

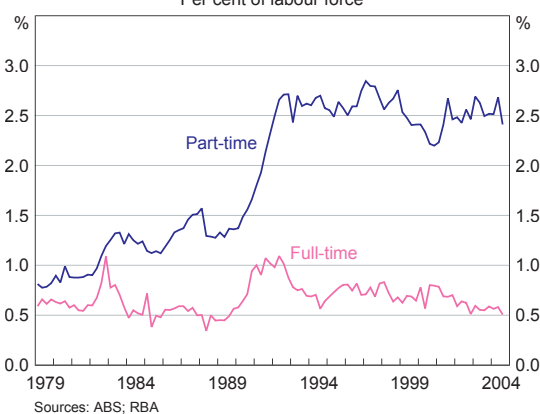
Box B: Indicators of Labour Market Tightness

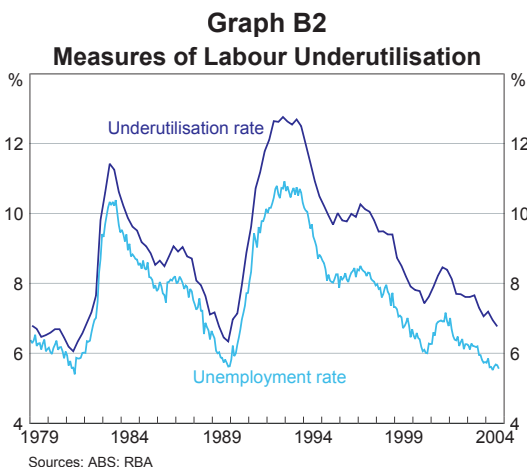
The strong employment growth of recent years has seen the unemployment rate fall to 5.6 per cent, which is close to the previous lows of the past 25 years. While a low unemployment rate is generally indicative of relatively tight labour market conditions, it is not a definitive measure; labour scarcity will also depend on other factors such as the availability of existing workers to work more hours, the potential for people currently measured as outside the labour force to enter, and the extent of skill matching between the available supply and demand for labour. This box looks at a range of indicators of labour market conditions that take some of these factors into account.

One factor affecting the availability of labour that is not captured by the unemployment rate is the degree of underemployment, which refers to the willingness of employed people (both full-time and part-time) to work more than their current hours. This increased substantially during the early 1990s, with strong growth in part-time workers actively looking for additional work (Graph B1). There is also a significant number of underemployed full-time workers, though these have been more stable as a share of the labour force. Adding these two categories to the unemployment rate would produce a crude measure of underutilisation, but it would tend to be an overestimate because it is likely that an underemployed worker may want only a few extra hours of work each week, while an unemployed person may want full-time work. Instead, it makes sense to calculate an underutilisation measure by weighting each underutilised person by an estimate of the additional hours that they want to work (Graph B2). This measure is close to, but still above its previous cyclical lows, suggesting that the labour market may not currently be quite as tight as implied by the unemployment rate.

Another source of potential labour supply is the 35–40 per cent of the working-age population which is not measured as being in the labour force. Some proportion of these people report that they are willing to work but are not actively searching for work or are not available to start work immediately, and are known as ‘marginally attached workers’. Data from the Australian Bureau of Statistics suggest that marginally attached workers have

Graph B1
Underemployment Rates
Per cent of labour force

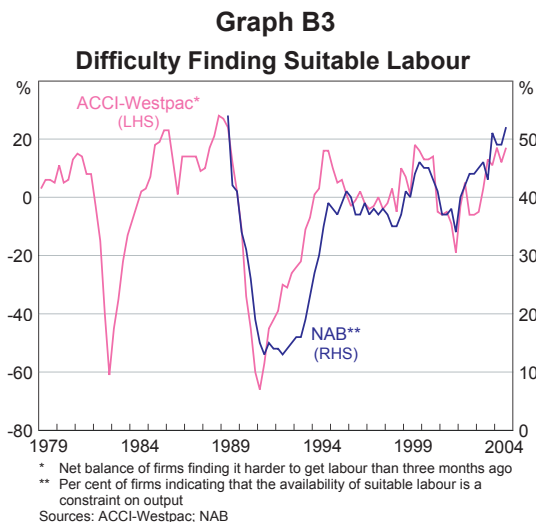




increased as a proportion of the working-age population outside the labour force over the 1980s and early 1990s, and currently represent more than 20 per cent of this group. This increase has been associated with a trend decline in the participation of males.¹

It is not possible to predict how far the unemployment rate might be able to fall before tightness in the labour market leads to significantly stronger economy-wide wage pressures.

For a number of reasons, it is possible that wage pressures are now lower at any given unemployment rate than they would have been in the past. First, there is the rise in underutilisation and marginally attached workers discussed above. Second, industrial relations reforms since the late 1980s have resulted in more decentralised wage-setting arrangements, limiting the extent to which wage pressures emerging in areas facing relatively tight labour market conditions are transmitted to other parts of the economy. A third, and reinforcing development is the trend towards longer-duration wage contracts, reflecting the anchoring of inflation expectations at a low level.



Nevertheless, business surveys suggest that a broad range of firms are finding it increasingly difficult to find suitable labour (Graph B3). These survey-based indicators are likely to be influenced both by the overall quantity of labour supply and the extent to which the skills of available workers match the needs of employers. Both the NAB and ACCI-Westpac surveys suggest that the difficulty in obtaining suitable labour has moved into the upper end of the range recorded over the past two decades. ✎

¹ A more detailed discussion of changes in the participation of different age cohorts of males and females can be found in the Reserve Bank of Australia Bulletin, October 2002.