
From: JONES, Bradley
Sent: Tuesday, 22 June 2021 2:17 PM
To: EA - Economic Analysis Department
Cc: ELLIS, Luci
Subject: 8.50 rundown

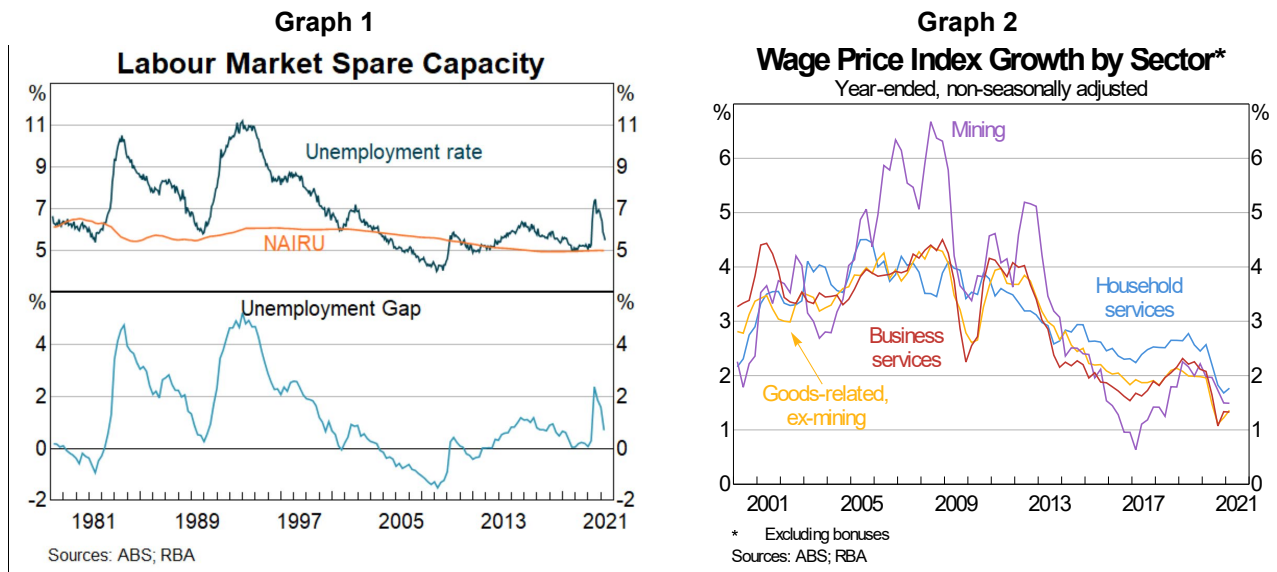
Morning all

Labour Account vs. the LFS

- A central question in the period ahead will be what happens next year when the supply of temporary workers increases again as the borders gradually reopen – will this be sufficient to curb any upward pressure on wages that could be building at that time because of generalised ‘labour shortages’ (assuming domestic spare capacity is exhausted at that time)? Or does the additional impetus to demand from these people being back in the country mean that this additional supply effect washes out in terms of wage and price impacts?

NOTE PROPOSAL: WHAT STRUCTURAL FACTORS MIGHT BE CONTRIBUTING TO SPARE CAPACITY AND LOW WAGES GROWTH?

EA estimates that there has been persistent spare capacity in the labour market for at least the past decade. This has coincided with declining wages growth across all sectors of the economy.



Spare capacity and wages growth are influenced by both near-term factors, which tend to coincide with the business cycle, and medium and long-term factors, which do not. The persistence of spare capacity and lower wages growth in most advanced economies since 2008, and in Australia since 2012, suggests that medium and long-term factors may be dominating at present, and that at least some of these factors may be shared globally. If true, it is important to understand the source, relative strength and likely persistence of these factors. This is because they influence whether the Bank can achieve its policy goals for full employment and inflation in the timeframe specified by the Bank's policy mandate.

It is uncontroversial to say that persistent spare capacity in the labour market is a driving factor behind recent low wages growth. However, it is also possible that some structural factors are acting to restrain wages growth irrespective of spare capacity. A few of these are also included below, although they could conceivably be omitted from this piece and held for later consideration.

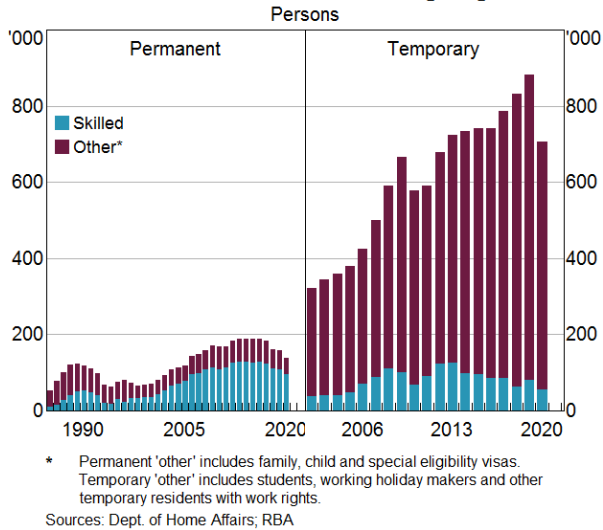
The medium and long-term structural factors most likely contributing to persistent spare capacity and subsequently low wages growth at present are:

- Changes in Australian immigration policies and the composition of the immigrant pool

