



RESERVE BANK OF AUSTRALIA

Full Employment

Tom Cusbert

Economic Research Department



Outline

What is full employment and how do we achieve it?

- The role of the government and the RBA
- The long and short of the labour market
- Cyclical, structural and frictional unemployment

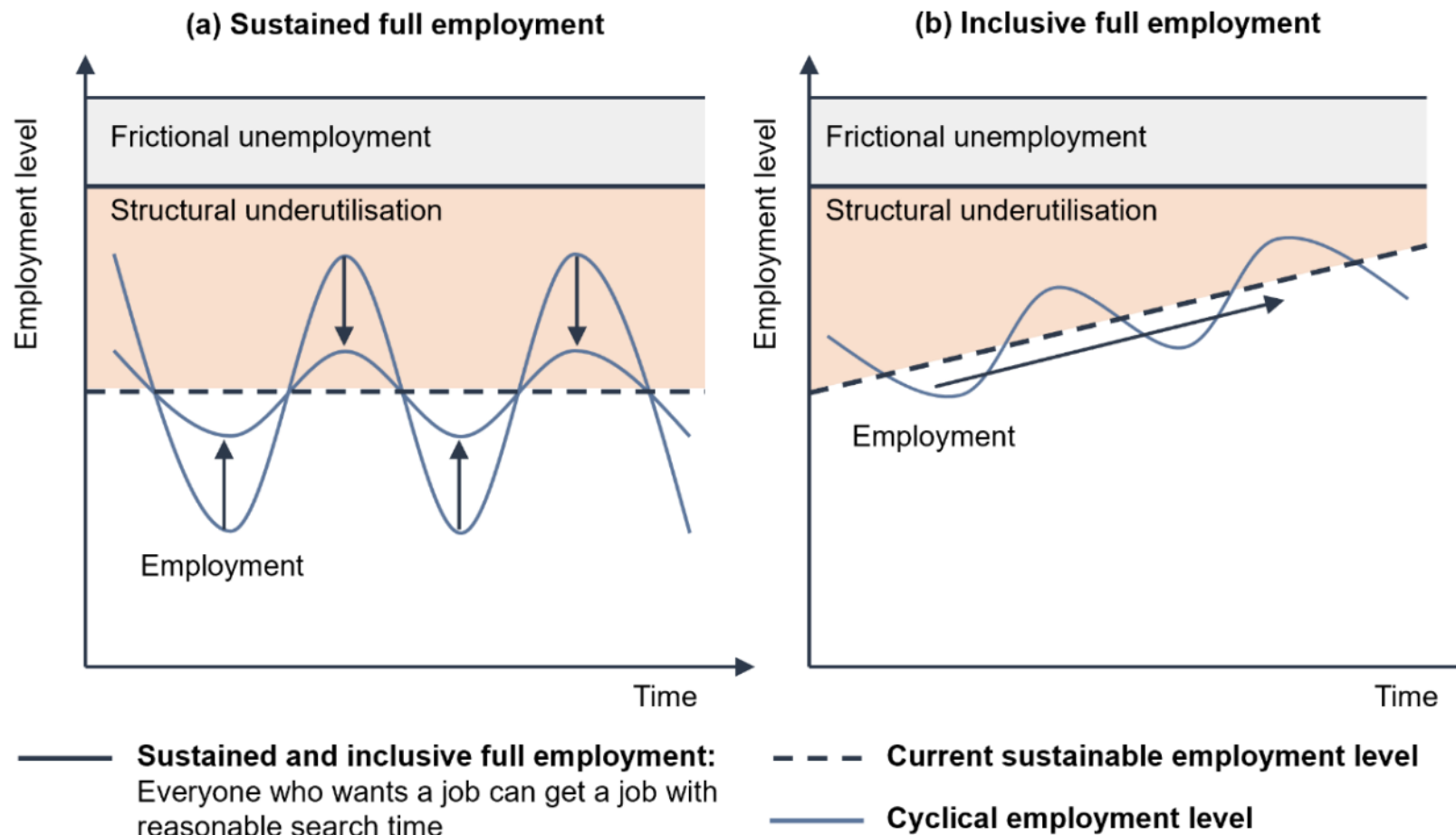
Assessing the state of the labour market

- Labour market indicators
- Models of labour market spare capacity

What is full employment?

2023 Statement on Conduct of Monetary Policy

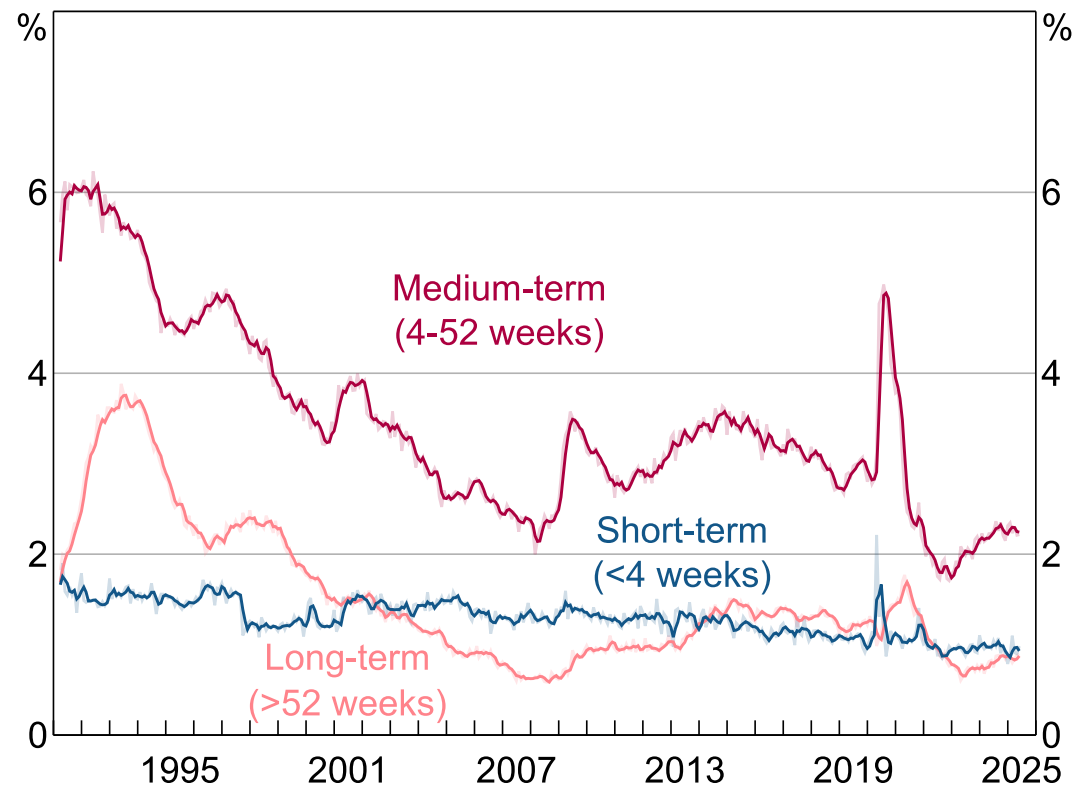
“The Government’s objective is sustained and inclusive full employment where everyone who wants a job can find one without searching for too long. The Reserve Bank Board and Government agree that the Reserve Bank Board’s role within this is to focus on achieving sustained full employment, which is the current maximum level of employment that is consistent with low and stable inflation.”



