Australian labour market in detail

KPMG Economics

– June 2024

Introduction

Welcome to KPMG's **Australian labour market in detail**.

People often focus on the unemployment rate to assess the health of the labour market. While being a useful high-level indicator, it does not reflect the nuances of the labour market's dynamics. The Australian labour market, like many markets, have sub-markets that can be segmented by various dimensions, such as geographical, industry and skills differences.

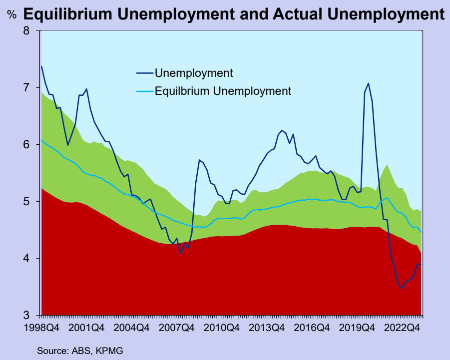
The purpose of this report is to highlight all the individual elements that feed into the overarching unemployment rate number, so we can see how those elements have an influence on labour demand, labour supply, and how these nuances evolve and interact with each other. This report aims to give readers a detailed, but digestible analysis of the latest developments in the labour market from industry and regional angles. In addition, through this publication, we also introduce our KPMG Labour Market Pressure Index, which helps us evaluate the inflationary pressures created by the tightness of the labour market.

This report is the first edition of our **Australian labour market in detail**, and future editions will be issued biannually.

So, what are the key findings?

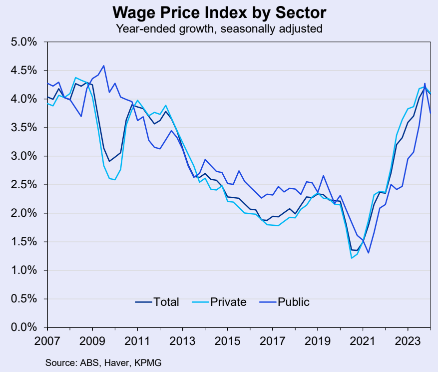
The KPMG Labour Market Pressure Index, defined as the difference between KPMG estimated equilibrium unemployment rate and the actual unemployment rate, is still deep in the 'red' zone, indicating significant constraints still exist in Australia's labour market.

However, the index is moving upwards and likely to be back in balance by the end of Q3 2024 as the weakened economy will continue to be a drag on labour market conditions. In addition, the return of foreign workers through immigration is helping to ameliorate the labour supply and skills shortages in Australia.



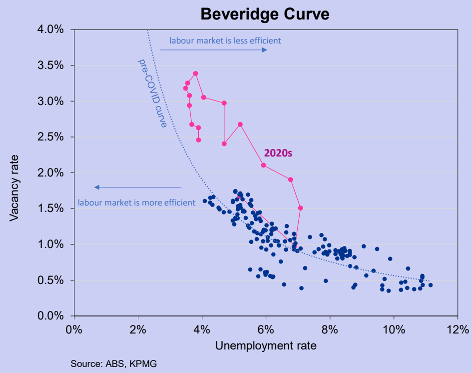
With the tightness pressures diminishing, nominal wage growth will soften in the near term, although we expect real wage growth to improve as inflation subsides.

The Fair Work Commission decided to raise the minimum wage by 3.75% from 1 July 2024, in line with the inflation outcome in the March quarter 2024 (3.6%).



Australia's labour market remains relatively inefficient at present with a low level of matching still occurring between employers' requirements and jobseekers' skills (as measured by the Beveridge curve).

KPMG's analysis shows employers need to post more vacancies to fill a given number of roles due to a mismatch in applicants' skills and employers' demand. However, the matching rate has picked up since late 2022 and is expected to continue improving.



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01

Labour demand

Overview of macroeconomic conditions

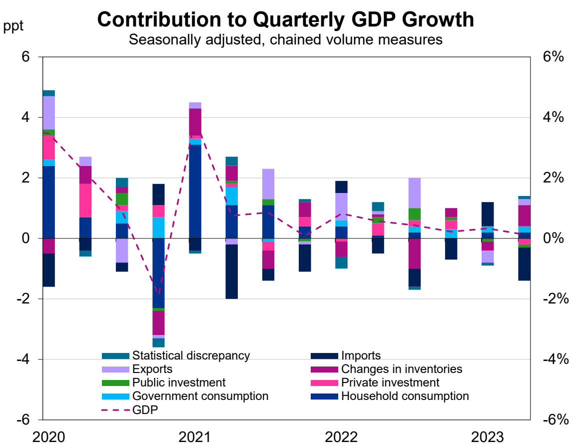
The Australian economy staggered into 2024, with the first quarter edging up by just 0.1% – a heartbeat away from a recession. This weakness in the economy has been partly translated into some easing in the labour market conditions. As the year progresses, further softening is expected for both the economy and labour market.

The Australian economy grew by a meagre 0.1% over the first quarter of 2024 and just 1.1% over the previous 12 months. The national accounts show an economy in aggregate that is struggling to maintain a forward momentum, while the downward trajectory associated with our standard of living has continued (with the last six quarters recording negative or flat growth in GDP per capita).

From an expenditure perspective, the latest data shows:

- Household consumption growing by 0.4% during the quarter, slightly higher than what occurred in the December quarter 2023.
- Dwelling investment and costs associated with buying existing residential property still falling (by -0.5% over the quarter and -2.2% over the year respectively).
- Private sector investment falling by -0.8% during the first quarter of 2024, with the largest declines coming in engineering construction activity (-4.8%) and non-residential construction (-3.1%).

FIGURE 1



Source: ABS, Haver, KPMG

- The $335 million in capital investment by the Commonwealth Government was not enough to offset the $645 million fall in capex by state governments (either directly or through state-owned corporations).
- The near $4.5 billion swing in inventories was more than offset by the $5.5 billion fall in net exports (largely driven by the $6.7 billion increase in imports).

Other important elements of the data released today that confirm the idea that the Australian economy has been moving sideways for the past six months include:

- The household saving ratio fell from 1.6% to 0.9% in the March quarter as the growth in gross disposable income (1.1%) could not catch up with the rise in nominal household consumption (1.5%) due to the rising cost of living.
- Labour productivity, measured as GDP per hour worked, flatlined over the quarter and through the year as hours worked grew in line with GDP. With wages growth softening during the quarter, real unit labour costs declined by 0.7%, but remained 3.4% higher in the corresponding period in 2023. For real unit labour costs to drop significantly, it is vital that labour productivity growth exceeds wages growth.
- The GDP implicit price deflator increased by 1.3% due to increased domestic prices. Services inflation remained high as a consequence of elevated labour costs despite easing in labour market conditions. On the other hand, prices for consumption and capital goods continued to soften in line with easing domestic demand.

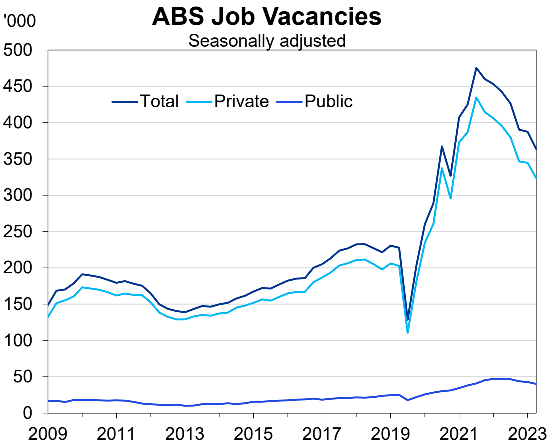
Even though the latest data revises upwards the GDP growth estimates for the December quarter 2023 from 0.2% originally to now 0.3%, when this result is combined with today's numbers it is clear that the Australian economy has barely grown over the past six months, and has been 'a heartbeat away from a recession'.

Job vacancies

Job vacancies comes off peak but remains high

The ABS job vacancies dropped by 6.1% in February 2024 from November 2023. The number has come down gradually from its peak in May 2022, albeit remaining high relative to pre-Covid levels. This elevation suggested strong labour demand and continued tightness in the labour market despite recent easing.

FIGURE 2



Source: ABS, Haver, KPMG

Job vacancies dropped over the quarter to February 2024 across both public and private sectors, with vacancies in both sectors falling by 6.1%.

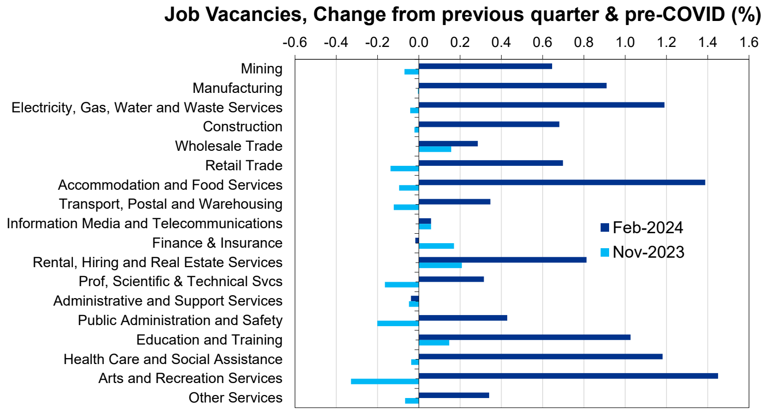
Job vacancies soften across most industries

The decline in job vacancies occurred in 13 out of 18 non-farm industries with the largest quarterly drops in percentage terms being in *Arts and recreational services* (-32.9%) and *Public administration and safety* (-20.2%). *Finance and insurance services* and *Rental, hiring and real estate services* saw the largest increases of 17% and 20.8% respectively, reversing the downturn in the previous quarter.

Despite falls, the level of vacancies remained well above pre-Covid levels across many industries, most notably customer-facing industries including *Arts and recreation services* and *Accommodation and food services.* As of February 2024, job vacancies in *Arts and recreation services* and *Accommodation and food services* remained 145% and 139%, respectively, higher than the levels seen in February 2020.

Although recovering by 17% in the February 2024 quarter, *Finance and insurance* had fallen for six consecutive quarters to November 2023. The industry is now one of the two, along with *Administrative and support services,* that had job vacancies below pre-Covid levels (-1.7%).

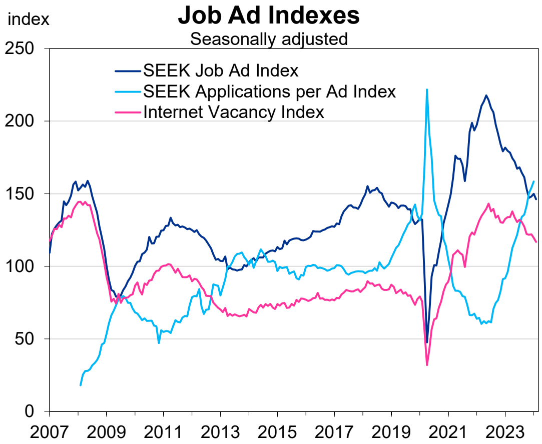
FIGURE 3



Source: ABS, KPMG

More frequent indicators, including the monthly SEEK Job Ad Index and Internet Vacancy Index, also pointed to a softening in demand, however, they remained above the level seen in February 2020, immediately before COVID-19.

