# Australia's economic and labour market outlook

## An employer's guide to 2024-25

Dr Jeffrey Wilson
Director of Research and Economics

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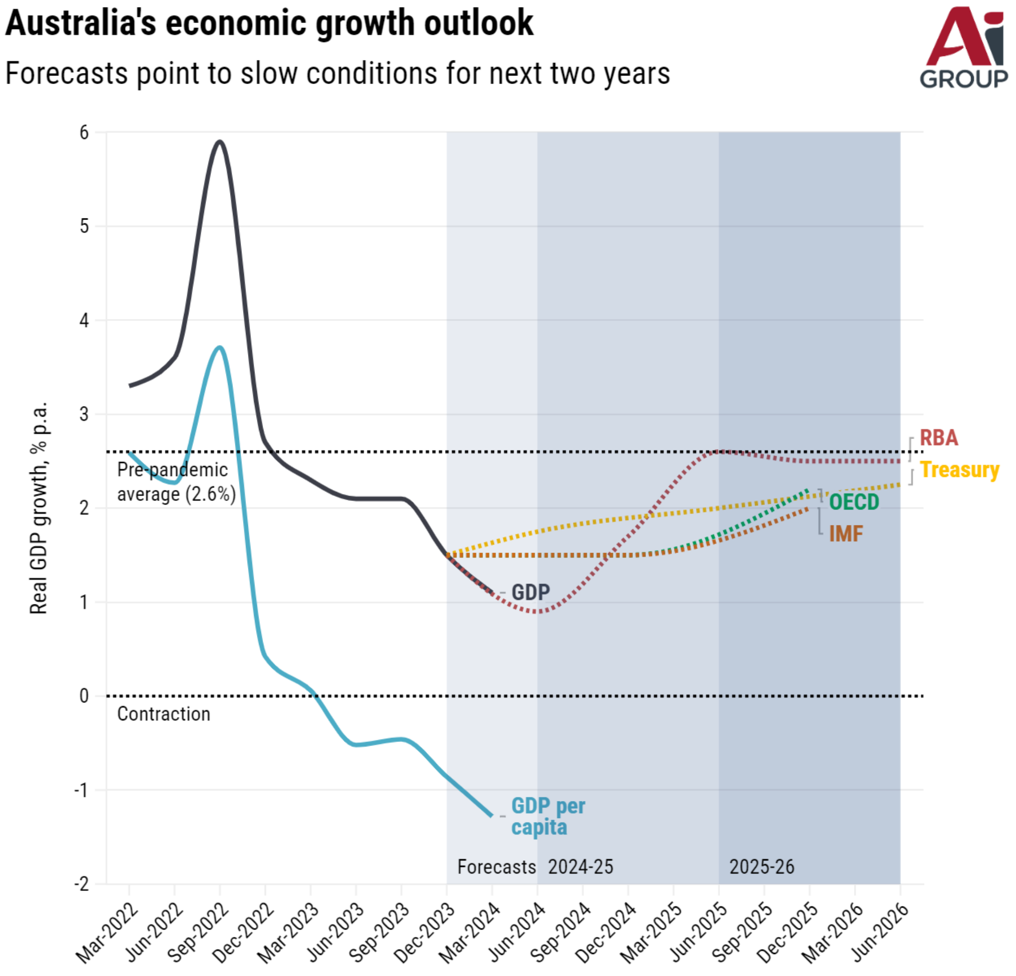
# Australia’s growth outlook: Slow times ahead as investment stalls

- Marked deterioration in the Australian economy in 2023-24 as the post-pandemic boom has unwound
- GDP growth has been declining since the middle of 2023, and hit a lowly 1.1% p.a. in the March quarter.
- Household consumption has been the principal drag due to inflation reducing real incomes. Government expenditure, underpinned by surging tax revenues, has offset weak households.
- GDP per capita has been contracting for a year
- The outlook for the next two years is slow, with forecasters expecting growth in the high 1s in 2024-25 and then low 2s in 2025-26.
- Business and housing investment are expected to stall, keeping growth below the long-run average
- This outlook implies we are in the middle of the longest sustained period of low growth in Australia since the recession of the early 1990s.



