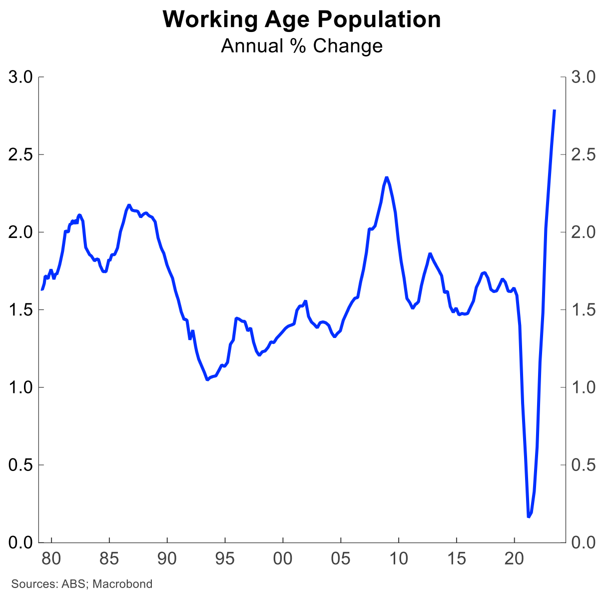
Data Snapshot

Thursday, 20 July 2023

Labour Force Survey
Unquestionably Strong

- **Employment rose by 32.6k jobs in June, leaving the unemployment rate unchanged at 3.5% – near its lowest level in almost 50 years. The result all but confirms that the labour market remains unquestionably strong.**
- **Over the past 12 months, the working-age population has surged a record 2.8% as migration has roared back to life. But so far, the labour market has comfortably absorbed this massive influx of supply without breaking a sweat.**
- **Despite the surge in supply, demand still outweighs supply in the labour market, preventing the easing in conditions required to bring inflation back into line. This imbalance sits largely with the strength of labour demand.**
- **The required loosening in labour market conditions is not likely to be achieved until demand is ratcheted back. Interest rate hikes from the Reserve Bank (RBA) are targeted at addressing this surplus in demand.**
- **However, the evidence suggests that progress has been slow. This partly reflects that monetary policy operates with a lag, but it is also an indicator of the scale of the imbalances caused by the pandemic. The pandemic 'overhang' has fostered resilience in the economy, supporting the need for more rate hikes to reign in the huge backlog of labour demand.**
- **The persistent imbalance between labour demand and supply suggests we are likely to see ongoing resilience in employment, especially given the current robust growth in labour supply. Today's data adds weight to our view that further tightening in monetary policy is forthcoming.**



Employment jumped 32.6k in June, leaving the unemployment rate unchanged at 3.5% – near its lowest level in almost 50 years (the unemployment rate for May was revised down from an initial reading of 3.6%). The result all but confirms that the labour market remains unquestionably strong.

Over the past 12 months, the working-age population has surged a record 2.8% as migration has roared back to life. But so far, the labour market has comfortably absorbed this massive influx of supply without breaking a sweat. Over this period, the unemployment rate has averaged 3.5% – where it sits today and below estimates of the natural rate of unemployment – meaning that the rapid increase in supply has not yet restored balance to the labour market. That is, demand still outweighs supply in the labour market, preventing the easing in conditions required to bring inflation back into line.

Given the resurgence in labour supply, this imbalance sits largely with the strength of labour demand. Over the three months to February the number of reported job vacancies remained more than double the average over the 10-years before the pandemic and around a record high relative to the size of the labour force. This is despite a near 10% fall in vacancies since May last year.

The persistent strength in labour demand needs to be addressed if the jobs market is to loosen enough to bring inflation down. The Reserve Bank (RBA) expects that a rise in the unemployment rate to around 4.5% will be enough to achieve this, however, there are arguments that a larger increase in unemployment may be necessary given the current inflationary pulse.

Either way, this required loosening in conditions is not likely to be achieved until labour demand is ratcheted back. Of course, strong employment gains are a signal that this demand is being incrementally met, but there remains a shortfall. Interest rate hikes from the RBA are targeted at addressing a surplus in aggregate and labour demand by slowing the economy and thus the need for workers.

However, the evidence to date suggests that progress has been slow. This partly reflects that monetary policy operates with a lag, but it is also an indicator of the magnitude of the imbalances in the economy caused by the pandemic and the incredible size of fiscal and monetary stimulus provided to avert potentially significant economic consequences. This ‘overhang’ has fostered resilience in the economy and is a sign that the RBA has more work to do.

Unemployment Rate and Participation

The unemployment rate held steady at 3.5% in June. The reading at two decimal places was 3.47%, just shy of the near 50-year low of 3.43% set in October last year.

The outcome reflected a 32.6k increase in employment, which outpaced the 21.8k gain in the size of the labour force. In other words, employment growth outstripped supply growth, contributing to a 10.9k decrease in the number of unemployed people.

The participation rate, which measures the share of the working age population that is engaged in the jobs market, pulled back slightly from a record high of 66.9% to a still very elevated 66.8%.

Hours Worked

Strong employment growth of 3.0% over the past 12 months has been supplemented by an even larger increase in the number of hours worked, which have jumped 4.7% through the year. This means that the demand for labour is not only being met by job creation, but also by an increase in the number of hours worked by existing employees and by people shifting from part-time to full-time work. Indeed, the share of full-time workers rose to 70.3% in June, up from 69.6% 12 months ago. This is another sign of an exceptionally tight labour market and will be an important metric as we monitor any turn in conditions. This is because businesses are likely to initially trim hours before headcount.

The States

The unemployment rate in NSW to a record low of 2.9% – the first time that the unemployment rate in NSW has fallen to below 3%. Unemployment in Tasmania also dropped sharply, to an equal record low of 3.5%.

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Monthly Change in Employment (000's)	16.2	7.5	0.9	-7.2	-9.4	-0.4	-3.9	-4.6
Annual Change in Employment (000's)	140.7	123.6	72.4	38.0	11.6	8.0	9.0	4.2
Unemployment Rate (%)	2.9	3.7	3.6	4.2	3.6	3.5	3.9	3.3
Change in Unemplyment Rate (ppts)	-0.1	0.0	-0.3	0.2	-0.1	-0.7	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 – held steady at 6.4% in June after increasing in May. Still, the underemployment rate remains low by historical levels, indicating that the labour market remains stretched.

Outlook

The persistent imbalance between labour demand and supply suggests we are likely to see ongoing strength in employment, especially given the current robust growth in labour supply.

RBA rate hikes are in the process of reigning in labour demand to bring about a more balanced market. However, progress so far has been exceptionally slow, supporting the need for more tightening in monetary policy to reign in the huge backlog of labour demand accumulated during the pandemic.

Jameson Coombs, Economist
+61 401 102 789

Contact Listing

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

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

Senior Economist
Pat Bustamante
pat.bustamante@stgeorge.com.au
0468 571 786

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