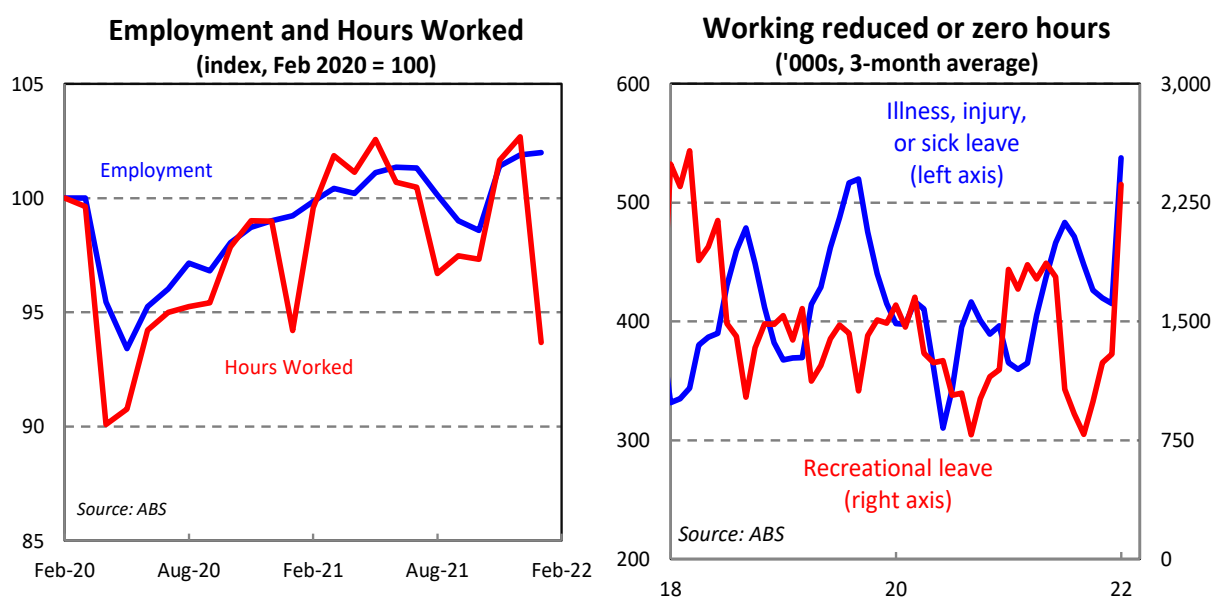


Thursday, 17 February 2022

Labour Force

Hours Slashed Amid Continued Job Gains

- The Omicron wave led to businesses slashing the hours staff worked rather than cutting headcount. The result was an unemployment rate that stayed around a 13-year low of 4.2%, but hours worked plunged 8.8% in January – the second largest fall on record.
- The fall in hours worked, in response to the Omicron impact, was larger than when the Delta variant was dominant in the community; this is driven by higher infections. A much larger than usual number of workers took annual or sick leave in January because they were infected by COVID-19 or forced to isolate as a close contact.
- The participation rate rose by 0.1 percentage points, to 66.2%, just shy of the March 2021 record of 66.3%. Encouragingly, the participation rate among women also increased, to a record of high of 62.1%.
- Total employment increased by 12.9k in January after a strong employment gain of 64.8k in December and a record 366.1k rise in November. The increase in January drove employment to its highest level on record for a third straight month.
- The labour market outlook remains strong. Following the short-term recovery in hours worked, we expect the labour market to continue to tighten, pushing the unemployment rate below 4%, a level around or under full employment, by the end of 2022. An unemployment rate in the '3s' hasn't been sustained since the 1970s.



Hours worked plunged by 8.8% across Australia in January, as millions of workers were impacted by Omicron. A much larger than usual number of workers took sick or annual leave in January, as they were infected by COVID-19 or were forced to isolate as a close contact. The fall in hours worked was the second largest monthly fall on record, behind only the 9.6% fall in April 2020 when Australia was in a national lockdown.

