



29 September 2023

# ECONOMIC UPDATE

The jobs market – Stronger for longer - Part II



## Key Points

- **The unemployment rate is currently near fifty-year lows;**
- **But it has been lower historically;**
- **Australia's participation rate is at a record high and it will likely head higher;**
- **There are signs of an increase in skill-mismatch in the jobs market.**

### **The jobs market has been strong**

The Australian Government recently released an employment White Paper. In one respect talking about employment growth in the current economic environment was strange timing. The unemployment rate is close to fifty-year lows and the biggest issue that firms currently face is difficulty finding workers. Households are more challenged by the cost of living than concerns about high unemployment.

There was some discussion that the paper is inconsistent with the RBA's (and Federal Treasury) view that the unemployment rate will need to rise to get inflation back to the RBA's 2-3% target band. It is not. The aim of the paper is essentially how to get a higher proportion of the population in work while keeping inflation consistent with the RBA's target.

In any event, the RBA's view on a rise in the unemployment is a forecast of what they think will occur to get the inflation rate back to 2-3%. But I do not read it as a pre-condition. In other words, I am sure the RBA would be very happy if inflation can return back to 2-3% while the unemployment rate remains near its current level.

In this note I am not going to comment on any of the suggested policy changes from the White Paper. On face value many of the suggested policies appear reasonable although the devil (as always) will be in the detail. History demonstrates that the most important thing that can be done to generate jobs growth is to have strong (non-inflationary) economic growth. Instead, this note will look at the areas where a potential boost to the number of job holders could occur, something the White Paper did a decent job of highlighting.

### **The unemployment rate is lower but with mixed outcomes across the population**

The jobs market has performed very well over the past 18 months, with the current unemployment rate close to its lowest level in fifty years. But despite the strong demand for workers at a time of labour shortages the unemployment rate could not fall below 3.5%. Australia's unemployment rate is about middle of the pack relative to international peers. It is below the current level in the UK and Canada, about the same as in the US and New Zealand but above the rates currently recorded in Japan and Switzerland.

The current unemployment rate is not unusually low by historical standards. An unemployment rate of below 4% was not uncommon between 1900 - 1930. And the unemployment rate averaged around 2% in the three decades post the Second World War.

The unemployment rate picture is mixed between states. While in NSW, WA and Victoria the unemployment rate is near the national average, it is currently above 4% in Qld, SA and Tasmania. This has been consistent with the pattern over the past thirty-five years where the unemployment rate has typically (but not always) been below the national average in NSW, Victoria and WA but above in Qld, SA and Tasmania.

The difference in performance between regions is even more marked when looking at the unemployment rate at SA2 level (suburbs). Just under half of all suburbs had an unemployment rate of under 3% in March 2023, with a bit over three-quarters having an unemployment rate of under 5%. But remarkably in the best jobs market in fifty years around 5% of all Australian suburbs currently have an unemployment rate of above 10% (with a

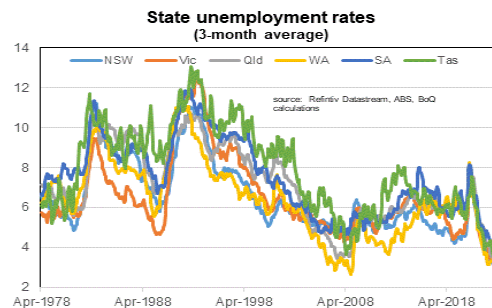
further 3% having an unemployment rate of between 8-10%). As would be expected, the unemployment rate is highest amongst the least experienced and lowest-skilled workers (although interestingly, vacancy rates are currently highest amongst the lowest skilled). This ties in with feedback from applicants that one of the main reasons they can't get a job is a lack of experience.

Focussing just on the unemployment rate understates the amount of spare capacity in the labour force. While there has been a structural shift down in the unemployment rate over the past twenty years that has not been the case with the underutilization rate (which in turn is due to a rise in underemployment rate, or employees that would like to work more hours).

