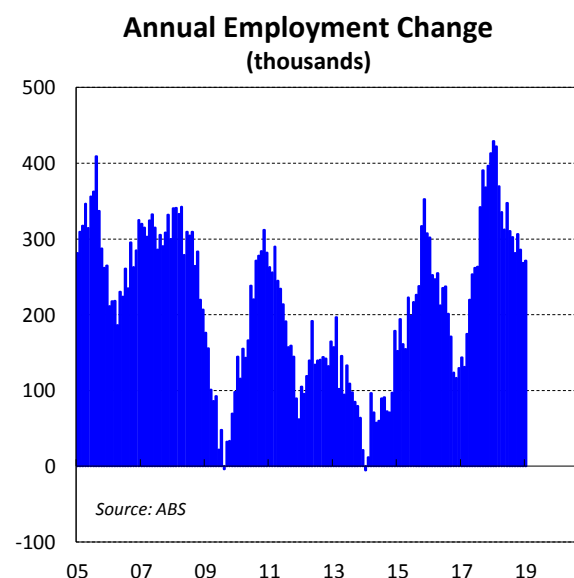


Labour Force Just Keeps on Growing

- Despite other signs of weaker economic activity over recent months, the labour market is continuing to show significant strength. The labour market added a solid 39.1k in January, exceeding our expectations and consensus for a 15k job gain. Job growth has continued to average near 30k per month over the past six months.
- The unemployment rate was steady at 5.0% in January, despite the strong job gain in the month. The participation rate edged up to 65.7%, just shy of a record high. Another indicator on the labour market, the employment to population ratio, rose from 62.3% to 62.4%, which was the highest since March 2011.
- NSW led the way in terms of job growth, where jobs jumped 47.2k in January, following two consecutive months of declines. The surge saw NSW's unemployment rate fall to 3.9% the lowest on record. Job growth was relatively weak in all other States in the month.
- Job vacancies point to ongoing strength in the labour market over the near-term. However, a range of signals point to growing downside risks to the growth outlook. A weak outlook for consumer spending reflecting the impact of falling house prices, softer construction activity and uncertainty with regards to the global economy suggest that over time, we expect job growth will soften. Moreover, the deterioration in business confidence and conditions in recent months suggest businesses could become less willing to hire.



Despite the signs of weaker activity over recent months, the labour market is continuing to show significant strength. The labour market added a solid 39.1k in January, exceeding our expectations and consensus for a 15k job gain. Job growth has continued to average near 30k per month over the past six months.

The detail in the data was also positive. Full-time jobs surged 65.4k in January, after two consecutive months of decline. Meanwhile, part-time jobs fell 26.3k.

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The strength of the labour market would seem at odds with other economic data. There has been a range of data showing a loss of momentum in consumer spending, building activity and reports of moderating business conditions. In addition, there are signs that the global economy has lost momentum towards the end of last year.

Nonetheless, indicators on the labour market have continued to point to a strong rate of job growth, albeit moderating over time. There is also the tendency for the labour market to lag actual economic activity, which suggests that the outlook for the labour market is looking weaker. \

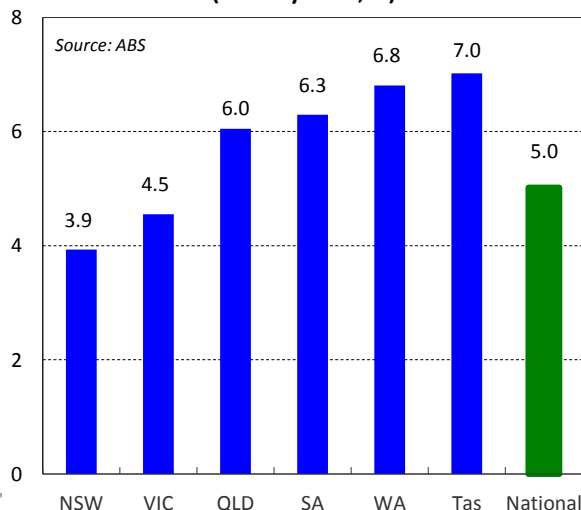
States and Territories

NSW led the way in terms of job growth, where jobs jumped 47.2k in January, following two consecutive months of declines. All other States were relatively weak in the month. There were modest gains in Victoria (2.2k), Western Australia (0.8k) and in Tasmania (0.2k). Queensland jobs fell 19.9k, while in South Australia they fell 4.5k.

Annual job gains were strongest in NSW (161.6k). There was also a solid gain in Victoria (114.2k), but annual job growth has slowed notably in other States, including Queensland (5.6k), South Australia (1.6k), Western Australia (0.9k) and an annual fall in Tasmania (-2.5k).

The surge in jobs over January in NSW saw the unemployment rate fall to 3.9% the lowest on record, and is again now the lowest of all States. Victoria's unemployment rate also remains low at 4.5%. Unemployment rates in other State remain relatively elevated, at 6.0% or above.

Unemployment Rate By State
(January 2019, %)



Outlook

The RBA has highlighted the risk that the strength in the labour market could signal that the economy is stronger than suggested by GDP data. Indeed, job vacancies point to ongoing strength in the labour market over the near-term.

However, a range of signals point to growing downside risks to the growth outlook. A weak outlook for consumer spending reflecting the impact of falling house prices, softer construction activity and uncertainty with regards to the global economy suggest that over time, we expect job growth will soften. Moreover, the deterioration in

business confidence and conditions in recent months suggest businesses could become less willing to hire.

For the RBA, the labour market is a key factor in the outlook for this decision. The strength in the labour market and the RBA's expectation for the unemployment rate to gradually fall is preventing the RBA from pulling the trigger of a rate cut. However, the balance of risks suggests that a weaker economy will eventually translate into weakness in the labour market and convince the RBA to cut official interest rates later this year.

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