

# Australian Economic Comment

## Jobs up, but underutilisation implies spare capacity

### Economics

#### Australia

#### May jobs increase a solid 18k m/m, but after flat – and tick down to 1.9% y/y

Employment rose broadly as expected in May, up a solid 18k m/m (UBS & mkt: +15k), albeit after a downwardly revised flat in April (was +11k). Jobs remain on a decent trend with a 3-month average of 14k, up from ~flat in the prior 3 months, albeit not as strong as 42k in the 3-month period before that. Meanwhile, the y/y ticked down 1.9% in May, equal slowest since Jul-15 (after 2.1%), albeit still a decent pace of growth.

#### But hours worked/full-time are on a weaker trend

While headline jobs remain positive, the details are still weaker. In May, jobs growth remains driven by part-time (+18k m/m, +4.4% y/y, ~fastest since 2010), but full-time weakened further (flat m/m, +0.8% y/y slowest since 2014). Hours worked did bounce m/m, but followed a slump in the prior 3 months, with Q2 to date still dropping by 1.0% q/q, providing a weak signal for GDP (income).

#### Unemployment rate holds at 5.7%, equal lowest since Sep-13

The unemployment rate held at 5.7% as expected (UBS & mkt: 5.7%), for a 3<sup>rd</sup> straight month, holding at the equal lowest level since Sep-13. Unemployment appears to be steadying, after trending down modestly. The participation rate held at 64.8%, the equal lowest since Apr-15. However, reflecting the weaker trend in hours, the broader underutilisation rate ticked up 0.1%pts q/q in May, to a still high 14.2%, indicating much more slack in the labour market than the unemployment rate suggests.

#### Implications: 'mixed' signs on the labour market – still expect RBA to cut again

Overall, the labour market survey continues to signal a decent trend for jobs growth, with ~steady unemployment. However, the details show a weaker trend across hours worked/full-time, & the broader underutilisation rate (which points to spare capacity in the labour market that is likely feeding into soft wages). Nonetheless, the [lead indicators](#) of jobs remain consistent with ~1½-2% y/y growth. That said, with the RBA shifting focus to [low wages & inflation](#), which is now combined with a [more dovish Fed](#), we continue to expect the RBA to cut the cash rate by 25bp in August.

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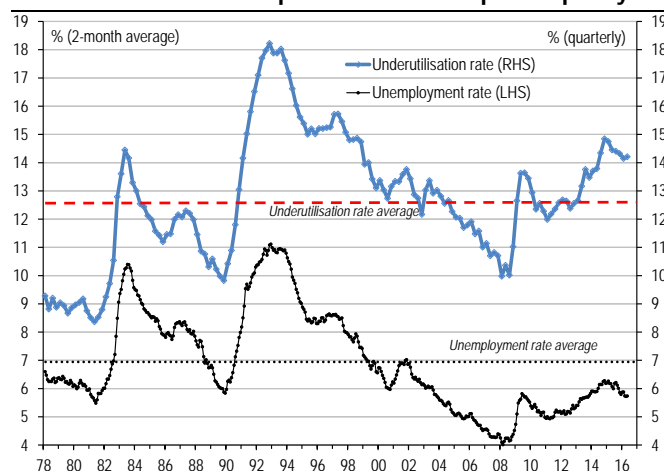
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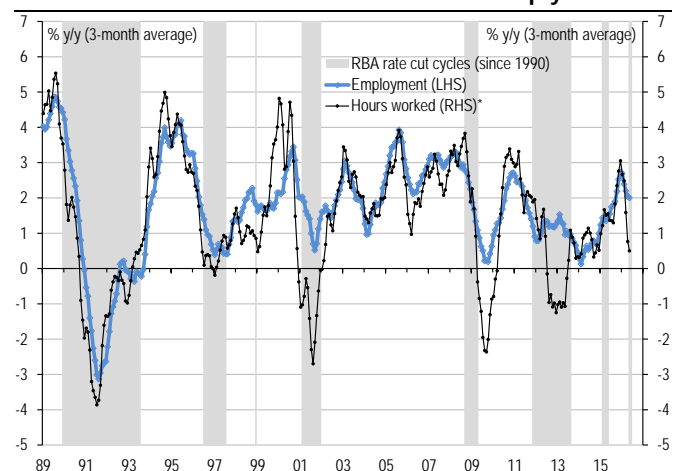
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**Figure 1: Unemployment rate holding at 5.7%, but underutilisation rate implies much more spare capacity**



Source: ABS, UBS

**Figure 2: Jobs growth remains solid, but the trend of hours worked has weakened much more sharply**



Source: ABS, RBA, UBS

## Labour force (May 2016)

Figure 3: Labour force

	Employment		Full-time		Part-time		Unemployment	Participation	Hours worked		Underutilisation rate	
	000s m/m	% y/y	000s m/m	% y/y	000s m/m	% y/y	rate %	rate %	% m/m	% y/y		%
Jan-16	-8.1	2.5	-43.2	1.9	35.0	4.0	6.0	65.1	0.5	1.9	May-15	14.5
Feb-16	-0.3	2.1	9.8	1.6	-10.0	3.0	5.8	64.9	-0.1	2.2	Aug-15	14.4
Mar-16	24.7	2.0	-9.1	1.0	33.8	4.3	5.7	64.9	-0.9	0.7	Nov-15	14.3
Apr-16	0.8	2.1	-18.2	1.0	19.1	4.5	5.7	64.8	-1.2	-0.5	Feb-16	14.1
May-16	17.9	1.9	0.0	0.8	17.9	4.4	5.7	64.8	1.7	1.4	May-16	14.2

Figure 4: Labour force by State – employment growth still strongest in NSW (+3.9% y/y)

