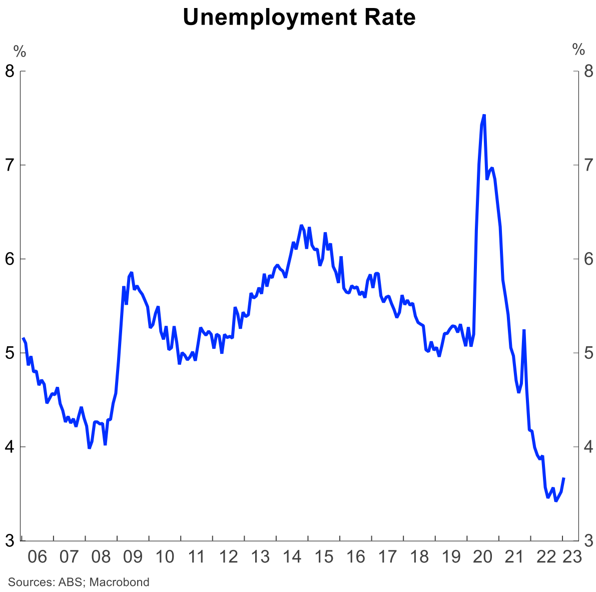
Data Snapshot

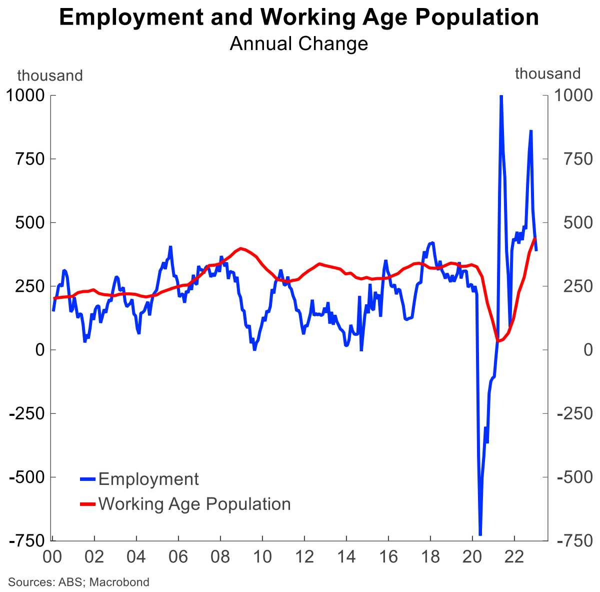
Thursday, 16 February 2023

Labour Force

Passing the Trough in Unemployment

- **The unemployment rate increased to 3.7% in January 2023 - the highest rate since May 2022. The number of people employed declined by 12k over the month, following a revised decline of 20k in December. The number of people unemployed jumped 22k over January and by 30k over the past two months.**
- **Other labour market indicators are also showing signs of slowing – the share of the working age population employed declined by 0.2 percentage points, the share of full-time employment and the participation rate both edged lower, and youth unemployment increased to 7.9% from 7.7%.**
- **At the same time, we continue to see an acceleration of population growth on the back of higher migration levels. In fact, in January there was a 41k increase in the working age population. In a recent note, we pointed out that growing labour supply would act as a pressure relief valve for the tight labour market – we are seeing this play out.**
- **The risk of a wage price spiral is also reduced if labour shortages become less acute.**
- **While the labour market remains strong, data over the past few months suggests that we may have past the trough in the unemployment rate. This has happened more quickly than the Reserve Bank (RBA) was expecting – their forecasts released last Friday had the unemployment rate increasing to 3.6% in June 2023 and 3.8% in December 2023 – its January and we're at 3.7%.**
- **The current surge in net overseas migration will help bring demand and supply of labour into better balance over time. This will result in a tick up in the unemployment rate to a more sustainable level over time and could reduce the risk of a wage price spiral.**





The unemployment rate increased to 3.7% in January 2023 - the highest rate since May 2022. At 3.7% the labour market remains strong by historical standards. However, data over the past few months suggests that we have well and truly past the peak.

