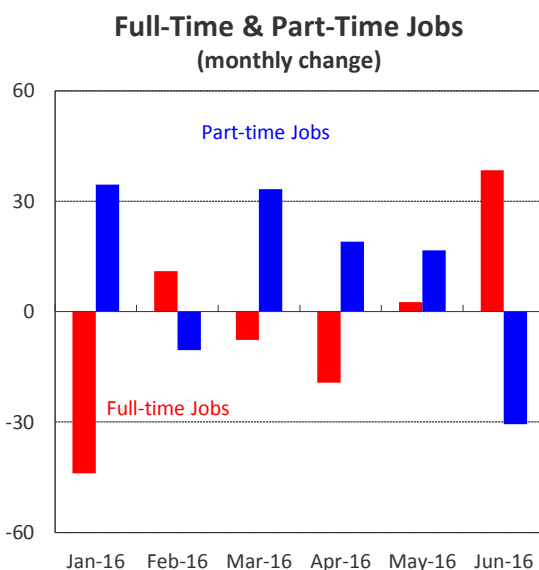


Labour Force Still on Course

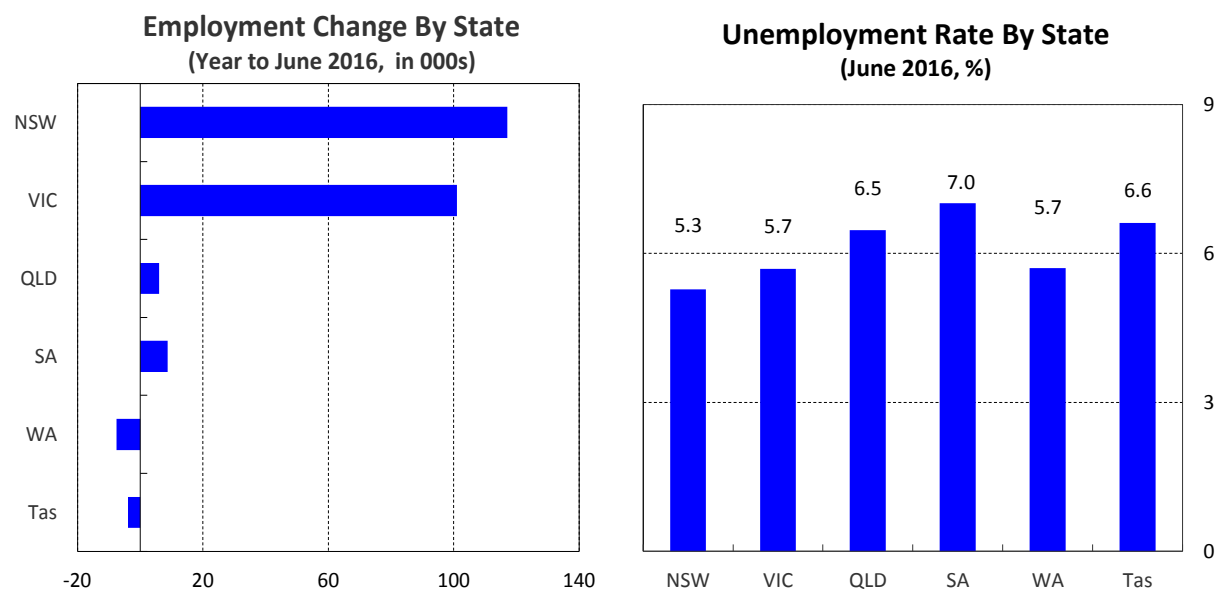
- The labour market remains on a steady course this year. It added 7.9k jobs in June, following a revised 19.2k increase in May.
- The unemployment rate edged up 0.1 percentage points to 5.8% in June, helped by a slight lift in the participation rate from 64.8% to 64.9%. However, the unemployment rate is unchanged from six months ago.
- The labour market is tracking close to expectations. However, we would most likely need to see job gains pickup a little from their current pace to prevent the unemployment rate from drifting higher, assuming that the participation rate remains unchanged. Steady growth in job ads and ongoing reports of above-average business conditions suggests that at least a slight improvement in the labour market is in prospect.
- On an annual basis, NSW and Victoria continued to have the strongest job growth among the States, reflecting the relatively strong performance of these State economies. Queensland and South Australia had modest annual gains while Western Australia and Tasmania saw jobs decline in the year.
- Today's data does not diverge significantly from the RBA's view of labour market. Nonetheless, the somewhat elevated unemployment rate and soft wage growth suggests that there is still a fair amount of spare capacity within the labour market. This will keep alive concerns of a weak inflation outlook. All eyes will be on inflation data due on 27 July. A weak outcome would likely convince the RBA to lower official interest rates again.