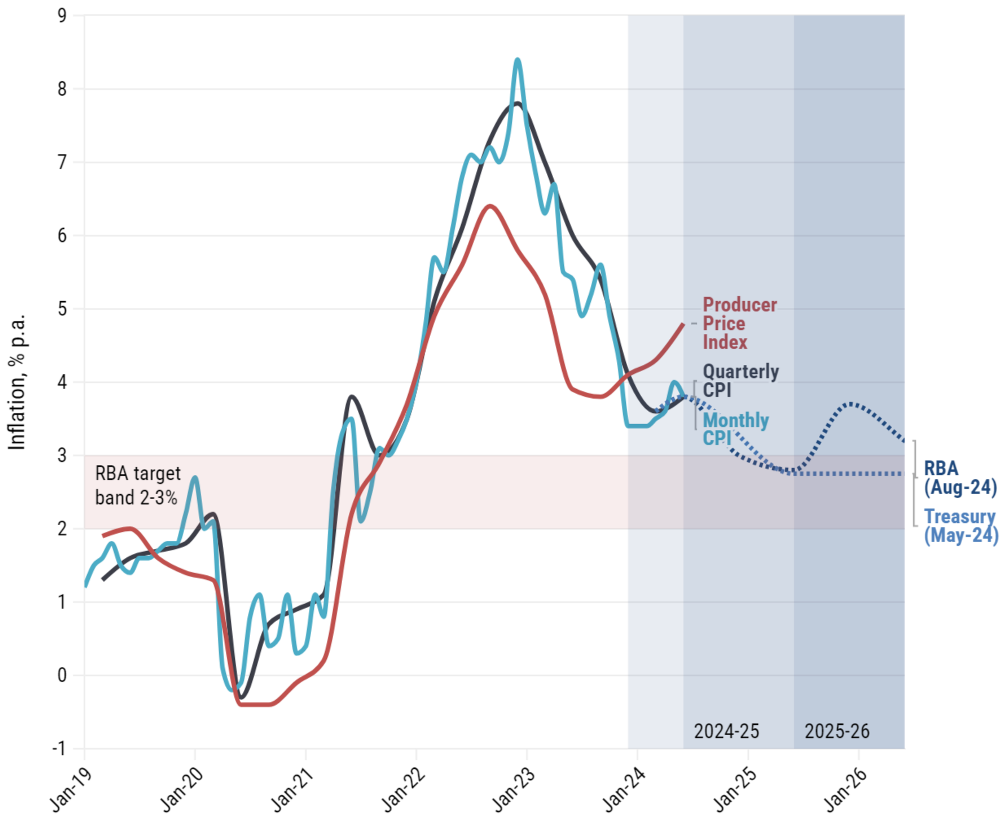

Source: ABS National Accounts, various official forecasts

# Inflation will be higher for longer due to homegrown and wages pressures

- Stubbornly persistent inflation is one of the main factors weighing on Australia's economic outlook
- Despite falling throughout 2023, consumer price inflation (CPI) has moved sideways this year, and remains well above target range
- Producer prices (PPI) are moving in the wrong direction, rising again in 2024.
- Inflation now has a very different source:
    - In 2022 predominantly 'imported' via global supply chain disruptions and energy price rises
    - In 2024 mostly homegrown, with non-tradables and (wage exposed) services driving
- Little cheer in the inflation outlook – CPI not forecast to return to band for one or two more years
- Higher-for-long inflation means higher-for-longer interest rates and cost of living pressures

**Australia's inflation outlook**

Inflation proving persistent in 2024, particularly for industrial goods



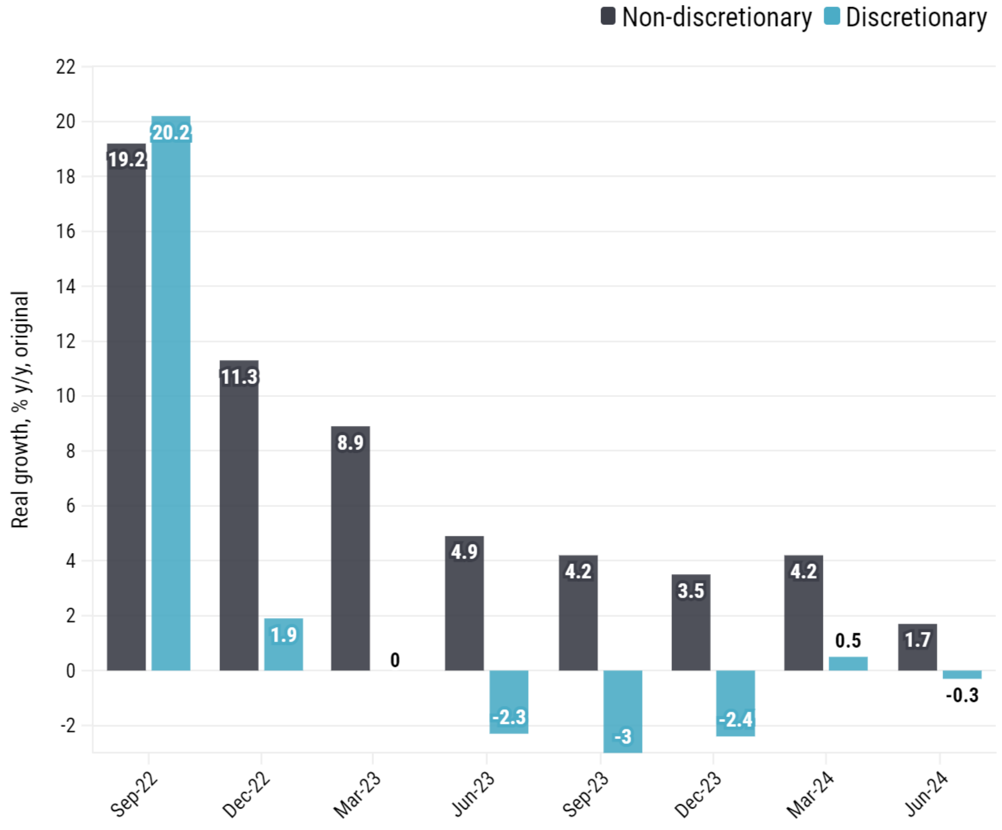

Source: ABS CPI, ABS Monthly CPI, ABS PPI

# Rates, inflation and rents are crimping household spending

- Slow growth alongside persistent inflation has led to marked weakness in the consumer economy
- Inflation has eroded purchasing power; rate rises have impact mortgagees; rent increases put pressure on renters; and savings buffers are being run down
- Household spending grew by only 1.3% in real terms over the last financial year
- Discretionary spending began contracting 2023, and non-discretionary spending is following close behind it
- Significant implications for consumer-exposed industries – retail in recession for last 12 months, personal services and accommodation/food under particular pressure
- Outlook is for a modest improvement in householding spending (2.0 to 2.1% growth next FY). But risk is to downside if inflation continues to prove stubborn

