

Australia's Labour Market:



Jobs, Growth and the Future

How Healthy is Australia's Labour Market?

Considering some of the rhetoric that was in the air during the recent federal election, you'd be forgiven for thinking the economy has struggled to generate jobs. However, all is not as it seems. In fact, the unemployment rate is currently below its long-run average, yet Australians' perceptions of job insecurity remain somewhat high.

Why is that? In this report we take a close look at the Australian labour market to provide insight into not only its current state but also where it is headed. Through an analysis of Indeed and external data

sources, we shed light on slow productivity growth; how changing technology and changing demand for goods and services is affecting the types of skills in demand; and how employers, governments and job seekers can respond.

More than ever, Australia needs to develop a highly educated and adaptable workforce. After all, the benefits are obvious: more people in jobs, greater job satisfaction and a higher standard of living for Australians. So how are we going to get there? Let's take a look at the data and what it tells us.

Section 1

Australia's Labour Market: Measuring Expectations Against Reality

Just how bad is unemployment? It's true that the country's unemployment rate has been stuck around the 5¾% mark for the best part of a year. Still, the jobless rate is below the most recent peak of 6.3% reached last year and is lower than most

economists expected it to be a couple of years ago. In addition, it is well below the 25-year average of 6¾% and it doesn't look too bad relative to most estimates of "full employment"—which for Australia are around 5%.

Chart 1
Employment Share Remains Near Historical High

Employment-to-population ratio, aged 15-64 years



Source: ABS

In fact, as the chart above indicates, the share of Australians aged 15 to 64 in employment is at a high level compared with most of the past 35 years. This ratio is higher than in the United States, which remains well below the peak reached just

before the Global Financial Crisis, and roughly on a par with the United Kingdom, which is at its highest level in 45 years. Viewed in this context, the labour market overall appears to be in reasonable health.

That said, it could always be better—and perhaps recent history has taught us to expect that. After all, Australians have become accustomed to pretty favourable labour market conditions. Since 2000 the monthly unemployment rate has been

below its current level almost two-thirds of the time, falling to a low of 4% in 2008 before the Global Financial Crisis. This may help explain why household unemployment expectations remain above average despite some improvement.

Chart 2 Labour Market Not Delivering on Expectations

Unemployment expectations, survey of households



Source: Westpac and Melbourne Institute

Digging deeper into the particularities of the labour market, we find a complex picture. As always there are differences between states, industries, and so on. However, when we try to understand *why* people feel that the economy is not serving them as well as they would like, one statistic stands out: 1 in 11 Australian workers want—and are available—to work more hours. To put it another way, they are “underemployed”. By contrast, just prior to the Global Financial Crisis the ratio was 1 in 16, and even during the early 1990s recession it peaked at about 1 in 12.

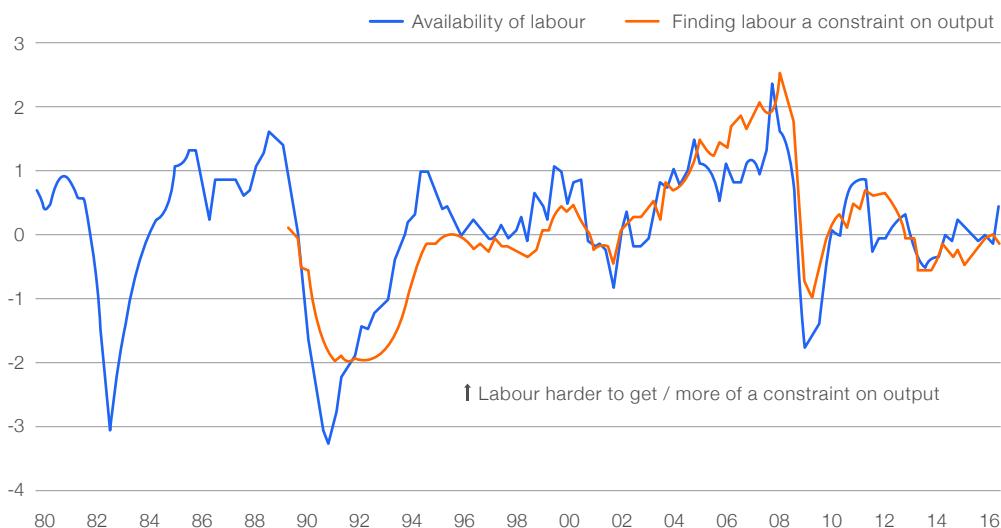
So while the current rate of *unemployment* might be toward the centre of recent historical experience, the total rate of labour *underutilisation* is at levels not seen since the late 1990s. All together, there are 1.8 million Australians who are either unemployed or underemployed. Meanwhile, an additional 200,000 Australians are looking for work but don’t meet the International Labour Organisation’s strict definition of unemployment. Relative to the overall labour force, this group is the largest it has been for 20 years.

