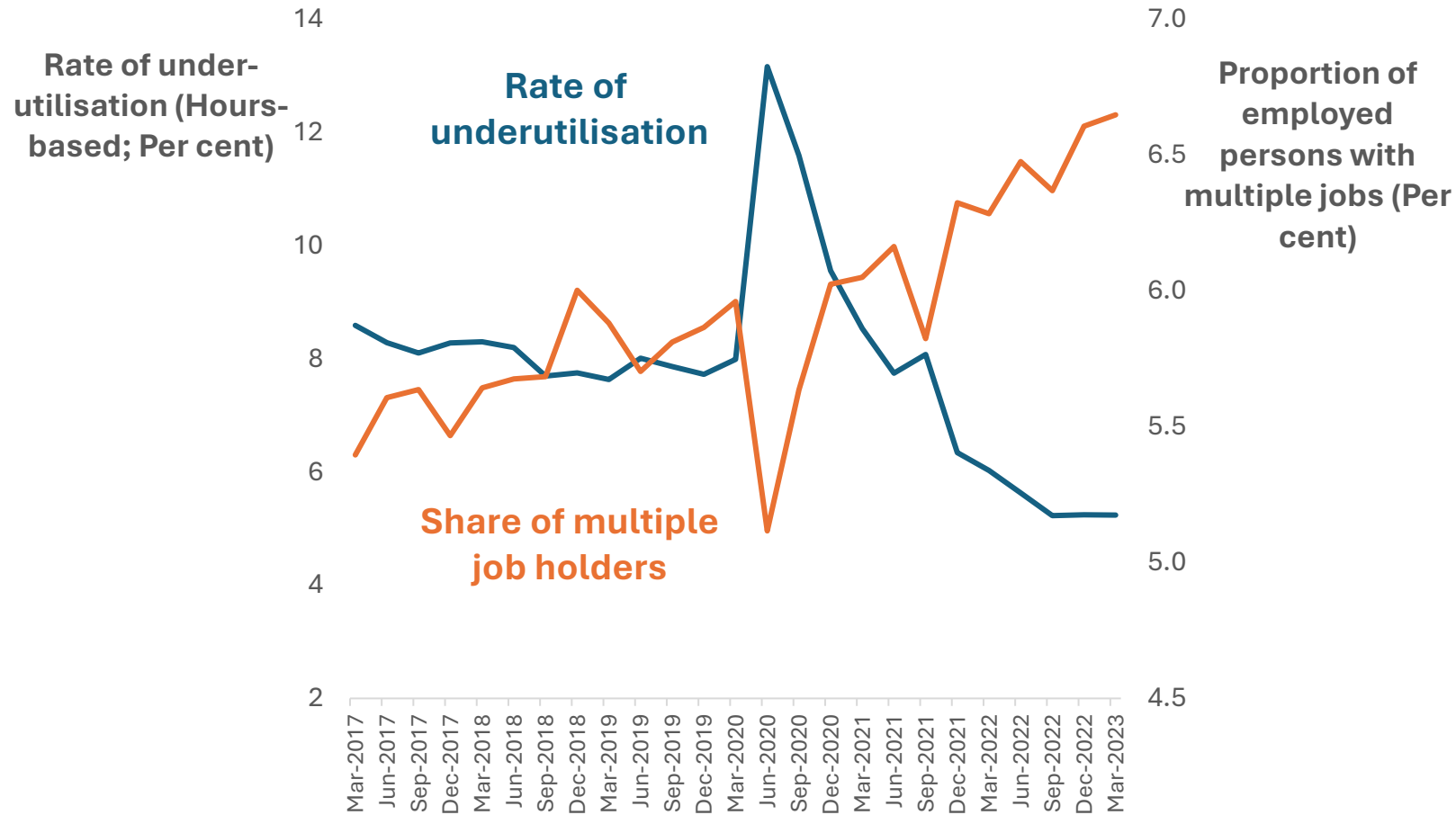
Modes of adjustment to an increase in demand for labour

Draw extra hours of work from:



Phases 3/4 theme: Adjustment in a strong labour market

Proportion of multiple job holders, Australia, March 2017 to March 2023 (quarterly) (sa)