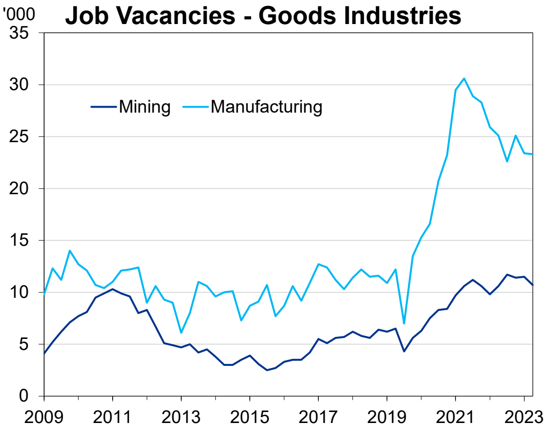
FIGURE 4



Source: SEEK, Haver, KPMG

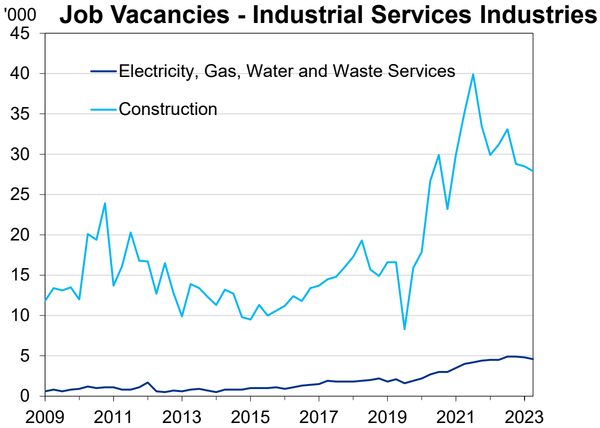
Job vacancies (cont.)

FIGURE 5



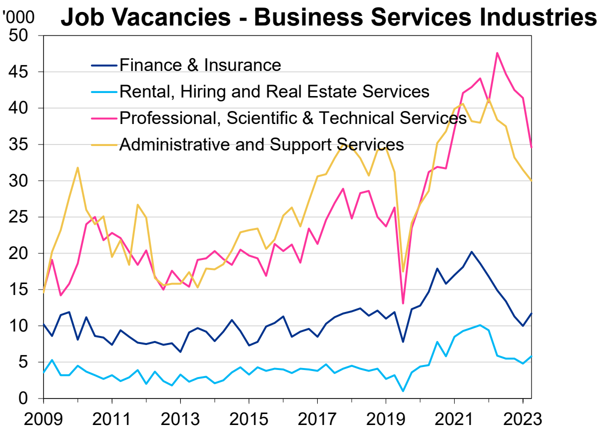
Source: ABS, KPMG

FIGURE 6



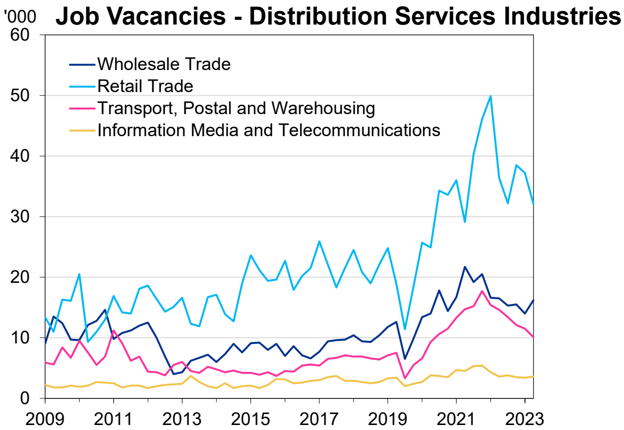
Source: ABS, KPMG

FIGURE 7



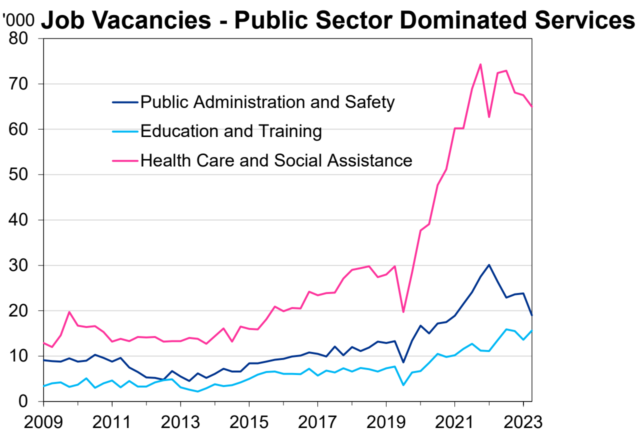
Source: ABS, KPMG

FIGURE 8



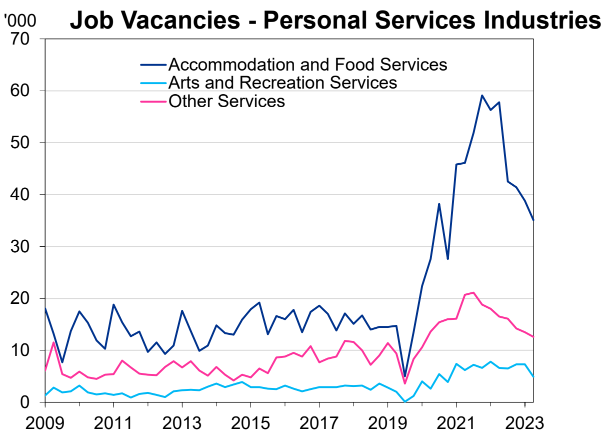
Source: ABS, KPMG

FIGURE 9



Source: ABS, KPMG

FIGURE 10



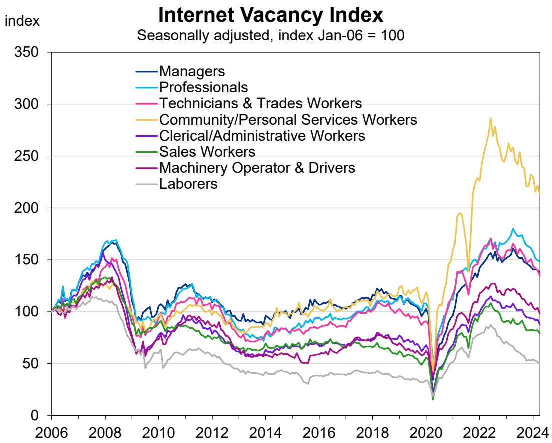
Source: ABS, KPMG

Job vacancies (cont.)

Job vacancies remain high in health and personal service occupations

The Jobs and Skills Australia Internet Vacancy Index reveals community and personal services workers have remained the most elevated relative to pre-Covid levels, which is consistent with the trends observed in the ABS job vacancies by industry. The largest drivers were vacancies for health/welfare support workers, followed by carers and aides.

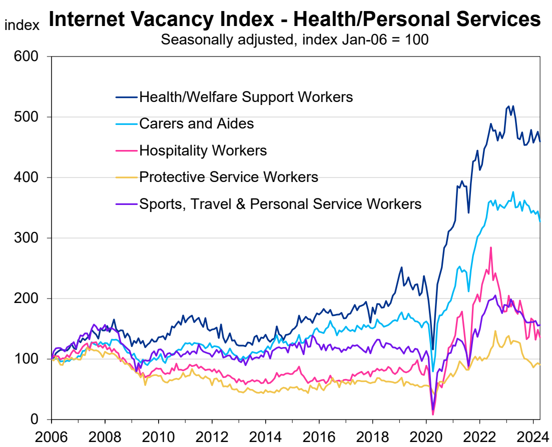
FIGURE 11



Source: JSA, Haver, KPMG

The need for skilled healthcare workers that had already been high prior to the pandemic due to an ageing population was boosted further as a result of backlogs, attrition and burnout following COVID-19. In addition, pandemic restrictions made it difficult to train health students, leading to a delay in trained labour supply for the workforce.

FIGURE 12



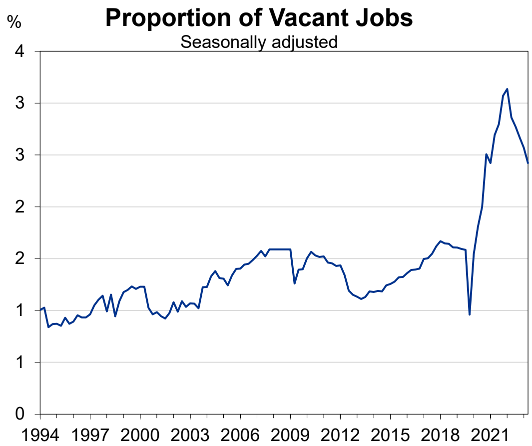
Source: JSA, Haver, KPMG

Unmet demand eases

Unmet demand has continued to ease since its peak in the September quarter 2022. The proportion of vacant jobs (out of total jobs, including filled ones) dropped from 3.2% in the September quarter 2022 to 2.4% in the December quarter 2023.

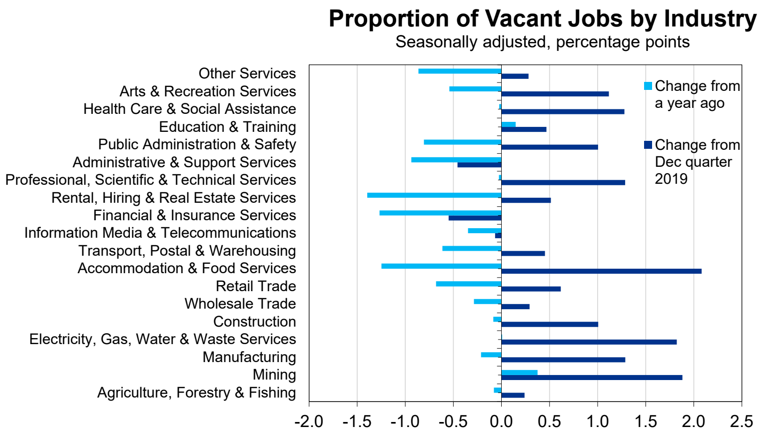
The largest fall from peaks was recorded in *Accommodation and food services*, down from 5.3% to 3.2%, as the surge in net immigration has helped alleviate the labour shortage in the industry. Nonetheless, the proportion of vacant jobs in *Accommodation and food services* remained 2 percentage points above the level in the December quarter 2019 as the industry has experienced high turnover.