Omicron appears to have had a larger impact on hours worked than Delta. Hours worked fell by 5.7% nationally over the three months of June to August 2021. This contrasts with the 8.8% fall due to Omicron in January 2022.

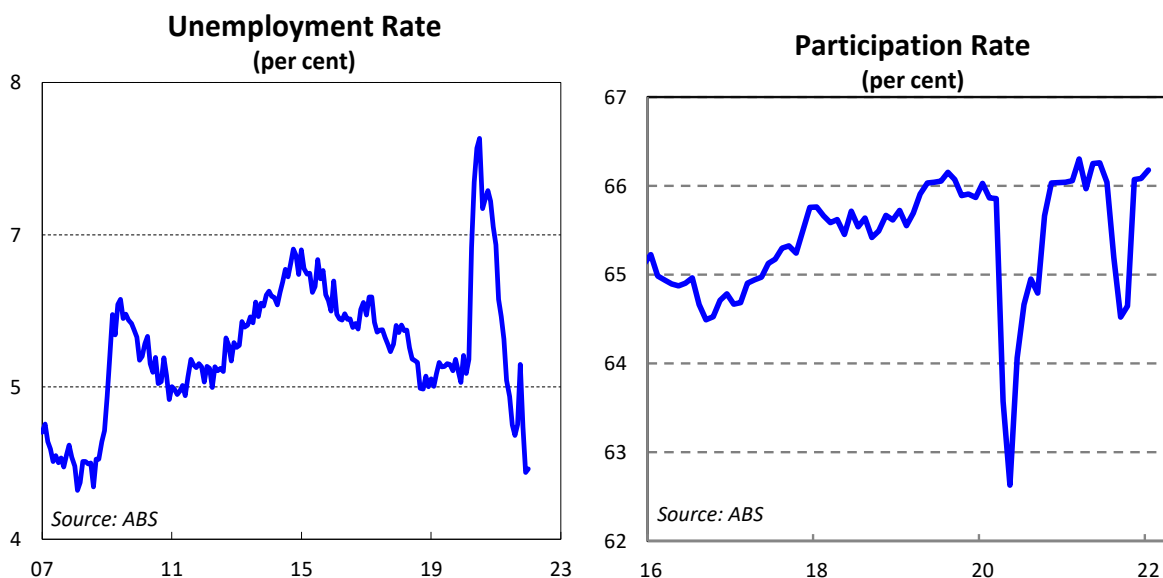
Throughout the pandemic, hours worked have been more affected than employment during lockdowns and other large impacts on the labour market. Government support programs, as well as difficulty in finding the right employees amid a strong labour market, have encouraged employers to reduce the hours of their employees, rather than letting them go entirely.

This pattern continued in January, as other labour market indicators were less impacted. Employment increased by 12.9k in January. This follows strong employment gains over recent months of 64.8k in December and a record 366.1k gain in November. The increase in January drove employment to its highest level on record for the third straight month.

Unemployment rate

The unemployment rate remained unchanged around a 13-year low of 4.2% in January. This follows a decline in the unemployment rate from 5.2% in October 2021 following the impacts of the Delta lockdowns, to a 13-year low of 4.2% in December. The steady unemployment rate reflects the underlying strength that exists in the labour market, even as employers and employees navigate the difficulties caused by the Omicron outbreak.

The participation rate rose by 0.1 percentage points, to 66.2%, just shy of the March 2021 record of 66.3%. The participation rate among women increased to a record of high of 62.1%.



The participation rate tends to fall during lockdowns as people temporarily exit the labour force due to caring responsibilities and difficulties with finding a job. However, the participation rate remained robust during the 'shadow lockdown' that was evident as the Omicron strain spread across the country. The participation rate has also rebounded strongly in Australia following temporary shocks due to lockdowns and is above pre-pandemic levels, as of December 2019. This differs from several other countries, such as the US and UK, where labour force participation

remains below pre-pandemic levels.

