

Thursday, 16 June 2022

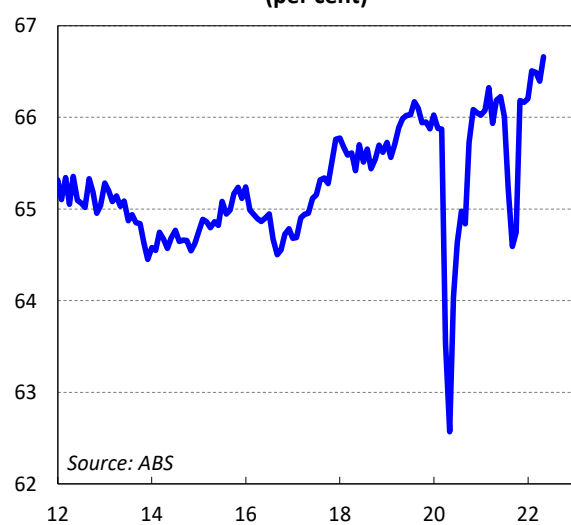
Labour Force Record Participation in Jobs Market

- The labour market delivered yet another upside surprise in May, showing that the jobs market still holds considerable momentum, despite the shrinking pool of spare capacity. Employment accelerated at its fastest rate since February, adding 60.6k new jobs in May.
- In May, the participation rate lifted to a record high of 66.7%. In other words, additional labour market capacity was unlocked as more Australians were drawn into the jobs market.
- The unemployment rate held steady at 3.9%, around its lowest level in almost half a century, as the increase in participation offset the rise in jobs.
- Across the board, labour market indicators point to a very tight jobs market. As the unemployment rate hovers around full employment, workers are increasingly shifting from part-time to full-time. This continued in May. Plus, hours worked rose to a new record high in May and the underemployment rate fell to 5.7%, its lowest in nearly 14 years.
- The jobs market is booming across the country. In May, jobs were added in every state, except Victoria. Employment is at or near record highs in all states.
- Labour shortages are widespread. In April 2022, 18% of employing businesses did not have enough staff, according to a survey conducted by the Australia Bureau of Statistics.
- Leading indicators underscore that labour demand remains very strong. We expect the jobless rate to continue to decline over rest of the year. However, labour shortages and skills mismatches may begin to slow jobs growth as businesses struggle to find suitable hires.

Unemployment Rate
(per cent)



Participation Rate
(per cent)



The labour market delivered yet another upside surprise in May, indicating there is still room for jobs growth, despite the narrowing pool of spare capacity.

Employment accelerated at its fastest rate since February, adding 60.6k new jobs in May and taking the level of employment to a fresh record high. The result follows a considerably milder increase of 4.4k jobs in April, which could have been interpreted as a signal that momentum was starting to slow as the market tightened and spare capacity evaporated. However, today's outcome shows that businesses are still managing to expand their workforce despite increasing challenges in finding the right people.

The jump in employment marks the seventh consecutive monthly increase in new jobs and takes the cumulative rise in employment since November to 661.6k. This is an impressive scorecard by any standard and means that employment is now 6.4% higher than before the pandemic (as of February 2020). This is the second strongest run of employment growth over a seven-month window on record, beaten only by the surge in jobs growth coming out of the first round of lockdowns in 2020.

A key takeaway from May's survey was the lift in participation. The participation rate measures the proportion of people who are active in the labour market i.e. are either employed or are unemployed and are looking for work. In May, the participation rate lifted to a record high of 66.7%, eclipsing the previous high of 66.5% set in February. In other words, the size of labour market increased. The rise in participation means that further labour market capacity was unlocked as more Australians were drawn into the jobs market.

Unemployment rate

The unemployment rate held steady at 3.9% in May, despite a strong pick-up in employment. This is because the increase in new jobs was offset by the rise in participation. To put it simply, the size of the pie grew, but the share of the pie was unchanged as the number of employed and unemployed persons increased proportionately.

Still, at 3.9% the labour market is exceptionally tight and running at its lowest level in almost half a century. Indeed, the Reserve Bank (RBA) estimates that the unemployment rate consistent with full employment is somewhere between the high 3's and the low 4's. We are therefore well and truly in the vicinity of full employment. It is at this point that we would expect to see wage pressures materialise more quickly. Business surveys and liaison are telling us exactly that, as businesses increasingly compete to attract and retain talent.

