



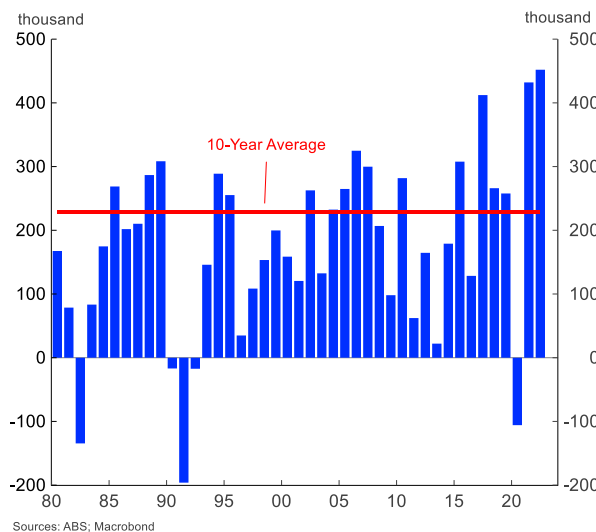
Thursday, 19 January 2023



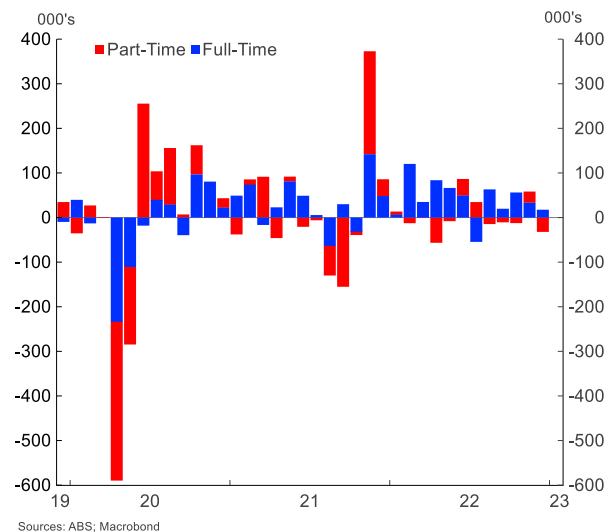
Labour Force Record Calendar Year For Jobs Gains

- The unemployment rate held steady at 3.5% in December, but November’s result was revised up from 3.4%. December recorded a fall in jobs of -14.6k - the first monthly decline in five months. The participation rate eased to 66.6% in December, from a record high of 66.8%. But these results are anything but doom and gloom.
- A 17.6k increase in full-time jobs was more than offset by a 32.2k decline in part-time jobs. Most of the decline in employment was accounted for by people leaving the labour force rather than losing their jobs and joining the unemployment pool. This could be partly explained by workers taking time off before changing roles in the New Year or to travel over the festive season.
- Employment growth averaged 37.7k per month in 2022 with a total annual increase of 452k, the biggest increase in employment in a calendar year on record. While still incredibly strong, job gains slowed though 2022. Over the first half of 2022 there was 326.9k jobs added, while only 125.1k jobs were added over the second half of the year.
- At the same time the working age population increased by 436k over 2022, also the biggest increase on record. In contrast to employment gains, population growth accelerated in the second half of 2022, increasing by 231k compared with 205k over the first half of the year.
- The current surge in net overseas migration will help bring demand and supply of labour into better balance over time. This is likely to bring further strength in employment growth and will result in a tick up in the unemployment rate to a more sustainable level.

