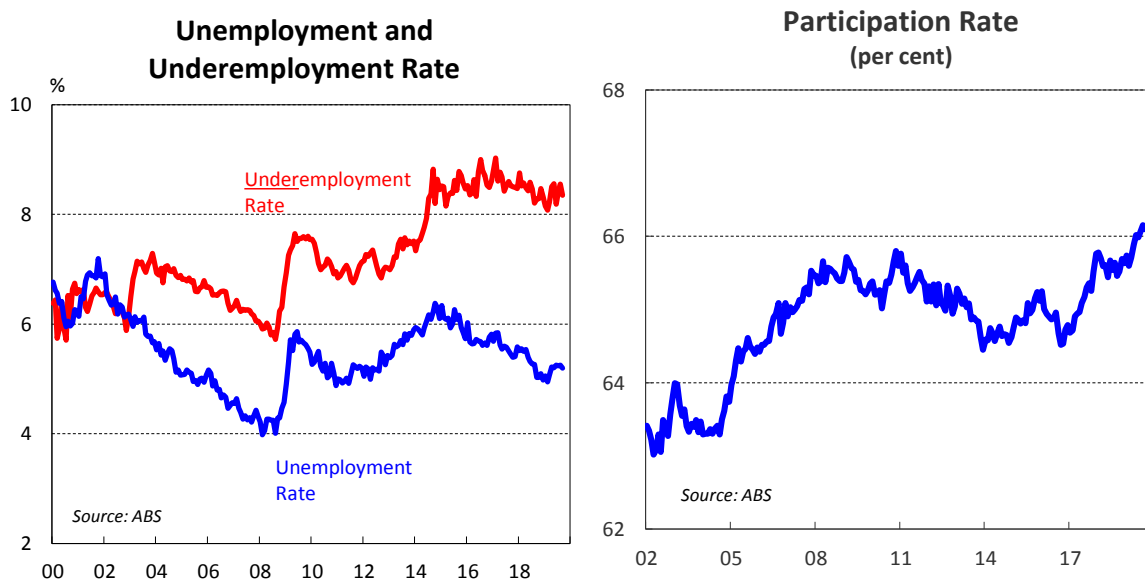


Thursday, 17 October 2019



Labour Force Dead Cat 'Fall'?

- The unemployment rate ticked lower to 5.2% in September. The drop was driven by a fall in the participation rate and has partly reversed the recent trend of a rising unemployment rate. Nonetheless, there continues to be a risk that the unemployment rate trends higher.
- Employment growth remains solid. There were 14.7k jobs added to the economy in September following a 37.9k gain in August. The most recent gain was driven by an increase in full-time jobs of 26.2k. Part time employment fell 11.4k.
- By State, a large increase in QLD (25.3k) offset falls in NSW (-23.0k) and WA (-5.9k). There were broad gains across the other states including VIC (8.6k), SA (1.5k) and Tas (2.2k).
- A rising participation rate has added to the persistence of excess capacity in the labour market. While, the participation rate dropped 0.1 percentage points to 66.1% in September, the participation rate remains elevated, and is close to a record high.
- Sluggish leading indicators such as business confidence and conditions and an uncertain global environment point to downside risks for employment growth in the near term. The unemployment rate remains well above the RBA's 4.5% estimate of full employment.
- While the fall in the unemployment rate in today's data lessens the likelihood that the RBA will lower rates as soon as November, the ongoing risk that the unemployment rate will trend upwards keeps open the case for the RBA to cut rates further.



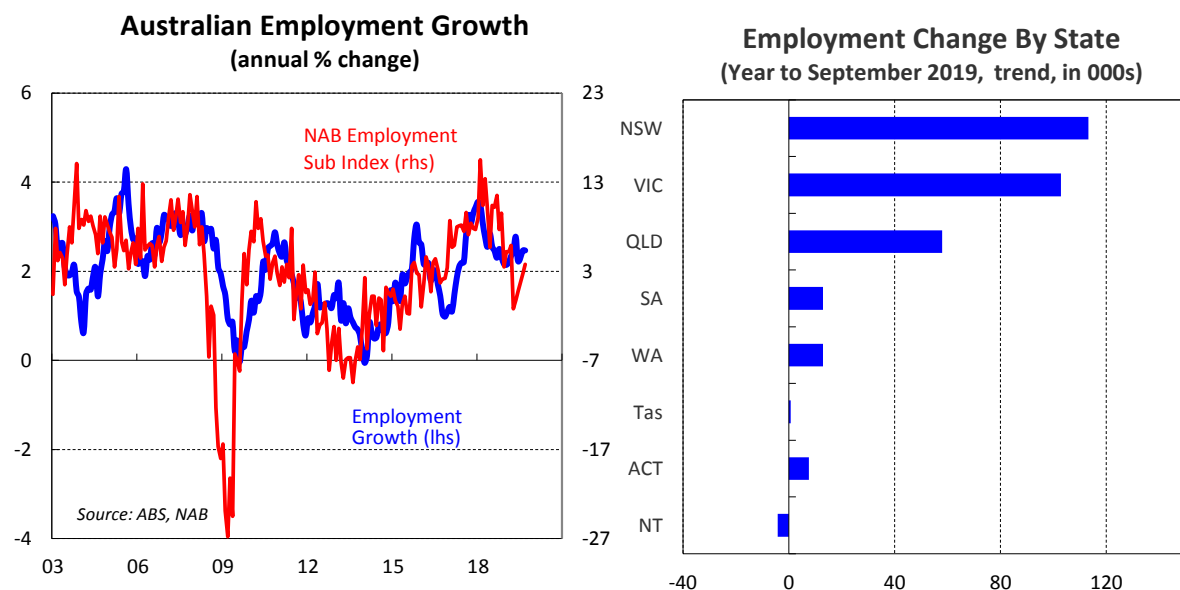
The unemployment rate fell to 5.2% in September from 5.3% in August. Employment grew 14.7k in September following a 37.9k increase in August. Average employment growth over the past three months is now 29.2k, while the monthly average over 2019 stands at 25.4k.

