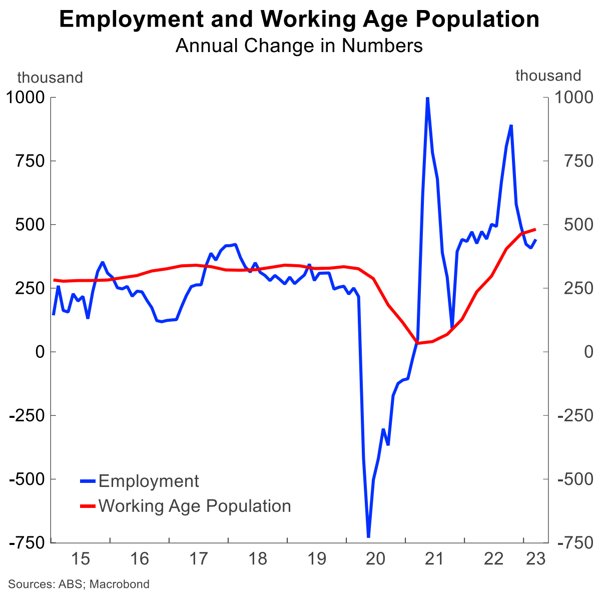
Data Snapshot

Thursday, 13 April 2023

Labour Force Survey

Soaking Up Workers Like a Sponge

- **Employment jumped 53.0k in March, pointing to a reacceleration in employment growth following tepid growth over the festive months of December and January.**
- **The increase in employment outpaced the large 51.4k rise in the labour force. This resulted in a fall in the number of unemployed workers, leaving the unemployment rate unchanged at 3.5%.**
- **Despite the sharp pick up in employment, hours worked declined marginally in the month. The catalyst for this was the increase in workers working less hours than usual in March. There were more people working fewer hours for all reasons in March, including leave and time off due to injury or illness.**
- **As migration has surged, so too has labour supply. The working age population expanded by 481.5k people over the year to March, the biggest annual increase on record. However, the labour market has demonstrated an incredible ability to soak up new workers at an impressive rate.**
- **This has been made possible by the large amount of excess demand for labour accumulated while the economy roared back to life, but international borders were closed. However, this excess demand cannot last forever and as the backlog of demand is filled, aspiring workers will find it more difficult to snap up a position and unemployment is expected to rise.**



Employment jumped 53.0k in March, pointing to a reacceleration in employment growth following a quiet period for the labour market over the festive months of December and January. Indeed, several measures of momentum in employment growth stepped up in March, including 6-month annualised growth and the 3-and-6-month moving averages.

So, why is the labour market heating up again, and what does this mean for the Reserve Bank (RBA) given the labour market was one of the considerations when it paused rate hikes in April?

The underlying strength in employment growth boils down to the still strong labour demand combining with the rapid surge in migration we have experienced since borders reopened early last year. Over the past 18-months, the most prolific headwind facing businesses has been labour shortages. As a result, there is significant amount of 'excess demand' for workers, as evidenced by ballooning job ads and vacancies.

As migration has roared back to life, so too has labour supply. The working age population expanded by 481.5k people over the year to March, the biggest annual increase on record. And the labour force, which measures available workers who are both unemployed and employed, is currently sitting at a record high and has swelled by nearly 400k people over the past 12 months. At the same time, the excess demand for workers hasn't gone away.

The result is that migrants entering the country have been able to find jobs quickly and are filling the shortages which were reported by businesses. And on this flip side, businesses are starting to have an easier time finding workers.

In other words, the labour market has demonstrated an incredible ability to soak up new workers at an impressive rate. Since the start of 2022, the working age population has jumped by 606.4k, while at the same time the employment to population ratio has increased from 63.5% to 64.4% in March. That means that employment has been growing faster than the supply of new workers, preserving the exceptionally tight labour market. The question is, how long can this last?

The labour market's ability to absorb so many workers has been made possible by the large amount of excess demand for labour. The influx of new workers via migration is likely to persist, leaving the pool of 'excess demand' as the key consideration as to whether such strong jobs growth can persist. This, however, likely has an expiration date. Naturally, as employment booms the number of job vacancies fall as positions are filled. We have been seeing this in the data for some months now as the number of job ads and vacancies decline from elevated levels.

Ultimately, as this backlog of demand is filled, aspiring workers will find it more difficult to snap up a position and inevitably will end up in the unemployment queue. Additionally, excess demand for workers is likely to dry up a little faster as a slowing economy means some businesses will decide not to take on more workers and withdraw positions.

The reacceleration in employment growth and the resilience of the labour market demonstrated in today's release likely land in favour of an RBA rate hike in May. Though the totality of the data, including the March quarter inflation report, will ultimately inform the RBA's decision, which remains a close call.

Unemployment Rate

In March, 51.4k people joined the labour force, while 53.0k people signed up to new jobs. This resulted in a marginal fall in the number of unemployed workers (-1.6k) to 507.0k, leaving the unemployment rate unchanged at 3.5%.

Meanwhile, the participation rate, which measures the share of the working age population either employed or looking for work, remained unchanged at a near-record high of 66.7%. This is another indicator that the extensive increase in supply has been absorbed by the labour market without a loosening in conditions (i.e. without an increase in the unemployment rate).

Hours Worked

Despite the sharp pick up in employment, hours worked declined marginally in the month (-0.2%). This was made even more surprising by the fact that full-time employment jumped 72.2k in the month, while part-time employment declined 19.2k. Ordinarily, you would expect a relative increase in full-time employment to translate to a rise in hours worked. The catalyst for this was the increase in workers working less hours than usual in March. The ABS noted in the release that there were more people working fewer hours for all reasons, including leave and time off due to injury or illness.

Crucially, over the past 12 months hours worked have increased by 5.5%, compared to a 3.3% increase in employment over the same period. This demonstrates the extent to which the demand for labour has been soaked up by employees working additional hours, including through switching from part-time to full-time work.

The States

	NSW	VIC	QLD	SA	WA	Tas	ACT	NT
Change in employment over the month (k)	-22.8	39.2	25.3	11.6	7.6	7.6	-1.2	0.2
Change in employment over the year (k)	146.7	145.0	59.0	40.3	18.1	13.4	10.2	7.7
Unemployment rate (%)	3.3	3.6	3.9	3.7	3.4	4.0	2.8	3.5
Change in unemployment rate over the month (%)	0.1	-0.1	0.1	-0.1	-0.4	0.4	-0.1	-1.1

Other Labour Market Measures

Other measures of labour market slack continue to reflect a labour market that is exceptionally tight, though there was some noticeable easing in March.

The underemployment rate, which measures workers that are employed but wish to work more hours, increased from 5.8% in February to 6.2% in March. This is still well below the 10-year average rate of 8.2%. The underutilisation rate, which is a combination of the unemployment and underemployment rates also ticked up to 9.7% in March, from 9.4% in February.

Outlook

The labour market remains incredibly tight and has demonstrated an amazing ability to soak up the rapid increase in labour supply, without any easing in conditions. However, this is likely not sustainable.

As the demand for workers cools alongside the broader economic slowdown and outstanding positions are increasingly filled, we expect conditions will ease. The unemployment rate is expected to rise as demand slows, workers find it more difficult to source work, and the supply of workers continues to build at a solid pace.

The reacceleration in employment growth and the resilience of the labour market demonstrated in today's release likely land in favour of an RBA rate hike in May. However, it remains a close call and the March quarter inflation data, due 26 April, will be another key piece of the puzzle.

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