Source: Treasury.

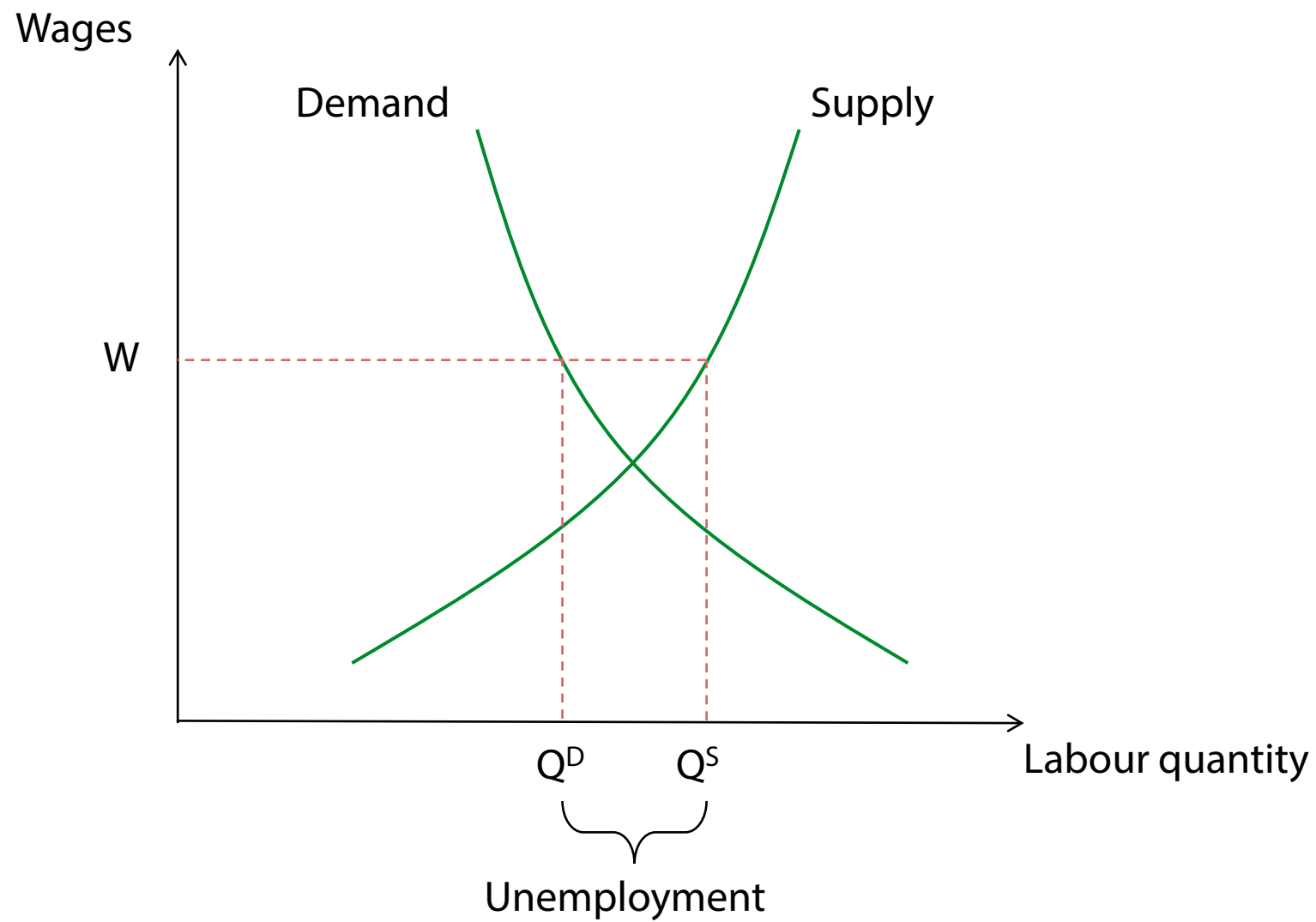
Unemployment by Duration*

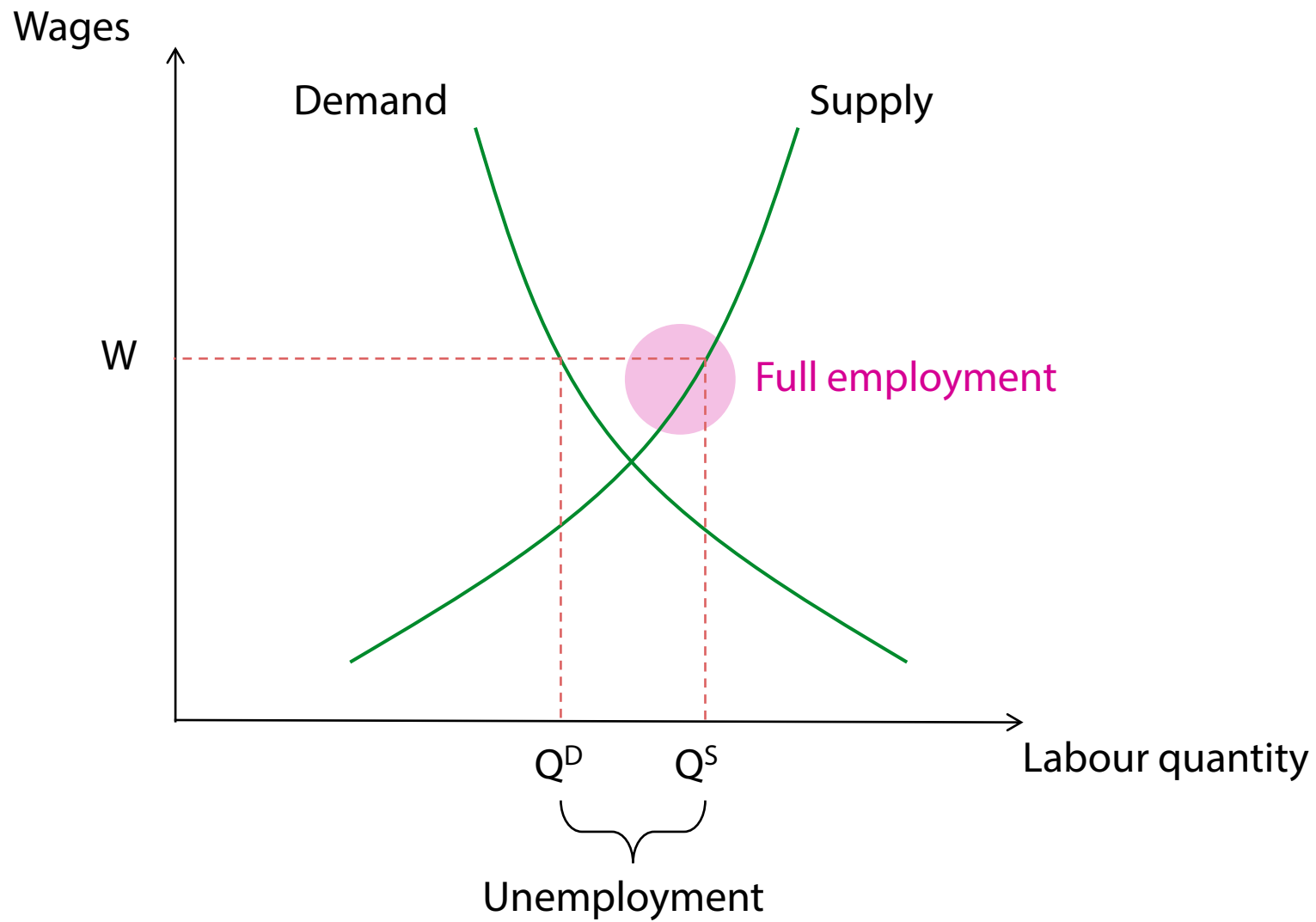
Per cent of labour force

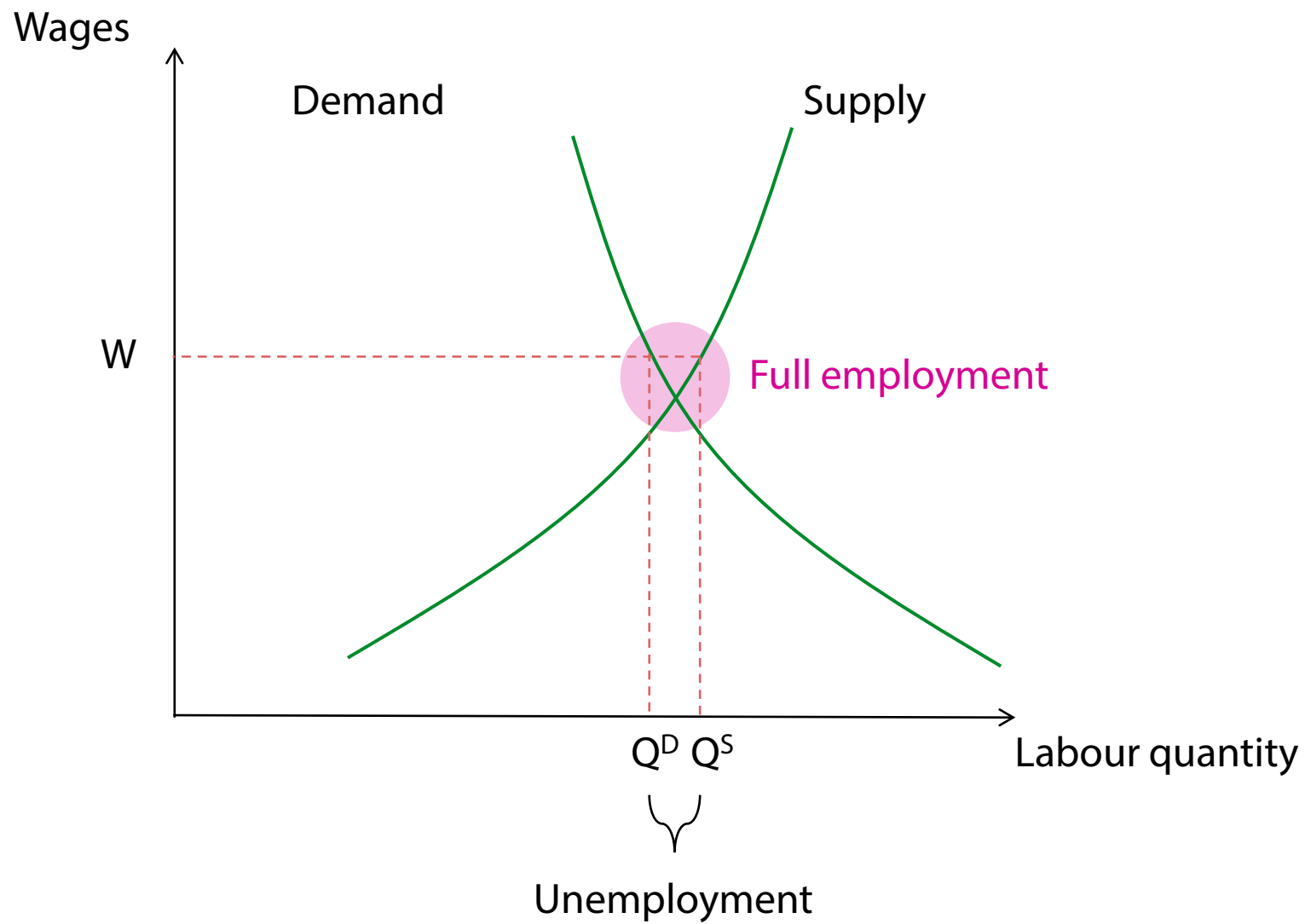


* Seasonally adjusted by the RBA; darker