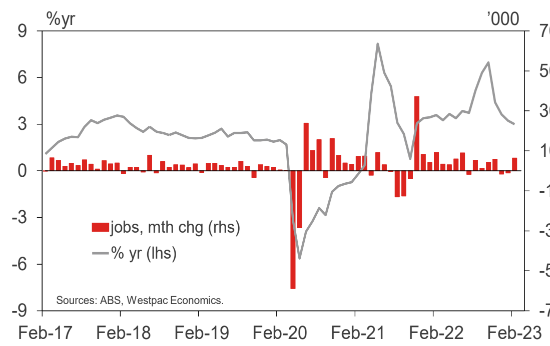
BULLETIN

31 March 2023

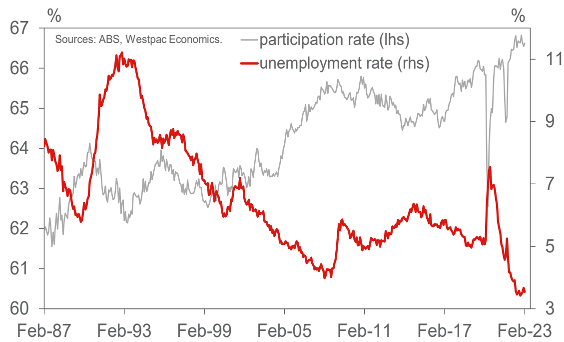
Deeper insights on the Australian Labour Market
A meaningful slowdown in employment growth, based on fundamental factors, emerged in the second half of 2022

- In February, total employment was reported to have risen by +64.6k (+0.5%), broadly in line with Westpac's forecast of +50k amid a wide range of uncertainty in the month, analysts forecasts ranging from +4k to +100k.
- The bounce in employment growth more than reversed the two consecutive monthly declines in January (–10.9k) and December (–16.6k). Accordingly, seasonally adjusted hours worked increased by 3.9% in February, much larger than the increase in employment.
- The unemployment rate fell from 3.7% in January to 3.5% in February, but rounded to two decimal points the decrease (3.67% to 3.54%) amounted closer to just 0.1ppt.
- Additionally, the gain in full-time employment (+74.9k) was larger than the lift in overall employment, resulting in a substantial decline in the underemployment rate, down from 6.2% to 5.8%, indicating that some switching from part-time work to full-time work was evident.
- After an unexpectedly weak December/January, a period in which illness-related absences and holiday idiosyncrasies played a key role in the materially weaker labour market outcomes, the February update was a clear shift in tone, raising questions about the underlying trend in the labour market over the summer period, and hence the likely path of expected outcomes over the course of this year.
- The pace of jobs growth has exhibited a broad-based slowing across many industries but it was most evident in the goods distribution sector, which captures retail trade; wholesale trade; and transport, postal and warehousing. Strength in construction and health care has provided a partial offset over the last six months.
- Employment growth in NSW was much stronger than Vic overall due to strength in retail & wholesale distribution (+61k vs. +27k) and in leisure & hospitality (+49k vs. +31k) while Vic 'white collar' employment was particularly soft (–38.6k), with jobs growth flat in business services (–2.9k) and declining significantly in the government sector (–35.8k).
- While it might be tempting to point to the industry mix for the recent rise in male unemployment, it does seem to be more related to male participation being less reactive to changes in labour market conditions compared to female participation.
- We agree with the assessment that the labour market is past its peak, with the unemployment rate having reached a low for the cycle back in October 2022. However, we believe that the February Labour Force report provides a more nuanced picture about the dynamics at play over summer, suggesting that labour market outcomes will continue to flatten through to mid-year before a clearer weakening takes hold.

Employment growth



Unemploy. lowest since '74, record participation



Labour market forecasts

		Jun-23	Dec-23	Jun-24	Dec-24
Employment	(%qtr)	0.5	–0.5	0.1	0.3
Employment	(%yr)	2.4	0.1	–0.6	0.7
Unemployment rate	(%)	3.5	4.5	4.8	5.0

- Westpac is forecasting the unemployment rate remain at a quarter-average of 3.5% and employment growth to track 2.4%yr in June. However, moving into the second half of the year, we expect the unemployment rate to rise to 4.5% and for employment growth to fall to a stalling speed of 0.1%yr. Further easing will be evident in 2024 as the unemployment rate lifts to an average of 5.0% in the December quarter.