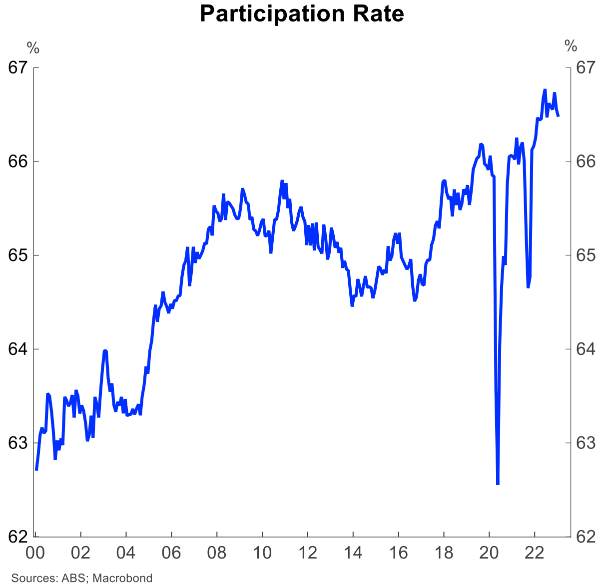
Employment declined 11.5k in January, on the back of a revised decline of 20.0k in December. That means employment has fallen by 31.5k over the last two months. Full time employment accounted for most of this decline, down 29.0k over the past two months.

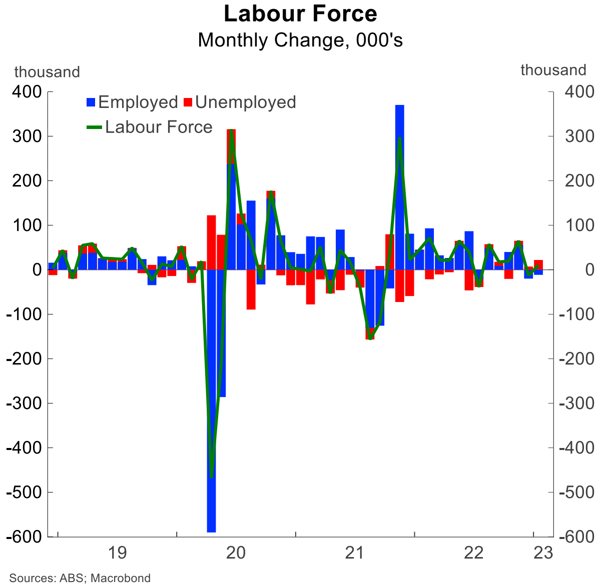
The number of people unemployed increased by 21.9k over January and by 29.0k over the past two months. This implies that people are losing jobs. The ABS notes that the larger-than-usual increase in unemployed people could be explained by a decline in the number of unemployed people who had a job to go to in the future.

Labour force participation rate

The participation rate, which measures the share of the working age population that's either working (employed) or looking for word (unemployed), eased further to 66.5% in January, from a record high of 66.8% in November 2023. Note, the participation rate remains elevated and well-above pre-pandemic levels.

The fall in participation was underpinned by a 10.4k increase in the labour force – the number of people unemployed increased by 21.9k while the number of people employed declined by 11.5k. At the same time the population increased by more than 40k in January 2023.





