

LABOUR FORCE

PREVIEW OF AUGUST SURVEY

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Westpac Institutional Bank

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Employment & labour force move together

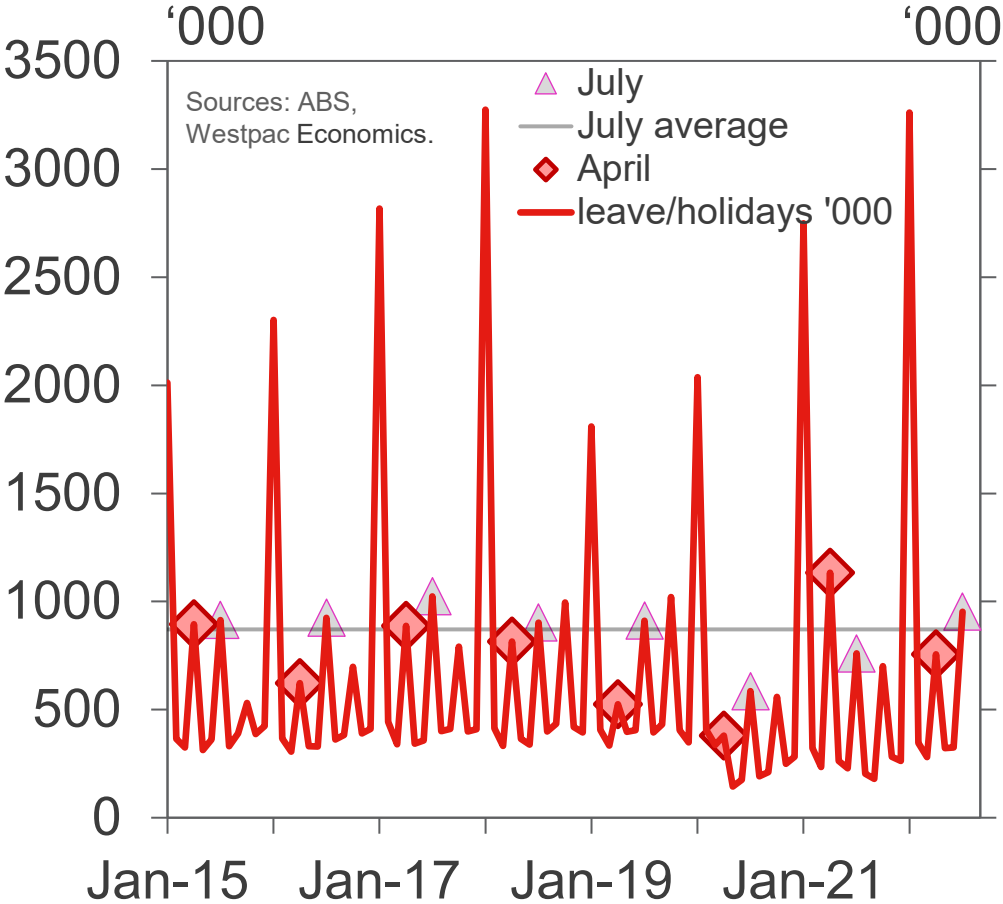
Recent shocks saw labour force contract more than employment



