Australia

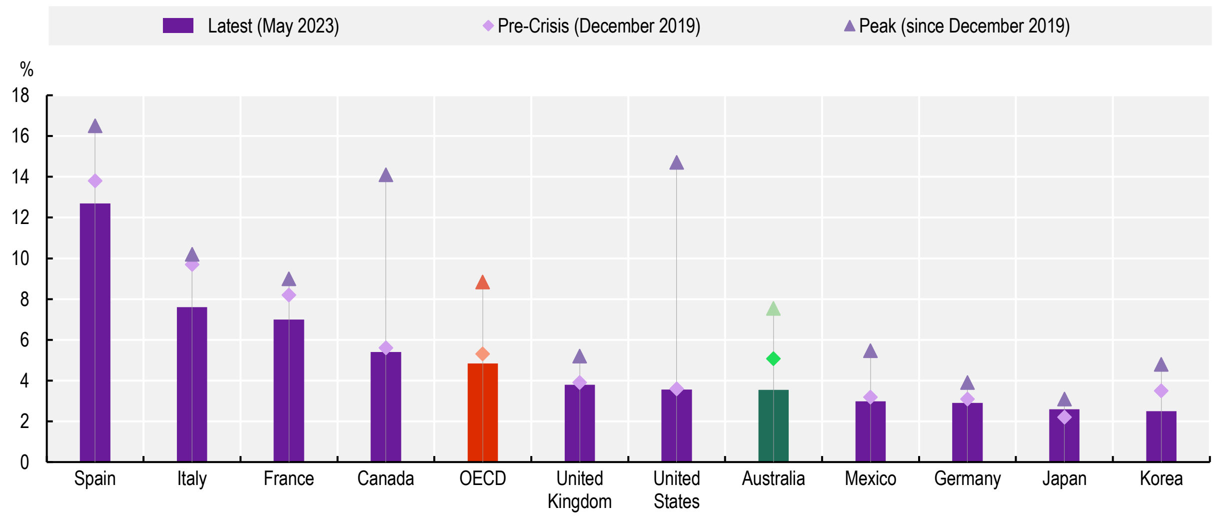
Labour markets have been resilient despite the significant slow-down in economic activity

The labour market recovery from the COVID-19 recession has been strong, but lost momentum in 2022 and early 2023 in the context of the economic slowdown. However, employment and unemployment have held their ground, and job vacancy rates remain high in most countries, despite some signs of easing. By May 2023, the OECD unemployment rate had fallen to 4.8%, a level not seen in decades.

- Australia's recovery from the COVID-19 crisis persists, with the unemployment rate declining to 3.6% by May 2023 – below its pre-pandemic rate of 5.1%. The employment rate (for the population aged 15-64 and) was 77.6%, which is 3 percentage points above the pre-pandemic rate in December 2019. The upward trend in employment has been particularly strong among young people, with youth employment rate (persons aged 15-24) increasing by 4.7 percentage points between December 2019 and May 2023. Data on online job vacancies in Australia suggest an easing of the labour market, as online job postings declined in the first five months of 2023.
- Tightening financial conditions and inflation will continue to weigh on labour demand, though inflation appears to have peaked. Labour market pressures will ease, with the unemployment rate projected to rise to 4.6% by the end of 2024.
- Data from Jobs and Skills Australia suggest that despite an easing in recruitment difficulties and relatively stable job ads, there is still a persistent mismatch between the formal qualifications job applicants hold and the skills employers require. The reopening of borders and increase in migration programmes based on the Skills Priority List could alleviate some of these recruitment difficulties, as well as additional investments in fee-free TAFE places and improving access to jobs and training pathways for women, First Nations people, regional Australians and culturally and linguistically diverse people.

Figure 1. Unemployment rates remain low across the OECD

Unemployment rate (percentage of labour force), seasonally adjusted



Note: Latest month available refers to March 2023 for the United Kingdom; and June 2023 for Canada and the United States.
Source: OECD (2023), "Unemployment rate" (indicator), https://doi.org/10.1787/52570002-en (accessed on 11 July 2023).