Immigration policy and the composition of the migrant pool

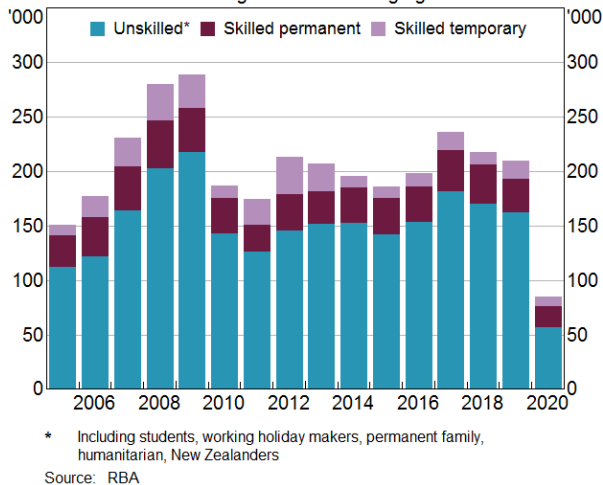
- Over the past two decades, Australian **immigration policy has supported high levels of migration** of both skilled and unskilled working-age persons. This has expanded the labour supply. The impact on spare capacity and wages is different for skilled and unskilled workers.

Graph 17
Visas Granted with Working Rights



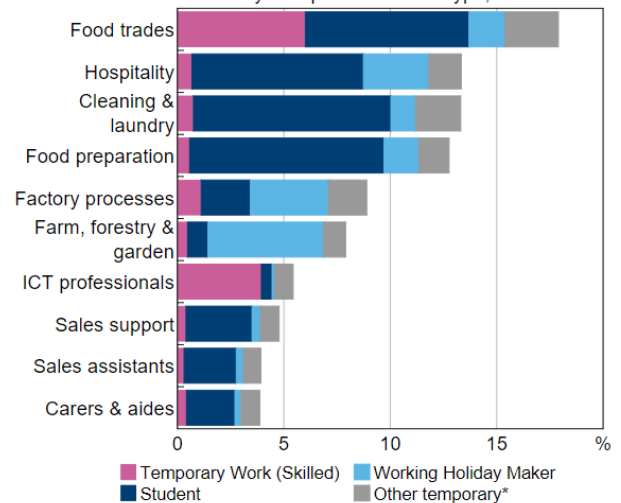
- The largest growth in migration by far has been for **unskilled migrants**, primarily students, working holiday makers and family visa holders. These migrants have partial or full work rights and tend to work in the lowest paid jobs, for which domestic labour is relatively easily substitutable.

Graph 18
Net Overseas Migration
Visa categories with working rights



Graph 19

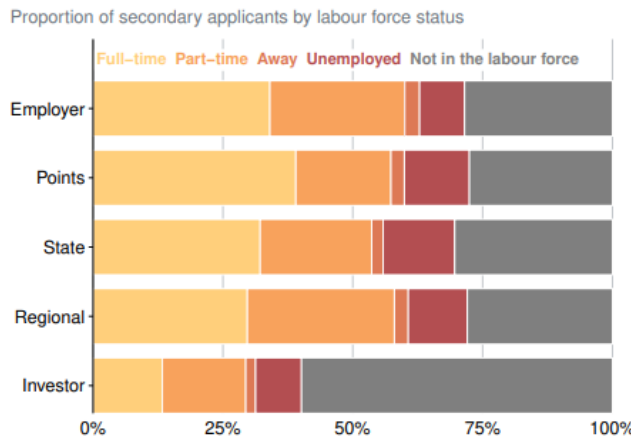
Visa Holder Share of Employment
By occupation and visa type, 2016



* Includes other Temporary visas and Bridging visas
Sources: ABS; RBA

- Skilled migration has become increasingly targeted** to filling jobs for which there is not an immediately available domestic substitute. Occupations open to skilled immigration have wages significantly above the national median. Immigration of the primary skilled visa holder is likely to lessen wage growth pressures in these occupations, while having a marginal impact on spare capacity; in particular, it might marginally increase spare capacity by reducing incentives for employers to invest in available but poorly matched domestic labour supply.
- A significant part of the permanent migration stream is comprised of the **partners of skilled migrants**, for which there are no skill requirements but full work rights. This increases spare capacity, as these secondary migrants do tend to participate in the labour market and have characteristics similar to incumbent workers.

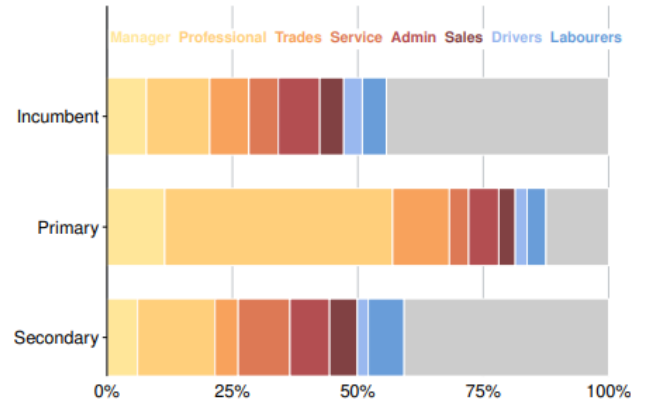
Graph 20



Graph 21

Figure 7.17: Secondary applicants have labour-market characteristics similar to incumbents

Proportion of incumbents, and primary and secondary skilled applicants, by occupation



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1 July 2021