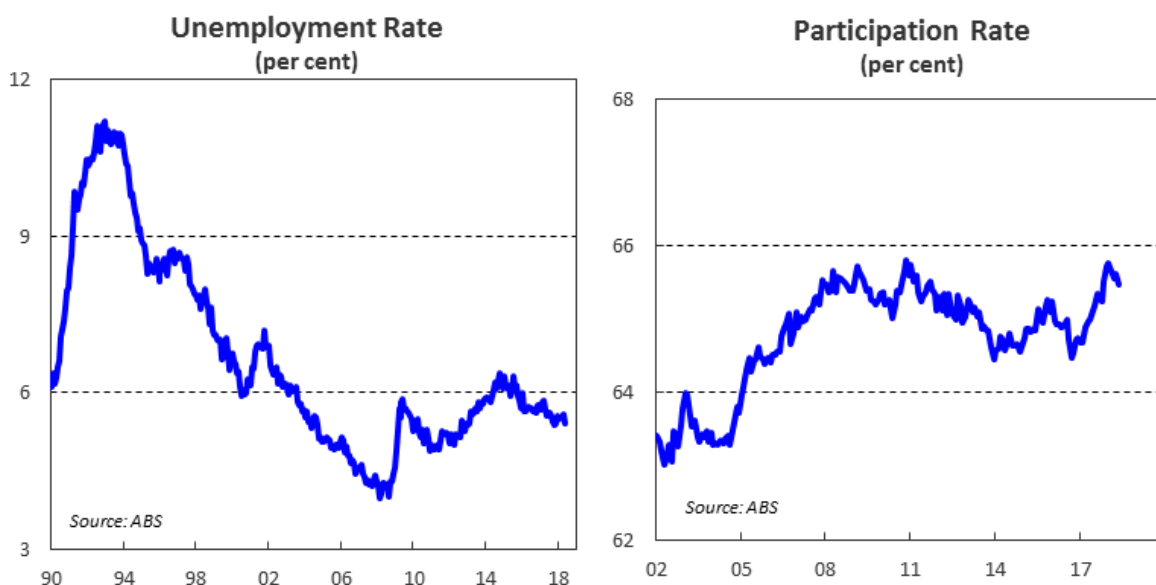


Labour Force

The Devil is in the Detail

- On the surface, today's jobs report was seemingly positive. The unemployment rate fell from 5.6% in April to 5.4% in May, a six-month low. However, looking through monthly volatility, the unemployment rate in trend terms has been steady at 5.5% for ten consecutive months.
- Some of the detail took some shine out of the report. Jobs rose a modest 12.0k in May. The run of a slower job gains since the beginning of the year is continuing after very strong job growth over 2017. Average job gains over 2018 stood at 12.4k, down from 34.4k over 2017.
- It was a fall in the proportion of job seekers that helped to bring the unemployment rate down in the month. The participation rate fell from 65.6% in April to 65.5% in May.
- The full-time, part-time breakdown was also less encouraging. Job gains in May were entirely due to an increase in part-time jobs of 32.6k. It was offset by a fall in full-time jobs of 20.6k.
- We continue to expect that the unemployment will fall gradually, but with the current pace of job growth we do not anticipate the unemployment rate will get to 5.0%, the RBA's estimate of full-employment, for some time. Indeed, there is a risk that the unemployment rate at full-employment is even lower. Consequently, spare capacity is likely to persist within the labour market. This ongoing spare capacity suggests we are unlikely to see any meaningful pickup in wage growth and inflation, and that the RBA will leave rates on hold for an extended period.



