Executive summary

The JobKeeper Payment was a wage subsidy and income support program delivered in the first year of the COVID-19 pandemic. It was a key element of the Australian Government's macroeconomic response to the global health and economic crisis. This Insights report provides updated data and analysis on the first six months of the program, the initial phase of JobKeeper, and builds on the Treasury *JobKeeper Payment: Three-month review*.

JobKeeper was designed in an environment of significant uncertainty

JobKeeper was designed to support the economy during a period when widespread public health restrictions were being imposed to control the spread of COVID-19. JobKeeper's purpose was to support business and job survival, keep employees connected to their employers, and provide income support to individuals. JobKeeper was the largest component of the Government's macroeconomic stimulus package, delivered to support households and businesses during lockdown and improve the prospects for economic recovery once restrictions were eased.

There was a high degree of uncertainty about the economic outlook when JobKeeper was being designed, in terms of both the severity of the shock and its duration. In March 2020, the NAB monthly measure of business confidence fell 62 points to -66 points – the largest single month decline and lowest level since the survey began in 1997. At that time, Treasury considered it plausible that GDP could be 10 to 12 per cent lower in the June quarter than previously forecast. Treasury estimated the unemployment rate could increase to 15 per cent. An even weaker outlook with GDP falling by 24 per cent was considered possible if lockdowns and restrictions were extended to additional sectors as occurred in countries such as Italy and Spain.

JobKeeper provided six months of support to businesses that expected their turnover to fall substantially at the outset of the pandemic. Given the potential for a very severe outcome to materialise, it was designed to be simple and implemented rapidly, to maximise the amount of support delivered to households and businesses in the shortest possible time. Guaranteed support for six months was designed to provide certainty to businesses. The timeframe was linked to the health advice that restrictions could need to be in place for six months and the ongoing evolution of the pandemic was highly uncertain. It was understood that this risked making payments to businesses that recovered quickly and may not need support by the end of this period. A mechanism to claw back payments from businesses that performed better than expected was not included, reflecting a desire to avoid any disincentives for businesses to adapt and recover. The introduction of such a mechanism would likely have reduced the overall level of activity and muted the recovery.

At the time of the *JobKeeper review* in June 2020, it was judged appropriate to maintain JobKeeper in its current form for a further three months, even though there was evidence some businesses that were initially heavily impacted were showing signs of recovery. This judgement reflected the still heightened uncertainty surrounding both the pandemic and the economic recovery, the weak economic conditions at the time, and the role that JobKeeper was playing as part of the broader macroeconomic response. Eligibility for JobKeeper moved from an assessment of anticipated decline to actual decline in turnover as the recovery strengthened.

In the first six months, JobKeeper payments went to businesses strongly affected by health restrictions

JobKeeper payments were targeted to:

- **Businesses strongly affected by the pandemic:** JobKeeper businesses faced a median decline in turnover of 28 per cent over the year to the June quarter and 23 per cent over the year to the September quarter 2020. This compared with no decline in median turnover for other businesses.
- **Businesses at high risk of shedding employees:** in March 2020, the job separation rate at JobKeeper businesses had almost doubled due to the COVID-19 health restrictions, but was broadly unchanged in other businesses.
- **Sectors directly affected by the public health restrictions:** JobKeeper payments were made to around half of the individuals employed in the arts and recreation industry and around 35 per cent in the accommodation and food services industry.
- **Small businesses and not-for-profit entities:** 99 per cent of entities receiving JobKeeper had a turnover of less than $50 million or were not-for-profits, and over 80 per cent of JobKeeper payments went to these entities. These groups were particularly vulnerable to the impact of health restrictions because of their limited ability to weather economic shocks. (Large businesses with a turnover of more than $250 million made up 0.2 per cent of JobKeeper entities and received around 11 per cent of payments.)

JobKeeper kept employers and employees connected

In May 2020 it is estimated that around 12 per cent of JobKeeper recipients – about 375,000 workers – had been stood down from their job and were only receiving JobKeeper payments. From June to September 2020, an average of around 260,000 stood-down workers were only receiving payments due to JobKeeper each month. Moreover, many JobKeeper workers returned to their jobs after short periods on JobSeeker.

JobKeeper supported productivity and business recovery

In the first six months of the program, JobKeeper went disproportionately to more productive businesses, particularly ones that were financially fragile and which may have had difficulty surviving a period of reduced revenue during restrictions. This helped prevent longer-term scarring by preserving important business-specific capital, knowledge and relationships.

