



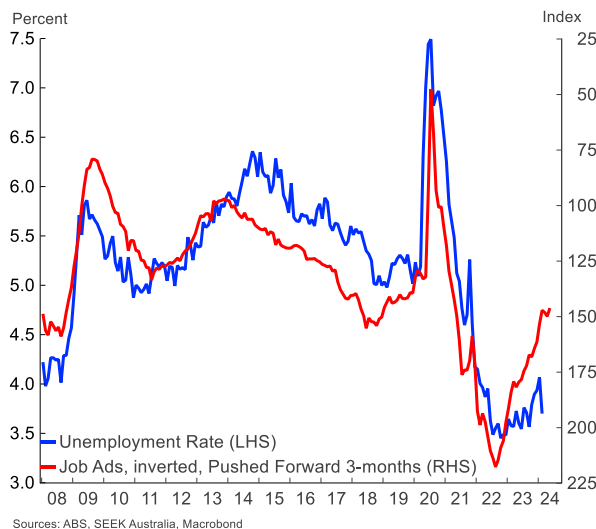
Thursday, 21 March 2024



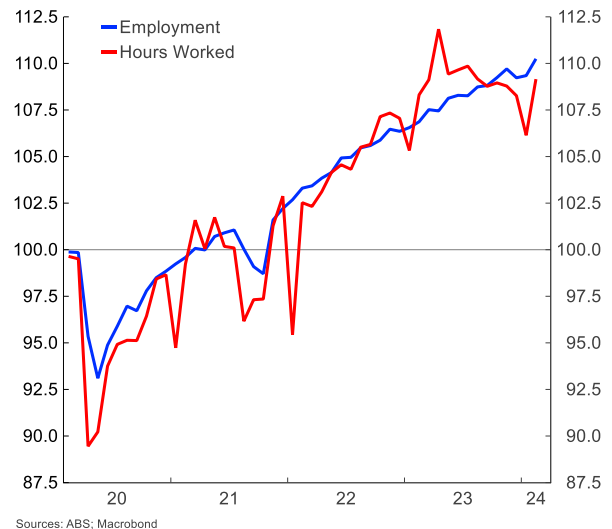
Labour Force Survey Another Murky Read

- The Labour Force Survey delivered another surprising result, this time to the stronger side. February's figures showed a stronger-than-expected surge in employment, up +116.5k (+0.8%), and aggregate hours worked (+2.8%). The number of people unemployed declined (-52.0k), resulting in a sharp fall in the unemployment rate, from 4.1% to 3.7%. And, following the bumper number for jobs growth, the employment-to-population ratio bounce back to 64.2%, broadly in line the October outcome.
- Today's outcome marks a continuation of the recent run of volatile readings as the Australian Bureau of Statistics (ABS) grapples with shifting seasonal patterns. This is making it hard to completely remove the influence of seasonal dynamics from seasonally adjusted estimates.
- While the volatility makes it hard to obtain an accurate gauge, looking at recent movements since the middle of last year, coupled with other economic indicators including the soft national accounts outcome for the December quarter 2023 and falling job ads, we continue to hold the view that the labour market is in transition with a softening still underway.
- Consistent with this view, growth in employment is continuing to slow gradually, from a three-month average pace of +42k/month in November to +23k/month in February. And, employers are still opting to reduce the number of average hours worked, down -1.9%yr on a three-month average basis. These indicators point to a softening in labour demand.
- Going forward, demand for labour is moderating and is not expected to keep up with growth in labour supply. As such, we expect to see the unemployment rate drift higher over the course of this year.

Unemployment Rate vs Job Ads
Monthly, SA



Employment & Hours Worked
Index, Feb 2020 = 100



Today's outcome marks a continuation of the recent run of volatile readings as the ABS grapples with shifting seasonal patterns. This is making it hard to completely remove the influence of seasonal dynamics from seasonally adjusted estimates.

In the accompanying media release, the ABS once again elaborated on these issues, noting that the "large increase in employment in February followed larger-than-usual numbers of people in December and January who had a job that they were waiting to start or return to". This is a dynamic that has featured prominently since the reopening from COVID-19 and was especially strong over the 2023/2024 holidays.