FIGURE 13



Source: ABS, KPMG

FIGURE 14



Source: ABS, KPMG

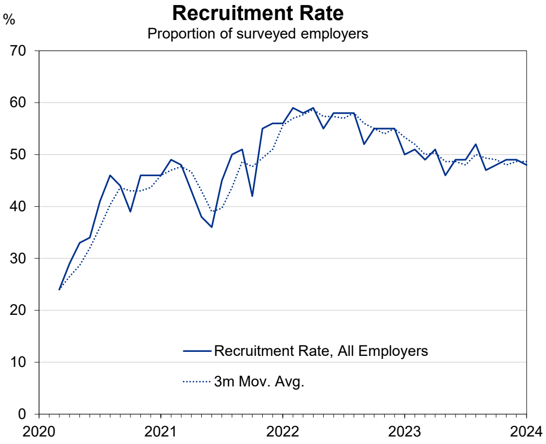
Difficulty in hiring

Recruitment activity and difficulty soften from peak in mid-2022

The recruitment survey by Jobs and Skills Australia reveals recruitment activity has gradually come down from its peak in mid-2022, with the proportion of employers recruiting decreasing from 59% in July 2022 to 48% in April 2024. The outcome for April 2024 also eased by 1 percentage point over the month, driven by the softening in recruitment activity by employers in the Rest of State areas.

Nonetheless, looking past the monthly fluctuations, recruitment activity has remained rather stable over the last year.

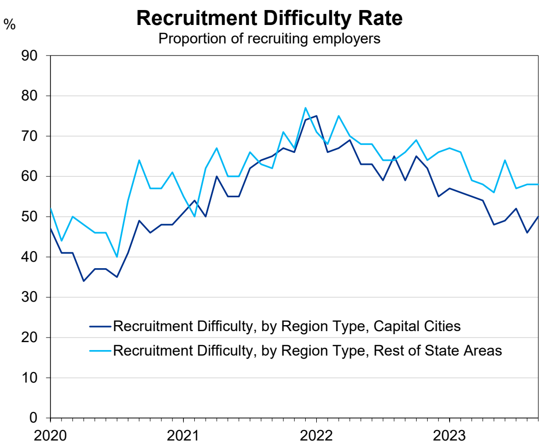
FIGURE 15



Source: JSA, KPMG

The difficulty in hiring has also decreased since its peak in mid-2022 as the return of immigrants has boosted labour supply. The proportion of recruiting employers came down from 75% in July 2022 to 53% in April 2024. The difficulty rate, however, remains more elevated in regional areas relative to capital cities.

FIGURE 16



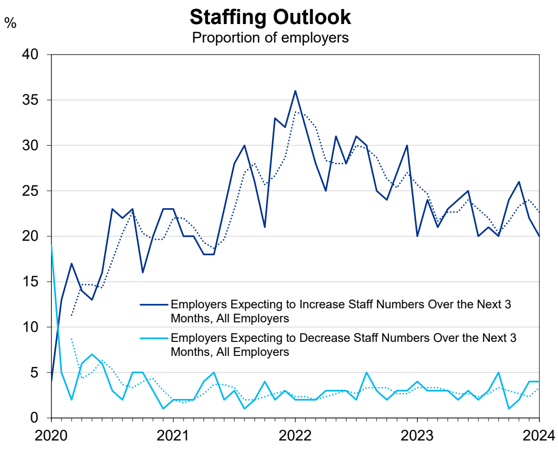
Source: JSA, KPMG

Five out of seven surveyed industries still experienced a recruitment difficulty rate of more than 50% in the March quarter, led by *Manufacturing* (61%) and *Construction* (55%*). Aligned with the industry outcomes, by occupation, the survey also shows employers had the most difficulty recruiting *Technicians and trades workers* (71%).

Lower-skilled industries including *Accommodation and food services* and *Wholesale trade* had the lowest difficulty rate of 36% and 47%* respectively. *Accommodation and food services* and *Wholesale trade* also saw the largest declines in recruitment difficulty rate of 17 percentage points and 23 percentage points* compared to the same period last year.

Looking ahead, staffing outlook is weakening, with stronger sentiment among employers in capital cities than the Rest of State regions. The proportion of employers expecting to increase staff numbers over the next three months eased by 2 percentage points over the month in April, following a decrease of 4 percentage points in March.

FIGURE 17



Source: JSA, KPMG

In line with the vacancies data, in the March quarter 2023, *Accommodation and food services* had the highest recruitment rate of 64% and strongest staffing outlook with 26% of employers expecting to increase staff numbers.

Overall, the Jobs and Skills Australia recruitment survey still signals resilient labour demand despite economic slowdown. The hiring difficulty employers faced in the post-Covid world has also been ameliorated with the influx of immigrants – however, this is not uniform across industries and regions as some are still experiencing more challenges than others.

* Interpret with caution due to low sample size.

02

Labour supply

Population growth

Australia has experienced a strong growth in net overseas migration, although unevenly across states and territories. While this partly alleviated the labour shortages during the economic recovery phase after COVID-19, some industries requiring specialised skills have continued to have difficulty in hiring. In this environment, targeted overseas migration is critical to Australia's competitiveness and improving the country's productivity.

Strong population growth driven by net overseas migration

Australia's population increased by 2.5% through the year to 30 September 2023, with net overseas migration contributing 83% of annual population growth. There were 765,900 overseas migration arrivals, primarily on temporary visas, and 217,100 departures, which together led to a 60% uplift over the year for net overseas migration.

FIGURE 18a

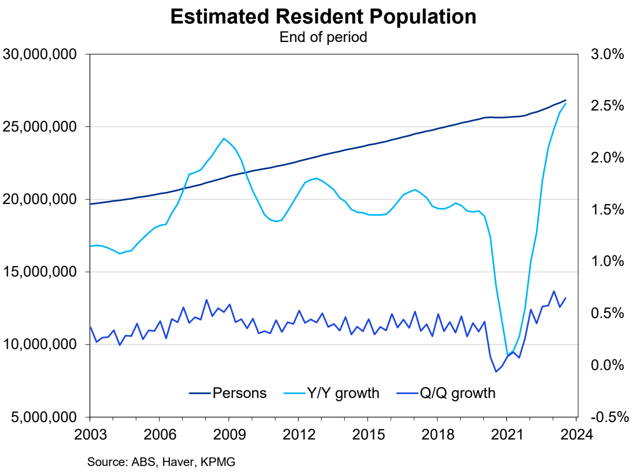
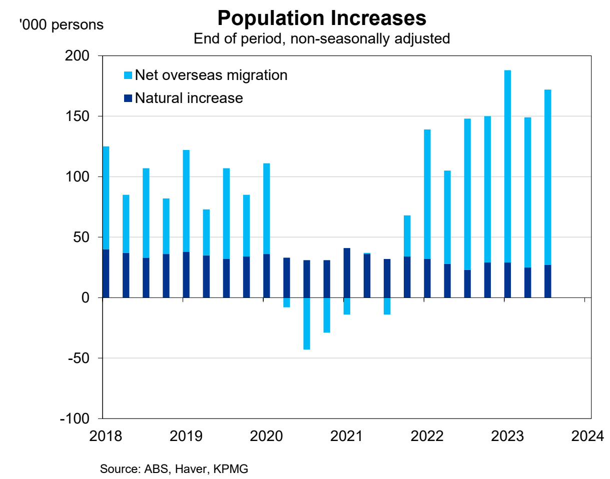


FIGURE 18b



Nonetheless, the pace of growth appears to slow down, with the increments to annual growth declining for four consecutive quarters from 0.5 percentage points in September 2022 to 0.1 percentage points in September 2023. As federal and state governments tighten their visa policies, population growth is expected to reach a peak soon.

There is a clear 'two-speed' pattern to population growth across states and territories, with much stronger growth in Western Australia (3.3%), Victoria (2.9%) and Queensland (2.7%) and much weaker growth in Tasmania (0.3%) and the Northern Territory (0.7%).

FIGURE 19

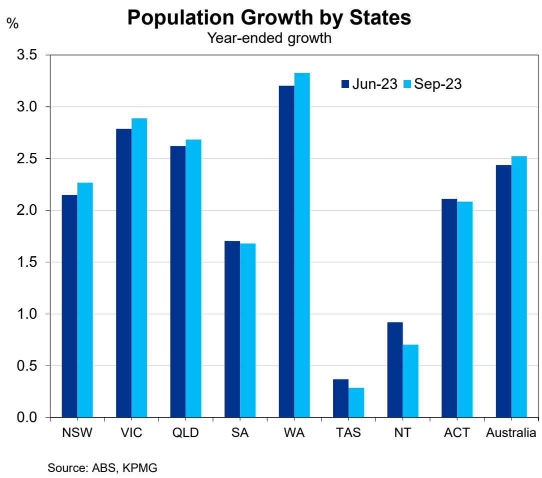
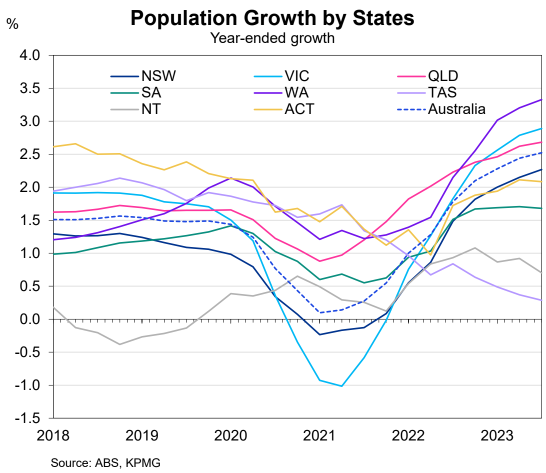


FIGURE 20



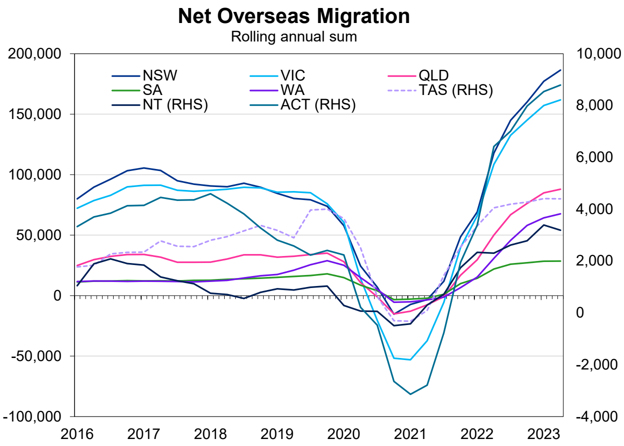
Population growth (cont.)

Strong net overseas migration across states, while people move interstate to Queensland and Western Australia

Most states and territories saw strong surges in net overseas migration, with the numbers remaining well above pre-Covid levels. However, Tasmania's surge was more modest than other states and territories.

The state also experienced the softest growth in population, with virtually no percentage growth recorded for the September quarter 2023. Tasmania has seen a decline in net interstate migration for five consecutive quarters since the June quarter 2022.