	Employment (% y/y)								Unemployment rate (%)							
	NSW	VIC	QLD	SA	WA	TAS	NT*	ACT*	NSW	VIC	QLD	SA	WA	TAS	NT*	ACT*
Jan-16	4.6	1.3	3.2	0.8	0.4	-0.8	-0.3	1.3	5.5	6.2	6.5	6.8	5.8	6.5	4.3	4.6
Feb-16	3.9	2.0	2.2	0.9	-1.1	-1.4	-1.1	1.2	5.3	6.0	5.6	7.6	5.9	6.9	4.3	4.4
Mar-16	3.4	2.1	1.8	0.8	0.2	-0.6	-1.4	1.1	5.2	5.7	6.2	7.1	5.5	6.8	4.2	4.2
Apr-16	3.4	2.2	1.4	1.8	0.9	-0.3	-1.3	1.1	5.3	5.6	6.5	6.8	5.6	6.3	4.2	3.9
May-16	3.9	2.2	0.4	-0.4	0.3	-0.8	-0.9	1.0	5.2	5.8	6.4	6.9	5.7	6.5	4.1	3.8

Figure 5: May jobs rose 1.9% y/y, with the NAB business survey suggesting continued solid growth ahead

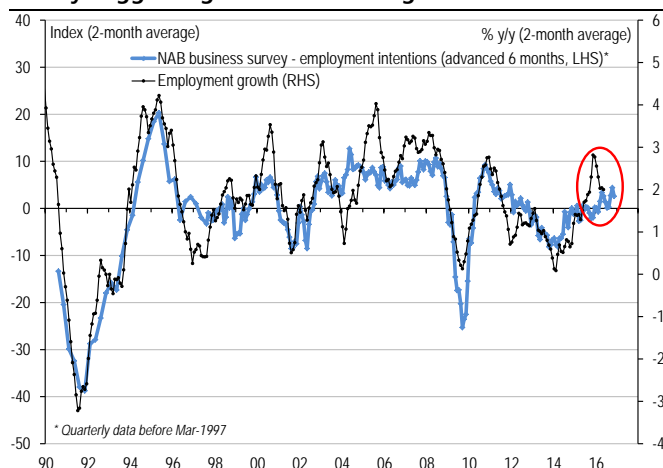


Figure 6: The RBA cut the cash rate by 25bp to 1.75% in May despite the falling unemployment rate

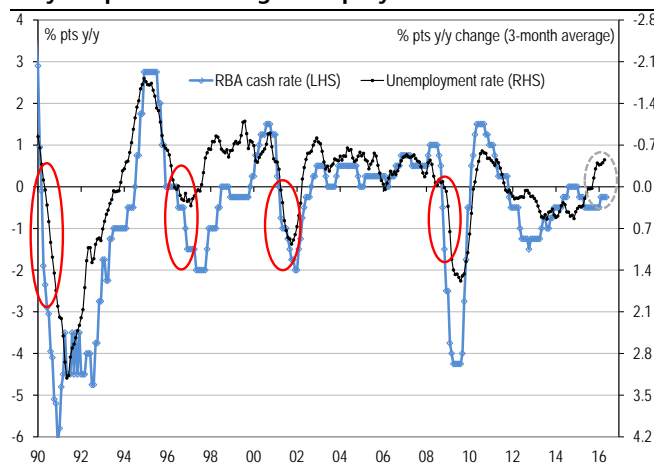


Figure 7: The common 7/8's of the jobs report are still adding the most to jobs, but has moderated recently

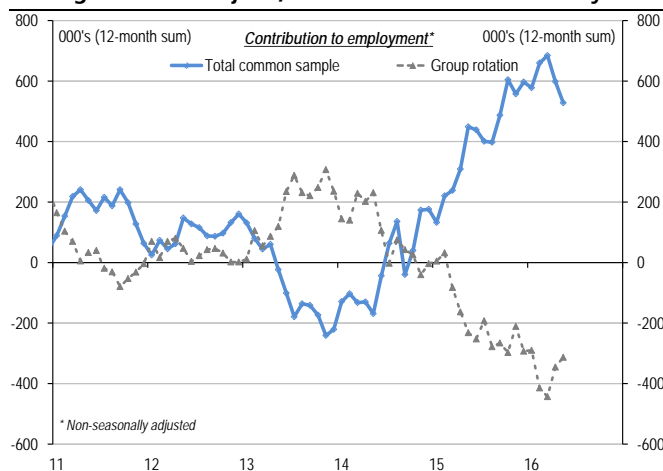
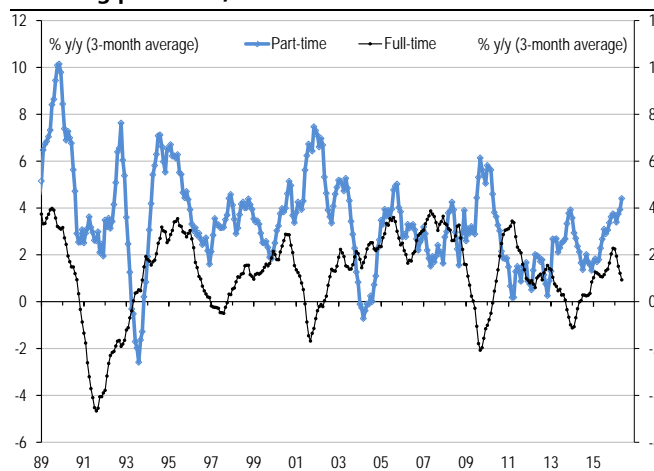


Figure 8: Employment growth is increasingly driven by booming part-time, while full-time remains modest



Source: ABS, NAB, RBA, UBS \* NT and ACT are trend data

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