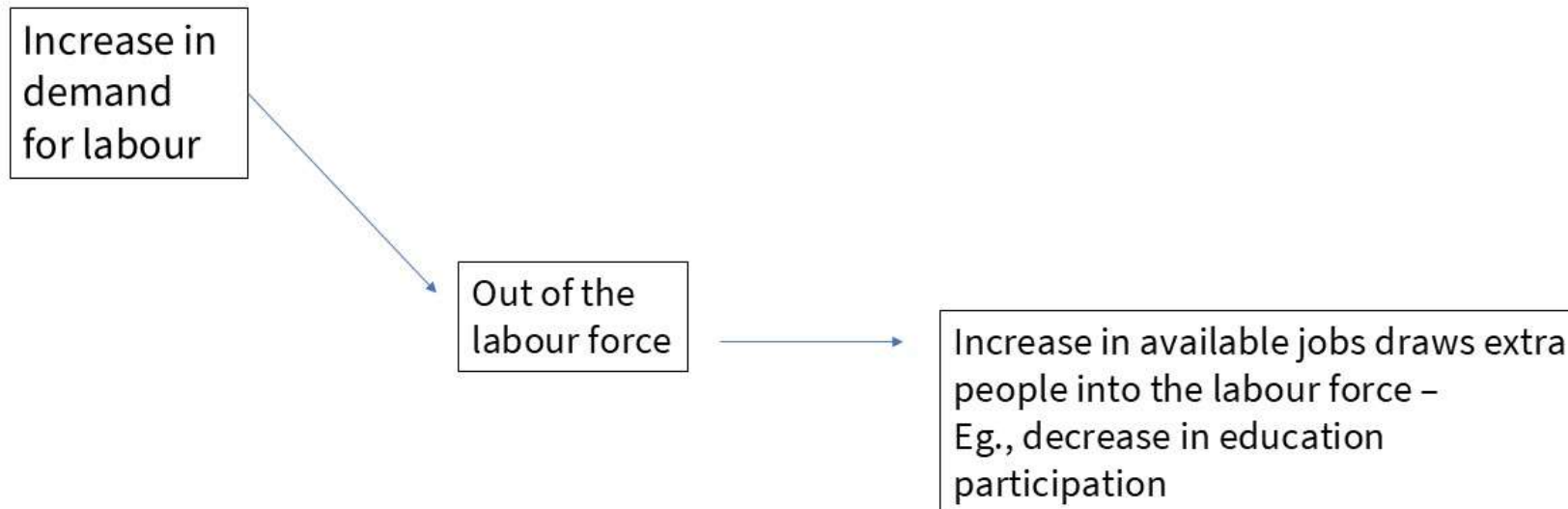


For workers who are underemployed, a strong labour market gives the opportunity to move from part-time to full-time work, often accomplished by doing multiple jobs.