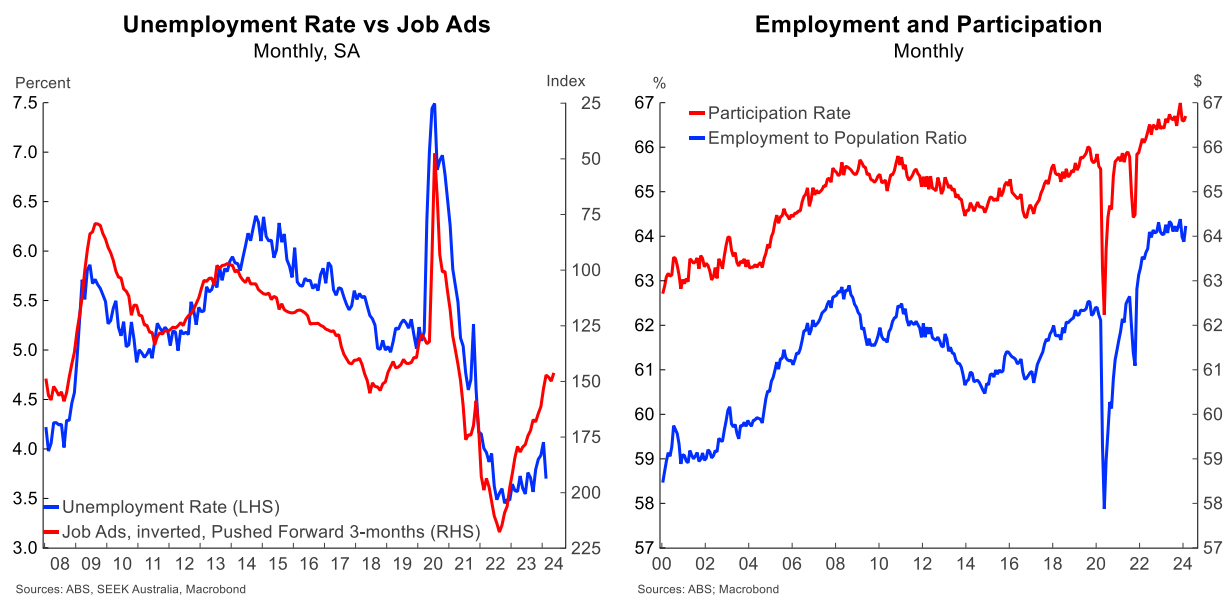
Going forward the ABS notes that "the number of people in February waiting to start work in March was back to around what we would usually see" suggesting that the outcome next month may give us a better read of conditions.

Unemployment Rate

In the context of a strong month for employment (+116.5k), growth in labour supply was more tempered but still robust (+64.5k), implying a material reduction in the number of people unemployed (-52.0k). Together, these results saw the participation move just 0.1ppt higher, from 66.6% to 66.7%, and the unemployment rate move lower from 4.1% to 3.7%.

As noted above, the monthly decline in unemployment largely in part reflects volatility from shifting seasonal patterns. At 3.9% on a three-month average basis, the unemployment rate is moving higher at a gradual pace.

'Trend' figures provided by the ABS – aimed out smoothing out some of this volatility – are consistent with this, showing the unemployment rate steadily increasing from its low around the middle of 2022. So far in the cycle, increases in the unemployment rate have largely been a consequence of labour demand being unable to absorb all of the increase in labour supply, as opposed to an increase in layoffs and job losses. We expect that to broadly remain the case, with employment growth slowing as labour demand and supply come back into balance, seeing the unemployment rate continue to drift upwards.



Hours Worked

There was a sizeable 2.8% increase in hours worked over February, with large increases recorded in Victoria (4.3%), NSW (4.1%), SA (3.6%), and WA (2.9%). This in part reflects payback from the large

