

Labour Market Update

December 2021 quarter

Data current at 30 January 2022

Significant recent pick-up in labour market activity

The Australian labour market has weathered the impact of the global pandemic reasonably well. While the outbreak of the Delta variant and associated lockdowns had a significant, negative impact on the labour market for much of the second half of 2021, activity has rebounded strongly in recent months, reflected in strong growth in both labour demand and supply. Consequently:

- total employment, total hours worked and the employment-to-population ratio are now all at record highs;
- the participation rate is close to its record high achieved earlier in 2021;
- the unemployment rate has reached its lowest rate since August 2008;
- the underemployment rate is now at its lowest rate since November 2008 and;
- internet job advertisements reached their highest level since 2008 (in November 2021).

Despite the strong recovery at the end 2021, Omicron poses some uncertainty for the labour market in the short-term. That said, the RBA has stated 'while Omicron has delayed the recovery of the Australian economy, it has not derailed it'. Indeed, information from the RBA's business liaison program suggests demand for workers remains strong, despite the disruptive labour market effects from Omicron.

Table 1: Key labour market indicators, December 2021, and change since March 2020

Employment

▲ **1.9%** 13,242,000

Monthly hours worked in all jobs

▲ **3.1%** 1,818.8 million hours

Labour force

▲ **0.7%** 13,816,500

Unemployment rate

▼ **1.1% pts** 4.2%

Participation rate

▲ **0.2% pts** 66.1%

Source: ABS, *Labour Force, Australia*, December 2021, seasonally adjusted data.

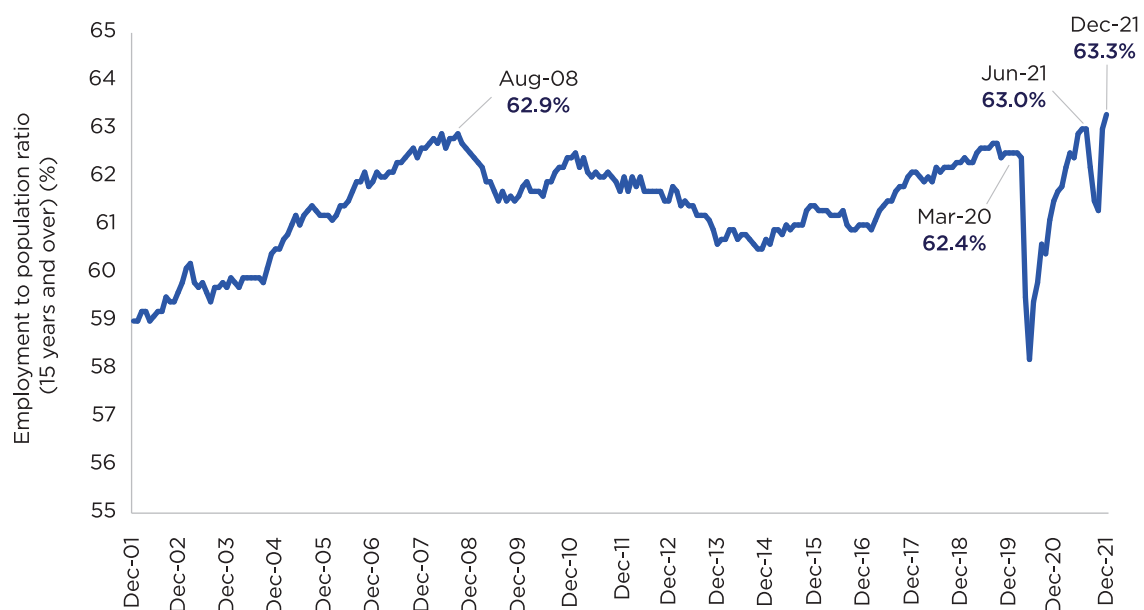
Strong recent growth in both employment and participation

The latest available ABS Labour Force Survey figures show that the level of employment increased by 374,900 (or 2.9%) over the 3 months to December 2021, reflecting the end of lockdowns and an easing of restrictions in a number of jurisdictions during the period.

The national unemployment rate fell sharply, from 4.6% in September 2021, to 4.2% in December 2021, the lowest rate recorded since August 2008. The decline in the unemployment rate appears even more remarkable when viewed in the context of the large number of people (324,400) who have entered the labour force since September 2021. This equates to a 1.6 percentage point increase in the participation rate, to 66.1% in December 2021, just below the record high (of 66.3%) achieved prior to the Delta outbreak.

In addition, the employment-to-population (aged 15 and above) ratio rose to 63.3% in December 2021, exceeding the rate last recorded prior to the Global Financial Crisis in 2008, to reach a new record peak (see Figure 1, below).

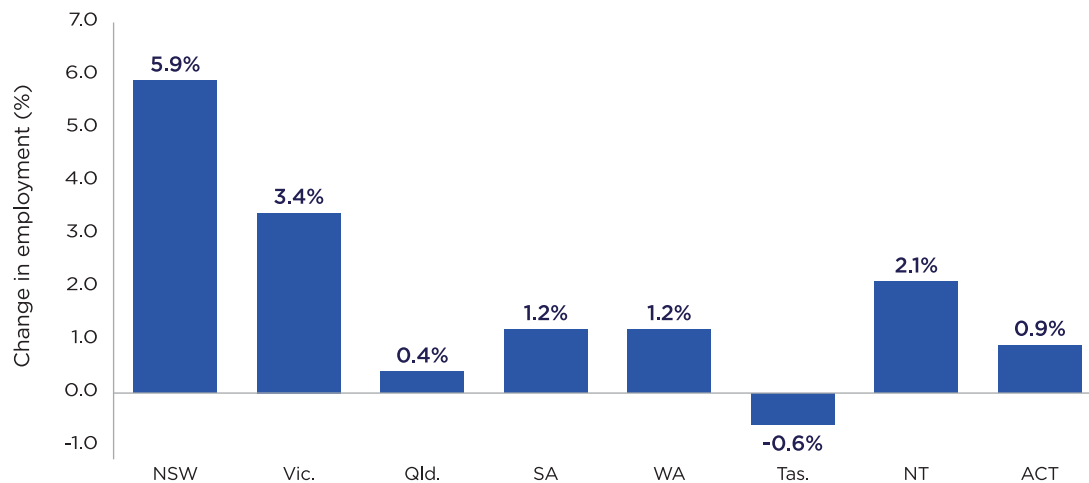
Figure 1: Employment to population (aged 15 years and above) ratio, December 2001 to December 2021



Source: ABS, *Labour Force, Australia*, December 2021, seasonally adjusted data.

