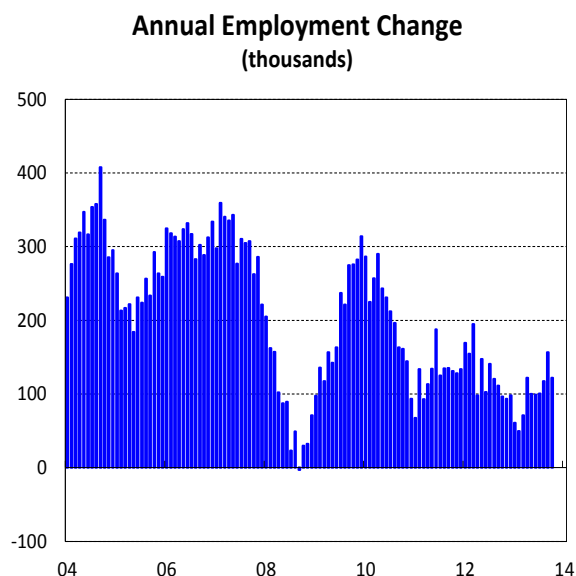
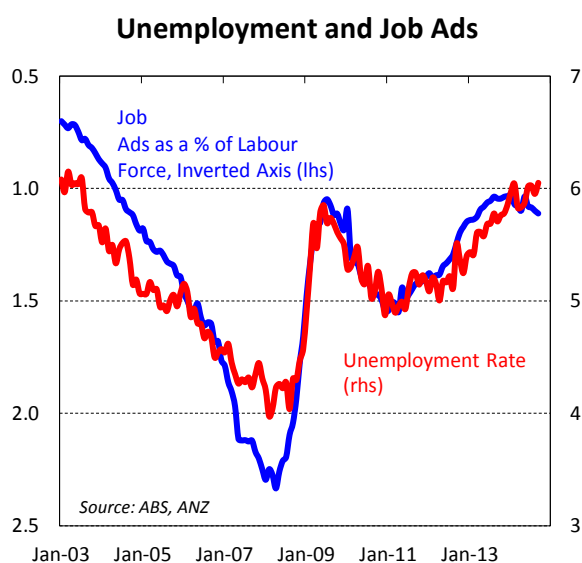


Labour Force Through the Looking Glass

- Employment data has turned on its head over the past few months. Volatile data, which has been since been significantly revised, has been extremely difficult to interpret. We will increasingly turn to trend estimates to try and gauge how the labour market is tracking.
- Employment growth as a trend has slowed in recent months, which seems out of step with the trend improvement in leading indicators. However, the job market this year still appears in better shape than last year. In the nine months to September, the economy has added nearly double the amount of jobs in comparison to the same period over 2013.
- Leading indicators continue to point to an improving labour market and a moderate pace of job gains.
- The unemployment rate now stands at 6.1% in September. A sideways trend in the unemployment rate is the most probable scenario in coming months. A stronger pace of domestic demand will be necessary before we see a sustained fall in the unemployment rate.
- The RBA will similarly treat recent employment data with caution. It is unlikely to stray from its long standing view on the labour market that “it will probably be some time yet before unemployment declines consistently”.



Employment data in recent months have been incredibly difficult to interpret.

Yesterday, the Australian Bureau of Statistics (ABS) announced that it was revising jobs data for

July and August. Therefore, the previously reported 121.0k gain in jobs over August was revised to a more plausible 32.1k increase. Today, the ABS reported that jobs declined 29.7k in September.

The revisions now show that the unemployment rate had been steady at 6.0% in the three months to August while previously, we saw a spike to 6.4% in July. In September, the unemployment rate lifted to 6.1% from 6.0% in August, now at the highest in eleven years.

The recent data and subsequent revisions certainly create some hesitancy in interpreting the data. Additionally, the ABS appears unsure with how they will treat data in coming months. It highlights that we should be placing greater weight on monthly averages or trend estimates to try and gauge how the labour market is tracking.

