

Research Insights

Jobless and distressed: the disproportionate effects of COVID-19 on young Australians

Besides being the most likely demographic to contract the disease, young Australians are also most likely to suffer COVID-related employment disruptions.

Young Australians hit hard by the pandemic

For more than six months, COVID-19 has been disrupting the lives, communities and businesses of millions of Australians. It is becoming clear that people of all ages have been affected by this crisis, although some age groups appear to be affected more than others. This Research Insight highlights the experiences of young Australian adults (aged 18-24), showing that people in this age group have been particularly vulnerable to the adverse effects of the pandemic.

Compared to the general population, young Australian adults stand out in several respects. They are the most likely demographic to contract the virus, with the incidence of COVID-19 infections being twice the population average (Department of Health, 2020). They also tend to work casual jobs in industries that have been extensively disrupted by COVID-19, leaving them exposed to the risks of job loss and reduced working hours.

Finally, many young Australians live alone, which can increase stress caused by social isolation during quarantining and worsen their mental health.

The following analysis combines six months of data from the *Taking the Pulse of the Nation* survey, and the most recent wave of the *Household, Income and Labour Dynamics in Australia (HILDA)* survey to document the effects of COVID-19 on young Australian adults, focusing on their employment and mental health. The analysis contrasts the pandemic experiences of younger and older Australians, showing sizable differences across age groups. Special attention is paid to the outcomes of young Victorians during the second wave of COVID-19, and to the differences between young men and women.

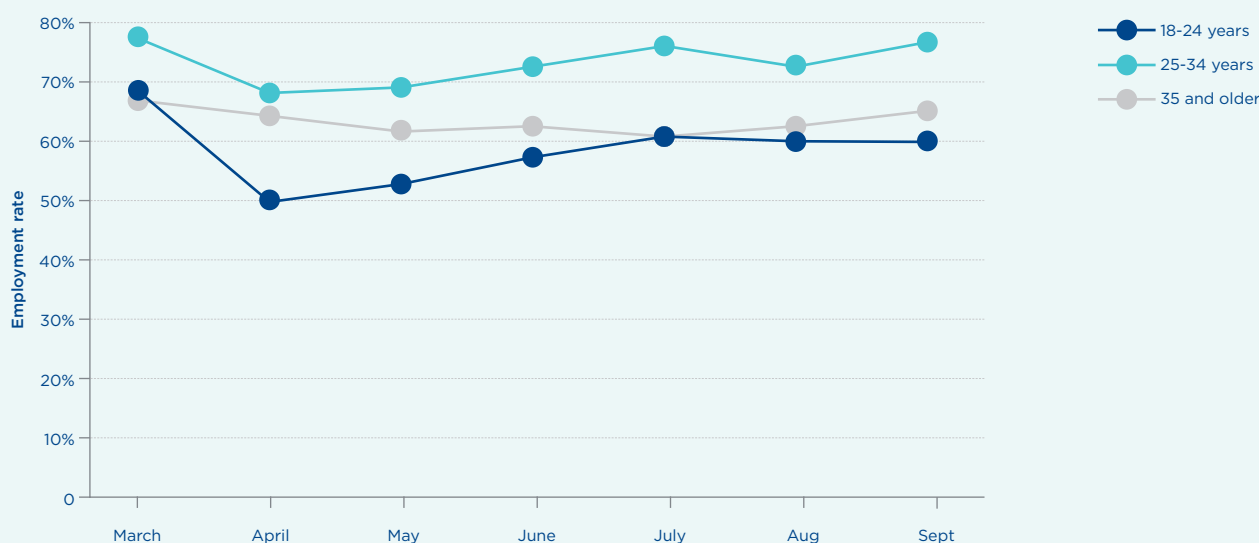
Key Insights

1 Young Australians most affected by COVID-19 in terms of employment and working hours

The COVID-19 pandemic started disrupting Australian labour markets in the second quarter of 2020, with the number of people employed falling by 600,000 between the months of March and April (ABS, 2020). This drop is clearly visible in Figure 1, which plots the employment rate between March and September 2020 for select age groups.