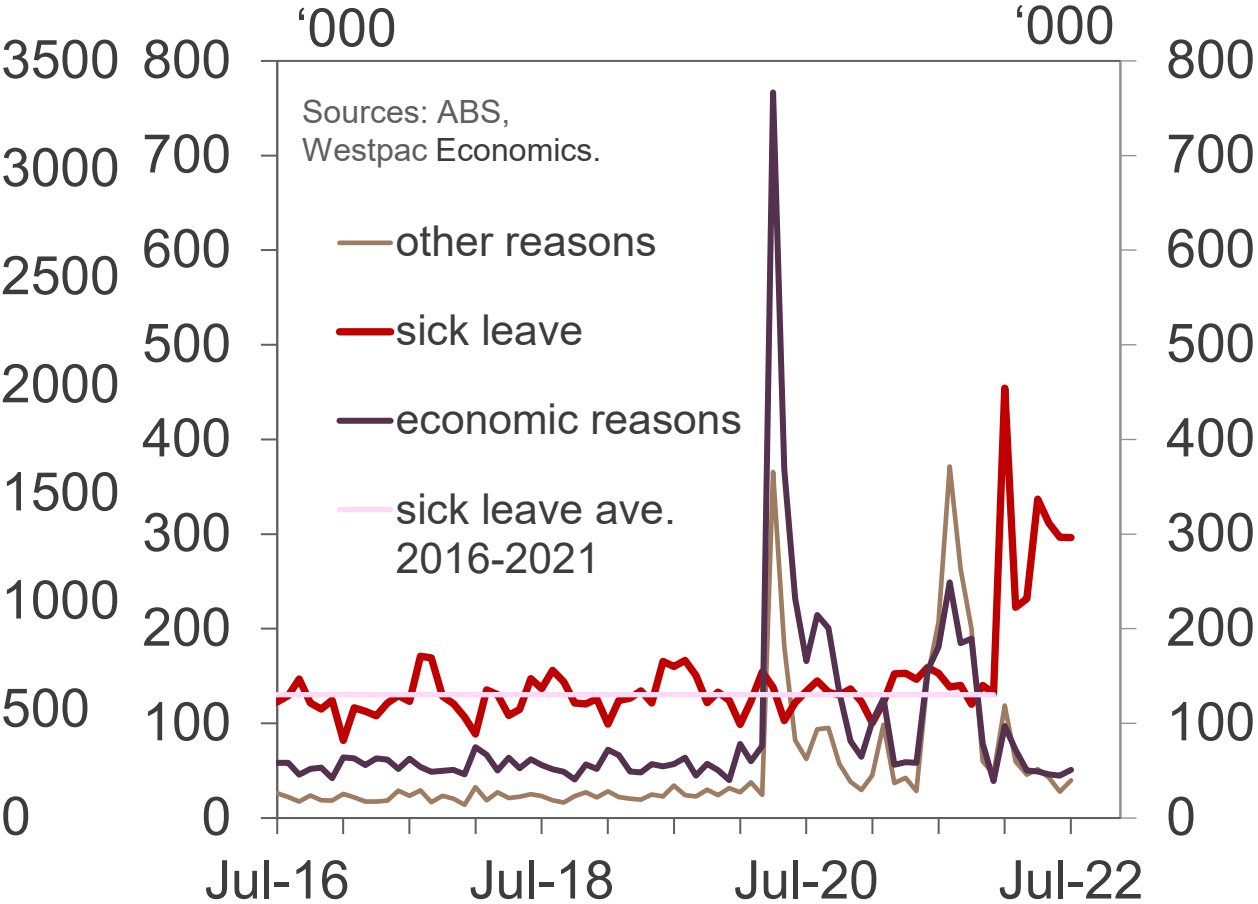
- Total employment surprised by falling 40.9k/0.3% in July and total hours worked fell in 0.8%.
- Why did employment contract given the various labour market indicators pointing to an extremely tight market? Shifting seasonality in a post COVID world!
- The ABS noted that the July Labour Force reference period coincided with winter school holidays, worker absences associated with various illnesses (including COVID), and further flooding events in NSW. See *charts on following page*.
- This July 953k workers were on leave and worked zero hours compare to 760k in 2021 and an average of 872k since 2015.
- At 296k the number of workers on sick leave in July is down from the January 2022 peak of 454k but this is much greater than 153k last July and average of 130k from 2016 to end 2021.

