22 September 2023

ECONOMIC UPDATE

The jobs market – stronger for longer

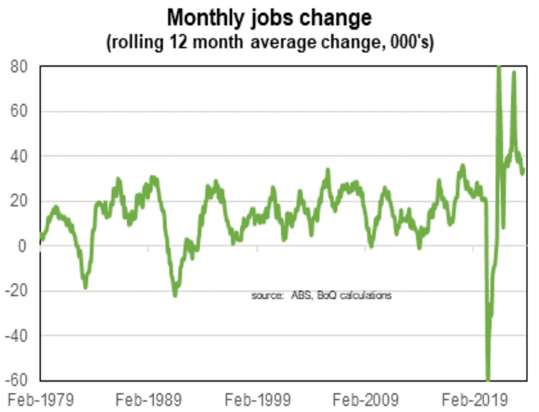
Key Points

- **The jobs market has been very strong;**
- **The demand for workers is moderating slowly; and**
- **There has been a notable rise in the supply of workers;**
- **That combination will see the unemployment rate rise to over 4.5% by end-2024.**

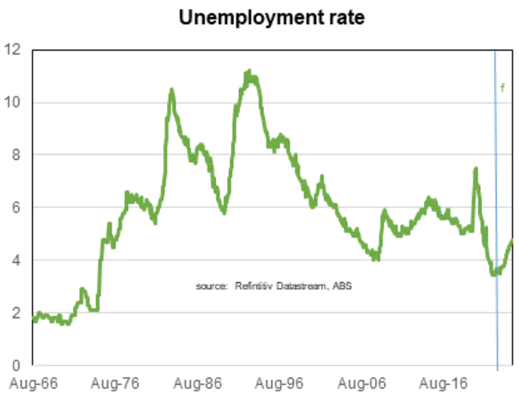
The jobs market has been strong

One of the great success stories of the pandemic economic rebound (in Australia and other developed countries) has been the strong performance of the jobs market. The monthly growth in jobs has slowed. But it had to, given that the rate of jobs increase post the pandemic was unsustainable. The 12-month average jobs change in August was around its highest level in the thirty-plus years prior to COVID. The unemployment rate was still near fifty-year lows.

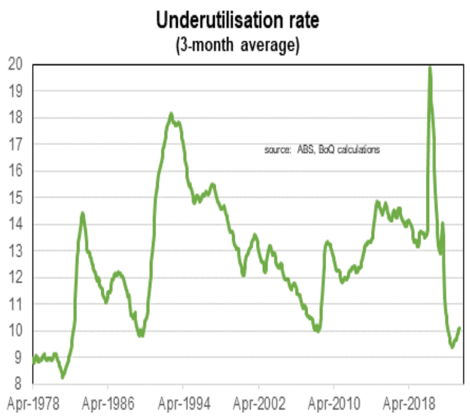
Jobs growth has been very strong, albeit it is beginning to slow.



The unemployment rate remains near cyclical lows.



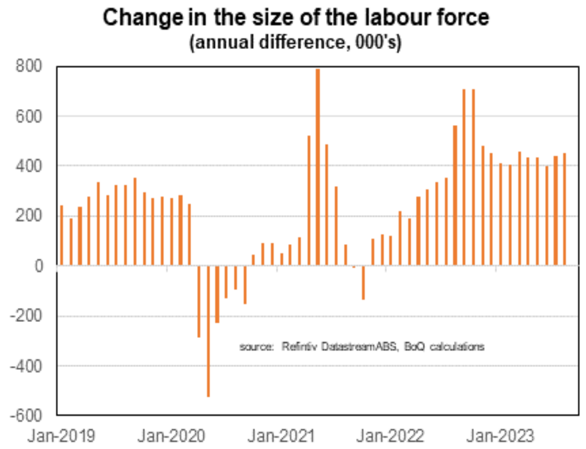
There has been some pickup in the underutilisation rate.