The increase in employment in January was driven by a rise in part-time jobs of 30.0k. Full-time employment fell by 17.0k over the month. Despite the fall, full-time employment remains elevated and only slightly down from the record high set in December. Part-time employment has increased to its highest level since May 2021.

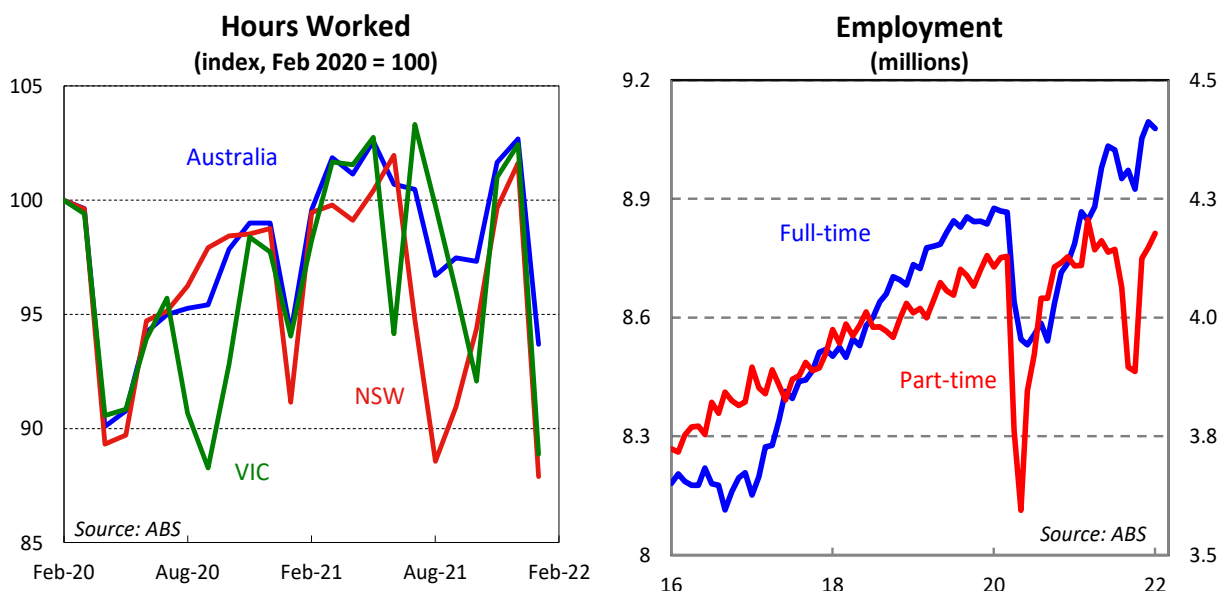
Hours worked

Hours worked plunged by 8.8% in January as the impact of the Omicron strain impacted businesses and workers. This was the second largest fall on record, second only to the record fall of 9.6% in April 2020. The collapse in hours worked was exacerbated by a larger than usual share of employed persons taking annual or sick leave over January.

The national fall was driven by a collapse in hours worked in NSW and Victoria. Hours worked sank by 13.5% and 13.2%, respectively, across the two largest states. These were the largest monthly falls in hours worked on record for both states, going back to 1978. The fall in NSW was also larger than the falls during the Delta lockdowns, where hours worked dropped by 13.1% over the two months of July and August.

Hours worked in January also dropped in SA (-7.0%), Tasmania (-5.1%), and Queensland (-2.9%) in January as COVID-19 case numbers increased in line with the spread of the Omicron variant. WA was the only state to record an increase in hours worked (1.7%), as borders remained closed and case numbers remained low.

