

Economics Weekly

This week's economic highlights

- The **RBA anticipates strong inflation** until at least 2023. Businesses in the Bank's liaison program expect labour cost pressures to increase, with 60% of businesses in the program expecting stronger wage growth over the next year.
- Two out of five Australian businesses are still experiencing **supply chain disruptions**. The most affected sectors are retail, wholesale, hospitality, manufacturing and construction.
- **Job vacancies** remain elevated in May, rising in all states and territories again. An indicator of labour shortages, vacancy rates are especially high in the health industry and for skill level 1 (bachelor degree or higher) occupations.
- **Average work hours** declined in 12 of Australia's 19 major industries in the three months to May 2022. This is likely due to illness-related absenteeism. The ratio of casual employment to permanent employment remains consistent.

Australian economic developments

At its 7 June meeting, the Monetary Policy Board of the Reserve Bank of Australia noted the further increase in inflation in Australia in April and May, and the uncertainty in global growth outlook. Recent energy price increases mean that inflation could potentially rise to levels higher than anticipated a month earlier. Inflation is not expected to return to the Bank's target range of 2-3% until 2023.

Information from the Bank's liaison program indicated that businesses are intending and able to pass on higher global and domestic input prices to consumers.

Surprisingly, the Bank is anticipating a pick-up in GDP in growth in the June quarter. Despite tight labour market conditions, members of the Bank's liaison program plan to increase their staff numbers in the coming months. Businesses are expecting labour cost pressures to mount as unemployment remains at very low levels, with 60% of businesses in the liaison program expecting stronger wage growth than current growth rates, over the next year.

Latest Australian economic data

Detailed labour force data for the three months to May 2022 (released this week by the ABS) indicates:

Casual employment accounted for around 19% of the total workforce (including self-employed business owners and contractors) maintaining the historical trend of the ratio of casual employment to permanent employment (see chart 5). The number of people employed as casual workers (employees with no leave entitlements) was only 0.4% higher in the three months to May 2022 than prior to the pandemic in February 2020. Employment was 6.1% higher for permanent employees in May 2022 than prior to the pandemic in February 2020.

- **Employment was lower in 8 of Australia's 19 major industries** in the three months to May 2022 than prior to the pandemic (February 2020). Wholesale trade employed 29.1% fewer people, manufacturing employed 8.7% fewer people, arts & recreation employed 7.0% fewer people and IT, media & telecommunications employed 4.2% fewer people in May 2022 (see chart 2).
- **Average work hours were lower in 12 of Australia's 19 major industries** in the three months to May 2022 than in February 2020. Industries reporting the largest falls in hours were manufacturing, arts & recreation, education and personal & other services. The industries in which average work hours were higher in May 2022 were public administration, real estate services, utilities, agriculture, professional services, IT, media & telecommunications, and wholesale trade (see chart 2).

The National Skills Commission's monthly **internet job vacancies index increased by 0.9%** to 298,400 in May 2022 (see chart 7). Job ads grew across 1, 2, and 3 skill level groups and fell in 4 and 5. The strongest growth was in skill level 1 occupations (bachelor degree or higher). All 48 detailed occupation groups compiled by the NSC during May 2022 remained above their pre-COVID-19 level of recruitment activity.

Job advertisement levels rose in all states and territories in May 2022 and remained well above pre-COVID levels. Month-on-month improvement in recruitment activity was most significant in Tasmania (+11.5% m/m), Western Australia (+3.8% m/m) and South Australia (+1.0% m/m) (see chart 8). The NSC notes that "*job advertisements in capital cities recorded an increase of 67.0% compared to pre-COVID levels. By contrast, job advertisements in regional areas increased by 101.5%*".

Detailed occupational data from the NSC's Internet Vacancy Index (IVI) indicate that the occupations with the biggest increases in job ads in May were:

- medical practitioners and nurses (+6.2% m/m),
- carers and aide workers (+4.4% m/m),
- legal, social and welfare professionals (+5.0% m/m),
- education professionals (+10.7% m/m) and
- construction, production and distribution managers (+4.3% m/m).

Across **skill level groups**, the NSC's IVI data indicate that job ads changed in May 2022 as follows:

- skill level 1 – bachelor degree or higher (+3.1% or + 3,100 vacancies),
- skill level 2 – advanced diploma or diploma (+0.6% or + 200 vacancies),
- skill level 3 – certificate IV or III¹ (skilled VET) (+0.3% or + 130 vacancies),
- skill level 4 – certificate II or III (-0.6% or - 480 vacancies),
- skill level 5 – certificate I or secondary education (-2.0% or - 810 vacancies).

