Thursday, 17 June 2021

Labour Force

Nothing Short of Amazing

- **Today's jobs data is nothing short of amazing. Jobs surged 115.2k in May – well above the consensus forecast of 30.0k. It more than makes up for the loss of 30.7k jobs in April, associated with Easter seasonal effects.**
- **What is even more remarkable is that job gains over the past twelve months to May sum to 987.2k – just shy of one million and the best on record.**
- **The unemployment rate fell 0.4 percentage points to 5.1% – the lowest rate since December 2019. An unemployment rate with a '4' in front of it is now within reach this year.**
- **The tightening of the labour market was accompanied by more people rejoining the labour force. The participation rate increased to 66.2%, just shy of a record high.**
- **Other indicators of the health of the labour market were encouraging. The rise in jobs was driven by a record rise in full-time employment of 97.5k. Underemployment fell to a 7½-year low. Youth unemployment also fell whilst hours worked rose.**
- **Businesses have been reporting labour shortages. These reports might become more prominent alongside the faster-than-expected tightening in the labour market.**
- **Growth in employment in May was driven mostly by New South Wales, Victoria and Queensland. Western Australia continued to hold the prize for having the lowest unemployment rate amongst the states.**
- **The risk of the Reserve Bank increasing the cash rate before 2024 has materially increased. And the US Federal Reserve's dot plot suggests it could also start a rate-hike cycle in 2023.**

Today's jobs data is nothing short of amazing. Jobs surged 115.2k in May – well above the consensus forecast and our forecast of 30.0k. It more than makes up for the loss of nearly 31k jobs in April, associated with Easter seasonal effects. What is even more remarkable is that net job gains over the past twelve months to May sum to 987k – just shy of one million and the best on record.

Full-time vs part-time

An encouraging feature of the jobs data is that the gains were led by full-time employment. Full-time employment lifted 97.5k in May and rose in April by 33.5k. Part-time employment fell sharply in April by 64.2k, which could partly reflect the expiry of JobKeeper in March, and only made a partial recovery in May (up 17.7k).

The sluggishness of the recovery in part-time jobs after JobKeeper expired might reflect the fact that many jobs lost during the pandemic were part-time and casual. They were employed in industries hardest hit by the international border closures – hospitality and tourism – that employ a higher share of part-time and casual staff.

Unemployment rate

The unemployment rate fell 0.4 percentage points to 5.1% - the lowest rate since February 2020. An unemployment rate with a '4' in front of it is now within reach this year. The Reserve Bank's forecasts published last month had an unemployment rate of 5.0% at the end of this year and 4.5% at the end of 2022, but these forecasts appear too high now.

The pandemic peak in the unemployment rate was 7.4% in July last year. Since then, the unemployment rate has dropped 2.3 percentage points.

The participation rate also rose in May, rising from 65.9% to 66.2%, which is just shy of the record high of 66.3%. So not only are more jobs being created, but more people have rejoined the labour force after having dropped out during the height of the pandemic last year.

Other labour market measures

Other measures of the health of the labour market are also suggesting a strong improvement is underway in the jobs market. Hours worked lifted by 1.4% in May, the youth unemployment rate fell 0.5 percentage points to 10.3%, the underemployment rate fell 0.3 percentage points to a 7½-year low of 7.4% and the underutilisation rate fell 0.7 percentage points to an 8-year low of 12.5%.

The employment-to-population ratio is often viewed as an alternative measure to the unemployment rate; it rose 0.5 percentage points to 62.8% – within reach of the all-time high for the series of 62.9%.

Drivers of jobs growth

The economic recovery was initially led by consumer spending. It is now also being supported by an expansion in business spending, which is helping to drive jobs growth up and the unemployment rate down. Indeed, business investment has experienced a strong uplift, especially in spending on machinery and equipment, as businesses take advantage of generous government tax incentives.

Consumers and businesses also feel optimistic about the outlook, although the recent outbreaks in NSW and Victoria highlight that we are not out of the woods yet with the pandemic and keeping the virus suppressed will be critical in maintaining confidence at these elevated levels.

