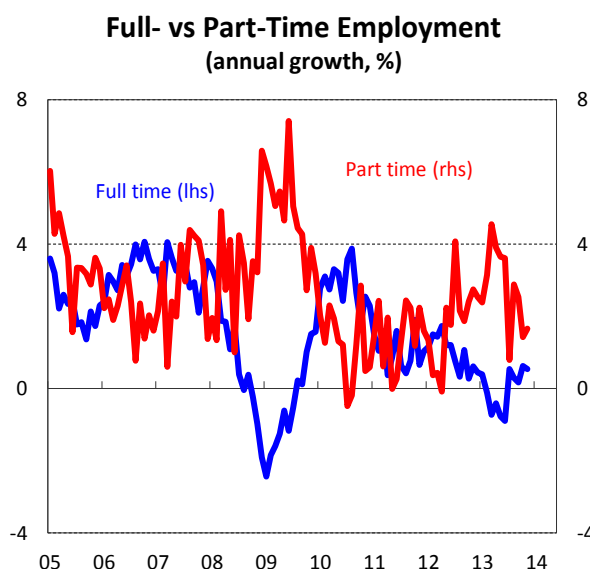
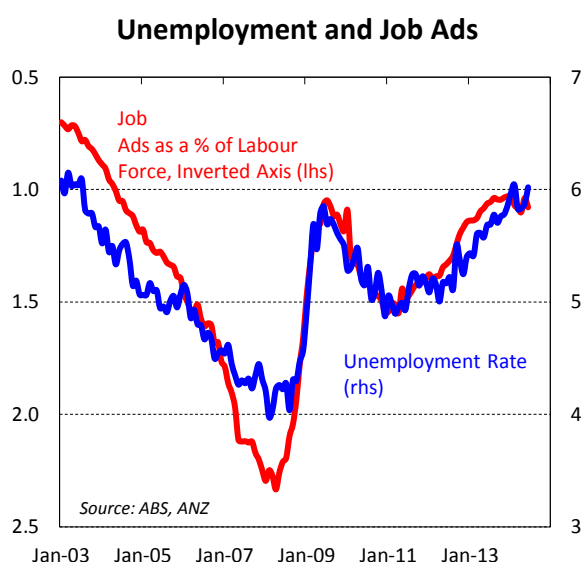


Labour Force A False Dawn?

- The improvement in the labour market earlier this year may have been a bit of a false dawn. However, the labour market is still in better shape than it was in 2013.
- The unemployment rate edged up from a revised 5.9% in May back up to 6.0% in June, equalling the unemployment rate recorded in early 2014, a decade high.
- The stronger than expected lift in the unemployment rate was partly due to the participation rate edging higher in June. However, the slowdown in job growth over the past few months has also been a factor behind the lift in the unemployment rate.
- We have repeatedly highlighted that there was a risk that the unemployment rate could edge higher and continue to see that risk. However, we do not think that the unemployment rate will lift much above 6%.
- Despite some risks to the domestic economy in the near-term, a recovery is still underway; suggesting that further moderate job growth is in prospect in coming months. Leading indicators, such as job ads have witnessed an improvement and suggest that the unemployment rate should begin to stabilise soon.



Employment grew by 15.9k in June, close to our expectations for a 15.0k rise (markets were expecting +12.0k).

The surprise for markets however, was the unemployment rate. The unemployment rate edged up

from a revised 5.9% in May back up to 6.0% in June, equalling the unemployment rate recorded in January and February, which was a decade high.

The stronger than expected lift in the unemployment rate was partly due to the participation rate edging up from 64.6% to 64.7% in June. However, the slowdown in job growth over the past few months has also been a factor behind the lift in the unemployment rate. In the three months to June, job gains have averaged just 6.7k per month. By comparison, the three months to March averaged a solid 30.2k.

Although the unemployment rate was above forecasts of 5.9%, we have repeatedly highlighted that there was a risk that the unemployment rate could edge higher. Today's data confirms that view.

The encouraging trend that had been emerging towards full-time from part-time work was partially reversed in June. Part-time jobs drove the gain in monthly employment, rising 19.7k. Full-time jobs fell 3.8k in June. However, full-time jobs continue to make up the bulk of jobs gained in 2014. In the six months to June, 94.8k full-time jobs were created, while 15.9k part-time jobs were added.

State Analysis



Victoria was the only state to record negative job growth in June (-15.3k), as its unemployment rate rose to 6.5%, a 12-and-a-half-year high for the State. NSW saw the strongest job gains of any State (+10k), and its unemployment rate stabilised at 5.7%. Among other states, SA (+5.8k) and WA (+5.2k) recorded modest job increases, whilst improvements in job creation were smaller in Queensland (+2.1k) and Tasmania (+2.8k).

The resource States of Queensland (+65.2k) and Western Australia (+38.8k) maintain the strongest annual growth in jobs, providing encouraging signs despite the downturn in mining investment. Annual job growth in Victoria has turned negative in the year to June (-15.9k), coinciding with the increase in the unemployment rate. South Australia's unemployment rate increased 0.5 percentage points to 7.4% in June.

Outlook

We continue to see a risk that the unemployment rate could edge up a little higher, but not too significantly, and not much above 6%. A recent loss in momentum in the domestic economy suggests that job gains in the near-term may continue to be insufficient to keep pace with current strong population growth. However, despite some risks in the near-term, an economic recovery is still underway; suggesting that further moderate job growth is in prospect in coming months. Leading indicators, such as job ads have witnessed an improvement and suggest that the unemployment rate should begin to stabilise soon.

A lift in the unemployment rate could see the RBA step further away from signalling rate hikes. However, it should not come as a surprise for the RBA and it will unlikely shift its stance of “on hold”. The RBA’s assessment on the labour market has been cautious and has previously warned that “it will probably be some time yet before unemployment declines consistently”. We continue to expect the recovery in the economy to continue and a case for a rate hike to build by early 2015.

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