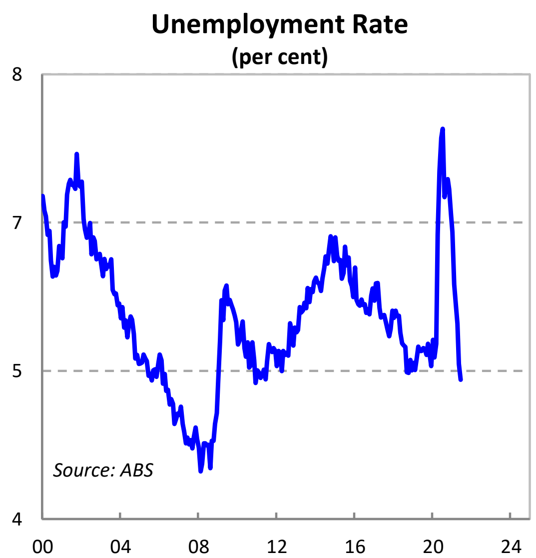
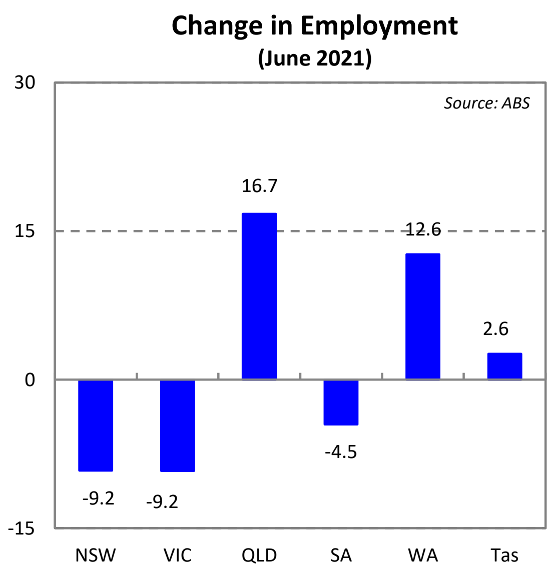
Data Snapshot

Thursday, 15 July 2021

Labour Force
Unemployment Drops to a 10-Year Low

- **Jobs grew by 29.1k to take the unemployment rate down to 4.9%. This is the first time the unemployment rate has fallen below 5.0% since June 2011 – the lowest rate in 10 years! Encouragingly, the fall occurred against a rise in the participation rate to a near record high.**
- **Taking a step back, this is a remarkable result. Policymakers thought it would take much longer for the unemployment rate to get down to its current levels. For instance, back in May 2020, the Reserve Bank forecast the unemployment rate to be 8.5% in June 2021.**
- **Last month's results were mixed across the states, reflecting tighter pandemic-related restrictions in the most populous states. Employment declined in Victoria (9.2k) and NSW (9.2k).**
- **All of the jobs growth was due to gains in full-time employment, which rose 51.6k. Part-time employment declined 22.5k. Other labour market indicators painted a more mixed picture for June – hours worked declined 1.8% and the underemployment rate increased to 7.9%.**
- **The lockdown in NSW will cause some disruption to jobs in the state through July and potentially into August, depending on the length of the lockdown. However, the impact will be cushioned by support measures, particularly the "JobKeeper Lite" wage subsidy. Importantly, there was also strong momentum in the economy and jobs market leading into the outbreak.**
- **The closure of international borders has contributed to labour shortages in parts of the economy. Labour shortages are more acute in some industries, notably the hospitality industry.**
- **We expect full employment to be reached within the next 12 months and for the unemployment rate to have a '3' in front of it before the end of 2022.**





June was another solid month for the labour market. Jobs grew by 29.1k to take the unemployment rate down to 4.9%. This is the first time the unemployment rate has fallen below 5.0% since June 2011 – the lowest rate in 10 years! This is remarkable considering it was only last year we experienced the largest quarterly fall in economic activity on record. And recall in May a whopping 115.2k jobs were added. Encouragingly, the fall in the unemployment rate occurred against a rise in the participation rate to a near record high.