lines are 3-month moving averages.

Sources: ABS; RBA.







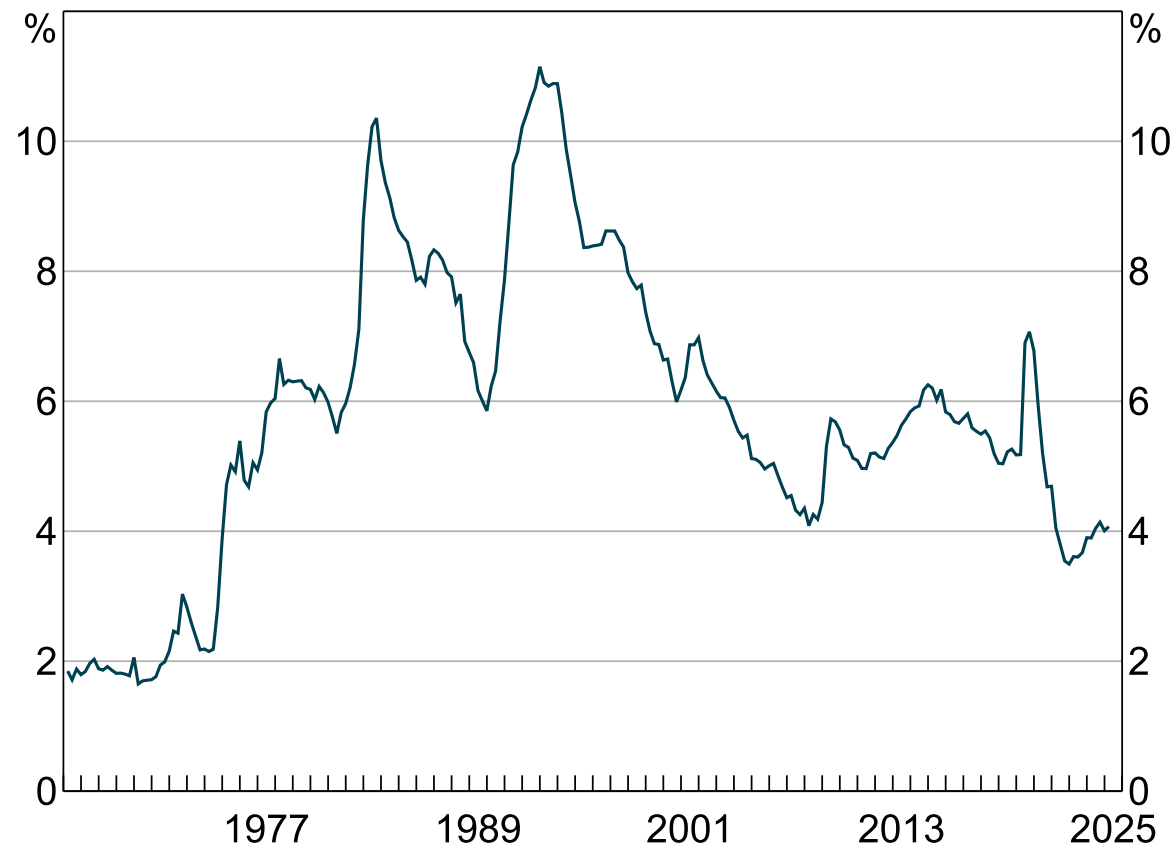
Assessing full employment and spare capacity

2023 Statement on Conduct of Monetary Policy

The Reserve Bank Board commits to regularly communicating its assessment of how conditions in the labour market stand relative to sustained full employment, drawing on a range of indicators and recognising that full employment is not directly measurable and changes over time.

