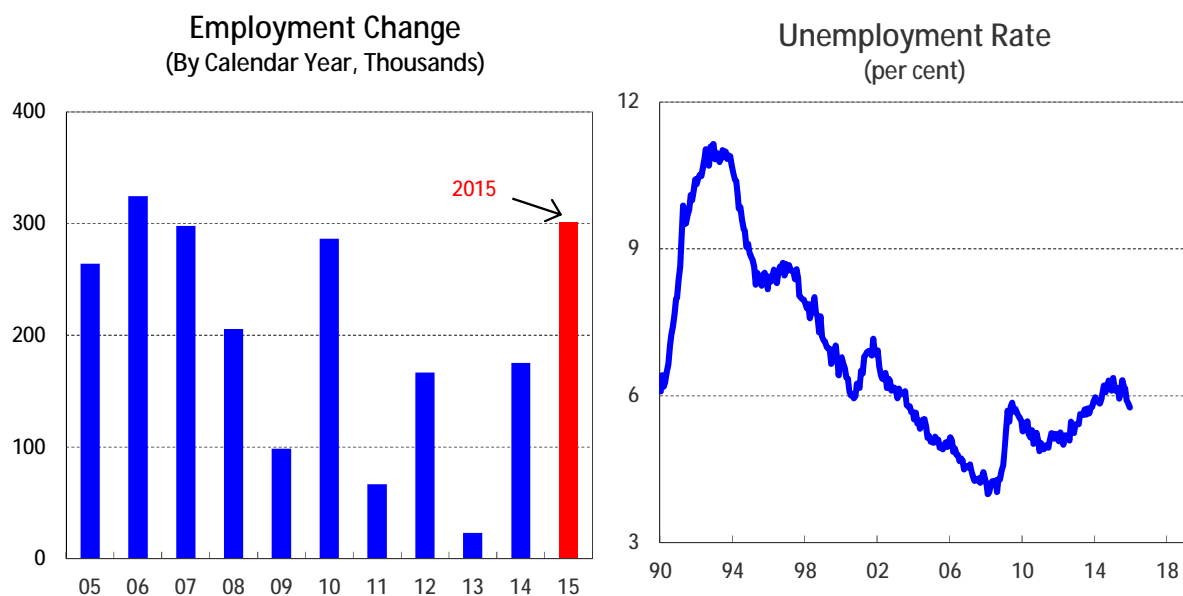




Labour Force 2015 – What a Year For Jobs!

- The labour market pulled back just 1.0k jobs in December, beating market expectations yet again. Despite not adding any jobs in the month, some pullback was expected after the very strong back-to-back job gain over October and November of 130k.
- For 2015, the total number of jobs created was 301.3k, which was the most since 2006.
- If the economy were to maintain its current pace of job growth, the unemployment rate could fall below 5% by the September quarter of this year. We remain sceptical of an economy maintaining job growth at around its current pace of 30k a month, although leading indicators continue to point to strength in the labour market.
- The unemployment rate was steady at 5.8% in December, against expectations to lift slightly. We expect the unemployment rate to remain broadly steady over the near-term, and edging slightly lower by the end of the year. It is likely that the peak in the unemployment rate is now behind us.
- Most States and Territories saw their unemployment rate decline. NSW reported its strongest ever calendar year job growth while Queensland saw its strongest calendar year of job growth since 2008.
- The healthy job market should leave the RBA content to leave rates on hold. Moreover, further surprising strength could see talk of rate hikes mount. However, downside risks suggest that the prospect of rate hikes from the RBA remains a way off. We remain comfortable with our view that the RBA will leave rates on hold for all of 2016.

