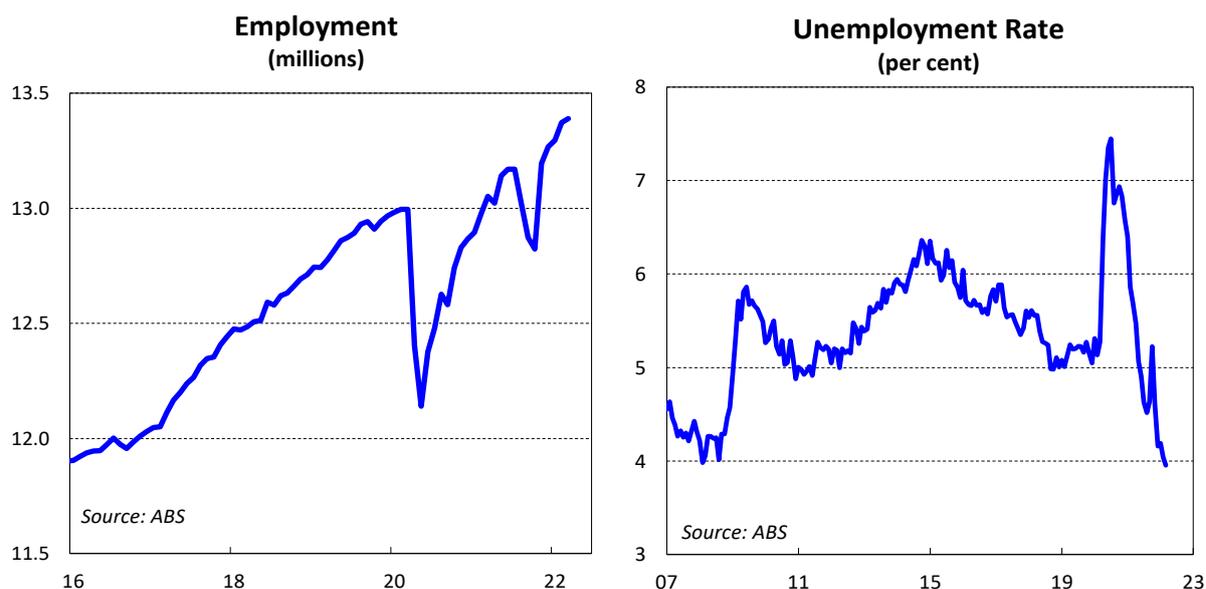


Thursday, 14 April 2022

Labour Force

Jobless Rate Hops Towards 3s Pre-Easter

- The labour market continued its staggering run of form for a fifth consecutive month, adding an extra 17.9k jobs in March. The unemployment rate remained unchanged at 4.0% – the lowest level on record going back to the late 1970's.
- The increase in jobs elevated the level of full-time and total employment to new record highs. In other words, there are more people employed in Australian than ever before.
- Hours worked declined by 0.6% in the month, to be just 1.0% shy of the all-time record. Flooding in parts of NSW and Queensland throughout March underpinned the fall. The number of people working reduced or zero hours due to bad weather surged by over 900%.
- Employment outcomes were mixed across the states and territories. Employment increased across Queensland and WA and rose to a record high in both states. SA and the ACT also reported job gains. All states and territories recorded an unemployment rate of below 5%.
- Demand for labour remains very strong across the economy. Job vacancies rose to be above 3% of the labour force in February 2022, the highest level on record. Job ads increased to their highest levels since 2008.
- We expect the labour market to continue to tighten and the unemployment rate to fall to below 3.5% over 2022, a level not seen since the mid-1970s. A further reduction in the unemployment rate will place upward pressure on wages and prompt the Reserve Bank to begin hiking the cash rate in June.



The labour market continued its staggering run of form in March, adding 17.9k jobs. This marks the fifth consecutive month of employment growth and takes the cumulative number of jobs added since the end of the Delta lockdown to 567.0k.