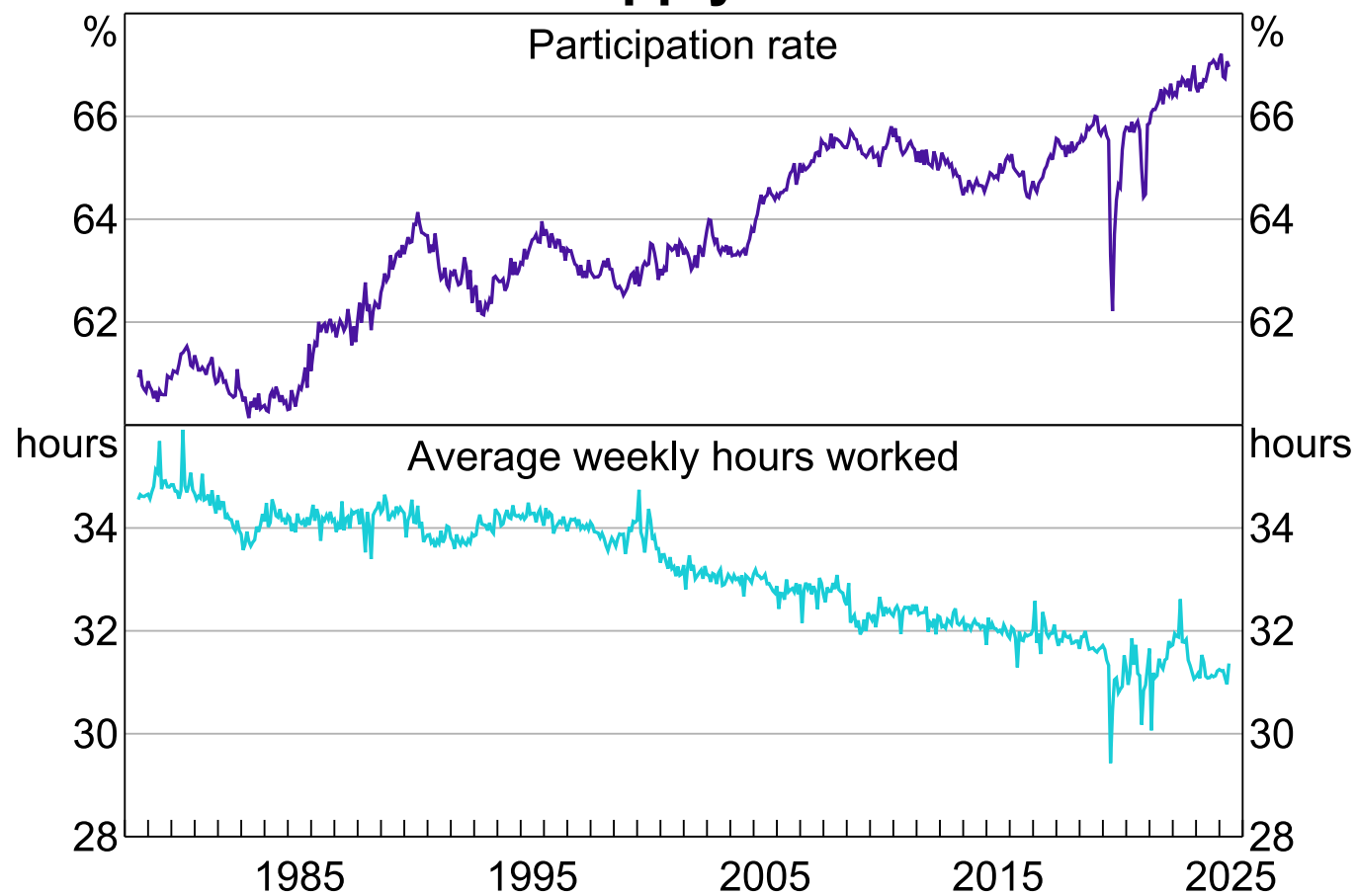
Unemployment Rate

Per cent of labour force



Sources: ABS; RBA.

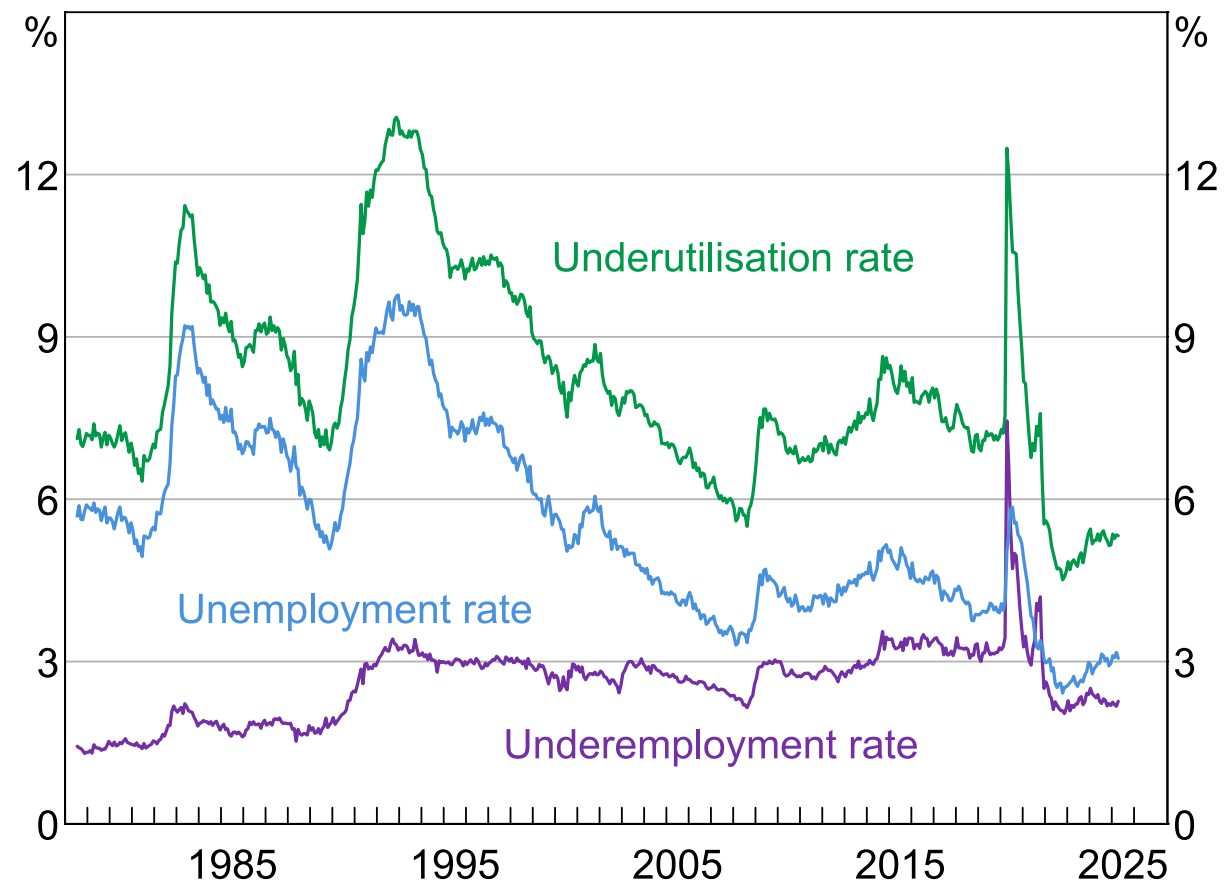
Labour Supply Indicators



Sources: ABS; RBA.

