

Box B: Developments in Labour Supply

The strong growth in employment over the past decade and a half has contributed to a significant fall in the unemployment rate. However, it has also been associated with an increase in labour supply from several other sources. This box discusses both the role of increasing labour force participation by people who were not previously in the labour force and the increasing role of migrants in the growth in employment.

Increased labour force participation by residents

Between 1992 and 2006, the proportion of the civilian population aged between 15 and 69 years in employment increased from 62.7 per cent to 70.6 per cent. This significant growth in employment was associated with large changes in the labour market status of different groups (Table B1). Most prominently, the proportion of the working-age population that was unemployed fell from 7.5 per cent to 3.6 per cent.¹ But the growth in employment was also associated with a large decline in the proportion of the working-age population classified as not being in the labour force.

Table B1: Labour Force Status
Per cent of civilian population aged 15 to 69

| | September 1992 | September 2001 | September 2006 |
|--------------------------------|----------------|----------------|----------------|
| Labour force | 70.2 | 72.2 | 74.2 |
| Employed | 62.7 | 67.3 | 70.6 |
| Unemployed | 7.5 | 4.9 | 3.6 |
| Not in the labour force | 29.8 | 27.8 | 25.8 |
| Marginally attached | 6.9 | 6.0 | 5.1 |
| – Discouraged job seekers | 1.2 | 0.6 | 0.4 |
| Not marginally attached | 22.9 | 21.8 | 20.7 |
| – Do not want to work | 20.4 | 18.1 | 16.8 |

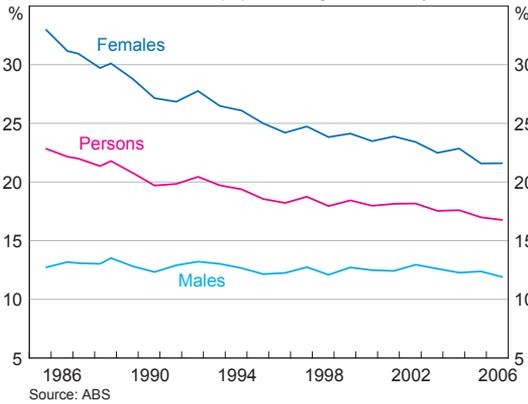
Source: ABS

Among people classified as not in the labour force, the largest group is those who do not want to work, for example because they are retired or care full-time for their families. This group has also accounted for the majority of the increase in labour force participation during the current economic expansion. The largest single contributor has been the trend increase in female labour force participation (Graph B1). With respect to age groups, there has been a noteworthy increase in the participation of those aged between 45 and 64 years. Given that people aged between 55 and 64 years have a lower participation rate than the rest of the working-age population, the increase in the share of the population in this age group – primarily the first wave of the baby

¹ This proportion of unemployed persons is measured in terms of the total population aged 15 to 69 whereas the standard unemployment rate is measured in terms of the labour force aged 15 and over.

Graph B1

Persons Who Did Not Want to Work
Per cent of civilian population aged 15 to 69 years



boomer generation who are nearing traditional retirement age – could have been expected to increase the share of the population who do not want to work. However, since the participation rate of these older workers has increased markedly in recent years, this age group has in fact been a declining share of persons who do not want to work.

A second group of persons, who are outside the conventionally defined labour force but more readily available for employment, are known as ‘persons with marginal attachment to the labour force’.

This group includes people who are willing to work, but are either not actively looking for work or are not available for work immediately. The share of this group in the population was roughly stable at around 7 per cent for most of the 1980s and 1990s, as a trend decline amongst females offset a trend increase amongst males. Since the late 1990s, however, the size of this group has fallen significantly.

The two predominant explanations people in this marginally attached group give for not actively looking for work are ‘personal reasons’ (especially education) and ‘family reasons’ (most commonly caring for children). The proportion of people giving each of these explanations has fallen in recent years (Graph B2). The recent decline has been more pronounced for women, some of whom may have benefited from the trend towards greater flexibility in working arrangements that has helped address the family-related reasons that were keeping women out of the labour force.

Another category within the ‘marginally attached’ is the group who would be available to work but have given up looking for employment. The number of ‘discouraged jobseekers’ in the labour force has fallen significantly over the current expansion, and now constitutes only 0.4 per cent of the working-age population, or around 50 000 persons.

