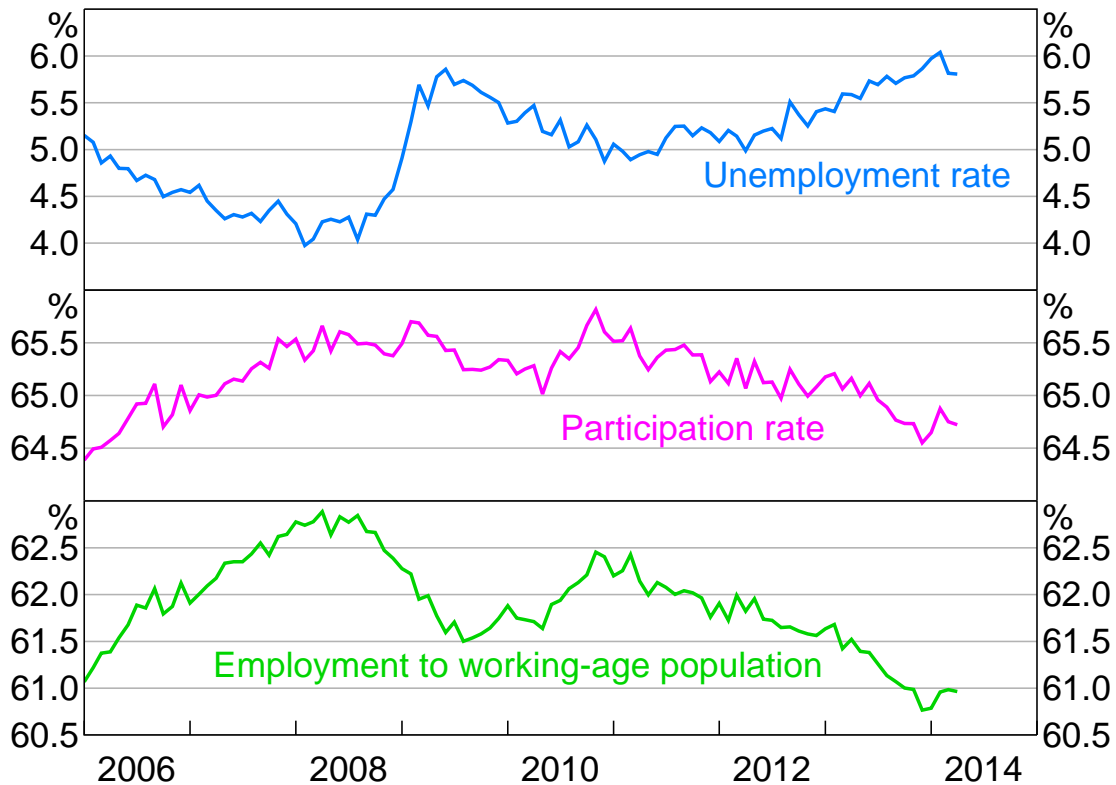


Labour Market



Sources: ABS; RBA

NOTES

This graph was included in the Reserve Bank's May 2014 Statement on Monetary Policy, which was presented to an economic group in Melbourne by Assistant Governor, Christopher Kent on 12 May. Kent acknowledged that, in assessing the labour market, the employment to population rate needs to be taken into account as well as the unemployment rate. In fact, since 2008 the increase in drop outs from the labour force have considerably exceeded the increase in unemployment

In Kent's view the main reasons for the recent downward trend in the employment to population rate, and the upward trend in the unemployment rate, are the ageing of the population (the phasing out of the "baby boomers") and the slowing down in the expansion of the mining sector. He considered that, although there was now considerable spare capacity in the labour market, it is unlikely that much of this development can be attributed to the increase in the regulation of workplace relations since around 2010 under the Fair Work legislation and administration.

However, it is difficult to deny that labour is available at a higher cost than if a free market operated in relations between employers and employees. The fact that employers are not legally permitted to offer wages below a minimum of just over \$30,000 pa, and that lesser skilled youths have high rates of unemployment, both suggest that regulations are having an adverse effect on employment demand. Other regulations, such as week-end penalty rates, the difficulty of effecting dismissals and union interference with management through rights of entry, must also act as deterrents to employment.

Analysis of the trends since the Fair Work arrangements have been operative – since around 2010 - certainly provide a basis for claiming adverse effects. The failure of the demand for labour to absorb the increase in the population of working age, resulting in extensive drop outs from the labour force and some increased unemployment, is pertinent. A well functioning labour market should have the growth in employment at least keeping pace with the growth of the working age population.

	Population ¹	Employment ²	Drop Outs ³	Unemployment ⁴
Apr 08-09	+389	+87	+149	+183
Apr 09-10	+310	+147	+157	+6
Apr 10-11	+264	+247	+77	-55
Apr 11-12	+312	+141	+160	+11
Apr 12-13	+331	+154	+94	+83
Apr 13-14	+337	+107	+197	+33

¹ Civilian population aged 15 years and over. In 000s

² Includes part time. In 000s

³ Includes retirees and people who have given up actively looking for work.

⁴ Those in the labour force actively looking for work but unable to obtain it. In 000s