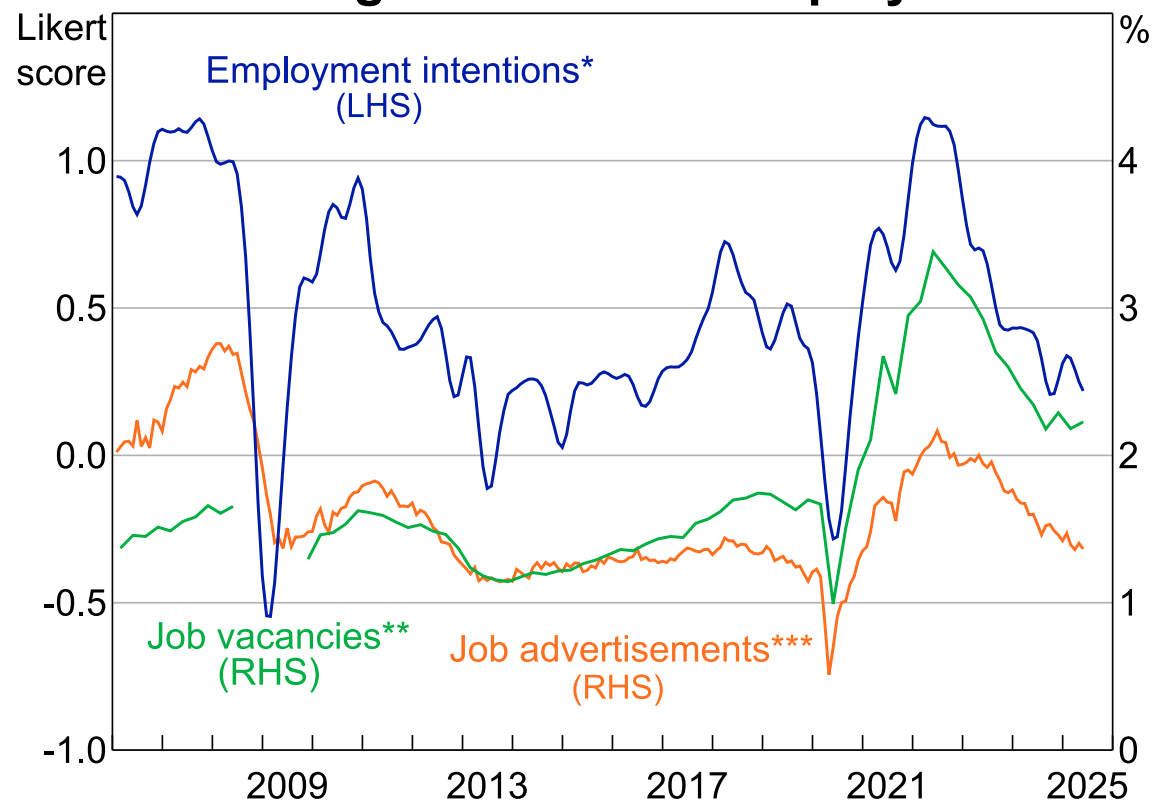
Labour Underutilisation

Hours-based



Sources: ABS; RBA.

Leading Indicators of Employment



* Over the year ahead; smoothed using a 13-month Henderson trend.

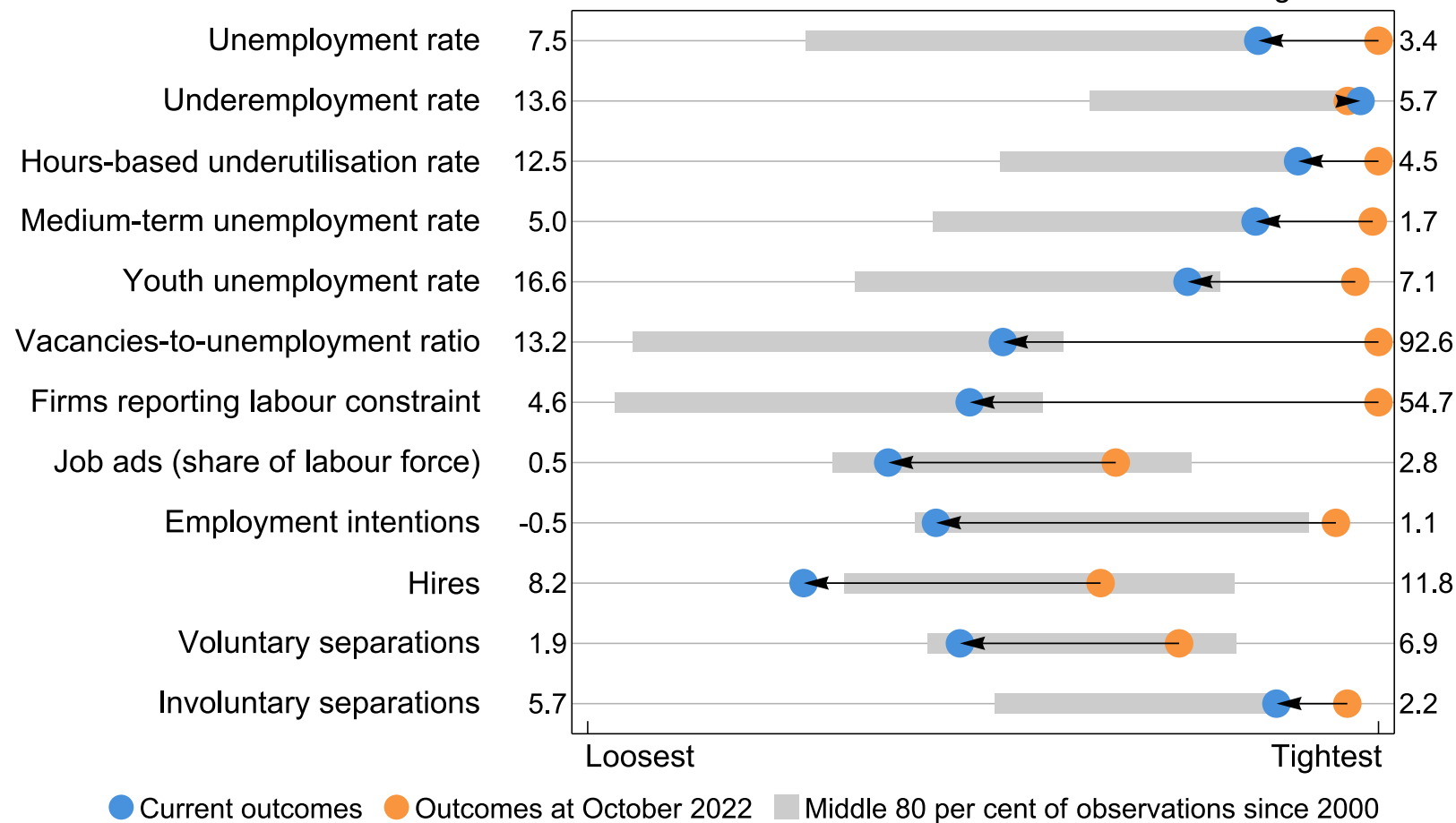
** As a share of the labour force; this survey was suspended between May 2008 and November 2009.