As we can see, the job losses were mostly weathered by young Australians: from March to April, the employment rate of Australians aged 18-24 fell by a whopping 19 percentage points – a drop that is four times larger than the overall drop for the Australian working-age population.¹

Figure 1. Monthly employment rates during the COVID-19 pandemic, by age category



Source: Results are based on 21,482 observations of individuals aged 18 to 64 from the Taking the Pulse of the Nation survey and the Consumer Attitudes, Sentiments and Expectations in Australia survey. The sample is weighted to be representative of the Australian adult population on gender, age, and location. For a definition of employment rate, see Glossary of terms.

¹ Throughout this report, we consider all employees who are on the JobKeeper program as 'employed'. If we were to classify the JobKeeper recipients who are working zero hours as non-employed, then the disparity between the employment rates of young and older Australians would be even greater.

Figure 1 also shows that while youth employment numbers have been climbing back in the following months, by September 2020, the employment rate of Australians aged 18-24 was still 9 percentage points below the March 2020 benchmark. As we show later, this is in large part due to the economic consequences of the second wave of infections in Victoria.

Besides being more likely to lose jobs, young Australians have also been more likely to experience reductions in their regular working hours. The data from the *Taking the Pulse of the Nation* survey show that, among those who managed to keep their jobs during the pandemic, half of young Australians had their regular working hours cut. In comparison, only a third of older employed Australians experienced a reduction of working hours.

The disproportionate impact of COVID-19 on youth employment is likely driven by two factors. Firstly, young Australians tend to work in industries that have been directly impacted by COVID-19 (e.g., hospitality, culture, and leisure). Using HILDA data, Wilkins (2020) shows that more than half of the workforce employed in these industries is aged 18-24.

Secondly, young Australians tend to be employed on casual contracts. HILDA data indicate that 50 per

cent of Australian workers aged 18-24 are employed on casual contracts, with the share increasing to 79 per cent in the industries directly impacted by COVID-19.² While offering more flexible working hours and slightly higher hourly pay rates, casual contracts leave young workers with little-to-no employment protection, which makes them readily expendable during the times of economic downturns.

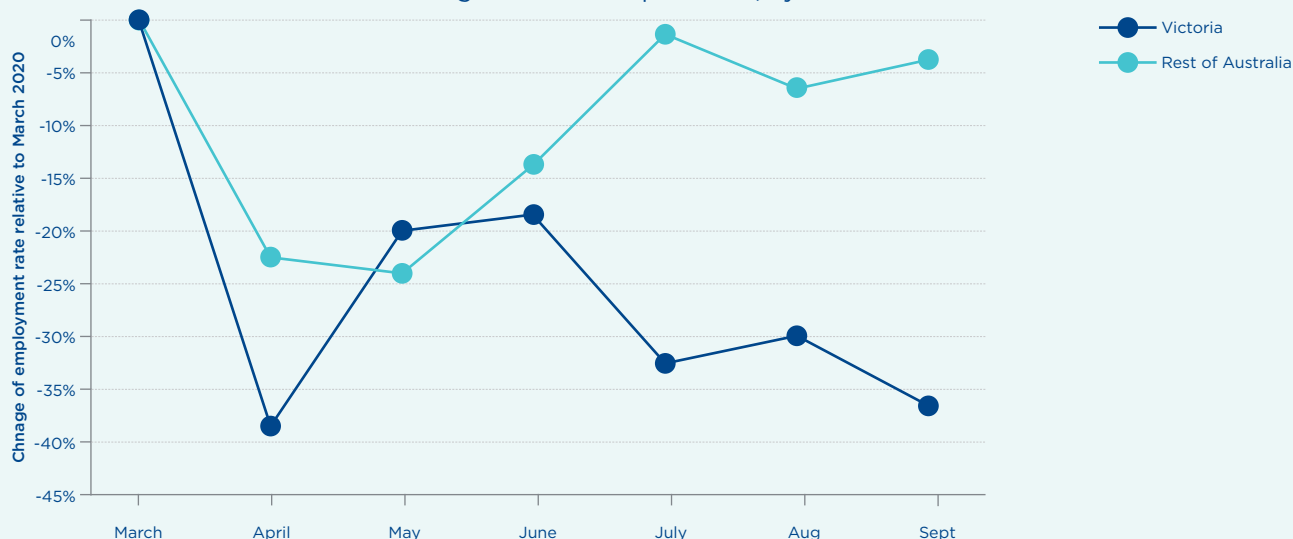
Given the lack of work opportunities, what are young unemployed Australians doing with their time? To counter the negative effects of job loss, they could be refocussing on obtaining further qualifications (so that they could find better jobs once the economy recovers). In the most recent wave of the *Taking the Pulse of the Nation* survey, 58 per cent of respondents aged 18-24 indicated that they are enrolled or have previously enrolled in courses to increase their qualifications. However, the data from the 2018 wave of HILDA survey indicate that a similar share of Australians aged 18-24 was already enrolled in education before the pandemic, suggesting that young unemployed Australians are not responsive in this regard. On the other hand, the data indicate that re-education efforts are much more pronounced among older Australians, particularly those aged 35-44.