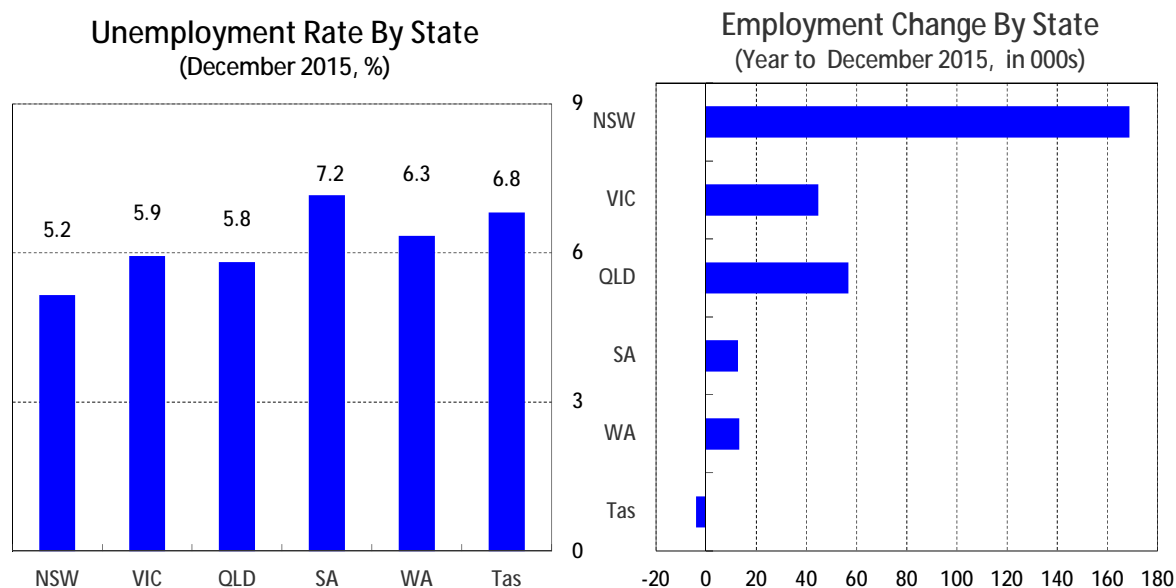


The labour market pulled back just 1.0k jobs in December, surprising market expectations yet again (consensus -10k). Despite not adding any jobs in the month, some pullback was expected after the very strong back-to-back job gain over October and November of 130k. It is somewhat surprising that the decline was not larger. Today's data leaves average monthly growth of just above 30k per month over the six months to December. For 2015, the total number of jobs created was 301.3k, which was the most in a calendar year since 2006.

The very minor correction in December should ease some scepticism regarding the strength of recent data. Indeed, other partial indicators such as job vacancies continue to point to solid labour market conditions. Yesterday, ABS job vacancies grew at their fastest annual pace since 2011.

The unemployment rate was steady at 5.8% in December. This also beat expectations that the unemployment rate would lift slightly, although it was helped by a pullback in the participation rate from 65.3% to 65.1%.

Another sign of strength of the labour market was the part-time and full-time breakdown. Jobs continued to grow in the full-time category, lifting 17.6k in December. Meanwhile, part-time jobs declined 18.5k. The shift towards full-time jobs away from part-time signals strengthening economic activity. On an annual basis, there were 187.2k full-time jobs added over the year to December, while 114.1k part-time jobs were added.



State Analysis

December saw the two most populous States report job losses following very strong job growth in November. NSW lost 5.3k jobs in December while job numbers were down 12.9k in Victoria. South Australia (-0.9k) and Tasmania (-3.8k) also saw job losses. Queensland reported its fifth successive month of job growth, despite the troubles face by parts of its mining sector. The impact of the lower AUD is likely having an impact on the tourism sector in Queensland. Western Australia (8.1k) also reported jobs growth in December but this came after the loss of 10.7k jobs in November. Among the Territories, where there are only trend numbers, the ACT saw a job gain of 0.7k and the Northern Territory saw the loss of 0.4k jobs, its sixth consecutive month of job losses.

In calendar year 2015, NSW (168.8k) saw its strongest ever growth in jobs. Queensland (56.6k) saw its strongest calendar year of growth since 2008. Annual growth was solid in Victoria (44.7k) but was stronger in 2014. Western Australia ended the year with job growth of 13.2k despite the contraction in mining construction. South Australia put on 12.6k jobs over the year while Tasmania lost 4.1k jobs. In trend terms the NT added 2.0k jobs and 3.3k jobs were added in the ACT.

The unemployment rate fell or was steady in all the States and Territories in December. The lowest unemployment rate among the States and Territories in December was in the Northern Territory (trend data) at 4.1%. NSW and the ACT (trend) both sit on unemployment rates of 5.2%. In Victoria (5.9%) the unemployment rate fell below 6.0% while in South Australia it has fallen from a recent peak of 7.9% in June 2015 down to 7.2% in December. Queensland has seen its unemployment rate fall from 7.0% in October 2014 to 5.8% while in Western Australia's unemployment rate at 6.3% is the best in three months but well up on the 4.5% seen two years ago.

Outlook and Implications for Monetary Policy

The evidence is mounting of a labour market in good shape. If the economy were to maintain its current pace of job growth, the unemployment rate could fall below 5% by the September quarter of this year.

Nonetheless, we remain sceptical of an economy maintaining job growth at around its current pace of 30k a month. Risks remain for the domestic economy and we expect that economic

growth will be slightly below trend till the middle of this year. A more reasonable expectation is for monthly job gains is to average 15-18k over the course of this year. This would still see the unemployment rate broadly steady over the near-term, and edging slightly lower by the end of the year. It seems likely that the peak in the unemployment rate of 6.3-6.4% is now behind us.

The healthy job market should leave the RBA content to leave rates on hold. Moreover, further surprising strength could see talk of rate hikes mount. However, with economic growth remaining below trend, low inflation and an uncertain global environment, the prospect of rate hikes from the RBA remains a way off. We remain comfortable with our view that the RBA will leave rates on hold for all of 2016.

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