This reflects strong momentum in the labour market heading into the lockdown which hit NSW in late June. The lockdown will likely disrupt jobs growth in the state in July, and depending how long the restrictions last, probably also into August.

The states and territories

The results were mixed across the states, reflecting a tightening of pandemic-related restrictions in the most populous states.

Employment declined in Victoria (9.2k) alongside the lockdown imposed in the first half of the month. There was also a drop in NSW (9.2k) following the imposition of restrictions in the back end of June. There was also a decline in jobs in the ACT (5.9k), the Northern Territory (5.1k) and South Australia (4.5k).

In contrast, Queensland (16.7k), WA (12.6k) and Tasmania (2.6k) all added jobs in the month. Note because of seasonal adjustment, the regional figures do not sum to the national total.

Full-time vs part-time

Another positive was that all of the jobs growth was due to gains in full-time employment, which rose 51.6k. Part-time employment declined 22.5k.

Following the immediate impact of the pandemic, part-time employment recovered quicker than full-time employment. However, as the economy has continued to recover, full-time employment has grown quickly and its recovery has now eclipsed the recovery in part-time employment. Full-time employment is sitting 148.5k (1.7%) higher than its pre-pandemic level – benchmarked at February 2020. Meanwhile, part-time jobs are 10.7k (0.3%) higher than the same comparison point. This could reflect that the industries hardest hit by the pandemic and which remain subdued, like tourism and hospitality, rely on part-time and casual staff.

Unemployment rate

The unemployment rate fell 0.2 percentage points to 4.9% – the lowest in 10 years. This signals the labour market is now moving beyond the recovery phase into an expansion phase, an incredible achievement considering where we have come from.

In 2020, the unemployment rate surged up to 7.4%. And policymakers and market economists alike thought it would take much longer for the unemployment rate to get down to its current levels. For instance, in May 2020 the Reserve Bank forecast the unemployment rate to be 8.5% in June 2021.

In June, the decline in the unemployment rate was supported by the participation rate rising, but remaining at 66.2% on a rounded basis, not far from the record high of 66.3% in March 2021.

Gender split

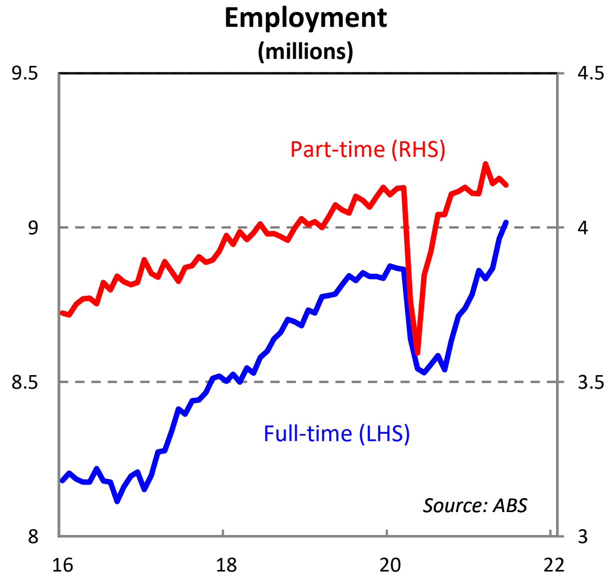
Jobs growth in the month was driven by growth in male employment (up 29.5k). On the other hand, female employment was down 0.4k. This potentially reflects that females tend to make up a greater proportion of employees in industries which are most impacted by lockdowns.