As illustrated in Figure 2, below, employment increased in all jurisdictions, except for Tasmania over the 3 months to December 2021. Not surprisingly, New South Wales (up by 230,000 or 5.9%) and Victoria (up by 113,800 or 3.4%) recorded the largest increases in employment over the period, as those states continued to recover from Delta lockdowns.

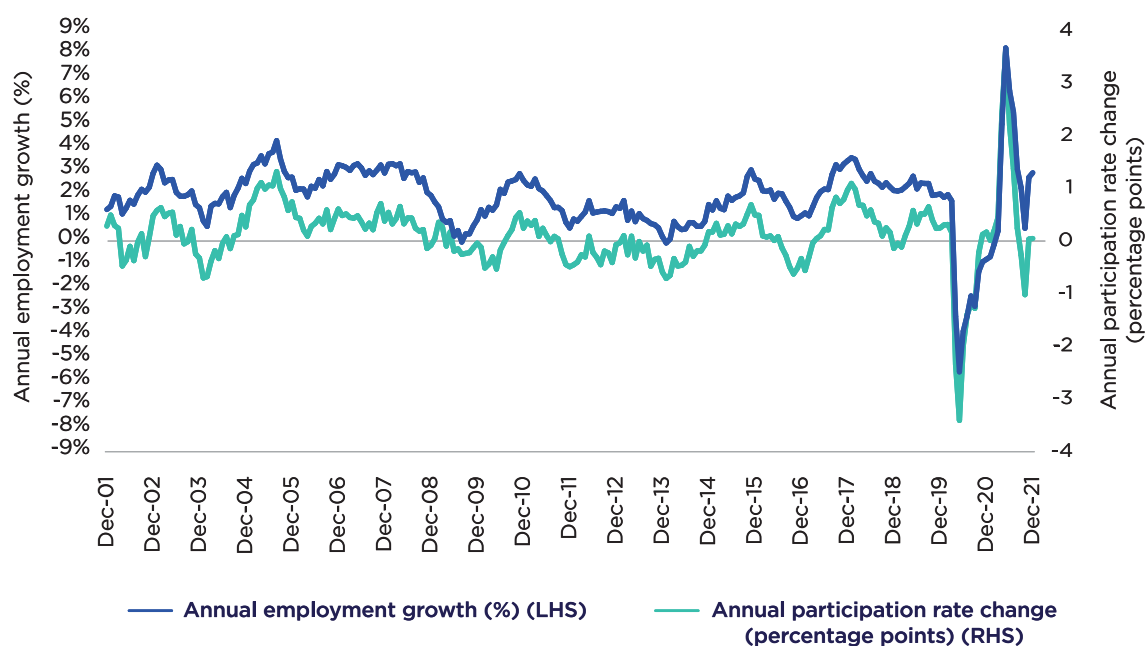
Figure 2: Change in employment by state and territory, September 2021 to December 2021



Source: ABS, *Labour Force, Australia*, December 2021, seasonally adjusted data.

Employment and participation are closely related, with movements in both mirroring one another over a long period of time. Reflecting the recent rebound in these two key labour market indicators, the last 3 months have been characterised by strong growth in both labour demand (with vacancies close to record highs and some skill shortages emerging) and labour supply (see Figure 3, below).

Figure 3: Annual change in employment (%) and the participation rate (percentage points)



Source: ABS, *Labour Force, Australia*, December 2021, seasonally adjusted data.

Contributions to growth in total hours worked have shifted during the pandemic

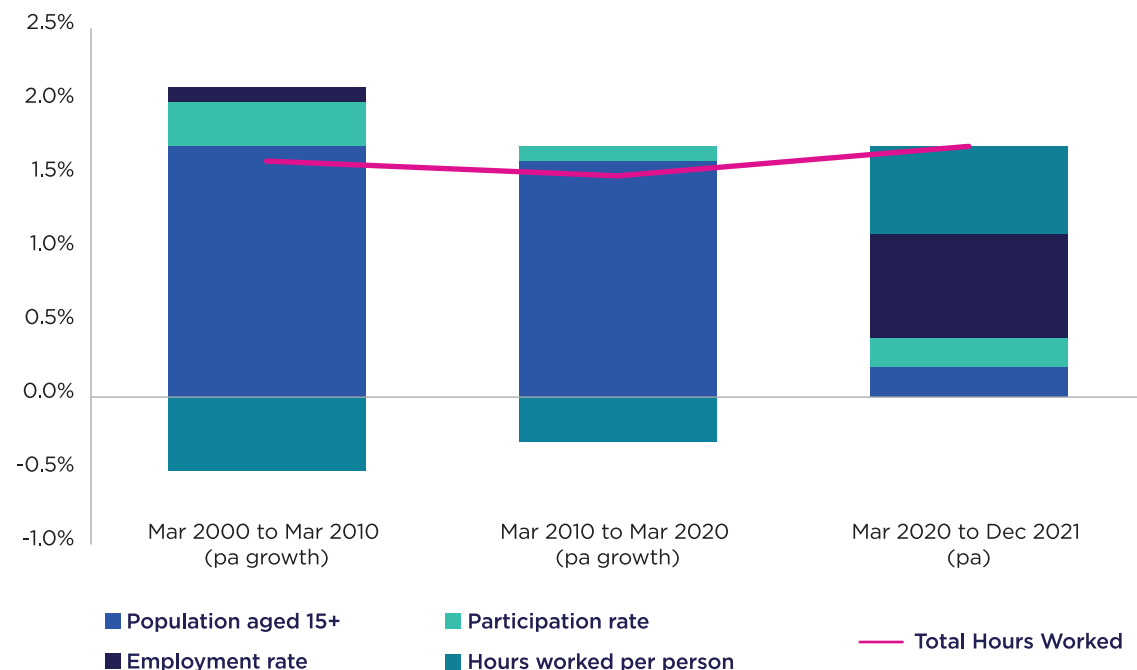
Businesses often reduce staff hours as an initial response to a downturn (as well as lockdowns associated with COVID-19 restrictions), rather than laying off staff, particularly if there is considerable uncertainty around the duration of the decline in activity.

The opposite is often true when economic activity rebounds. Nationally, the number of hours people worked increased by 92.1 million hours (or 5.3%) over the 3 months to December 2021 and is now 53.8 million hours (or 3.1%) above the level recorded in March 2020.

- It is worth noting that the increase of 3.1% recorded between March 2020 and December 2021 equates to an annualised growth rate of 1.7%, which is only slightly higher than the annualised growth rate recorded over the decade to March 2020 (of 1.5%) and the 1.6% per cent annualised growth rate recorded over the decade to March 2010.

