

Supporting Australia's housing system: modelling pandemic policy response



Based on AHURI Final Report No. 346: Supporting Australia's housing system: modelling pandemic policy response

What this research is about

This research modelled a range of economic outcomes on employment and unemployment by sector, on earnings and incomes, and then on the housing outcomes of specific groups of interest in Australia from late 2020 and through 2021. These groups included home owners, private renters, and small investor landlords. It included a specific focus on three types of household: those suffering financial stress, those living on the edge (being close to losing their homes), and those living in double precarity (facing job insecurity and unaffordable housing).

The context of this research

The economic impacts of COVID-19 are the subject of considerable speculation, both internationally and in Australia. The International Monetary Fund (2020) has reported that 2020 global growth is projected to be -4.9 per cent, with growth of 5.4 per cent in 2021 such that global GDP will 'just exceed its 2019 level'. The corresponding figures for 'other advanced economics' (which includes Australia) are -4.8 per cent and 4.2 per cent.

The key findings

Australia can be seen as one of the more proactive nations in the world, having urgently implemented a number of government funded policy interventions early in the crisis. In particular, the JobKeeper payment was developed and introduced in mid-to-late March 2020. The Treasury reports that it had three principal functions: supporting business and job survival; preserving employment relationships; and providing income support.

Pandemic impacts on GDP

Predictions about the impact of COVID-19 on Australia's GDP range from a 5 per cent drop to a 25 per cent drop. However, most other studies suggest a strong recovery after the initial lockdown phase(s), including possible second or third waves, resulting in a 2021 position that may be somewhere between 4 per cent and 5 per cent lower than 2019 GDP in real terms.

Early predictions included employment loss of up to 25 per cent. Fortunately, it is clear that the impact of COVID-19 has been somewhat mitigated, aided by Australian Government interventions. However, the job losses and potential future job losses that COVID-19 has caused are concentrated in public-facing industries including arts, leisure, accommodation and food services. This has the potential to disproportionately impact specific groups of individuals and households.

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Impact on unemployment numbers

Some predictions of loss of employment are as high as 25 per cent. Early studies, that occurred in the first stages of the pandemic, suggest these job losses will be concentrated in public facing industry sectors, such as arts and accommodation and food services. The early modelling predicted 4,115,000 total unemployed, representing the originally observed 783,000 in 2018 plus an additional 3,332,000 (which is close to the 3.5 million reported by The Treasury to be eligible for JobKeeper).

Earlier research and commentary during the pandemic has highlighted that younger workers, females, and private renters are likely to be disproportionately affected.

Modelling undertaken in this research is presented in the following Table and is predicting what may occur in 2021 (not in 2020). The 'pre-JobKeeper pattern' reflects possible outcomes in 2021 – after the end of the JobKeeper and related income support measures, and is based on the pattern of observed job losses in early 2020, but applied to 2021.

The two additional scenarios represent possible outcomes in 2021, and are derived from ABS statistics focussed on the May 2020 quarter and assume that the observed job losses in 2021 will be either half or 1.5 times of those in the quarter two 2020. We label these simple scenarios 'mild' and 'severe'.

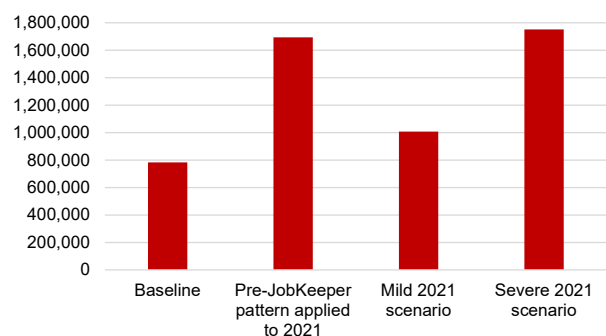
Table 1: Assumed job losses by sector in 2021 for three scenarios

Industry grouping	Pre-JobKeeper pattern	Mild	Severe
Agriculture, forestry and fishing	-8.0%	-3.0%	-9.0%
Mining	-6.0%	-2.1%	-6.2%
Manufacturing	-8.0%	-2.2%	-6.6%
Electricity, gas, water and waste services	-2.0%	1.4%	2.1%
Construction	-8.0%	-2.0%	-5.9%
Wholesale trade	-8.0%	-2.1%	-6.2%
Retail trade	-6.0%	-1.7%	-5.0%
Accommodation and food services	-28.0%	-10.6%	-31.8%
Transport, postal and warehousing	-7.0%	-3.1%	-9.2%
Information media and telecommunications	-9.0%	-3.6%	-10.7%
Financial and insurance services	0.0%	0.9%	1.4%
Rental, hiring and real estate services	-13.0%	-3.9%	-11.6%