Some businesses did not have large declines in their turnover in the first six months of the program when compared with a year earlier

In the first six months of the scheme, eligibility for JobKeeper was based on a business's forecast of its turnover decline, over a month or a quarter, to enable the payment to be made rapidly given the unfolding crisis.

Analysis of turnover data indicates that $11.4 billion and $15.6 billion in the June and September quarters 2020 was paid to businesses whose turnover did not decline by 30 per cent (or 50 per cent) compared with a year earlier. JobKeeper payments to these businesses covered on average around 1.45 million individuals. Around $6.8 billion and $6.4 billion in the June and September quarters was paid to businesses whose turnover fell, but not by 30 per cent (or 50 per cent), and $4.6 billion and $9.2 billion, respectively, was paid to businesses with a turnover increase compared with a year earlier. This analysis does not, however, indicate whether businesses were adversely affected by COVID-19 restrictions.

Some businesses, in particular, experienced a decline in turnover following the imposition of the COVID-19 restrictions, but because they were growing businesses or had otherwise changed their structure, this is not evident when their turnover is compared with a year earlier. Estimates suggest that at least $4.9 billion of the $13.8 billion paid to businesses with higher turnover through the year went to growing or changing businesses. These businesses were allowed to use a different test to determine their eligibility for JobKeeper to more accurately reflect the size of the business at the onset of the pandemic. JobKeeper payments to these businesses were important to offset the impact of COVID-19 restrictions on their operations and avoid labour shedding. Abstracting from payments to businesses that had grown strongly over the previous year but appear to have been adversely affected in the quarter, the payments to businesses that increased their turnover compared with a year earlier amounted to around $8.9 billion. These payments covered on average around 480,000 individuals.

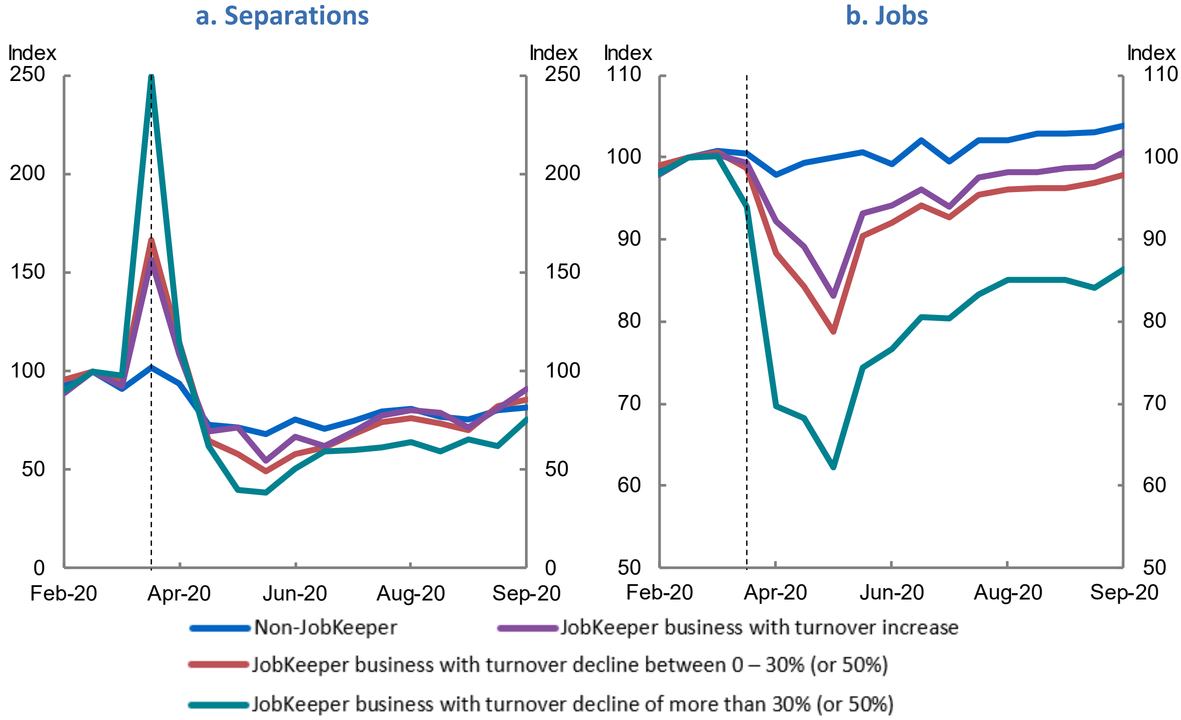
Most of the businesses that did not experience declines in turnover of 30 per cent (or 50 per cent) were small businesses. Of the businesses that did not experience the 30 per cent turnover decline, 99 per cent were small (having a turnover of less than $50 million), and $22.5 billion in payments went to these businesses. These businesses had, on average, around four employees. Small businesses accounted for $12.1 billion (88 per cent) of JobKeeper payments that were made to businesses that had increased turnover. Less than $200 million was paid to businesses with a turnover above $1 billion whose turnover increased.

