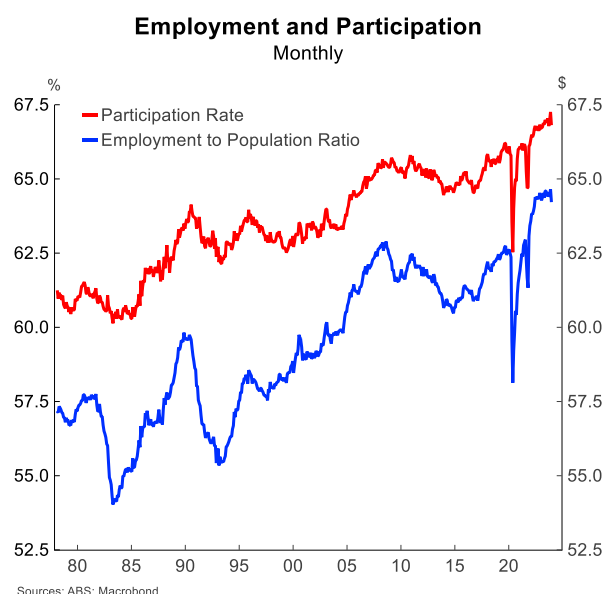
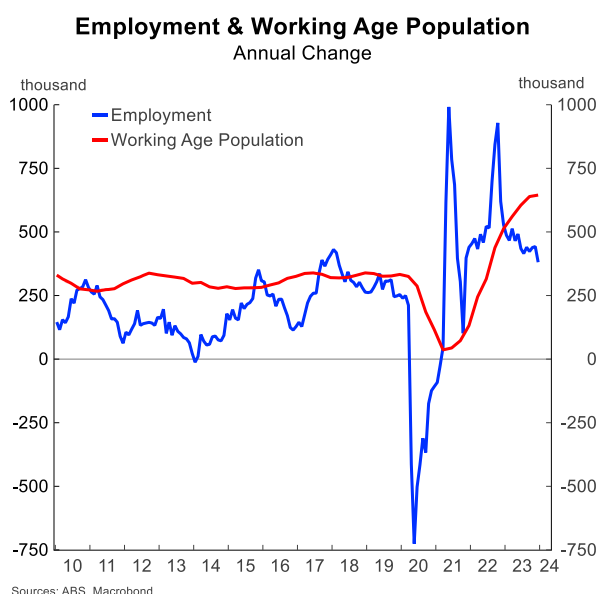