On the topic of wages, yesterday the Fair Work Commission announced a 5.2% increase in the minimum wage, alongside a minimum 4.6% rise in modern award minimum wages. The lift in the minimum wage is higher than the 5.1% increase in annual headline inflation in the March quarter. The Prime Minister has underscored the Government wants to prevent the lowest income earners 'going backwards' amidst elevated cost-of-living pressures. The changes are due to come into effect from 1 July this year, except for workers in the aviation, tourism and hospitality sectors, where the changes will be delayed until 1 October 2022.

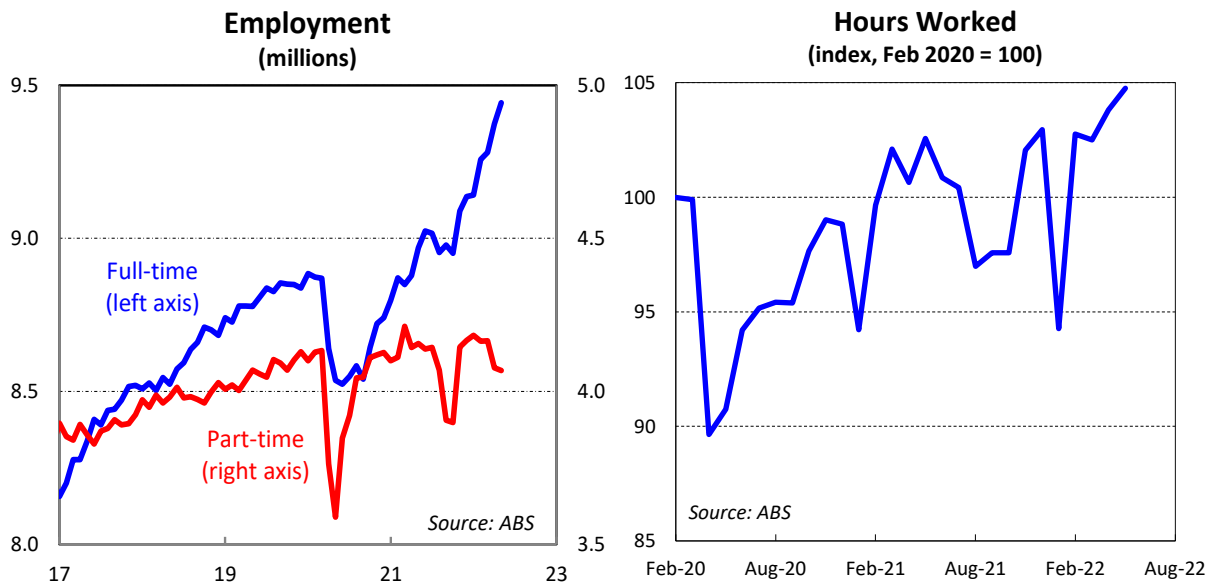
Hours worked

Recently, there has been a divergence between full-time and part-time jobs growth. This is to be expected as the labour market approaches full employment and workers increasingly shift from part-time to full-time roles. This in-turn unlocks further labour market capacity via hours worked. In May, this trend continued as full-time employment jumped 69.4k jobs and part-time employment declined by 8.7k.

Relatedly, we observed a strong rise in hours worked in May, as the share of full-time jobs rose

and employees worked additional hours to meet the demand for labour. Hours worked jumped 0.9% in the month and reached a new record high.

However, hours worked appear to have further to run as COVID and the onset of the winter flu season saw more people on sick leave. In May, the number of employees working fewer hours than usual due to illness was at the highest level recorded since the pandemic began. This was especially pronounced for workers between the age of 25 and 39.



The states

The jobs market remains tight across the country.

Indeed, employment rose across most states and territories in May. NSW (+49.0k) and Queensland (+46.6k) were the biggest winners. There were also jobs added in WA (+4.8k), SA (+4.0k), Tasmania (+2.7k) and the NT (+1.3k). There were modest job losses in Victoria (-14.1k) and the ACT (-0.8k). Employment is at or near a record high in every state.

The participation rate also increased across every state and territory, except for Victoria where it declined slightly. Participation in the labour force is at or near a record high in most states.

The changes in the unemployment rates across the states were mixed in the month. The unemployment rate edged higher in some states where the increase in participation outweighed the increase in employment. However, the unemployment rate remains low across the country, and well down on levels prior to the pandemic.

The jobless rate was lowest in WA (3.1%) followed closely by the ACT (3.3%) and Victoria (3.7%). Queensland and Victoria both recorded unemployment rates at 4.0% in June while the NT (4.1%), Tasmania (4.5%) and SA (4.6%) brought up the rear.

Other labour market measures

Other measures of slack in the jobs market continue to point to very tight conditions.