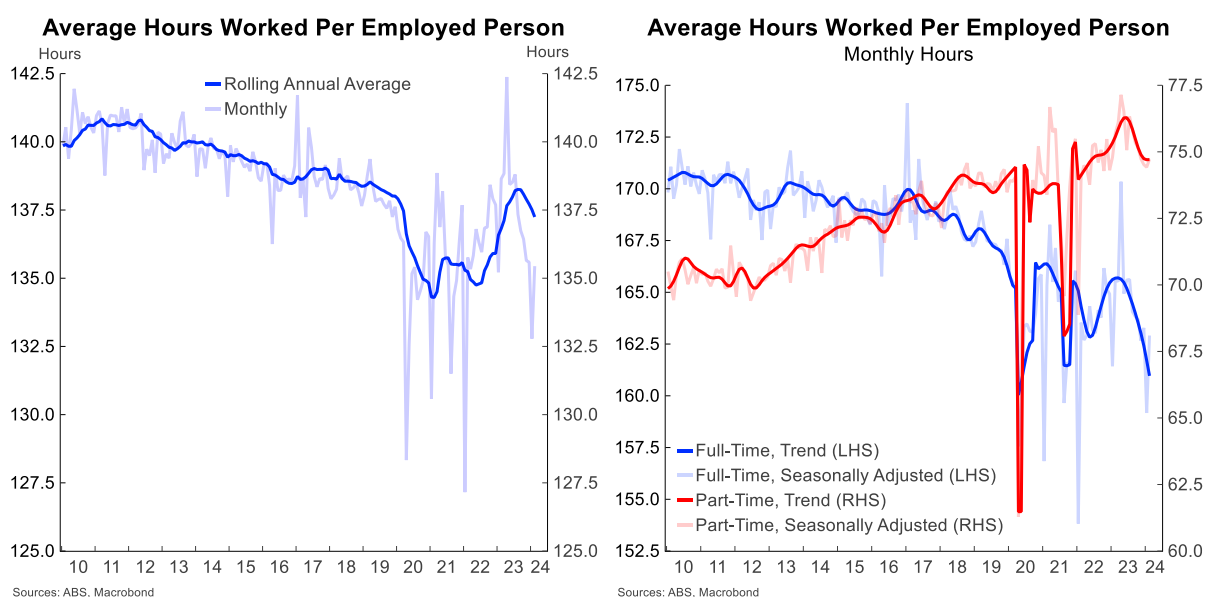
falls recorded in December 2023 (-2.0%) and January 2024 (-0.5%) as the ABS continues to grapple with shifts in employment patterns and leave arrangements over the summer break.

Looking through this volatility, aggregate hours worked across the economy are now back to where it was in August 2023 – that’s six months ago. This points to underlying weakness. Notwithstanding a 1.4% increase in the number of people employed since August, hours worked have gone sideways.

This means, on average, people are working less hours. Consistent with the pullback in household spending, employers are less willing to offer overtime or extra shifts, and we have seen falls in the average number of hours worked by both full time and part time employees.

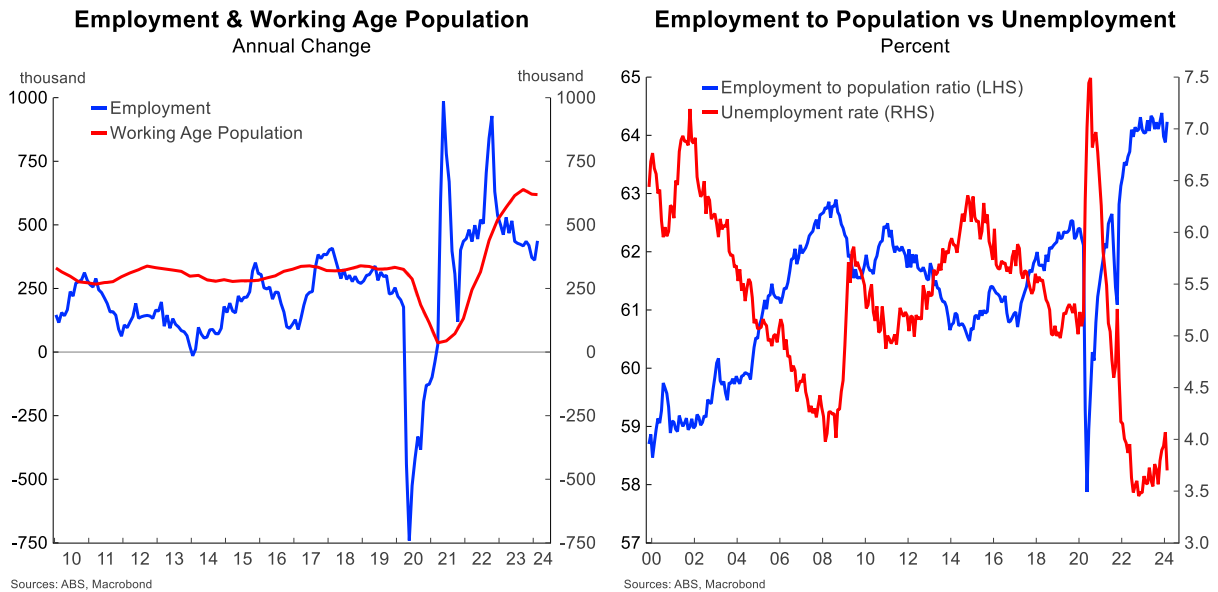
We have also seen a significant fall in the share of part time workers who are able to pick up extra hours and move to full time status (those working 35hrs/wk or more). This has seen the share of full-time employment fall from around 70.0% a year ago to 68.9% today, and trending toward the pre pandemic average of around 68.5%.