Thursday, 18 January 2024



Labour Force Survey Soft Finish to the Year

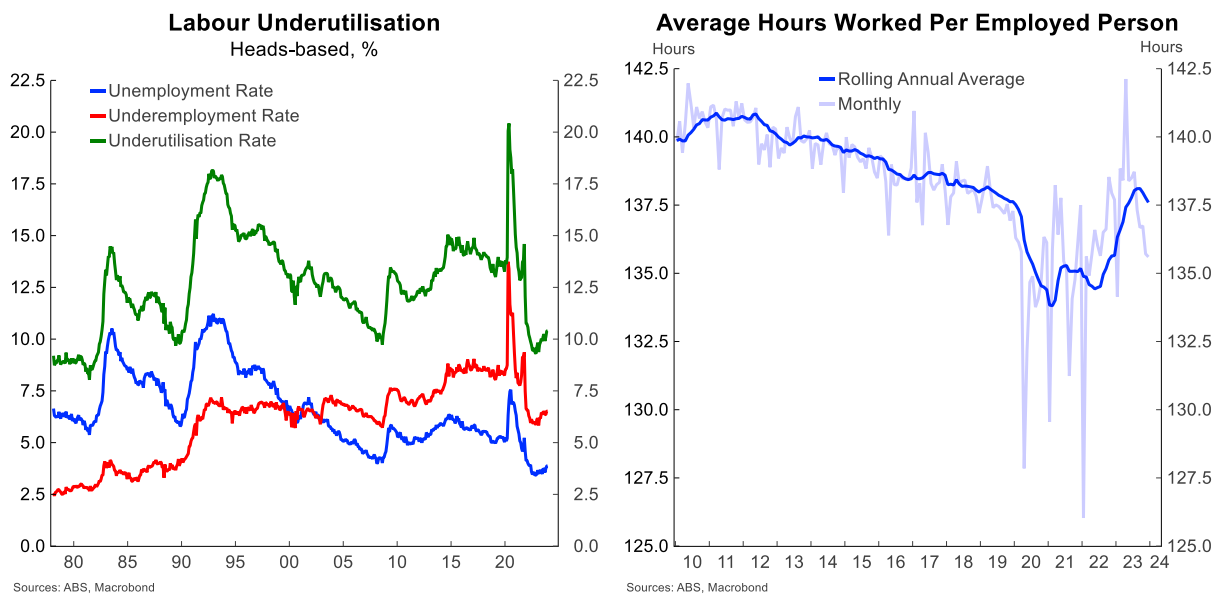
- December's labour force figures featured another surprise with regards to employment growth, this time to the downside, collapsing 65.1k in the month. The number of people employed full time declined by 106.6k – largest monthly fall on record outside of the COVID-19 period. Part time employment partly offset this fall, increasing by 41.4k.
- In their media release, the ABS noted that “The strength in employment in October and November and the fall in December, reflected changes in the timing of employment growth in the last few months of 2023, compared with earlier years.”
- A possible explanation for this may be the growing importance of Black Friday Sales, which likely means employers are hiring more staff in October and November, instead of December.
- In line with the large fall in employment, the employment-to-population ratio also corrected, from a record high 64.7% in October to 64.2% in November, the lowest since May 2022.
- Looking through the monthly volatility, employment growth slowed in the last quarter of 2023 compared to its red-hot pace from earlier in the year. This is consistent with a gradual slowing in employment growth and an unemployment rate which has started drifting upwards.
- The broader picture is of a labour market that is in transition, as softness begins to emerge after a period of historic tightness. Volatility aside, individuals are participating in the labour market at record rates amidst a trifecta of pressure on household income– elevated inflation, sharply higher interest rates and an increasing tax burden. Meanwhile, demand to take on these workers is slowly dwindling.



Unemployment Rate

There was little-change to the number of unemployed persons (-0.8k) in December despite the decline in employment (-65.1k). This implied a contraction in the size of the labour force (-66.0k), reflecting that many individuals decided to “exit” the labour force in the month. That resulted in the unemployment rate holding flat at 3.9% in December.

While the unemployment rate has clearly been trending higher over the last six months, it remains very low versus history, speaking to a tight labour market that is gradually easing. So far in this cycle, increases in the unemployment rate were largely a consequence of labour demand not being able 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 coming back into balance, seeing the unemployment rate continuing to drift upwards.



Hours Worked

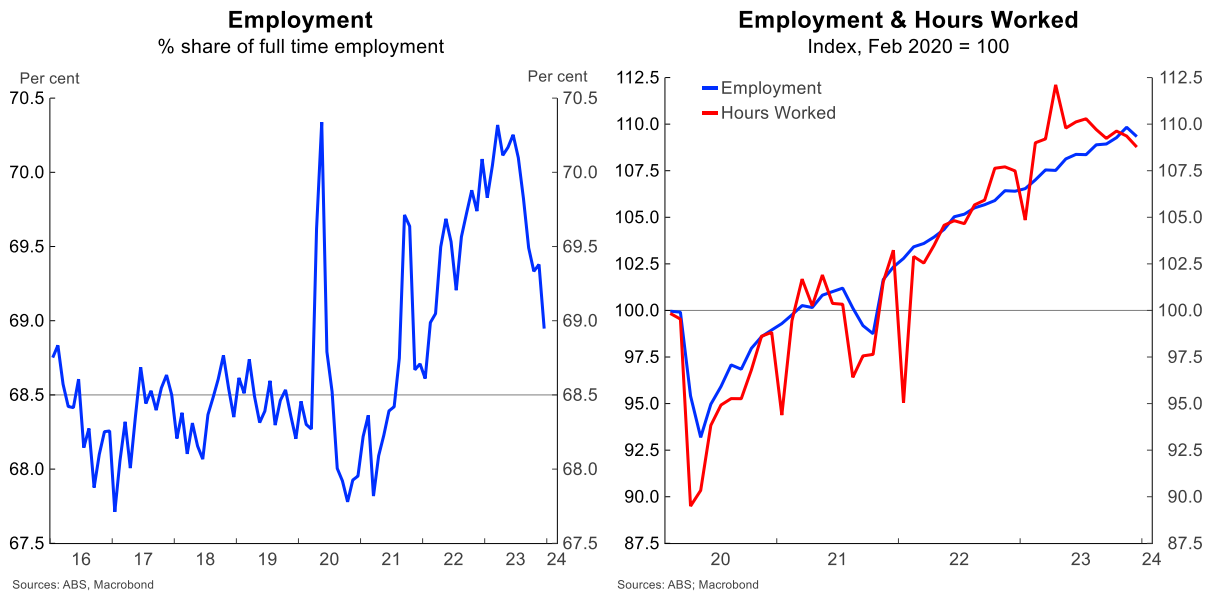
The number of hours worked declined by 0.5% over the month of December but was 1.2% higher than a year ago. There were particularly large monthly falls in South Australia (-1.0%), Victoria (-0.9%), and Tasmania (-0.8%).