2 The second wave of infections causes Victorian youth employment to fall again

Starting in late June, the experiences of young Australians living in Victoria have diverged from the experiences of those living in other states. The second wave of COVID-19 infections has brought stricter movement restrictions for the residents of Melbourne and rural Victoria, thereby suppressing the economic activity in the region. As demonstrated in Figure 2, this had a clear negative effect on the employment of young Victorians, with the employment rate dropping back to the levels observed in April 2020.

In contrast, the employment rate of young Australians living in other states returned close to the rates observed before the pandemic and remained relatively stable throughout the winter months. This reversal is encouraging, suggesting that the negative effects of COVID-19 on Victorian youth employment may be eliminated once restrictions are eased.

Figure 2: Changes of employment rate of Australians aged 18-24 during the COVID-19 pandemic, by location



Source: Results are based on 2,056 observations of individuals from the Taking the Pulse of the Nation survey and the Consumer Attitudes, Sentiments and Expectations in Australia survey. The sample is weighted to be representative on gender, age and location. For a definition of employment rate, see Glossary of terms.

² For comparison, 25 per cent of workers aged 25-34 are employed on casual contracts, with the share increasing to 42 per cent in the industries directly impacted by COVID-19.

3

Young Australians face high rates of mental distress

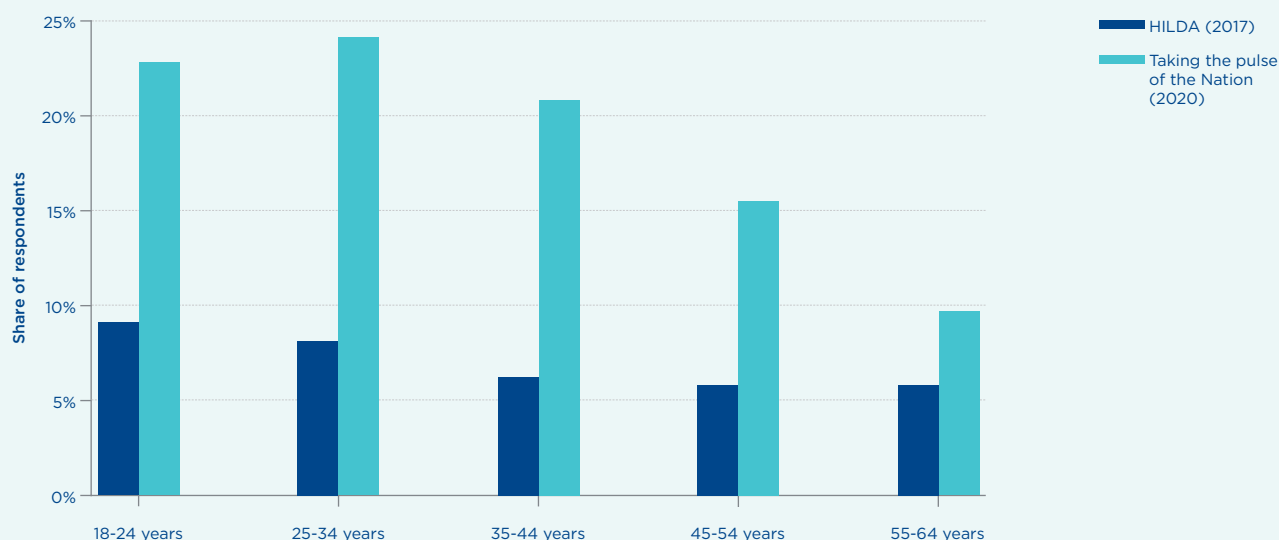
Given the high incidence of job losses during the pandemic, it might be expected that the mental health of young Australians has suffered as well. Figure 3 confirms this expectation, showing that 23 per cent of Australians aged 18-24 have been reporting high levels of mental distress over the course of the last six months. This is more than twice the rate recorded before the pandemic. Only Australians aged 25-34 have been more likely to report high levels of mental distress during the pandemic, with the distress being particularly prominent among employed parents with primary school-aged children (see Broadway, Méndez and Moschion, 2020).

