

19 January 2012

Aust. Dec. Labour Force: seasonal volatility exaggerating the year end soft patch in jobs.

- The Dec Labour Force Survey headline was weaker than expected; Westpac's bottom of the market forecast of -10k and the market median of +10k.
- There was a small downward revision to Nov employment (now -7.5k vs. -6.3k original), but the Nov unemployment rate was revised down to 5.2% (from 5.3%); it held flat in Dec due to a significant drop in the participation rate (65.2% from 65.5%, the lowest rate of participation since May 2010).
- While we expect participation to trend down during a soft labour market, the size of the fall this month appears to be more statistical noise than an indication of a significant jump in disgruntled job seekers.
- We expect this volatility to reverse in Jan. So while we may see a strong rise in total employment it is probable there will also be a rise in the Jan unemployment rate.
- Dec also confirmed a shift in the composition of employment by hours worked and gender. Through 2012H1 jobs growth was focused in part-time and/or female occupations. In 2011Q4 this has shifted with -33.2k part-time jobs and -35.8k female jobs.
- Total employment was flat in the year to Dec while total hours worked rose 1.4%. This is very much the opposite to what we have seen since the 1991 recession during which time total hours worked have been more volatile than total employment. Over the last decade, employers have held on to workers through the slow patches and adjusted hours work instead.
- This time, however, employment is more volatile than hours worked, suggesting employers would rather lift productivity than maintain a workforce at a certain level.

The Dec Labour Force Survey revealed a surprisingly weak print on the labour market. The 29.3k fall means that a total of 21.7k jobs have been lost over the last three months, an average -7.3k per month. In the year to Dec, the Australian economy has created a grand total of zero additional new jobs.

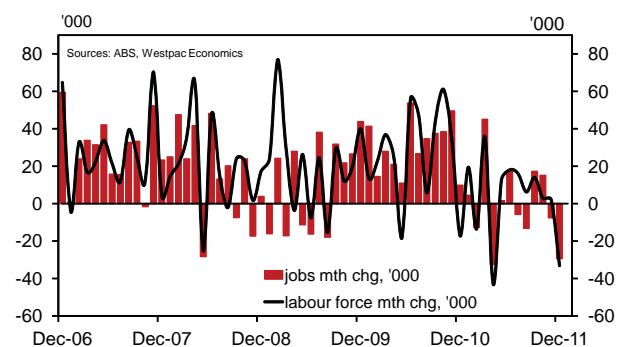
The Dec release did see some improvement in the composition of employment, with a 24.5k lift in full-time employment, but this did not make up for the 39.4k fall in Nov, or the 53.7k fall in part-time employment this month. We had thought that a wet summer, poor domestic tourism demand and weak retail sales leading up to the Christmas sales would have hit the normal seasonal rise in part-time employment during Dec, but we were surprised by the size of the fall. Dec is a tricky month to seasonally adjust and the statistical noise this month appears to be greater than usual.

Labour force report, November 2011

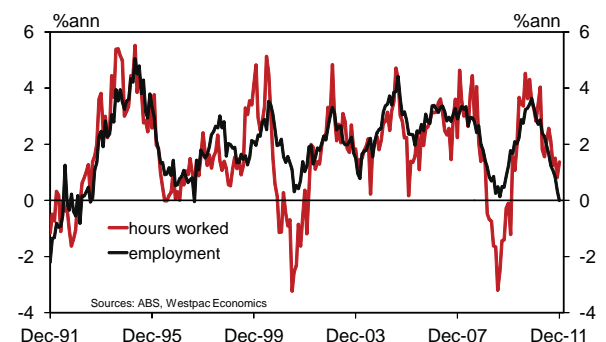
	Monthly		Year to	
	Nov-11	Dec-11	Nov-11	Dec-11
Total employment ('000)	-7.5	-29.3	39.0	0.0
Total employment (% chg)	-0.1	-0.3	0.3	0.0
F-time employment ('000)	-39.4	24.5	-14.8	15.6
F-time employment (% chg)	-0.5	0.3	-0.2	0.2
P-time employment ('000)	31.9	-53.7	53.8	-15.6
P-time employment (% chg)	0.9	-1.6	1.6	-0.5
Unemployment rate %	5.24	5.23	5.15*	4.93*
Participation rate %	65.5	65.2	66*	65.8*
Total hours worked (% chg)	-0.5	0.3	0.8	1.4

* Observation one year ago. Sources: ABS 6202, Westpac Economics Research

Labour force vs. jobs growth



Hours worked holding up more than jobs



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In regards to male/female employment an interesting new trend in unfolding. There was a 4.8k fall in male employment following an almost 19k gain in the previous two months. Female employment fell 24.5k following a 10.5k loss in November for a total loss of 35.8k over the last three months. This is a significant shift in the fortunes by gender; some may remember that only last month we wrote "this year, we have seen a total shedding of 12.1k male employees while female employment rose a total of 56.8k". For most of 2011, employment growth was in the sectors that favoured female employment, but this shifted in the last quarter of the year; we think the state data below highlights why.