The number of hours worked rebounded strongly as the economy opened from COVID-19 induced lockdowns. Employers responded to strong demand and emerging skill shortages by squeezing as many hours as possible from their workforce. This saw the share of full-time employment (those working 35hrs/wk or more) increase to be around 70.3% in March 2023.

As demand softened and skill shortages eased, the share of full-time employment has trended down. In December 2023, it was 68.9%, around 1.2 percentage points lower than a year ago, and trending toward the pre pandemic average of around 68.5%.

This has seen growth in the number of people employed catch up too, and now exceed, growth in the number of hours worked. It has also meant that there has been a fall in average hours worked, which is consistent with the rise in underemployment as more Australians indicate that they would like to work more hours. In other words, the labour market is slowly softening, but not all of the adjustment is coming through in the unemployment rate.

As the supply side of the economy continues to adjust from the COVID-19 shock and demand slows on the back of tighter macroeconomic policy, employers are likely to continue to pull back on demand for labour. 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.



Other Labour Market Measures

The underemployment rate, which measures the share of employed workers who are willing and able to work more hours, held flat at 6.5% in December. Underemployment has been trending upwards since before the unemployment rate started to do so. It is currently in line with the rate observed in August, which was the highest rate of underemployment since February 2022.

The underutilisation rate, which combines the unemployment and underemployment rates, also remained, at 10.4%.

The youth unemployment rate, which measures the share of unemployed workers between the ages of 15 and 24, fell from 9.7% in November to 9.5% in December. That said, the employment-to-population ratio for this segment has corrected sharply over the course of the year, from 66.5% in January to 63.5% in December. 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)	-35.4	-9.6	-4.1	-12.4	-5.7	1.7	-0.4	1.9
Annual Change in Employment (000's)	86.9	124.6	95.0	16.0	53.3	0.7	4.1	1.5
Unemployment Rate (%)	3.3	4.0	4.3	3.9	3.9	3.6	3.9	4.5
Change in Unemployment Rate (ppts)	-0.1	0.0	-0.1	0.0	0.2	0.0	0.3	-0.2

*Seasonally Adjusted

Outlook

Labour market conditions have clearly softened. While shifting seasonality has blurred the signal, the underlying trend is clear: demand is slowing, while potential labour supply continues to grow.

As labour demand slows and labour supply increases, we expect employers to continue to adjust the number of hours worked. This has already been quite stark when it comes to the share of full-time employment, which has fallen by around 1.2 percentage points compared with a year ago.

The 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. To date, the labour market has been a safety blanket for households experiencing intense cost of living pressures – the strong labour market has meant unemployed members of households could pick up a job, or employed members could pick up a second job or additional hours. Without this safety blanket, households may be forced to tighten their belts even further.

Pat Bustamante, Senior Economist

ph (+61) 468 571 786

&

Ryan Wells, Economist

ph (61–2) 9178 2063

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

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 St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George 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 St.George products and details are available. St.George 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. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - 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.