Employment Growth
Calendar Year



Employment Change
Monthly, 000's

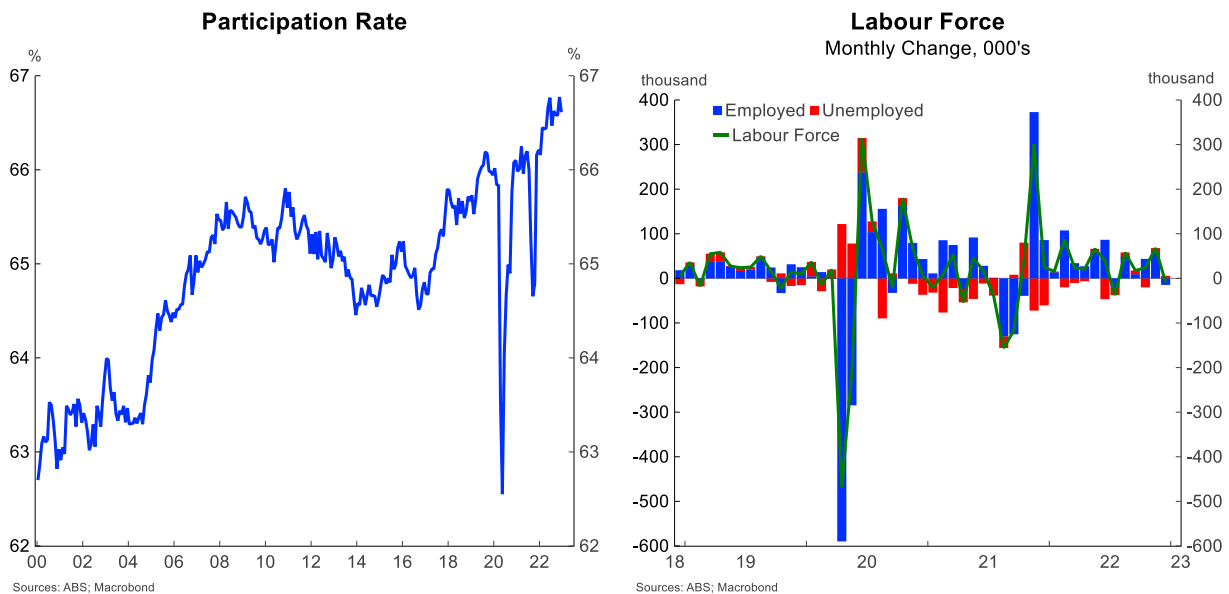


The labour market posted the first monthly decline in employment in five months in December, however, the result is anything but doom and gloom.

Employment declined 14.6k in December. A 17.6k increase in full-time jobs was more than offset by a 32.2k decline in part-time employment. The fall in part-time workers could be explained by a several factors, including part-time workers transitioning to a new job which didn't commence until the new year, or part-time and particularly young workers leaving work in December to travel over the festive season.

Another factor to consider is that the data are presented in seasonally adjusted terms. This means that it is adjusted to reflect seasonal strength, and weakness, in employment outcomes to make monthly outcomes more comparable. A complication with this is that seasonal factors are slow to move and are therefore not great at adjusting when there are sudden changes in labour market conditions, such as the burst in employment we have seen post-lockdowns and the volatility experienced throughout the pandemic. In these circumstances, it can be helpful to look at employment outcomes in original terms (i.e. unadjusted). In December, employment actually increased by 69.1k jobs in original terms, suggesting that there is still considerable strength in underlying employment conditions.

Taking a step back to look at the bigger picture, it is clear that December's print should not be gleaned into too heavily. Over the last two months employment growth has averaged 21.8k, a solid outcome. Further, across 2022 employment increased by 452k – that's the biggest increase in employment in a calendar year on record.