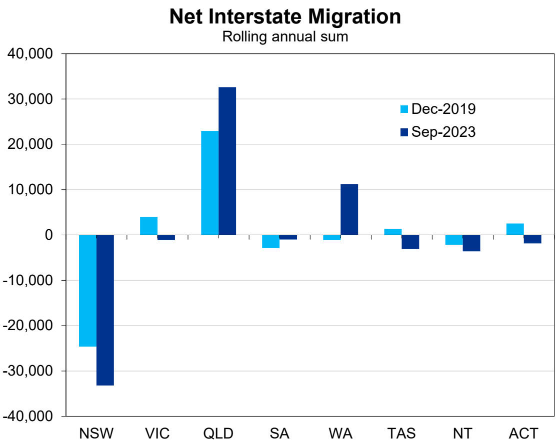
FIGURE 21



Source: ABS, KPMG

Queensland and Western Australia were the only two states that saw positive net interstate migration over the year to September 2023, with 32,625 and 11,233 people moving into these states.

FIGURE 22

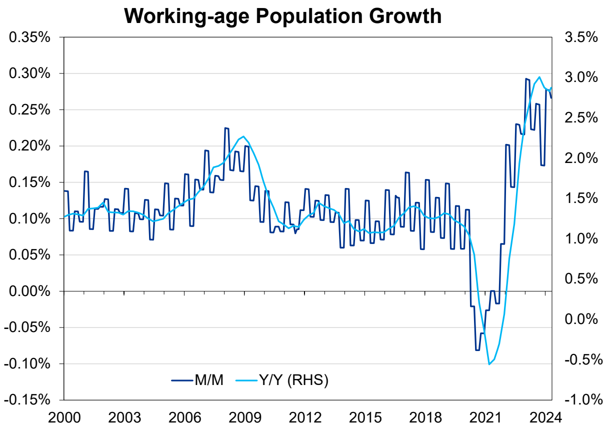


Source: ABS, KPMG

Growth in working-age population peaks

Working-age population (15–64 years old) experienced a period of extraordinary growth during 2022 and 2023. Its monthly growth appears to have softened since late 2023, and the annual growth peaked at 3% in September 2023.

FIGURE 23



Source: ABS, KPMG

The increase in working-age population has helped boost labour supply and alleviate the shortages seen in many industries. However, despite a strong growth in working-age population coming from net overseas migration, it will take time for the newly arrived immigrants to settle and find work.

The current matching rate (see Section 3) is still low compared to the level before COVID-19, and labour market indicators continue pointing to tight conditions despite strong population growth. Together, these pieces of evidence suggest Australian employers are continuing to be challenged with hiring the right mix of skills and talent. In this environment, targeted overseas migration is critical to Australia's competitiveness and improving the country's productivity.

Temporary skilled visas

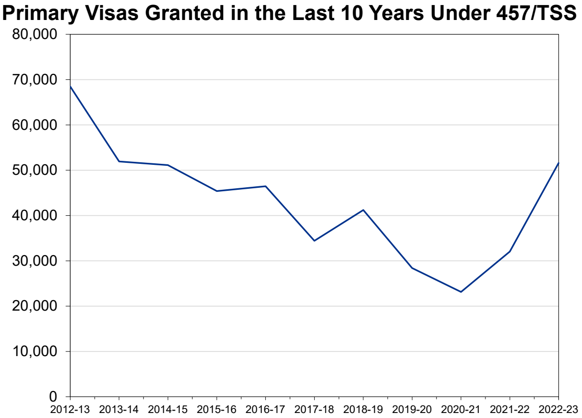
Temporary skilled visas granted increase sharply post-Covid but are slowing down

The number of temporary skilled visas (457/Temporary Skill Shortage) surged sharply by 38.4% in FY21–22 after borders reopened. With the acceleration in visa processing, along with the relaxation in rules, the number of 457/TSS visas granted jumped by 61% in FY22–23. The post-pandemic labour shortages have reversed the downward trend in temporary skilled visas granted, bringing it back to the level seen in FY14–15.

However, as the unusually large surge in immigration has added pressure to housing and rental demand, the number of visas granted dropped by 8% in FY23–24 as of March 2024 compared to the same period last financial year.

FIGURE 24

Primary Visas Granted in the Last 10 Years Under 457/TSS

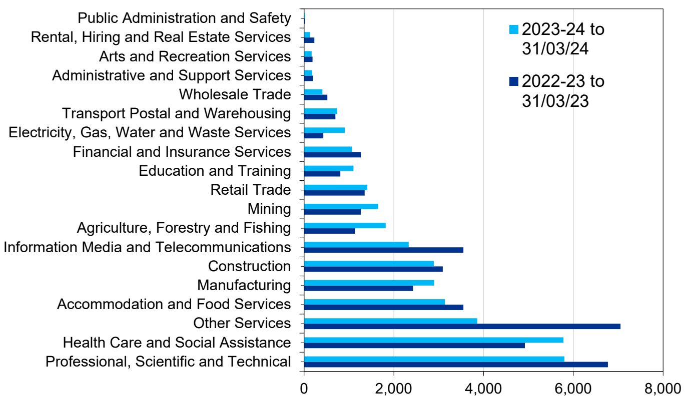


Source: Department of Home Affairs, KPMG

The top industries sponsoring 457/TSS visas in FY23–24 as of 31 March 2024 were *Professional, scientific and technical services* (16%), *Health care and social assistance* (15.9% of total), and *Other services* (10.6%).

FIGURE 25

Number of Primary Applications Granted by Sponsor Industry



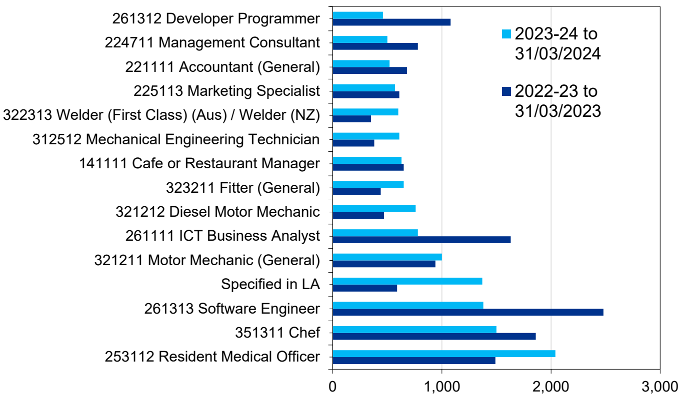
Source: Department of Home Affairs, KPMG

While being among the top sponsor industries, 457/TSS visas granted sponsored by *Professional, scientific and technical services* and *Other services* dropped by 14.3% and 17.5% respectively over the year in FY23–24 as of March. On the other hand, *Health care and social assistance* saw a 17.5% uplift in 457/TSS visas granted, predominantly driven by a 36.5% increase in visas granted for resident medical officers.

'Resident medical officer' was most demanded in Queensland, which comprised 32.3% of primary applications granted for this occupation in FY23–24 to March 2024, followed by Western Australia (24%) and Victoria (19.6%).

FIGURE 26

Top Nominated Occupations for Primary Applications Granted



Source: Department of Home Affairs, KPMG

More than half of the occupations in the top 15 saw a reduction in 457/TSS visas granted in FY23–24 compared to the preceding year, with the sharpest falls observed in occupations in the *Professional, scientific and technical services* or *Information, media and telecommunications* industries, including developer programmer (-57.3%), ICT business analyst (-52.1%), software engineer (-44.4%), management consultant (-36.2%), and accountant (general) (-23.6%).

Across states and territories, Victoria (-23%) and New South Wales (-17%) experienced the largest drop in temporary skilled visas granted based on primary applications from FY22–23 to FY23–24 as of March. In contrast, the Northern Territory, Western Australia, and Queensland saw a 48.5%, 32.4%, and 14.2% uplift respectively.

03

Labour market conditions

National labour market conditions

Labour market conditions are softening gradually, with the unemployment rate ticking up in March and April. Yet, most indicators continue pointing to a tight labour market. Across all industries, *Wholesale trade* and *Arts and recreation services* saw the strongest growth in employment over the year, while industries exposed to consumer demand, *Accommodation and food services* and *Retail trade,* experienced a contraction.

Labour market conditions gradually ease

The seasonally adjusted unemployment rate increased to 4.1% in April, up from a revised 3.9% in March, beating the market expectation of 3.9%. Employment rose by 38,000, while the number of unemployed increased by 30,000.

The increase in unemployment was a combination of a rise in people without jobs available and looking for work, and a higher than usual number of people indicating they had a job that they were waiting to start in.

Despite this increase in unemployment, the employment-to-population ratio remained stable at 64%, with employment growth largely matching population growth. This continues to show the labour market's resilience in the face of a slowing economy as Australia's record levels of immigration have been soaked up by employers.

The seasonally adjusted monthly hours worked flatlined in April, with the seasonal pattern being more similar to the pre-Covid normality usually seen around the Easter holidays.

The participation rate in seasonally adjusted terms remained elevated, ticking up by another 0.1 percentage points to 66.7%. This was driven by a rise in the participation rate by both males (+0.2 percentage points) and females (+0.1 percentage points).

The number of unemployed persons per job vacancy in the March quarter 2023, albeit remaining low compared to historical standards, continued to pick up gradually.

The gradual softening in labour market conditions is broadly consistent with the wage growth outcome for the March quarter. This may ease the RBA's ongoing concerns about excess demand in the economy and fears of further tightening. We expect pressures in the labour market will continue easing in line with the slowdown in economic activity.