The labour market remains on steady course this year. It added 7.9k jobs in June, following a revised 19.2k increase in May. The past six months have seen jobs gain an average of 7.2k a month – this is an unspectacular pace and well down on the 30.3k average monthly gains in the prior six months of 2015.

In June, the unemployment rate edged up 0.1 percentage points to 5.8%, helped by a slight lift in the participation rate from 64.8% to 64.9%. However, the unemployment rate is unchanged from six months ago, and down on the recent peak of 6.3% in July.

There was some good news in the part-time/full-time job breakdown. The recent trend towards part-time work reversed in the month. Full-time jobs lifted 38.4k, the strongest monthly gain in seven months. In contrast, part-time jobs fell 30.6k, which was the first fall in four months. On an annual basis, growth in part-time jobs of 3.7% continued to well exceed growth in full-time work, which stood at 1.1% in June.



State Analysis

The strong run of job gains in NSW took a breather in June, where jobs declined 11.9k. However, Victoria saw a solid gain of 24.2k, the fifth consecutive monthly increase. South Australia saw a modest 4.6k increase in the month, but there were declines in Western Australia (-10.3k), Queensland (-1.4k) and Tasmania (-0.4k).

On an annual basis, NSW (117.1k) and Victoria (101.0k) had the strongest job growth among the States, reflecting the relatively strong performance of these State economies. Queensland (6.0k) and South Australia (8.7k) had a modest annual gains, while Western Australia (-7.6k) and Tasmania (-4.0k) saw jobs decline in the year.

The decline in jobs in NSW in June pushed the unemployment rate back up to 5.3%, but it was still the lowest among all States. Unemployment rates in Victoria and Western Australia both edged down from 5.8% to 5.7%. Queensland (from 6.4% to 6.5%), South Australia (6.8% to 7.0%) and Tasmania (from 6.5% to 6.6%) saw their unemployment rates lift in June. In trend terms, ACT's unemployment rate edged down further to 3.6%, a new two-year low.

Outlook and Implications for Monetary Policy

The labour market is tracking along reasonably well, and close to expectations. However, we would most likely need to see job gains pickup a little to prevent the unemployment from drifting higher, assuming that the participation rate remains unchanged.

Our expectation for the unemployment rate to remain broadly steady for the remainder of the year implies monthly employment gains of between 10 and 15k per month, slightly higher than the current pace of below 10k per month. Steady growth in job ads and ongoing reports of above-average business conditions suggests that such an improvement is in prospect. Our expectation that the economy will grow close to trend also supports the view that the unemployment rate should track sideways this year.

Today's data does not diverge significantly from the RBA's view of the labour market. The labour market is not strong enough to rule out further rate cuts, but it isn't sufficiently weak enough on its own to trigger one either.

Nonetheless, the unemployment rate is still above levels which would be considered as "full-employment" and wage growth remains soft. This suggests that there is still a fair amount of spare capacity within the labour market, and will keep alive concerns of a weak inflation outlook.

The next focus will be inflation data which will be released on 27 July. We expect that it will be weak enough to convince the RBA of an additional 25 basis point rate cut at its meeting in August.

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The Detail

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