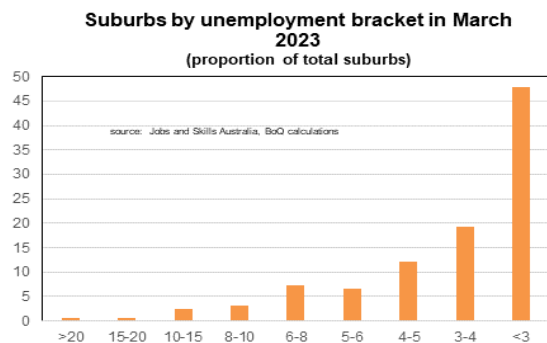
**The unemployment rate is low. But it has been lower.**



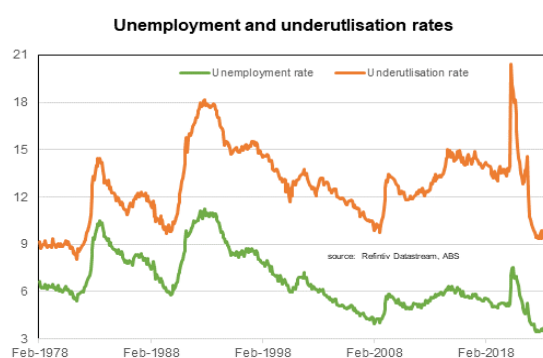
**Changes in the unemployment rate are consistent across states. But some**



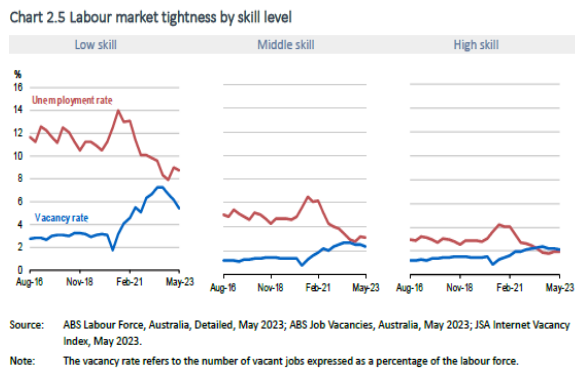
**The unemployment rate is low in most suburbs. But in some it is very high.**



**The underutilization rates have not declined as sharply as the unemployment rate.**

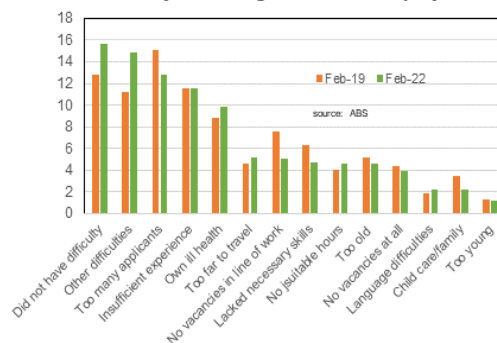


**The unemployment rate is typically higher amongst lower-skilled workers.**



**A lack of experience is a key reason as to why applicants don't get a job.**

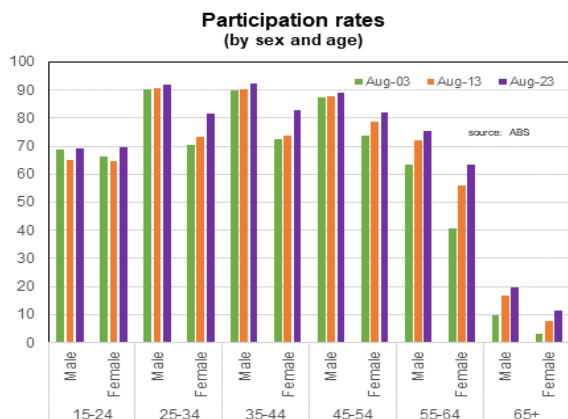
**Main difficulty in finding work for unemployed**



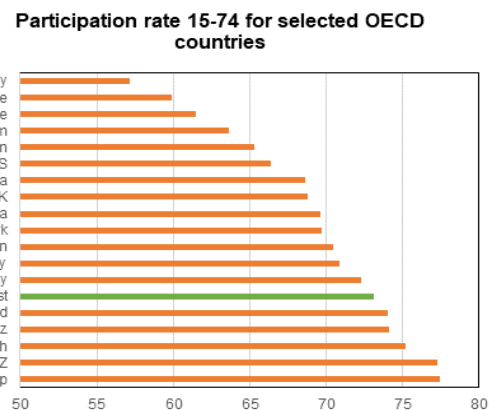
Reducing the level of the unemployment and underutilization rates is one way to get more people working. Another is to increase the proportion of people in the labour force (participation rate). Australia's participation rate is currently at a record high and is towards the higher end for peer countries. It is also at a record high for all age groups for both sexes. The rise in participation over the past couple of decades has been particularly marked for females and older workers. One of the main reasons historically for not entering the labour force has been caring responsibilities (particularly impacting women doing childcare). The hope is that the increased spending on childcare may see more females able to enter the workforce.

Participation rates are likely to rise further in coming years. One reason is that the labour force participation of younger generation of women is higher than it was for previous generations at the same age. A further rise in older workers is also likely as people live longer, healthier lives and there are more jobs available in less strenuous occupations. High debt levels may also mean that more households may have to work for longer.