**Growth in Australian household spending**

Discretionary spend contracting, non-discretionary slowing rapidly

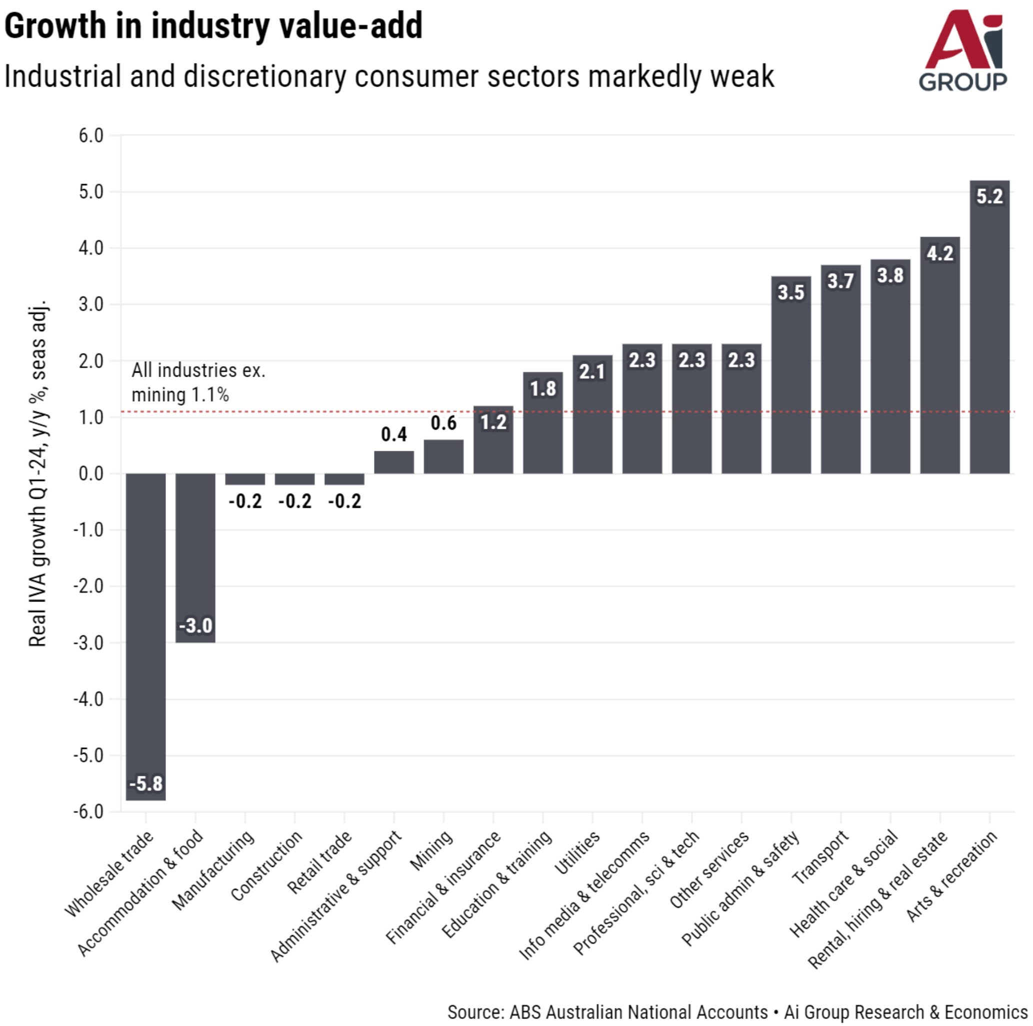



Source: ABS MHSI • Ai Group Research & Economics

Non-discretionary spending comprises food, health and transport. Discretionary spending comprises all other categories.

# A multi-speed slowdown hits industrial and consumer sectors

- Industry output grew 1.1% p.a. in the first quarter of 2024 – the worst quarter since the GFC, and well below long-run average of 2.4%.
- Multi-speed dynamics are at play, and industries can be classified into four groups:
    - Industrial sectors facing surging costs are in contraction or close to it
    - Discretionary consumer sectors are in contraction due to weak household spending
    - Non-discretionary consumer sectors have slowed but are performing relatively better
    - Government-connected sectors are performing best, protected by increased govt spending
- Reflects the asymmetric impacts of inflation – industries most exposed doing poorly, those protected from it remain comparatively healthy

