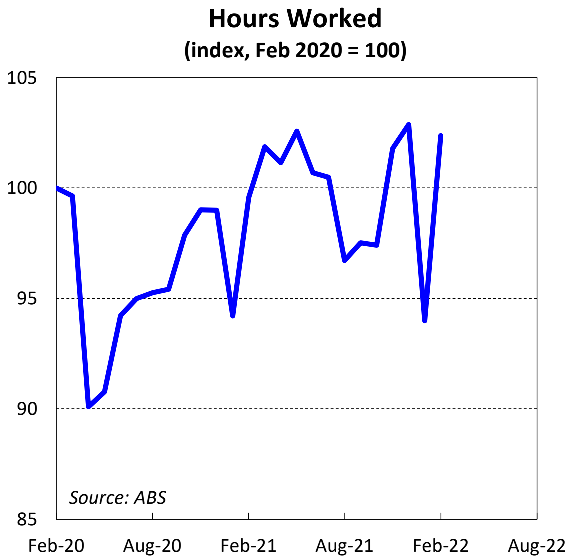
Data snapshot

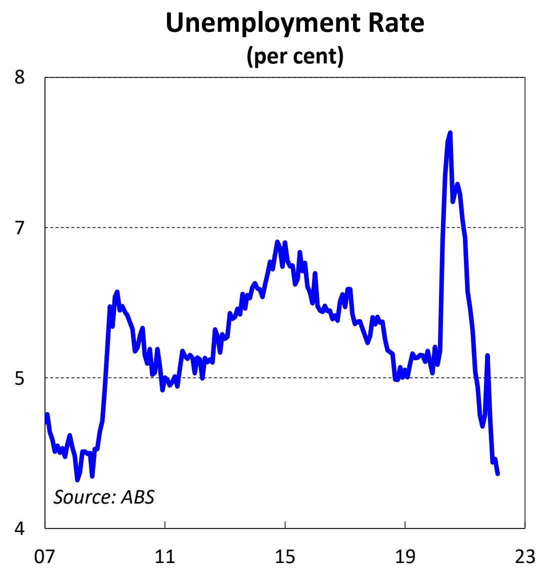
Thursday, 17 March 2022

Labour Force

A String of Jobs Records Smashed

- **Hours worked bounced 8.9% in February, a record-sized rebound from the hit in January, as COVID-19 case numbers declined.**
- **Employment rose a whopping 77.4k in the month, driven by the second highest spike in full-time jobs on record of nearly 122k and growth in NSW. Indeed, the unemployment rate in NSW was the lowest on record (since the data goes back to the 1970s).**
- **The unemployment rate fell to 4.0% – the lowest rate in 13½ years. In fact, Australia has not had an unemployment rate lower than 4.0% since 1974!**
- **In another sign of a healthy jobs market, the participation rate increased by 0.2 percentage points to an all-time high of 66.4%, which included a notable lift in the female participation rate to a record high.**
- **There were some signs of lingering Omicron effects. The number of people working zero hours due to illness in February was around 80% higher than the average over the prior five years.**
- **Labour market demand remains robust and the impact of the Omicron disruptions appears to have been short-lived. Leading indicators suggest the labour market will continue to tighten over the coming months. Many businesses are continuing to struggle with labour shortages.**
- **We expect the unemployment rate will fall below 4.0% in coming months. The Reserve Bank has indicated full employment is consistent with an unemployment rate around the high 3s or low 4s. The jobless rate is now well into this territory. Given this, we expect wage pressures will build more materially, shortening the odds shorten for an August rate hike, or possibly sooner.**