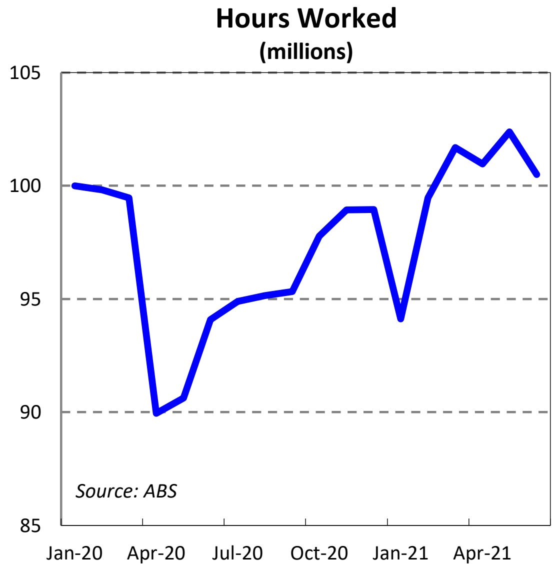
Encouragingly, both male and female employment remain above pre-pandemic levels. Female employment is 92.1k (1.5%) higher than February 2020 and male employment is 67.1k (1.0%) higher.

Other labour market measures

Despite the improvement in jobs numbers and unemployment, other labour market indicators paint a more mixed picture for June. Hours worked declined 1.8%, reflecting workers' hours being cut back amid restrictions in some states, particularly in Victoria. This series has also been fairly volatile over recent months.

Underemployment also increased to 7.9% from 7.4% in May, when it touched its lowest level in over seven years, although still remains below pre-pandemic levels. The underutilisation rate ticked up 0.3 percentage points to 12.8%.





Impact of lockdowns

A number of states imposed lockdowns which will be captured in the July data. Aside from NSW, there was also lockdowns in Queensland, Western Australia and the Northern Territory around the end of June and into the start of July.

Previous experience suggests the economy rebounds quickly from snap lockdowns, and some of the losses are offset by pent up demand when restrictions ease. In other words, short lockdowns might lead to some temporary disruptions, like a fall in hours worked. However, businesses are generally unlikely to reduce headcount on the basis of a one-week lockdown for example.

A more prolonged lockdown, like what NSW is now facing, will have more material implications. The impact will be cushioned by support measures, in particular the "JobKeeper Lite" wage subsidy which gives businesses payments, conditional on maintaining current staffing levels. Regardless, some disruption to jobs in NSW is likely through July and into August, depending on the length of the lockdown.

Impact of border closures

The closure of international borders has contributed to labour shortages in parts of the economy. Job vacancy data has shown a surge in the hospitality industry, and to a lesser extent, in healthcare, retail and business services (which captures information, media & telecom; financial & insurance; rental, hiring & real estate; professional, scientific & technical; and administrative &

support services). This is consistent with the reports we have been hearing from businesses for some time.

While there have been anecdotes of wage pressures in some pockets of the economy, in relation to these shortages, this has, so far, not translated into a broader pick up in wages growth. In the March quarter, annual wages growth was 1.5%, not far off a record low of 1.4% in the September quarter 2020.

These labour shortages are unlikely to be alleviated until international borders reopen. And as more spare capacity in the labour market is absorbed with the ongoing expansion in economic activity, it is likely that reports of labour shortages will only intensify.

Outlook

There is still strong underlying momentum in the labour market. Moreover, leading indicators like jobs vacancies are still very elevated. The lockdown in NSW is likely to temporarily weigh on jobs growth. There are clearly downside risks over the coming period, if for example the lockdown is dragged out, or there are fresh and prolonged outbreaks in other states. Although we will eventually make more progress on the vaccine rollout, and this will reduce the risk of further COVID-related disruptions in the future.

However, looking beyond the short-term disruptions, on balance we continue to expect the unemployment rate will trend down to fall below 4.5% by the end of the year. It is likely to reach full employment within the next 12 months and have a ‘3’ in front of it by the end of 2022. In turn, we expect this will drive upwards pressure on wages, and ultimately push the Reserve Bank to lift the cash rate in early 2023.

Matthew Bunny and Jarek Kowcza
Ph: 02-8254-0023

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
0481 476 436

Research Assistant (Secondment)
Sonali Patel
sonali.patel@banksa.com.au
(02) 8254 0030