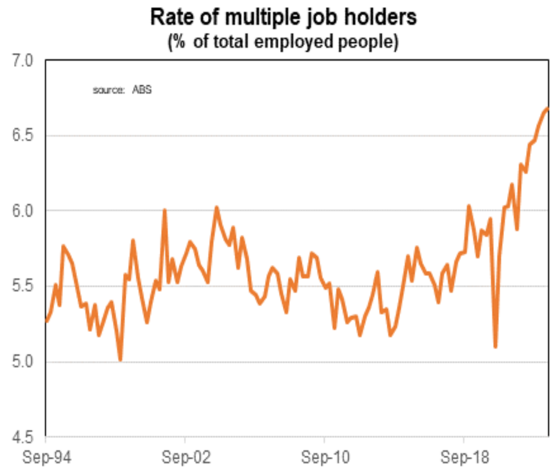
The participation rate is at record highs.

But the rise that has taken place in the underutilisation rate indicates that the jobs market has started to weaken. A big part of that has come down to the big increase in the size of the labour force. The participation rate is at a record high, as is the number of multiple job holders. The significant increase of immigration growth has led to a notable jump in the size of the labour force.

Strong immigration growth has boosted the growth in the size of the labour force.



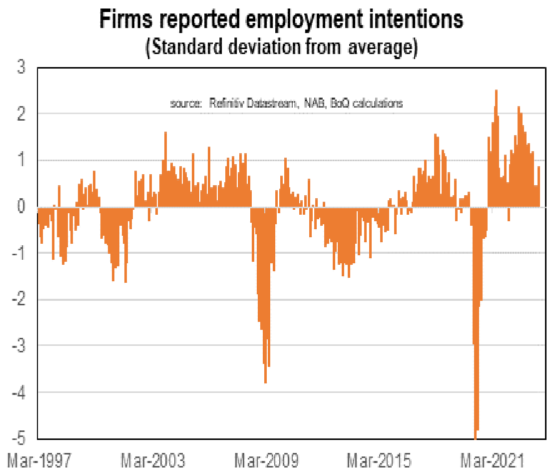
There has also been a notable rise in the number of workers holding multiple jobs.



While the demand for workers has declined it remains at a high level. Business employment intentions are still above their long-term average. The number of job ads also remains at a historically high level.

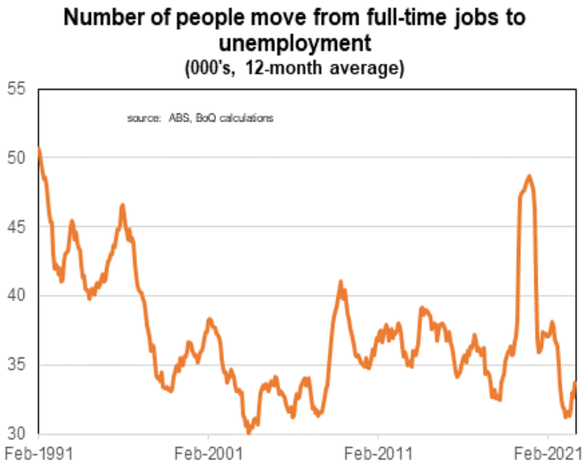
The number of job ads has fallen from its peak although may have stabilised in recent months.

Firms' employment intentions remain high.

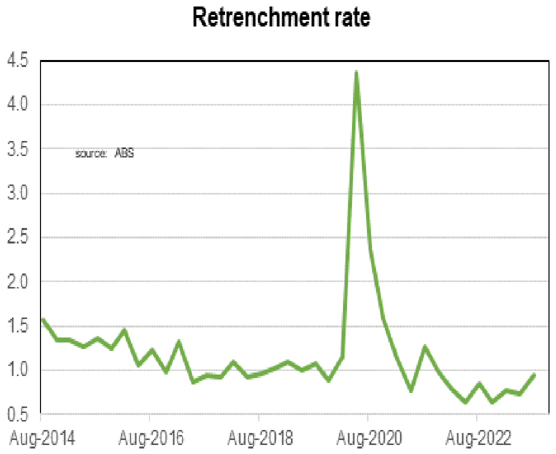


Not only are firms still employing people, but layoffs are modest by historical standards. The flow of people moving from full-time work to unemployment is low (although it was even lower during the pre-GFC mining boom). This makes sense given the current retrenchment rate. Few employees are expecting job cuts in coming months. There is a similar pattern in the US jobs market.