One contributor to young adults' reports of mental distress may be financial insecurity. Figure 4 shows the shares of respondents who are reporting high levels of financial stress in select employment categories. The reports of financial stress are particularly common among young Australians who have been unemployed due to COVID-19, with 62 per cent of respondents in this category indicating that they are unable to make ends meet. The shares are considerably lower among those who managed to keep their jobs during the pandemic, but also among those who have been unemployed for reasons unrelated to COVID-19 (likely reflecting the receipt of more generous JobSeeker payments).

Social isolation might be another contributor to young adults' reports of mental distress. Figure 5 shows that a sizable share of young Australians live alone, which can be particularly detrimental for mental health during extensive periods of movement restrictions and quarantining. Another age group which appears to be at risk in this respect are Australians aged 55 and over.

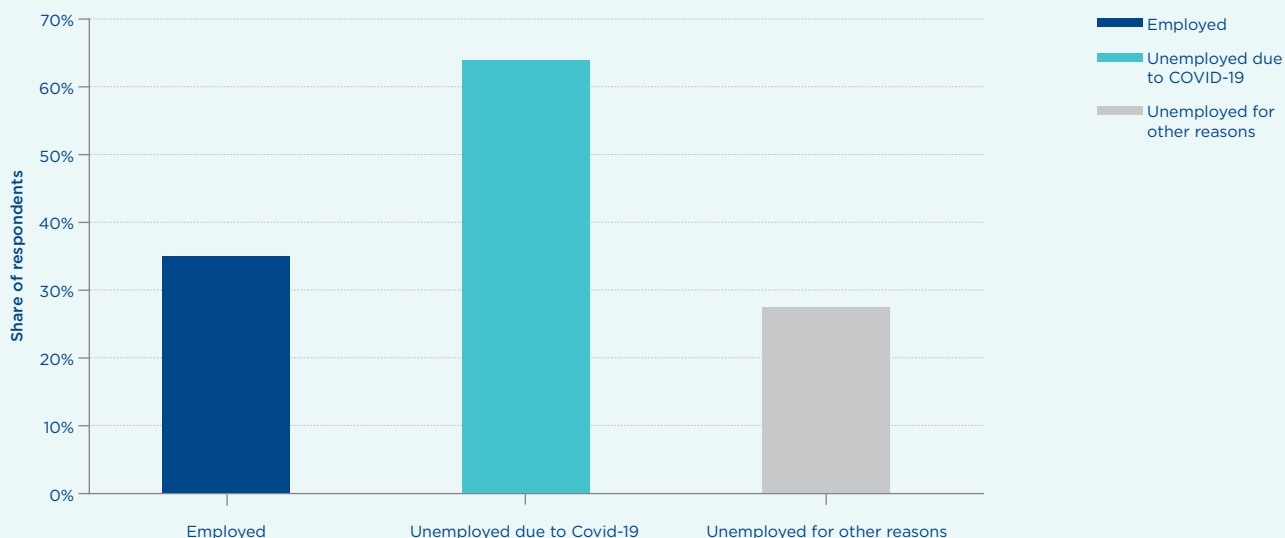
The mental health reports of young Victorians have been tracking the number of COVID-19 infections in the region. Data from the *Taking the Pulse of the Nation* survey show that, during autumn, young Victorians reported rates of mental distress that were similar to those of young Australians in other states. The reports diverged in July, with the share of young Victorians reporting high levels of mental distress being 28 per cent (5 percentage points higher than the share found in other states). The same shares were reported in August as well. Interestingly, the declining rates of infections in September have led to a sharp decline of mental distress among young Victorians, with the share reporting high levels of mental distress dropping below the shares found in other states.