The fall in hours worked was driven by an increase in the number of people taking annual leave and the number of people working reduced or zero hours due to illness, injury, or sick leave. The number of people taking annual leave rose to over 5.1 million in January 2022, up from over 3.7 million in January 2021. The number of people working reduced or zero hours due to illness, injury, or sick leave rose to 743.5k in January 2022. This is a significant increase from the 267.3k outcome in January 2021.



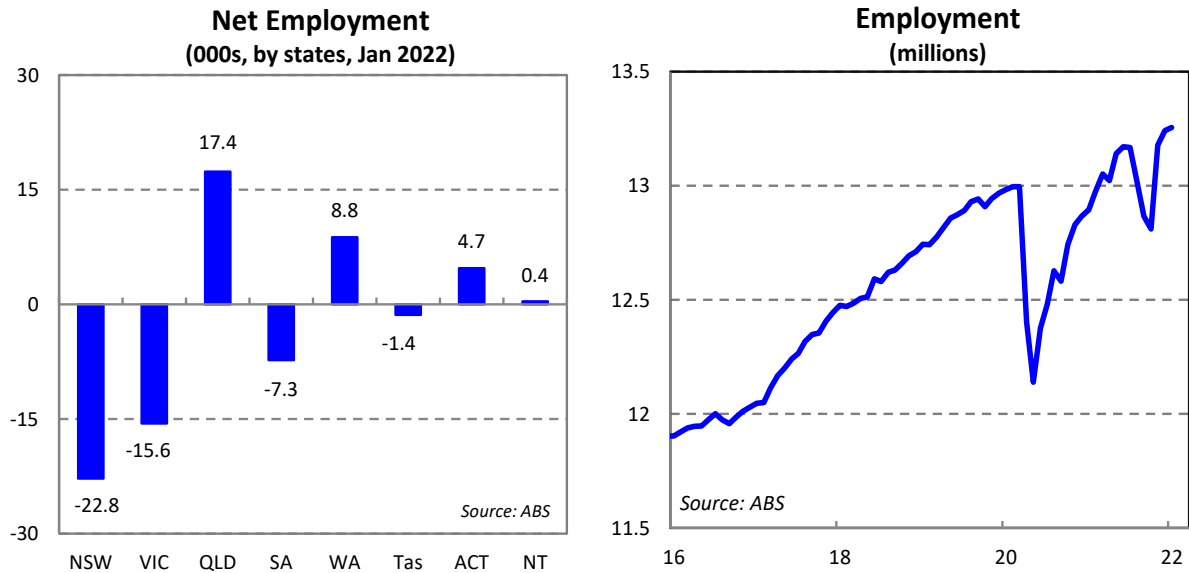
The states

Disruption from the spike in Omicron infections drove a divergence in employment outcomes across the states and territories in January.

NSW and Victoria experienced a sharp decline in employment, shedding 22.8k and 15.6k jobs,

respectively. The result reflects the relatively large proportion of Omicron infections, and related disruptions, experienced in the two states. A smaller fall in employment was recorded in SA (-7.3k) and Tasmania (-1.4k), where Omicron infections were also elevated.