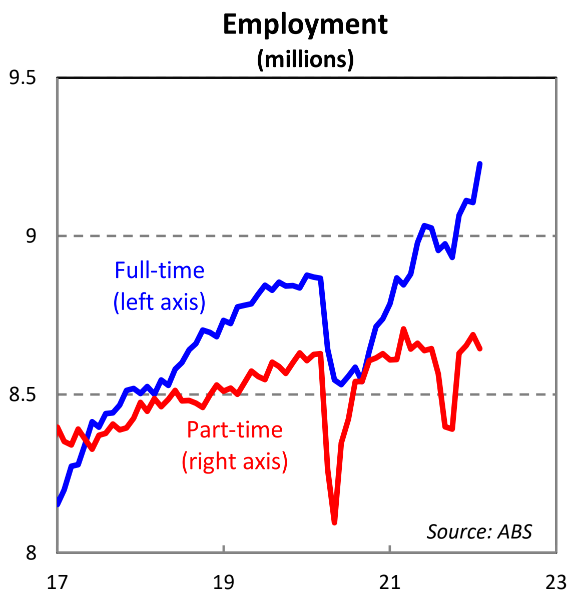
The February jobs data points to strong demand for labour across the board and is further evidence that the impact of the Omicron wave was short-lived. Employment rose a whopping 77.4k in the month, following very strong jobs growth of nearly 30k in January. At the same time the participation rate rose 0.2 percentage points to 66.4%. On net, this took the unemployment to 4.0% – the lowest rate in more than 13 years. Plus, there was the largest monthly increase in hours worked on record as we bounced back from Omicron disruptions. Meanwhile, labour shortages are prevalent and forward-looking indicators are pointing to a further tightening in the jobs market in the months ahead.

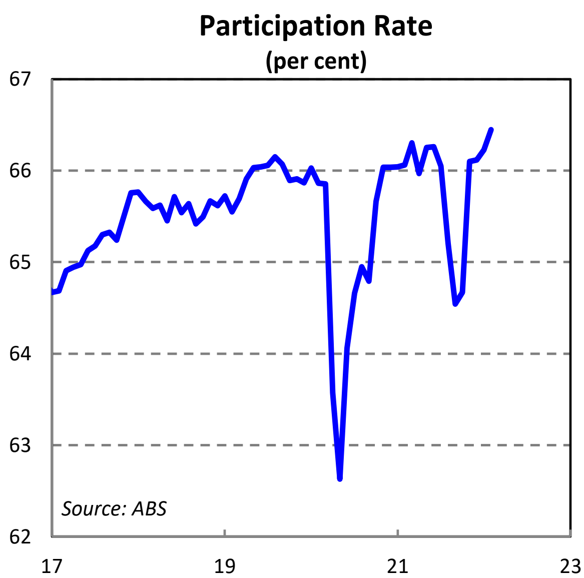
Unemployment rate

The unemployment rate declined by 0.2 percentage points to 4.0% in February – the lowest level in 13½ years. The unemployment rate has not been sub 4% since 1974. The Reserve Bank has indicated it expects full employment is consistent with the unemployment rate around the high 3s or low 4s. The unemployment rate is now well into that territory.

The decline in the unemployment rate reflected a 121.9k increase in full-time jobs and the number of people employed in Australia reached a new record high. This is the second largest increase in full-time employment in a month on record – beaten only by November last year as the economy was reopening after the Delta lockdowns. In contrast, part-time employment declined by 44.5k in February.

Full-time employment has grown much faster than part-time employment as we recover from the pandemic. In fact, full-time employment is now 4.0% higher than its pre-pandemic level (as at February 2020) while part-time employment is only 0.4% higher.





Meanwhile, the participation rate increased by 0.2 percentage points to 66.4% – also an all-time high. Participation tends to fall during lockdowns as people temporarily exit the jobs market, given caring responsibilities or difficulties finding a job. However, it has rebounded very quickly, unlike in some other advanced economies, such as the UK and US, where the participation rate remains below pre-pandemic levels. The rapid rebound in the participation rate in Australia partly explains why wages growth in Australia has not picked up as quickly as in some other countries, which continue to face a more constrained labour supply.

The lift in the participation rate was prevalent across females and males, but notably the female participation rate rose to a record high of 62.4%. However, it remains below the male rate.