Figure 3: Incidence of high mental distress, 2017 versus 2020, by age category



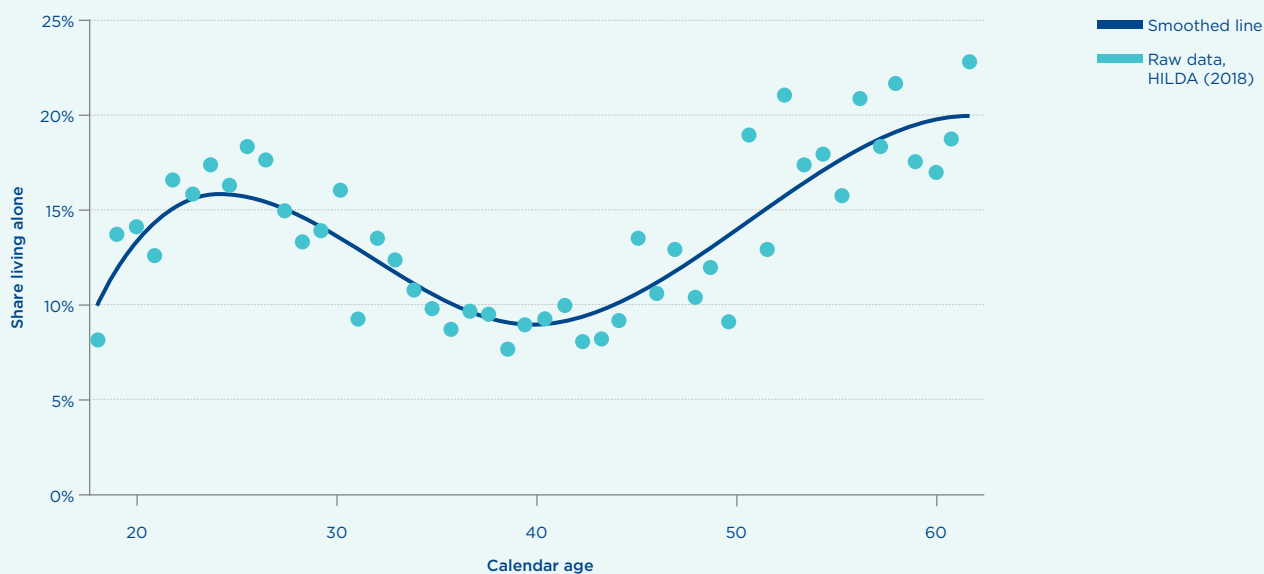
Source: Results are based on 21,482 observations of individuals aged 18 to 64 from Taking the Pulse of the Nation survey data (for 2020 values), and 12,992 observations of individuals aged 18 to 64 from the HILDA survey, Wave 17. The sample is weighted to be representative of the Australian adult population on gender, age and location. For a definition of high mental distress, see Glossary of terms.

Figure 4: Incidence of high financial stress among young Australians, by employment status



Source: Results are based on 832 observations of individuals from a subset of waves of the Taking the Pulse of the Nation survey. 503 individuals report to be employed, 131 individuals report to be unemployed due to COVID-19, and 198 individuals report to be unemployed for other reasons. The sample is weighted to be representative on gender and location. For a definition of high financial distress, see Glossary of terms.

Figure 5: Share of Australian population living alone, by age (2018)



Source: Results are based on 13,582 observations of individuals aged 18 to 64 from the HILDA survey, Wave 18. The sample is weighted to be representative of the Australian adult population on gender, age and location.