What does all of this mean? In a nutshell, today 2 million Australians either don't have a job and want to work or have a job but want more hours. That's about 10% of people aged 15 and over. This level of spare labour market capacity helps explain the perhaps elevated unemployment expectations of many Australians. (It is also one reason for subdued wage growth and why that is likely to persist for some time.) From an employer's perspective, however,

the current level of spare labour market capacity means that relatively few firms are struggling to find workers. As the chart below demonstrates, most companies are typically finding employees neither hard nor easy to find, with such measures around historical averages. Indeed's [2016 Labour Market Outlook](#) showed that Australia is middle-of-the-pack globally in terms of the time it takes to fill a role, with almost 12% of Australian job postings still open after 60 days.

Chart 3
Difficulty in Finding Labour Hovers Around Historical Average

Employer surveys, standard deviation from average since 1989



Source: ACCI-Westpac and NAB

This doesn't mean that some employers aren't finding it hard to get certain types of workers, however. The latest [Skills Shortages List](#) from Australia's Department of Employment indicates a range of

areas that are suffering from a skills deficit, including construction, automotive engineering and food trades, as well as some types of skilled health professionals.

Section 2

Looking Ahead: Overcoming the Challenges Facing Australia's Economy

So that's the state of play when it comes to unemployment today. However, the economy also faces a number of challenges that could linger for years to come.

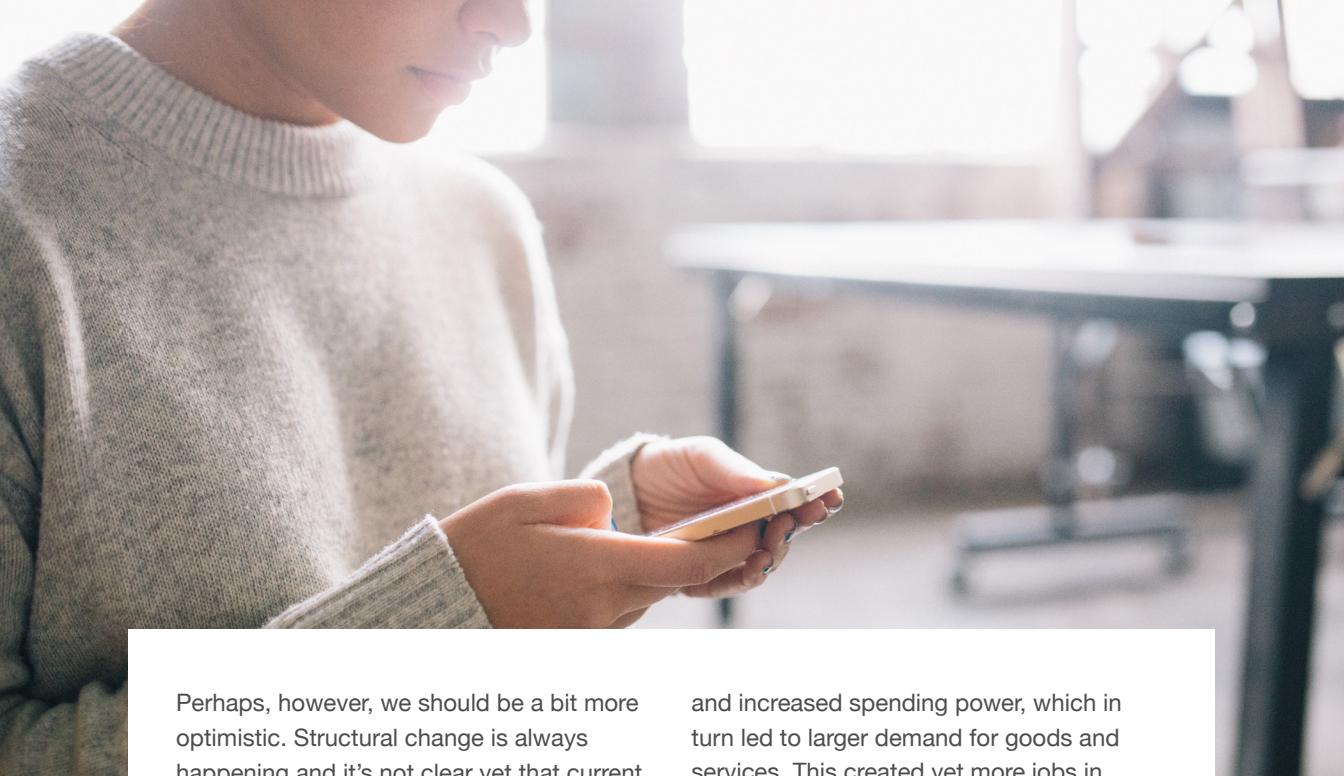
For one, global economic conditions are still fairly fragile and a somewhat (not unrelated) unstable geopolitical backdrop is unlikely to help the situation. Many central banks remain in uncharted territory in terms of what they are doing or have done. Global growth is, at best, still only at its long-run average and the risks still appear skewed to the downside.