Zero hours worked; illness has become increasingly significant

On leave/holidays

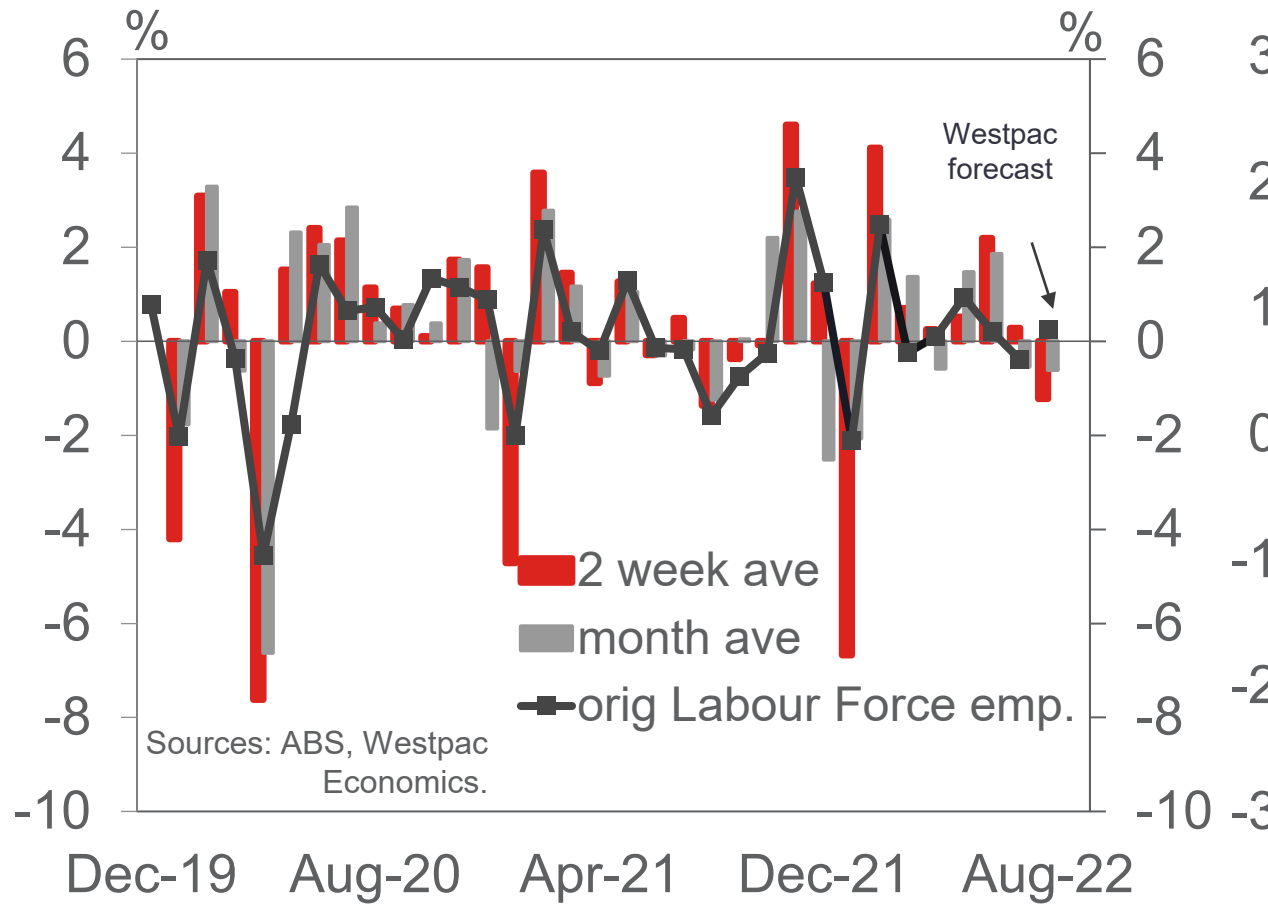


Economic, sick leave or other reasons

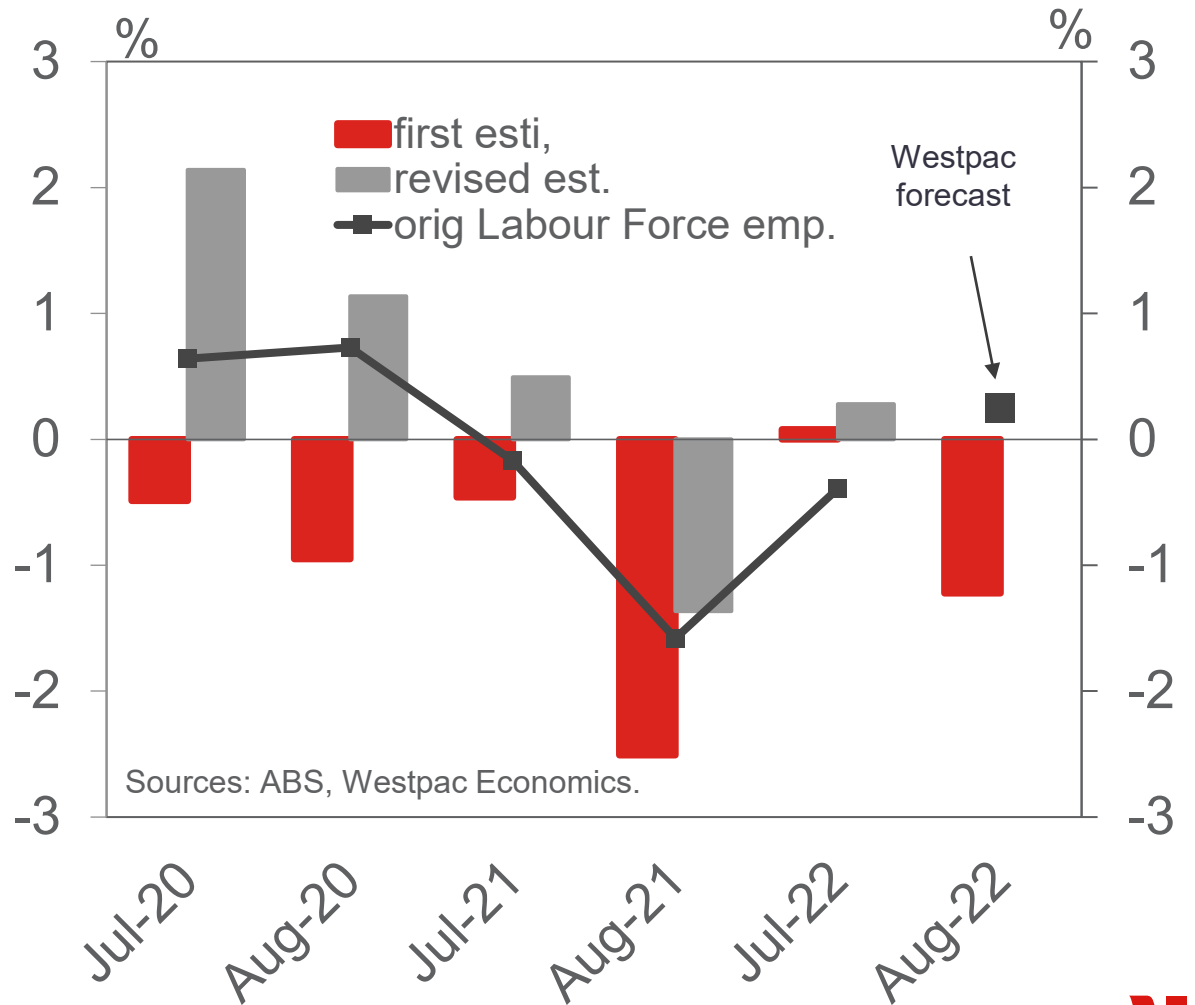


Payrolls can be a good guide to employment but use with caution

Payrolls & original employment

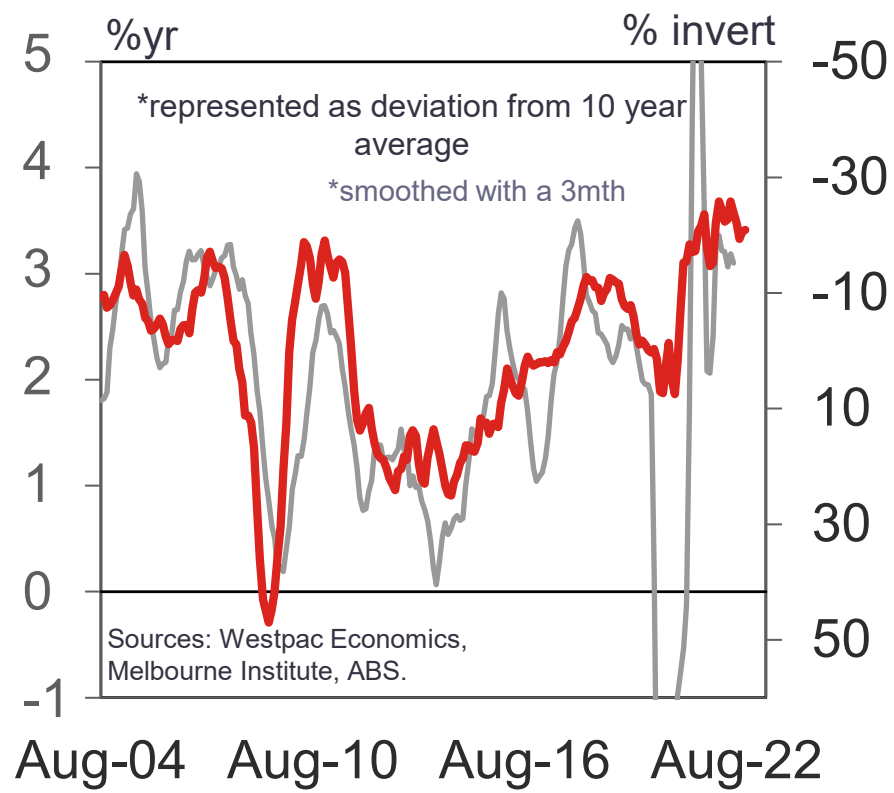


