

Markets Research Economic Comment

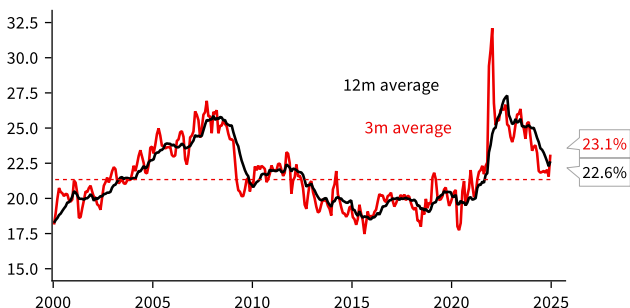
Unemployment remains low but job-finding is harder

Key points

- The unemployment rate is little changed over the past year and underemployment has fallen, but beyond those aggregate indicators labour market dynamics suggest there may still have been some underlying rebalancing. Labour market churn has slowed and job search is taking longer, especially for those in the market sector.
- Job-leaving intentions have fallen back, and while people joining the labour market are moving into employment quickly, those that lose jobs are taking longer to find work than they were a year ago.
- We continue to assess that Australia can sustain an unemployment rate below the 4.5% the RBA assessed as consistent with full employment back in November. While a further rise in the unemployment rate isn't a pre-requisite for cuts, there remains significant uncertainty about the labour market trajectory and risks on the full employment side of the RBA's mandate are two sided.

The labour market has substantially rebalanced even as the unemployment rate remains low. Beneath the surface of low measures of underutilisation, unemployed people are finding it more difficult to find a job. During 2023, 25.0% of unemployed people were employed the following month, down only marginally from 25.6% during 2022. In the three months to November, that job-finding rate had fallen back to around its long run average, comfortably below levels the last time unemployment was near 4%. It did rebound in December and will be important to watch in coming months.

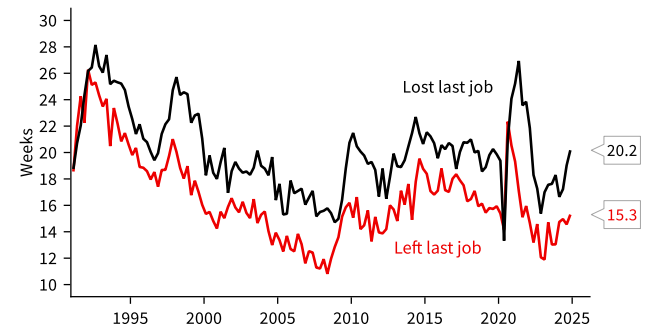
Job finding rate



Dashed lines are 2000-2019 average. Calculated by NAB from ABS matched sample gross flows
Source: National Australia Bank, ABS

Consistent with more challenging job search, the average duration of unemployment has lengthened. For those who lost their last job, the average duration of unemployment was 20.2 weeks in November, similar to conditions in the weak 2019 labour market.

Average duration of unemployment

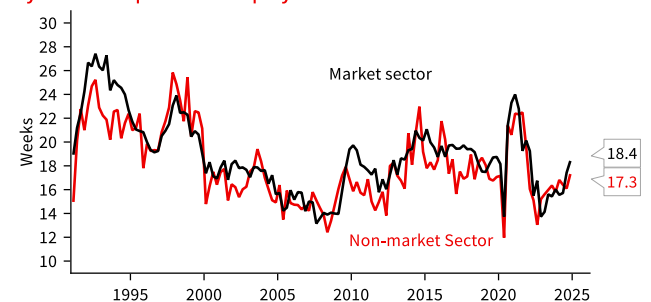


Source: National Australia Bank, ABS

Employment growth has been dominated by non-market industries recently (See: [Mining, not just Health, drives growth and employment disconnect](#)). The RBA Board has rightly concluded that “composition of growth in employment was not central for economic welfare or assessments of full employment.”

In assessing spare capacity though, it matters whether strength in non-market demand is driving slow employment growth in the market sector by outcompeting for scarce workers, or simply masking soft private labour demand. Industry unemployment dynamics are one indicator suggesting it may be the latter. The average duration of unemployment when people's previous job was in the market sector has increased noticeably and is around 2019 levels.

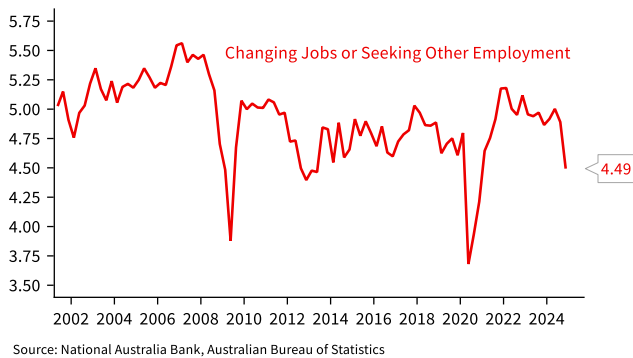
Average duration of unemployment by sector of previous employment



Source: National Australia Bank, ABS

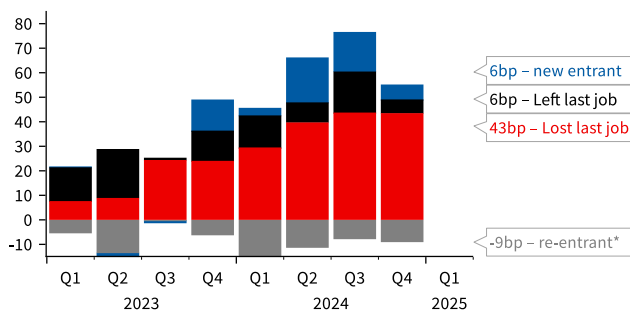
The more challenging job-finding environment also means that fewer people are intending to change jobs. After job switching intentions had remained elevated relative to their pre-pandemic levels until mid 2024, they have stepped down recently and are no longer elevated relative to history.

