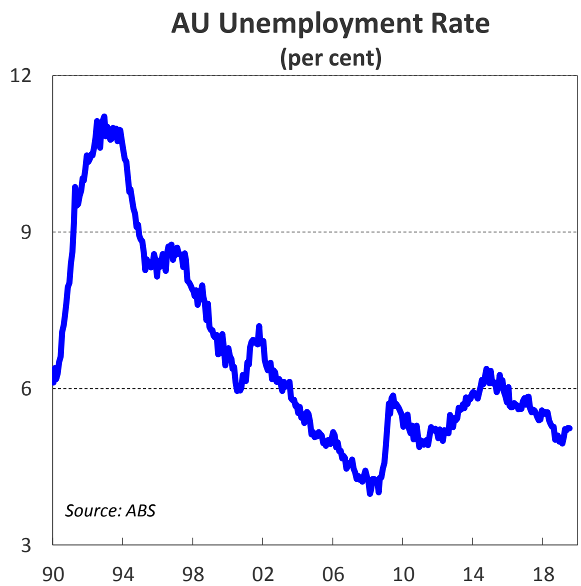
Data Snapshot

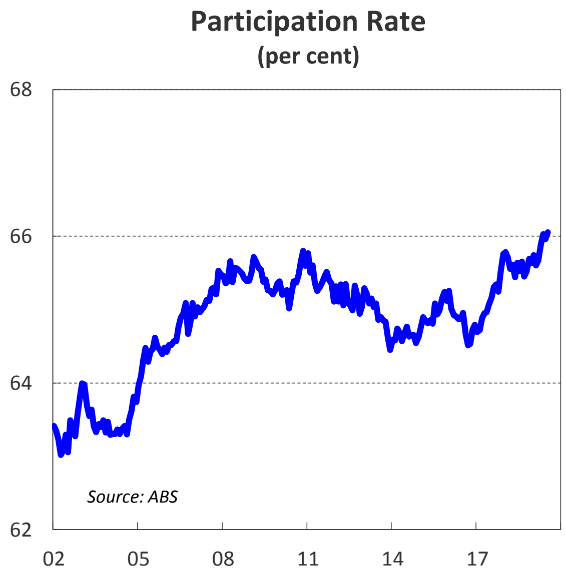
Thursday, 15 August 2019

Labour Force

Still Waiting For the Slowdown

- **The labour market has once again surprised with its strength, with a gain of 41.1k jobs in July. The solid increase indicates the labour market is not yet displaying the moderation that has been suggested by other leading indicators of employment. Moreover, it continues to be at odds with the below-trend pace of economic growth.**
- **July's gain followed a 2.3k decline in June, previously reported as a 0.5k increase. The fall in June was the first decline in employment in nearly three years. Nonetheless, as a trend, employment remains at a solid pace. The three-month average stood at 28.0k. If this rate of growth were to be sustained, it would result in a falling unemployment rate provided the participation rate held steady.**
- **The unemployment rate held at 5.2% in July, but we continue to see a risk that the unemployment rate will lift. Leading indicators of employment, including job ads, business conditions, and job vacancies are increasingly pointing to a weaker pace of jobs growth.**
- **The workforce participation rate edged up 0.1 percentage points to hit a new record high in July of 66.1%. While a positive development, as it suggests greater productive capacity in the economy, it also lessens upward pressure on wages and inflation.**
- **Today's data alone does not justify a "need" as yet for a further easing of monetary policy next month. But with the outlook for softer employment growth, low inflation, weak wages growth and growing downside risks from the global economy, we continue to expect the RBA will lower official interest rates again this year, with October the most favoured timing.**





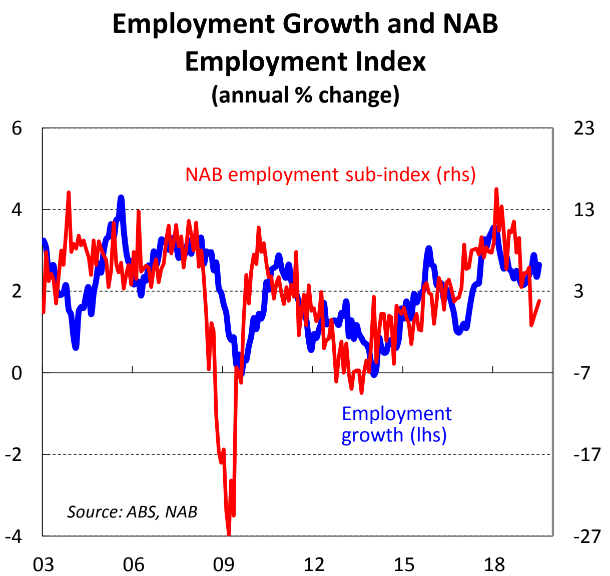
The labour market has once again surprised with its strength, with a gain of 41.1k in July. The solid increase indicates the labour market is not yet displaying the moderation that has been suggested by other leading indicators of employment. Moreover, it continues to be at odds with the below-trend pace of economic growth.