The increase in jobs in March elevated the level of full-time and total employment to new record highs, eclipsing the previous records set in February. In other words, there are more people employed in Australian than ever before.

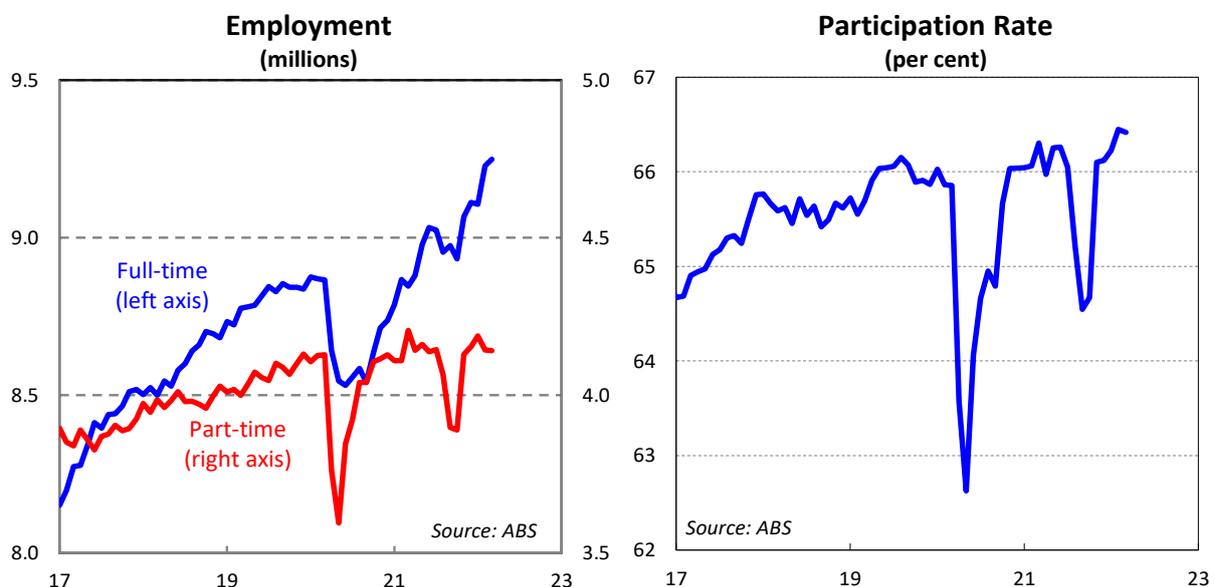
Despite the pick-up in employment, the unemployment rate remained unchanged at 4.0% - the lowest level in the monthly series, going back to 1974. Participation also remained steady in March. The participation rate was unchanged around its record high of 66.4%. Still, forward-looking indicators are pointing to a further tightening in the jobs market over the months ahead. This may contribute further to reports of labour shortages and place additional upward pressure on wages growth.

Unemployment rate

The unemployment rate remained unchanged at 4.0% in March, equalling the lowest level in the history of the monthly series, going back to February 1978. The Reserve Bank estimates the level of full employment being somewhere between the high 3s and low 4s. At unemployment rates around this level, wage pressures are expected to build at a faster rate.

Although the unemployment rate was unchanged, employment increased by 17.9k jobs, underpinned by a 20.5k job rise in full-time employment. Meanwhile, the number of part-time jobs edged down by 2.7k. Full-time and total employment are now at their highest level on record.

Part-time employment has not experienced the same rapid surge in jobs as full-time employment throughout the economic recovery. However, part-time employment remains around the level prevailing before the pandemic. This indicates that at the aggregate level, workers are not switching from part-time to full-time employment. But instead, the gains in full-time employment have been filled by new positions.



The participation rate was unchanged at 66.4% in March, equal to its highest level on record. Australia has maintained a very high level of participation throughout the pandemic compared to other developed economies, as a large share of employees have remained connected with businesses throughout lockdowns and pandemic-related disruptions. This makes the low level of unemployment even more impressive and has meant that wage pressures and relatedly,

inflationary pressures, have been slower to manifest compared to other major economies. However, with the labour market continuing to perform strongly, we expect to see these pressures materialise further.

