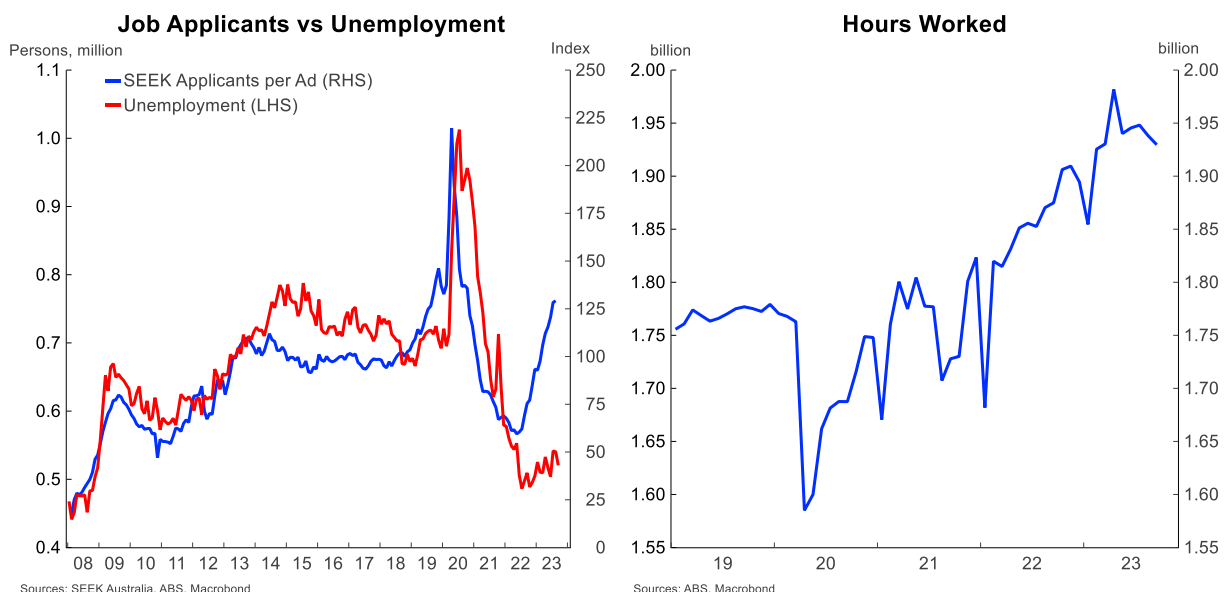


Thursday, 19 October 2023

Labour Force Survey

Rebalancing Act Continues

- The unemployment rate ticked down to 3.6% in September from 3.7% in August. This was driven by a 19.8k fall in the number of unemployed people. Most of these individuals left the labour force as opposed to gaining employment.
- The number of people employed increased by 6.7k in September – this was below the 20k the market was expecting. Over the past three months an average of 23k people were employed – marginally below the level required to keep the unemployment rate unchanged given the strong population growth and steady participation.
- Forward indicators, such as the number of applicants per job ad, have pointed to a softening in demand for a while. It appears businesses have been adjusting hours worked as opposed to the number of people employed. This makes sense given recent struggles to attract suitable staff.
- At the same time, potential labour supply (or the working age population), continues to grow strongly, consistent with the strong overseas arrival numbers. We expect this dynamic to continue going forward, which will lead to an orderly softening in labour market conditions.
- The Reserve Bank (RBA) would not be concerned with these numbers. The labour market remains unquestionably strong. However, it's also not getting any tighter limiting the chances of an unsustainable break-out in wages. The softening in conditions at the margins would likely reassure the RBA that it's on the narrow path to achieving a soft landing.
- Today's data supports the view that the RBA will remain on hold next month, with a continued tightening bias. A key input into next month's decision will be the inflation report next week.



The labour market remains unquestionably strong. However, today's outcome suggests that we might be starting to see a softening in demand, while labour supply continues to grow at close to a record pace. We expect this dynamic to continue going forward, which will lead to an orderly softening in labour market conditions.

Employment growth

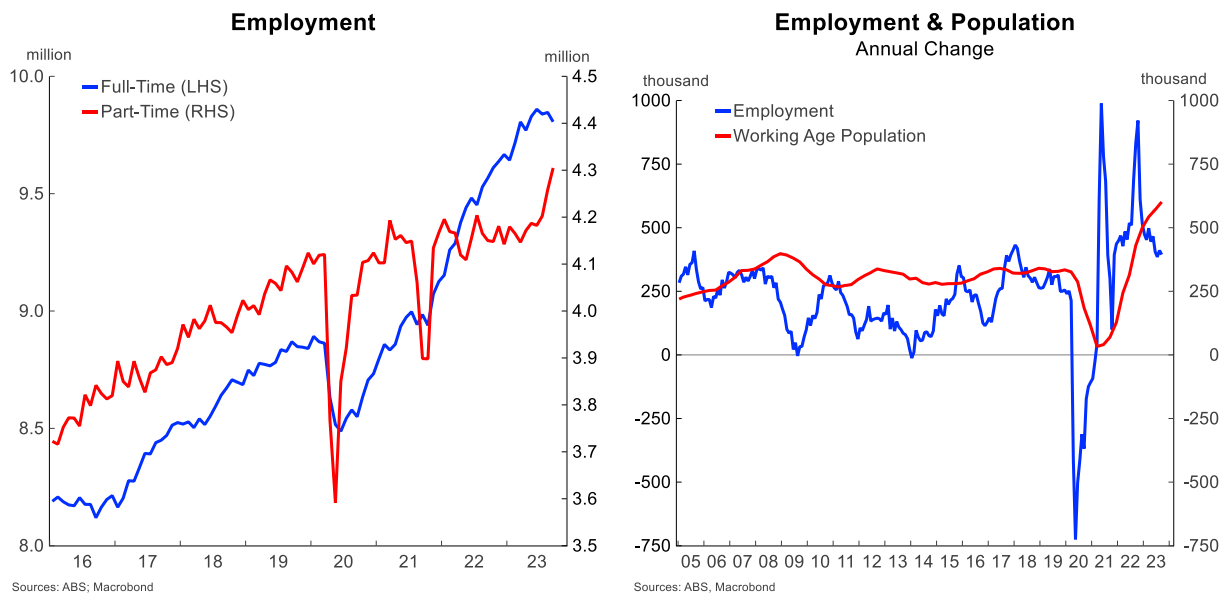
Employment grew by 6.7k people September which was below the 20k the market was expecting. Over the past three months, employment has increased by a monthly average of 23k people – just below the level required to keep the unemployment rate unchanged given the strong population growth and a steady participation rate.

