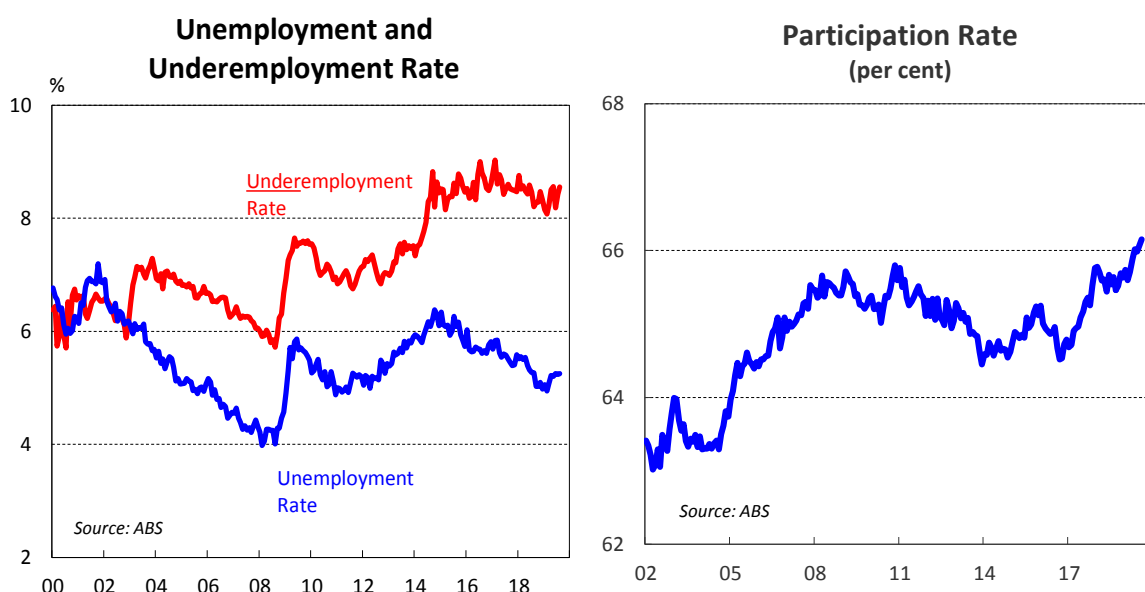


Labour Force

Two Sides to the Story

- Labour market data is continuing to provide a mixed picture. From one perspective, jobs growth remains extremely robust. In August, employment grew 34.7k and job gains have averaged 26.4k per month over 2019 so far. This pace of jobs growth would have been sufficient to bring the unemployment rate down if the participation rate held steady.
- The participation rate however, has not held steady, and has continued to trend higher. The participation rate rose to another new record high of 66.2% in August, and is 0.4 percentage points higher than the beginning of this year.
- Looking at the data from a different perspective, strong population growth, growing workforce participation and an upward trending unemployment rate is pointing to spare capacity not only persisting, but gradually increasing in the labour market. The unemployment rate edged higher, from 5.2% in July to 5.3% in August, the highest in a year.
- Job creation was centred in the two largest states in August. NSW recorded another solid month (16.7k) while VIC burst back to life with a 20.3k increase. There was a net decline in employment in QLD (-7.2k) and a minor fall of 0.1k recorded in Tasmania. Jobs growth was modest in SA (1.4k) and WA (3.6k).
- The uncertain global economy and weak business confidence continues to highlight the risk that jobs growth will soften, and is adding to the range of factors that could prop up the unemployment rate. It also suggests that there is little scope for a greater pick up in wages growth which is likely needed for inflation to return back to the RBA's 2 to 3% target band.



Labour market data is continuing to provide a mixed picture.

From one perspective, jobs growth remains extremely robust. In August, employment grew 34.7k in August following a 36.4k increase in July. Job gains have averaged 24.0k per month over the last three months and have averaged 26.4k per month over 2019 so far.

