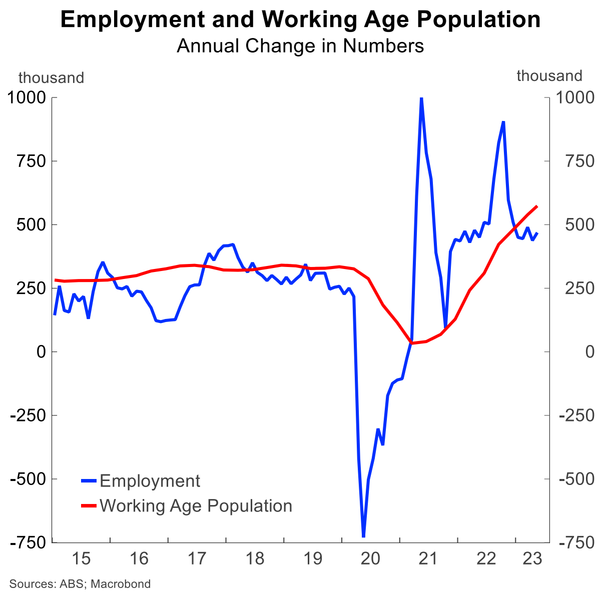
Data Snapshot

Thursday, 15 June 2023

Labour Force Survey

A Little More Than Meets the Eye

- **Employment jumped an impressive 75.9k in May, the largest monthly increase since June last year. The increase in employment drove a slight fall in the unemployment rate to 3.6%, while the participation rate rose to a record high of 66.9%.**
- **On face value, this may appear like a reignition in labour market strength. However, much of the increase in employment in May reflected pay-back from a seasonally impacted fall in April. Looking through recent fluctuations driven by the Easter holiday, today's data is a story of further labour market resilience and robustness, rather than a resurgence in strength.**
- **The story of resilience is no less impressive. Since the end of 2022, the working age population has swelled by a massive 287k people, and the labour market has managed to soak up this supply with very little loosening in conditions.**
- **This speaks to the backlog of demand which accrued while borders were closed. Until this excess demand is exhausted, we are likely to continue to see robust growth in employment. However, once this threshold is met, we expect to see a softening in labour market conditions.**
- **In monitoring this shift, hours worked and the underemployment rate should be followed closely. After the experience of the pandemic, businesses may opt not to reduce headcount as demand slows to avoid the risk of needing to rehire later. Naturally, if this occurs the adjustment in labour needs will come through a change in hours of work.**
- **There currently does not appear to be significant evidence that the easing in conditions required to bring inflation down is afoot, giving the RBA little reason to soften its stance on inflation.**



Employment jumped an impressive 75.9k in May, the largest monthly increase since June last year. This pushed employment above 14 million people for the first time in the country's history, a cool million people above where it was before the pandemic.

On face value, this is a very strong number which may appear like a reignition in labour market strength. However, much of the increase in employment in May reflected pay-back from a seasonally impacted fall in employment in April. In fact, taking April and May together jobs growth averaged 36k, matching the average rate of employment growth over the past six months. Looking through recent fluctuations driven by the Easter holiday, today's data is a story of labour market resilience and robustness, rather than a resurgence in strength.

The story of resilience is no less impressive. Since the end of 2022, the working age population has swelled by a massive 287k people alongside the revival in overseas arrivals. The labour market has managed to soak up this increase in labour supply with very little loosening in conditions. Indeed, the unemployment rate ticked down to 3.6% in May, only marginally above where is sat at the end of last year (3.5%), and around its lowest level in a generation.

This speaks to the backlog of demand which accrued while borders were closed and the economy reopened. This manifested in acute labour shortages across large parts of the economy, which are easing as labour supply has come back online. Until this excess demand is exhausted, we are likely to continue to see robust growth in employment given the ongoing expansion in labour supply. However, once this threshold is met, we expect to see a relatively rapid softening in labour market conditions as the rise in supply outstrips demand. This is a necessary condition for bringing inflation back under control.

Unemployment Rate and Participation

Employment growth (+75.9k) outstripped growth in the labour force (+59.4k) in May, resulting in a fall in the number of unemployed (-16.5k). The was the largest fall in unemployment since October 2022. The relative increase in employment and fall in unemployment drove a fall in the unemployment rate to 3.6%, from 3.7% in April.

The participation rate, which measures the share of the working age population engaging in the labour market, rose to a record high of 66.9%. This tells us that a larger proportion of the population than ever before wants a job, amplifying the increase in labour supply from a rapidly growing population. The employment-to-population ratio also reached a record high of 64.5%.

Hours Worked

The number of hours worked in May fell 1.8% from a record high in April. In levels terms, hours worked were the second highest on record, suggesting the relatively big monthly fall should not be gleaned into too heavily. Moreover, changes in the proportion of employees working less hours than usual fluctuated more than would normally be expected through April and May, further complicating the headline reading.

However, hours worked should be followed closely over the period ahead. After the experience of the pandemic, businesses may opt to hold on to staff as demand slows rather than reducing headcount and risk the need to rehire later down the track. Naturally, if this occurs the adjustment in labour needs will come through reducing hours of work. This could mean hours worked may lead employment and the unemployment rate through this cycle. For now, though, we are yet to see any verifiable signs of weakness in hours worked.

The States

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Monthly Change in Employment (000's)	28.6	26.6	27.0	12.3	-2.7	-0.2	7.5	-1.8
Annual Change in Employment (000's)	147.2	146.5	77.4	48.6	18.4	7.7	15.3	3.6
Unemployment Rate (%)	3.0	3.7	3.9	4.0	3.7	4.2	3.1	3.1
Change in Unemplyment Rate (ppts)	-0.4	-0.2	0.1	-0.3	0.1	0.3	0.1	-0.2

*Seasonally Adjusted

Other Labour Market Measures

The underemployment rate, which measures workers that are employed but wish to work more hours, increased to 6.4% in May, its highest reading since February 2022. This was up from 6.2% in April. Note that this is still well below the long-run average level of around 8.2% and is reflective of very tight labour market.

Notwithstanding this, we did see some softening in conditions in May. The increase in the underemployment rate could reflect the fall in hours worked in the month, but it could also be an early sign that households are looking to increase their hours of work in response to pressures on household budgets. On the same vein as hours worked, this measure should be watched closely over the coming months as it will more quickly reflect widening slack in the labour market.

The underutilisation rate, which is a combination of the unemployment and the underemployment rate, also ticked up, rising to 10.0% in May from 9.8% in April.

Outlook

After accounting for seasonal complications from Easter, the blisteringly strong employment read for May is reflective more of resilience then of resurging strength. But the resilience of the labour market in the face of rapid supply growth and tightening monetary policy is nothing to dismiss lightly.

The labour market remains incredibly tight, but soon enough we will pass the point where the backlog of labour demand is met, and a different dynamic will be at play. Once this threshold is met, growth in labour supply is expected to outstrip demand, which will drive a softening in labour market conditions. This is a necessary prerequisite for fighting inflation.

Early signs of this dynamic unfolding are likely to appear first in hours worked and the underemployment rate. These measures will be closely watched by the Reserve Bank (RBA). But for now, there does not appear to be any significant evidence that the easing in conditions required to bring inflation down is afoot, giving the RBA little reason to soften its stance on taming inflation.

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