Payroll revisions can be significant



Westpac's leading indicators of employment

Businesses & households remain positive for employment

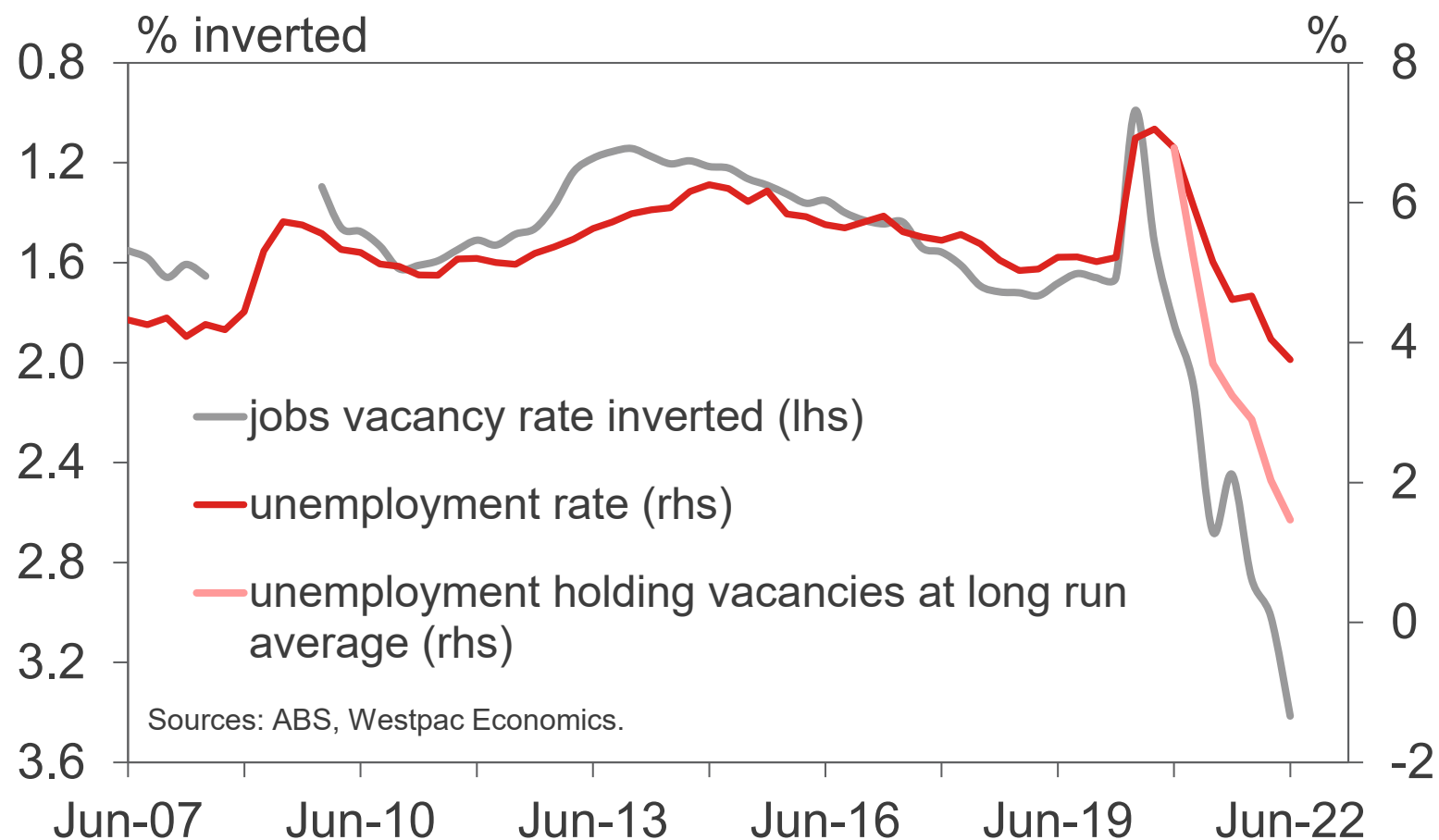


- Westpac is forecasting a solid recovery in August, employment +110k, labour force +115k; participation +0.5ppt to 66.9% and unemployment flat at 3.4%.
- Market median +35k, range +10k to +110k. Net largest forecast +60k.
- Comparing Weekly Payrolls from the Labour Force reference periods can be a guide to the original (not seasonally adjusted) change in employment (see in the previous chart).
- On this basis Weekly Payrolls fell -1.2% in the month to August suggesting further weakness employment.
- However, post financial year Payrolls can be subject to significant revisions (see previous chart). The average revision for July/August in the last two years is +1.4ppt, +1.6ppt if you look at August alone.
- We see the risks for August skewed to upside hence our solid +110k employment forecast.