The latest **ABS Business Conditions and Sentiments survey** published 23 June 2022 indicates that 41% of businesses experienced supply chain disruptions, compared to 30% in April 2021 (see chart 6). This has remained fairly consistent in the past few months since it peaked in January 2022 (47%). Of the 41% of businesses

¹ Includes at least two years on-the-job training.

experiencing disruption in May - 40% were significantly affected and 59% were mildly affected. 1% of respondents experienced disruption but it did not affect their business.

Businesses impacted by supply chain disruptions included:

- 68% of retail businesses (52% in April 2021)
- 64% of hospitality businesses (28% in April 2021)
- 61% of wholesale businesses (50% in April 2021)
- 57% of manufacturing businesses (55% in April 2021); and
- 54% of construction businesses (35% in April 2021).

Just under a third of businesses (31%) reported difficulties finding suitable staff in June 2022, an increase of 4% from one year earlier. This included:

- 51% of hospitality businesses (38% in June 2021)
- 47% of education & training businesses (25% in June 2021)
- 43% of administrative & support businesses (24% in June 2021)
- 39% of retail businesses (18% in June 2021); and
- 34% of real estate businesses (19% in June 2021).

Changes to superannuation guarantee – from AustralianSuper

As a supplement to this edition of the Economics Weekly we include an update from AustralianSuper regarding the increase in the superannuation guarantee to 10.5% effective 1 July 2022 (see table 1). The rise is part of the plan to increase the Superannuation Guarantee (SG) to 12% by 2025, which aims to better support working Australians financially in retirement.

This increase has been legislated to rise incrementally each year until it reaches 12% in 2025. On 1 July 2022, legislative amendments take effect removing the \$450 per month threshold for SG eligibility so that an employee who earns less than \$450 will be eligible for SG from their employer.

The following table sets out the SG rate that will apply from 1 July 2022 and the increases over the remaining phase-in period.

Table 1: Superannuation guarantee changes, 1 July 2022 – 1 July 2025

Time Period	Superannuation Guarantee (%)
1 July 2022 to 30 June 2023	10.5%
1 July 2023 to 30 June 2024	11%
1 July 2024 to 30 June 2025	11.5%
1 July 2025 to 30 June 2026	12%

Chart 1: Employment in 12 of the 18 industries was higher in May 2022 than in Feb 2022. The strongest job recoveries in these three months were in wholesale trade, personal & other services and professional services.

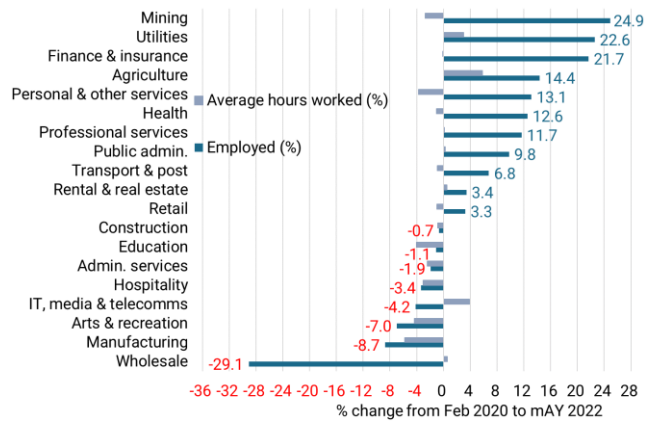
Change in employment by industry, three months to May 2022



Source: ABS, *Detailed Labour Force Australia*, May 2022.

Chart 2: Employment was lower in 8 of Australia's 19 major industries in the three months to May 2022 than it had been prior to the pandemic in February 2020. Average work hours were lower in 12 of Australia's 19 major industries.

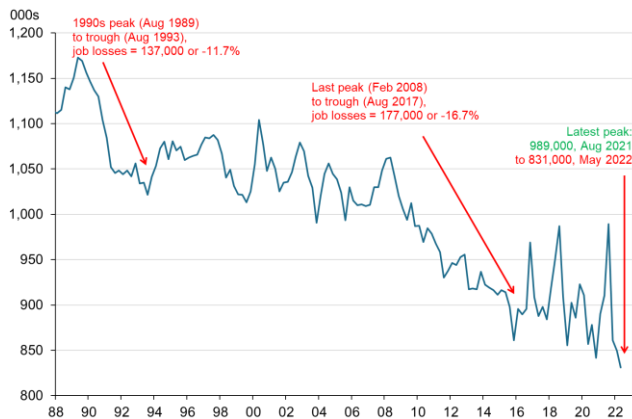
Employment and average work hours by industry, % change from Feb 2020 to May 2022



Source: ABS, *Labour Force Australia, detailed*, May 2022

Chart 3: Employment in manufacturing recovered back to approximately 1,000,000 in Aug 2021, regaining 80,000 of the jobs lost in the previous quarter due to COVID-19. Employment fell to low levels in May 2022.