Phases 3/4 theme: Adjustment in a strong labour market

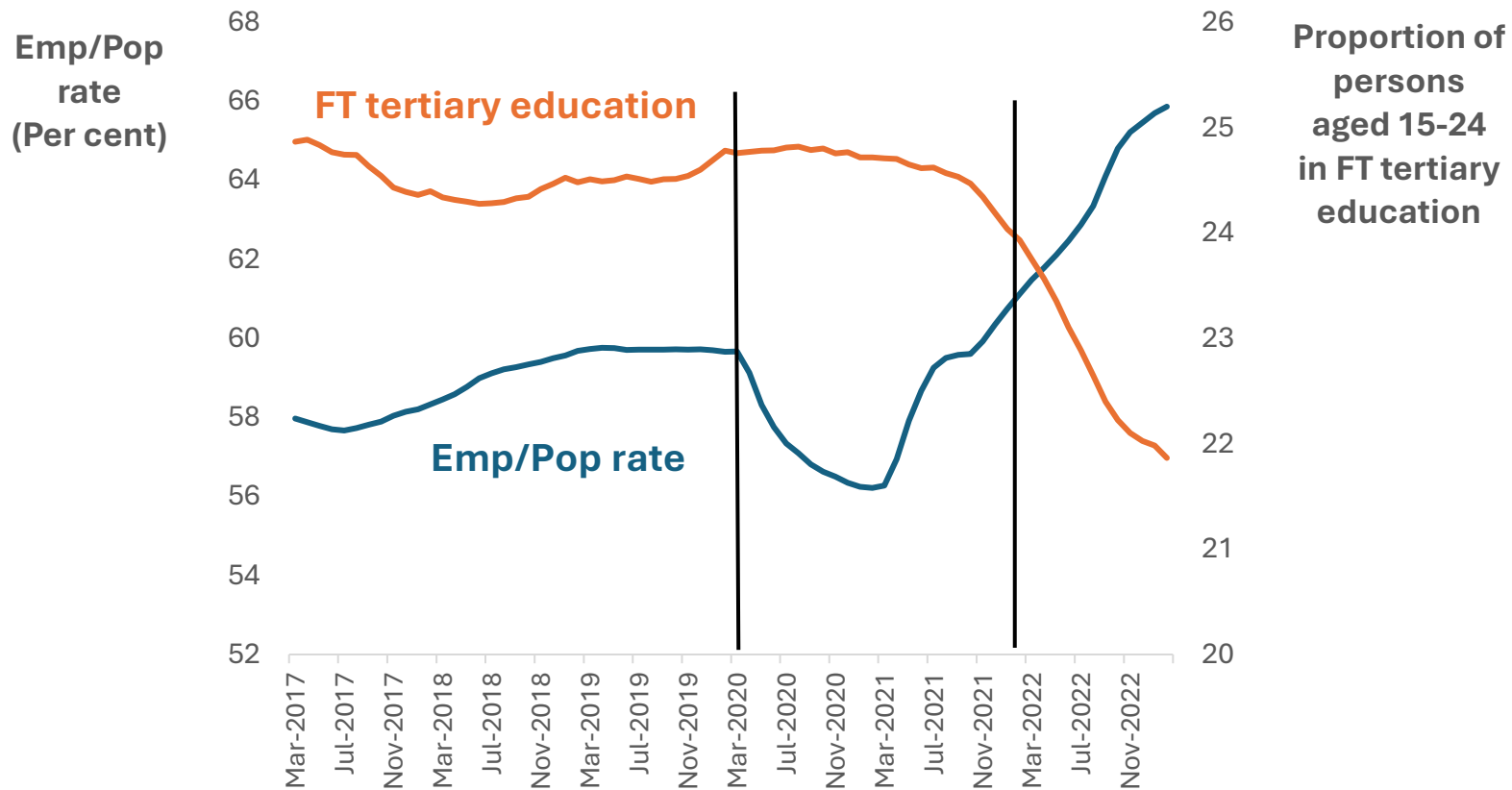
Modes of adjustment to an increase in demand for labour

Draw extra hours of work from:



Phases 3/4 theme: Adjustment in a strong labour market

Full-time participation in tertiary education by persons aged 15-24 years, Australia, March 2017 to February 2023



When new workers transition to employment from being OLF, it may restrict their ability to do whatever other activities they had been doing. Eg., education participation.

Lessons – How the labour market operates

- **An overall point:** How the most extreme economic conditions – buoyant or depressed – can reveal what can otherwise be difficult to observe.
- **1] General points:** e.g.,
 - Follow the source of the shock
 - Seeing the labour market whole
 - Cyclical versus structural drivers
- **2] Specific points:** e.g.,
 - Extent of flexibility in employment adjustment
 - Patterns of wage adjustment by pay setting method
 - Learning about the NAIRU

Lessons – About policy

- **3 types of lessons:**

- **1]** The setting of macroeconomic policy

- eg., Extent of overall stimulus

- **2]** Learnings about specific labour market policies

- eg., Job Keeper, Job Seeker, Job Maker etc.

- **3]** Approaches to policy-making

- eg., the trade-off between the value of policies that can adapt (adjust automatically) to changes in macroeconomic environment, versus the imperative that often exists for policies to be introduced quickly and to have easily understood designs and a degree of certainty that encourage take-up.