Part-time employment surged in the month, jumping 46.5k. This follows a 56.6k gain in August. On the other hand, full-time employment declined by 39.9k – the sharpest one month drop since October 2021 when certain states were still impacted by COVID related restrictions.

This rebalancing from full time to part time workers likely underpinned the 0.6% monthly decline in hours worked. The number of hours worked are now 2.7% lower than the peak recorded in April. It appears businesses have been adjusting hours of work as opposed to the number of people employed.

Labour supply

The downward pressure on the labour market from rapidly expanding supply is here to stay. In fact, growth in the working age-population accelerated over the September quarter to an annualised pace of 3.1%. This increase was partially cushioned by a fall in the participation rate from 67.0% to 66.7%, meaning the increase in the working age population did not translate fully to a rise in labour supply.



Unemployment Rate

The unemployment rate ticked down from 3.7% in August to 3.6% in September. This was driven by a 19.8k fall in the number of people unemployed. Most of these individuals left the labour force as opposed to gaining employment, resulting in a lower participation rate.

The States

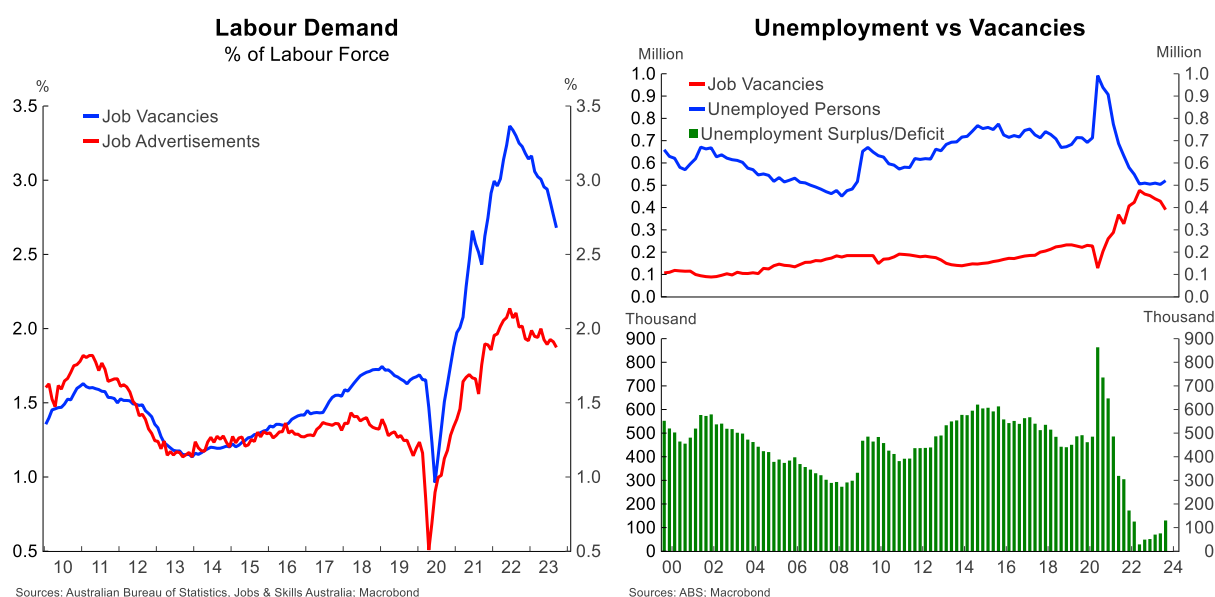
	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Monthly Change in Employment (000's)	-7.3	-0.4	5.9	-1.5	-1.9	1.9	-1.0	0.1
Annual Change in Employment (000's)	98.3	134.2	61.9	43.4	42.0	5.3	9.2	1.6
Unemployment Rate (%)	3.3	3.5	3.9	3.7	3.3	4.2	3.9	4.1
Change in Unemployment Rate (ppts)	-0.2	-0.1	-0.2	0.1	-0.5	-0.2	0.8	-0.2

*Seasonally Adjusted

Other Labour Market Measures

The underemployment rate – which measures the share of employed workers who wish to work more hours – declined from 6.6% in August to 6.4% in September, on par with the average rate over the past 6 months. The underutilisation rate, which combines the unemployment and underemployment rates, declined from 10.1% in August to 9.9% in September, again to be in line with the average recorded over the past six months.

Labour demand remains strong but has also been slowly easing from very elevated levels. This is reflected in the sharp fall in job vacancies from elevated levels.



Outlook

Today's data is another 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.

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, suggests that these risks, at least from the perspective of the labour market, are remaining at bay.

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

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
