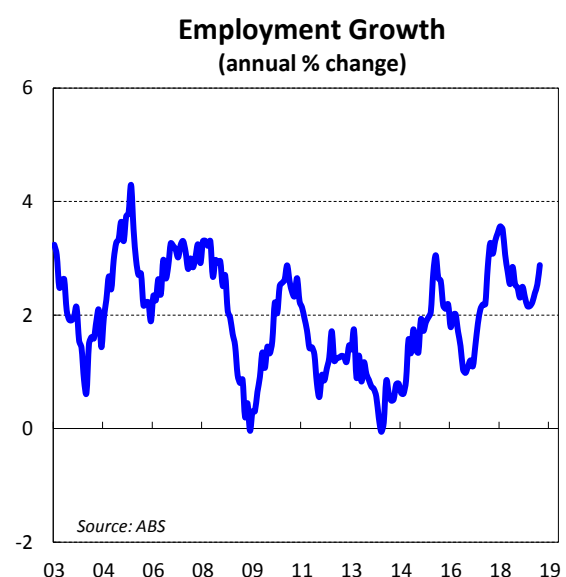


Labour Force Standing in Defiance

- The strength of job growth is continuing to surprise. Employment growth rose a solid 42.3k in May, which was the second consecutive increase in excess of 40k. Annual growth in jobs pushed up from 2.5% in April to 2.9% in May, the strongest in over a year and is in spite of soft economic growth since the middle of last year.
- The bulk of the job gains were concentrated in part-time work, lifting 39.8k, in May. Meanwhile, full-time jobs edged up just 2.4k in the month.
- The impact of the Federal election could have boosted part-time job growth in May, but to a limited extent given that the reference period for this month's survey would have been prior to the Election Day being held on May 18. Even if there were some one-off impacts, we cannot ignore the long-run trend of persistently strong employment gains in the face of weaker economic activity.
- The unemployment rate held steady at 5.2%, and was again propped up by rising workforce participation. The participation rate rose 0.1 percentage points to 66.0% a new record high.
- The RBA has brought into focus the labour market in guiding its decisions on monetary policy. While it would be encouraged by the strength of job growth, its attention is on the unemployment rate. More specifically, the RBA's concern is what the impact would be on inflation. The RBA has said that the unemployment rate could be and should be lower. Today's data does not alter our view that the RBA will lower official interest rates another two times in August and November of this year.



The strength of job growth is continuing to surprise. Employment growth rose a solid 42.3k in May, which was the second consecutive increase in excess of 40k.

Annual growth in jobs pushed up from 2.5% in April to 2.9% in May, the strongest in over a year and is in spite of soft economic growth since the middle of last year.

It however, wasn't a completely robust story.

The bulk of the job gains were concentrated in part-time work, lifting 39.8k, in May. Meanwhile, full-time jobs edged up just 2.4k in the month.

Nonetheless, while employment gains were concentrated in part-time work in the last two months, over the year, growth in full-time work (at 3.1%) is well exceeding the pace of growth in part-time work (2.4%).

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Even if there were some one-off impacts, we cannot ignore the long-run trend of persistently strong employment gains in the face of weaker economic activity.

The unemployment rate held steady at 5.2%, and was again propped up by rising workforce participation. The participation rate rose 0.1 percentage points to 66.0% a new record high, which continues to be driven by female workforce participation.

The rise in workforce participation is adding to spare capacity in the labour market. Moreover, the rate of underemployment (the proportion of part-time workers wanting to work more hours in the labour force) rose from 8.5% to 8.6%, the highest in 14 months, also suggesting greater spare capacity.

States and Territories

In May, job gains were concentrated in NSW (38.5k) and Victoria (28.6k), followed by Queensland (7.8k) and South Australia (4.4k). Employment declined in Western Australia (-4.0k) and Tasmania (-0.4k).

In the year to May, job growth was again led by NSW (167.6k), which also posted its strongest annual gain in nearly 3½ years. There is also continuing to be strong gains in Victoria which added a solid 125.2k in the year. Queensland (55.1k) and South Australia (16.3k) had modest annual job gains, while jobs in Western Australia lifted 5.7k in the year. In Tasmania, jobs were down 0.5k from a year ago.

NSW continued to have the lowest unemployment rate of all States, steady at 4.6% in May. However, it was equalled by Victoria, which fell from 4.8% to 4.6%. Unemployment rates fell in South Australia (from 6.1% to 5.7%) and Tasmania (6.8% to 6.4%), but rose in Queensland from 5.9% to 6.2% and in Western Australia (6.1% to 6.3%).

Outlook and Implications

Employment growth is continuing to be resilient despite a soft pace of economic growth, weaker business conditions and a moderation in job vacancies.

These other indicators of activity are persistently signalling a softer pace of employment growth,

which has yet to present itself in the data.

The RBA has brought into focus the labour market in guiding its decisions on monetary policy. While it would be encouraged by the strength of job growth, its attention is on the unemployment rate. More specifically, the RBA's concern is what the impact would be on inflation.

Given that the unemployment rate is up from its recent low of 4.9%, workforce participation rate is rising and the underemployment rate is rising, slack is still remaining in the labour force, and the prospect for a pickup in wage growth remains low.

The headwinds for the economy also point to a risk that the unemployment rate is more inclined to rise instead of fall.

The RBA has said that the unemployment rate should be lower, could be lower and is of the view that monetary policy can assist with this process. RBA Governor Lowe has also added that the unemployment rate could get to 4.5% before inflation would become a concern. Today's data does not alter our view that the RBA will lower official interest rates another two times in August and November of this year.

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