13 February 2026

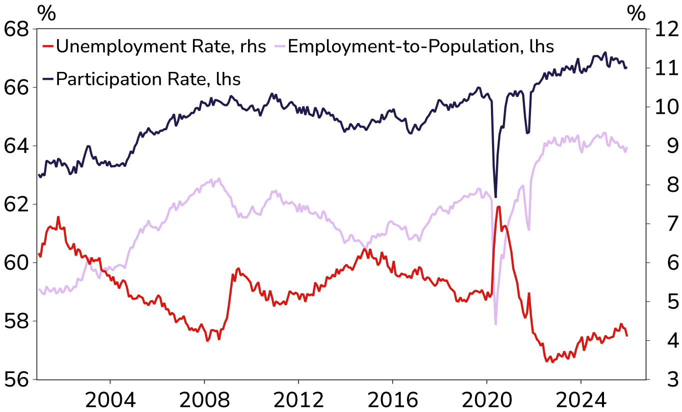
AUSTRALIAN LABOUR MARKET PREVIEW

January Labour Force Survey

Key points

- The labour market had a choppy run into year-end. Looking through the noise is tricky, but the data seems to reflect a solid finish to 2025 for the labour market and broader economy.
- Some of that strength was likely based on the widely held view, at the time, that further interest rate support was coming in 2026, which is no longer the case.
- Data will be under intense scrutiny as the RBA seeks to fine-tune policy amid re-emerging inflation pressures.
- This preview walks through the recent data and some possible explanations for the surprises and discusses some things to watch out for in January.
- For January, we expect employment to lift +40k and the unemployment to tick up to 4.2%.

Labour Market Indicators



Source: ABS, Macrobond, Westpac Economics

January 2025 Labour Force Survey: Forecasts

	Oct	Nov	Dec	Jan f/c
Employment Change (000's)	37.3	–28.7	65.2	**40**
Participation Rate (%)	66.9	66.6	66.7	**66.8**
Unemployment Rate (%)	4.3	4.3	4.1	**4.2**
Employment-to-Population Ratio	64.0	63.8	64.0	**64.0**

Sources: ABS, Westpac Banking Corporation

Fine-tuning in a volatile world

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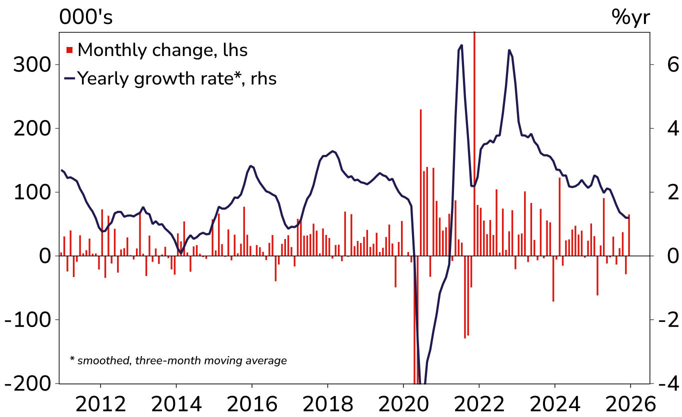
It was a choppy run into year-end for the labour market, with a surprisingly weak November followed by a surprisingly strong December. This is par for the course in this data, with enough sources of noise in the mix to see headline results swing month-to-month. January data, due next week, could also deliver more surprises, given it is the most seasonal time of year for the labour market.

This preview walks through recent data, touches on some possible explanations for the surprises, and discuss some things to watch out for in January. While looking through the noise is tricky, the data appears to reflect a solid finish to 2025 for the labour market and broader economy.

Employment growth is at/near its trough now that the unwind in 'care economy' employment growth has largely run its course and the market sector is starting to pick-up. While labour demand looks more stable, a modest cyclical unwind in labour supply is also underway, allowing the unemployment rate to remain broadly steady.

At this stage, we do not see recent data as clearly signalling a 're-tightening' in labour market conditions just yet. Instead, it more likely reflects an economy that had a solid finish to the year overlaid with a dose of monthly noise – a point corroborated by our own indicators and official data. Some of that strength in demand and hiring was likely based on the widely held view, at the time, that further interest rate support was coming through in 2026, which no longer appears to be the case. With re-emerging inflation pressures and a sharp turnaround in interest rate expectations, we now expect employment growth to stage a 'flatter' recovery in 2026 and the unemployment rate to show a gradual move higher over the year.

Employment: monthly change and yearly growth



Source: ABS, Macrobond, Westpac Economics

Data will be under intense scrutiny as the RBA attempts to fine-tune policy to combat inflation. What we and the RBA will be grappling with over the coming months is whether the recent 'pause' in labour market softening is temporary, longer lasting, or possibly even moving towards some re-tightening. Unfortunately, this just so happens to be occurring during the most volatile time of year for labour market data. January could throw up its own set of surprises, so separating signal from noise will remain a key challenge over the months ahead.

What has happened in the data recently?

November's weak outcome saw a large decline in the participation rate, which fell by a ¼ppt from 66.9% to 66.6%, combined with a fall in employment (–28.7k). The decline in participation was not exactly surprising given it is in a cyclical downswing – cost-of-living pressures have eased somewhat meaning that, at the margin, there is less impetus to join the labour market.

What was surprising, though, was just how large the decline was. Monthly data can be prone to volatility due to shifting seasonality or irregular noise (e.g. severe weather, strikes, survey noise), so the presumption is that with such a large decline it is unlikely to be explained only by cyclical factors. Noise is expected to be temporary, so it is common practice to assume participation would bounce-back the next month, but to what degree was up to judgement. We, and the market, expected a partial recovery up to 66.8%.