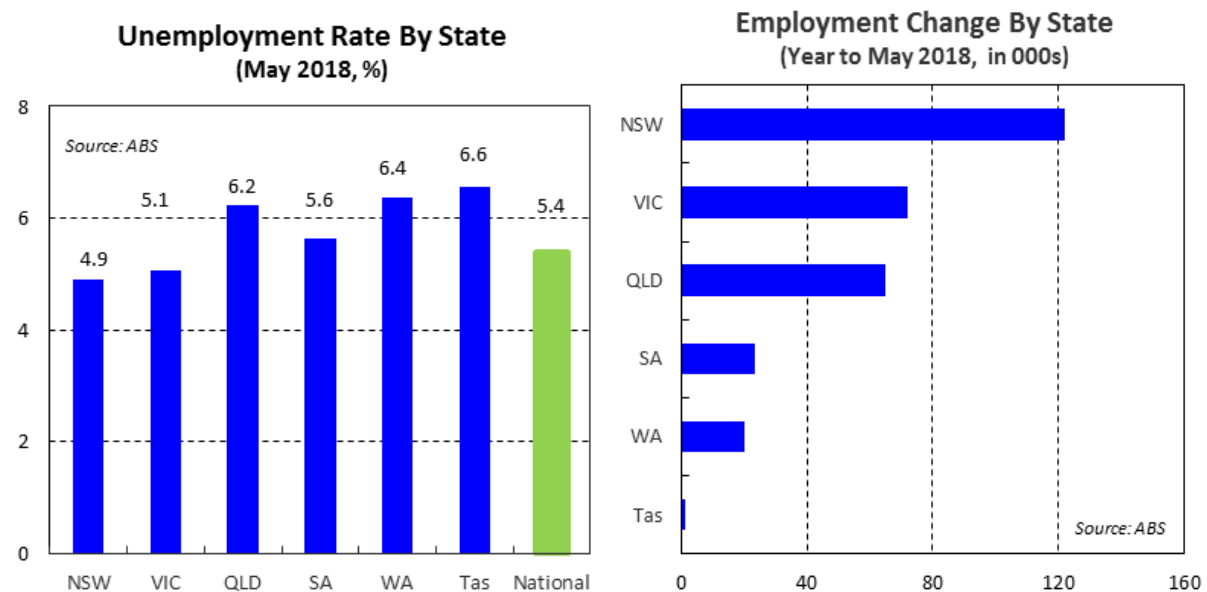
On the surface, today's jobs report was seemingly positive. The unemployment rate fell from 5.6% in April to 5.4% in May, a six-month low.

However, some of the detail took some shine out of the report. Jobs rose a modest 12.0k in May, just slightly below our estimate of 15.0k and below the consensus gain of 20.0k. The run of a slower job gains since the beginning of the year is continuing after very strong job growth over 2017. Average job gains over 2018 stood at 12.4k, down from 34.4k over 2017.

The full-time, part-time breakdown was also less encouraging. Job gains in May were entirely due to an increase in part-time jobs of 32.6k. It was offset by a fall in full-time jobs of 20.6k. The pace of full-time jobs has slowed considerably, from 3.1% in April to 2.1% in May. Part-time job growth at 3.2% is now exceeding full-time job growth in annual percentage terms.

It was a fall in the proportion of job seekers that helped to bring the unemployment rate down in the month. The participation rate fell from 65.6% in April to 65.5% in May. Nonetheless, looking through monthly volatility, the unemployment rate in trend terms has been steady at 5.5% for ten consecutive months.

In May, we received an update on other forms of labour force utilisation. The underemployment rate, which is based on part-time workers wanting to work more hours, edged up from 8.4% in February to 8.5% in May, and remains close to the 8.7% record high. The elevated underemployment rate continues to suggest that there is spare capacity persisting in the labour market.



States and Territories

Victoria (22.1k) led job growth in May across States. There was more modest growth in NSW (2.8k), Queensland (5.0k), South Australia (2.6k) and Tasmania (0.4k). Net jobs declined in Western Australia (-1.9k).

On an annual basis, NSW (122.1k) continued to have the strongest job gains. Victoria (72.0k) and Queensland (64.9k) also had healthy gains in the year followed by South Australia (23.3k), Western Australia (19.8k) and Tasmania (1.2k).

Unemployment rates edged down across most States. In NSW, the unemployment rate fell from

5.0% to 4.9% and remained the lowest of all States. Victoria's unemployment rate fell to 5.1% in May, the lowest in just over six years. In Queensland, the unemployment rate edged down from 6.5% in April to 6.2% in May, and in South Australia it fell from 5.9% to 5.6%. In trend terms, the ACT unemployment rate edged down from 3.8% to 3.7% and in the Northern Territory it was steady at 4.0%.

Outlook

Attention will be on the fall in the unemployment rate in the month, but as a trend, the unemployment rate has been steady at close to 5.5% for some time. A stronger pace of job gains will likely be required for the unemployment rate to fall further.

Some of the recent slowing in employment gains is likely reflecting payback for the stronger-than-expected growth over last year. However, leading indicators on employment, including job ads and business surveys continue to point to strength in the labour market. The outlook for the domestic economy to grow at a bit above the trend rate of growth also points to a slightly faster pace of job growth over the coming year.

We continue to expect that the unemployment will fall gradually, but with the current pace of job growth we do not anticipate the unemployment rate will get to 5.0%, the RBA's estimate of full-employment, for some time.

Based on an estimated of 20k gains per month, we are unlikely to hit 5.0% before the middle of 2019. Indeed, there is a risk that the unemployment rate at full-employment is even lower. Consequently, spare capacity is likely to persist within the labour market. This ongoing spare capacity suggests we are unlikely to see any meaningful pickup in wage growth and inflation, and that the RBA will leave rates on hold for an extended period. That said, we continue to move in the direction of higher rates. A further gradual fall in the unemployment rate would support the view that the next move in rates will be higher.

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The Detail

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