Manufacturing employment, '000 workers, 1998 to 2022



Source: ABS, *Detailed Labour Force Australia*, May 2022.

Chart 4: Private sector employment grew further in the three months to May 2022, albeit at a slower pace than three months earlier, due to the tight labour market. Employment in the public sector declined in May.

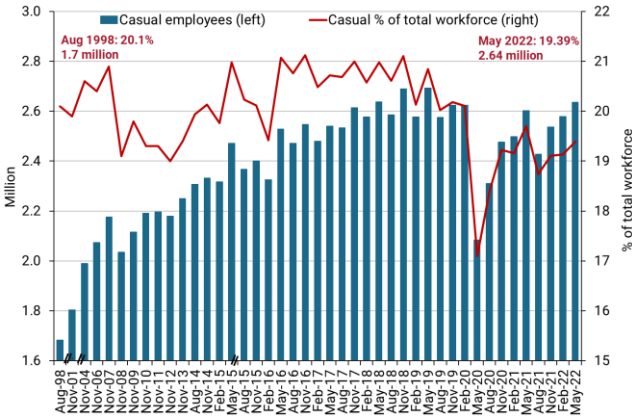
Change in employment in the private and public sectors per quarter, 2015 to May 2022



Source: ABS, *Detailed Labour Force Australia*, May 2022.

Chart 5: Casual employment has accounted for around 20% of the total workforce (including self-employed business owners and contractors) and 25% of employees since at least 1998. Casual employment fell sharply as a proportion of the workforce in 2020 and hasn't recovered to pre-pandemic levels.

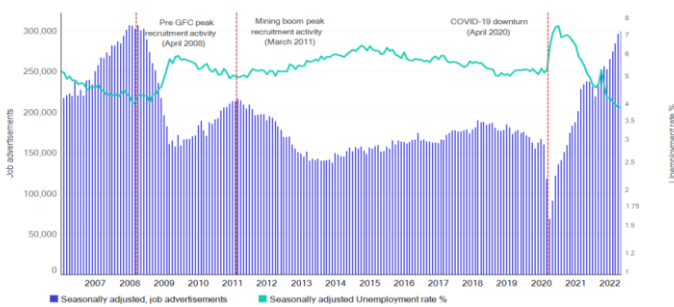
Casual employees*, number and share of the total workforce, 1998 to 2022



* Employees with no leave entitlements. Source: ABS, *Detailed Labour Force Australia*, May 2022.

Chart 7: The National Skills Commission's monthly internet job vacancies index increased by 0.9% (2,800 job ads) to 298,400 in May 2022. Job ads growth was strongest for skill level 1 occupations (bachelor degree or higher).

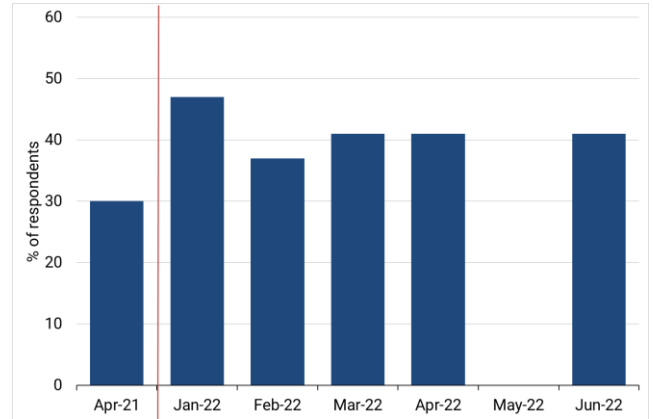
Online job ad volumes – January 2006 to May 2022



Source: National Skills Commission, *Vacancy Report*, May 2022

Chart 6: Supply chain disruptions were reported by two out of five businesses in June 2022. 40% of these businesses were significantly affected by disruption, 59% were mildly affected - 1% faced disruption but it didn't affect their business.