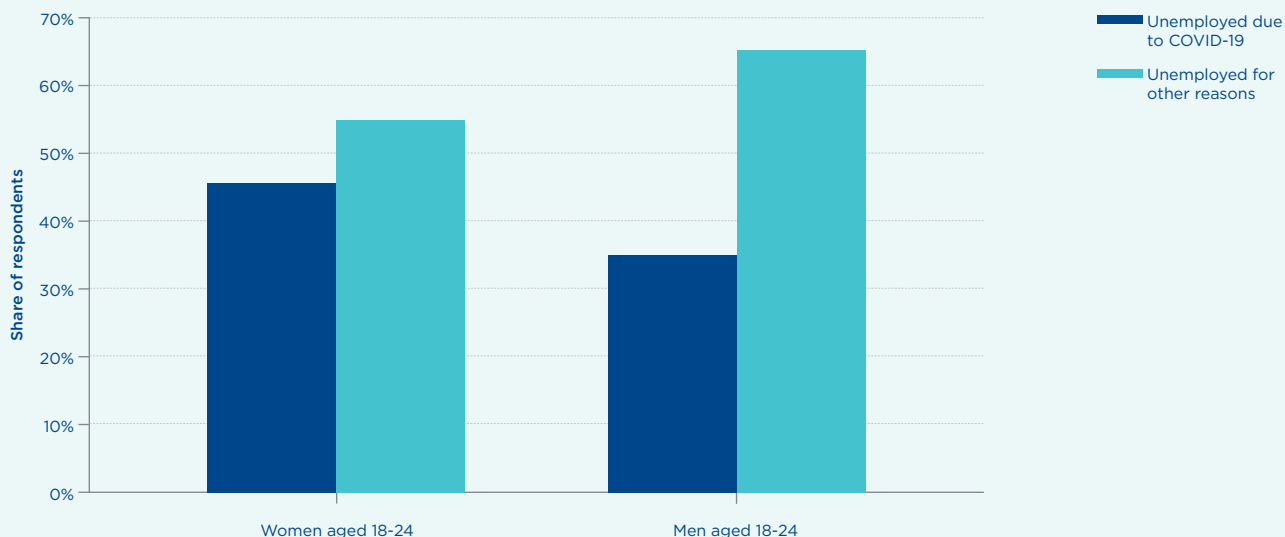
4 Greater job losses among young women

In line with the findings presented in previous Research Insights, we note that the pandemic is affecting young women differently from young men.

HILDA data indicate that, before the pandemic, young Australian women were just as likely to work as young Australian men. However, data from the *Taking the Pulse of the Nation* survey show that during the pandemic the employment rate of young women has dropped seven percentage points below that of young men, and it has not caught up even by September 2020. Corroborating these findings, Figure 6 shows that young women are much more likely to report being unemployed due to COVID-19, as opposed to being unemployed for other reasons.

The larger effects among young women are likely attributable to their greater representation in the industries directly impacted by COVID-19, and also to their increased caring responsibilities during the pandemic. Data from the *Taking the Pulse of the Nation* survey show that young women are also more likely to report negative mental health episodes, with 24 per cent reporting high levels of mental distress (as opposed to 21 per cent of young men).

Figure 6: Causes of unemployment among young Australians, by gender



Notes: Results are based on 2,056 observations of individuals from the Taking the Pulse of the Nation survey and the Consumer Attitudes, Sentiments and Expectations in Australia survey. The sample is weighted to be representative on age and location.

Lessons from the pandemic

This Research Insight demonstrates that young Australian adults have been hit hardest by the pandemic with regards to their employment, and that they have been reporting high rates of mental distress. It also shows that the negative effects are particularly pronounced among women, and among young Australians residing in Victoria. The question for policy makers is whether this is simply an unavoidable consequence of a large economic shock, or whether there are particular policies that may have exacerbated the pandemic experiences of young Australians. This section highlights two features of Australian youth labour markets that have been influencing workers' outcomes during the pandemic, discusses their consequences, and points to some policy alternatives.

Casual contracts

Australia is heavily reliant on casual workers, attaining one of the highest rates of casualisation across all OECD countries (OECD, 2019). Over half of casual employees report to be on zero-hour contracts, having no guaranteed work hours at all (Campbell, 2018). This puts young and low-skilled workers in an unenviable position, leaving them with little-to-no job security and a high degree of exposure to the economic shocks and swings of the business cycle. Casual workers also do not qualify for sick leave, which may force income-constrained employees to work whilst sick – a situation that is particularly serious during the pandemic, but clearly undesirable in normal times as well. One way to alleviate these pressures would be to put additional structure on casual work contracts. This can be done by requiring casual workers to receive (appropriately adjusted) sick leave or other benefits that are associated with permanent positions.

Unemployment benefits

The empirical analysis featured above shows that the majority of young Australians who have been unemployed due to COVID-19 are unable to make ends meet. This statistic highlights the limits of Australia's unemployment benefit system. In April 2020, the Newstart unemployment benefit program was replaced by the JobSeeker program, raising fortnightly unemployment benefit payments from around \$550 to \$1,100. This raise was necessitated by the changing nature of Australian unemployment during the pandemic, with the job losses being no longer concentrated among low-earners, and job seekers facing much fewer employment opportunities. While instrumental to protecting the incomes of many Australians, the flat rate of JobSeeker payments creates inequalities, with some workers receiving payments in excess of their pre-pandemic incomes, whilst others not receiving enough, and some falling through the cracks of the system and receiving no support at all (Hérault et al. 2020).