The recovery in male participation has lagged that of females over the past year

One of the hallmarks of the recovery in labour market outcomes since the pandemic has been the stellar rise in labour force participation. At the onset of COVID-19, the participation rate fell from a quarter average of 66.0% in December 2019 to a low of 63.4% in June 2020, only to surge to a record high of 66.7% in December 2022 as the recovery from the lockdowns ensued. However, the increase in participation has been more focused on females than males. At 71.2% in December 2022, the male participation rate was only 0.2ppt higher than it was in December 2019. Meanwhile, female participation was at a record high of 63.2% in December 2022, 2.1ppts higher than in December 2019.

Is lagging male participation a supply story – relatively fewer available to work or to look for work – or is it a lack of relative in demand for male labour resulting in less looking for a job? While it can be hard to be definitive, there are some facts that hints it has been a bit of both – relatively weaker demand for male labour as well relatively weaker male labour supply, particularly in the later half of 2022.

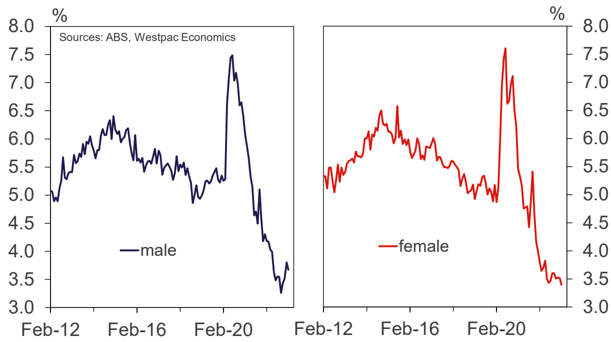
While female employment grew faster than male employment out of the lockdowns, female employment was also hit harder than male employment during the pandemic. Compared to the quarter average in December 2019 (pre-COVID), male employment is up 5.9% and the male labour force lifted by 3.8%. Contrast that with female, who have seen a 7.0% in employment and 5.3% growth in their labour force over the same period. Both genders have seen absolute strength, but in a relative sense, demand for male labour and growth in the male labour force has underperformed that of females, resulting in a lagged relatively lagged recovery in participation. It is worth noting that over the recovery, female unemployment has typically been lower than male unemployment, but towards at the peak tightness in the labour market (near end-2022), male unemployment did fall to a lower level, as evinced by the 2.1ppt difference between employment and labour force growth for males compared to the 1.7ppt difference for females.

More recently male unemployment has risen due to weaker employment and robust labour force growth

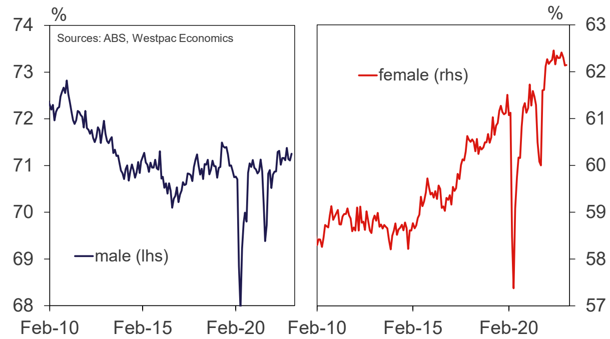
The above observations don't, however, explain why in February male unemployment was 0.4ppt higher than it was in October 2022 while female unemployment was 0.2ppt lower. Over the last few months male employment has been hit harder than female employment while the growth in the male labour force held onto a solid pace. Since September 2022 male employment lifted 1.1% but the male labour force has growth 1.2%. More critically, since November (before the December/January soft patch) male employment has grown just 0.2%, less than half the 0.5% gain in male labour force. Contrast with females over the same period of time that saw a 0.2% gain in their labour force and a 0.3% gain in employment.