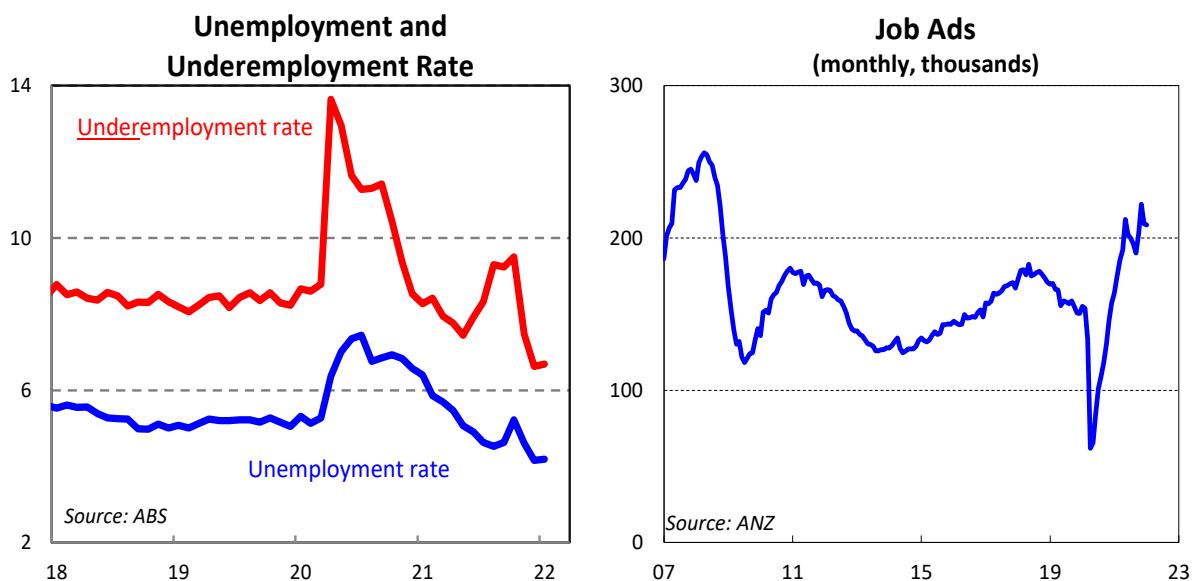
This decline was more than offset by increases in employment in Queensland (17.4k), WA (8.8k), the ACT (4.7k) and the NT (0.4k), where Omicron was relatively less disruptive.



The jump in employment in Queensland was enough to lift the participation rate to 66.4% in the state, while also pulling the unemployment rate down to 4.4%. This is lowest level of unemployment in Queensland since December 2008.

The unemployment rate edged up to 4.2% in NSW, despite the participation rate falling to 64.8%. Participation also declined in Victoria (66.6%), which contributed to the unemployment rate falling to 4.1%, despite a fall in employment. The unemployment rate jumped sharply to 4.8% in SA, from 3.9% in December. WA also reported a rise in the unemployment rate, from 3.4% to 3.7%, while participation increased to 69.7%.

Other labour market measures



The underemployment rate and underutilisation rate remain around historically low levels, despite

disruption from Omicron in January.

The underemployment rate – which includes people who are employed but wish to work more hours – edged up to 6.7%, from a 13-year-plus low of 6.6% in November.

The underutilisation rate, the combination of the unemployment and underemployment rates, increased slightly from 10.8% in December to 10.9% in January.

Jobs ads, which provide an indication of future employment outcomes, pulled back by 0.3% in January. However, job ads remain at very elevated levels, signalling strong demand for labour and growing labour shortages faced by businesses.

Outlook

The widespread surge in Omicron infections throughout January caused considerable disruptions to the labour market. This was predominantly reflected in a sharp decline in hours worked, as a large number of employees were forced to isolate. Encouragingly, staff remained employed or attached to their employers amid the disruption, underpinning our expectation that hours worked will rebound strongly alongside falling case numbers.

Following the short-term recovery in hours worked, we expect the labour market to continue to tighten, pushing the unemployment rate below 4%, a level around or under full employment, by the end of 2022. Elevated job ads suggest unemployment will continue to push lower. An unemployment rate in the '3s' hasn't been sustained since the 1970s.

A recovering economy, supported by strong household and business balance sheets, low interest rates, and rebounding business confidence and investment intentions will continue to support hiring. Declining case numbers, in addition to high vaccination coverage and the uptake of booster vaccinations will also support health outcomes and the economic recovery, although new waves and new variants cannot be fully ruled out.

Jarek Kowcza, Senior Economist
Jameson Coombs, Associate Economist
Ph: 0481 476 436

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

Associate Economist

Jameson Coombs
jameson.coombs@banksa.com.au
0401 102 789

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
