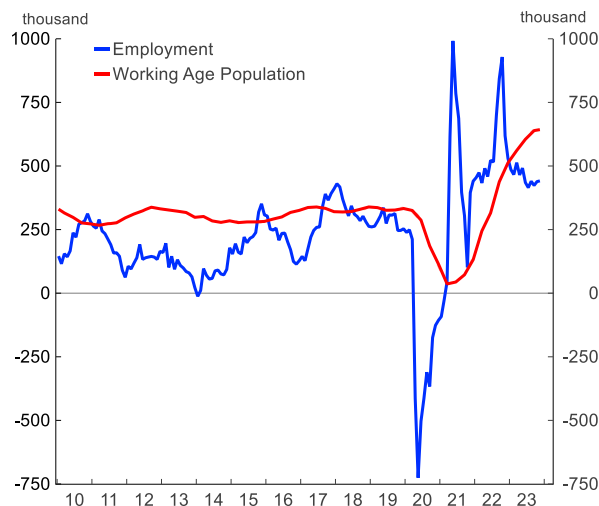


Labour Force Survey

Surging Supply Offsetting Strong Demand

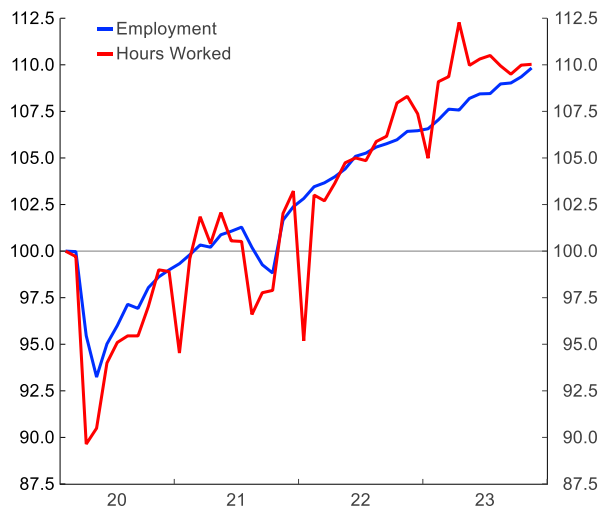
- In November, employment growth surprised again to the upside, lifting by 61.5k (0.4%) compared to our forecast of 25k, and a softer market consensus of 11.5k. This result follows a sequence of 'hot-and-cold' results from April to September but overall, the three-month average increase was around 38k in October and November.
- Despite such strong growth in employment, the rise in the participation rate, reflecting both people being drawn into the labour force and continued strong growth in the population, led to the size of the labour force rising by 80.2k in the month. The number of unemployed people rose by 18.8k. The increase in the number of unemployed people relative to the change in the labour force led to the unemployment rate rising to 3.9%, from 3.8%.
- There are signs that household income stress is a driving force behind some of the strength in labour supply. Firstly, there is rising participation. The participation rate lifted 0.2ppt to a new record high of 67.2%. Secondly, rising underemployment (up 0.2ppt to 6.5%) highlights a significantly greater demand for work than is currently being met.
- Other indicators corroborated the key theme – that growth in labour demand is not keeping up with growth in labour supply. The underemployment, underutilisation, and youth unemployment rates all rose.
- The gradual cooling in the labour market is expected to continue into 2024. This comes against a backdrop of still very strong labour supply growth and people looking for more hours. Most of the action is likely to occur in the broader measures of underutilisation that typically receive less attention, such as average hours worked and underemployment.