Labour shortages and wages growth

Businesses are reporting labour shortages and that it is hard to find the right type of labour. These reports might become louder with the faster-than-expected tightening in the labour market. In a speech earlier today, the Reserve Bank (RBA) Governor Phillip Lowe spoke about firms facing labour shortages. He spoke about the two approaches firms could adopt to deal with these shortages. One was to lift wages. The second is using non-wage strategies to attract staff, which Lowe said many firms are choosing to utilise. He added that some firms are also adopting a 'wait and ration' approach, possibly awaiting borders to open.

The RBA continues to expect wages growth to increase slowly, which if proves correct would mean a cash rate hike before 2024 might not be so likely. However, economic data, including jobs data, has consistently exceeded consensus expectations and the forecasts of policymakers.

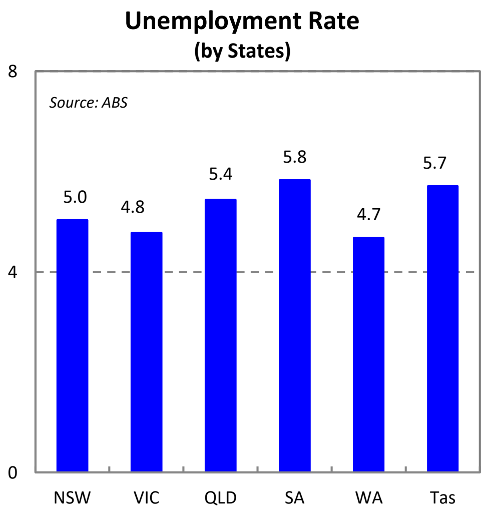
Outlook for RBA policy

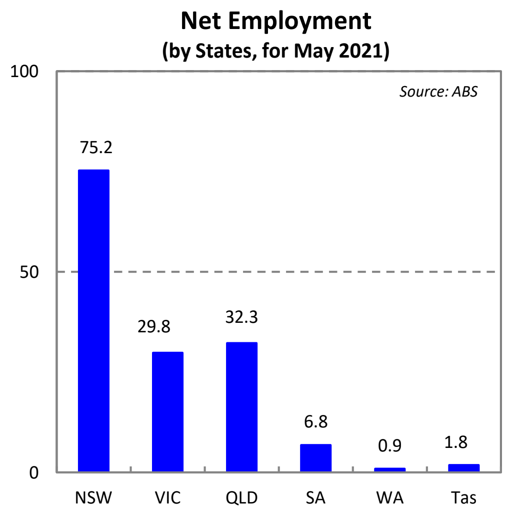
With the unemployment rate possibly approaching full employment sooner than the RBA previously anticipated, wage pressures might also build up sooner than expected, meaning a rate hike before 2024 cannot be fully ruled out. The risks of the rate-hike cycle starting in Australia in 2023 (or even 2022) have grown considerably.

Overnight, the US Federal Reserve Open Market Committee (FOMC) met and the dot plot of members' forecasts showed two rate hikes for 2023 – earlier than what was previously suggested. Could the RBA follow close behind? First, whether the RBA chooses to extend the yield curve control program to the November 2024 bond and extend quantitative easing (QE) needs to be decided. This will be decided next month at the RBA's board meeting. Today's data reinforces our expectations that the RBA will not extend to the November 2024 bond, instead leaving it at the April 2024 bond. It also cements our thoughts that the RBA will extend QE but not by another $100 billion for six months. It will likely move to an open, flexible QE program instead (our forecast) or extend but reduce the size of its QE program from $100 billion.

Across the states

The growth in employment in May was driven by New South Wales, Victoria and Queensland. Indeed, jobs spiked 75.2k in May in NSW. In Victoria, jobs rose 29.8k while they were up 32.3k in Queensland. All states recorded rises in employment.





Western Australia continued to hold the prize for having the lowest unemployment rate amongst the states. In May, WA's unemployment dropped 0.2 percentage points to 4.7% – the lowest since December 2013. Victoria followed closely behind. Its unemployment rate in May fell to 4.8% and unlike WA, Victoria's drop in its unemployment rate was accompanied by a sharp rise in its participation rate. All states recorded declines in their unemployment rates in May. The exception was South Australia – it experienced a slight uptick in its jobless rate to 5.8%.

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