The recent soft patch has seen a rise in male unemployment due to softer employment along with robust a robust labour force; male participation has been relatively more robust than female participation through this period down 0.1ppt since November to 71.3% vs. –0.3ppt for females to 62.1%. Female participation is more reactive to changes in labour market conditions than male participation. This explains the more robust gain in the male labour force as the working age population for both has grown 0.3% since November. But since January 2020 (pre-COVID) the male working age population has grown 3.8% while the female working age population has lifted 3.6%. All else held equal it is easier to get a lower unemployment rate when you have slower growth in the working age population.

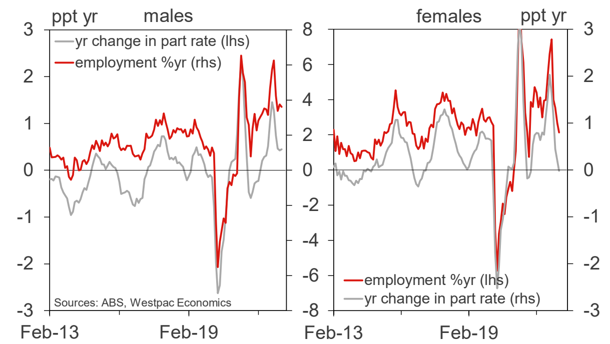
Australian unemployment rates by gender



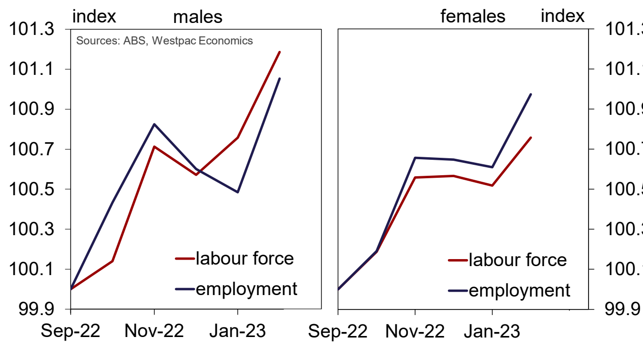
Australian participation rates by gender



Participation trends with employment



Male labour force outpaced employment



The pace of jobs growth has exhibited a broad-based slowing across many industries

Employment exhibited robust momentum over the year to February 2023, increasing by 404k overall. However, a drastic slowdown in jobs growth is apparent upon a comparison between the six months to August 2022 ("first half") and the six months to February 2023 ("second half"). At +360.6k and +63.6k respectively, employment growth between the first half and second half slowed by a substantial 277k. Detailed industry data confirms that this deceleration not only incorporates a transition from employment growth to decline across multiple sectors, but more broadly, it corresponds with the industries that are already exhibiting a loss of economic momentum.

This is most evident in the goods distribution sector, which captures retail trade; wholesale trade; and transport, postal and warehousing. Together, these three industries accounted for around 40% of the slowdown in employment growth over the year, shifting from a substantial positive of +154k in the first half down to –47k in the second half, thereby culminating in a 201k reduction in the pace of jobs growth.

The shift in jobs growth dynamics in goods distribution aligns with evidence from official data. In the national accounts for example, this sector was the sole negative contributor to growth in Q4, reflecting a broad-based softening in demand across both retail and wholesale. On the former, timely evidence from official estimates of retail trade and our own Westpac Card Tracker has indicated that the underlying weakening that begun to emerge in the sector near the end of 2022 has carried into the early months of 2023, seemingly providing an impetus for some retailers to begin reducing their number of employees.

While goods distribution has been at the epicentre of the slowdown in employment, services sectors have also exhibited a similar trend. In the business services sector, the decline in employment in the second half (–63k) more than reversed the gains observed in the first half (+33k), representing 20% of the loss in overall momentum. The declines were broadly-based across professional and technical services (–26k); administrative and support services (–21k); and real estate services (–18k), the latter of which coincides with the ongoing housing market correction and associated declines in sales volumes.