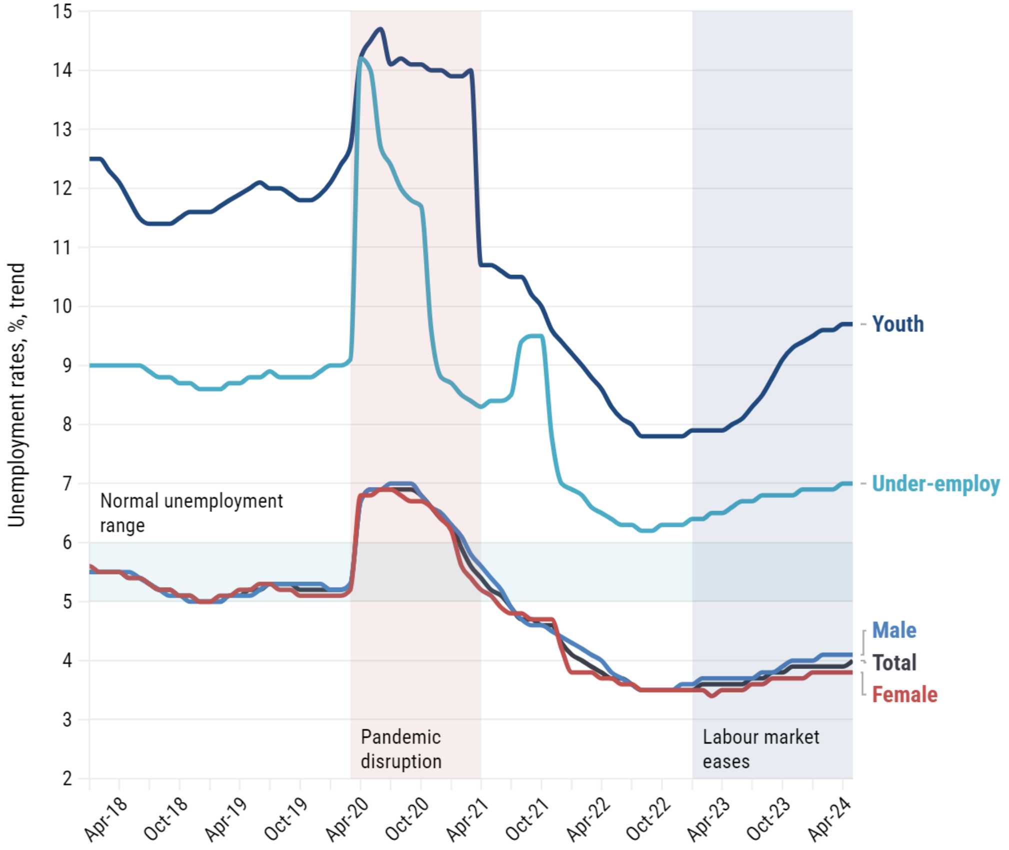


# But the labour market stays hot while rest of economy cools

- The labour market has yet to adjust in response to weakening business conditions
- Unemployment fell to 3.5% during the post-pandemic boom – the lowest sustained rate since 1970s, below normal (5.0 -6.0%) and 'full employment' (4.0-4.5%)
- Youth, female and underemployment were all beneficiaries of the tight labour market
- Yet very little easing has occurred in the last 18 months – unemployment remains at 4.0%
- Female and underemployment – which usually lead upwards in a downturn – remain resilient
- Only youth unemployment shows weakness, due to business conditions in retail and accomm/food
- Why has the labour market not weakened along with the rest of the economy?

**Australian unemployment rates**

Despite 18 months of easing, labour market remains very tight



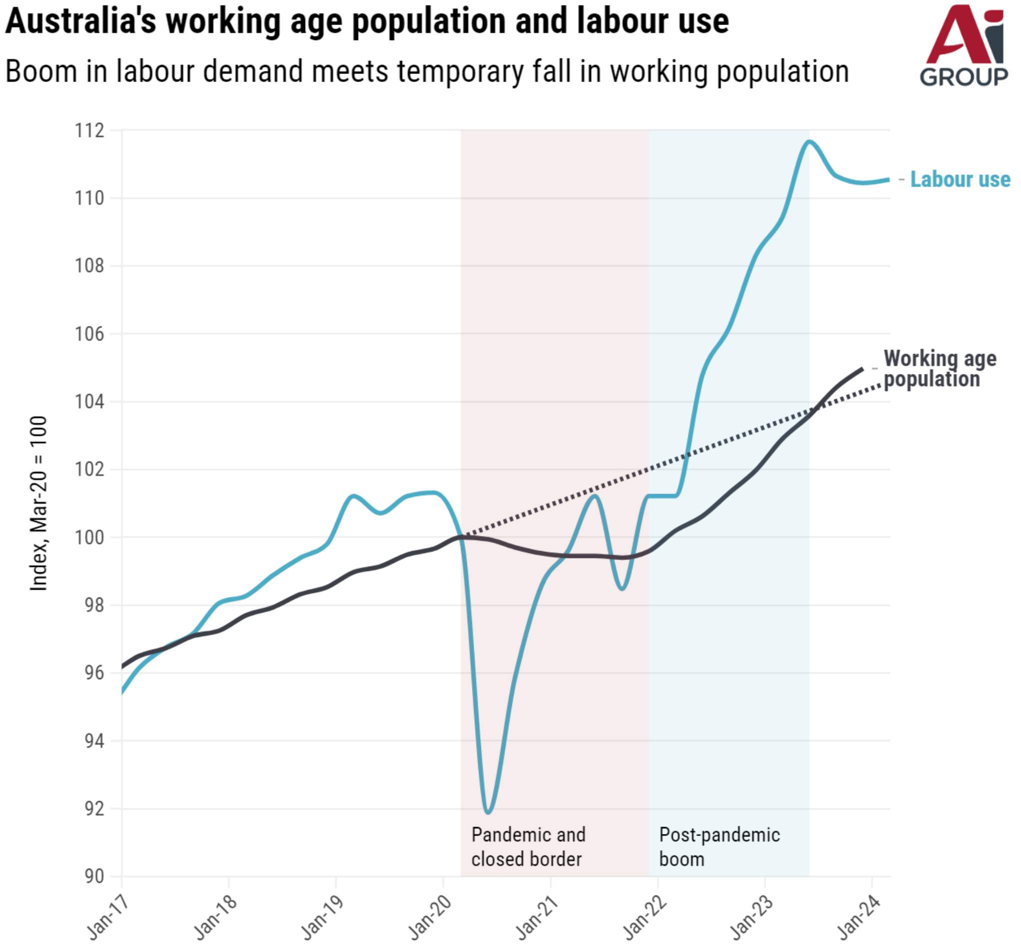

Source: ABS LFS, Ai Group Research & Economics • Normal unemployment rate defined as range over decade to 2019.