Undoubtedly, policymakers will continue to focus on the need to generate growth and jobs. But this may be easier said than done—especially compared with our experience during much of the era that followed the recession of the early 1990s. Let's face it: the huge “free kick” Australian incomes received from the commodity price boom is over. To ensure that living

standards continue to rise, we will need persistently stronger productivity growth than the weak rates recorded over the past 10 to 15 years.

Encouragingly, there are early signs that productivity growth is improving as firms have gone on an “efficiency drive” in recent years by cutting costs. Meanwhile the labour market is also changing, and working smarter and more productively will be necessary to maintain rising standards of living.

But just what does that mean? Much of the discussion of the future of work is fear-based, centring on the “rise of the machines” and which jobs currently performed by humans will be lost due to automation. At their most apocalyptic, techno-pessimists predict a world of mass unemployment in which robots have rendered humans surplus to requirements in most jobs.



Perhaps, however, we should be a bit more optimistic. Structural change is always happening and it's not clear yet that current and expected trends represent a significant acceleration of that change. How many predicted in the late 1980s that by 2016 the number of machine operators and keyboard operators in Australia would more than halve, or that the number of sports and fitness workers and computer system designers would rise by factors of 7 and 14 respectively?

In fact, the human race has a good track record of adapting to change as new opportunities arise and old ones disappear. For instance, in the 18th and 19th centuries the power loom industrialised the weaving process and put most skilled artisan weavers out of work. But within 20 years, the number of people employed in spinning and weaving in England rose from 7,900 to 320,000—an increase of 4400%. Industrialisation led to cheaper goods

and increased spending power, which in turn led to larger demand for goods and services. This created yet more jobs in retail, advertising and marketing, as well as others that were unimaginable in the 18th century—such as fashion designer, model and web designer.

No one knows which jobs will be in high demand in the future, in part because there will be new technologies that we cannot yet imagine. Consider for instance the impact of smartphones upon employment and the broader economic landscape. The first iPhone was launched just nine years ago, but since then entirely new business models have appeared, and without this technology, rapidly growing and disruptive businesses such as Uber wouldn't exist. Australians own about 15 million smartphones and this number is rising [fast](#). This is quickly changing the retail landscape and also creating significant demand for skills that foster this change.

Because the future is unpredictable, it is vital that both employers and governments focus on helping workers develop a high level of adaptability to change. What does this mean in practice?

- 1 Employers and employees will need to work smarter and more efficiently, and this will require a strong emphasis on education and training for new, existing and displaced workers. Government has a role to play here. In Australia, 80% of persons aged 15 to 74 with a bachelor's degree or higher are employed, compared with just 62% for persons with other qualifications and a mere 52% of Australians without a post-school qualification. We still have a long way to go to help those without higher education fulfill their potential in the labour market.
- 2 Government will also need to find other ways to facilitate improving productivity growth. At times this may mean standing aside. This will be a challenge as governments tend to want to do more, not less, and like to generate new rules and regulations. But sometimes it is better to resist this temptation and instead simplify the range of regulations already in place.
- 3 Encouraging and allowing labour to move more freely around the economy is also important. An important policy reform here, which always gets put in the "too-hard basket" for political reasons, is property transfer reform. Transaction costs around buying and selling properties are high and there is ample evidence that this discourages labour from moving to where it's most needed.