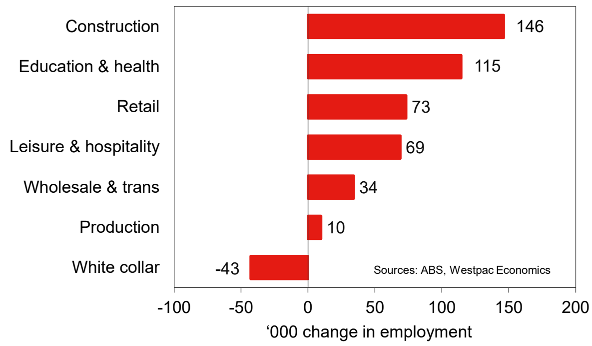
Similarly, jobs growth in leisure and hospitality services were a major positive in the first half (+80k), but this momentum evaporated in the second half (–11k). Albeit more modest, employment in manufacturing also stalled in the second half, as intensifying cost pressures and an underlying slowdown in demand gave manufacturers less of an incentive to grow their workforce (for a detailed update on Australian manufacturing, see the Q1 ACCI-Westpac survey).

Strength in construction and health care has provided a partial offset over the last six months

Health care and social assistance bucked the wider trend, with employment growth lifting from a solid +30k in the first half to a strong +67k in the second half, totalling +97k over the year to February 2023. While the sector was the second largest contributor to jobs growth over the period, this performance is part of a sustained up-trend since the beginning of 2021, as demand for health care services surged from the pandemic.

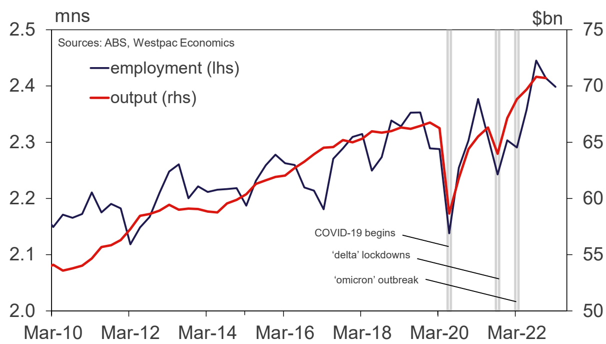
In terms of overall employment growth, construction was the largest contributor, totalling +146k over the year. While a slowdown was still evident between the first half and second half, jobs growth was relatively more balanced over the year and was overall in strong territory for the sector.

Employment by sector: year to February 2023

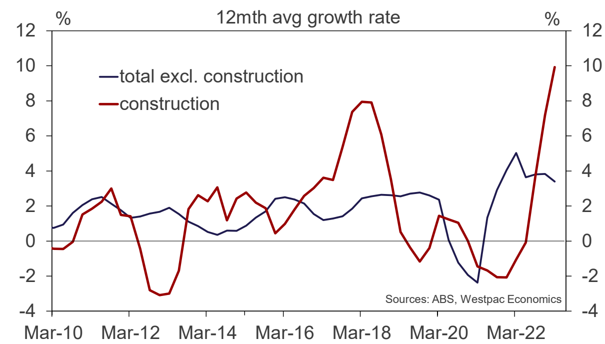


Employment by sector: 6mth to Aug '22 vs. Feb '23

Jobs and growth in goods distribution slowing



Construction has a key driver of jobs growth



While it is encouraging to see health care and construction provide a buffer to aggregate employment momentum – allowing growth to remain positive over the last six months – the clear message to be taken from the industry data is that an underlying softening trend is crystalising.

Employment outcomes between NSW and Vic has diverged

(The following state data is seasonally adjusted by Westpac and smoothed with a two-quarter average so will not reconcile with the national averages. We use the data to determine relative trends in state industries not absolute relativities with the national data.)

Employment growth between the nation's two largest states – NSW and Vic – typically account for similar proportions of the national outcome, but in the year to February 2023, the relative performance between these two states diverged.

As measured by the five-year pre-pandemic average, in the 12 months to February, NSW and Vic usually represent 37% and 36% of national employment growth, or nearly three-quarters collectively. While their combined proportion over the year to February 2023 was on par with history (74%), individually, NSW's performance was much stronger (47% share), while Vic's was materially weaker (27% share).