Hours worked

Hours worked pulled-back slightly in March but remain elevated. Hours worked declined by 0.6% in the month, to be just 1.0% shy of the all-time record high. NSW (-1.6%), Queensland (-2.3%), WA (-0.9%) and Tasmania (-4.4%) contributed to the fall in hours worked. This was partly offset by a rise in hours worked in Victoria (2.3%) and SA (0.7%).

Flooding in parts of NSW and Queensland throughout March underpinned the fall in hours worked in these states. Indeed, the number of people reporting that they worked reduced or zero hours due to bad weather surged nine-fold in March to 504.1k. Meanwhile, the number of people working reduced or zero hours due to illness or injury pulled-back, suggesting that the impact of Omicron on hours worked is continuing to wane. This is despite an increase in infections in March.

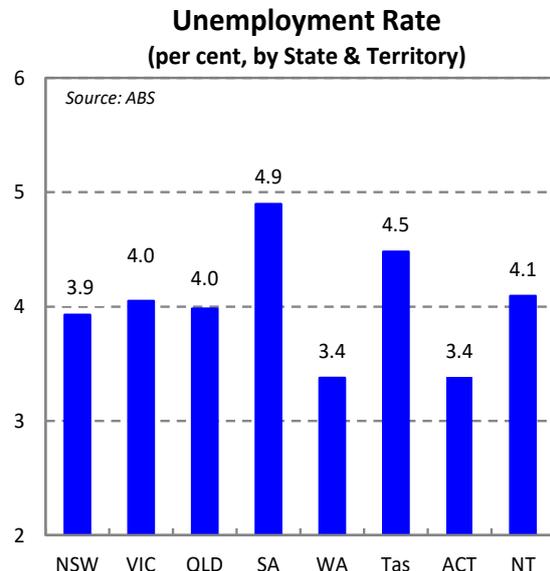
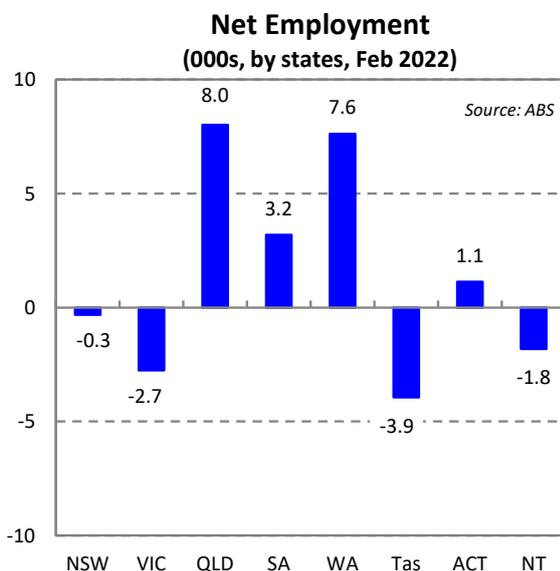
The states

Employment outcomes were mixed across the states and territories.

Employment increased across Queensland (8.0k) and WA (7.6k) and rose to a record high in both states. SA (3.2k) and the ACT (1.1k) also reported job gains. However, job numbers pulled back in Tasmania (-3.9k), Victoria (-2.7k), the NT (-1.8k) and NSW (-0.3k).

All states and territories recorded an unemployment rate of below 5%. Unemployment is the lowest across the country in WA, which recorded a large fall from 4.1% in February to 3.4% in March, its lowest level since 2008. The ACT also had an unemployment rate of 3.4% in March. Like WA, unemployment in Queensland also fell to the lowest level since 2008, at 4.0%.

At the other end of the scale, the unemployment rate was highest in SA (4.9%), followed by Tasmania (4.5%), and the NT (4.1%).