As illustrated in Figure 4, below, the growth in total hours worked since the onset of the pandemic has been driven by factors different from those recorded in the two decades prior. For instance, between March 2020 and December 2021, growth in the population aged 15 years and over has only contributed slightly to the growth in total hours worked (due, primarily, to closed borders), while other labour market indicators, such as an increase in the participation rate (and a decline in the unemployment rate), have improved over the same period. Encouragingly, hours worked per person has made a sizeable contribution towards growth in hours worked since March 2020, due to stronger growth in *full-time employment* compared with part-time employment over the period. Conversely, the 20 years prior to COVID-19 were marked by much stronger growth in part-time employment, which led to reductions in average hours worked per person over that period.

Figure 4: Decomposition of percentage change in total hours worked



Source: ABS, *Labour Force, Australia*, December 2021, seasonally adjusted data.

Reflecting the rebound in labour market activity following the end of the Delta lockdowns, the number of people who worked zero hours for economic and 'lockdown-related' reasons¹ declined by 362,700 (or 81.0%) over the 3 months to December 2021, to stand at 85,000. As could be expected, the 'effective unemployment rate'² rose considerably following the outbreak of the Delta variant, reflecting the contraction in employment associated with lockdowns, and the fact that many people left the labour force as restrictions were implemented and school closures occurred. Indeed, the effective unemployment rate rose to 9.8% in September 2021, before declining sharply, to 4.4% in December 2021, as restrictions eased, people returned to the labour force and/or increased their hours of work - see Table 2, below.

Table 2: Actual and effective unemployment rates, May, June, September, and December 2021

	Actual unemployment rate (%)	Effective unemployment rate (%)
May 2021 (prior to the outbreak of the Delta variant)	5.1	5.1
June 2021	4.9	6.5
September 2021	4.6	9.8
December 2021	4.2	4.4

Source: ABS, *Labour Force, Australia*, December 2021, seasonally adjusted data and NSC estimates

1 Economic and 'lockdown-related' reasons comprises people whose stated reason for working zero hours was "No work, not enough work available, or stood down" and "Worked fewer hours than usual for other reasons".

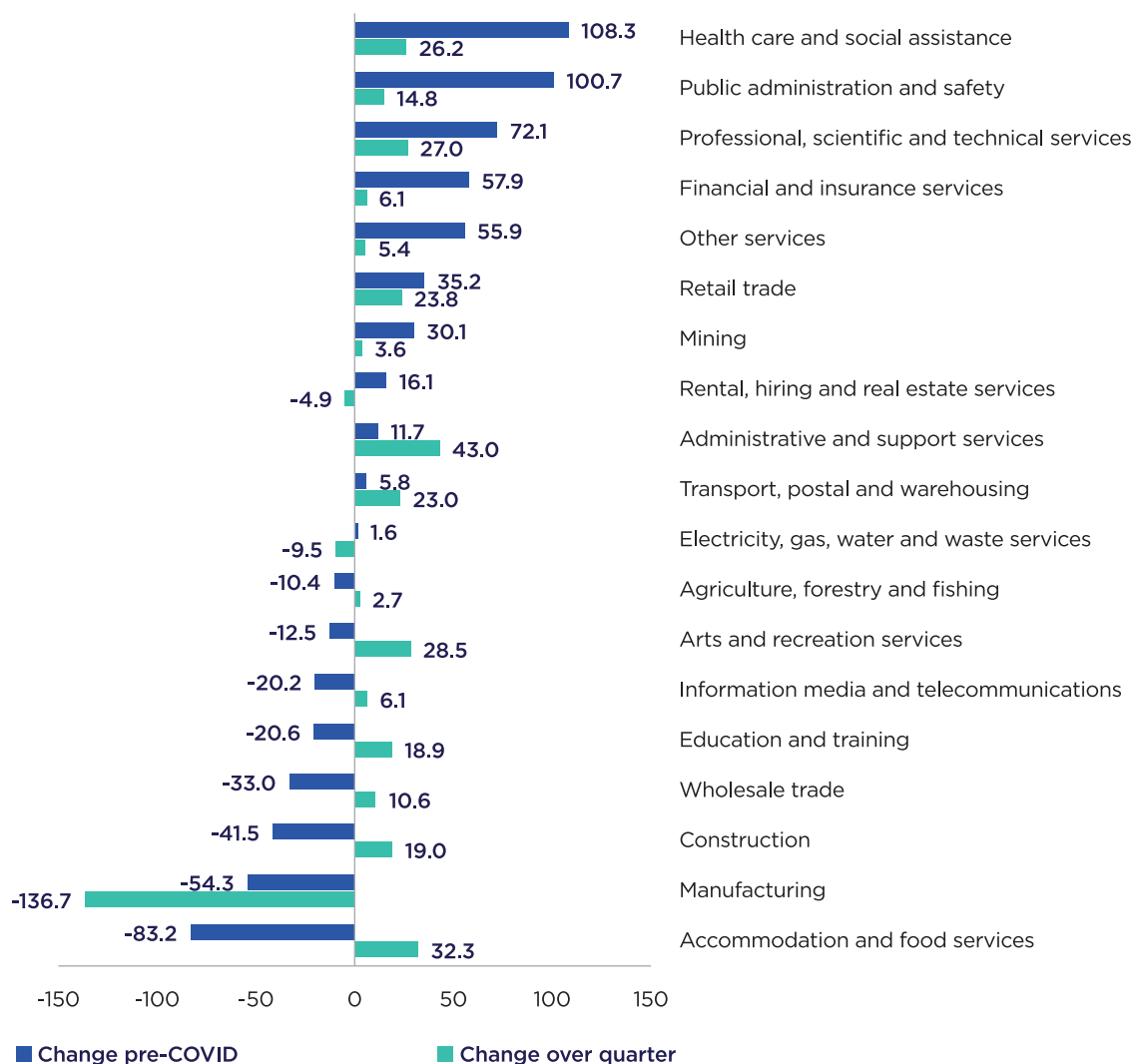
2 The effective unemployment rate takes into account those working zero hours for economic and lockdown-related reasons as well as those who have left the labour force since May 2021.

Employment growth has varied considerably across industries, occupations and skill levels during the pandemic

ABS Labour Force Survey data for November 2021 (the most recent available data) show that employment rebounded strongly across a number of sectors and exceeds pre-COVID-19 levels in 11 of the 19 main industry groups.

Figure 5 shows that during the pandemic, Health Care and Social Assistance, Public Administration and Safety, Professional, Scientific and Technical Services and Financial and Insurance Services made the largest contributions to employment growth. The largest falls in employment were recorded in Accommodation and Food Services, Manufacturing, Construction and Wholesale Trade.

