

# Australian Economics

Shaw and Partners Flashnote

## Labour Shortage is a Key Economic Problem



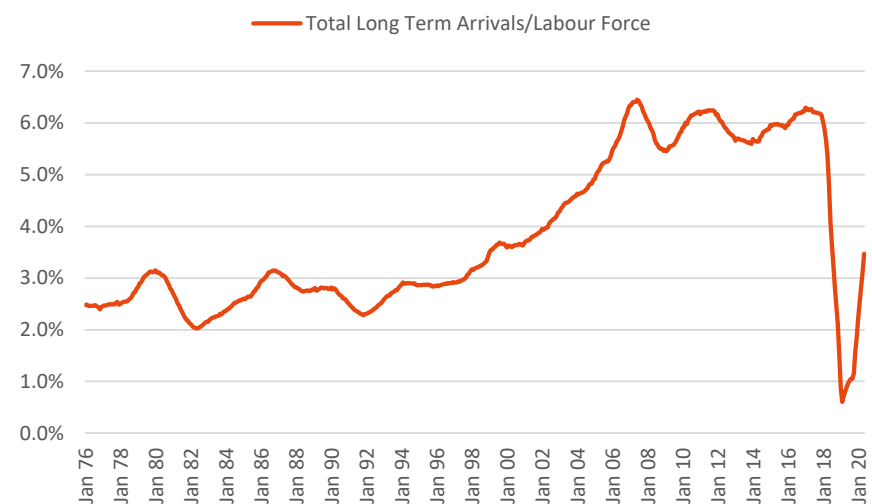
### Event

Ahead of this week's Jobs and Skills Summit, we consider the severe shortage of labour as a critical national issue.

### Highlights

- **Australia relies on immigration for growth.** Pre-COVID, long term and permanent arrivals averaged an annual 6% of the labour force. This shifted from an average of 3% in the 20<sup>th</sup> century but plummeted to less than 1% during the COVID lockdowns and is only now recovering to the latest reading of 3.5% as at June 2022.

Figure 1: Total Long Terms Arrivals as a Percentage of the Labour Force



Source: Shaw and Partners, FactSet

- Tightness in the labour market – where there are 480,100 vacancies but only 473,600 unemployed persons – is typically a signal to the RBA to tighten monetary policy and history suggests this will continue until vacancies fall. The fall in permanent immigration has exacerbated the labour shortage and the resultant pressure on wages.
- Effort to raise the participation rate, such as encouraging workers to remain in the workforce post 65 years of age and creating more affordable childcare - as well as boosting immigration - are needed as much if not more than slowing the economy down via higher interest rates.
- Australia has typically focussed on skilled and significant investors as part of its immigration agenda, but this may have created an acute shortage of unskilled and semi-skilled workers, particularly if school and university leavers eschew these jobs.
- Healthcare faces the most acute shortage, comprising 14.3% (68,900) of all job vacancies against an historical average of 10.8%. Accommodation and Food Services is the next most acute, comprising 10.8% (51,900) of vacancies versus an average 8.2% since 2009.

### Recommendation

*“The Jobs and Skills Summit will bring together Australians, including unions, employers, civil society and governments, to address our shared economic challenges”.* Hopefully we will see measures to boost immigration as well as increasing the participation rate to alleviate the critical shortage of workers.

Martin Crabb | Chief Investment Officer

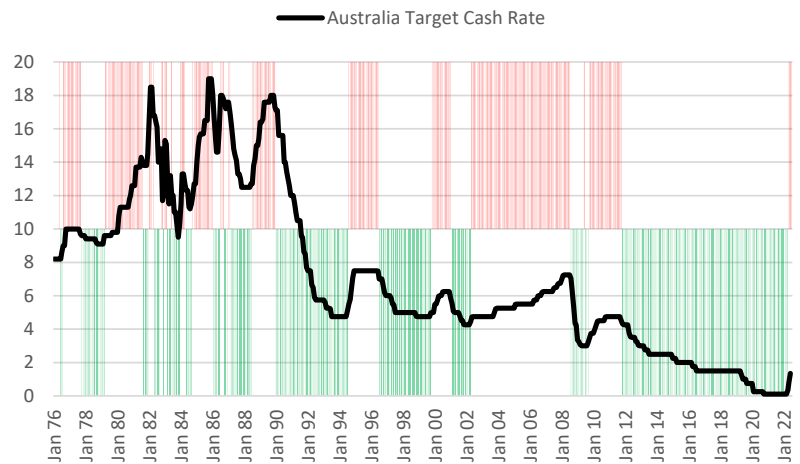
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### Tightness in the Labour Market is the Key Monetary Policy Concern

Typically, the Reserve Bank of Australia tightens monetary policy when the labour market becomes too tight. First, we define monetary policy regimes by shifts in interest rates. Here the red shaded areas are hiking cycles, and the green are easing cycles. Monetary policy has been significantly more consistent since the 1980's.

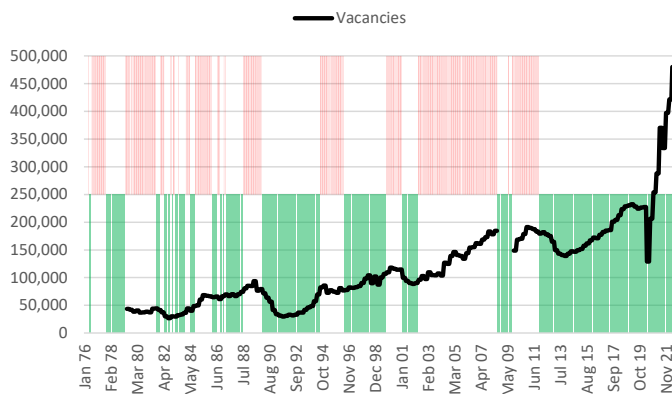
**Figure 2: Australian Interest Rate Cycles**



Source: Shaw and Partners, FactSet

Overlaying both job vacancies and unemployed persons against this cycle, we can see turning points in monetary policy coincide with shifts in labour markets.

**Figure 3: Vacancies versus Rate Cycle**



Source: Shaw and Partners, FactSet

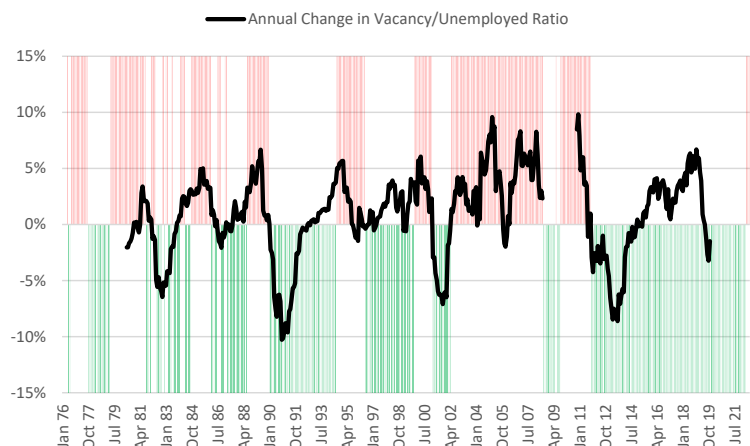
**Figure 4: Unemployed v Rate Cycle**



Source: Shaw and Partners, FactSet

Pre-COVID, changes in vacancies were a reliable predictor of monetary settings. In fact this measure suggests rates should have been hiked in 2018.

**Figure 5: Change in the ratio of Vacancies to Unemployed v Rate Cycle**



Source: Shaw and Partners, FactSet



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<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

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