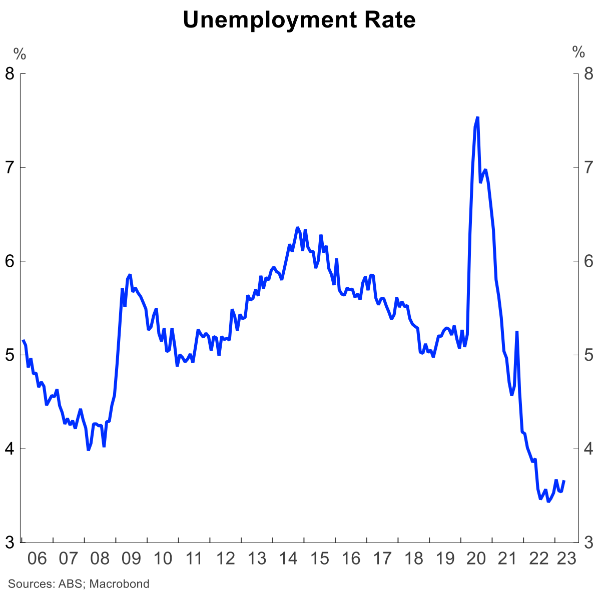
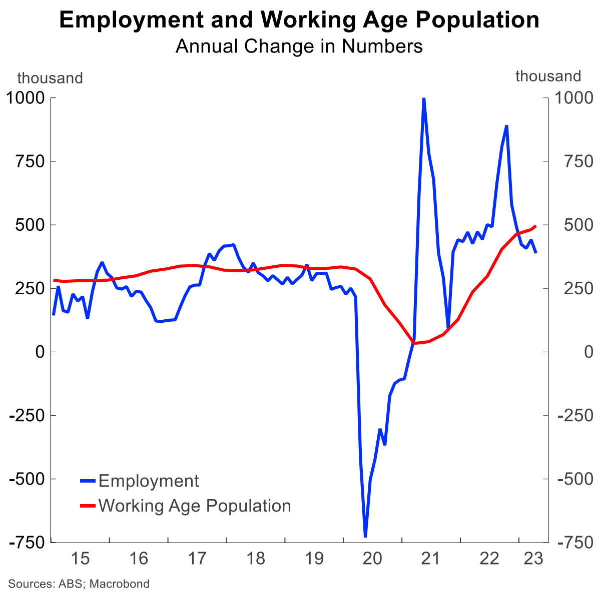
Data snapshot

Thursday, 18 May 2023

Labour Force Survey
The Start of a More Balanced Jobs Market

- **The labour market has been in flux recently as the surge in labour supply from overseas arrivals has been soaked up by pent up demand for workers. However, this ability to soak up new supply appears to be waning, marking a significant turning point for the jobs market.**
- **Employment declined by 4.3k in April. However, at turning points like this the underlying trend is more significant. Over the six months to April, employment growth averaged 25k per month, significantly slower than the same period last year where jobs growth averaged near 110k per month. In other words, momentum is softening as the labour demand cools.**
- **While labour demand is losing momentum, labour supply is just hitting fifth gear. Surging overseas arrivals are driving strong growth in the working age population and the size of the labour force. In six-month annualised terms, these numbers are still accelerating.**
- **As the number of people in the labour force (+14.1k) increased by more than employment (-4.3k), the number of unemployed people increased (+18.4k). This drove an increase in the jobless rate to 3.7%. Still reflective of a labour market that is exceptionally tight but easing.**
- **Ongoing strength in the number of hours worked suggests that demand for labour is being partially met by people working more hours. This is a potential sign that businesses are shying away from adding headcount given the economic backdrop and are increasing hours instead.**
- **The labour market remains exceptionally tight. However, we are beginning to see signs that the turn in conditions is accelerating. As this dynamic evolves, we expect a further increase in the unemployment rate, though, this path may not necessarily be a straight line.**





The labour market has been in flux over recent months as the rapid return of labour supply from overseas arrivals has been soaked up by pent up demand for workers. This evolution matured in April, as the pace of labour supply growth outstripped the labour market's ability to soak up this new supply. This marks a significant turning point for the jobs market and the likely start of a more material softening in conditions.

Employment declined by 4.3k in April, following a revised 61.1k gain in March. At turning points like this we expect to see more volatility in the data meaning the monthly reading is less significant than the underlying trend. Over the six months to April, employment expanded at an average pace of 25k, a respectable pace, but significantly slower than over the same period a year ago when the jobs market was averaging near 110k new jobs per month. In other words, momentum in employment growth is softening quickly as demand cools.