Industry grouping	Pre-JobKeeper pattern	Mild	Severe
Professional, scientific and technical services	-11.0%	-2.0%	-5.9%
Administrative and support services	-9.0%	-3.5%	-10.4%
Public administration and safety	-3.0%	-0.5%	-1.4%
Education (tertiary)	-3.0%	-2.2%	-6.5%
Education (higher)	-3.0%	-2.2%	-6.5%
Health care and social assistance	0.0%	-2.6%	-7.8%
Arts and recreation services	-19.0%	-9.1%	-27.2%

Into the future, the simulations suggest total unemployment in 2021 ranging from 1,008,000 (mild scenario) to 1,752,000 (severe scenario). The 'pre-JobKeeper pattern' scenario assumes that the pattern of unemployment by industry grouping would be similar to the patterns witnessed in the early stages of the pandemic, before the JobKeeper and JobSeeker support measures were announced. This scenario suggests total unemployment of 1,694,500.

Figure 1: Simulated unemployment in 2021



Source: Authors' Calculations.

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Impacts on housing affordability stress

Before the pandemic there were 956,000 households living in Housing Affordability Stress (HAS) in Australia. Commonwealth Rent Assistance (CRA) reduces this number to 758,000. There is a heavy concentration in the private rental sector (69%) but this is reduced to 61 per cent after CRA is taken into account.

Once the pandemic and its economic repercussions began the number of households living with HAS would have risen to an estimated 1,336,000 (from the 758,000 baseline) without the JobKeeper and JobSeeker interventions. However, these interventions reduced the incidence of housing affordability stress by a considerable amount: to 861,500 households compared to 1,336,000 without the intervention.

Modelling reveals that as JobKeeper moves through its later phases, HAS will gradually rise by a further 124,000 compared to phase one, and 73 per cent of these households are private renters. The 2021 scenario modelling shows that CRA is not sufficient to fully mitigate the impacts of an economic downturn in any of the scenarios examined.

The research also found that the number of households in HAS, who also own an investment property, would have risen from a 49,000 baseline to 124,000 without JobKeeper and JobSeeker and the Coronavirus supplement interventions. With the interventions, the number rises to 92,000 households.

What this research means for policy makers

We found that the number of households living in a precarious situation is very high, and will likely remain high even after a partial recovery in 2021 and the withdrawal of much of the Australian Government's income support measures. Without an extension of the JobKeeper income support measures beyond March 2021, the number of households living in HAS is likely to increase significantly.

We find that the hypothetical phase four JobKeeper is more than sufficient to reduce the number of households in HAS below the baseline. This hypothetical extension would see a reduced JobKeeper payment (\$650 per fortnight compared to \$1,500 in phase one) and nil Coronavirus supplement (compared to \$500 in phase one).

We therefore argue that the winding back and phasing out of income support interventions may be premature, and will likely increase the number of households potentially unable to meet their own housing costs. Consideration should be given to additional supports after March 2021, although there is a case for clearer targeting of supports towards those in greatest need.

The COVID-19 pandemic has had a disproportionate impact on younger workers, and those working in less secure public facing occupations. Lower income workers and private renters are disproportionately affected. We suggest that serious consideration should be given to the development of further support measures that would benefit the household categories identified. Consideration might be given to rent relief schemes since it is clear that these, working in conjunction with CRA, have a strong impact on reducing housing affordability stress. We note that a national 25 per cent rent relief scheme (in addition to the CRA and the hypothetical JobKeeper phase four) would reduce the number of HAS cases by 30 per cent —this is equivalent to \$17.52 million per week or \$73 per case per week.

The modelling suggests rent relief measures (crudely modelled as a 25% rebate on rent) have a higher impact on numbers in HAS than CRA. For example, under our 'severe' 2021 economic scenario, HAS numbers are simulated as 893,000 after the application of CRA. This falls by 20 per cent when a hypothetical JobKeeper phase four intervention is factored in, and by a further 30 per cent on application of a hypothetical 25 per cent rent relief.

Methodology

This research modelled ABS and Council for Economic Development of Australia (CEDA) government data to examine the consequences on households and their ability to meet housing costs under these different scenarios. We assess the effects of a range of policy interventions and their effectiveness in mitigating the possible rise in households experiencing HAS under the various scenarios.

To cite the AHURI research, please refer to:

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