Figure 5: Employment growth by industry ('000), August 2021 to November 2021



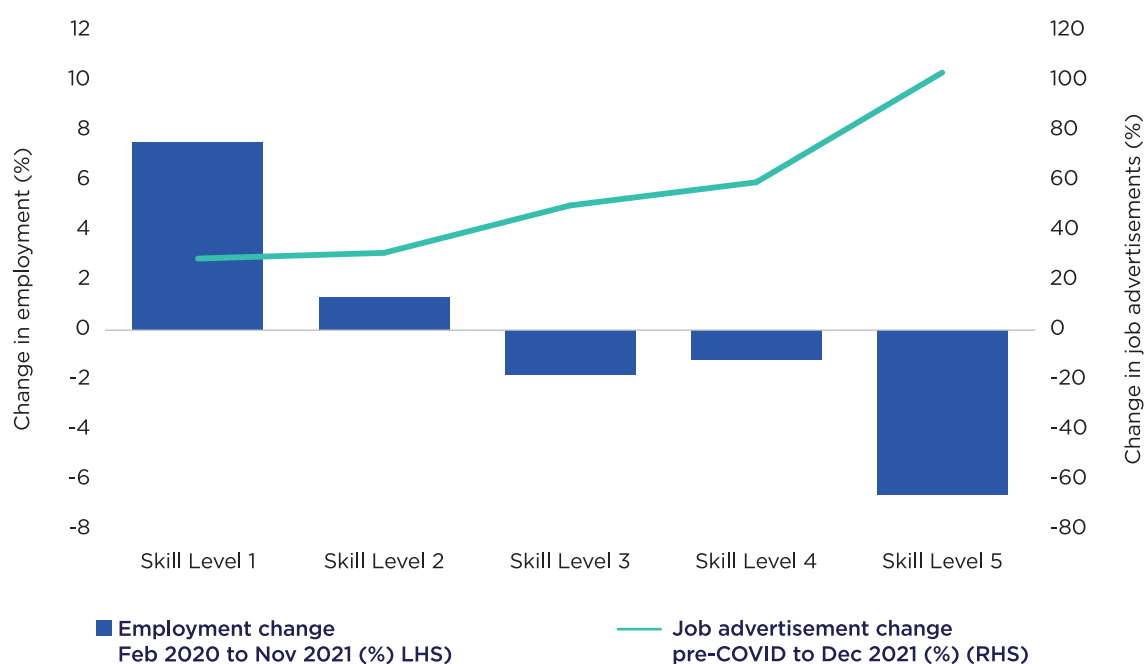
Source: ABS, *Labour Force, Australia*, detailed, November 2021

Employment in Skill Level 1 and 2 Occupations has increased despite the pandemic, with employment for Skill Level 1 Occupations increasing by 315,400 (or 7.5%) and Skill Level 2 Occupations increasing by 20,300 (or 1.3%) since February 2020. By comparison, employment for Skill Levels 3, 4 and 5 Occupations has fallen by 208,400 (or 2.9%) over the COVID-19 period.

- The largest decreases in employment since February 2020 were recorded for Skill Level 5 Occupations (down by 135,200, or 6.6%), followed by Skill Level 4 Occupations (38,900, or 1.2%) and Skill Level 3 Occupations (34,400 or 1.8%).

As Figure 6 shows, these employment growth trends are contrary to the percentage growth in job advertisements during the pandemic (where the lower Skill Levels have grown the most). In this regard, it is important to separate short-term job demand post lockdowns from more enduring skills shortages.

Figure 6: Growth in employment and job advertisements (compared to pre-COVID) by Skill Level



Source: ABS, *Labour Force, Australia*, Detailed, November 2021 and NSC, *Internet Vacancy Index*, December 2021

Since February 2020, employment has decreased in 171 of the 358 detailed occupation groups (or 48%), increased in 180 (50%), and remained steady in 7 (2%).

Seven of the ten occupations with the largest increases in employment since February 2020 were in Skill Level 1. These include Human Resource Managers (up by 46,700 or 65.6%), General Managers (38,900 or 80.5%), Database and Systems Administrators, ICT Security Specialists (35,100 or 88.4%) and Software and Applications Programmers (29,500 or 23.3%), reflecting the strong growth in the Professionals group over the period.

The three occupations which were in other Skill Levels included Storepersons (up by 47,400, Skill Level 4; which recorded the largest increase across all Skill Levels), Aged and Disabled Carers (40,500, Skill Level 4), and Other Hospitality, Retail and Service Managers (32,000, Skill Level 2).

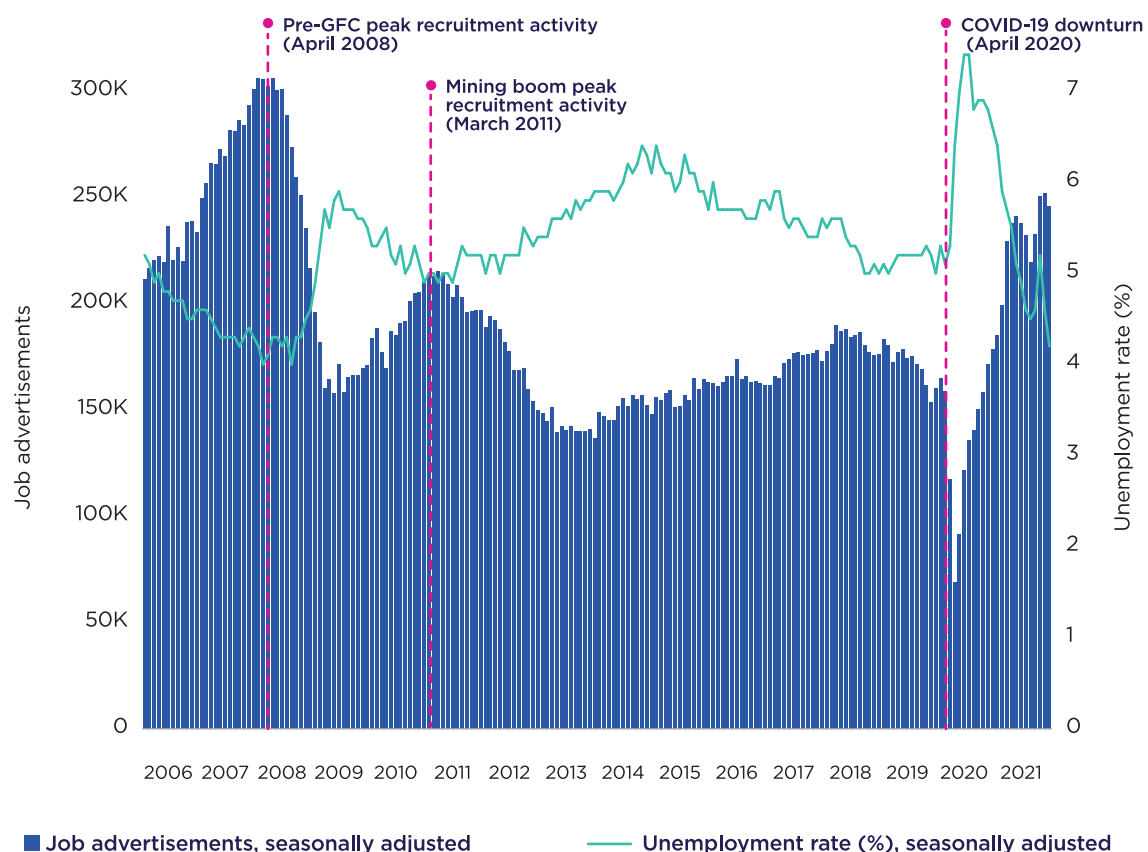
The largest decrease in employment since February 2020 was recorded for General Clerks (down by 55,800 or 16.8%), followed by Chefs (32,100 or 28.4%), Bank Workers (27,900 or 48.6%), Information Officers (26,100 or 30.5%) and Truck Drivers (22,800 or 11.6%).