Moderating demand for workers is being driven by two key dynamics. First, strong employment growth in previous months means that labour shortages are being worked through. After all, every job that's created means one less that's being demanded from businesses. So, strong employment growth means that a chunk of that appetite for workers has now been filled. The second driver is a changing outlook. The Reserve Bank (RBA) is trying to cool the economy to bring inflation in check and that means there's a risk that businesses are going to be less busy in the future. Less business, all else equal, calls for less demand for workers and businesses are always looking into the future when making strategic decisions, including hiring.

While labour demand is losing momentum, labour supply is just hitting fifth gear and is humming along. Surging overseas arrivals is driving strong growth in the working age population (+45.1k) and the size of the labour force (+14.1k). In six-month annualised terms, these numbers are still accelerating meaning the wedge between labour supply and demand is likely to widen.

Unemployment Rate and Participation

The difference between growth in the working age population and the labour force, is explained by the participation rate, which ticked down to 66.7% in April, from an equal record high of 66.8% in March. The participation rate measures the share of working age people who are participating in the labour market, that is, working (employed) or looking for work (unemployed). The elevated participation rate is a sign that workers are confidence in the labour market and that inward migration is adding strongly to the supply of labour.

As the number of people in the labour force (+14.1k) increased by more than employment (-4.3k), the number of unemployed people increased (+18.4k). This drove an increase in the jobless rate from 3.5%, to 3.7%. Still reflective of a labour market that is exceptionally tight but easing, nonetheless. The unemployment rate may to move around a bit from here, but, overall we are expecting to see a rise in the unemployment rate over the course of the year as the demand and supply dynamics we've described continue to evolve.

Hours Worked

Hours worked rose 2.6% in April, largely driven by fewer people than usual working reduced hours over the Easter period. Recent strength in the number of hours worked could reflect that the demand for labour is being partially met by people working more hours and is a potential sign that businesses are shying away from adding headcount given the economic backdrop, and are increasing hours instead.

However, it could also be a sign that some households are increasing their hours, potentially through an additional job or through overtime, to increase their income. This may suggest that some households are adjusting their behaviour in response to elevated cost-of-living pressures, including higher interest rates.

The States

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Monthly Change in Employment (000's)	7.4	-23.9	-4.3	-7.0	2.2	-2.9	-3.0	1.4
Annual Change in Employment (000's)	146.3	104.1	62.6	35.4	17.0	11.4	6.6	7.1
Unemployment Rate (%)	3.4	3.9	3.9	4.3	3.6	3.9	3.0	3.4
Change in Unemplyment Rate (ppts)	0.1	0.2	0.0	0.6	0.2	-0.1	0.2	-0.1

*Seasonally Adjusted

Other Labour Market Measures

The underemployment rate, which measures the share of employed workers who wish to work more hours, edged down to 6.1% in April, from 6.2% in March. This may reflect the increase in hours worked in the month, but overall, indicates that there remains limited slack in the labour market.

The underutilisation rate - which is an aggregate of the unemployment and underemployment rates – edged up to 9.8% in April, from 9.7% in March as the increase in the unemployment rate more than offset the decline in the underemployment rate. The underutilisation rate is a good measure of the total amount of existing capacity in the labour market and remains around its lowest level since 2008. In fact, the underutilisation rate has been below 10% for 12 consecutive months, the longest string of readings that low since the early 80's.

Leading indicators of labour demand, including job ads and job vacancies, remain elevated but have pulled back recently as positions have been filled and the outlook for business conditions deteriorates.

Outlook

The labour market remains exceptionally tight. However, we are beginning to see signs that the early manifestations of a turn in conditions is accelerating. Growth in labour supply is outstripping demand and the labour market's ability to absorb this divergence is waning. As this dynamic continues to evolve, it will become more difficult, and take longer, for workers to secure vacant positions.

This is expected to drive a further increase in the unemployment rate, though, this path may not necessarily be a straight line as employment and labour force growth oscillate month-to-month.

This will come as a welcomed development for the RBA. Indeed, persistent strength in the labour market was flagged as a key reason for hiking interest rates this month. Growing evidence that this strength is beginning to fade will provide the Board with some confidence that underlying wages pressures have likely peaked.

Jameson Coombs, Economist
+61 401 102 789

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
0468 571 786

Economist
Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
0401 102 789