Employment & Working Age Population
Annual Change



Sources: ABS, Macrobond

Employment & Hours Worked
Index, Feb 2020 = 100



Sources: ABS, Macrobond

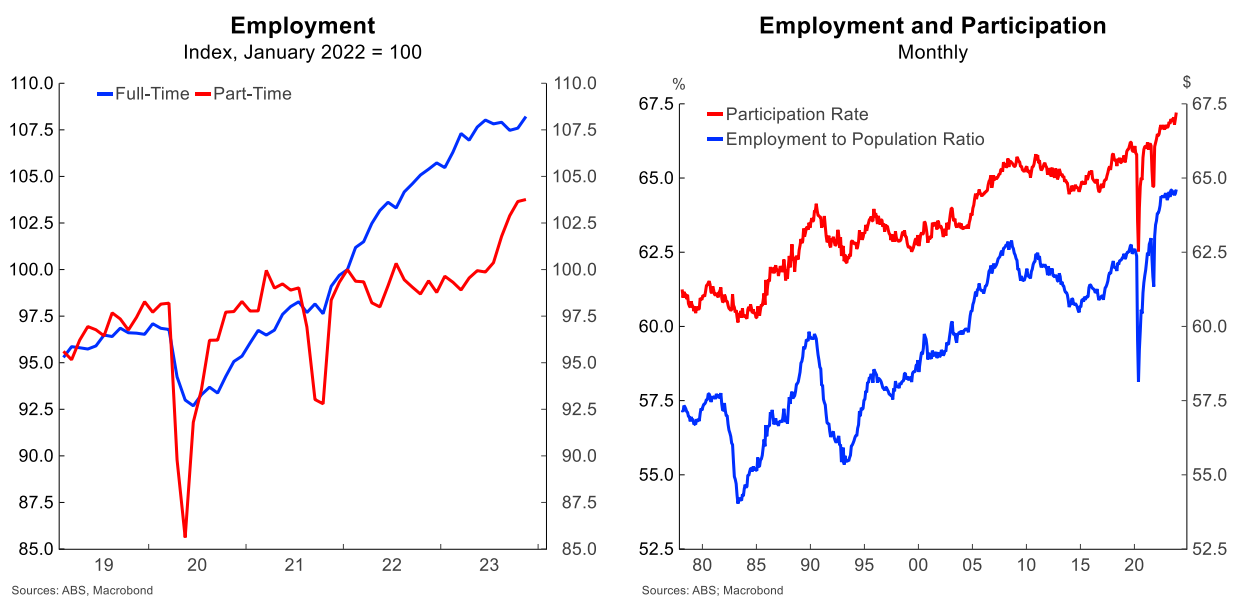
In November, employment growth surprised again to the upside, lifting by 61.5k (0.4%) compared to our forecast of 25k, and a softer market consensus of 11.5k. This result follows a sequence of ‘hot-and-cold’ results from April to September but overall, the three-month average increase was around 38k in October and November.

This strong employment print is highlighted by annual growth in employment holding at 3.2%yr in November. Given this was faster than the 3%yr pace in working age population growth (which has been boosting by the surge in immigration and was the fastest in the history of the series), the employment to population ratio lifted to a new record high of 64.6% from 64.5% – it was 64.4% last December.

There are signs that household income stress is a driving force behind some of the strength in labour supply. Firstly, there is rising participation. This lifted 0.2ppt to a new record high of 67.2% and reflected a lift in male participation (at 71.7% it is back to its August 2023 level, which was the highest since January 2013). Male participation has been in a structural decline for most of the past decade due to an aging population as a lump of Baby Boomers reach retirement age. Female participation held at a record high of 62.9%.

Secondly, rising underemployment (up 0.2ppt to 6.5%), which measures the share of workers in employment who are willing and able to work more hours than they currently do, highlights a significantly greater demand for work than is currently being met.

Together, this suggests there is a very strong supply of labour, much of it likely to be due to households searching for addition income in the face of high inflation, rising interest rates and an increasing taxation burden.