Other labour market measures

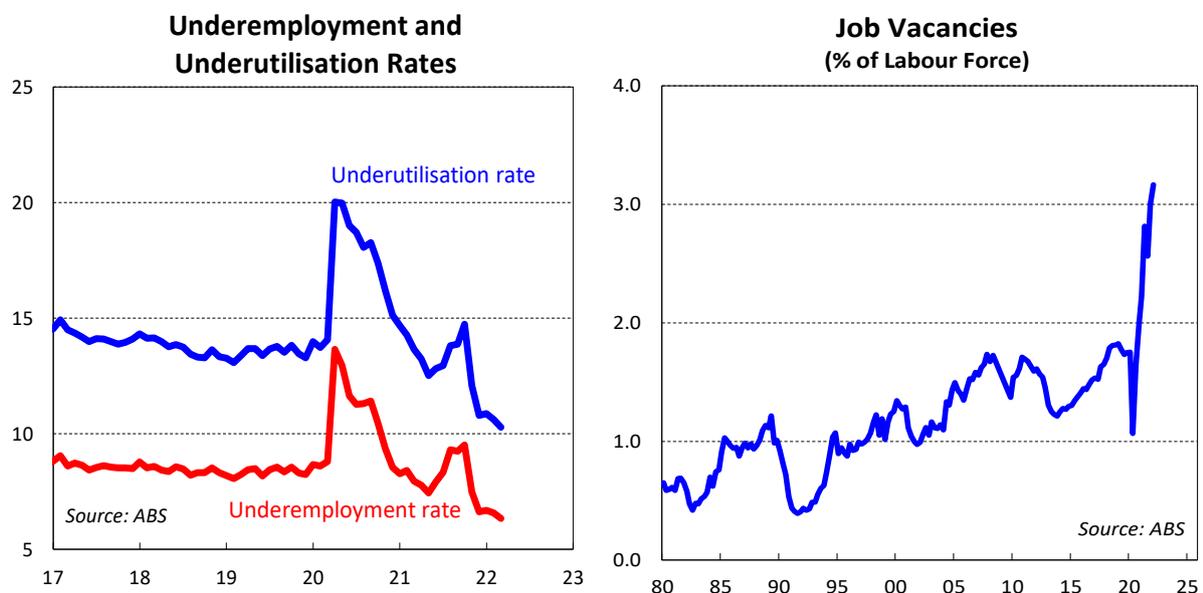
Other labour market indicators pointed to a further tightening in conditions in the labour market in March.

The underemployment rate – which includes people who are employment but wish to work more

hours – fell by 0.2 percentage points to 6.3%. This is the lowest level of the underemployment rate since November 2008. The underutilisation rate – which is the combination of the unemployment and underemployment rates – declined by 0.3 percentage points, to 10.3%. The underutilisation rate is at its lowest level since September 2008.

Employment for young people strengthened by around 36k, which contributed to a 1.0 percentage point fall in the youth unemployment rate to 8.3%. The youth unemployment rate has fallen by 8.2 percentage points since the pandemic peak of 16.4% in July 2020.

Demand for labour remains very strong across the economy. Job vacancies rose to be above 3% of the labour force in February 2022. This is the highest level on record, going back to 1979. Job ads, another leading indicator of employment, increased by 0.4% in March and are at their highest levels since 2008.



Outlook

The labour market continued its strong performance in March, despite the impacts of devastating flooding across parts of NSW and Queensland and an increase in COVID-19 cases in WA, alongside the reopening of borders. Demand remains strong and we expect the labour market will continue to tighten over the coming months. We expect the unemployment rate will fall below 3.5% later this year. An unemployment rate below 4% has not been sustained since the 1970s.

As the labour market continues to tighten, wage pressures are expected to accelerate, and in turn, further add to inflationary pressures. We expect annual wages growth to move above 3.0% this year and peak at 4.0% in 2023. On this backdrop, we expect the Reserve Bank will begin hiking the cash rate from June. We expect the Reserve Bank will act quickly to take back the emergency rate cuts implemented after the pandemic hit in 2020, lifting the cash rate in June, July and August to take the cash rate to 0.75% by August.

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