# The pandemic-era demographic deficit meets a labour market boom

- Demographic changes during the pandemic have contributed to labour market resilience
- Australia's closed border during the pandemic cut-off the supply of migrants, leading to a 2% reduction on trend in the working age population
- This demographic deficit collided with a post-pandemic boom, which saw labour utilisation increase by 10% in just 18 months
- Rapid migration inflows since border reopening have finally caught up the demographic deficit, but we are now only back around trend
- This has led to a large imbalance between labour supply and demand, which still persists in 2024
- This has forced greater utilisation of the existing labour force, with implications for employers in terms of vacancies, skills shortages and wages pressures

**Australia's working age population and labour use**

Boom in labour demand meets temporary fall in working population

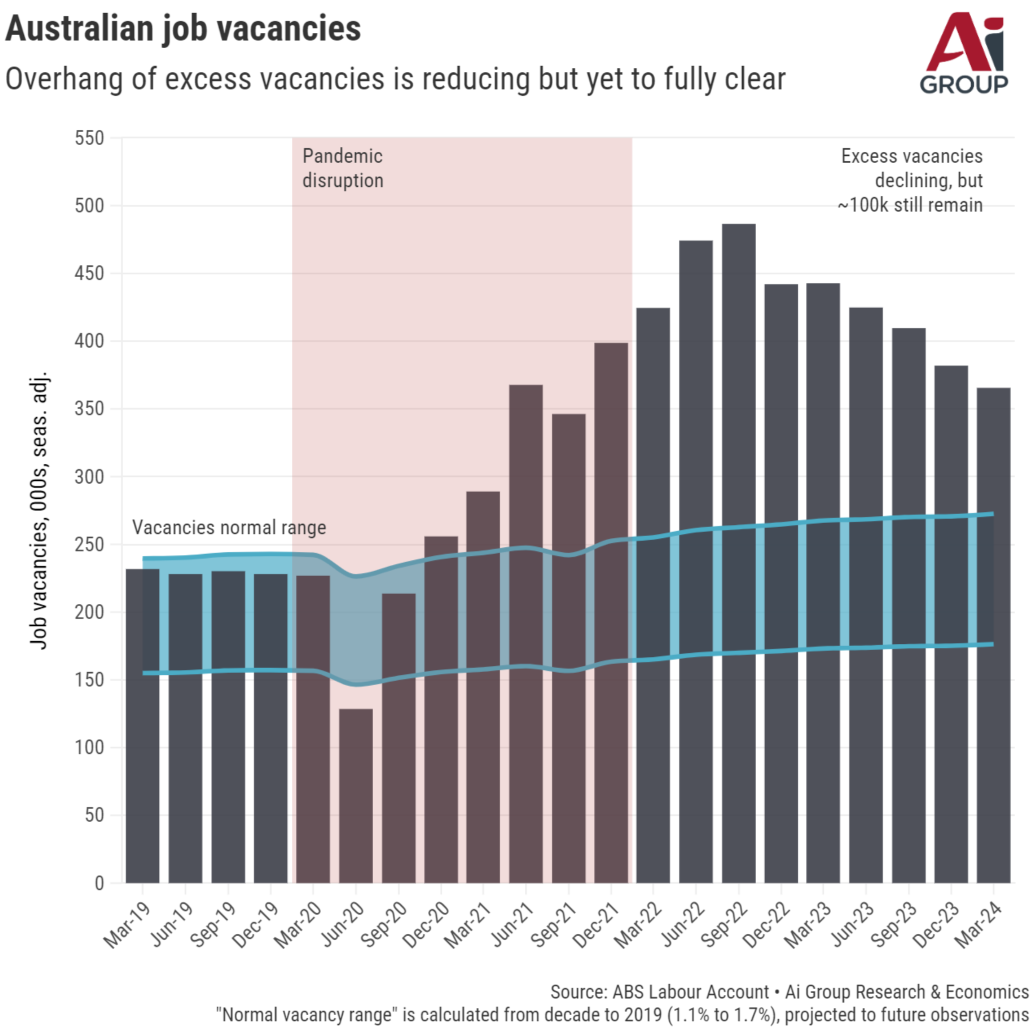



Source: ABS NSTP, ABS National Accounts • Ai Group Research & Economics

Working age population is 15-64 year old residents. Dashed line is pre-pandemic trend. Labour use is aggregate hours worked.