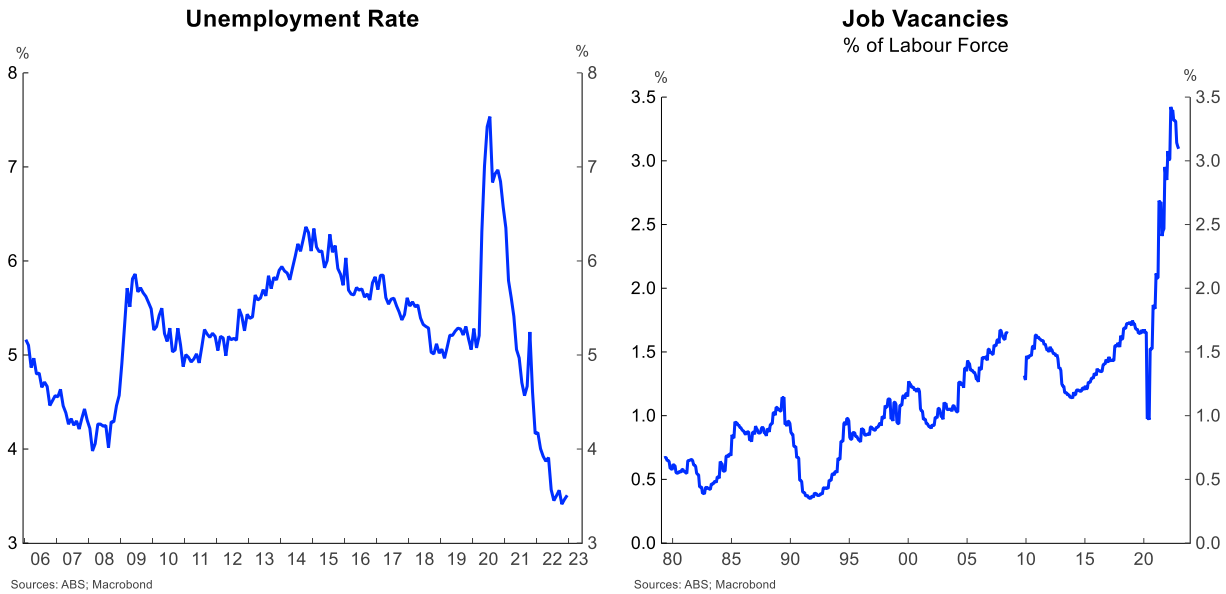
Labour force participation rate

The participation rate, which measures the share of the working age population that's either working (employed) or looking for work (unemployed), eased to 66.6% in December, from a record high of 66.8% in November. Note, the participation rate remains elevated and well-above pre-pandemic levels.

The fall in participation was underpinned by an 8.8k decline in the size of the labour force. This tells us that of the 14.6k decline in employment in December, more than half (8.8k) left the labour force while a smaller share (5.8k) entered the unemployment pool. This supports the theory that some of the fall in employment in September can be attributed to workers leaving to travel overseas or switching to new jobs in the New Year.

Unemployment rate

Despite the decline in employment and the rise in the number of unemployed persons, the unemployment rate held steady at 3.5% in December. This underscores that these changes to employment and unemployment were relatively small in magnitude. Note that November's reading was revised up to 3.5% from 3.4%, previously. Over the second half of 2022 the unemployment rate averaged 3.5%, compared to the long-run average of 6.7%. This highlights the persistent strength and tightness of the labour market through the second half of 2022.



Hours worked

The number of hours worked in December slipped 0.5% but remained 3.2% higher than a year earlier. The fall in hours worked reflects both the decline in employment in the month but also the behaviour of employed workers. Crucially, the number of staff working reduced or zero hours as a result of illness or injury spiked by 85.9k people and was 50% higher than usual during December.

The States

The labour market remains strong across all states and territories. However, we did see a noticeable increase in the unemployment rate in the NT (up 0.7%), Queensland (up 0.5%) and the ACT (up 0.3%).

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Monthly Change in Employment (000's)	-13.8	-13.2	-4.2	2.9	4.0	-1.9	2.6	-2.2
Annual Change in Employment (000's)	205.5	77.8	88.7	20.0	27.0	10.9	17.8	7.9
Unemployment Rate (%)	3.1	3.5	3.8	3.9	3.5	3.6	2.8	4.0
Change in Unemployment Rate (ppts)	-0.1	-0.2	0.5	-0.1	0.1	0.1	0.3	0.7

Other Labour Market Measures

The underemployment rate - which measures the number of workers that are employed but would prefer to work more hours - ticked up to 6.1% in December from a more than 14-year low of 5.8% in November. Still the underemployment remains exceptionally low and well below the 10-year average of 8.3%.

Similarly, the underutilisation rate – which includes both the unemployment and underemployment rates – ticked up to 9.6%, from a more than 40-year low of 9.3% in November. Leading indicators of demand, including job ads and job vacancies, have pulled back recently but remain elevated and well-above long-run averages. This suggests that businesses appetite for the right workers remains high. Indeed, the recent fall in job ads and vacancies likely reflects the rise in jobs being filled, rather than ads and vacancies being pulled from the market.

Outlook

Demand for labour has been elevated for a prolonged period of time as demand surged in the wake of lockdowns. Shortages have been widespread and the ability of the economy to supply more labour has been the key driver of employment outcomes. This initially occurred through an increase in participation and a fall in unemployment, however, we are now starting to see a more rapid increase in the working age population as migration ramps up and exceeds forecasts.

The surge in population growth will translate to a larger labour force overtime and help bring demand and supply of labour into better balance. As a result, we are likely to see solid gains in employment. Later in the cycle as this balance is more closely struck, we expect to see the unemployment rate tick up to a more sustainable level.

Jameson Coombs, Economist

Ph: +61 401 102 789

Contact Listing

Chief Economist

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

Senior Economist

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

Senior Economist

Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
0468 571 786

Economist

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

The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