FIGURE 28

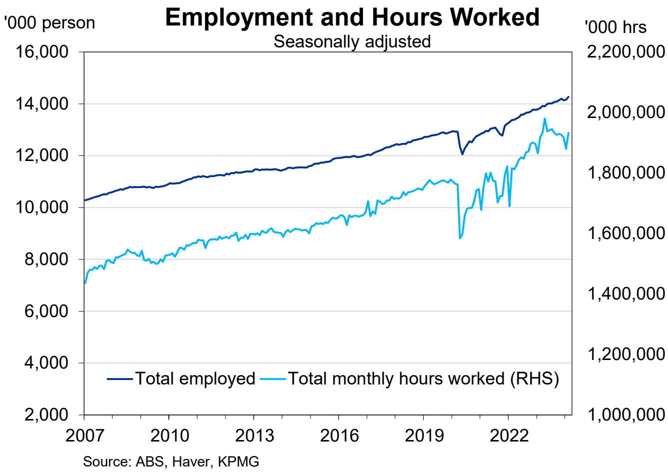


FIGURE 27

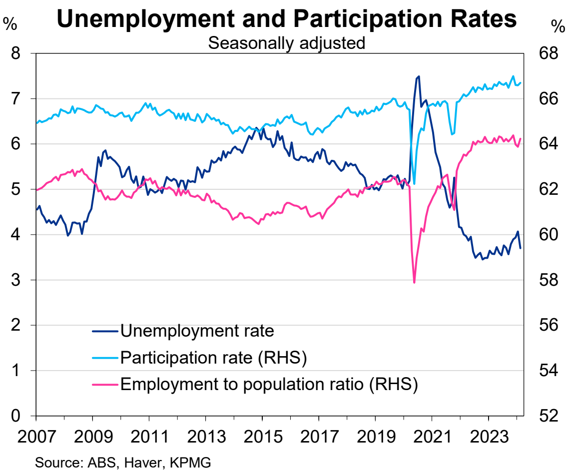
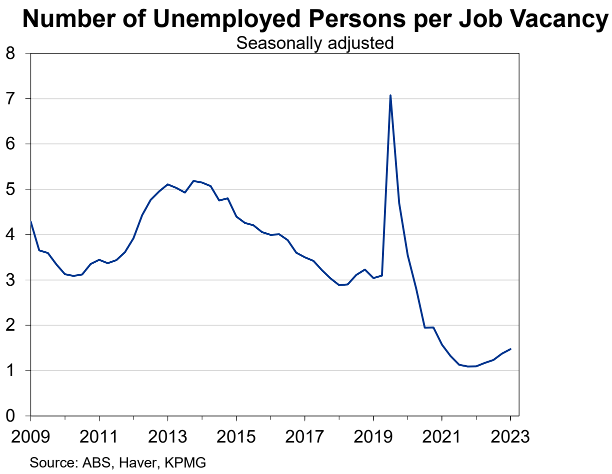


FIGURE 29



National labour market conditions (cont.)

Employment changes by industry

In the February quarter 2024, employment in *Rental, hiring and real estate services* increased by 12.5% over the quarter as activity in the housing market grew.

Employment in *Retail trade* and *Wholesale trade* expanded by 3.5% and 6.4% respectively, mainly driven by the uplift in consumer spending on clothing, merchandise, accessories and dining out that was boosted by Taylor Swift concerts.

The labour market has proven to be resilient, with employment growing through the year to February 2024 in 16 out of 19 industries. *Wholesale trade* saw the largest annual growth of 14.8% as supply chain disruptions have continued to ease.

FIGURE 30

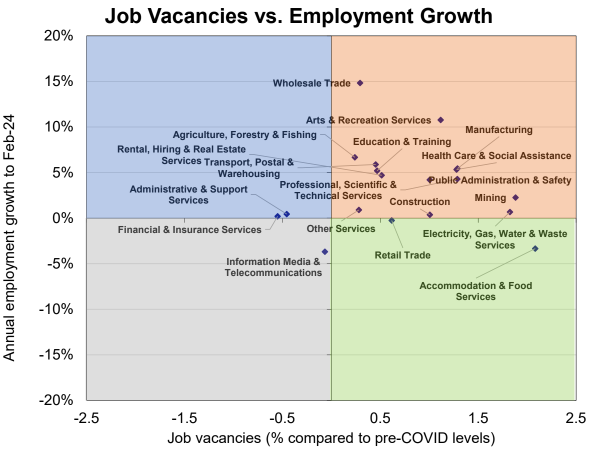
	Q/Q	Y/Y
Agriculture, Forestry, and Fishing	4.0%	6.7%
Mining	-2.9%	2.3%
Manufacturing	-0.8%	5.5%
Electricity, Gas, Water and Waste Services	2.7%	0.7%
Construction	-0.8%	0.4%
Wholesale Trade	6.4%	14.8%
Retail Trade	3.5%	-0.2%
Accommodation and Food Services	1.7%	-3.3%
Transport, Postal and Warehousing	-1.2%	5.9%
Information Media and Telecommunications	0.4%	-3.7%
Finance and Insurance	-3.2%	0.2%
Rental, Hiring and Real Estate Services	12.5%	4.7%
Professional, Scientific and Technical Services	-0.5%	4.3%
Administrative and Support Services	-1.2%	0.5%
Public Administration and Safety	-0.1%	4.2%
Education and Training	1.7%	5.2%
Health Care and Social Assistance	0.1%	5.3%
Arts and Recreation Services	-2.9%	10.8%
Other Services	-1.3%	0.9%

Information media and telecommunications recorded the largest fall in employment over the year. The other two seeing a fall were *Retail trade* and *Accommodation and food services,* suggesting weaker consumer demand amid high cost-of-living pressures and interest rates.

Accommodation and food services job vacancies have remained well above pre-Covid levels, but employment growth was subdued (bottom right quadrant in Figure 31). Further data from the Jobs and Skills recruitment survey shows the industry is struggling to retain staff, with half of the recruiting employers reporting having medium to high replacement rates for the occupations they most recently hired.

Accommodation and food services saw the highest share of employers reporting medium to high turnover, partly due to the low-skilled nature of roles in the industry.

FIGURE 31



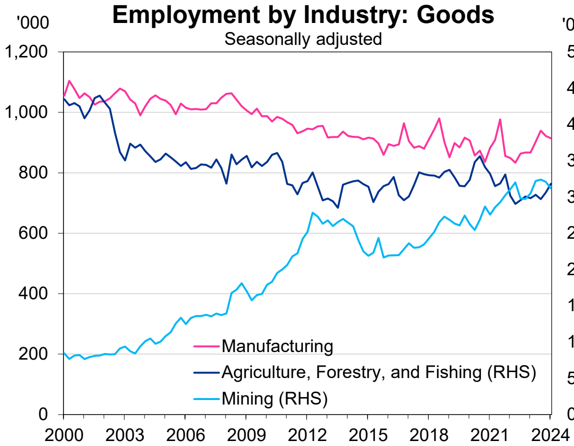
Source: ABS, KPMG

Most industries lie in the top right quadrant of the above chart, indicating resilient labour demand. In contrast, *Information media and telecommunications* had their job vacancies return to the pre-Covid levels and negative annual employment growth (bottom left quadrant), which suggests softening demand in the industry.

Demand also appears to have softened in *Administrative and support services* and *Financial and insurance services* (top left quadrant) as employment growth over the past year was weak, while job vacancies have dropped to below pre-Covid levels.

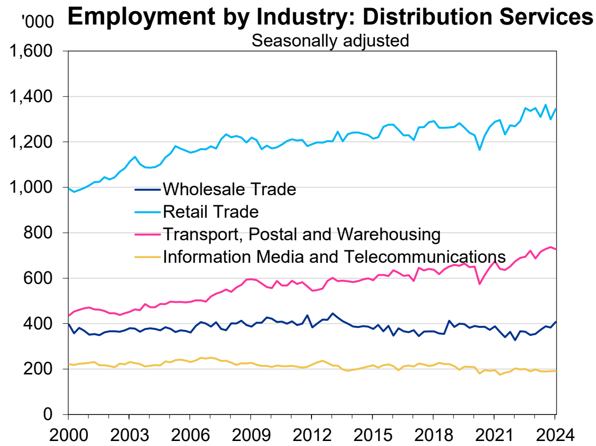
National labour market conditions (cont.)

FIGURE 32



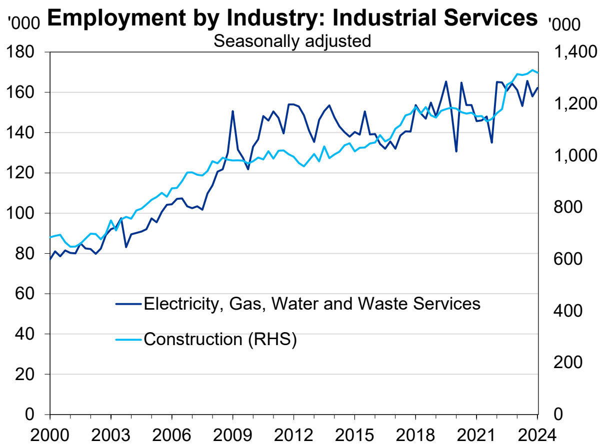
Source: ABS, KPMG

FIGURE 33



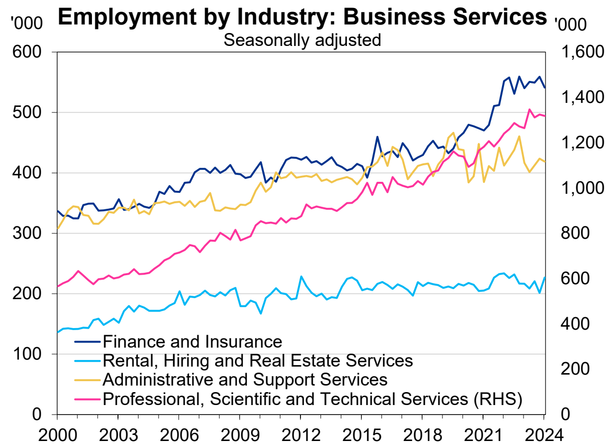
Source: ABS, KPMG

FIGURE 34



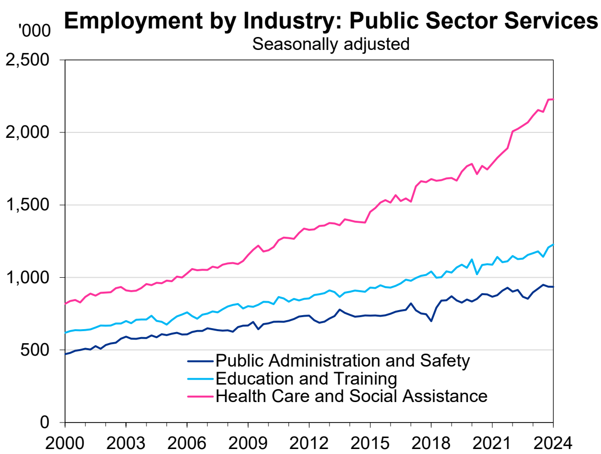
Source: ABS, KPMG

FIGURE 35



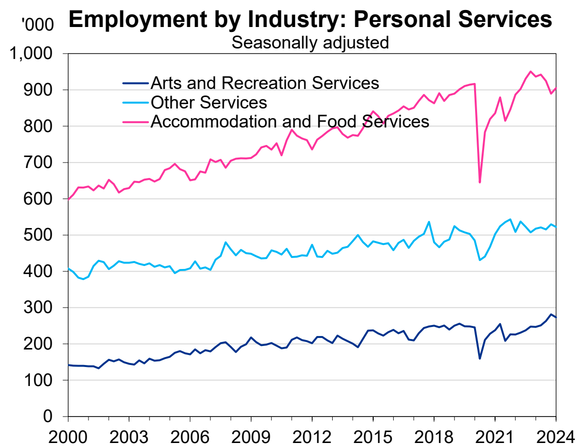
Source: ABS, KPMG

FIGURE 36



Source: ABS, KPMG

FIGURE 37



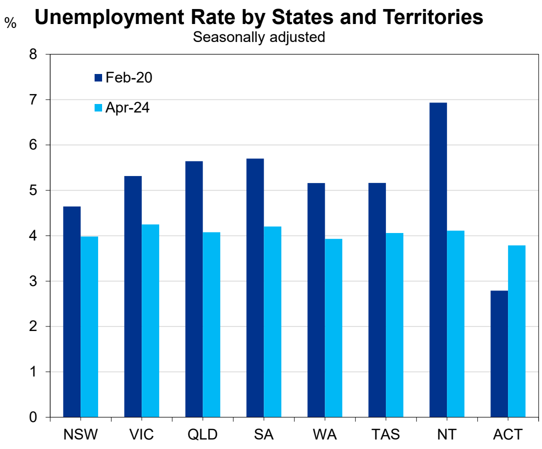
Source: ABS, KPMG

State labour market conditions

Unemployment rate gradually rises across states and territories but remains low

The unemployment rate is gradually rising in most states and territories, yet it remains well below the level seen prior to COVID-19. The Australian Capital Territory (ACT) is the only jurisdiction with an unemployment rate higher than pre-pandemic levels.