Full-time employment was responsible for the uplift in hiring over the month. Full-time employment increased 26.2k in September, more than offsetting a 13.2k fall last month while part-time employment fell 11.4k after rising 51.1k in August.

In recent times, strong employment growth has been accompanied by a rising participation rate and high population growth, which have left the unemployment rate higher. In September, there was a pause in this dynamic, with the participation rate slipping lower from last month's record high. However, at 66.1% in September the participation rate remains elevated by historical standards and is 0.4 percentage points higher than it was at the beginning of the year. A record 66.2% of the working-age population were looking for work in August.

The underemployment rate fell to 8.3% in September from 8.6% in August, although this indicator tends to be quite volatile.

Firm employment gains have continued despite economic growth falling below trend amid a softening in business confidence and conditions. The higher participation rate compared to the beginning of this year has added to spare capacity in the labour market. Despite today's data, there remains slack compared with last year and the unemployment rate remains on an upward trajectory.



States and Territories

The profile of job creation was mixed among States in September. Declines in New South Wales (-23.0k) and Western Australia (-5.9k) was offset by a large rise in Queensland (25.3k). Victoria (8.6k) recorded a more modest uplift following a more sizeable 20.3k increase in the previous month. It has now recorded a net monthly gain in employment for three consecutive months. Tasmania (2.2k) and South Australia (1.5k) also recorded gains.

In terms of annual employment growth, Victoria (103.2k) overtook New South Wales (96.1k) as

the largest contributor to national jobs growth. Annual job gains have slowed in both of these States. Given a large increase in September, Queensland saw its annual growth in employment jump to 75.9k in September from 33.9k in August. Yearly growth was more subdued elsewhere with South Australia (17.0k) relatively steady over the month and easing in Western Australia from 18.5k to 8.7k. Tasmania returned to positive yearly growth for the first time since April with an annual net employment change of 2.8k.

In September, the unemployment rate remained lowest in New South Wales at 4.5%, although it rose from 4.3% in August. Victoria's unemployment rate fell back to 4.7%, helped by a falling participation rate. Queensland saw its unemployment rate increase slightly to 6.5%, the highest of the states. South Australia recorded the next highest unemployment rate of 6.3%, although this was down from 7.3% in August amid an increase in employment and a lower participation rate. Western Australia's unemployment rate edged down to 5.7% while Tasmania also saw a slight reduction to 6.2%.

In trend terms, the ACT's unemployment rate remained at 3.5%, where it has been for most of the past year and the NT saw an increase to 5.6%.

Outlook and Implications

A rising participation rate and strong population growth over the past year has meant the growth of potential workers has kept pace with solid employment growth. While both the participation rate and the unemployment rate edged lower in the month, the risk that the unemployment rate will lift remains.

Leading indicators continue to point to continued slack in the labour market. Business confidence continues to languish well below its long run average and operating conditions appear to be on a downward trend. Meanwhile, an uncertain global environment, including a global growth slowdown, US-China trade tensions and Brexit add to the risks that employment growth will turn weaker.

Despite the latest fall, the overall upward trajectory of the unemployment rate this year is at odds with the RBA's aim of tightening conditions in the labour market and achieving a 4.5% unemployment rate, which it estimates to be the full-employment level. It also limits the opportunity for a pick up in wages growth which is a key requirement for inflation to return to the RBA's 2-3% target band.

Continued spare capacity in the labour market provides impetus for the RBA to cut rates further.

While the fall in the unemployment rate in today's data lessens the likelihood that the RBA will lower rates as soon as November, the ongoing risk that the unemployment rate will trend upwards keeps open the case for the RBA to cut rates further.

We believe another cut is likely, and favour February next year for the timing, but cannot rule out a move earlier in December.

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

&

Nelson Aston, Economist
Ph: 02-8254-1316

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Senior Economist

Janu Chan
chanj@stgeorge.com.au
(02) 8253 0898

Economist

Nelson Aston
nelson.aston@stgeorge.com.au
(02) 8254 1316

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George's agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