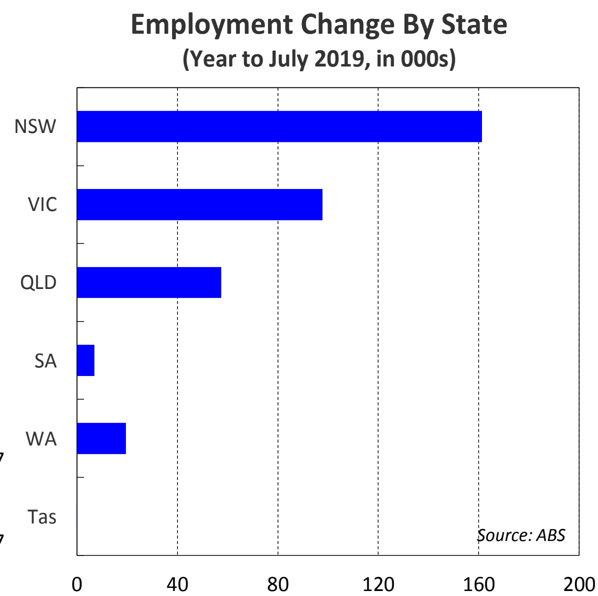
While July's result was strong, it followed a 2.3k decline in June, previously reported as a 0.5k increase. The fall in June was the first decline in employment in nearly three years. Nonetheless, as a trend, employment remains at a solid pace. The three-month average stood at 28.0k. If this rate of growth were to be sustained, it would result in a falling unemployment rate provided the participation rate held steady.

Further underscoring the strength in the labour market was the solid growth in full-time work. Full-time jobs jumped 34.5k in July following a 21.0k increase in June.

The unemployment rate held at 5.2% in July, and was again propped up by rising workforce participation. The workforce participation rate edged up 0.1 percentage points to hit a new record high in July of 66.1%. High workforce participation is keeping the unemployment rate higher than otherwise would be the case. While higher workforce participation suggests greater productive capacity in the economy, it also lessens upward pressure on wages and inflation.

Another key metric of focus is the underemployment rate, which rose to 8.4% in July, after falling to 8.2% in June. It continues to suggest that there remains spare capacity in the labour market.





States and Territories

In July, job gains were strongest in Queensland (19.9k) and NSW (13.0k). There were smaller gains in Victoria (3.6k) and Tasmania (1.6k). Employment declined in Western Australia (-4.2k) and South Australia (-1.7k).

On an annual basis, NSW had the strongest gain (161.4k) followed by Victoria (97.8k). Annual job gains were also relatively firm in Queensland (57.5k) and Western Australia (19.5k), modest in South Australia (6.9k) and weak in Tasmania (-1.6k).

The strength of job gains resulted in a fall in NSW's unemployment rate from 4.6% in June to 4.4% in July, and remains the lowest of all States. Victoria's unemployment rate held steady at 4.8%, while in Queensland the unemployment rate edged down from 6.5% to 6.4%. The softening pace of job growth resulted in South Australia's unemployment rate lifting to 6.9%. In Western Australia, the unemployment rate also lifted, from 5.7% to 5.9%, while in Tasmania, the unemployment rate fell from 6.8% to 6.0%.

In trend terms, the unemployment rate in the ACT held steady at 3.5%, and edged higher in the Northern Territory, from 4.8% to 4.9%.

Outlook and Implications

Today's data suggests that there is some underlying strength in the labour market, despite the soft pace of economic growth. In particular, the strength of full-time jobs is a positive signal.

Nonetheless, leading indicators of employment, including job ads, business conditions, and job vacancies are increasingly pointing to a weaker pace of jobs growth.

It highlights the risk that the unemployment rate will lift. Further, the rising participation rate is also adding to spare capacity in the labour market.

The RBA is continuing to highlight the importance of the labour market in guiding its decision on monetary policy, although RBA Assistant Governor Kent recently sought to downplay the role of the unemployment rate as a target for policy.

Nonetheless, for inflation to get back to RBA's 2 to 3% target band, it is likely necessary for wages growth to pick up. Yesterday, we received confirmation that wages growth remains subdued. A pick up in wages growth is likely to require the unemployment rate to fall.

Today's data alone does not justify a "need" as yet for a further easing of monetary policy next month. But with the outlook for softer employment growth, low inflation, weak wages growth and growing downside risks from the global economy, we continue to expect the RBA will lower official interest rates again this year, with October the most favoured timing.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist	Senior Economist
Besa Deda	Janu Chan
dedab@stgeorge.com.au	chanj@stgeorge.com.au
(02) 8254 3251	(02) 8253 0898

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