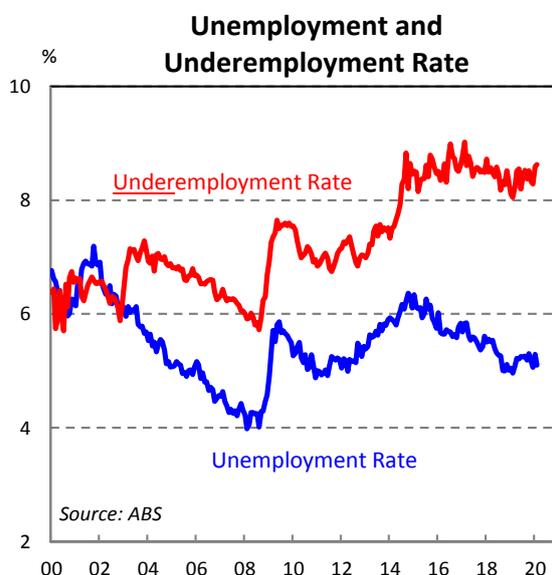


19 March, 2020

Labour Force

Some Good News

- The unemployment rate fell 0.2 percentage points to 5.1%, fully recovering from the 0.2 percentage point rise in January.
- The upward trend in employment growth continued, with 26.7k net jobs added in February following a 12.9k increase in January.
- Labour market outcomes have been volatile in recent months. The unemployment rate has been sticky at just above 5% with a high employment growth being met by high population growth and a high participation rate.
- The participation rate appears to have stabilised at a high level. It was 66.0% in February, where it has been for 4 of the past 5 months.
- February's gain in employment was driven by increases in the States benefitting from the mining recovery including Queensland (14.3k), and Western Australia (10.9k).
- The global outbreak of the coronavirus is expected to cause a deep shock to economic growth, despite fiscal and monetary stimulus measures. The unemployment rate is surely to rise, and we expect it could reach 7.0%.



The labour market tightened in February. The unemployment rate fell 0.2 percentage points to 5.1%, fully recovering from the 0.2 percentage point rise in January. Labour market outcomes have been volatile in recent months. The unemployment rate has been sticky at just above 5% with high employment growth being met by high population growth and a high participation rate.

February's outturn suggests that the labour market was in a holding pattern before the impact of the coronavirus outbreak ramped up globally. The ABS noted that there was no discernible impact from the bushfires or coronavirus outbreak on the labour force statistics for February.

There were 26.7k net jobs added in February, building on solid monthly employment increases since November. The gain was mostly in part-time roles, where there were 20k new jobs. Full-time jobs accounted for 6.7k of the increase. This pattern was the reverse of January where a surge in full-time workers offset a decline in new part-time jobs.

The participation rate, or the share of the working age population looking for and available to work, fell slightly to 66.0% in February. The participation rate appears to have stabilised at a high level following a gradual trend upwards in recent years. It has been at 66.0% for 4 of the past 5 months.

The underemployment rate, which measures the share of those employed but looking to work more hours, didn't budge from its elevated level in February. It remained at 8.6% in February, after rising from 8.3% to 8.6% in January. Underemployment has been stubbornly high since the GFC, and February and January's result is the highest outturn since June 2018.

At 2.0%, employment growth remains faster than growth in the population of 1.6% which is a positive for the economy. However, at 5.1% February's unemployment rate was above the level the RBA has estimated to be full employment of 4.5%. This currently available economic data suggests that the economy was running with plenty of spare capacity in Q1.

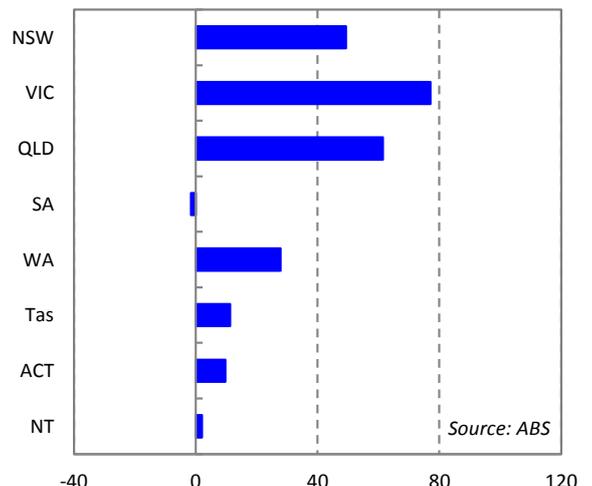
States and Territories

The gain in employment in February was driven by a rebound in Queensland (14.3k) and Western Australia (10.9k). A turnaround in growth in the mining sector has supported activity in these States. Employment growth in the two largest states was lacklustre. New South Wales saw a tepid 1.5k jobs added after recording a decline in January while Victoria ended a 7-month winning streak in February, with net employment falling by 8.8k.

South Australia (2.8k) and Tasmania (4k) both added jobs over the month.

On an annual basis, trend employment growth remains highest in Victoria at 77k jobs added in the 12 months to February. New South Wales added 49.3k jobs over the same period, its lowest increase since May 2017. The annual pace of job creation picked up to 61.4k in Queensland, which was the second highest of the States. Western Australia also saw a pickup in its annual pace of job creation, with 27.9k jobs added. South Australia was the only State to see weaker employment over the past year, with 1.6k fewer jobs in the year to February. Tasmania (11.2k) and the ACT (9.7k) recorded solid increases while the Northern Territory eked out a small gain of 2.1k.

Employment Change by State
(Year to February 2020, trend, 000s)



In February, the unemployment rate was lowest in New South Wales, which recorded a rate of 4.6%. The Victorian unemployment rate edged lower to 5.3%, remaining elevated after the previous month's jump. South Australia recorded the highest unemployment rate of 5.8%. Queensland's unemployment remains elevated, at 5.6%, but this was an improvement from the 6.2% registered in January. Western Australia's unemployment rate fell to 5.2%, reflecting recent solid employment gains.

Outlook and Implications

Signs of a tighter labour market in February are a welcome development. However, the unemployment rate remains above the rate at full employment and the available data show that the economy was on fragile footing before the global outbreak of the virus began.

The data precedes the significant economic shock from the coronavirus outbreak. We expect the downturn in economic activity over the first half to be deep. The stimulus response from policymakers has been targeted at supporting jobs which will provide some cushion. Nevertheless, businesses will be reluctant to hire during these uncertain times.

Given Australia's rapid population growth and high participation rate, the lack of new jobs being added will be enough to cause a material increase in the unemployment rate. Our forecast is for the unemployment rate to peak at 7.0%, provided we see a peak in the COVID-19 infection rate by the middle of this year.

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