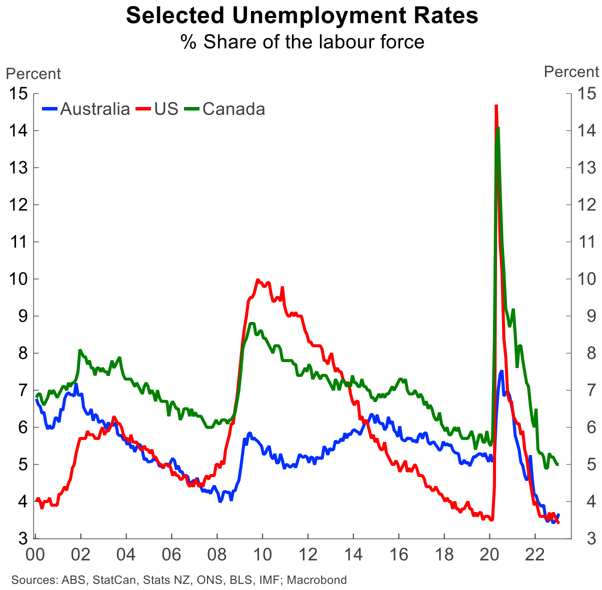
Unemployment rate

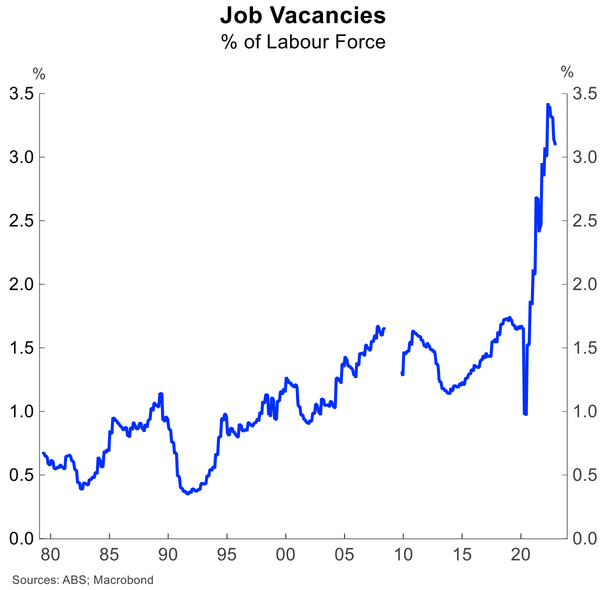
The unemployment rate increased to 3.7% in January 2023. The increase in the number of people unemployed was partly offset by the increase in the labour force. The unemployment rate has edged higher after falling to 3.4% in October 2022. The October outcome now appears to be the low point for the unemployment rate this cycle. Note however, month to month volatility in key market indicators, such as the participation rate, may lead to volatility in the unemployment rate going forward.

At 3.7% the labour market remains extremely tight by historical standards. In the decade before the pandemic, the unemployment rate averaged 5.4%. Estimates of the natural rate of unemployment sit within the range of 3.75% to 4.25%. As such, the RBA is likely to want to see the labour market ease further before it becomes more comfortable with the inflation outlook.

International comparison

We noted that the increase in the unemployment rate has happened more quickly than expected. The fall in employment was particularly surprising given the international context. A lot has been made of the stronger than expected job gains in late 2022 and over January in several countries, including the US and Canada. In fact, in the US and Canada the unemployment rate ticked lower in January. The difference in labour market outcomes could reflect differences in the transmission of monetary policy, which is likely to be faster in Australia given the higher share of variable rate mortgages.





Hours worked

The number of hours worked decreased by 2.1% over January 2023. This was driven by the fall in the number of people employed and a higher-than-average number of people taking leave in January. The ABS noted that around 43% of employed people worked reduced or no hours because they were on leave, compared with around 41% before the pandemic. The number of people working fewer hours due to illness is back around pre pandemic levels – this may also be helping reduce demand for labour.

The States

Labour markets are easing across states and territories. There are four states and territories that now have unemployment rates at or above 4.0% - Victoria, Tasmania, South Australia, and the Northern Territory. We did see a noticeable increase in the unemployment rate in Queensland (up 0.5%) and the ACT (up 0.3%). NSW remains a standout – the unemployment rate ticked up to 3.1% - an extremely low rate by historical standards.

	NSW	VIC	QLD	SA	WA	Tas	ACT	NT
Change in employment over the month (k)	-5.1	-26.5	17.9	4.2	-5.4	-2.7	-2.0	0.8
Change in employment over the year (k)	199.5	49.3	87.5	29.8	8.9	8.4	10.0	8.2
Unemployment rate (%)	3.1	4.0	3.8	4.0	3.6	4.1	3.4	4.0
Change in unemployment rate over the month (%)	0.1	0.3	0.5	-0.1	0.0	0.2	0.3	0.2

Other Labour Market Measures

The underemployment rate – which measures the number of workers that are employed but would prefer to work more hours – remained steady at 6.1% in January from a more than 14-year low of 5.8% in November.

The underutilisation rate – which includes both the unemployment and underemployment rates – ticked up to 9.8%, from a more than 40-year low of 9.3% in November.

Leading indicators of demand, including job ads and job vacancies, have pulled back recently but remain elevated. This suggests that businesses appetite for the right workers remains high.

Outlook

Demand for labour has been elevated for a prolonged period as demand surged on the back of easing COVID-19 restrictions. Shortages have been widespread and the ability of the economy to supply more labour has been the key driver of employment outcomes. This initially occurred through an increase in participation and a fall in unemployment, however, we are now starting to see a more rapid increase in the working age population as migration ramps up and exceeds forecasts.

The current surge in net overseas migration will help bring demand and supply of labour into better balance over time. This will result in a tick up in the unemployment rate to a more sustainable level. It will also help reduce the risk of a wage-price spiral.

Pat Bustamante, Senior Economist
Ph: +61 468 571 786

Contact Listing

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

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

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

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