2%

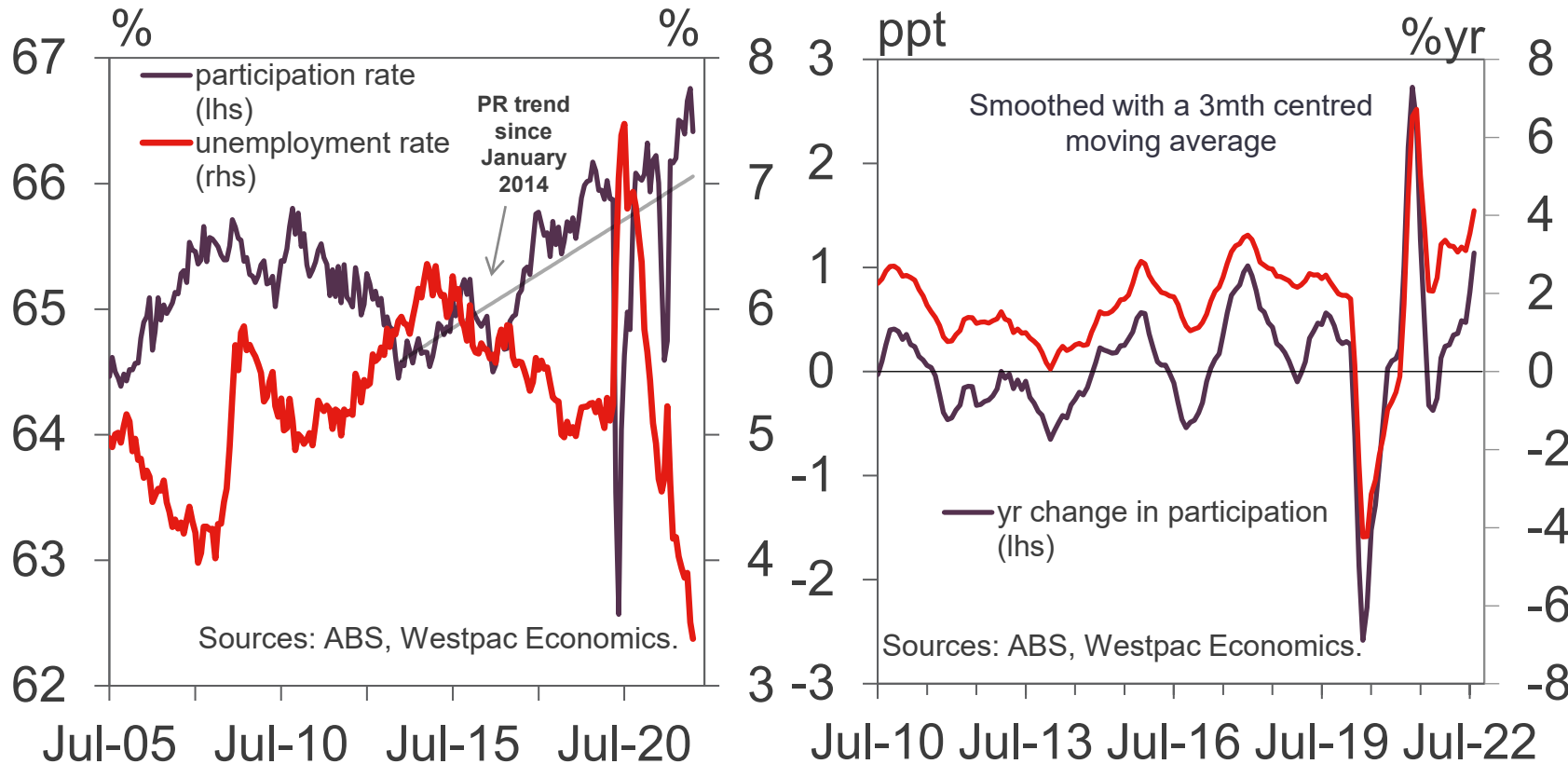
Reducing the number of job vacancies to lower the vacancy rate to the long run average, and assuming the unemployed get those jobs, then the unemployment rate falls to around 2%.