# An overhang of pandemic-era vacancies is delaying labour market rebalancing

- A vacancies overhang explains why the labour market is yet to ease in the face of weak business conditions
- Following the pandemic, the imbalance between supply and demand for labour saw the job vacancy rate double to 3.2%.
- By mid-2022 there were 487,000 vacant jobs in Australia, around 200,000 more than normal
- As the economy has slowed the vacancies problem has begun to unwind.
- Employers removed 100,000 vacant jobs over the last year, but an excess of another 100,000 remains.
- While overhang remains the labour market will not materially weaken. Employers can shed vacancies instead of staff; job-seekers can find new work.
- It is likely to take at least another year for the vacancies overhang to clear and labour market rebalancing to occur

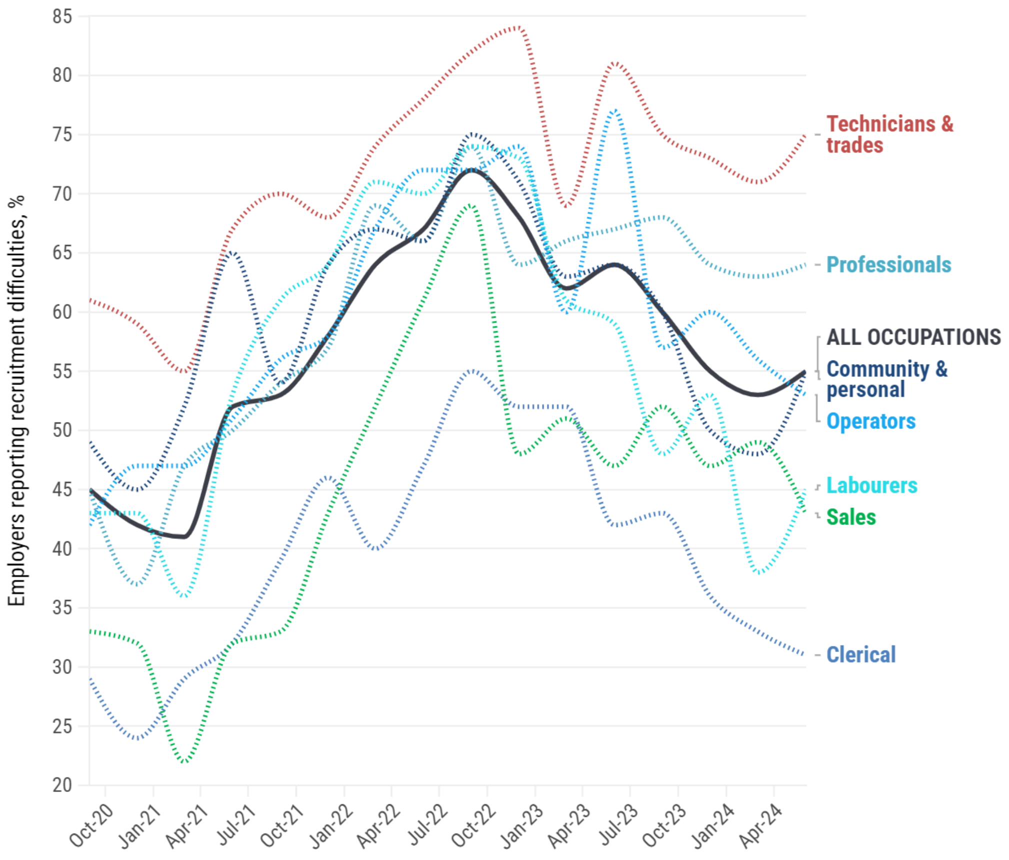


# Recruitment difficulties are easing overall, but persist for higher skill roles

- Record-level vacancies have exacerbated recruitment difficulties facing employers
- At the peak of the labour market in mid-2022, 75% of recruiting employers reported difficulties
- Higher skills roles (professionals, trades) are consistently harder to recruit than lower skilled roles due to job-fit factors and supply constraints
- As the vacancies overhang reduced, so did overall recruitment difficulty. Rate has now fallen to 55%, with material easing in lower skilled roles.
- But higher skilled roles remain hard to fill, with very little easing in the difficulty rates
- Bifurcation between a materially-easing market for lower skilled roles vs still very tight for higher-skilled
- Employers dependent on higher skilled roles should expect recruitment difficulty to persist