Labour demand - a rise in job advertisements was observed across a larger proportion of employers

Job advertisements, captured in the NSC's Internet Vacancy Index (IVI) data, recovered quickly and strongly after initially falling by 56.5% (or 89,500 job advertisements) between February 2020 and April 2020, in seasonally adjusted terms. Figure 7 shows that job advertisements reached their highest levels since 2008 in October and December 2021, before declining by 2.5% (or 6,200) in December, to stand at 245,600. The level of recruitment activity remains significantly elevated compared to pre-COVID levels³, with job advertisements up by 46.0% (or 77,400 job advertisements). The December result brought the total number of online job advertisements for 2021 to 2,764,800, the highest annual level since 2008.

Recent trends in ABS Job Vacancies data reflect similar movements to the IVI data. The most recent ABS data recorded 396,100 job vacancies in the November 2021 quarter⁴, representing an increase of 62,000 job vacancies (or 18.5%) over the quarter. Over the same period (August 2021 to November 2021), the IVI recorded an increase of 14.8% in job advertisements.

Figure 7: Internet Vacancy Index job advertisements and unemployment rate, January 2006 to December 2021



Source: ABS, *Labour Force, Australia*, December 2021 and NSC, *Internet Vacancy Index*, December 2021

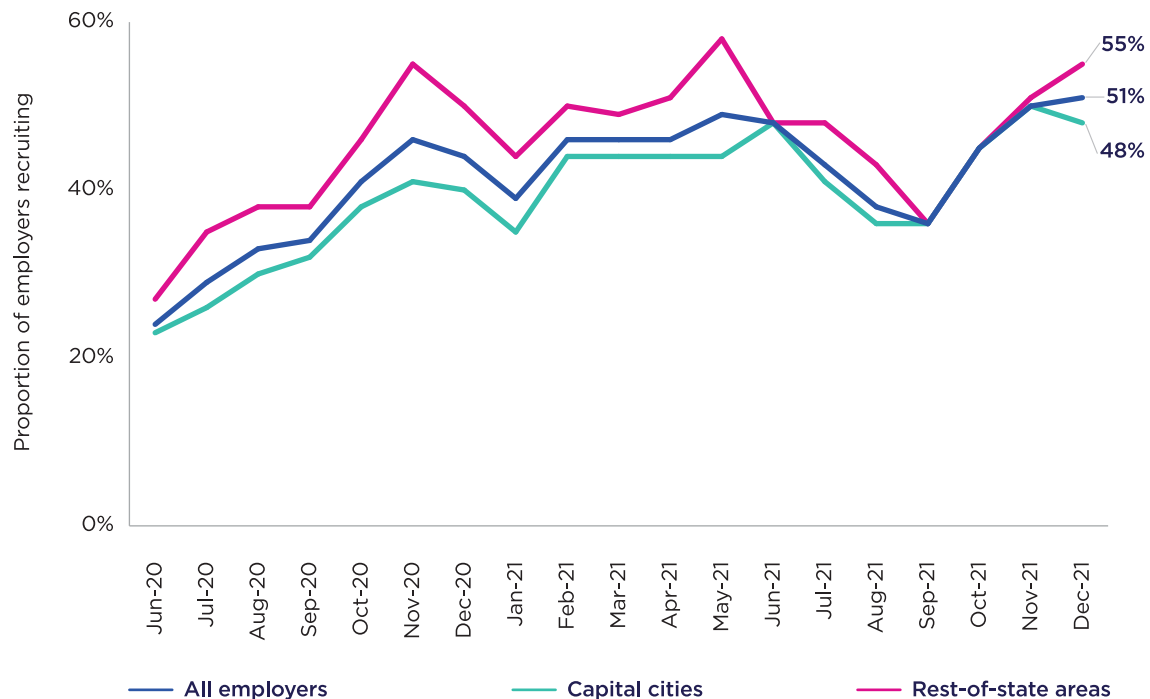
³ Pre-COVID-19 job advertisement levels are defined as the 12-month average in the seasonally adjusted IVI series to February 2020.

⁴ ABS, *Job Vacancies, Australia*, November 2021, seasonally adjusted data.

Recent results from the NSC's Recruitment Experiences and Outlook Survey (REOS) reinforce the strength of labour demand suggested by growth in internet job advertisements.

Figure 8 shows that the proportion of employers recruiting (currently or in the past month) stood at 51% in December 2021, the highest level recorded since the survey commenced in June 2020 and an increase of 15 percentage points since September 2021. Over this same period the recruitment rate in Capital cities (48%) and rest-of-state areas (55%) increased by 12 and 19 percentage points respectively.

Figure 8: Proportion of employers currently recruiting or who recruited in the past month