If the unemployed are employed leading to a fall in vacancies



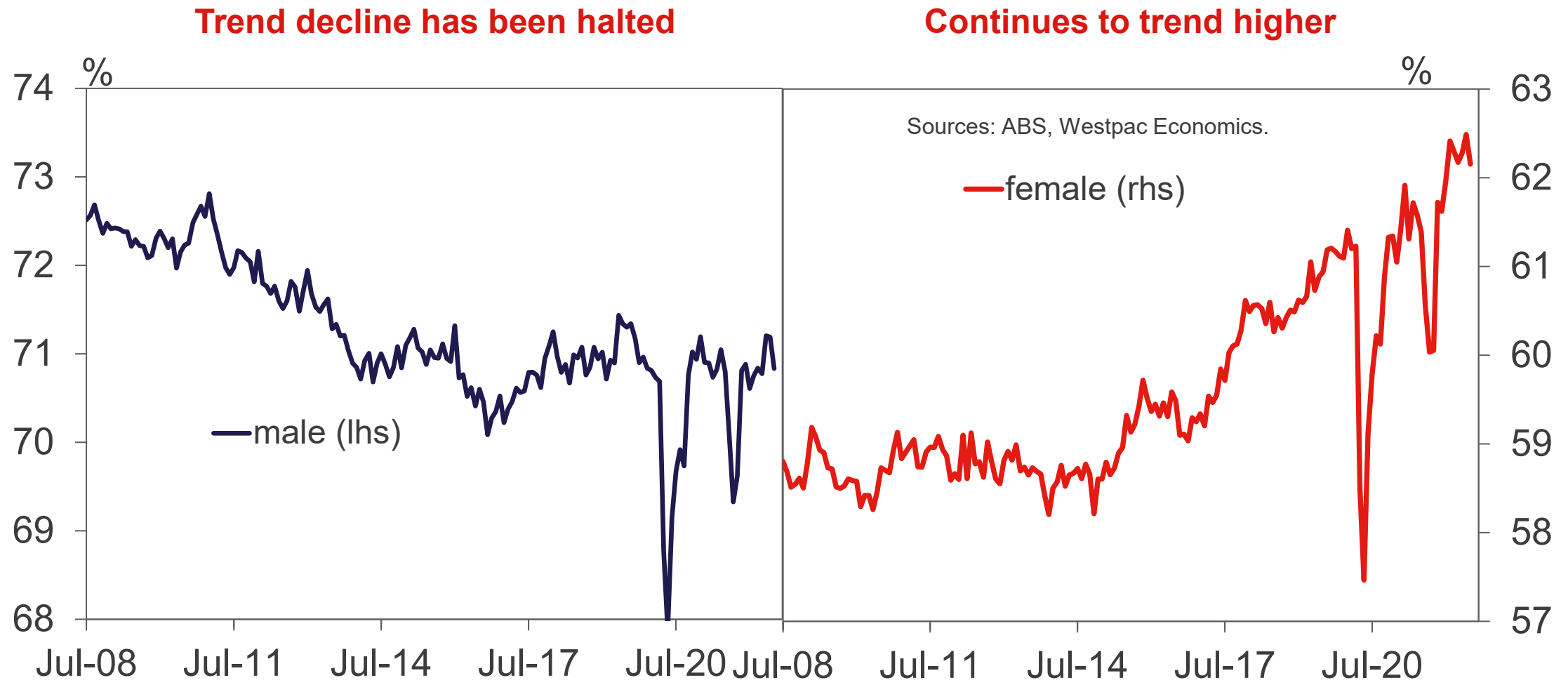
Participation trends with employment

Through '21 falling participation capped the rise in unemployment



- A decline in employment associated with less willing and/or able to work would be reflected in a drop in participation which fell 0.3ppt in July to 66.4% (a 61.2k decline in the labour force).
- A larger decline in the labour force than in the decline in employment led to the 0.1ppt fall in unemployment 3.4%.
- The decline in unemployment was matched by a decline in underemployment from 6.1% to 6.0%. Falling underemployment is unusual when hours worked contract but may be consistent with increasing part-time employment and July supply disruptions.
- A mismatch between underemployment and hours worked points to unseasonal volatility. Normally, unemployment and underemployment rise with a fall in hours worked but in July a larger number of workers exited the labour force.
- We expect these workers to return in August holding unemployment flat at 3.4%.

Male participation stabilises as female's trend higher



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