These inequalities would have been mitigated had Australia followed the example of an overwhelming majority of OECD countries and adopted a system of unemployment insurance (UI).³ In a UI-based system, the unemployment award rates increase with previous earnings, which enables the system to weather compositional changes within the pool of the unemployed. The unemployed workers receive financial support that is proportional to their previous earnings, thus avoiding the situations in which the unemployed are overpaid (and therefore unlikely to look for new jobs) or underpaid (and therefore unable to make ends meet).

Other policy effects

It needs to be acknowledged that there are also downsides to the discussed policy alternatives. First, adding more structure on casual contracts may make casual work more costly for the employers, thereby reducing the demand for youth employment. The same changes, however, make casual work more attractive for the workers, thereby increasing the supply of youth employment. The existence of both responses is well-documented by Kabátek (2020) and it demonstrates that the overall effect of such policy change on youth employment remains uncertain. Second, an unemployment insurance system would make the tax and transfer less targeted at low income recipients. In addition, without further adjustments of the tax code, such system would imply a higher tax burden for middle- and high-income earners. This is because their UI contributions are proportional to their earnings.

Both features of Australian labour markets highlighted in this section share a common theme: they work well during times of economic prosperity, offering workers greater flexibility and lower tax burden. Casual contracts may also play an important role during economic recovery, allowing firms to quickly build capacity in response to the increasing demand for goods and services. However, these two features are put under pressure during times of crises (both on the national and personal level), making workers more expendable and creating inequalities among welfare recipients. Alternative labour market policies can alleviate these pressures, but they may also incur greater costs of labour and a higher tax burden. Ultimately, it is up to the Australian society to decide which labour market policies it prefers. From this perspective, it will be interesting to see whether the pandemic – which brought the first Australian recession in nearly 30 years – will alter these preferences.

³ The only other OECD country not using an unemployment insurance system is New Zealand.

Further Information

Datasets

This analysis has been drawn from the *Taking the Pulse of the Nation* – Melbourne Institute's survey of the impact of COVID-19. The aim of the weekly survey is to track changes in the economic and social wellbeing of Australians living through the effects of the coronavirus pandemic whilst adapting to various changes in Federal and State government policies. Each week, the survey contains responses from 1,200 persons, aged 18 years and over. Sample weights can be used to make the sample representative of the Australian population on gender, age and location. The current analysis draws on the weeks one to eighteen of the survey and therefore includes data from up to 21,600 Australian adults.

These data have been complemented by historical information on employment drawn from the March 2020 wave of Consumer Attitudes, Sentiments and Expectations in Australia Survey (CASIe). Other variables (mental distress, casual employment, and living arrangements) were sourced from waves 17 and 18 of the Household, Income and Labour Dynamics in Australia (HILDA) survey. Sample weights can be used to make the sample representative of the Australian population on gender, age, and location.

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Glossary of terms

Employment rate: Employment rate is defined as the number of respondents who reported to be employed at the time of the survey collection, as a proportion of the total number of respondents. The measure includes both salaried employees and self-employed. Given that COVID-19 could have an effect on the reported working hours, the measure does not penalize part-time work (both types of workers are treated as 'employed').

Casual contract: An employment contract in which the employee does not have a firm commitment in advance from an employer about how long they will be employed for, or the days and hours they will work.

Mental distress: To measure mental distress, respondents are asked: "During the past week, about how often did you feel depressed or anxious?" Responses range from "all the time", "most of the time", "some of the time", "a little of the time", and "none of the time". A person is classified as experiencing high levels of mental distress if during the past week they felt depressed or anxious "all the time" or "most of the time".

Financial stress: To measure financial stress, respondents are asked: "How would you describe your current financial conditions, in terms of paying for essential goods and services such as bills, rents, mortgages?" Responses range from "very financially stressed", "moderately financially stressed", "making ends meet", "moderately comfortable financially", and "very comfortable financially". A person is classified as experiencing high levels of financial stress if they describe their financial situation as "very financially stressed" or "moderately financially stressed".

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