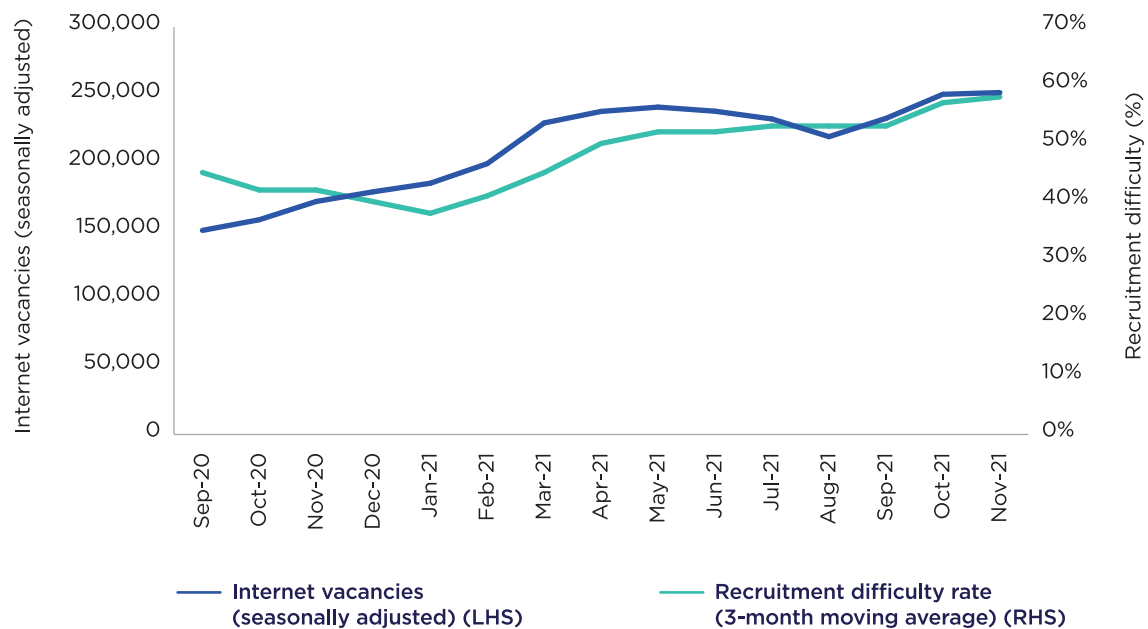
Source: NSC, *Recruitment Experiences and Outlook Survey*, December 2021

Turnover remains the primary reason for employers to recruit, with 57% of employers recruiting for turnover only and a further 10% recruiting for a mix of both turnover and new roles.

Recent months have seen growth in both labour demand and employers' difficulty filling vacancies

Over 2021 the growth in labour demand as recorded by IVI and REOS has also seen an increase in the proportion of recruiting employers who have reported difficulty filling their vacancies. Figure 9 shows that the surge in online job ads in early 2021, and again more recently since August 2021, is reflected in increases in the recruitment difficulty rate during those periods.

Figure 9: Recruitment difficulty (as a proportion of recruiting employers) and Internet Vacancy Index job advertisements



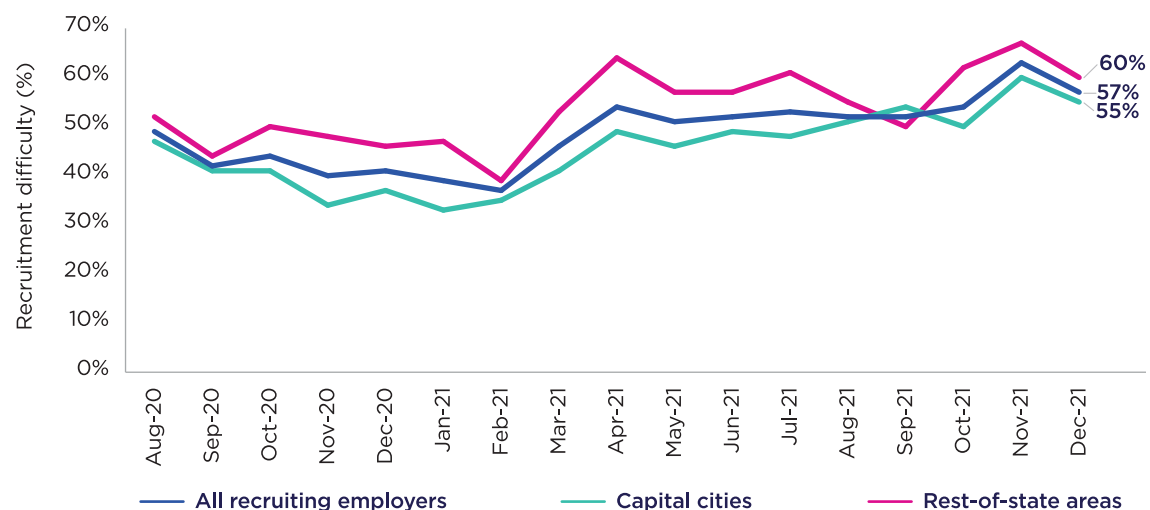
Source: NSC, *Recruitment Experiences and Outlook Survey*, December 2021; *Internet Vacancy Index*, December 2021

Recent growth in labour demand is sharpest in regional areas – but the majority of overall activity remains in capital cities

The majority of recruitment activity remains concentrated in capital cities despite average job advertisement growth in regional areas (of 73.4% compared to pre-COVID levels) outpacing capital cities (35.7% compared to pre-COVID levels). December 2021 IVI data show 73.9% of all job advertisements were recorded in capital cities.

Figure 10 shows that recruitment difficulty (for recruiting employees) increased sharply during October and November, before easing in December to 57% of recruiting employers (representing 29% of total employers).

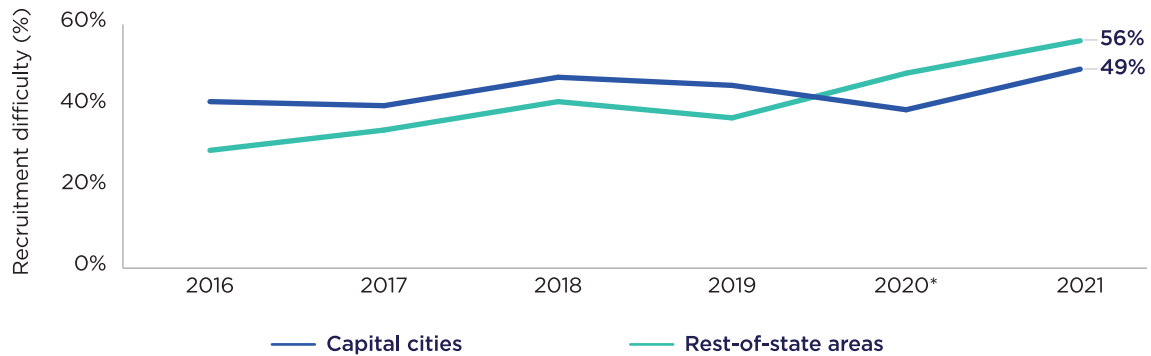
Figure 10: Recruitment difficulty by region type (as a proportion of recruiting employers)



Source: NSC, *Recruitment Experiences and Outlook Survey*, December 2021.

Figure 11 shows that recruitment difficulty (for employers who are recruiting) has become more common in rest-of-state areas over recent years, with notable increases occurring from 2016 to 2018, and from 2019 to 2020. The first time that recruitment difficulty in rest-of-state areas exceeded that recorded for capital cities was in 2020.

Figure 11: Proportion of recruiting employers who experienced difficulty with their most recent recruitment, 2016 to 2021



Source: NSC, *Survey of Employers' Recruitment Experiences* (2016-2019), *Recruitment Experiences and Outlook Survey* (2020-2021)

*2020 data covers the period from 10 August 2020 (when collection began again) to 18 December 2020. As a result, it does not reflect recruitment conditions at the height of the restrictions that were put in place in response to the pandemic.

