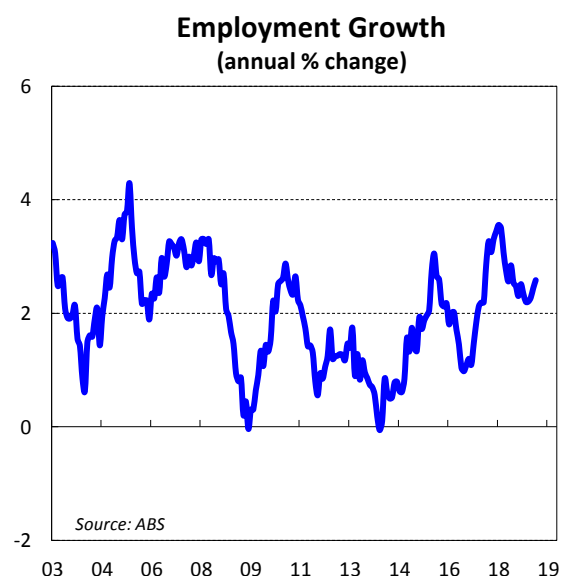
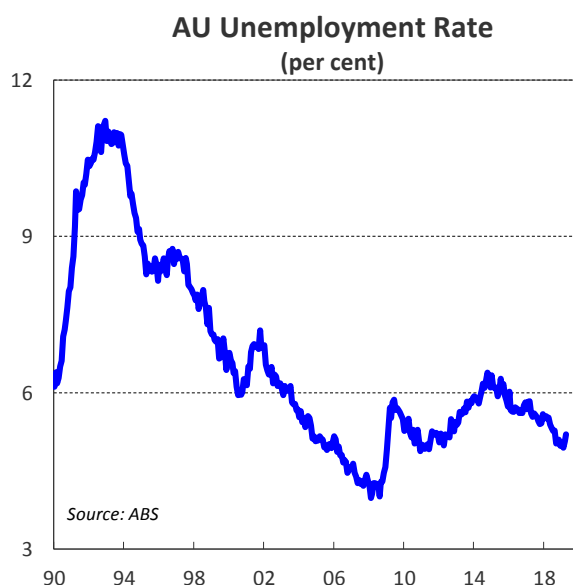


Labour Force Conflicting Signals

- Today's labour force data was watched more closely than usual given the increased focus by the RBA. It was a mixed result – job growth remained strong, lifting 28.4k in April. It was above the consensus estimate of 15.0k.
- As a trend, job gains remained firm. The average job gain over the past three months continues to be in excess of 20k per month. The annual pace of job growth picked up from 2.4% in March to 2.6% in April, the strongest in ten months.
- However, the unemployment rate edged higher from a revised 5.1% in March to 5.2% in April, the highest in eight months. The unemployment rate is now 0.3 percentage points higher than the low of 4.9% hit in February.
- How do we reconcile a rising unemployment rate and ongoing strength in jobs growth? The answer is a higher participation rate, which rose to a record high of 65.8%. Indeed, female workforce participation also rose to its highest on record and was completely behind the lift in overall workforce participation.
- Despite the lift in the unemployment rate, today's data is not providing a strong sign that labour market conditions are softening. Nonetheless, the downward trend in the unemployment rate throughout the end of 2018 has clearly run its course. The RBA's conditions of persistent low inflation and unemployment trending upwards to lower the cash rate have now been met. It highlights that a reduction in the cash rate by the RBA over the next few months is a distinct possibility.



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Both the lift in the unemployment rate and the higher participation rate suggests that there remains spare capacity within the labour market. Moreover, the underemployment rate (based on part-time workers who wish to work more hours) has risen to 8.5% in April, the highest in five months.

In April, job gains were entirely driven by part-time work, which rose 34.7k. Meanwhile, full-time jobs fell 6.3k. That said, on an annual basis, the gain in full-time work of 248.1k is continuing to outpace part-time work which rose 74.8k.

States and Territories

In April, job gains were led by NSW (25.1k), although this followed two consecutive months of decline. There were modest gains across Western Australia (6.4k), Queensland (5.4k), South Australia (2.4k) and Tasmania (1.2k). Victoria (-7.6k) was the only State where jobs declined.

On a year ago, job growth is continuing to be the strongest in NSW (130.1k) and Victoria (123.8k). This was followed by Queensland (51.0k), then South Australia (15.0k), Western Australia (8.3k) and then Tasmania (0.5k).

Unemployment rates lifted in NSW (from 4.3% in March to 4.5% in April), Victoria (from 4.6% to 4.9%), South Australia (5.9% to 6.1%), Western Australia (6.0% to 6.1%) and Tasmania (6.7% to 6.8%). Queensland (6.1% to 5.9%) was the only State with a fall in its unemployment rate.

Outlook and Implications

Despite the lift in the unemployment rate, today's data is not providing a strong sign that labour market conditions are softening.

Nonetheless, there is an increasing risk that the unemployment rate could trend up further. Indeed, the downward trend in the unemployment rate throughout the end of 2018 has clearly run its course.

The soft pace of growth in the domestic economy is still expected to translate into a moderation in employment gains. The NAB business survey released earlier this week was particularly downbeat in regards to the labour market. Job ads have also continued to soften.

In the minutes of the April meeting, the RBA has previously described the scenario in which

lowering the cash rate would be appropriate. This scenario is “where inflation did not move any higher and unemployment trended up”. It would suggest that the conditions for a lower cash rate have been met, and highlights that a reduction in the cash rate by the RBA over the next few months is a distinct possibility. Odds for a near-term rate cut have shortened after this release.

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