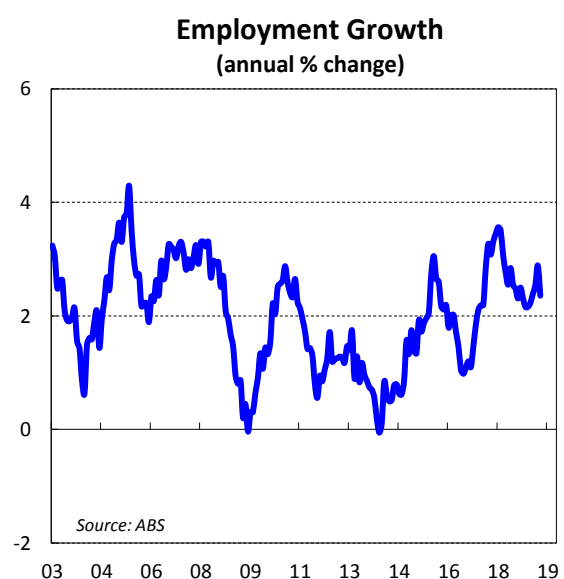
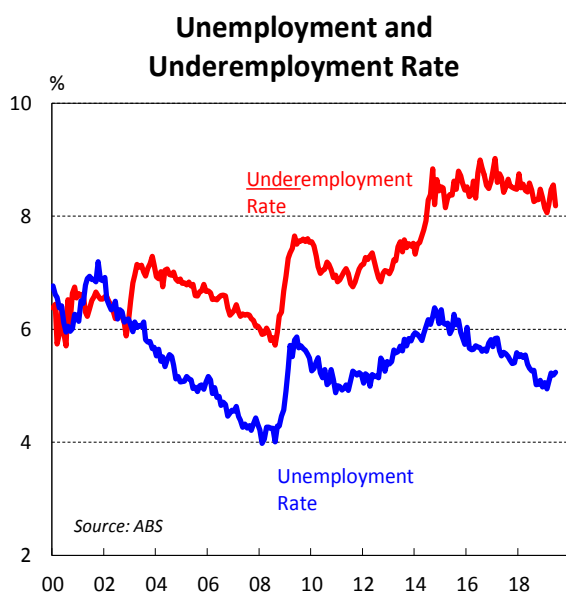


Labour Force Yellow Flashing Light

- Employment grew 0.5k in June, the weakest monthly increase in 11 months. It however, followed very strong gains previously. As a trend, employment growth remains solid. The three-month average gain was at 29.2k, although this was down from 35.8k in May.
- Weak employment growth in June could be the beginning of a period of softer job gains. While we are always wary of reading too much into one month's data, a number of other indicators including job ads, business conditions, and job vacancies have been pointing to a slower pace of job growth. For some time, job growth has surprised with its strength, particularly given that the domestic economy is growing at its softest pace in 10 years.
- The unemployment rate was steady at 5.2%, but the prospect of weaker job growth continues to highlight a risk that the unemployment rate will rise.
- There were positive features in today's report. Full-time jobs gained 21.1k in June. On an annual basis, full-time job growth continued to well exceed growth in part-time jobs.
- The underemployment rate fell sharply, from 8.6% in May to 8.2% in June, but it is back where it was in March, suggesting today's data is not likely to be the beginning of a trend decline.
- RBA Governor Lowe said recently that the unemployment rate could be and should be lower, and indicated that the unemployment rate could get to 4.5% before inflation becomes a concern. This would suggest that another rate cut remains on the cards. We continue to expect another rate cut in coming months.



It was an all-round mixed bag in today's labour force release.

Employment grew 0.5k in June, the weakest monthly increase in 11 months.

The soft monthly increase in June however, followed very strong gains previously, and jobs data is prone to volatility month-to-month. Employment rose 45.3k in May and 42.0k in April.

Consequently, the three-month average remained solid at 29.2k, although this was down from 35.8k in May.

A soft pace of economic growth, slowing in job vacancies and weaker conditions in business surveys have been foretelling a slowdown in employment growth for some time. Today's data could signal the beginning of a softer trend in employment growth.

The unemployment rate was steady at 5.2%, but if employment growth continues to slow, the risk is that the unemployment rate will continue to rise.

The weakness was concentrated in part-time jobs, which declined by 20.6k. Meanwhile, full-time jobs gained 21.1k in June. On an annual basis, full-time job growth continued to well exceed growth in part-time jobs. Full-time work rose 246.5k in the year to June, while part-time work rose 49.8k over the same period.

The underemployment rate fell sharply, from 8.6% in May to 8.2% in June, but it is back where it was in March, suggesting today's data is not likely to be the beginning of a trend decline.

The participation rate held steady at 66.0% from May to June, at a record high. 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.

States and Territories

In June, employment weakened across all States except for Western Australia. The largest fall in employment was in NSW (-17.4k), although this followed very strong gains over April and May. Jobs also declined in Queensland (-8.2k), South Australia (-4.7k), Victoria (-4.1k) and Tasmania (-0.9k). The strong job gain in Western Australia might suggest some benefit flowing through from resilient commodity prices, particularly strength in iron ore prices.

On an annual basis, Victoria had the strongest gain (126.5k) followed by NSW (121.9k). Queensland (27.9k), Western Australia (20.5k) and South Australia (11.0k) had more modest increases, but employment in Tasmania fell 3.6k.

Unemployment rates increased in most States, including Victoria (from 4.6% to 4.8%), Queensland (from 6.2% to 6.5%), South Australia (from 5.7% to 5.9%) and Tasmania (from 6.4% to 6.8%). The unemployment rate was steady in NSW at 4.6% and fell in Western Australia (from 6.2% to 5.8%). In trend terms, unemployment rates in the ACT and the Northern Territory remained low, at 3.4% and 4.6%, respectively.

Outlook and Implications

There were some positive aspects to today's data. The gain in full-time work points to still firm conditions in the labour market. Moreover, while overall employment growth was soft in June, as a trend, employment growth remains healthy.

The fall in the underemployment rate was another encouraging factor, which combined with full-

time job growth, suggests part-time workers have moved to full-time hours. A lower underemployment rate would also indicate a reduction in spare capacity.

Nonetheless, we have doubts that the fall in the underemployment rate is the beginning of a trend decline.

Moreover, weak employment growth in June could be the beginning of a period of softer job gains. While we are always wary of reading too much into one month's data, a number of other indicators including job ads, business conditions, and job vacancies have been pointing to a slower pace of employment growth. For some time, employment growth has surprised with its strength, particularly given that the domestic economy is growing at its softest pace in 10 years.

A weaker pace of job growth continues to highlight a risk that the unemployment rate will rise rather than fall.

The RBA has indicated that it is watching the labour market carefully in whether a further easing in monetary policy is "needed". RBA Governor Lowe recently said that the unemployment rate could be and should be lower, and indicated that the unemployment rate could get to 4.5% before inflation becomes a concern. These remarks suggest that another rate cut remains on the cards. We continue to expect another rate cut in coming months.

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

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.