Hours worked

Hours worked bounced 8.9% in February as COVID-19 case numbers declined. Hours worked now sit just 0.5% below the all-time high in December. Hours worked were smashed in January, dropping 8.6% in the month, as the Omicron variant swept the country and forced millions into isolation. Seasonal factors also weighed on hours worked in January as more people tend to take leave over the summer period. The rebound in February marked the strongest monthly growth in hours worked on record, taking hours worked to just shy of their record high from December 2021.

The surge was driven primarily by NSW and Victoria where hours worked bounced 14.3% and 12.7% respectively, marking the strongest monthly growth on record for both states. NSW and Victoria were the hardest hit by the Omicron wave. There were sizeable increases in hours worked across all other states except for WA which recorded a modest 1.8% decline.

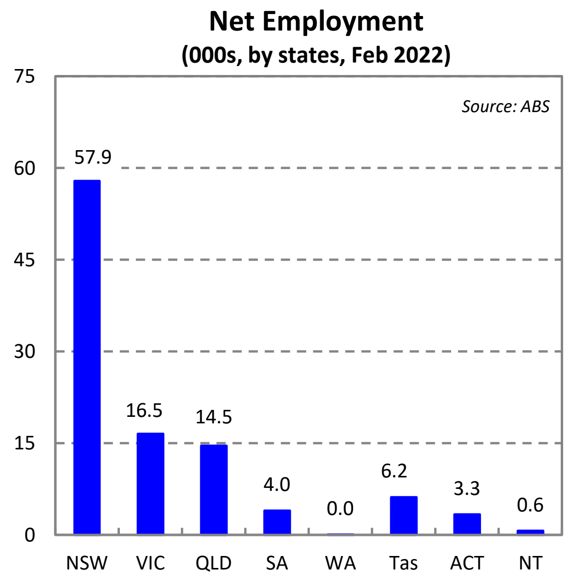
Throughout the pandemic, employers have favoured cutting hours over jobs, so that businesses can quickly ramp back up as pandemic disruptions ease. And the Omicron wave has proved no exception.

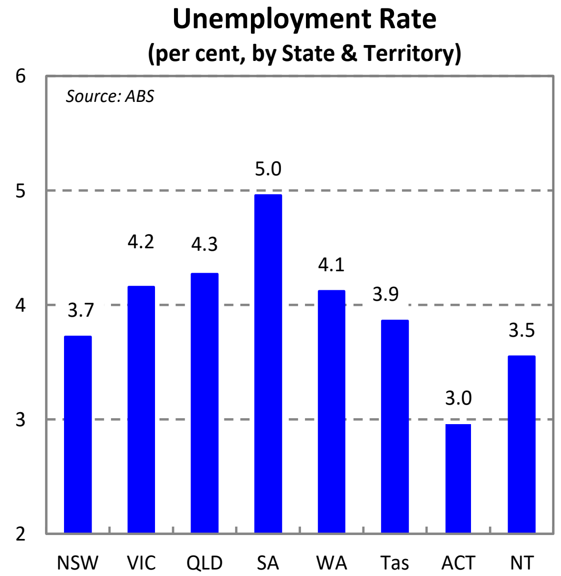
However, there were still signs of lingering effects from Omicron, as the number of people working zero hours due to illness was around 80% higher than the average over the past five years in February. There were around 220k people who worked zero hours in the survey period in February due to illness. This was still down significantly from 450k in January.

The states

There were broad-based gains in jobs across the country.

NSW led the employment growth in February, with 57.9k new jobs added. Employment in the state reached a new all-time high. This was followed by Victoria (16.5k) and Queensland (14.5k).





There were also gains in Tasmania (6.2k), South Australia (4.0k), the ACT (3.3k) and the NT (0.6k). Employment was unchanged in WA.

The ACT is holding the title for the lowest unemployment rate in the country at 3.0% followed by the NT at 3.5%. Notably, the unemployment rate in NSW fell to 3.7%, its lowest level since the data goes back to the 1970s. It is also the lowest unemployment rate of the states. The jobless rate remains the highest in South Australia at 5.0%.

