Thursday, 16 March 2023

Labour Force Survey

Strong Bounce But Trend Points To Softness

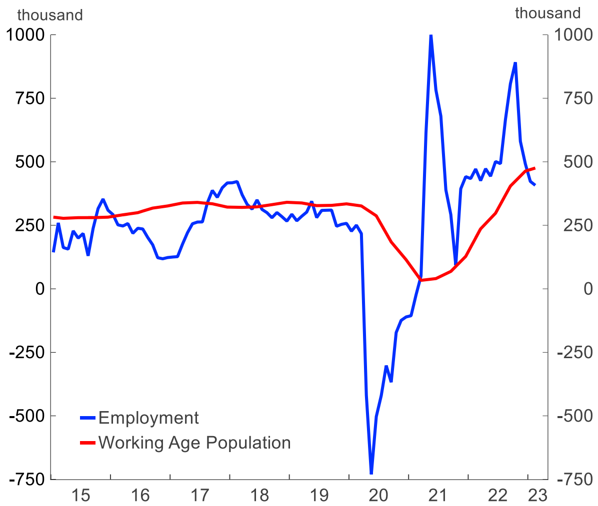
- **There was a solid bounce (+64.6k) in the number of jobs created in February – the highest monthly increase since June 2022. The strong read reflects payback for the 27.5k jobs lost over both December and January due to seasonal changes.**
- **Labour supply continues to increase. The working age population increased by 47.7k in February and by 136.6k over the three months to the end of February. These increases led the employment-to-population ratio to remain unchanged in trend terms.**
- **The number of people in the labour force increased by 48k over February. This suggests that the overseas arrivals coming into Australia are getting jobs - the participation rate tick up to 66.6%.**
- **The unemployment rate declined to 3.5% in February. The number of people unemployed declined by 16.5k over February. This was the first decline after three consecutive monthly increases totalling 37.5k jobs.**
- **Going forward we expect to see a slowing in employment growth but with some ongoing month-to-month volatility. Today's outcome supports our view that the state of the labour market will be determined by two major trends. Firstly, labour supply will continue to increase on the back of overseas arrivals. Secondly, underlying demand for labour will continue to slow.**
- **What is the bottom line? <u>This result is unlikely to worry the Reserve Bank.</u> Coupled with financial stability concerns in the US and now European banking systems and evidence of a slowing more broadly in the economy, we believe it takes rate hikes off the table. The door is wide open for a pause and even a cut, depending on how the current market turmoil and fears of contagion play out in coming days and weeks.**

Unemployment Rate

Sources: ABS; Macrobond

Employment and Working Age Population

Annual Change in Numbers



Sources: ABS; Macrobond

The States

Jobs gains were recorded across all states except for Queensland. There are four states and territories that now have unemployment rates at or above 3.8% - Queensland, South Australia, Western Australia, and the Northern Territory. We did see noticeable declines in the unemployment rate in Tasmania (down 0.5%) and the ACT (up 0.5%). NSW remains a standout.

	NSW	VIC	QLD	SA	WA	Tas	ACT	NT
Change in employment over the month (k)	15.9	62.0	-23.0	4.4	5.6	0.6	5.3	1.7
Change in employment over the year (k)	180.4	112.3	42.7	30.5	15.6	1.6	14.2	6.7
Unemployment rate (%)	3.2	3.7	3.8	3.8	3.9	3.6	2.9	4.6
Change in unemployment rate over the month (%)	0.0	-0.3	0.0	-0.2	0.2	-0.5	-0.5	0.6

Other Labour Market Measures

The underemployment rate – which measures the number of workers that are employed but would prefer to work more hours – declined to 5.8% in February, returning to the level recorded in November 2022.

The underutilisation rate – which includes both the unemployment and underemployment rates – declined to 9.4% consistent with the October 2022 outcome.

Leading indicators of demand, including job ads and job vacancies, have pulled back recently but remain elevated. Just yesterday we saw SEEK reporting that the number of job ads declined by more than 12% in annual terms to February 2023. Additionally, the number of people applying for each job fell for the first time in eight months.

Outlook

Going forward we expect to see ongoing month-to-month volatility. However, today's outcomes supports our view that the state of the labour market will be determined by two major trends.

Firstly, labour supply will continue to increase on the back of overseas arrivals.

Secondly, demand for labour will slow on the back of weakening domestic demand and as positions are filled. Notwithstanding today's bounce, employment growth has slowed to around 37k jobs over the last 3 months, well down on the 115k created across the previous 3-month period.

This combination will see the labour market become looser and reduce any risk of a wage price spiral.

What is the bottom line? This result is unlikely to worry the Reserve Bank. Coupled with financial stability concerns in the US and now European banking systems and evidence of a slowing more broadly in the economy, we believe it takes rate hikes off the table. The door is wide open for a pause and even a cut, depending on how the current market turmoil and fears of contagion play out in coming days and weeks.

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