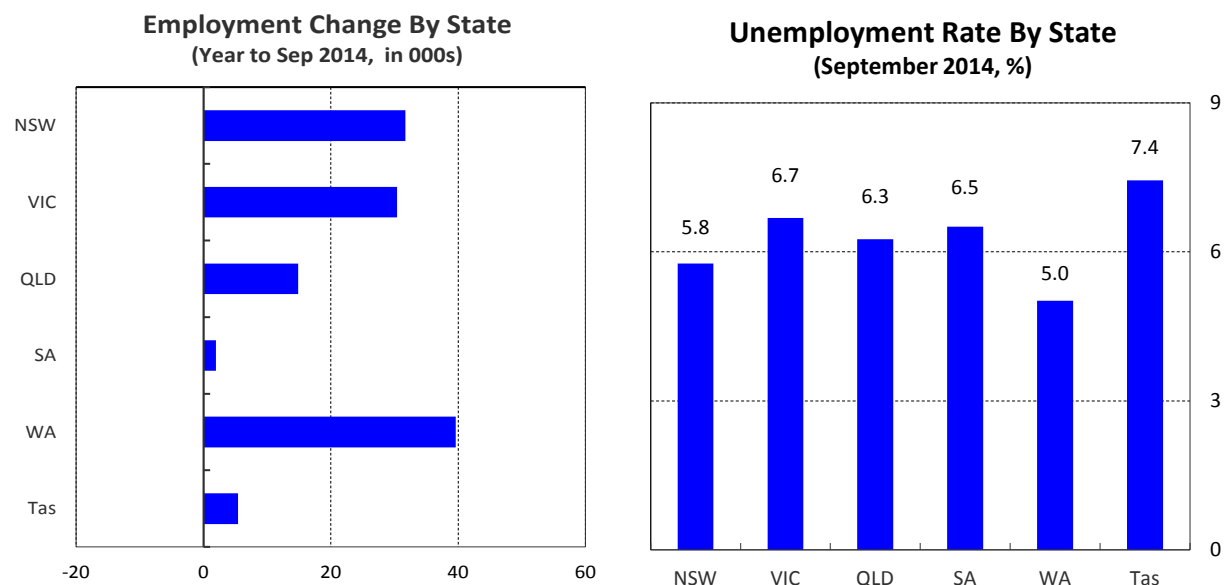
Employment growth as a trend has slowed in recent months. The six-month average stood at 5.7k in September, which was well down on 18.5k, the average in the six months to June 2014. A softening job market would seem out of step with the trend improvement in leading indicators, such as job ads and improvement in business confidence and conditions.

That said, the data is still showing that the job market this year is in better shape than last year. The economy has added a total of 125.0k jobs in nine months to September. Only 64.1k jobs were added over the same period in 2013.

The swing towards full-time work that occurred at the beginning of this year appears to have retraced in recent months. Full-time jobs have averaged a decline of 0.3k over the past six months. Meanwhile, part-time work has increased an average of 6.1k.

In trend terms, the unemployment rate was at 6.0% in September, and remains consistent with our view that the unemployment rate would peak not too much above 6%.

State Analysis



There were declines recorded in all States except for WA in September, which reported a small increase. WA added the most jobs in the year to September, rising 39.6k. This was followed by NSW (31.7k) then Victoria (30.4k). There were moderate gains in QLD (14.9k), Tasmania (5.5k), and SA (2.0k). Encouragingly, all States are recording positive annual growth in jobs, although the pace

of growth remains weak in SA.

Outlook

We remain cautious in reading too much into recent employment data. Hopefully, a clearer picture will emerge in coming months. Leading indicators continue to point to a trend improvement in the labour market, and a moderate pace of job gains.

We maintain our view that the unemployment rate is close to a peak. A sideways trend in the unemployment rate is the most probable scenario in coming months. A stronger pace of domestic demand will be necessary before we see a sustained fall in the unemployment rate.

The RBA will similarly treat recent employment data with caution. It is unlikely to stray from its long standing view on the labour market that “it will probably be some time yet before unemployment declines consistently”. We continue to expect the RBA to leave rates on hold for the rest of this year before raising them in mid-2015.

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