

Economic Analysis

Labour Force January 2022

Employment and Hours Worked

Employment rose a seasonally adjusted 12.9k in January, against the market expectations of no change, to reach a fresh record high of 13,255k. Although this is just 2.0% above the pre-pandemic peak of March 2020.

The January increase came despite the disruptions due to the surge in Omicron cases over east. In line with previous anecdotal evidence, the bulk of the labour market adjustment to these disruptions came through hours worked, which dropped by 8.8% due to a larger number of people being on annual leave and sick leave.

Australia (Seasonally Adjusted)	Jan ('000)	Dec ('000)	YoY (%)
Total	12.9	64.8	2.8
Full Time	-17.0	41.5	3.3
Part Time	30.0	23.3	1.7
Aggregate Hours Worked (%)	-8.8	1.0	-0.5
Participation Rate (%)	66.2	66.1	-
Unemployment Rate (%)	4.2	4.2	-

Unemployment, Underutilisation and Participation

The Australian unemployment rate was unchanged at a 13-year low of 4.2%, in line with the market expectations.

Despite the sharp fall in the hours worked, the underemployment rate saw only a slight 0.1ppts uptick, to 6.7%. This took the underutilisation rate, which is the combination of unemployment and underemployment, up to 10.9% from the 13-year low of 10.8% recorded in December. The participation rate picked up by 0.1ppts, to 66.2%, just below its all-time high of 66.3%.

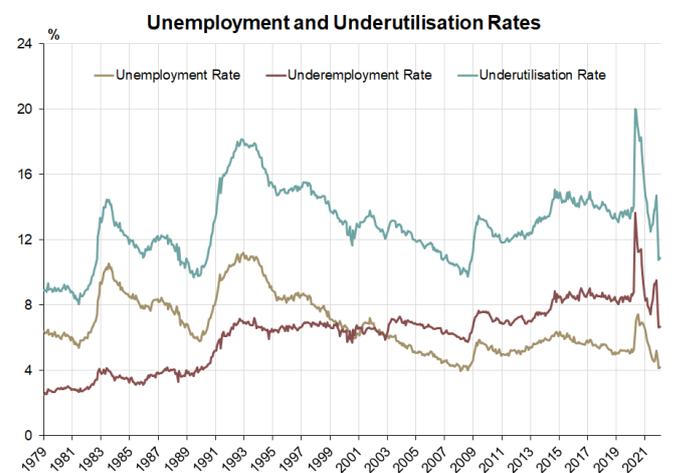
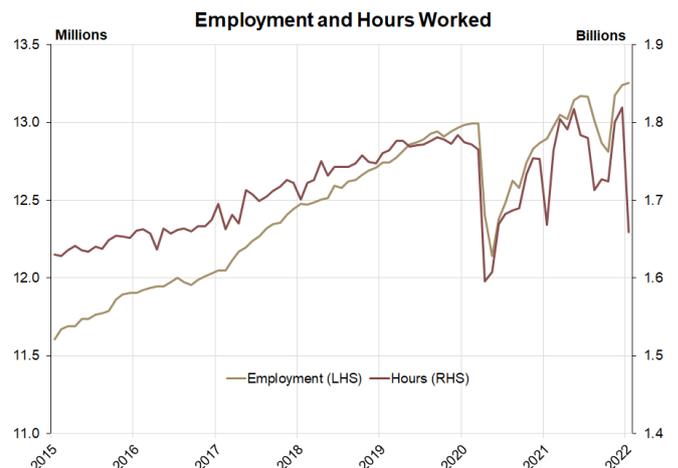
The States

New South Wales and Victoria saw the biggest falls, with those states being heavily impacted by Omicron outbreaks. In both states, hours worked dropped by over 13%, with the number of people on reduced hours because they were sick being about three times the pre-pandemic January average.

Western Australia and Queensland were the only states to see employment increase in the month. Overall, Western Australian employment is 3.6% above its pre-pandemic peak.

The Western Australian unemployment rate rose 0.3ppts to 3.7%, which was still the lowest of all the states. The January increase in the unemployment rate came amid a sharp increase in the participation rate to 69.7%, which is the highest level since the record high of 69.9% in December 2008.

States (Seasonally Adjusted)	MoM ('000)	YoY (%)	Unemployment Rate (%)
Western Australia	8.8	6.1	3.7
New South Wales	-22.8	1.6	4.2
Victoria	-15.6	1.9	4.1
Queensland	17.4	3.8	4.4
South Australia	-7.3	3.6	4.8
Tasmania	-1.4	1.0	3.8



Comment

The January labour force survey showed that disruptions due to Omicron were not as severe as feared and impacted mainly the hours worked, which can spring back easily. The decline in Omicron cases over east means that a rebound is likely in February.

The labour market is the tightest it's been in over a decade by several measures. Not only is the labour force underutilisation rate around the lowest level since 2008 but, using the internet job vacancies data as a measure of labour demand, the number of officially unemployed per vacancy fell to 2.2, also the lowest level since 2008. This implies that wage pressures, tame thus far, could start to build in the coming quarters.

Wages are a key indicator in the RBA's assessment as to whether inflation is sustainably within the target band. The Q4 wage price index is scheduled for release next Wednesday. With RBA Governor Phil Lowe saying the RBA is prepared to be patient and that "another couple of CPI reports would be good to see", we expect the first cash rate hike to be in the second half of 2022.

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