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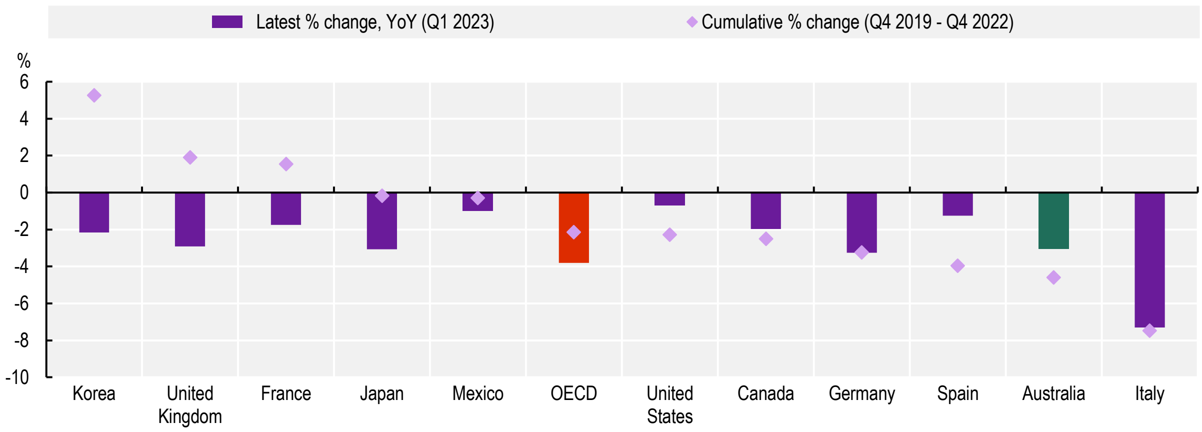
Real wages are falling amid a cost-of-living crisis

Russia's war of aggression against Ukraine contributed to a surge in inflation, which was not matched by nominal wage growth. Consequently, real wages have fallen in virtually every OECD country. On average, real wages were down 3.8 in Q1 2023 year-on-year among the 34 OECD countries with data available. The loss of purchasing power is particularly challenging for low-income households who have less capacity to deal with increases in prices through savings or borrowing.

- Although less severe than in some other OECD countries, real wages in Australia were still down 3% in Q1 2023 year-on-year. The slowing of real wage growth in Australia has contributed to slower growth in real household income and a slightly widened gender pay gap.
- Taking such factors into account, the Fair Work Commission has decided to increase hourly national minimum wage rate by 8.65% to 23.23 AUD. Before this increase, real minimum wages have decreased by 4.6% in May 2023 cumulative change since December 2020, while it has slightly increased on average in the OECD for the same time period.

Figure 2. Real wages are falling in most countries

Change in real hourly wages, Q1 2023



Note: OECD is an unweighted average of 34 OECD Member States (not including Chile, Colombia, Ireland and Türkiye). For the United Kingdom, average weekly earnings are used.
Source: *OECD Employment Outlook 2023*, Chapter 1.

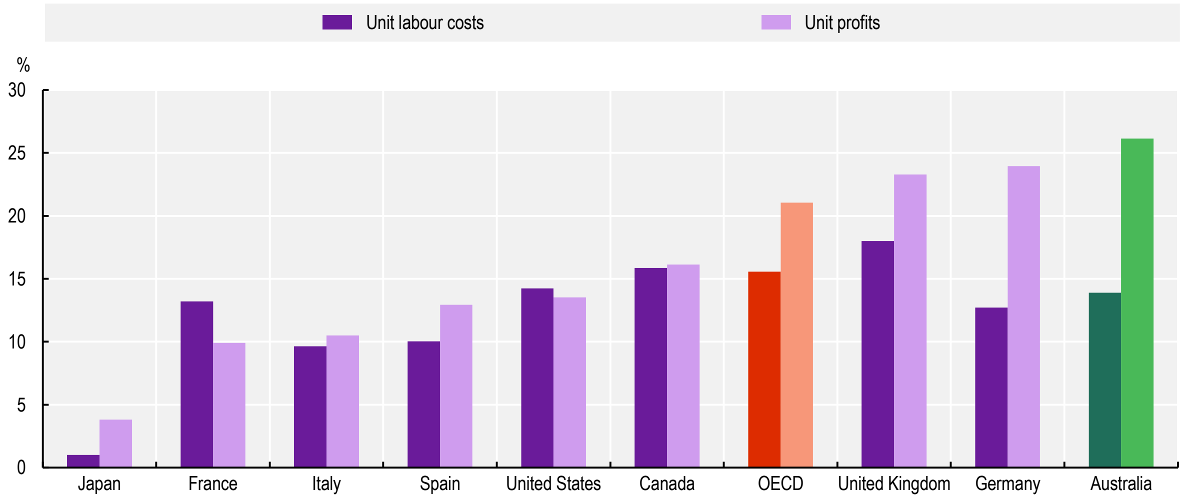
Profits increased more than labour costs in many countries

