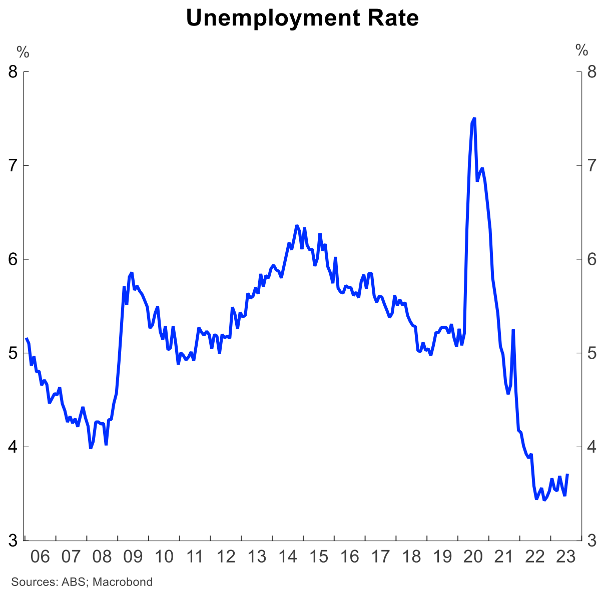
Data Snapshot

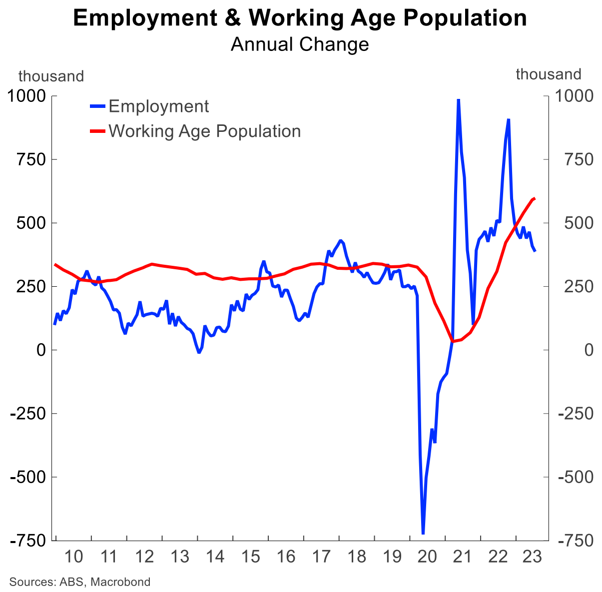
Thursday, 17 August 2023

Labour Force Survey

Starting to Show Chinks in the Armour

- **Employment declined by 14.6k in July, the largest fall since the Delta lockdowns of 2021 but only the third fall in the past 21 months. The unemployment rate rose to 3.7%, from 3.5%.**
- **While we are hesitant to call a distinct turn in the labour market, the July outcome suggests that we might be starting to see some chinks appear in the armour and that the market's ability to absorb the rapid increase in the working age population is beginning to wane.**
- **Growth in the working age-population accelerated marginally to a record annual pace of 2.8% in July. However, the increase in labour supply was partially offset by a fall in the participation rate to 66.7%, from 66.8%. Without the cushion from a falling participation rate, the unemployment rate would have increased even further to 3.8%.**
- **Despite the soft monthly read there remains considerable residual strength. On average over the past three months employment expanded 31.1k, comfortably above the 10-year average. Additionally, school holidays during the survey period mean there is good cause for caution.**
- **Today's data is the first sign that labour demand may be starting to struggle in keeping up with record growth in supply. This mismatch is likely to deepen over time and lead to a further softening in labour market conditions. However, the turn in the labour market could be a slow burn rather than a sharp tilt.**
- **The Reserve Bank (RBA) has made clear it will require evidence that upside inflation risks are materialising to prompt further tightening in monetary policy. Today's data suggests that these risks, at least from the perspective of the labour market, are remaining at bay.**





The labour market has gone from strength to strength so far in 2023, soaking up a record influx of labour supply and defying expectations that conditions will soften. However, the July outcome suggests that we might be starting to see some chinks in the armour.

Employment declined by 14.6k people in July, the largest fall since the Delta lockdowns of 2021 but only the third fall in the last 21 months. At the same time, labour supply continued to roar ahead, driving the unemployment rate up to 3.7%, from 3.5% previously.

Despite the soft read, it's still too early to call a definitive change in trajectory for the labour market. For one, there remains considerable residual strength. On average, employment expanded by 31.1k over the past three months, comfortably above the 10-year monthly average of 21.4k. Additionally, school holidays during the survey period and quirks in the survey method (including survey rotation groups) mean there are plenty of reasons to interpret the results with caution.

On balance, we believe July's reading is the first sign that labour demand is starting to fatigue and the market's ability to absorb the rapid increase in the working age population is beginning to wane. This is reflected in the employment to population ratio, which ticked down to 64.3% in July, from 64.5% previously. However, the magnitude of this exhaustion is unclear, meaning we could still see some strength showing through in the near term.

The downward pressure on the labour market from rapidly expanding supply is here to stay. In fact, growth in the working age-population accelerated marginally to a record annual pace of 2.8% in July. This increase was partially cushioned by a fall in the participation rate from 66.8% to 66.7%, meaning the increase in the working age population did not translate fully to labour supply. But this could prove temporary.

Unemployment Rate

As employment fell and the labour supply expanded, the number of unemployed people rose by 35.6k. This was the largest monthly rise in the number of unemployed since the Delta lockdowns of 2021. The increase in unemployment relative to employment drove the unemployment rate up to 3.7%, it's highest level since May 2022 (when taken to two decimal places). Without the cushion from a falling participation rate, the unemployment rate would have increased further to 3.8%.

The States

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Monthly Change in Employment (000's)	-24.6	16.5	-22.8	3.8	15.0	-2.9	-0.5	-0.2
Annual Change in Employment (000's)	108.2	149.3	47.9	43.6	22.1	4.0	8.9	1.2
Unemployment Rate (%)	3.3	3.6	4.5	4.0	3.4	4.7	3.8	3.9
Change in Unemplyment Rate (ppts)	0.4	-0.1	0.8	-0.1	-0.2	1.2	-0.1	0.5

*Seasonally Adjusted

Other Labour Market Measures

The underemployment rate – which measures the share of employed workers who wish to work more hours – held steady at 6.4% in July. However, underemployment has moved higher over the course of this year. The underutilisation rate, which combines the unemployment and underemployment rates, rose to 10.1% from 9.9% previously, marking the highest read since March 2022.

Measures of demand remain hot, despite pulling back alongside the surge in employment and a weakening economic backdrop. Job ads rose 0.4% in July, following a 2.7% decline in June while the number of job vacancies is still more the double the pre-pandemic average. This suggests demand may have just stumbled in July and could still find another gear to keep up with supply in the near-term.

Outlook

Today's data is the first sign that labour demand may be starting to struggle keeping pace with record growth in supply. This mismatch is likely to deepen over time and lead to a softening in labour market conditions. However, the underlying strength of demand means that bursts of employment growth are unlikely to disappear altogether. The turn in the labour market could be a slow burn rather than a sharp tilt.

While it may be too early to call a distinct shift in labour conditions, the labour market has certainly not tightened further. This will be of welcomed news to the RBA. The RBA has been clear it will require evidence that upside inflation risks are materialising to prompt further tightening in monetary policy. And today's data, coupled with wages information earlier in the week, suggests that these risks, at least from the perspective of the labour market, are remaining at bay.

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