The reason for this is twofold. Firstly, employment growth in NSW was much stronger than Vic in the retail & wholesale distribution sector (+61k vs. +27k) and in leisure & hospitality (+49k vs. +31k). Secondly, employment in Vic was particularly soft in the 'white collar' industry (–38.6k), with jobs growth flat in business services (–2.9k) and declining significantly in the government sector (–35.8k). With the employment increase outstripping labour force growth in NSW to a much larger extent than in Vic, it makes sense that the unemployment rate in NSW has been materially lower for some time now.

Still, both NSW and Vic recorded similarly strong gains across education and health (+46k and +43k) and construction (+47k and +53k) – the two sectors that led employment growth in the year to February 2023 – though the goods production sectors (agriculture, mining, manufacturing and utilities) was more tepid across both states, flat in NSW and up by +11k in Vic.

The rest of the state performances were more evenly balanced

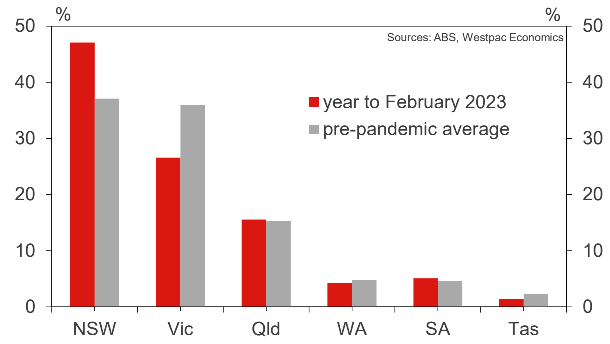
In terms of aggregate employment, the performance from the rest of the states were on par with their historical averages. Qld had robust gains across education and health (+35k) and construction (+24k), and like NSW, goods distribution was a key contributor to jobs growth over the year (+37k). However, Qld did experience some declines in employment across goods production (–21k) and leisure and hospitality (–17k).

The increase in employment in SA (+24k) was larger than it was in WA (+20k). SA's performance was more balanced, exhibiting similar gains across all industries (ranging between +3k and +10k) despite a minor decline in the 'white collar' sector (–1k). Meanwhile, WA was slightly patchier, with solid lifts in education and health (+14k) and goods production (+16k), moderate gains in leisure and hospitality (+9k) and construction (+8k), and some sizeable drags from retail and wholesale distribution (–17k) and 'white collar' jobs (–10k).

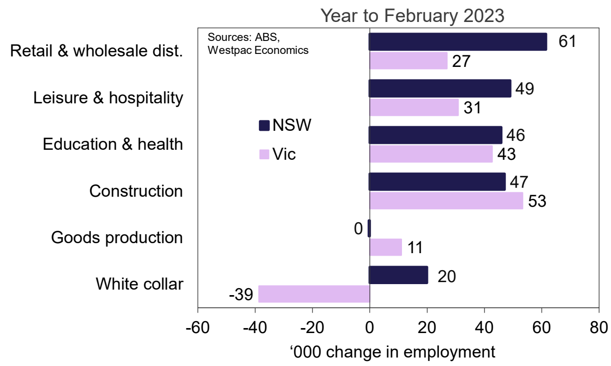
An underlying softening trend is present despite seasonalities over the December/January period

Growth in total employment has been fairly volatile over the last five months, with each month from October 2022 to February 2023 printing: +43.5k, +58.4k, –16.6k, –10.9k and +64.6k. Over the last three months in particular, some legacies from the pandemic look to have played a key role in recent volatility.

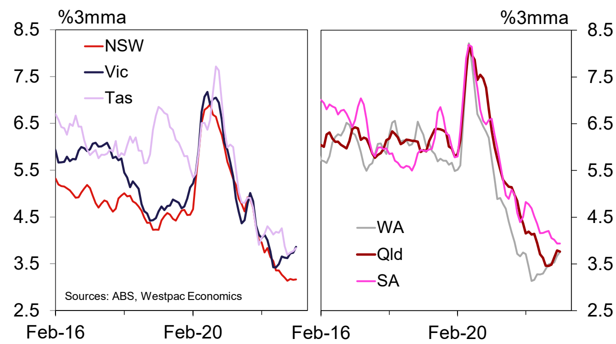
National employment growth by state share