FIGURE 38

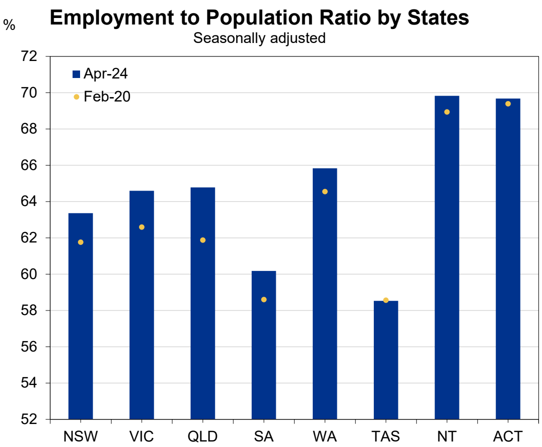


Source: ABS, KPMG

The unemployment rate in April 2024 ranged between 3.8% and 4.2%, with Victoria and South Australia recording the highest rate. All states and territories saw a monthly increase in the unemployment rate in April, with the ACT and Western Australia experiencing the largest rises of 0.9 percentage points and 0.5 percentage points.

The employment-to-population ratio has remained elevated compared to pre-pandemic levels across most states and territories. Nonetheless, the underlying trends are moving downwards in some states and territories, including South Australia, Tasmania and the ACT, although this trend appears to be reversed recently in the ACT as its employment growth ticked up in March and April.

FIGURE 39

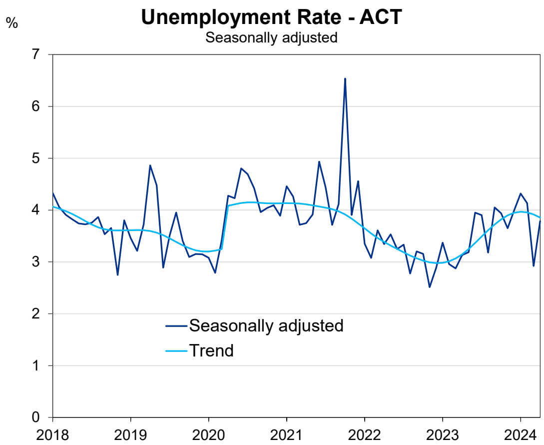


Source: ABS, KPMG

Before the reversal in March and April, the increasing trend of the unemployment rate in the ACT had been steeper than other states and territories since early 2023. This coincided with the downward trend in the employment-to-population ratio of the territory as its employment growth had slowed down significantly, suggesting declining demand, while population growth has remained steady.

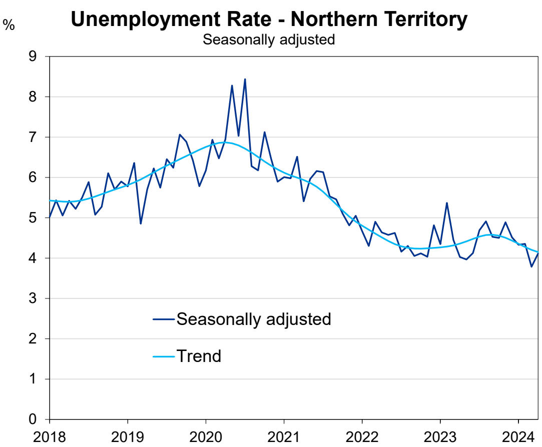
The recent improvement in employment growth in the ACT is likely to continue in the short term given the territory continued to record robust growth in state final demand (+1.1%) relative to other states and territories in the March quarter 2024.

FIGURE 40



Source: ABS, KPMG

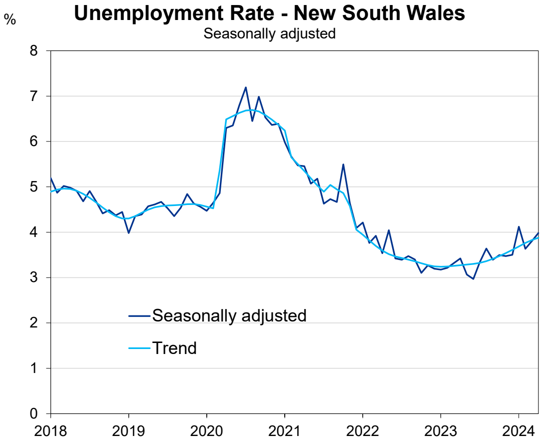
FIGURE 41



Source: ABS, KPMG

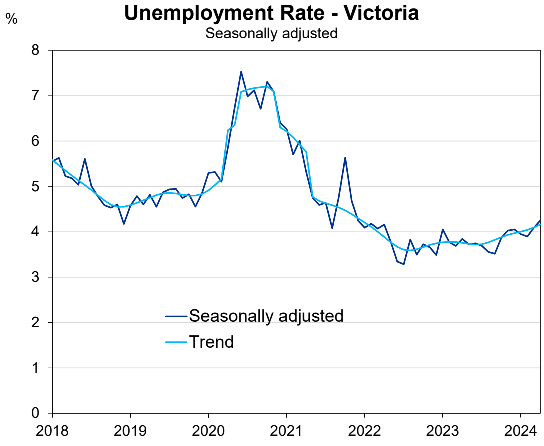
State labour market conditions (cont.)

FIGURE 42



Source: ABS, KPMG

FIGURE 43

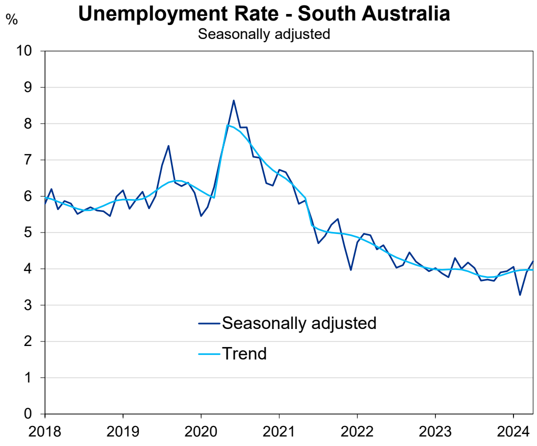


Source: ABS, KPMG

FIGURE 44

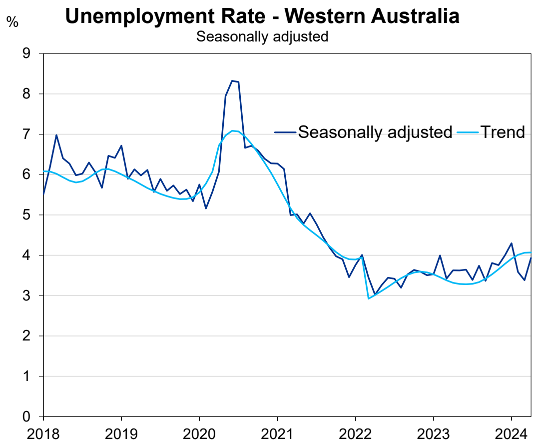
Source: ABS, KPMG

FIGURE 45



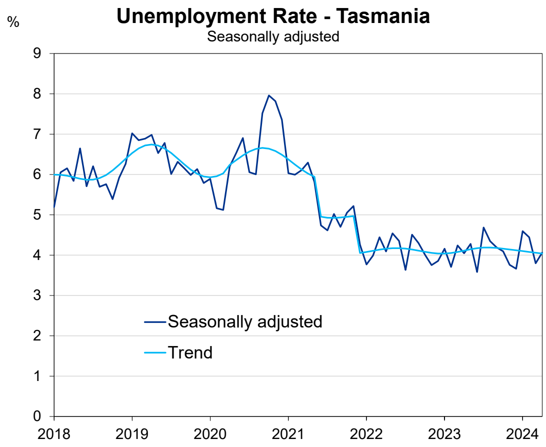
Source: ABS, KPMG

FIGURE 46



Source: ABS, KPMG

FIGURE 47



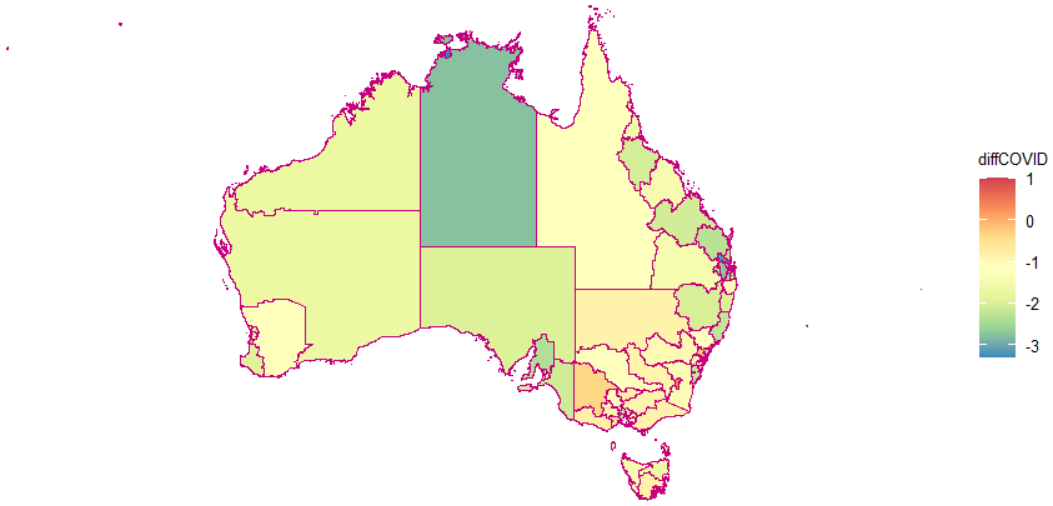
Source: ABS, KPMG

Regional unemployment by SA4

The unemployment rate remains low compared to pre-Covid levels in February 2020 across most regions, except for the ACT where the unemployment rate in April 2024 was 0.5 percentage points above. Sydney SA4 regions, including Sydney – City and Inner South, Sydney – Eastern Suburbs, Sydney – Northern Beaches, Sydney – Baulkham Hills and Hawkesbury, and Sydney – Inner West, have seen their unemployment rates trending upwards towards pre-Covid levels as employment growth is not catching up with population growth.