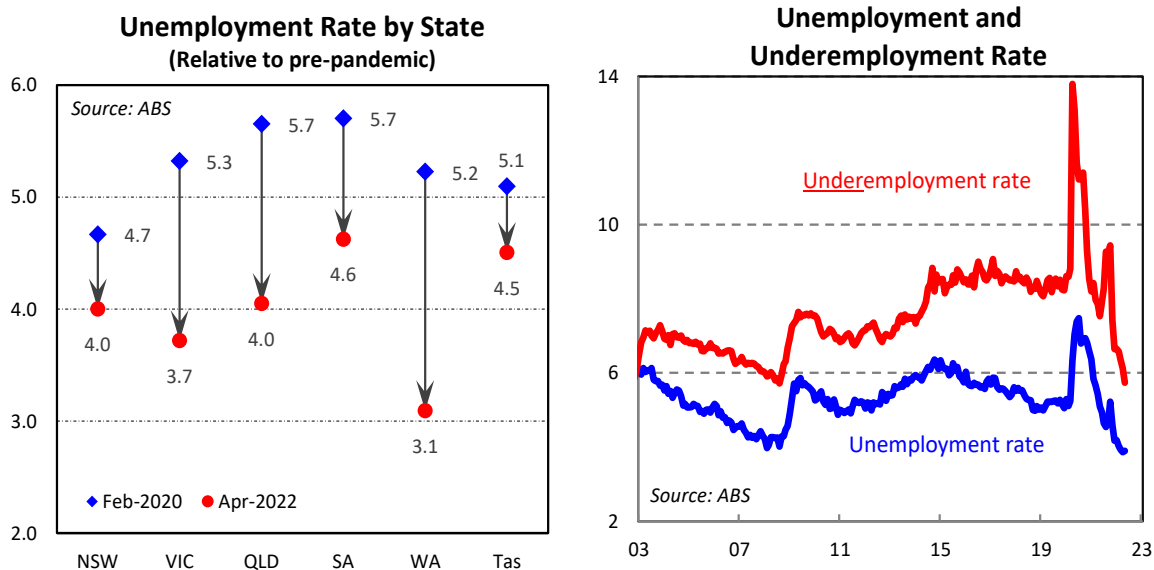
The underemployment rate fell 0.4 percentage points to 5.7% in May, the lowest in nearly 14 years. Underemployment captures people who are employed but want to work more hours. Underemployment has declined for seven consecutive months.

Meanwhile, the underutilisation rate, which is a combination of the unemployment and underemployment rates fell 0.4 percentage points to 9.6%, its lowest level since April 1982, or

more than 40 years.

Leading indicators underscore that labour demand remains very strong. Jobs ads rose in May, hovering around their highest level in 14 years. Job vacancies hit a record high in February, accounting for 3% of the labour force.

Consequently, labour shortages are widespread. In April 2022, 18% of employing businesses did not have enough employees, according to a survey of businesses conducted by the Australia Bureau of Statistics. Liaison suggests labour shortages are impeding the ability of some businesses to expand.



Boosting labour supply

As the labour market tightens and labour shortages become more acute, the importance of a rise in labour supply becomes more pronounced.

A possible avenue for such a rise in supply is through the resumption of overseas migration. The previous Federal Government, in the most recent Budget, projected that net overseas migration would trend back towards pre-pandemic levels over the next few years, returning to the pre-pandemic average by 2024-25. Since the reopening of international borders, there has been an uptick in temporary work and student arrivals. Before the pandemic, skilled migrants and temporary visa holders, including international students, contributed strongly to labour supply, especially within the industries where current labour shortages are pronounced.

The return of migration will help fill some of the excess demand, however, the rate at which migration recovers is a key uncertainty.

Another way to boost supply is through a further increase in participation, particularly via a rise in female participation. In May, female participation rose to 62.3%, compared to 71.2% for males. While the gap in participation between males and females has narrowed, there is still further to run.

Several countries show that higher participation is possible, including New Zealand and a number of Nordic countries. These countries boast a considerably higher participation rate than Australia. A further lift in female participation would push the aggregate participation rate beyond its current record highs and inject more supply into the labour market. Policies to improve childcare and promote workplace flexibility and diversity are important in encouraging greater levels of

workforce participation.

Outlook

Labour demand remains extremely robust and we expect the jobless rate to continue to decline over coming months. The jump in participation is a welcome sign that there may still be some slack to be extracted from the market. However, labour shortages and skills mismatches are likely to become more pronounced as the unemployment rate falls and may begin to slow the rate of growth as businesses struggle to find suitable hires.

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