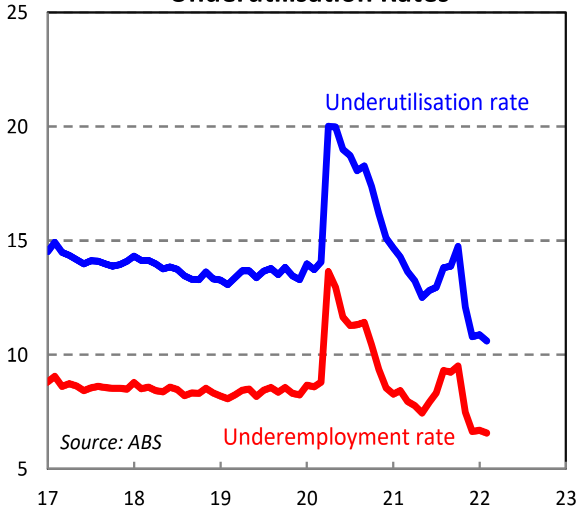
Other labour market measures

Other labour market indicators also pointed to a tightening in the jobs market in February.

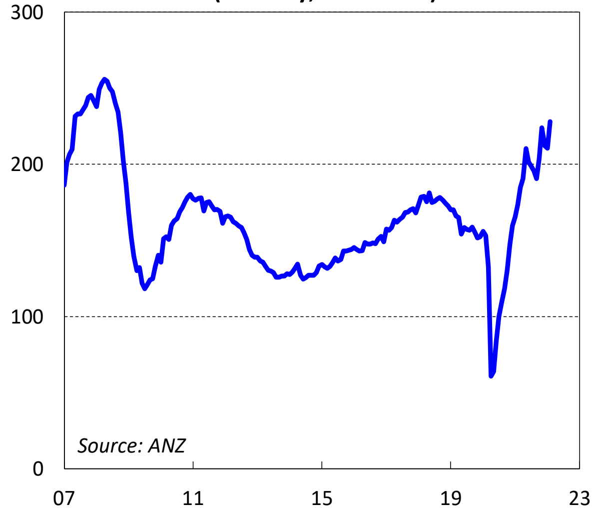
The underemployment rate – which includes people who are employed but wish to work more hours – declined 0.1 percentage points to 6.6%. The underutilisation rate – the combination of the unemployment and underemployment rates – edged down 0.3 percentage points to 10.6%. Both indicators are well below their pre-pandemic level. The youth unemployment rate pushed up 0.3% percentage points to 9.3% but remains well below the levels prevailing before COVID-19 (around 12%).

Jobs ads, which are a leading indicator for employment, jumped 8.4% in the month. This signals further tightening in the jobs market in the months ahead. Our customer liaison suggests labour shortages are a key challenge of many businesses. For segments reliant on foreign labour, these pressures may be partly eased by the reopening of international borders, however, difficulty sourcing labour is likely to remain an issue for some time to come.

Underemployment and Underutilisation Rates



Job Ads
(monthly, thousands)



Outlook

Labour market demand remains robust and the impact of the Omicron disruptions was short-lived. We expect the unemployment rate to fall below 4.0% in coming months. Given the economy is already operating around full employment, we expect wage pressures will begin to build more materially. On this backdrop, alongside building inflationary pressures, the heat on the Reserve Bank (RBA) to hike the cash rate is growing. The RBA has emphasised patience, partly reflecting concerns around inertia in wages growth in Australia.

But labour demand remains very strong, as reflected in today's numbers. Accordingly, we expect annual wages growth will pick up to over 3% by the second half of this year. This will contribute to broader price pressures across the country. And at the same time, upside inflation risks have grown significantly alongside the disruptions in energy markets from the Ukraine war.

Today's numbers are more evidence that the longer the RBA waits, the greater the risk the inflation genie escapes the bottle. A rate hike in August remains our core call, but a rate hike earlier in June and July certainly cannot be fully ruled out.

Matthew Bunny, Economist
Ph: 0421 749 491

Contact Listing

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

Economist
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023

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

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

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