

Labour market dynamics

Each month the Australian Bureau of Statistics (ABS) releases new unemployment figures and the media duly reports whether there has been a rise or fall in unemployment since the previous month. There is a tendency to think that the stock of unemployed persons remains very much the same from one month to the next, with changes occurring mainly at the margin. In other words, it is common to think that if unemployment increases (say) from 500 000 to 520 000 then the original stock of 500 000 has remained more or less in place and that 20 000 new persons have joined the ranks of the unemployed. However, in reality the situation is one that involves dynamic changes in the status of being either employed, unemployed or not in the labour force.

The ABS produces gross flow statistics which measure, from one month to the next, the flow of persons between the different labour force categories. The ABS is able to do this because between any two successive months in which the Labour Force Survey is conducted, seven-eighths of the sample remains unchanged. When other factors such as mobility of the population and survey non-response are taken into account, it is usually possible for the ABS to match about 80 per cent of all persons from one survey to the next.

The purpose of this Research Note is to examine the dynamic nature of the labour market. For simplicity, this is done by comparing two successive months (July and August 2004) which experienced little change in terms of the aggregate

number of persons recorded as either employed, unemployed or not in the labour force (that is, neither employed nor unemployed). It will be shown that a situation that appears fairly stable at an aggregated level can mask considerable change at the micro level.

Unemployment dynamics

Between July 2004 and August 2004, the number of unemployed persons (derived from matched records) increased slightly from 413 000 to 421 000. What appears to be a situation of little change on the surface, however, conceals the fact that of those unemployed in August 2004, only 57 per cent had also been unemployed in the

previous month. A significant proportion (25 per cent) of the unemployed had previously been out of the labour force, while 17 per cent had previously been in a job (see Chart 1 above). In relation to the unemployed in July 2004, Chart 2 shows that 19 per cent had found a job by the following month while 23 per cent had moved out of the labour force altogether.

Unemployment dynamics vary between the sexes. The likelihood of a male remaining unemployed from one month to the next is somewhat higher than it is for a female—60 per cent of males compared with 55 per cent of females who were unemployed in August 2004 were also unemployed in July 2004. Of persons entering

CHART 1: WHERE THE UNEMPLOYED CAME FROM
Unemployed in August 2004 by their status in July 2004

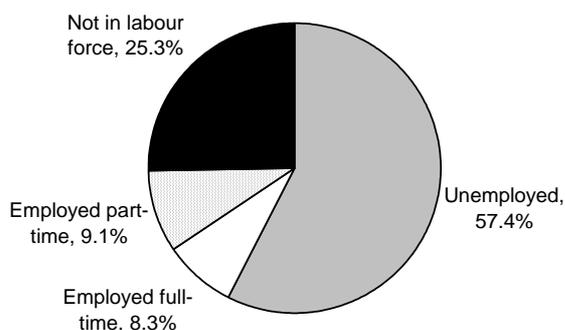
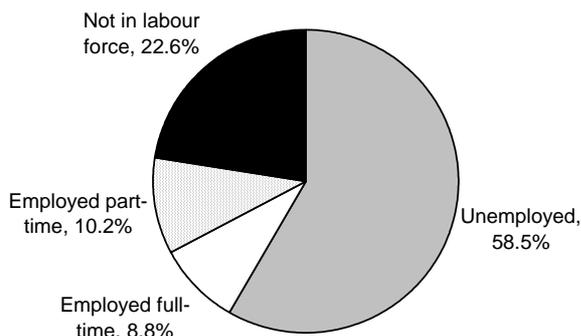


CHART 2: WHERE THE UNEMPLOYED WENT TO
Unemployed in July 2004 by their status in August 2004



unemployment in August 2004 (that is, persons who had not been unemployed in the previous month), 69 per cent of females and 50 per cent of males had previously been outside the labour force. In other words, well over half of all persons joining the ranks of the unemployed in August 2004 did so, not because they had recently lost their jobs, but because they had deliberately decided to look for work and were available to start work should a job be offered. (See Table 1 below.)

The corresponding figure for persons employed part-time was much less at 80 per cent.

Not surprisingly, those persons moving into either a full-time or part-time job in August 2004 were mainly persons who, in the previous month, were already employed. In other words, those moving into a full-time job were mainly persons who had been employed part-time, while those moving into a part-time job were mainly persons who had been employed full-time.

Table 1: Labour force status and gross flows derived from matched records

Labour force status July 2004	Labour force status August 2004				Total
	Unemployed	Employed Full time	Employed Part time	Not in the Labour Force	
Males ('000)					
Unemployed	136.3	23.0	19.0	41.8	220.0
Employed Full time	25.7	3471.2	110.6	47.7	3655.2
Employed Part time	20.0	95.8	448.6	61.3	625.8
Not in the Labour Force	46.2	32.2	36.3	1569.6	1684.4
Total	228.2	3622.2	614.5	1720.4	6185.3
Females ('000)					
Unemployed	105.0	13.2	23.0	51.4	192.5
Employed Full time	9.0	1680.7	151.6	36.7	1878.0
Employed Part time	18.3	149.6	1299.7	94.0	1561.6
Not in the Labour Force	60.1	17.1	93.5	2583.8	2754.5
Total	192.4	1860.6	1567.8	2765.8	6386.6
Persons ('000)					
Unemployed	241.3	36.1	41.9	93.2	412.5
Employed Full time	34.7	5151.9	262.2	84.3	5532.2
Employed Part time	38.4	245.5	1748.3	155.4	2187.5
Not in the Labour Force	106.3	49.3	129.8	4153.4	4438.8
Total	420.6	5482.9	2182.2	4486.3	12572.0

Source: ABS Labour Force Survey data

There are many reasons why a person previously outside the labour force may decide to start looking for work. These include a situation in which a second family member is compelled to enter the labour market to help ease financial pressures on the family. Another situation might be one in which an individual, otherwise content to remain out of the workforce, is enticed into the labour market by favourable work conditions or wage rates. To the extent that some individuals are enticed rather than forced into the labour market, unemployment for some may be regarded as largely a matter of choice.

Employment dynamics

Persons employed full-time are a very stable group with almost 94 per cent of those employed full-time in August 2004 being similarly employed in the previous month.

It is interesting to note the strong attachment that females outside the labour force have to part-time work. Of those women who moved into a part-time job between July and August 2004, four times as many came from outside the labour force as came from the ranks of the unemployed. For males taking up a part-time job in August 2004, there were about twice as many who came from outside the labour force as came from the ranks of the unemployed. While persons moving into a full-time job were also more likely to have come from outside the labour force than from unemployment, the bias was not as strong, nor was the difference between males and females anywhere near as marked, as it was for the part-time employed.

Implications

While this analysis is largely illustrative in that it is based on

observations with respect to two months only, some general observations can be made. First, the high propensity for jobs to be filled by workers drawn from outside the labour force has clear implications for any job creation measures aimed at reducing unemployment.¹ Between July and August 2004, there were more than twice as many people who entered employment from outside the labour force as there were persons who entered from unemployment. Therefore, in order to reduce unemployment significantly, the number of new jobs created has to be much greater than the number of unemployed persons. Moreover, given that females have a greater tendency than males to enter employment from outside the labour force, jobs created in industries with a strong female representation will have less of an impact on unemployment than jobs located in industries with a strong male representation.

1. The propensity for new jobs to attract workers from outside the labour force is also discussed in a paper by R. G. Gregory, *Jobs and Gender: A Lego Approach to the Australian Labour Market*, ANU Centre for Economic Policy Research, Discussion Paper No. 244, November 1990.

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