Graph B2

Main Reason for Not Actively Looking for Work
Persons with marginal attachment*



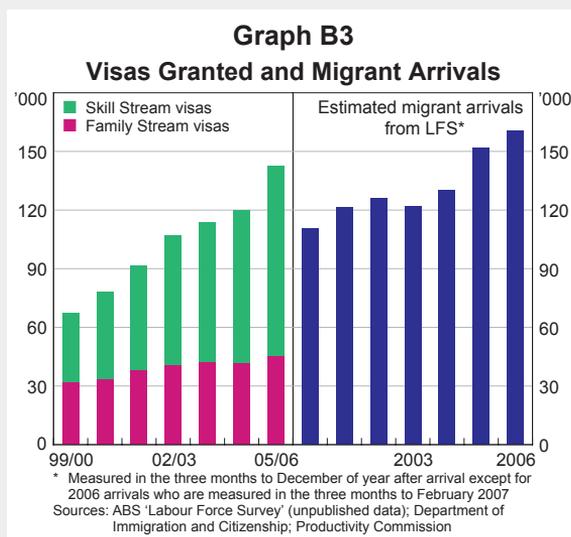
Increased labour force participation by migrants

Another source of potential labour supply, which has received much attention recently, is migration. Available evidence suggests that the number of migrant arrivals, especially those on Skill Stream visas, has increased over the past six years (Graph B3).² While immigration contributes to aggregate demand in the economy and hence to demand for labour, an issue not specifically addressed here, immigrants also represent an additional source of labour supply.³

Unpublished data from the ABS Labour Force Survey (LFS) provide some evidence on the contribution of recently arrived migrants to the Australian labour market. These data suggest that since 2000 there has been a 45 per cent increase in annual migrant arrivals, and also a significant increase in the proportion of recent migrants who find employment. In recent years, the annual flow of migrant arrivals into employment has been equivalent to around one-third of the annual increase in aggregate employment.

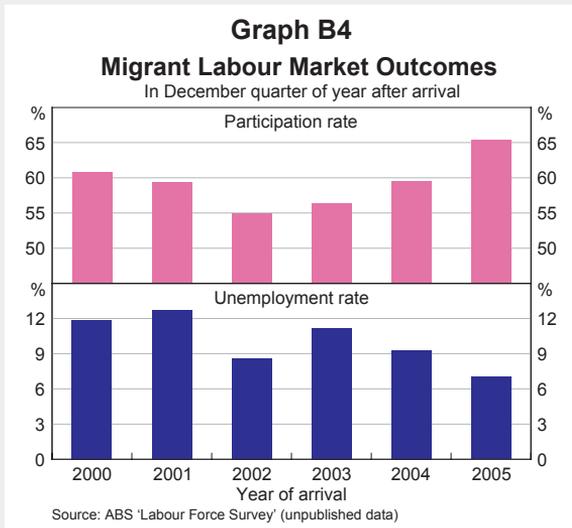
The labour force participation rate and the unemployment rate can give a rough indication of the interaction of migrants with the labour market. In order to account for the time it takes for recent migrants to settle, Graph B4 shows the employment characteristics of migrants in the December quarter in the year after they arrived. On this basis, the participation rate of recent migrants has gradually increased over the past few years, so that the participation rate for those who arrived during 2005 was virtually equal to the economy-wide rate by the end of 2006.

Traditionally, recent migrants have had higher unemployment rates than the population as a whole. However, over the past two years the unemployment rate of recent migrants has declined at a somewhat faster rate than for the population as a whole, so that their unemployment rate is now closer to the economy-wide rate within two years of the migrants arriving in Australia.



2 The data in the two panels of the graph are not strictly comparable for several reasons, although the trends are broadly similar. The data on visas granted do not include migrants from New Zealand, the humanitarian program or temporary visas. The LFS data include migrants aged 15 years and over who are staying in Australia for more than 12 months in total. Therefore, the LFS data would include many migrants on Temporary Business (Long Stay) visas (subclass 457) which allow migrants to reside in Australia for up to four years. The main groups excluded from the LFS data and the analysis here are working holiday makers (subclass 417 visas) and business visitors.

3 For further analysis, see Productivity Commission, Economic Impacts of Migration and Population Growth, Final Report, April 2006.



The stronger labour market experience of recent migrants compared with those who arrived earlier in the decade is likely to reflect both demand and supply factors. As a result of the increase in the Skill Stream visa category, recent migrants may have skills better matched to the Australian labour market. But the strength of the domestic labour market has also provided migrants with better employment opportunities. Reflecting the resources boom, Western Australia has had the tightest labour market in Australia, with high employment growth and shortages of

skilled workers. It is perhaps not surprising that Western Australia received a disproportionately large share of migrant arrivals in 2006 compared with the other Australian states, and that the participation and employment rates for migrants in Western Australia have been stronger than for migrants settling in other states (see 'Box A: Regional Economic Performance' for state-level immigration data). ↗