

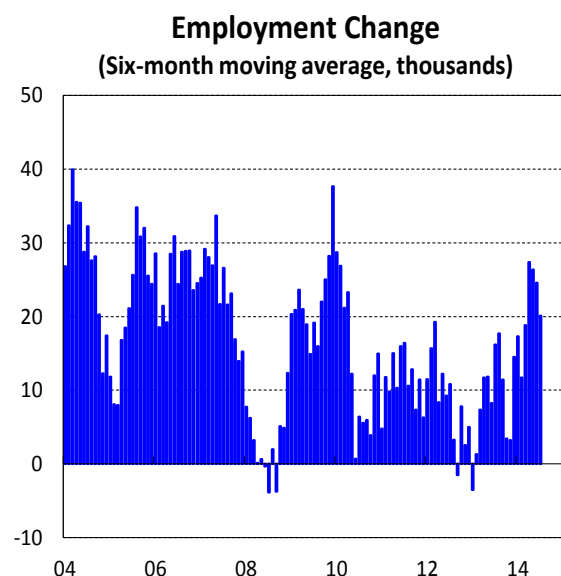
Thursday, 9 July 2015



Labour Force

The Jobs Puzzle Continues

- Jobs grew 7.3k in June, following a very strong 40.0k rise in May. The first six months of the year has seen on average the addition of a very reasonable 20.1k jobs per month.
- The relatively healthy job gains have prevented the unemployment rate from rising considerably. Indeed, the unemployment rate at 6.0% in June is down from a recent peak of 6.3% in January.
- The strength of the labour market has continued to be puzzling. Job gains remain stronger than implied by below-trend economic growth. We continue to expect that the labour market will add jobs at a moderate pace, given the growth outlook. It therefore remains likely that the unemployment rate could edge higher from its current level.
- The strong momentum in the first half of this year now suggests a lower peak in the unemployment rate than previously thought - somewhere closer to 6.2% and peaking towards the end of this year. However, this forecast is contingent on a pickup in economic growth occurring next year.
- The RBA would welcome the stronger-than-expected health in the labour market, and supports the view that it will leave rates on hold for a while longer. However, the subdued pace of wage growth still indicates that there remains a fair degree of spare capacity. Further, the RBA's focus is likely to be on indicators of demand as it thinks about monetary policy. On this front, there have been few signs to date that economic growth will pick up next year as the RBA expects.



Jobs grew 7.3k in June, following a very strong 40.0k rise in May. The first six months of the year has seen on average, the addition of 20.1k jobs per month. Those gains are relatively healthy, and have prevented the unemployment rate from rising considerably. Indeed, the unemployment rate was at 6.0% in June, down from a recent peak of 6.3% in January, although edging higher from a revised 5.9% in May.

The strength of the labour market has continued to be a little puzzling. Job gains remain stronger than implied by below-trend economic growth.

The participation rate edged 0.1 percentage points higher in June to 64.8%. If the participation rate remained steady, the unemployment rate would have been unchanged at 5.9%.

A slowdown in population growth is helping to prevent the unemployment rate from rising. But this is only part of the story, as job gains have been strong. Another indicator of the labour market, the employment to population ratio, lifted from a low of 60.5% in October 2014 to 60.9% in June, and suggests that job gains are more than keeping pace with the rate of growth in the population.

We continue to believe that very soft wage growth is the key factor in keeping employment gains at a healthy pace. The labour market is likely more flexible than in the past in adjusting to weaker demand.

The job gain in June was driven by full-time work, which rose 24.5k. Part-time jobs declined 17.2k, partly reversing the trend towards part-time over the past year. However, annual growth in part-time jobs at 2.6% continued to outpace annual growth in full-time jobs at 1.7%.



State Analysis

Job growth in June was concentrated in NSW (11.3k), followed by more modest growth in Western Australia (4.2k) and Tasmania (2.1k). Meanwhile, there were declines in South Australia (-5.7k), Victoria (-5.5k) and Queensland (-1.3k).

On a year ago, employment gains were again strongest in NSW (91.2k), however, job gains in Victoria have also been relatively solid (86.2k). Western Australia (30.9k) and Queensland (12.2k) saw moderate job growth over the year. Jobs were 3.1k higher in the year in Tasmania, but

declined 1.6k in South Australia over the same period.

The unemployment rates in most States were within the range of 5.8% to 6.5%. The exception was South Australia, which saw its unemployment rate jump to 8.2%, the highest since February 2000.

Outlook

We continue to expect that the labour market will add jobs at a more moderate pace, given the outlook for below-trend growth for the remainder of the year. It therefore remains possible that the unemployment rate could edge higher from its current level.

Nonetheless, the strong momentum in the first half of this year now suggests a lower peak in the unemployment rate than previously thought, somewhere closer to 6.2%, and peaking towards the end of this year. This is lower than the RBA's forecast previously flagged as 6.5%.

The RBA would welcome this development, and supports the view that it will leave rates on hold for a while longer. However, the subdued pace of wage growth still indicates that there remains a fair degree of spare capacity in the economy. Further, the RBA's focus is likely to be on indicators of demand as it thinks about monetary policy, as the labour market can tend to lag economic growth.

At present, there have been few signs that economic growth will pick up next year as the RBA expects. Indeed, our employment forecast is contingent on a pickup occurring. Recent international developments also add to this uncertainty. However, we think that the RBA has a bit more time to assess developments to gauge whether the economy evolves as expected.

We continue to expect the RBA will leave official interest rates on hold for the remainder of the year, but there is a growing risk that it will pull the levers once again in this cycle.

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