**Recruitment difficulty by occupation**

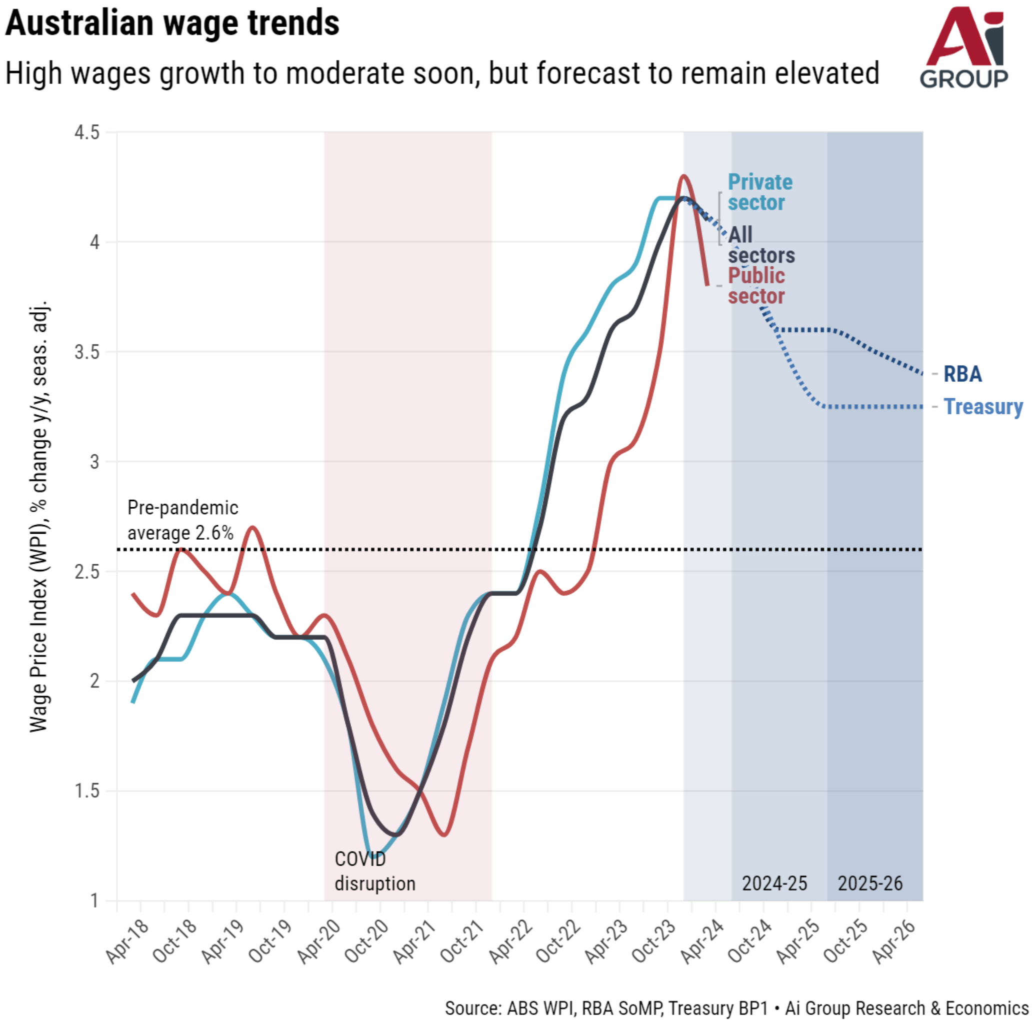
Hiring challenges have eased, but only for lower skilled roles




Source: JSA RE&O Survey • Ai Group Research & Economics

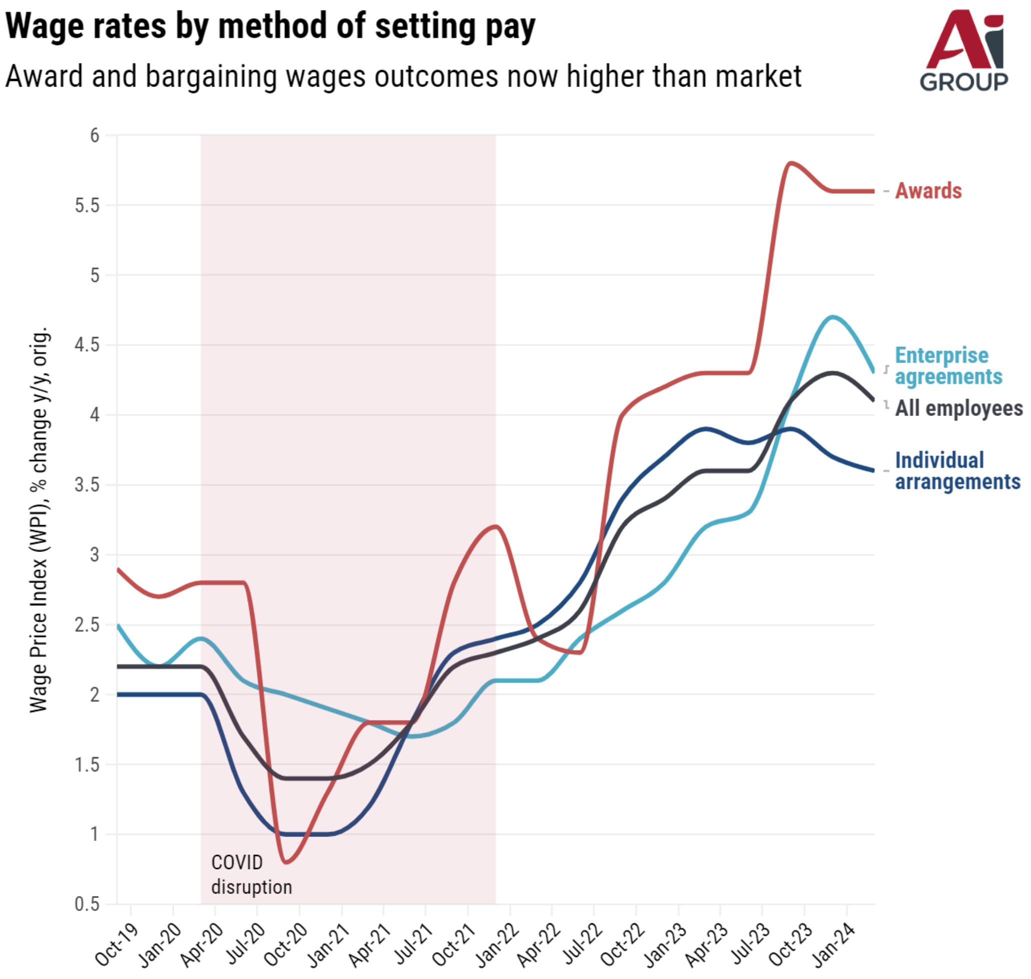
# High wages growth is expected to moderate only slightly

