11 April 2025

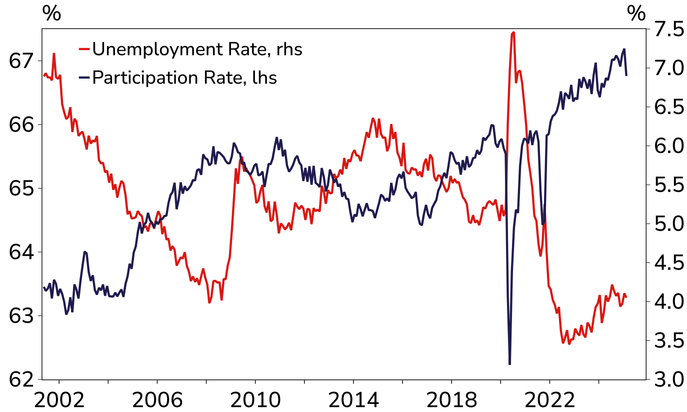
LABOUR FORCE SURVEY MARCH PREVIEW

Latest insights on the Australian labour market.

Key points

- The February Labour Force Survey surprised materially to the downside, reporting one of the largest monthly declines in the size of Australia's labour force outside of the pandemic.
- At face value, this could be read as a sudden 'exodus' of existing and prospective workers out of the labour market, which if sustained, would have important consequences for the outlook.
- However, February's result looks more likely to have been driven by 'noise', meaning we are in store for a rebound in March.
- We are forecasting the participation rate to rebound to 67.0%, employment to increase by +50k, and the unemployment rate to tick up to 4.2%.
- Ex-Tropical Cyclone Alfred adds an additional layer of uncertainty.

Participation falls sharply, unemployment steady



Source: ABS, Macrobond, Westpac Economics

March Labour Force Survey: Forecasts

	Dec	Jan	Feb	Mar f/c
Employment Change (000's)	59.8	30.5	–52.8	**50.0**
Participation Rate (%)	67.1	67.2	66.8	**67.0**
Unemployment Rate (%)	4.0	4.1	4.1	**4.2**
Employment-to-Population Ratio	64.4	64.4	64.1	**64.1**

Sources: ABS, Westpac Banking Corporation

"We are in store for a rebound in March following a noisy read in February"

Signal or noise?

Ryan Wells
Economist

The February Labour Force Survey came as a major surprise to us and the market. The level of employment contracted by –53k, well below even the bottom-of-the-range forecast for a modest increase. Remarkably, this decline in employment did not see a corresponding lift in unemployment. On the contrary, unemployment actually fell by –11k. Together, this amounts to a material contraction in the size of the labour force, down –64k, and a massive fall in the participation rate from 67.2% to 66.8%.

At face value, this could be seen a sudden mass 'exodus' of existing and prospective workers from the labour market. If this were to be sustained, the balance between labour supply and demand could shift rapidly. This could result in weaker employment growth, which can impact household incomes and spending, but the loss of supply means the economy might end up having less 'slack', which could have implications for monetary policy.

But as many readers might already be aware, the survey can be prone to bouts of monthly volatility, particularly around the turn of the year. This can see sudden deviations from trend that snap back quickly. These could be due to a one-off event, some 'quirk' around survey design, or simply just 'noise' with no apparent underlying driver.

So, was February's reading just another instance of noise? Or was there something more significant going on under the hood? In the discussion below, we walk through our thoughts on the latest round of data. Ultimately, we conclude that February's reading was most likely driven by 'noise', and that we are probably in store for a rebound in March.

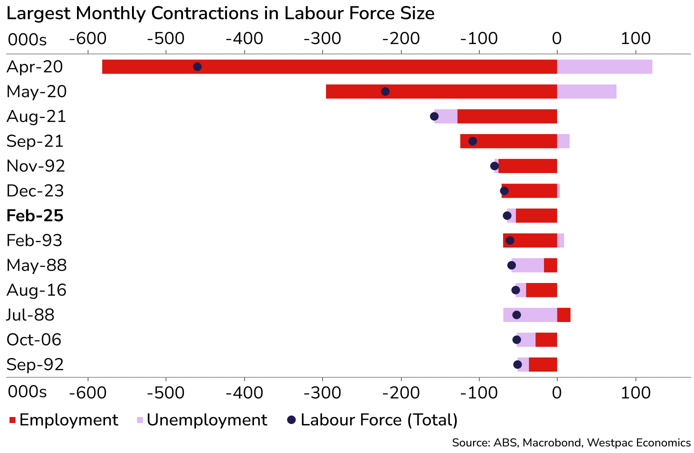
Has anything like this happened in the past?