For many businesses that were eligible for JobKeeper but did not end up experiencing their projected decline in turnover, this was because health restrictions were eased earlier, and these businesses' operations recovered more rapidly than expected. Other businesses were able to operate as a result of the support and successfully adapted their business models.

This analysis does not suggest any of these businesses were ineligible for the JobKeeper Payment. Eligibility for JobKeeper was based on a prospective assessment of a business's expected change in turnover, and there were a number of different tests that businesses in different circumstances were allowed to use. The Australian Taxation Office (ATO) set out guidance on how to undertake the decline in turnover test/s and the relevant evidence to support the turnover decline estimate, including where using an alternative test. The ATO has established that the vast majority of JobKeeper businesses reasonably estimated their projected decline in turnover.

Most of the businesses who did not experience their expected decline in turnover were still significantly negatively impacted by COVID-19. In particular, the number of separations for these businesses increased by almost 60 per cent in late March 2020, compared to almost no increase for non-JobKeeper businesses (Figure 1a). The number of jobs at these businesses also declined sharply at the start of the crisis and remained below the level for non-JobKeeper businesses at the end of September 2020 (Figure 1b). Following the introduction of JobKeeper, job shedding declined sharply in these businesses and employment outcomes substantially recovered, with estimates suggesting around 200,000 JobKeeper workers were brought back once the policy was introduced. As the economy recovered and these businesses expanded and pivoted production, hours worked for JobKeeper workers increased, as did employment of non-JobKeeper workers, by an estimated 150,000.

Figure 1: Separations and jobs by JobKeeper status and turnover



Note: Figure 1 presents fortnightly time series of jobs and job separations, indexed to equal 100 in the fortnight ending 1 March 2020. Separations are based on cease dates for a worker's employment relationship with a business (it can include workers who were on zero pay). Series exhibits volatility around end of financial year, which has been corrected. Payroll jobs are based on employee-employer relationships with pay, including any JobKeeper amounts. Dashed line indicates start of JobKeeper. Turnover analysis is based on June quarter 2020 data compared with a year earlier.
Source: Treasury analysis of de-identified administrative data (STP and BAS data linked to JobKeeper status).

JobKeeper played an important role in macroeconomic stabilisation and recovery

JobKeeper was designed to support households and businesses during lockdowns so that the economy was in the best position to adapt to lockdown conditions and recover quickly once restrictions eased.

Without the Government's significant fiscal support, including JobKeeper, Treasury has estimated that the peak of the unemployment rate would have been at least 5 percentage points higher. Without the support provided by JobKeeper and other measures, many individuals could have faced extended periods of unemployment. And many businesses that recovered – even those that recovered quickly – may not have been able to do so.

This broad fiscal support came through two channels: by directly supporting businesses and households and by supporting confidence and reducing uncertainty across the economy. Combined with other macroeconomic measures and the successful control of the virus, JobKeeper contributed to stronger economic outcomes, and better business performance, than anticipated. The fall in employment following the outbreak of COVID-19 was rapid and much sharper than in previous downturns, but as a result of the policy support and better-than-expected health outcomes the recovery in employment was also faster than in previous episodes.

Australia's economic and health outcomes were better than many comparable countries. In the June quarter 2020, real GDP fell by 19.5 per cent in the United Kingdom, 11.3 per cent in Canada, and 10.0 per cent in Germany, compared with 7.0 per cent in Australia. By March 2021, Australia had surpassed its pre-COVID-19 levels of GDP and employment, a better outcome than all major advanced economies.