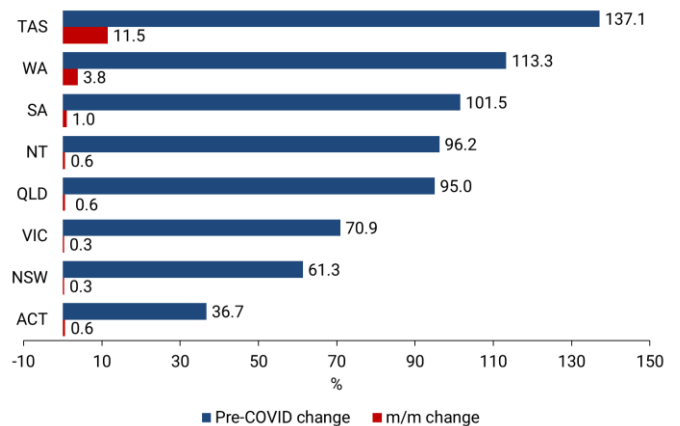
Businesses reporting supply chain disruptions, 2021 to 2022



Source: ABS, *Business Conditions and Sentiments*, June 2022. *question not asked in May 2022

Chart 8: The number of job vacancies advertised online rose in May 2022 in all states and territories but most prominently in Tas, WA and SA. All states had more job ads in May 2022 than prior to COVID.

Online job ads growth, by state and territory, May 2022



Source: National Skills Commission, *Vacancy Report*, May 2022

This week's data and events 20 June – 24 June 2022

Day	Date	Data/event	Data period
Tue	21 Jun	RBA, Minutes of June 2022 Monetary Policy Meeting	June 2022
Wed	22 Jun	NSC, Internet Vacancy Index	May 2022
Thu	23 Jun	ABS, Labour Force Detailed	May 2022
Thu	23 Jun	ABS, Business Conditions and Sentiments	June 2022

Next week's data and events 27 June – 01 July 2022

Day	Date	Data/event	Data period
Tue	28 Jun	ABS, National, state and territory population	December 2021
Wed	29 Jun	ABS, Retail Trade	May 2022
Thu	30 Jun	ABS, Job Vacancies	May 2022
Thu	30 Jun	ABS, Engineering Construction Activity	March 2022
Fri	01 Jul	Ai Group, Performance of Manufacturing	June 2022

Australian Industry Group monthly performance of industry indices

Australian Performance of Manufacturing Index®	May 2022	52.4 ▼
Australian Performance of Construction Index®	May 2022	50.4 ▼
Australian Performance of Services Index®	May 2022	49.2 ▼

Seasonally adjusted. Arrows represent direction of movement relative to last observation. Source: Ai Group.

Australian economy: latest annual growth rates and RBA forecasts (as of May 2022)

% change over the year	Jun 2021	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024
Gross domestic product (GDP)	9.5	4.2	3.6	4.2	3.1	2.0	2.0
Household consumption	15.0	3.5	4.2	5.8	4.4	3.1	2.8
Dwelling investment	13.4	5.3	-1.4	4.3	5.7	2.6	1.4
Business investment	6.8	6.4	-0.2	5.0	8.3	8.0	5.5
Public demand	3.9	5.1	6.3	2.9	-1.1	-0.7	0.9
Gross national expenditure	13.7	5.0	3.4	4.2	2.9	2.3	2.3
Imports	16.1	1.0	3.6	11.3	6.4	5.2	4.8
Exports	-1.8	-2.6	4.6	10.2	7.3	3.6	3.1
Terms of trade	24.0	10.3	4.0	0.8	-13.2	-9.6	-6.5
Real household disposable income	17.7	3.7	4.7	0.9	-1.0	0.3	1.1
Unemployment rate (qtr average, %)	5.1	4.2	3.8	3.7	3.6	3.6	3.6
Employment	6.5	2.1	2.7	3.9	2.0	1.5	1.2
Average wage rates (WPI)	1.7	2.3	2.7	3.0	3.3	3.5	3.7
Trimmed mean inflation (CPI)	1.6	2.6	4.5	4.6	3.6	3.1	2.9
Headline inflation (CPI)	3.8	3.5	5.5	5.9	4.3	3.1	2.9

■ = actual. □ = forecast. Sources: ABS, various data; RBA 'baseline scenario' in *Statement on Monetary Policy*, May 2022.

Forecasts 4 May. Forecasts are conditioned on a path for the cash rate broadly in line with expectations derived from surveys of professional economists and financial market pricing and assume elements of the Bank's monetary stimulus are in line with the announcement made following the May 2022 Board meeting. Other forecast assumptions: TWI at 63, A\$ at US\$0.71 and Brent crude oil price at US\$101bbl. Assumed rate of population growth is broadly in line with the profile set out in the Aus Gov 2022/23 Budget.

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