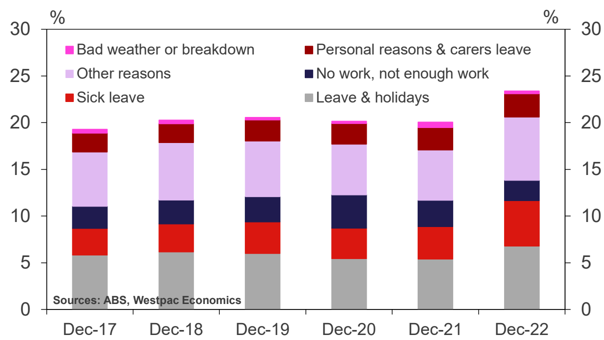
NSW outperforms Vic in jobs growth



Unemployment by state



Share of employed who worked less hours



In December 2022, we saw illness-related absences act as a major handbrake to employment growth. In the month, it was reported that the number of people working reduced hours due to illness was 50% higher than what is typically observed at that time of year. Then in January 2023, there was a larger-than-usual rise in the number of unemployed people who indicated they had a job to go to in the future, reflecting a temporary 'holiday effect' as people took advantage of the first disruption-free summer period since the onset of COVID-19.

Together, these two dynamics played a large role both the slowing of employment growth over December/January, but also the subsequent bounce in February, as the majority of the individuals who were waiting to start a new job returned to their jobs and unusually large illness-related absences faded. If anything, the recent run of data is a reminder to not place too much weight on any single month, especially over the summer period (let alone during an ongoing recovery from COVID-19).

Looking through the volatility over the last three months, it becomes clear that an underlying softening trend is present. This is not only confirmed by the broad-based slowing evident in the more granular industry detail (as discussed earlier), but also in headline labour market statistics.

The three-month average monthly gain in employment has shifted from a robust 37k in November down to just 17k in February. Additionally, the unemployment rate continues to move past its low of 3.4% in October, the three-month average having now risen steadily to 3.6% as of February.

Leading indicators suggest that a fundamental moderation in employment growth is underway …

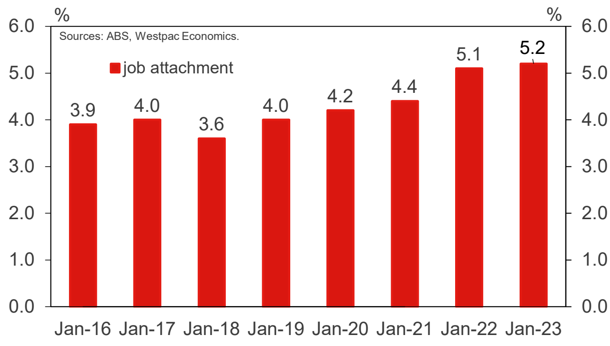
Since the September quarter there has been a marked softening in the leading indicators. Employment indicators in business surveys have softened, particularly in the ACCI-Westpac Industry Trends Survey and the AI Group Survey. This has seen our Jobs Index drop from a recent peak of 2.4%yr to 1.9%yr. There was also been a lift in Unemployment Expectations from the Westpac-Melbourne Institute Consumer Sentiment Survey, up 23% in the last six months, pointing to not just rising unemployment but also a meaningful moderation in employment growth.

The ABS also has a quarterly unemployment expectations series which asks if workers expect to leave their job due to employer closing or downsizing. This series is yet to show any meaningful lift suggesting the recent rise in employment is due to moderation in employment growth and that job shedding is not a significant factor.

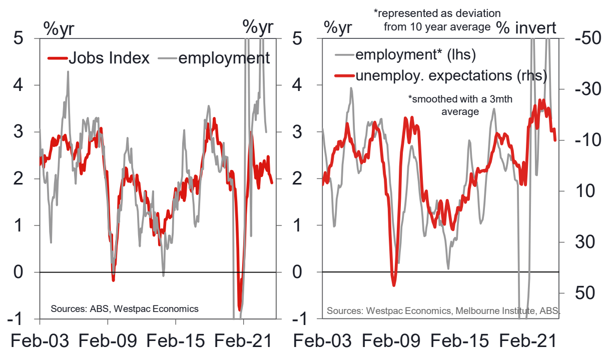
The level of Job Vacancies reported by the ABS have moderated, falling 9% from the 2022 Q2 peak. However, they are still significantly higher than usual and represent 1.2 unemployed people for every job vacancy. There is normally 4 to 5 people for every job vacancy reported by the ABS. The Beveridge Curve, which charts job vacancies as a share of the labour force to the unemployment rate (which is the number of unemployed as a share of the labour force), highlights the upward step in vacancies that did not drive an even greater fall in unemployment suggesting we are still experiencing a significant shortage of appropriately skilled labour.