Share intending to change jobs in next 12 months



Job-leaving has also become rarer. The unemployment rate at 3.9% (in the detailed November data) is little changed from a year ago, but new entrants and re-entrants to the labour force account for less unemployment than a year ago, while those who lost a previous job account for 2 tenths more.

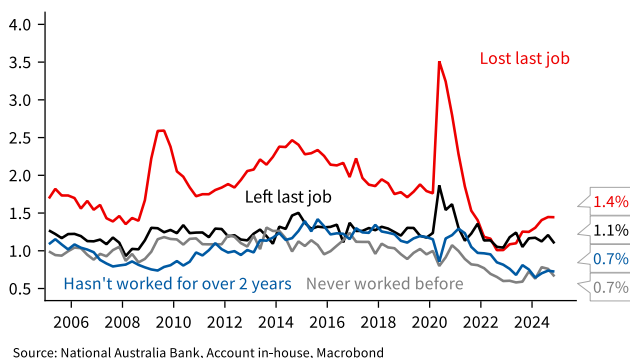
Australia unemployment rate, cumulative contributions



Importantly, the job-loser unemployment rate, at 1.4%, remains historically low, but it has risen from its 2022 trough, to be back around its level pre-GFC and just 2 tenths below its 2019 level. That's a more noticeable trend cooling than among other reasons for unemployment.

In contrast, the key dynamic keeping the unemployment rate historically low is very low unemployment among labour force entrants. Labour force entrants, and especially re-entrants, are tending to spend no or very short spells in unemployment when joining the labour market.

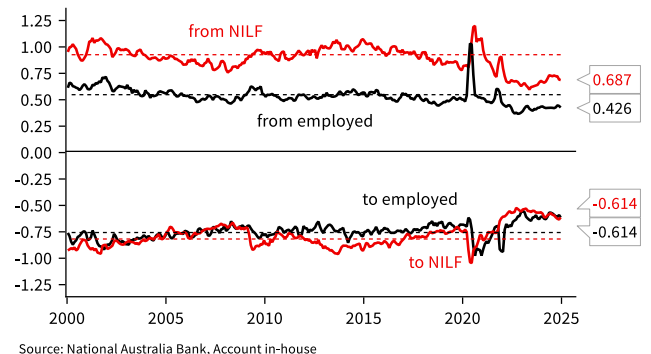
Unemployment rate (by previous employment status)



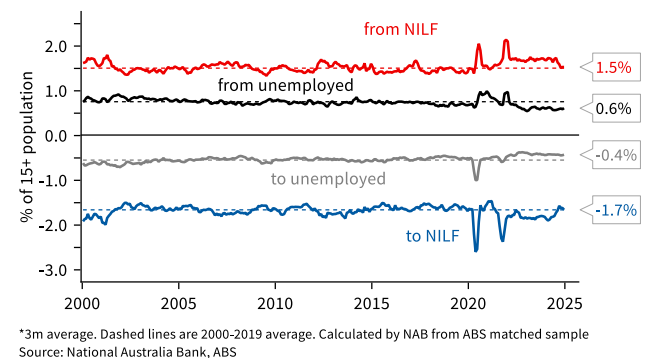
Flows into employment from outside the labour market had been historically elevated, and, while they have slowed recently, remain near their long run average. In contrast, flows from outside of the labour market into unemployment

remain exceptionally low. With participation already elevated, it may be that those who are being attracted into (or back into) the labour market are responding to high demand in pockets of the labour market like health and care jobs, and so face better job search conditions than the broader market.

Unemployment flows (share of labour 15+ population)

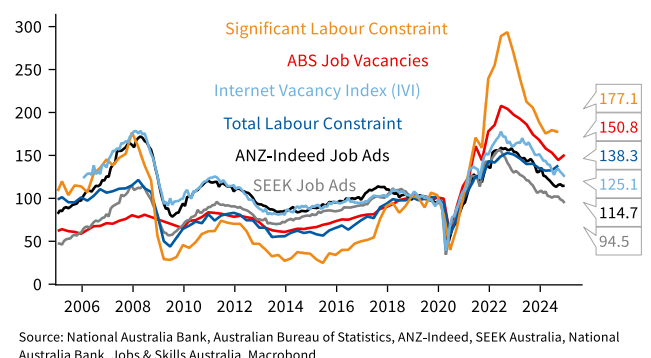


Employment flows



We don't think the RBA will ultimately need to see underutilisation rise towards their modelled estimates of labour market balance to be comfortable on the inflation outlook. But recent data suggest measures of labour demand have tended to stabilise at reasonably healthy levels over the past 6 months, consistent with stability in the unemployment rate and the fallback in other measures of underutilisation, even ahead of an expected pickup in growth over 2025.

Measures of labour demand



NAB forecast the unemployment rate to rise only modestly towards 4¼% by mid 2025, around our long-held assessment of levels consistent with full employment. But as the indicators in this note suggest, difficulty finding employment or suitable labour, and the implications for wage inflation, can depend on more than the unemployment rate alone. We will explore the implications for wages growth in future work.

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