In most countries, profits have increased more than labour costs, making a large contribution to price pressures, and leading to a fall in the labour share of income. Data from Europe and Australia indicate that this is not limited to the energy sector. This indicates room for profits to absorb some future wage increases, but this might be less the case in small and medium firms that are more squeezed by other cost increases.

- Australia has experienced one of the largest increases in unit profits in the OECD between Q4 2019 and Q1 2023, with an increase of 26.1% compared to the OECD average of 21.0%. Over the same period, the increase in unit labour cost remains lower, with an 13.9% increase in Australia compared to 15.6% in the OECD. The greater increase in unit profits than unit labour cost was not isolated to any one sector but occurred in several sectors in Australia, including accommodation and food, manufacturing, trade, and transportation.

Figure 3. Profits have increased more than labour costs in many countries

Percentage changes, seasonally adjusted, from Q4 2019 to Q1 2023



Note: OECD is an unweighted average of 29 OECD Member States (not including Chile, Colombia, Costa Rica, Iceland, Israel, Korea, Mexico, New Zealand and Türkiye). Unit labour costs and unit profits are calculated by dividing compensation of employees and gross operating surplus by real GDP, respectively. Unit labour costs and unit profits are components of the GDP deflator, which captures the price changes of all goods and services produced in an economy.
Source: *OECD Employment Outlook 2023*, Chapter 1.

Current AI applications can improve job quality, but they come with risks

On average in the workplaces surveyed by the OECD, AI adoption has so far gone hand-in-hand with greater job satisfaction, improved mental and physical health, and higher wages for those workers with skills to develop and work with AI. Yet, some workers – e.g. those managed by AI and women – have benefited less or have had negative experiences. Using AI entails risks for privacy, work intensity, and bias. Recent advances in generative AI may augment such risks. Addressing them is key to ensuring that AI contributes to more inclusive labour markets.

- An OECD study conducted using online job vacancy data in Anglophone countries (including Australia) showed that jobs advertised as needing AI-related skills were associated with a wage premium. In Australia, knowledge of artificial intelligence and big data are associated with a 6% wage return.
- Addressing the risks associated with adopting AI technologies, Australia's Digital Transformation Agency has developed strategies for the use of trustworthy AI in the form of guidelines to AI adoption in the public sector. The guideline stipulates, amongst others, that human decision makers remain responsible for decisions assisted by machines, and that they must therefore understand the inputs and outputs of the technologies.

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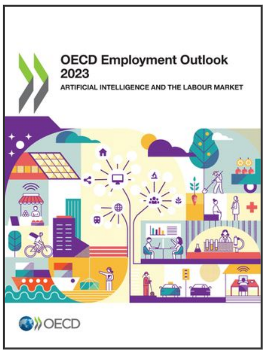

From:
OECD Employment Outlook 2023
Artificial Intelligence and the Labour Market

Access the complete publication at:
https://doi.org/10.1787/08785bba-en

Please cite this chapter as:

OECD (2023), “Australia”, in *OECD Employment Outlook 2023: Artificial Intelligence and the Labour Market*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/c3e9dff6-en

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