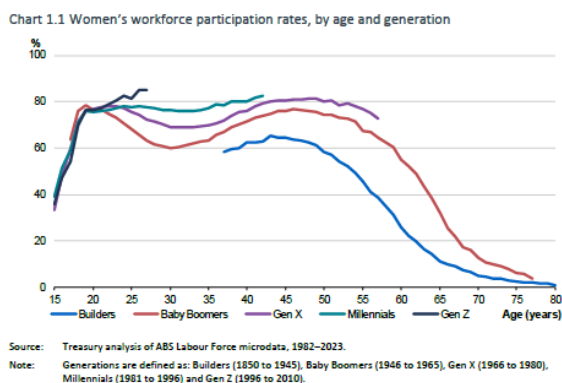
**Participation rates are high across both sexes and all age groups.**



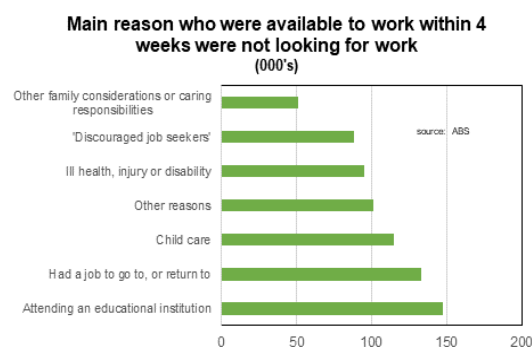
**Australia has amongst the highest participation rate in the OECD.**



**There has been a structural rise in the female participation rate.**



**Caring responsibilities is a key reason as to why people are not in the labour force.**



A rising issue in the jobs market has been the increasing difficulty firms' have had in finding the right workers. This has been reflected in the trend increase in the number of job vacancies relative to the size of the labour force. Further, an increasing number of employers were complaining about the difficulty in finding workers pre-COVID. And this was despite the unemployment rate being above 5% at that time.

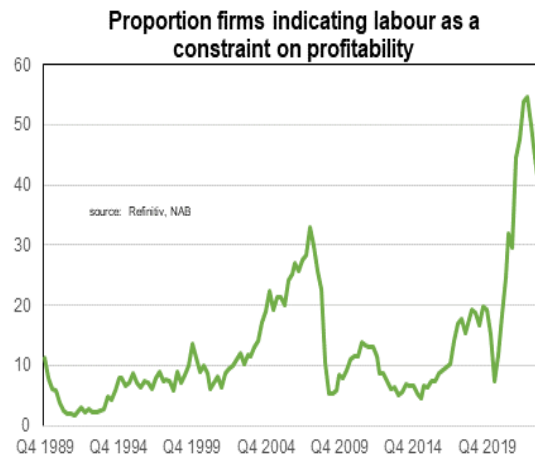
There have been different reasons put forward as to why it has become harder for firms to find the right workers. One is that the increase in importance of job platforms has made it easier for people to know about job vacancies

and apply for jobs. This could well be the reason why there has been a rise in the number of applicants per job (particularly relative to pre-GFC times). In one respect the increase in applicants could be good news for firms as it means they have a larger pool of workers to choose the right candidate. But it also means more work for firms to find the right candidate, increasing both the cost and time to fill a role.

Another possibility is that there has been a rise in skill mis-match, where there is an increasing demand for high-skilled roles in areas where there are only limited number of people with relevant work experience (eg, cyber-crime). This can only be overcome through increased education, either formally (Higher Education, training courses) or informally ('learning by doing' on the job). The stronger the economy, the more jobs available. And the more 'learning by doing' that takes place.

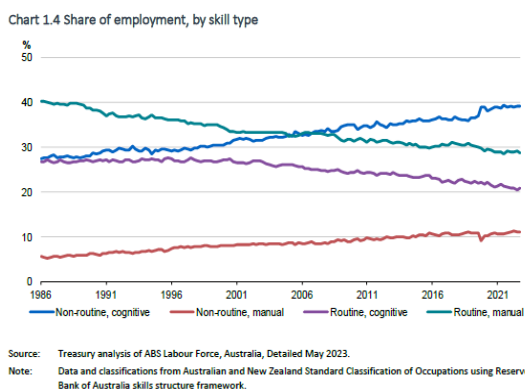
**Even before COVID there has been a rise in the number of vacancies relative to the size of the labour force.**

**This has coincided with a higher proportion of firms reporting that it has become more difficult to find the right workers.**



**Partly this might reflect the increased in demand for skilled workers.**

**The ease of applying for jobs also might have increased the workload for firms to find the right candidate.**



We really do live in interesting times.

Regards

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