- Economy-wide wages growth peaked at 4.2% p.a. in late 2023, the fastest rate of growth since 2005.
- Private sector wages have grown faster than the public sector, due to the lagged effect of EBAs and wages policies of some state governments
- Wages growth is affecting all industries, with most falling in a 3.5-4.0% band. This reflects the generalised nature of labour and skills shortages.
- Wages growth is decoupled from industry performance. Retail wages are growing at second fastest rate (4.4% p.a), despite being a weak industry
- Forecasts are for wages growth to moderate only slightly over next two years. This is due to persistent inflation and ongoing labour market tightness.
- Employers across all industries should expect to contend with above-normal wages growth during a period of below-normal industry performance.



# Awards and bargaining now lead the market for wage increases

- Policy decisions have been a notable contributor to recent high wages growth
- High FWC decisions (5.2% and 5.75%) over last two year drove growth in award wages higher than others
- Enterprise agreements have also risen faster (with some lag) as inflation and FWC decisions have coloured bargaining outcomes
- Market-set wages are much lower – currently running 3.6% growth, compared to 4.1% economy-wide and 5.6% for awards
- More moderate FWC decision for 2024-25 (3.75%) is likely to see award wages growth fall back towards the economy-wide forecast (3.3% to 3.6%)
- Employers should consider how composition of the workforce, and differential wages outcomes due to policy, impact on overall wage costs



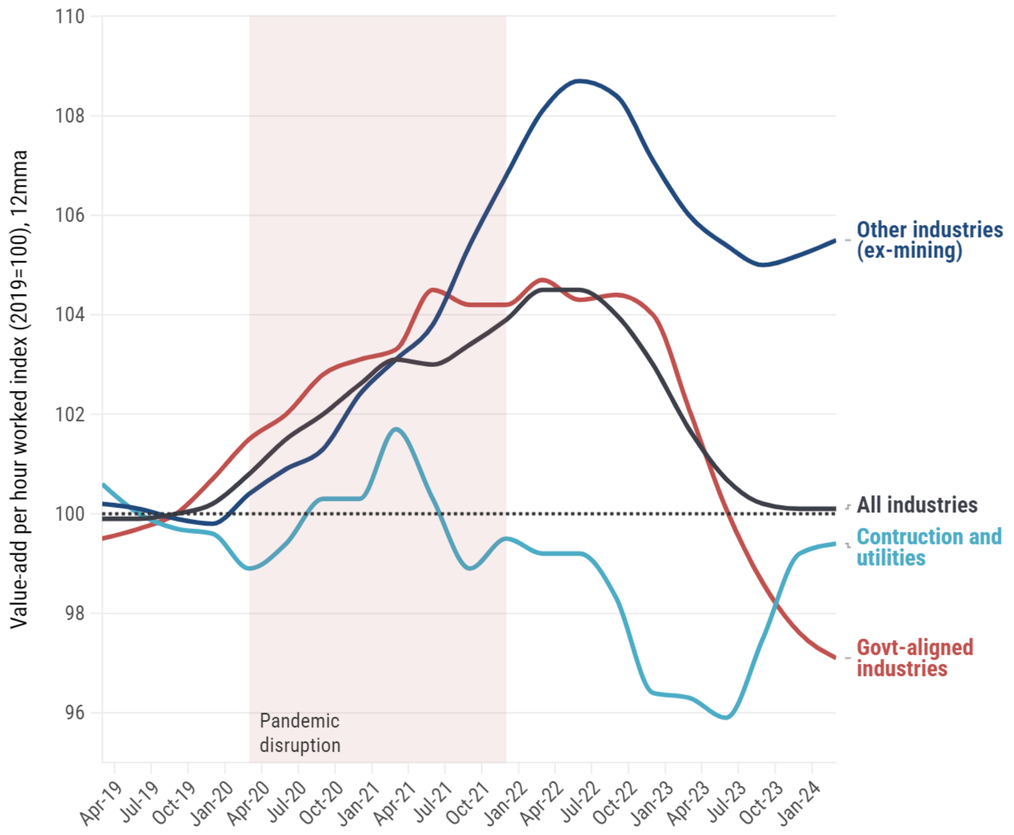

Source: ABS WPI, ABS WPI Methodology Annex B • Ai Group Research & Economics

# Productivity performance dragged down by govt-aligned and heavy industries

- Australia's productivity performance has been especially weak since the pandemic
- We have had four lost years for labour productivity growth; now sitting at same level as 2019
- However, two groups are primarily responsible for weak national performance since the pandemic:
    - Govt-aligned industries (health, education, public admin) saw labour productivity fall 2.9%
    - Heavy industries (construction and utilities) crashed in 2022-23 due to acute supply chain and labour shortages
- Other private sector industries turned in a healthy 5.4% increase, with some achieving >15% gains
- Australia's productivity problem is clearly not intractable, but requires creating conditions in which all industries can succeed.

**Labour productivity since the pandemic**

Government and heavy industries drag down performance




Source: ABS National Accounts, ABS Labour Account • Ai Group Research & Economics
Government-aligned industries are public administration, healthcare & social and education & training.

# **Read the report:** Australia’s economic and labour market outlook 2024-25

To explore this report, including interactive visualisations of all the data, please use this QR code or visit:

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