*** As a share of the labour force.

Sources: ABS; Jobs and Skills Australia; RBA.

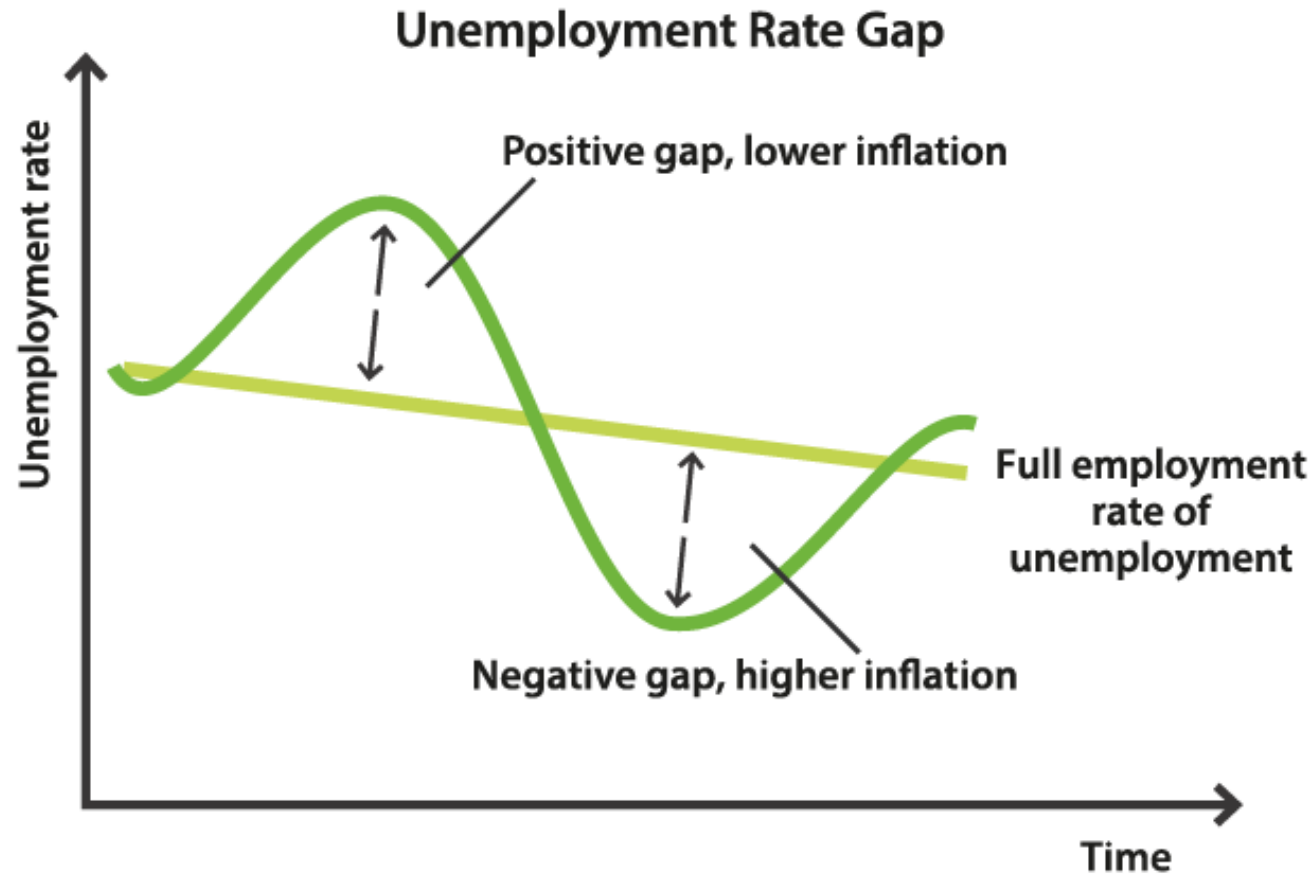
Full Employment Indicators

Current conditions relative to 2000–2025 range



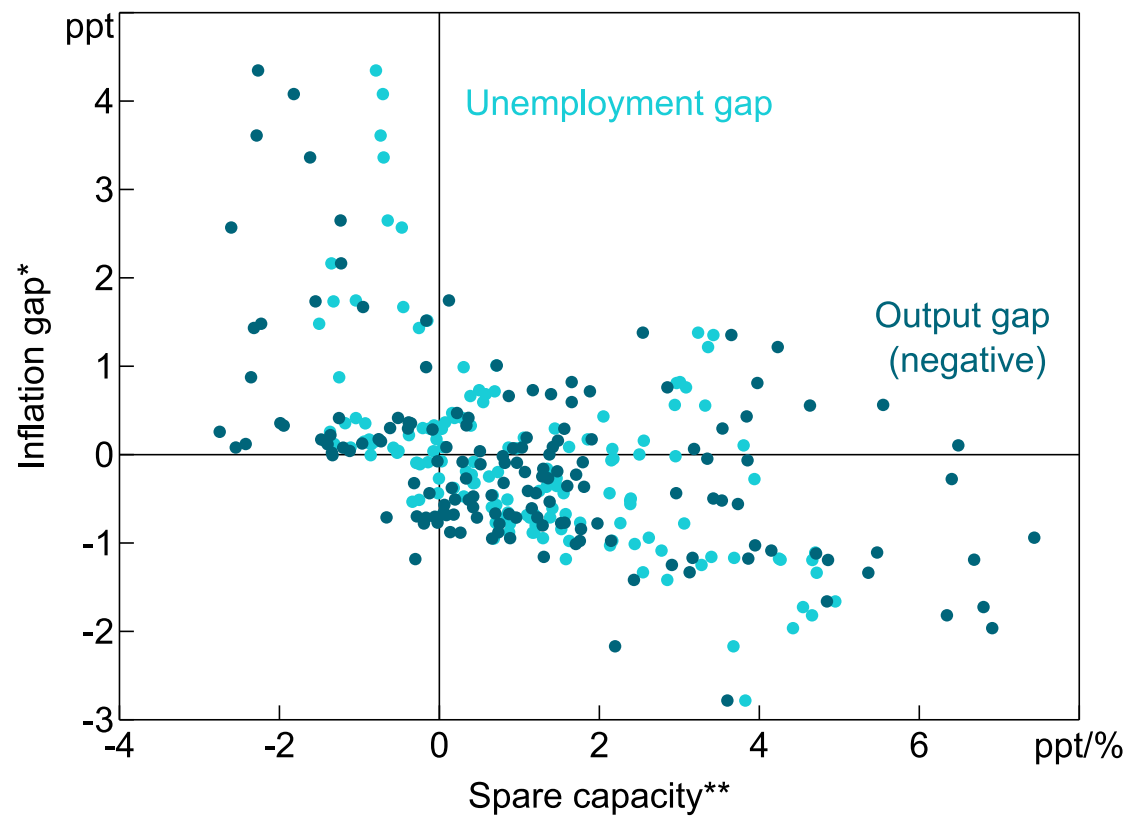
Sources: ABS; JSA; NAB; RBA.

Inflation helps to detect changes over time



Phillips Curve

1985–2023

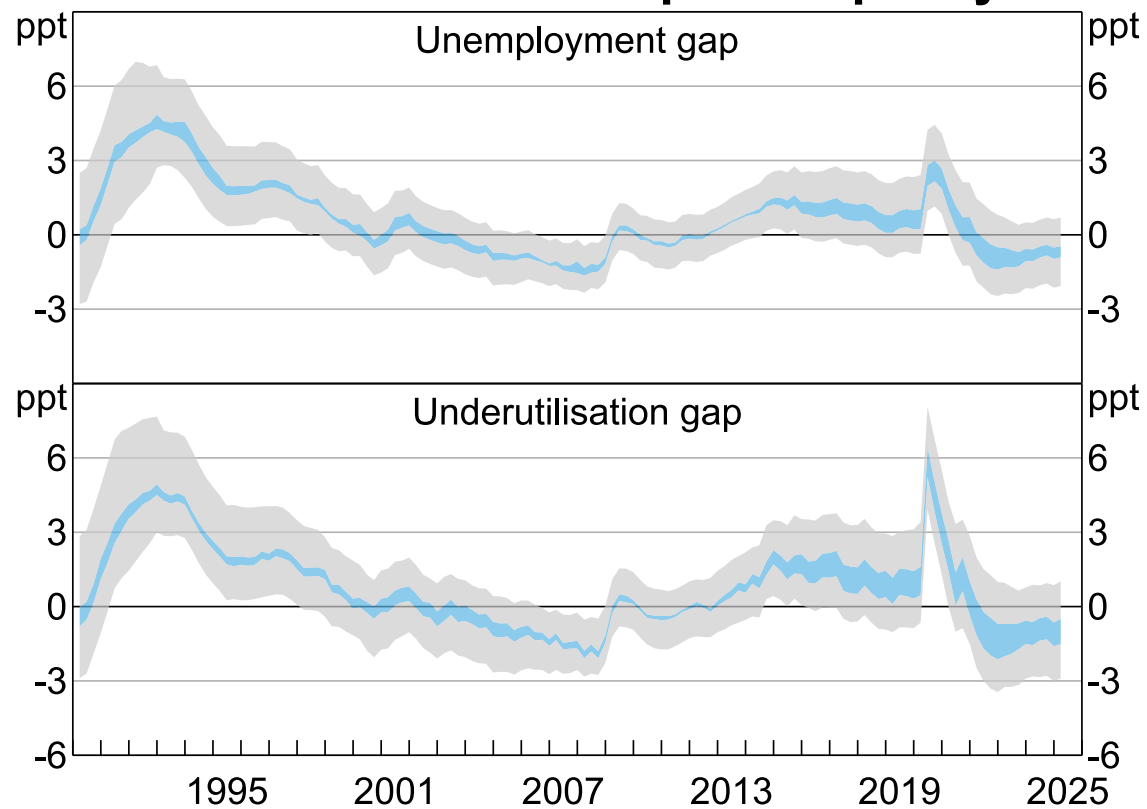


* Trimmed mean inflation minus trend inflation expectations.

** Unemployment gap (ppt) or negative output gap (%) estimates.

Sources: ABS; RBA.

Model Estimates of Spare Capacity*



* Blue-shaded region shows illustrative range of central gap estimates from a selection of models; March quarter 2025 values are partial estimates; grey bands are the maximum and minimum two-standard-error confidence intervals from the selection of models.

Sources: ABS; RBA; Ruberl et al (2021).

Conclusion

Full employment and the RBA

- The RBA looks at a wide range of indicators to assess where the labour market is compared to full employment
- Wage growth and inflation are important to connect labour market indicators to the RBA's working definition of full employment: the *current maximum level of employment that is consistent with low and stable inflation*.

Bulletin – April 2024 | Australian Economy

Assessing Full Employment in Australia

18 April 2024

Alexander Ballantyne, Avish Sharma and Tim Taylor ^[*]

[Download](#)  820KB

[inflation](#) [labour market](#) [modelling](#) [monetary policy](#) [wages](#)



Photo: Orbon Alija – Getty Images