As for skills development in the era of automation and globalisation, the soon-to-be governor of the Reserve Bank of Australia Philip Lowe has explored the future of skills development in [recent speeches](#) and provides a good summary of the issues.

First, Lowe notes that "given the unpredictability of the world in which we live, we need to find the right balance between the development of specific

technical and professional skills and the general cognitive skills that are central to flexibility and adaptability". Part of being adaptable to change is having a well-rounded skill set, including so-called "soft" skills such as the ability to communicate effectively, work in teams and so on. Adaptability needs to be fostered both early on before people enter the workforce and then by employers through ongoing upskilling or skill-broadening.

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These skills are those required to solve complex problems, identify new opportunities and deliver high-quality customer experiences. Creativity—in all its dimensions—is a key element here. One of the areas that deserves close attention is the STEM subjects—science, technology, engineering and mathematics. Over the years, Australia has done reasonably well here, but the share of Year 12 students studying higher-level mathematics and the sciences has been in decline for many years now.

Philip Lowe

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Second, Lowe stresses the need to ensure that Australia’s “workforce has an appropriate mix of sophisticated skills to produce premium goods and services”. So while we broadly know what to do, currently we risk lagging behind in some areas, including in the fundamental area

of education before people even enter the workforce. While cost pressures will linger for many employers, it is imperative that they increasingly invest in their staff with a key aim being adaptability and versatility for the challenges that will inevitably keep coming.

Section 3

How the Labour Market Will Change

Although it is impossible to predict the future, we can still make some educated guesses as to how the labour market will be impacted by the processes currently at work. Undoubtedly, the ongoing “efficiency drive” of many Australian firms, the emergence of new technologies and an ageing population will have important implications.

To get a better sense of how this will transform the labour market, we can categorise jobs broadly by the type of skills required. [Research](#) from the Federal Reserve Bank of St. Louis breaks the labour market down as follows:



Non-routine cognitive occupations, i.e. those requiring well-developed problem solving and critical thinking skills, which include management and professional occupations.



Non-routine manual, which includes service occupations related to assisting or caring for others.



Routine cognitive, which includes sales and office occupations.



Routine manual, which includes construction, transportation, production and repair occupations.

Looking ahead, it seems likely that relatively “routine” jobs will continue to disappear, either through structural change at the industry level, as a result of automation or because someone else in the increasingly globalised labour market can do it much more cheaply. The flip side of this, however, is that demand for highly skilled and highly adaptable workers with critical and creative problem solving abilities will rise.

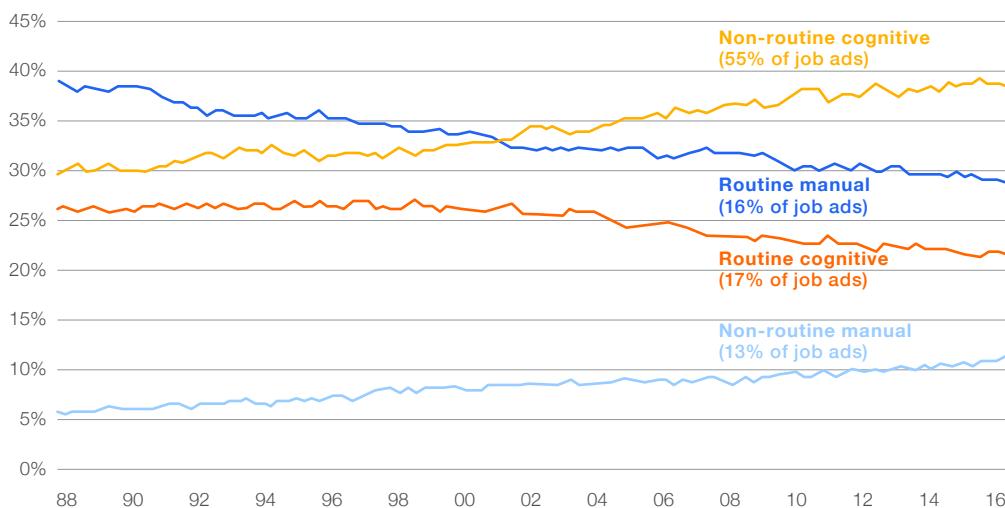
Thus even as robots take some jobs, new roles requiring a complex interplay of skills will emerge—and these are the ones likely to drive economic growth. As always, this will generate winners and losers. Job loss can be both costly and challenging for those with few re-employment opportunities. Ultimately, though, few will lament the

disappearance of jobs that are monotonous, physically challenging, detrimental to one’s health or provide little scope for advancement.