The flow of people from full-time job to unemployed is low. But it has been this low before.

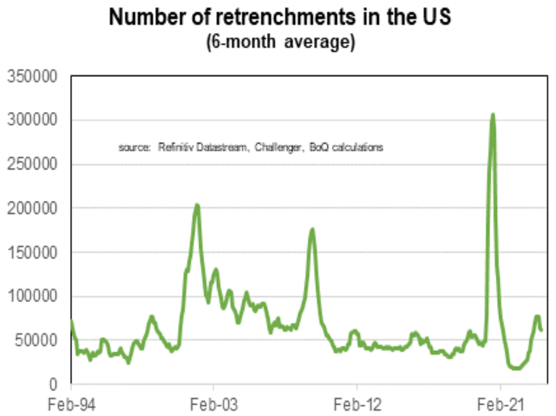


This is consistent with the very low retrenchment rate.



And the proportion of employees that expect job cuts.

The number of retrenchments had risen in the US but that looks to have changed in recent months.

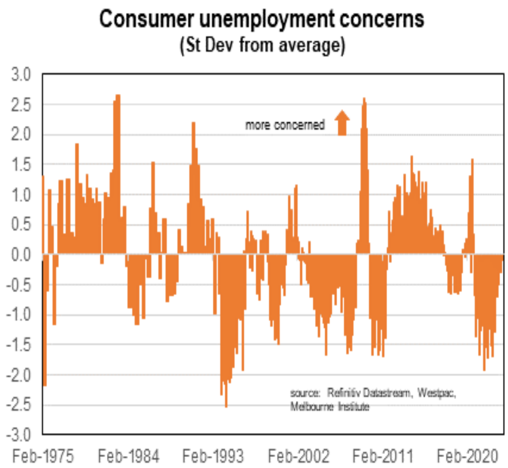


Despite the low unemployment rate, consumer confidence in the state of the jobs market has declined. The proportion of workers thinking about changing jobs is below its long-run average. This is consistent with consumer concerns about unemployment, something that has been on the rise over the past year and is also now close to its long-run average. There has been a notable rise in the number of applications per job vacancy.

Some decline in household confidence about the jobs market is understandable given the rise in the underutilisation rate. But the extent of the decline in confidence is not consistent with either the very low unemployment rate, still large number of jobs to be filled or the lack of layoffs. My guess is that the cost-of-living crisis means that workers are uncomfortable about taking any risk that may result in even a temporary reduction in their disposable incomes.

The proportion of workers thinking about changing jobs is now below its long-run average.

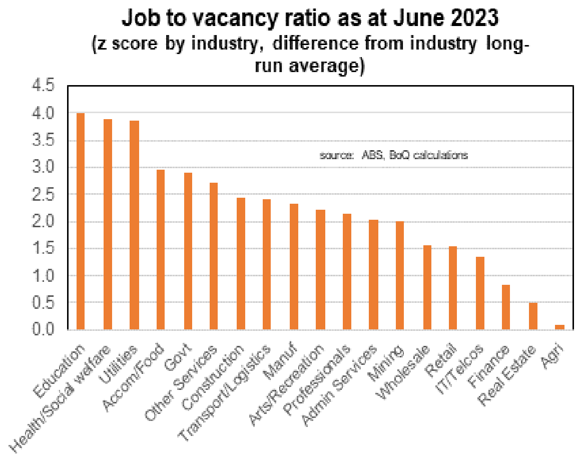
Household concerns about unemployment have risen over the past year.