However, this proved to not be the case. December reported a much smaller lift in participation than expected, only enough to barely round up to 66.7%. At the same time, employment managed to bounce back firmly (+65.2k), more than reversing the November decline. This combination of stronger labour demand and stable labour supply led to a notable drop in the unemployment rate, from 4.3% to 4.1%.

So, how did employment make-up for earlier weakness, while participation did not? Maybe the result for employment was a bit of a seasonal mirage? Could there just be some more noise in the mix for participation?

Why did December surprise?

Since the pandemic, seasonally adjusted estimates for December have been subject to greater-than-usual volatility. This has opened a discussion about whether the December 2025 results reflected genuine strength, or possibly just shifting seasonality. This goes to the heart of the main trouble with seasonal adjustment: in the moment, it is very difficult to distinguish between underlying trends, shifting seasonality, or irregular noise. It is only with future observations that we can better understand the true dynamics at play, with earlier estimates often revised as a clearer picture emerges.

If we were to see some shifting seasonal patterns, it would most likely bring more seasonal activity into November from December, driving an outsized rise in employment in November and an outsized fall in December, which was not the case. The ABS has noted that seasonal spending patterns around Black Friday to Boxing Day have shifted in recent years, but this is in the context of retail sales data – the impact on employment outcomes is not clear. We cannot fully dismiss the idea that some shifting seasonality could be at play, though only time will tell.

While we typically expect noise to quickly reverse in the data, it is possible to get two months of 'noisy' reads in the same direction (e.g. Feb/Mar 2025). Naturally, though, there is a lot of uncertainty in second-guessing noise in the survey. After all, it could be that November's noise did unwind in December, but it wasn't enough to offset a continued cyclical downswing. Future data will bring about a more confident judgement, but for now, it looks as though labour supply has had a bit of a cyclical unwind while labour demand has steadied near its trough.

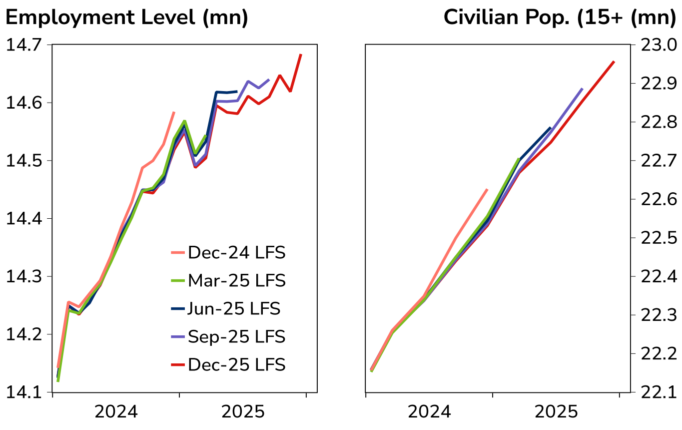
What to watch out for in January

#1: Updated Population Projections

Official population estimates come with a significant lag of 6-9 months. To produce real-time estimates of employment, the ABS uses population projections to fill in the gaps. As discussed in our December write-up, these projections have had an upward bias in recent times, resulting in an overestimate of the employment level and growth.

As we roll into a new quarter, new projections on the current pace of population growth will be made. Rebenchmarking ensures errors do not build over time, but the January read is still at risk of being temporarily overestimated if the upward bias in projections persist. It will be important to focus on ratio measures, like employment-to-population, which can be more useful at times like these than employment growth.

Revisions to Population and Employment



Source: ABS, Macrobond, Westpac Economics

Seasonality: A Refresher

Seasonality refers to consistent calendar-related patterns that appear in data. This is a very important consideration when analysing economic data, especially the labour market. For example, January is a month where employment regularly declines (around –1½%), reflecting temporary shutdowns, reduced demand for and supply from casual workers and reduced job search activity over the holidays.

It wouldn't be very informative to conclude that January is always weak because of this regular fall in employment. We should instead take this into account: given we usually see a decline in January, was it better or worse than normal?

Seasonal adjustment is a statistical tool that aims to remove the impact of seasonality, allowing us to draw a fairer comparison of how the labour market is performing month-to-month. As seasonal patterns shift over time, so do the seasonal 'factors' that are applied to the original data to produce seasonally adjusted estimates. This process embeds some degree of 'smoothness' to seasonal patterns: they are assumed to evolve gradually over time.

Sometimes, however, seasonal patterns can shift rather quickly. At the same time, we could be dealing with major shocks or other sources of noise that induce volatility in seasonally adjusted estimates and complicate the read. Is there a genuine shift in seasonal behaviour that is not yet fully accounted for? Is it better attributed to the current state of the economic cycle? Or is it just noise? As future data becomes available and existing shocks wash out, we can better understand the underlying drivers.

#2: Marginally Attached Individuals

Since the pandemic, January months have seen a larger proportion of people who are 'marginally attached' to the labour market – people who are connected to a job but are not classified as employed, rather labelled as 'unemployed' or 'not in the labour force' depending on their current availability. This has tended to weigh on employment growth in January, only for it to rebound in February as these individuals move into the job.

The ABS is actively monitoring whether it could indicate some changes to seasonality around hiring patterns and/or employee preferences, or whether it could be due to a tight labour market during these years. Given this dynamic partially unwound in January 2025, it seems as though the latter is the more likely contender. There is still some normalisation to go, pointing to some upside risk around the participation rate and employment in January, should it continue to move back toward pre-pandemic norms.

Our forecast

Following on from the above, we have pencilled in a lift in employment of +40k, a lift in the participation rate to 66.8% (from 66.7%) and an uptick in the unemployment rate to 4.2% (from 4.1%). We see the risks to our forecasts as to the firmer side, depending on how the January-specific effects play out.

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