Since 1978, there have been a handful of times where we have seen very large contractions in the size of the labour force. Most of these can be tied to specific events which reflect a current or recent turning point in the economy. This includes the largest declines on record during the pandemic, from the initial outbreak in 2020 (Apr-May) and the 'delta' outbreak in 2021 (Aug-Sep), in addition to other large declines through the tail-end of the early 1990s recession (Sep-92, Nov-92, Feb-93).

Outside of those, large contractions in labour supply were either part of a severe bout of volatility characterised by large swings back-and-forth (1988), or were largely seen as one-off 'noisy' observations (2006, 2016, 2023).

That is not to say that Australia has avoided labour supply shocks outside of the pandemic and the 1990s recession, but rather that these have rarely been 'marked' by a historic decline in a particular given month. Through much of Australia's modern history, broad trends around labour supply growth

Feb-25 decline was rare, but not unprecedented



– weak or strong – have been relatively stable, largely reflecting changes in net migration which result in small but consistent shifts in the size of Australia's labour force over time.

Why did more people leave the labour force?

In the detailed data, the ABS provide a breakdown of those not in the labour force by reason. The main reasons, in order of importance, are: "did not look for work", "permanently not intending to work" (i.e. retired), "permanently unable to work", and "other".

After seasonally adjusting the data, the first chart on the following page shows a notable spike in those who "did not look for work" in February 2025. Some hope may be found in the fact that the surge was not associated with "permanent" reasons for exiting the labour market. Admittedly, it would have been more encouraging to see the rise driven by "other" reasons, such as actively searching for work but being unavailable to currently start (i.e. marginally attached workers). Without more granular detail behind why there were more individuals who "did not look for work", we can only speculate. It could reflect that individuals are taking longer before restarting job searches after the holiday break, or perhaps that some 'gloom' has formed over labour market expectations.

Other available data seems to oppose the latter. From our own Westpac-MI Consumer Sentiment Survey, we have found that households' unemployment expectations have not deteriorated in any significant way of late. This corroborates the ABS data on unemployment expectations and retrenchments, which have not yet currently signalled any significant shift in fears around job security more broadly.

Considering that and taking a step back, it is also important to recognise that these month-to-month changes in individuals not in the labour force has been notoriously choppy since the pandemic, raising the possibility that the latest move will indeed turn out to just be 'noise'.

Was there an underlying demographic driver?

When labour market data surprises in some significant way, the ABS will usually make an effort to provide more detail. For February's data, the ABS made a point on the demographic breakdown, stating that there were "[f]ewer older workers returning to work in February". Note that "older" individuals refers to those aged 55 or higher, while "youth" are aged 15-24 and "prime-aged" individuals are 25-54 years old.

Looking at the change in the labour force in original terms (not seasonally adjusted), we usually see a solid bounce in the size of the labour force in February each year, as individuals return to the labour market from summer holidays. The February 2025 bounce was much smaller (+170k) than the average over the previous three years (+360k). Recall that this "weaker-than-usual" result in original terms presents as a decline in the seasonally adjusted terms.

As seen in the chart right, there were fewer older individuals returning to the labour market in February 2025 (+47k) compared to the average over the past three years (+115k), just as the ABS flagged. However, we also note that this dynamic was also seen in the much larger pool of prime-aged individuals (+122k vs. +220k) in addition to younger individuals (+3k vs. +20k). This suggests that the weaker-than-usual rebound in the labour force was not isolated to a particular demographic, but instead broad-based.

Are there any other quirks in the mix?

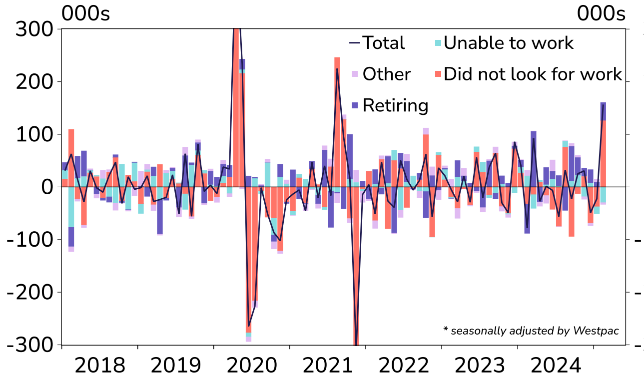
On rare occasions, the Labour Force Survey can deliver surprising results due to 'quirks' associated with the survey design and timing. On the former, we have inspected the evolution of the sample composition between January and February and in our view, there does not look to be any technical issues around sample rotation driving the noise.

The survey timing could also overlap some specific events or temporary disruption. The upcoming March survey was in the field from March 2 to 15, overlapping with the timing of Ex-Tropical Cyclone Alfred which resulted in severe flooding and disruption of business activities across parts of Queensland and New South Wales, with the spending detail of our Westpac Card Tracker showing a significant impact in the weeks around the storm.