In fact, Indeed data already suggest that there is a falling share of demand for workers engaged in relatively routine tasks, particularly those of a manual nature. As shown in the chart below, over the past year just one-third of job vacancies advertised on Indeed were for “routine” roles—even though such jobs account for roughly half of total employment in Australia, based on the broad definitions above. Furthermore, a mere sixth of job vacancies were for routine manual roles, well below the near 30% share of employment for such jobs.

Chart 4
Routine Jobs Losing Ground in the Labour Market

Australian employment by skill, % of total



Source: ABS and Indeed

By contrast, “non-routine” roles have a much higher share of advertised job vacancies than their share of employment. This is particularly the case for non-routine jobs that require mainly cognitive skills (55% of job postings versus nearly 40% of employment).

There are two key takeaways here:

First, jobs with mainly non-routine skills have been rising as a share of employment for decades (very similar trends are seen in the United States). Thus, the relative decline in routine jobs is not a new phenomenon.

Second, Indeed data suggest that these trends are highly likely to continue and perhaps even accelerate. Crucially, workers with strong cognitive skills are in high demand, indicating a future in which education will play a more critical role than ever before in determining economic outcomes for the labour force.

However, it’s not only demand for non-routine cognitive skills that is rising. Jobs requiring mainly non-routine manual skills—especially those in healthcare—are also becoming more important. In particular, carer and aide roles account for the largest share of this group of jobs, and their numbers

have swelled fivefold since the mid 1980s. Demographic trends mean demand for these workers is only going to rise in the years to come. After all, around 1 in 5 Australians are expected to be aged 65 and over in 2050, compared with around 1 in 10 now.

Conclusion

Bringing It All Together

At present, Australia's labour market is in a state best described as "more or less OK". On closer inspection, however, the level of spare capacity in the labour market has recently been at levels not experienced since the late 1990s. However there are encouraging signs from near term indicators like job advertisements and other demand indicators that further slow inroads should be made into unemployment.

Looking further ahead, a need to work smarter will be imperative if we are to see Australians' standard of living continue to rise. This is easier said than done. The onus for working smarter falls on everyone—current and prospective employees, employers and governments.

Working smarter will also be necessary due to the changing nature of the workforce

and the types of skills that are increasingly in demand. These "non-routine" skills, particularly of the cognitive nature, typically require significant education, ongoing training and upskilling, and broad work-life experience.

Government and education institutions obviously have a role to play to ensure teaching is of a high quality and applicable in the real world and that students are well prepared for working life. Employers (and individuals) also have an important task to ensure workers are adaptable to change.

We may not know what the future will hold but this much is certain: a more educated and adaptable workforce will be far better placed to handle the inevitable disruption that is already here than one which is unprepared for these changes.

About Us

About the Authors

Justin Fabo is a macroeconomist with extensive private and public sector experience as a researcher, forecaster and public commentator in Australia. He is passionate about using economics and data to tell stories and help others make better decisions. Justin has a deep understanding of the key drivers of the global and Australian economies and he has a particular interest and expertise in labour markets and demographics.

Justin formerly worked as a senior economist at ANZ Bank for four years, in various senior economist roles at the Reserve Bank of Australia over nearly 12 years and also worked at Australia's Commonwealth Treasury. He holds a Bachelor of Economics with Honours.

Tara M. Sinclair, PhD, is chief economist at Indeed and an associate professor of economics and international affairs at The George Washington University. Her research focuses on examining historical patterns in data to understand both the current and past structure of the labour market and to forecast future movements. Under Tara's direction, the Indeed Hiring Lab is developing original research using proprietary Indeed data to uncover exclusive insights into the labour market.

In addition to conducting her research, Tara is frequently invited to brief the media on economic and labour trends as well as offer commentary. She has been quoted in the New York Times, the Wall Street Journal, and the Washington Post, and she has appeared on CNN, C-Span, NPR, Fox Business, Bloomberg Radio and TV, and many other local and international news programs.

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About the Indeed Hiring Lab

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