As demand slows and the supply side of the economy continues to adjust from the pandemic, the demand for labour will likely continue to moderate. Given just how tight the labour market has been during this cycle, employers are understandably wary of letting people go. Instead, they are likely to make this adjustment through demanding fewer hours of their employees.



Potential labour supply

The bounce back in international students and immigrants returning to Australia when borders reopened was larger than anyone expected. As a result, the working age population grew at a record pace for most of last year. This now looks to have peaked in the month of September 2023, at 3.0%yr. Notwithstanding this, the change in the working age population continues to outpace employment. We expect this will continue to occur going forward. This is consistent with a loosening in labour market conditions – with the unemployment rate drifting higher and the employment to population ratio moving lower.



Other Labour Market Measures

Consistent with the bounce back in the number of hours worked, other labour market indicators also improved over February.

The underemployment rate, which measures the share of employed workers who are willing and able to work more hours, ticked down to 6.6% in February. Over 2023 the underemployment rate has drifted higher in trends terms, coinciding with the slowdown in economic activity.

The underutilisation rate, which combines the unemployment and underemployment rates, declined to 10.3%. Consistent with the underemployment rate, the underutilisation rate has drifted higher in trends terms, from 9.5% in late 2022 to 10.3% in February 2024

The youth unemployment rate, which measures the share of unemployed workers between the ages of 15 and 24, ticked lower to 9.1% from 9.4% last month. Some of this fall was driven by a lower participation rate (70.3% in February compared with 70.4% January). However, the trend is clear – the unemployment rate within this group has trended higher since late 2022, with the participation rate also tending lower over this period. Being a highly sensitive group to changes in labour demand, this provides another signal that softness in labour demand is emerging.

The States

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Monthly Change in Employment (000's)	28.3	29.3	29.0	11.0	26.3	-0.2	3.4	1.2
Annual Change in Employment (000's)	89.2	124.2	127.8	16.2	74.3	-3.1	-0.8	3.5
Unemployment Rate (%)	3.6	3.9	3.9	3.2	3.6	4.5	4.2	4.4
Change in Unemployment Rate (ppts)	-0.5	-0.1	-0.1	-0.8	-0.7	-0.1	-0.1	0.0

*Seasonally Adjusted

Outlook

The February survey presented another murky read on the state of the labour market. Shifting seasonal dynamics continue to have a significant influence, making it difficult to gain clear read on underlying conditions in the labour market.

On balance, the latest update does not materially shift our view. As the slowdown in activity perseveres and broadens across the domestic economy, conditions in the labour market are softening. Demand for labour is moderating and is not expected to keep up with growth in labour supply, seeing the unemployment rate over the course of this year. Employers that are seeking to adjust labour usage are predominately doing so by reducing average hours worked. At this stage, it looks as though there is further scope for this to run into mid-year. Growth in employment will continue to slow within this context, but a transition into material economy-wide declines in employment seems unlikely at this stage.

The RBA continues to assess labour market conditions as “tighter than is consistent with sustained full employment and inflation at target”. More updates on the state of the labour market will be necessary before any material adjustment to that assessment occurs, especially given the volatility within these figures over recent months.

Pat Bustamante, Senior Economist
ph (+61) 468 571 786
&
Ryan Wells, Economist
ph (61–2) 9178 2063

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.