FIGURE 48

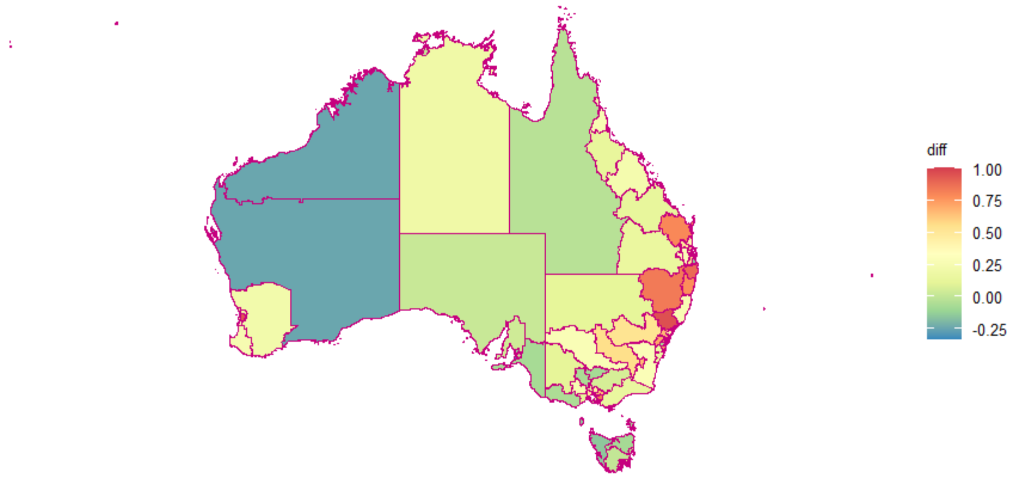
Changes in unemployment rate from pre-COVID levels



Unemployment is trending up gradually in more than 80% of the regions, with regions experiencing the largest rises concentrated in New South Wales, including Sydney – City and Inner South (+1 ppt), Sydney – Blacktown (+0.97 ppt), and Hunter Valley excluding Newcastle (+0.96 ppt). Regions seeing the largest drop in the unemployment rate over the year concentrated in South Australia, Tasmania and Western Australia – however, looking past the monthly volatility, their underlying trends are flat.

FIGURE 49

Changes in unemployment rate from a year ago



Source: ABS Modelled Labour Market Regions (SA4), KPMG

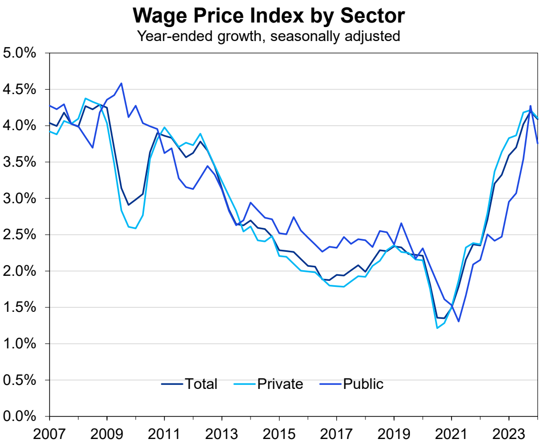
Wage growth

The slowdown in the labour market conditions was also reflected in early signs of softening in wage growth. The Wage Price Index (WPI) recorded an increase of 0.8% over the quarter in the March quarter 2024, down from 1% in the previous quarter. This outcome was slightly lower than the consensus forecast.

Annual growth in the WPI came in at 4.1%, down from the 4.2% recorded in the December quarter last year. This is the first time annual wage growth has fallen since March 2021.

The private sector was the primary contributor to the overall wages growth, with their wages increasing by 0.8% over the quarter, as opposed to 0.5% in the public sector. Annual wage growth in both sectors eased from the previous quarter – down from 4.2% to 4.1% for the private sector, and down from 4.3% to 3.8% for the public sector.

FIGURE 50

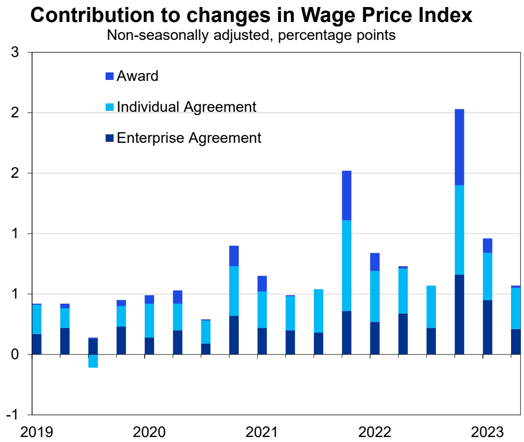


Source: ABS, Haver, KPMG

The quarterly wage increase in the public sector was the smallest since the March quarter 2022 (+0.5%). That was because the March quarter 2023 result reflected the implementation of new enterprise agreements and changes to wage caps, while there were fewer new agreements this quarter. In addition, many jobs covered by the last March quarter's new agreements saw scheduled rises paid in the September or December quarters 2023 instead of the March quarter 2024.

For the above reason, jobs covered by enterprise agreements contributed less to quarterly wage inflation than it did over the corresponding period last year. On the other hand, individual arrangement was the largest contributor, driving over half of the growth.

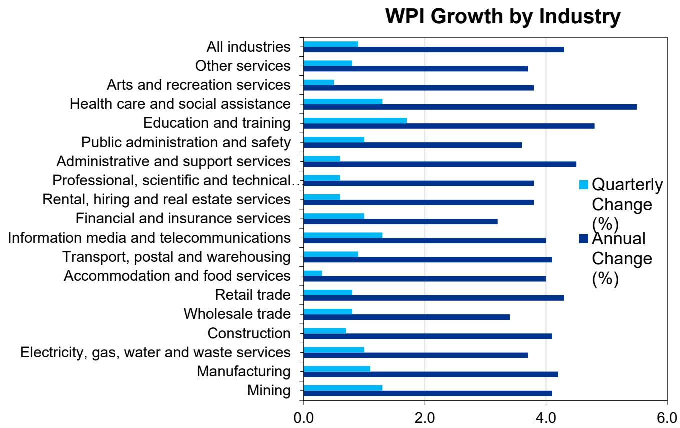
FIGURE 51



Source: ABS, Haver, KPMG

By industry, the quarterly wage growth was the highest in the *Electricity, gas, water and waste services* industry (+1.2%), while *Information media and telecommunications* saw the smallest quarterly rise of 0.1%, in line with the recent downturn in the tech industry. Through the year, *Health care and social assistance* continued to the highest rise (+5.3%), while *Arts and recreation services* and *Other services* both experienced the lowest growth of 3.1%.

FIGURE 52



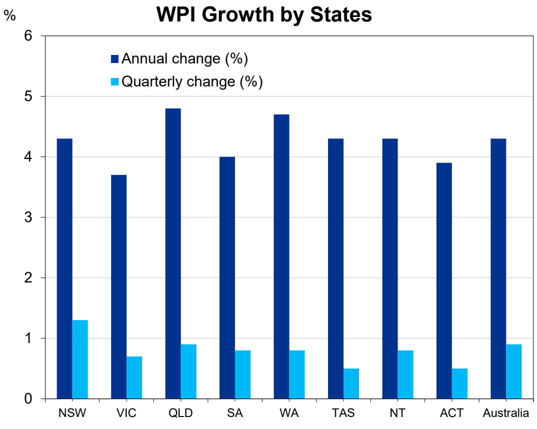
Source: ABS, KPMG

Factoring in the industry size, the largest contributor to the quarterly wage growth was *Professional, scientific and technical services*, adding 0.09 percentage points, followed by *Education and training* (+0.07 percentage points). *Information media and telecommunications* and *Arts and recreation services* contributed the least.

Wage growth (cont.)

Quarterly wage growth was contained around 0.4–0.7% across states and territories, except for Tasmania which saw a 1.6% rise: incoming migration has not been large enough to replace outgoing interstate migration, leading to a skilled labour shortage – the state had the lowest suitability gap in the December quarter 2023, which has then placed an upward pressure on wages in the state.

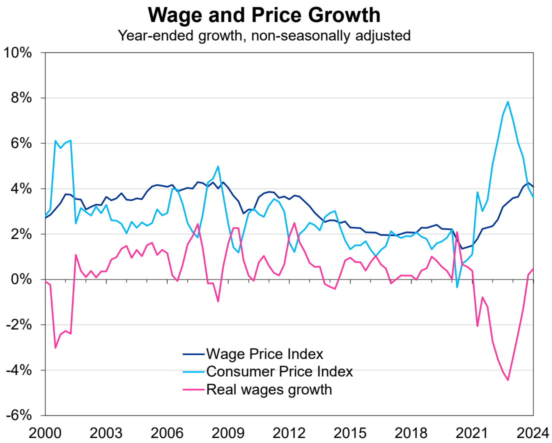
FIGURE 53



Source: ABS, KPMG

Real wage growth has recorded its second positive growth since June quarter 2021, supported by the latest quarterly CPI reading of 3.6% for the March quarter 2024.

FIGURE 54



Source: ABS, Haver, KPMG

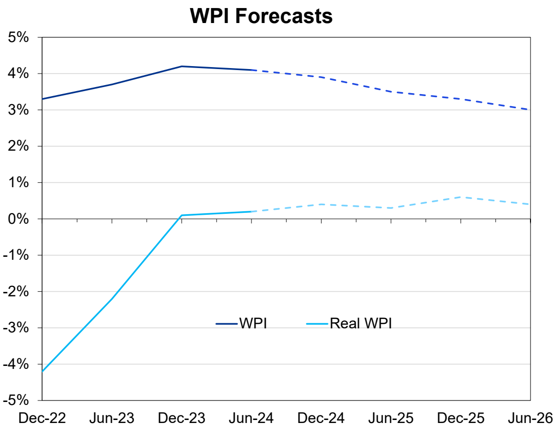
The early signs of softening in wages growth in the March quarter 2024 are aligned with the easing in labour market conditions as the unemployment rate is ticking up gradually. KPMG continue to expect WPI peaked at the end of 2023 but will stay at this elevated level for the first half of 2024 and roll off during the second half of the year.

Nonetheless, the labour market remains tight and wages growth remains stronger than pre-Covid standards. The annual average wage increase for enterprise agreements in late April surged by 0.7 percentage points from 3.5% to 4.2%, indicating surprise upside risks to wages growth are still present, especially when wages in the public sector compete with the private sector, causing the so-called 'Baumol effect'.