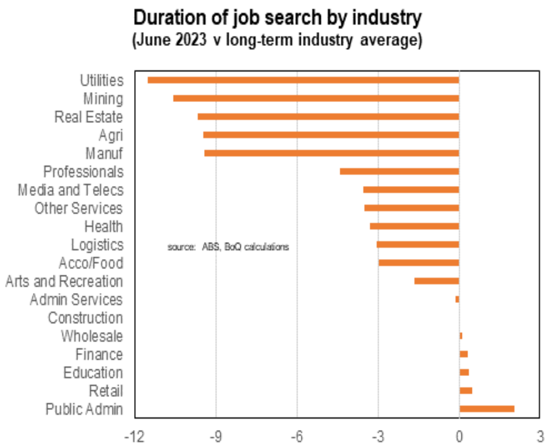
All sectors of the economy are still finding it difficult to get workers. Worker shortages has been a particularly acute issue in the education, health and welfare and utilities sectors (the latter likely reflecting the large amount of investment happening in 'clean' energy). The difficulty in getting workers can also be seen in the quicker-than-normal time it has taken employees to find a job in most areas of the economy. The main exception has been in public administration, where possibly the smaller wage rises provided to government employees over the past couple of years has made it more difficult for people to find an attractive role.

Despite the difficulty in finding workers, there was a loss of jobs in the first half of the year in just under half of the industries in the economy. Partly that might reflect data 'noise' (methodological differences between surveys). Partly it may reflect that the demand for workers has slowed in some sectors (finance and real estate). But it may also highlight that aggregate jobs growth is only one indicator of the state of the jobs market when examined at an industry level.

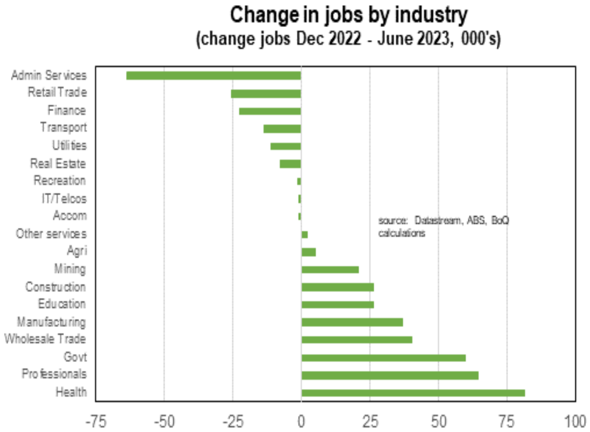
It is harder-than-normal to find workers across all sectors of the economy.



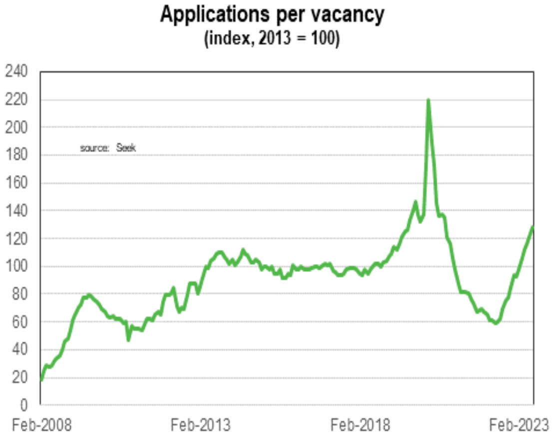
And that is why it has become quicker for people to find a job across most industries.



Despite the strength of the jobs market, there has been a decline of employment in some industries.



There has been a sharp rise in the number of job applicants this year.



The jobs market is still strong albeit it has started to weaken. The demand for workers has fallen and is likely to decline further in coming months. At the same time the supply of workers has picked up strongly, not the least reflecting the large rise of immigration. That combination will likely lead to a rise in the unemployment rate next year. The RBA currently expects the unemployment rate to rise to 4.2% by mid-2024 (also my view). The consensus in financial markets is 4.5%. I think the unemployment rate will head higher still in the second half of next year (finishing the year at 4.75%). We will see. How the unemployment rate evolves next year will be a key factor in what happens with interest rates.

We really do live in interesting times.

Regards

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