That said, when employers have recruitment difficulty it does not mean that their vacancies are going unfilled. It is important to separate short-term recruitment difficulty from more enduring challenges in filling vacancies.

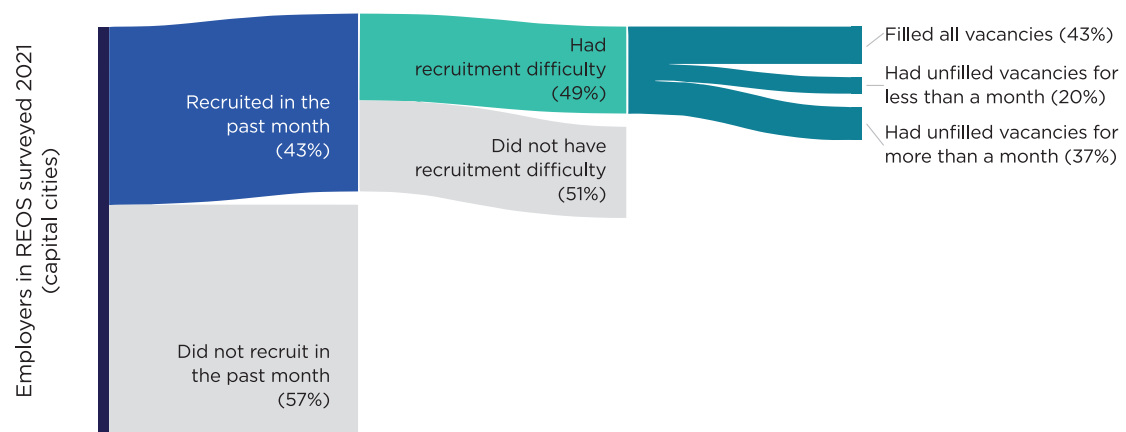
This is shown in Figure 12 below, which is a visual representation of the distribution of employers recruiting, having recruitment difficulty, and reporting unfilled vacancies. It shows that in capital cities, 43% of employers were currently recruiting or had recruited in the month prior to being surveyed. Around half (49%) of these recruiting employers experienced difficulty filling their vacancies. Of the employers that had recruitment difficulty:

- 43% had filled all their vacancies at the time of the survey
- 20% had unfilled vacancies for less than a month
- 37% had unfilled vacancies for more than a month.

Note that while 37% of employers who had difficulty had unfilled vacancies for more than a month, this represents 8% of all employers in capital cities.

By comparison, in rest-of-state areas 48% of employers recruited in the previous month, with 56% of these employers reporting difficulty finding staff. Of the employers that had difficulty, 40% had unfilled vacancies for more than a month at the time of the survey, which equates to 11% of all employers in rest-of-state areas.

Figure 12: Breakdown of employer recruitment decisions and outcomes – capital cities



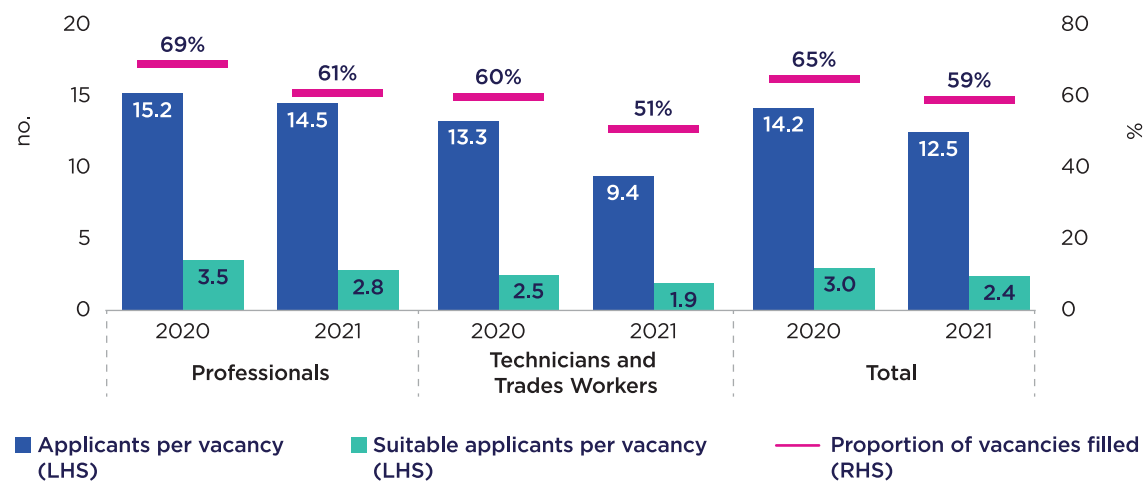
Source: NSC, *Recruitment Experiences and Outlook Survey*, 2021

That said, results from the NSC's Survey of Employers who have Recently Advertised (SERA) highlight that increased recruitment difficulty is having some impact on the filling of job vacancies. Figure 13 shows that over the year to December 2021, employers:

- filled a smaller proportion of advertised vacancies (59%, compared with 65% in 2020)
- attracted fewer applicants (12.5 per vacancy, compared with 14.2)
- considered fewer applicants to be suitable (2.4 applicants per vacancy in 2021, compared with 3.0) with respect to the qualifications, skills and experience they had to do the job.

SERA data also suggests that the labour market tightened more during 2021 for both Professionals and Technicians and Trades Workers than was the case for the labour market overall, with employers filling a smaller proportion of advertised vacancies across both occupation groups compared with the previous year.

Figure 13: Proportion of vacancies filled (%), average number of applicants and suitable applicants per vacancy (no.), 2020 and 2021



Source: NSC, *Survey of Employers who have Recently Advertised*, December 2021.

Over the year to December 2021, nearly 80% of employers required a qualification for applicants to be considered for their advertised role – most commonly a Bachelor degree or a Certificate III/IV. Despite this, around 60% of all qualified applicants were considered unsuitable. Employer feedback indicates that these applicants commonly lacked experience, did not possess the specific technical skills required, presently poorly at the job interview or lacked the communication skills needed.

Overall labour demand and recruitment difficulty remain highest for the higher skill levels

Some of the recent trends in the percentage growth (or in some cases, decline) of IVI job advertisements should be viewed in the context of overall job advertisement volumes and employment growth.