Going forward we expect these leading indicators to soften as Westpac's forecast for household demand and dwelling activity points to a stalling in employment growth through 2023.

Proportion not employed with job to go to

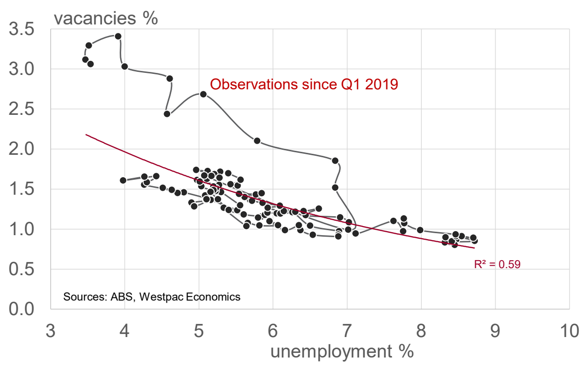


Westpac employment indicators



Unemployment & job fears

Australian Beveridge Curve



… and we are hence forecasting a continued slowdown in labour market outcomes

We agree with the assessment that the Australian labour market is past its peak and that the recent run of results does indeed reflect a step-down in the pace of employment growth, albeit coincident with seasonalities.

Looking forward, we expect employment growth to remain positive but track a flattening trend over the first half of this year, with the three-month average jobs growth rate expected hold around 0.5% through to mid-year. As the headwinds facing the broader economy continue to build over this period, jobs growth is set to then shift negative in the second half of the year, the three-month average rate expected to reach a nadir of –0.5% before a very gradual recovery ensues in 2024.

This is also reflected in our forecast for the quarter-average unemployment rate, which we expect has already seen its low for this cycle and set to rise to around 4.5% by the end of 2023 before hitting 5.0% in 2024.

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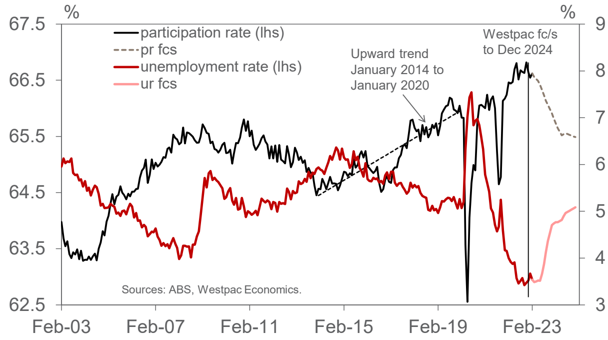
Unemployment & participation rates



Sectors & States: contribution to employment growth – year to February 2023*

	Education & health	Leisure & hospitality	Construction	Retail & wholesale distribution	Production	White collar	Total
NSW	45.8	49.0	47.0	61.5	-0.3	20.0	223.0
Vic	42.7	30.8	53.3	26.9	10.9	-38.6	126.0
Qld	34.8	-17.4	23.8	37.5	20.5	15.7	73.8
WA	14.3	9.3	7.8	-16.7	15.5	-10.0	20.2
SA	9.5	5.0	3.5	4.5	3.1	-1.5	24.1
Tas	6.2	-2.9	0.4	-1.7	0.4	4.4	6.7
Australia (sa)	**153.2**	**73.8**	**135.8**	**111.9**	**9.1**	**-10.1**	**473.7**

***Note – due to the states being seasonally adjusted separately from the national series there are discrepancies from the sum of the states and national totals.**
Sources: ABS 6291 Labour Force, Detailed Quarterly Release

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