Total employment was flat in the year to Dec while total hours worked rose 1.4%. This is very much the opposite to what we have seen since the 1991 recession during which time total hours worked have been more volatile than total employment. Over the last decade, employers have held on to workers through the slow patches and adjusted hours work instead. This focus on productivity is not good news for the jobs outlook in 2012.

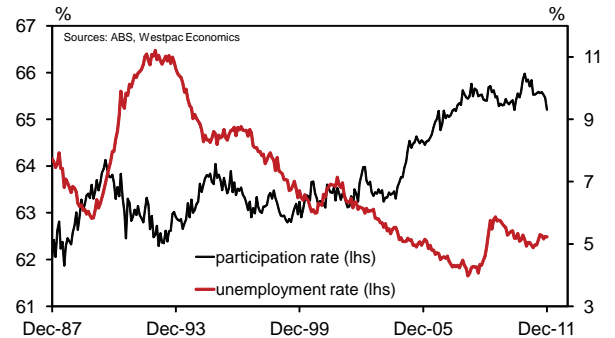
There is an ongoing concentration of jobs growth in the mining states while the south-east labour market is in trend decline. Total employment fell 20.4k in NSW (-4.8k per month for the last 3 months) and the unemployment rate rose to 5.6%, from 5.2%. NSW was the only state to record a consistent read between jobs and unemployment. Victoria shed 4.9k jobs in Dec (for an average of -4.9k per month over the last three months) but the unemployment rate fell to 5.2% from 5.5%. WA may be the mining power house, but the unemployment rate was flat at 4.3% in Dec, and jobs growth has slowed; Dec's -2.5k resulted in three month average of -100 jobs per month. Qld is on the mend: the unemployment rate fell to 5.4% from 5.7% but the 3.3k drop in Dec employment has taken the three month average for that state down to just +0.4k per month. Even in the north, jobs growth appears to have stalled as the year ended.

As 2011 closed, it is clear that the labour market was soft. We accept that seasonal volatility in Dec may have been greater than usual, and we suspect this is behind most of the job losses this month, but we find it hard to fathom why 33.1k Australians would suddenly decide to "pack up and sit on the beach", rather than be part of the labour force. So while we may be looking for a statistical bounce in Jan, we would also expect a corresponding bounce in the labour force which would offset the rise in jobs and probably see a rise in unemployment.

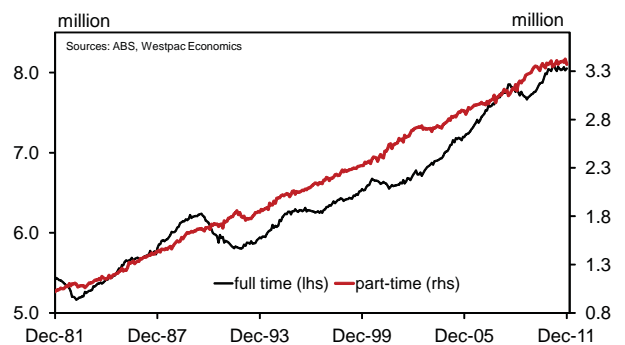
Westpac forecasts suggest the labour market should soften from here, particularly in NSW and Victoria. Our forecasts have the national unemployment rate peaking at 5.4% by mid 2012.

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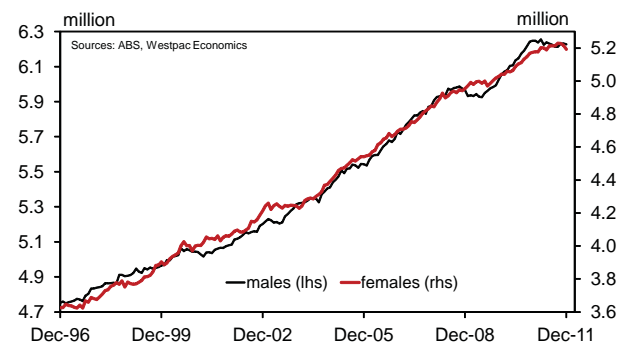
Unemployment and participation rates



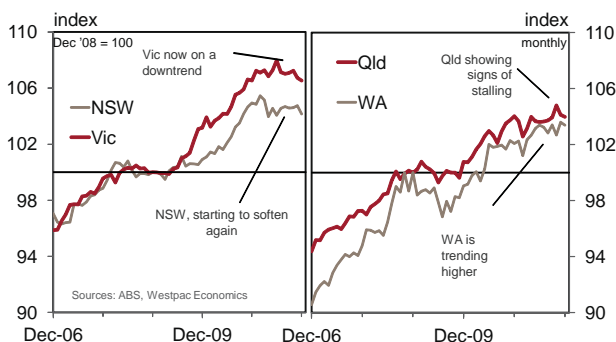
Now part-time jobs have stalled as well...



...and females jobs are being shed.



Employment by state: Qld appears have stalled



Surprising dip in Vic unemployment