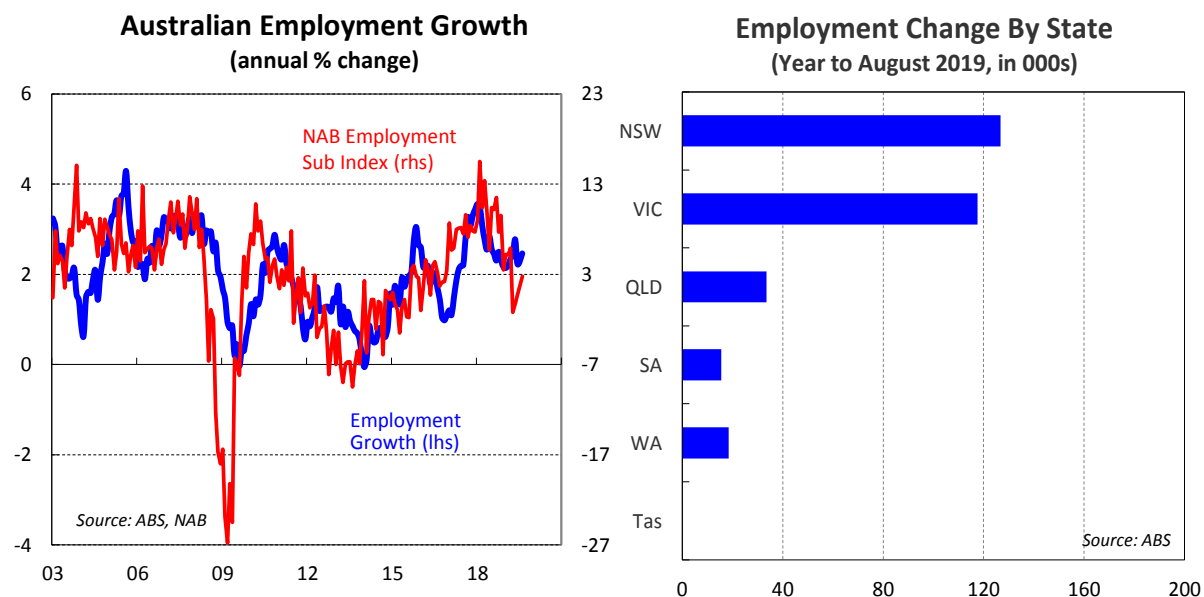
This pace of jobs growth would have been sufficient to bring the unemployment rate down if the participation rate held steady. However, the participation rate has not held steady, and has continued to trend higher. The participation rate rose 0.1 percentage points from July to another new record high of 66.2% in August, and is 0.4 percentage points higher than the beginning of this year.

Consequently, the unemployment rate edged higher, from 5.2% in July to 5.3% in August, the highest in a year. Moreover, the unemployment rate has been trending upwards since February of this year.

Looking at the data from a different perspective, strong population growth, growing workforce participation and an upward trending unemployment rate is pointing to spare capacity not only persisting, but gradually increasing in the labour market.

A lift in the underemployment rate, from 8.4% in July to 8.6% in August, provides a further signal highlighting spare capacity within the economy. Underemployment measures the proportion part-time workers who wish to work more hours.

Further taking some shine out of the report, is the fact that job growth in the month was entirely driven by part-time work, which rose 50.2k in August. Full-time jobs meanwhile, declined 15.5k in the month.



States and Territories

Job creation was centred in the two largest states in August. New South Wales recorded another solid month (16.7k) while Victoria burst back to life with a 20.3k increase. The combined increase in Victoria and New South Wales offset a net decline in employment in Queensland (-7.2k) and a minor fall of 0.1k recorded in Tasmania. South Australia (1.4k) and Western Australia (3.6k) made modest positive contributions.

On an annual basis, New South Wales remained the largest contributor to national jobs growth

(126.8k), closely followed by Victoria (117.6k). Queensland saw a slowdown in the pace of yearly job creation to 33.5k compared with 53.9k in the 12 months to July. There were gains recorded in South Australia (15.5k) and Western Australia (18.5k) while Tasmania recorded net employment declines for the fourth straight month, with 1.6k fewer jobs over the year.

By state, the unemployment rate remained lowest in New South Wales in August at 4.3%. Victoria saw a tick up in the unemployment rate to 4.9%, from 4.8% in July, due to a 0.3ppt jump in the participation rate over the month. Queensland saw no change in its unemployment rate of 6.4% while a rising participation rate in South Australia combined with modest jobs growth left the unemployment rate up 0.4ppts to 7.3%. In Western Australia the unemployment rate edged lower to 5.8%. Tasmania's unemployment rate stood at 6.4%, up from 6% last month.

In trend terms, the ACT's unemployment rate fell back to 3.5%, where it has been for most of the past year and the NT saw a small increase to 5.1%.

Outlook and Implications

Leading indicators continue to point to job growth softening amid deteriorating business confidence and conditions. Yet, the persistent strength of jobs growth despite weaker leading indicators and below-trend economic growth suggests that there could be some underlying factors supporting job gains, including the rise of the gig economy.

Nonetheless, the uncertain global economy and weak business confidence continues to highlight the risk that jobs growth will soften, and is adding to the range of factors that could prop up the unemployment rate.

On top of the uncertain global backdrop, rising workforce participation is further adding to spare capacity, and also highlights the risk of a higher unemployment rate, even if employment growth continues to surprise on the upside.

The risk of an unemployment rate trending higher places the 4.5% unemployment rate, (the RBA's estimate of the unemployment rate at full-employment) further out of reach. It also suggests that there is little scope for a greater pick up in wages growth which is likely needed for inflation to return back to the RBA's 2 to 3% target band.

We had been expecting for some time that the RBA would lower official interest rates once again, and have favoured October as the most likely timing for the next move. Today's data does not provide a strong indication for this view to change. Further clues could be gained from a speech by RBA Governor Lowe next Tuesday.

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