There have been some instances in the past where the survey has captured cyclone disruptions, such as the more severe Brisbane floods in January 2011, which had little impact on employment measures but a larger impact on hours worked. While there is never a like-for-like historical comparison, past experience tells us that Alfred's impact will be far more important at the local level rather than the national scale of the labour force survey. Cyclone effects could limit part of the rebound in the labour force in March, but the overall effect is likely to be muted.

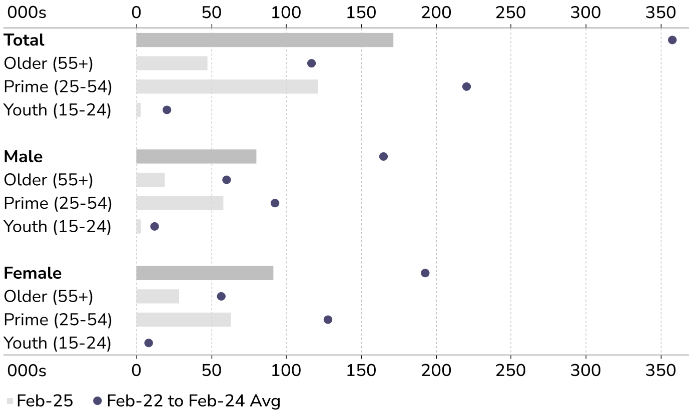
Job market leavers "did not look for work" in Feb

Composition of those not in the labour force, monthly change



Source: ABS, Macrobond, Westpac Economics

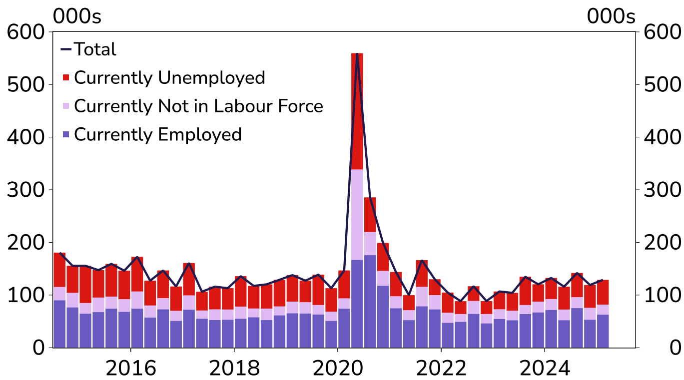
Labour Force Change - February Months



Source: ABS, Macrobond, Westpac Economics

Retrenchments remain fairly low

Retrenched in previous quarter, by current labour market status



Source: ABS, Macrobond, Westpac Economics

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Where does this leave us for March?

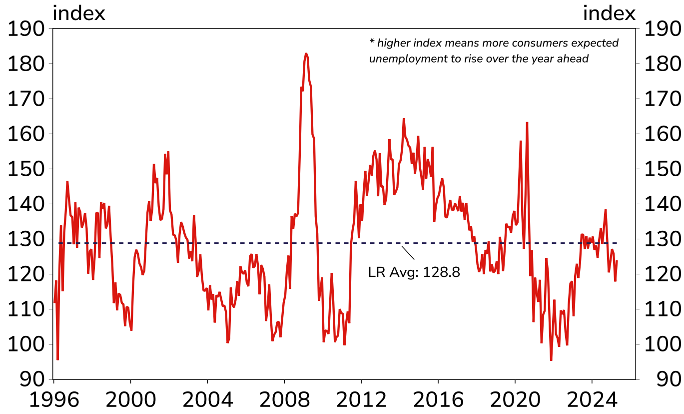
The historical data tells us that labour force declines of the size seen in February 2025 are rare but not unprecedented and, in many cases, have been driven by 'noise'. This seems like the most plausible explanation for the latest fall given the observed volatility in movements out of the labour force and the absence of any material shifts in unemployment expectations or retrenchment rates. The latter suggests the broader economic picture was little changed in February.

Overall, we believe that a bounce-back in the size of the labour force is due in March, seeing the participation rate rise from 66.8% to 67.0%. This is expected to also show through as a rebound in employment in the month, up a forecast +50k and the unemployment rate ticking up from 4.1% to 4.2%.

More broadly, we believe that this dynamic – where labour demand may not be able to fully absorb all of the increase in labour supply – will see the unemployment rate gradually drift higher over the course of this year.

There is some upside risk to the participation rate given the strong trend for labour supply beyond the monthly rebound between February and March. Naturally, there is some uncertainty to second-guessing noise in the survey, particularly with cyclone effects potentially in play in March.

Westpac-MI Unemployment Expectations Index



Source: Westpac-MI, Macrobond

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