KPMG's biggest short-term concern regarding wages is whether real wage growth will outstrip productivity over the next year or two; if that is the case then we believe the unemployment rate will probably surprise on the upside. A determining factor for this could be the wage dynamic that plays out between the public sector and private sector – meaning if public sector wages kick up with no corresponding productivity gain and then drag private sector wages higher as a consequence (the Baumol effect) then the likelihood is higher job losses than otherwise would have been the case.

If this happens – where real wages exceed productivity and the unemployment rate cranks up at the same time as inflation remains persistently outside the target band – then the RBA will find itself wedged between these conflicting forces in trying to determine the best path forward for interest rates.

FIGURE 55



Source: ABS, KPMG

04

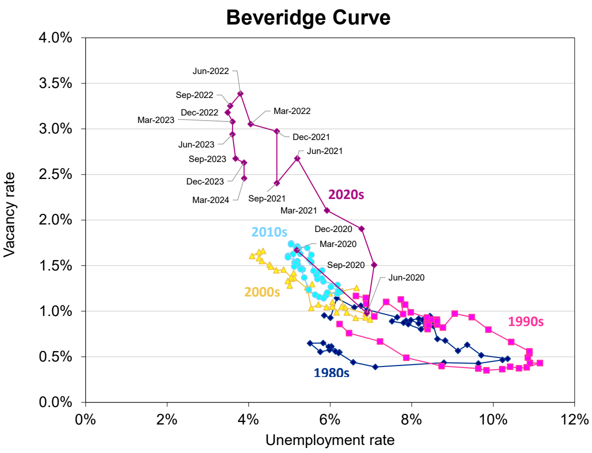
Labour market efficiency and pressure

Labour market efficiency

The Beveridge curve shifts outwards, indicating more inefficiency

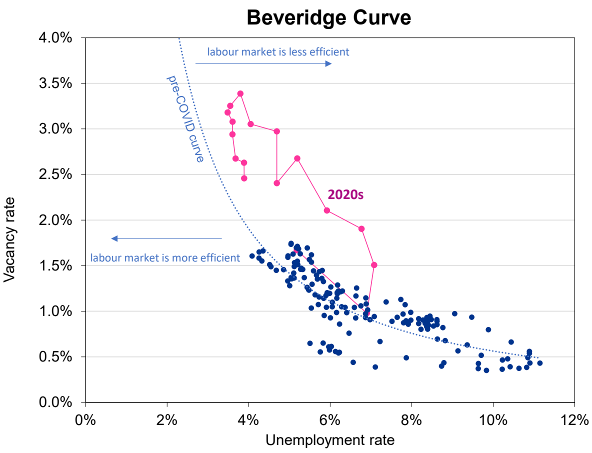
A Beveridge curve is a graphical representation of the relationship between unemployment and the job vacancy rate (i.e. the number of vacancies expressed as a proportion of the labour force). The characteristics and location of the curve can demonstrate the position of the economy in the business cycle. An economic downturn, when the job creation process is less prominent than the job destruction process, tends to show a downward movement along the Beveridge curve (higher unemployment and lower vacancies). In contrast, in a period of economic recovery, an upward movement is often observed.[1]

FIGURE 56



Source: ABS, KPMG

FIGURE 57



Source: ABS, KPMG

[1] Australian Bureau of Statistics (2018) Spotlight: Proportion of Vacant Jobs – A New Way to Analyse the Labour Market, Labour Account Australia, September 2017.

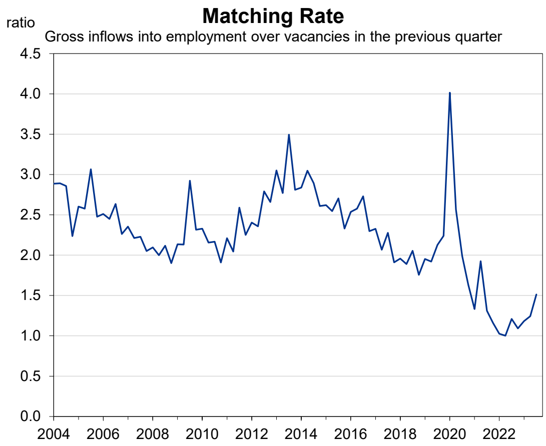
The Beveridge curve shifted outward during the 2020s cycle, and during the post-Covid expansionary phase from September 2020 to June 2022, it tilted more steeply upward than in previous decades (Figure 56). The outward shift from the pre-Covid curve (Figure 57) indicates a higher degree of job matching inefficiency. That is, for a given level of unemployment, the vacancy rate needs to be higher – in other words, employers need to post more vacancies to fill a given number of roles due to a mismatch in applicants' skills and employers' demand.

The recovery in labour demand after COVID-19 was not matched by sufficient skilled labour supply, with skilled workers leaving or not being able to enter Australia. This is consistent with the decline in the matching rate since September 2020 and the deterioration in labour productivity as businesses had to hire candidates with less suitable skills to meet their labour demand.

The 2020s cycle is now moving towards a contractionary phase, and the labour market is returning to the pre-Covid curve, suggesting improved efficiency (Figure 57). The large surge in net migration has boosted the labour supply pool and helped meet demand, leading to a reduction in unfilled vacancies. The slowdown of the economy due to high living costs and interest rates is also likely to have affected labour demand, although with a delay.

This increase in labour supply also means labour productivity should be expected to improve as businesses find workers whose skills better match their requirements. The matching rate, proxied by gross inflows into employment over vacancies in the previous quarter, has picked up since late 2022 and is expected to continue improving. However, the rate has remained well below its historical standards, implying the labour market is still inefficient in matching the skills employers demand and the skills jobseekers possess.

FIGURE 58



Source: ABS, KPMG

The KPMG Labour Market Pressure Index

The volatility in the unemployment rate after the pandemic begs the question: What exactly is a 'normal' level of unemployment in our current economic climate? As we navigate the recent economic landscape, understanding this benchmark is crucial for informed policy decisions and gauging the overall health of the Australian labour market.

Economists strive to measure the equilibrium unemployment because it serves a dual purpose. Firstly, it acts as a benchmark for sustainable economic growth and aids in establishing a delicate balance between unemployment and inflation, allowing for low unemployment without creating excessive inflationary pressures. Secondly, it guides policymakers in crafting solutions for situations where unemployment deviates from this natural rate, indicating excess labour demand or supply.

In our mind, the equilibrium level of unemployment is:

1. The lowest rate of unemployment without fuelling excessive increases in wages growth and inflation which is commonly known as the non-accelerating inflation rate of unemployment (NAIRU).

2. The natural level of unemployment is the unemployment rate that exists in a healthy economy when labour supply and demand are in equilibrium.

In considering this concept, it is important to recognise:

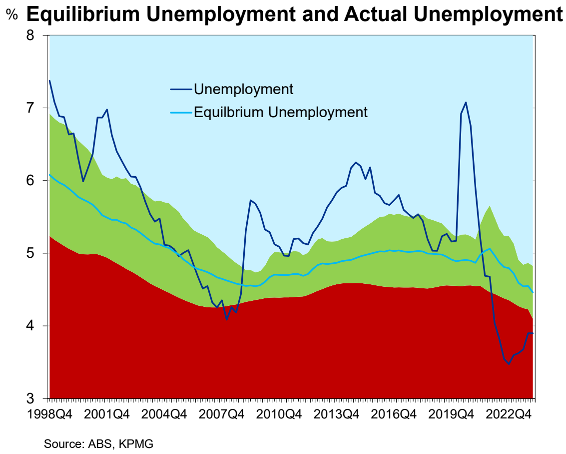
- The equilibrium unemployment rate is not observable and there is not a perfect way to measure the equilibrium rate.
- The equilibrium unemployment rate is not fixed. It can change over time due to factors like demographics, technological advancements, and government policies (i.e. education and training, wage-setting policies).
- The actual unemployment rate can be higher or lower than the natural rate depending on the economic cycle.

We then take a simple average across the two models to derive an estimate of the equilibrium unemployment rate. The confidence bands cover the range of the estimates from the two models.

Figure 59 presents our estimate of the equilibrium unemployment rate (u*) and the unemployment rate. The labour market can be visualised in three zones:

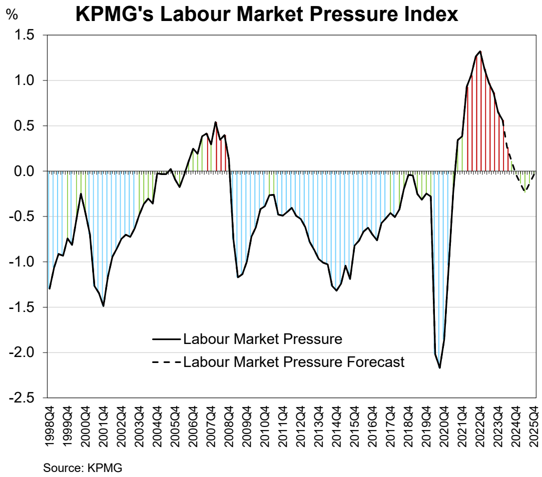
- Red: the labour market is constrained and exerting inflationary pressures.
- Green: the labour market is balanced.
- Blue: the labour market has spare capacity and has downward inflationary pressures.

FIGURE 59



The KPMG Labour Market Pressure Index, which is depicted in Figure 60, is then calculated as the difference between the equilibrium unemployment rate and the unemployment rate.

FIGURE 60



The chart shows interesting labour market dynamics in the past 40 years:

- 1990s and early 2000s: the index reflects a period of spare capacity in the labour market, with the unemployment rate being higher than the equilibrium rate.
- Pre-GFC: the index shows a mix between a balanced and reasonably tight labour market as the economy enjoyed strong growth fuelled by the commodity boom.
- Post-GFC: in the decade following the GFC, the Labour Market Pressure Index moved upwards and indicates a return to spare capacity in the labour market.

The KPMG Labour Market Pressure Index (cont.)

- COVID-19: the index plunged to a low of -2.2 at the start of the pandemic reflecting significant job losses during the pandemic. However, the situation swiftly reversed course. By Q4 2022, the Labour Market Pressure Index had spiked to its highest point as a result of government stimulus programs, a rebounding economy, and a surge in demand for workers across many sectors.
- Recently: over the past four quarters, the Labour Market Pressure Index shows that the labour market is gradually moving towards its balanced region. Currently, the index is sitting at 0.56.

We forecast that the labour market will return to the balanced zone by the end of Q3 2024. The weakened economy will continue to drag down on labour market pressure. Furthermore, the increase in migration will continue to help to address some of the tightness in the labour market.

Key contacts

Dr Brendan Rynne
Chief Economist & Partner
T: +61 3 9288 5780
E: bjrynne@kpmg.com.au

Dr Michael Malakellis
Senior Economist & Principal Director
T: +61 7 3233 9592
E: mmalakellis@kpmg.com.au

Dr Brian Tran
Economist
T: +61 3 8614 5625
E: btran7@kpmg.com.au

Thu Hoang
Economist
T: +61 3 9288 6440
E: thoang3@kpmg.com.au

KPMG.com.au

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