For example, trends for the month of December 2021 showed that Skill Level 1 occupations (commensurate with a Bachelor degree or higher) recorded the largest decrease (down by 3.9% or 3,500 job advertisements), followed by Skill Level 2 occupations (commensurate with an Advanced Diploma or Diploma) (3.7% or 950 job advertisements) and Skill Level 4 occupations (commensurate with a Certificate II or III level) (1.2% or 800 job advertisements). Similarly, the percentage level of job advertisement growth compared to pre-COVID is lowest for Skill Level 1 (up by 28.6%) and highest for Skill Level 5 (up by 103.2%).

However, as Table 3 below highlights, Skill Level 1 remains by far the most frequently advertised (making up just over one-third of all advertisements) and has seen employment growth of 7.5% during the pandemic (see Figure 6 above).

Table 3: Internet Vacancy Index job vacancies by Skill Level – December 2021

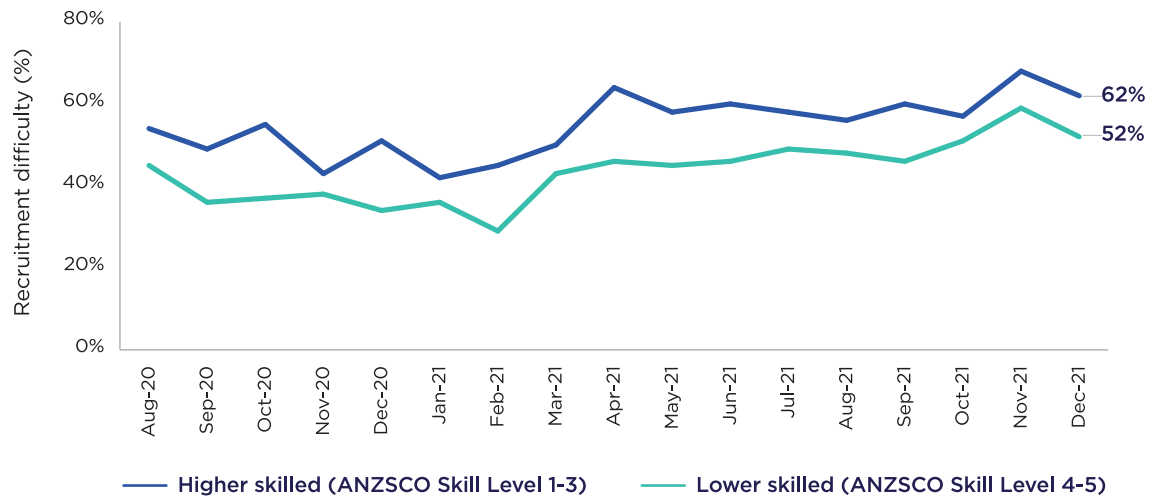
	Monthly change (%)	Monthly change (no.)	Pre-COVID change (%)	Pre-COVID change (no.)	Number of job adverts
Skill Level 1 - Bachelor degree or higher	-3.9%	-3,500	28.6%	19,200	86,500
Skill Level 2 - Advanced Diploma or Diploma	-3.7%	-950	30.9%	5,900	25,000
Skill Level 3 - Certificate IV or III* (Skilled VET)	0.8%	290	49.9%	11,900	35,700
Skill Level 4 - Certificate II or III	-1.2%	-800	59.2%	24,600	66,000
Skill Level 5 - Certificate I or secondary education	-0.2%	-60	103.2%	17,100	33,600
Australia	-2.5%	-6,200	46.0%	77,400	245,600

The skill level of an occupation is based on the level of educational attainment/experience normally required to work in the occupation according to the Australian and New Zealand Standard Classification of Occupations (ANZSCO). *Includes at least two years of on-the-job training.

Source: NSC, *Internet Vacancy Index*, December 2021

Figure 14 shows that higher-skilled occupations also remain more difficult to recruit for compared with lower-skilled occupations, with difficulty rates for recruiting employers of 62% (for Skill Level 1 to 3 occupations) and 52% (for Skill Level 4 and 5 occupations) respectively.

Figure 14: Recruitment difficulty by skill level of occupation (as a proportion of recruiting employers)



Source: NSC, *Recruitment Experiences and Outlook Survey*, December 2021

Skills shortages and labour market tightness are not confined to Australia

While overall employment growth during the pandemic has been stronger in Australia than in many other developed economies, some of the Australian labour market's characteristics can also be seen overseas. Two key examples of this are job demand (via strong growth in job vacancies) and assessments of skill shortages.

Figure 15 highlights that job vacancies have grown significantly beyond their pre-COVID levels in all of Australia, New Zealand, the United States and the United Kingdom, suggesting that all four economies are currently facing increased labour market tightness.

Figure 15: Job vacancies in Australia, New Zealand, United Kingdom and United States, 2020 to 2021



Source: NSC, *Internet Vacancies Index*, seasonally adjusted, December 2021; New Zealand Ministry of Business, Innovation and Employment *Quarterly Jobs Online Index*, seasonally adjusted, September 2021; U.S. Bureau of Labor Statistics, *Job Openings and Labor Turnover Survey*, US job openings: total nonfarm, rate, monthly, seasonally adjusted; UK Office for National Statistics, *UK Vacancies per 100 employee jobs*, *Vacancy Survey*.

While methodologies for assessing skills shortages vary between countries, numerous recent international findings also align well with the NSC's most recent [Skills Priority List](#) assessments.

For example, the UK conducts a regular survey of more than 80,000 employers to identify skills needs. The most recent survey from 2019⁵ shows that the most challenging occupation group for filling vacancies was the Skilled Trades.

- By comparison, the NSC's most recent Skills Priority List found that 42% of Technician and Trade Occupations are currently in shortage, compared to 19% of all assessed occupations found to be in shortage.

The European Foundation for the Improvement of Living and Working Conditions and the European Commission analysed skill shortages in the Euro area after the start of the COVID-19 pandemic⁶. Their analyses show:

- The pandemic has exacerbated shortages in nursing and ICT occupations, particularly software skills.
 - The NSC's most recent Skills Priority List found that occupations such as ICT project manager, ICT security specialist, software engineer and enrolled nurse were all in shortage.
- Occupations in sectors that have been severely affected by the pandemic, including hospitality and transport, have seen worsening shortages.
 - While many of these occupations were not assessed as being in shortage by the NSC's most recent Skills Priority List, Figure 6 above shows that Australia is experiencing strong growth in job vacancies for Skill Levels 3, 4 and 5, where employment levels have declined during the pandemic.
- Border restrictions introduced to address the spread of COVID-19 may exacerbate shortages, via disruptions to supply chains.

5 UK Department for Education (2020), *Employer Skills Survey 2019: Skills Needs*.

6 Eurofound (2021), *Tackling labour shortages in EU Member States*, Publications Office of the European Union, Luxembourg.

The Quarterly Labour Market Update is prepared by the National Skills Commission's Labour Market Research and Analysis Branch.

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