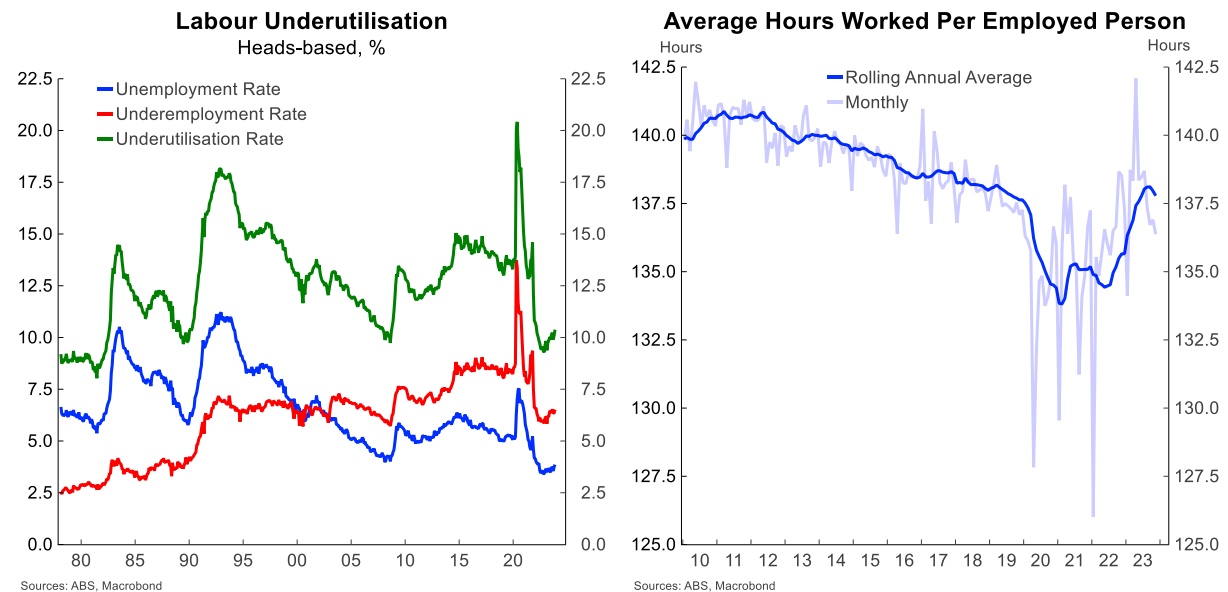
Unemployment Rate

Despite such strong growth in employment in the month, the rise in the participation rate, reflecting both people being drawn into the labour force and continued strong growth in the population, led to the size of the labour force rising by 80.2k in the month. The number of unemployed people rose by 18.8k. The increase in the number of unemployed people relative to the change in the labour force led to the unemployment rate rising to 3.9%, from 3.8%.

This is consistent with our expectation that a gradual rise in the unemployment rate is expected to be driven by employment growth not keeping up with growth in the labour force, rather than a

higher unemployment rate being driven by increase layoffs and job losses.

The lift was a weaker outcome than the 3.8% forecast by the market (which was based on a more modest 11.5k lift in employment).



Hours Worked

An additional area where we expect the gradual easing in labour market tightness to show up is through hours worked. As economic and business conditions slow, employers are likely to demand less hours from employees to match the lower levels of economic activity and sales. However, given 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. This would gradually lead to a fall in average hours worked by those employed.

This trend has been playing out for a number of months and continued in November. Despite employment growth of 61.5k people (or 0.4%), hours worked was almost flat, up only 0.04%. In annual terms, growth in hours worked slowed to 1.6% – well below 3.2% annual employment growth.

As a result, average hours worked per employee fell 0.2% in the month and 1.6% in annual terms. Even though total full-time employment lifted 57.0k in the month, hours worked per full-time employee fell 0.5%; hours worked per part-time employee fell 0.1%. Going forward, while there may be volatility on a month-to-month basis, this is likely to be a continued theme.

Other Labour Market Measures

Other indicators of labour market tightness corroborated the key theme from today's labour force release – that the growth in labour demand is not keeping up with the growth in labour supply as households are drawn into the labour force due to significant income pressures.

The underemployment rate, which measures the share of employed workers who are willing and able to work more hours, rose to 6.5%, from 6.3% in October. This was back in line with August, which was the highest rate of underemployment since February 2022.

The underutilisation rate, which combines the unemployment and underemployment rates, was also higher – rising to 10.4% from 10.1%.

The youth unemployment rate, which measures the share of unemployed workers between the age 15 and 24, rose to 9.6%, from 9.2% in October. This was the highest rate of youth unemployment in two years.

In essence, employers are willing to employ more workers, but they are giving each worker less hours on average. This is a way of making sure they keep the workers they need in the face of a very tight labour market and yet match their labour requirements with a moderation in demand they are experiencing (hence flat hours worked). And the workers are clearly looking for more hours as demonstrated by rising underemployment and rising participation.

The States

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Monthly Change in Employment (000's)	52.8	-4.8	29.6	1.0	12.7	1.8	-2.0	-1.4
Annual Change in Employment (000's)	114.7	129.0	96.5	33.4	72.2	-3.8	7.6	-2.6
Unemployment Rate (%)	3.5	4.0	4.4	3.9	3.7	3.6	3.6	4.6
Change in Unemployment Rate (ppts)	0.1	0.1	0.1	0.2	-0.1	-0.3	-0.3	0.6

*Seasonally Adjusted

Outlook

The September quarter national accounts showed that household incomes are under significant pressure. Challenges are seemingly coming from all angles. This includes still elevated inflation, a higher tax burden due to increased nominal incomes, and the pressure faced by households with a mortgage from the fastest rise in interest rates since inflation targeting began.

Households are responding to these pressures by increasing their participation in the labour market to increase their incomes. So far, the strength of the economy and labour market has been such that much of this increased supply has been absorbed. But that can't last forever.

As we saw in October, the November Labour Force Survey headline data continued to suggest a solid labour market at least in terms of employment growth. However, it is also clear that robust employment data is concealing what has been a trend softening in labour market conditions as households facing income stress have been adding to labour supply at a faster pace than business are lifting their demand for labour.

The gradual cooling underway in the labour market is expected to continue as we move into 2024. A key risk here is how quickly economic growth is likely to slow. At this stage, we expect the slowing in the economy to be gradual. But downside risks to growth cannot be ruled out.

This comes against a backdrop of still very strong growth in labour supply and people looking for more work and hours. As a result, average hours worked are expected to gradually decline and broader measures of labour underutilisation are expected to rise. The unemployment rate is also expected to increase, however, this is likely to remain an orderly process. Most of the action is likely to occur in the broader measures of underutilisation that typically receive less attention.

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