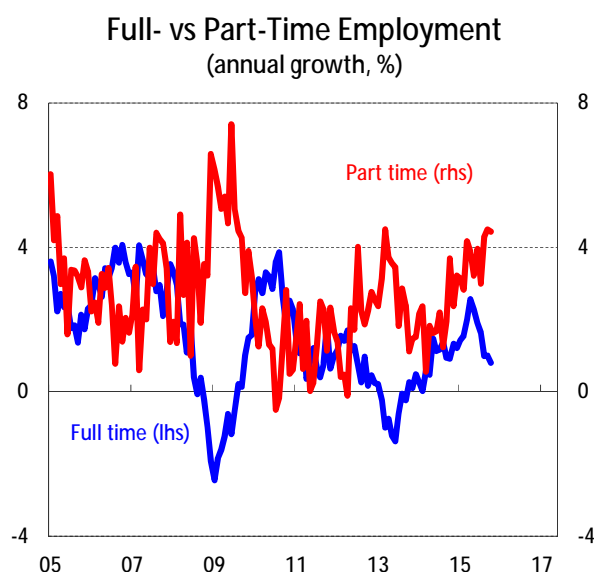
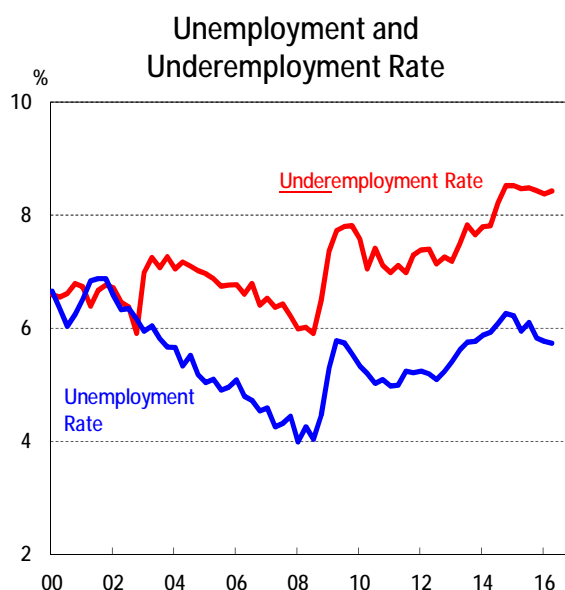


Labour Force Not too Fast, Not too Slow

- Job growth has been not too fast, but not too slow. However, the labour market isn't 'just right' either. While jobs rose a respectable 17.9k in May, there was a downward revision to April's result. Monthly job gains so far for 2016 have averaged 7.0k, well down on the 24.8k monthly job gains over 2015.
- That said, a period of relatively soft job growth is unsurprising after the strength witnessed last year. The current pace of job growth is modest, but job gains have been sufficient to keep the unemployment rate steady at 5.7% over the last three months. The unemployment rate is still well down on the peak of 6.3% recorded in July last year.
- There continues to be a large divergence in labour markets across States. Annual job growth in NSW was well ahead of other States. Victoria also had healthy gains in the year, reflecting relatively strong economic activity in these States. Queensland and Western Australia had modest gains in the year to May, while South Australia and Tasmania saw jobs decline in the year to May.
- The labour market is where we expected it to be – adding enough jobs for the unemployment rate to be broadly steady. The RBA's assessment on economic activity and the labour market should be little changed by today's data. Nonetheless, the focus for the RBA is on the inflation outlook. Ongoing spare capacity and weak growth in incomes highlights that downside risks to inflation remain and supports the view that the RBA will cut rates again.

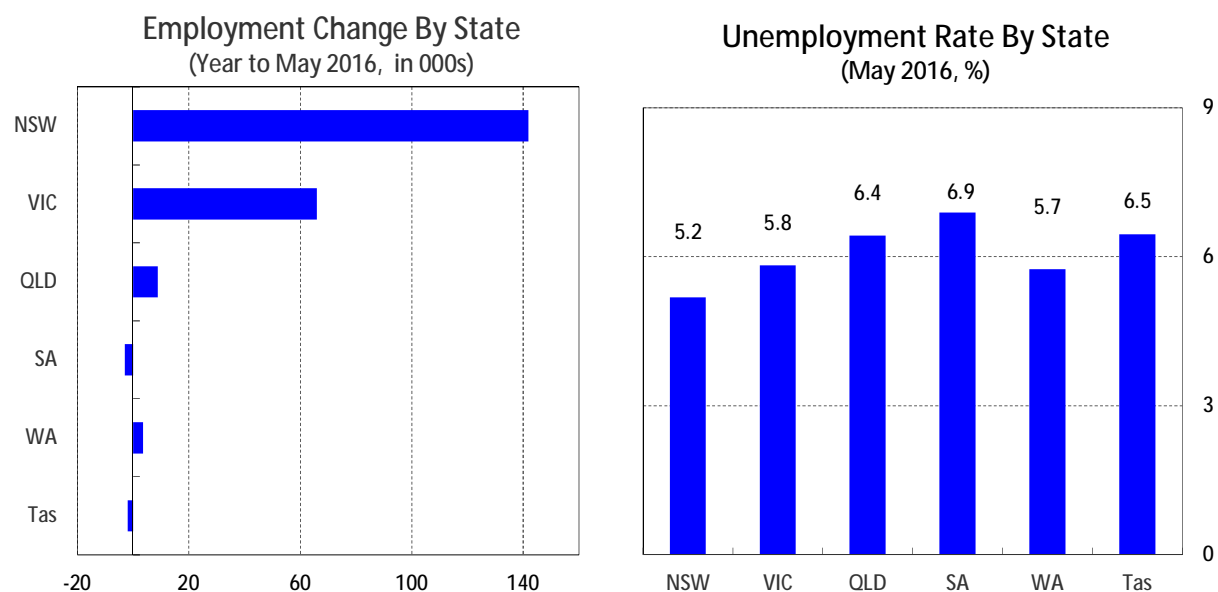


Jobs rose a respectable 17.9k in May, which was close to consensus and our expectations of 15k. However, a downward revision from a 10.8k gain to just a 0.8k increase in April took some shine out of the report. Over the first five months of the year, monthly job growth has averaged 7.0k. This is well down on the 24.8k monthly job gains over 2015, and likely reflects some payback for the strength earlier in the year. A period of relatively soft job growth is unsurprising after the stronger-than-expected strength last year.

Nonetheless, the pace of job growth is modest and job gains have been sufficient to keep the unemployment rate steady at 5.7% over the last three months. The unemployment rate is still well down on the peak of 6.3% recorded in July last year.

Part-time job growth continues to exceed full-time job growth. While many workers choose to work part-time, a trend towards more part-time work can signal softer economic activity or less demand from employers for longer hours. Currently, the underemployment rate (which is based on part-time workers who prefer to work more hours and are available to work) is close to its highest on record, which suggests that the recent shift to part-time work is not the preferred choice of many part-time employees.

The gain in May was entirely driven by part-time work, while full-time jobs were flat. Full-time jobs have gone backwards over the last three months. The annual pace of full-time job growth has softened to 0.8% in May, well down on the 2.6% annual growth in November. In contrast, part-time jobs grew 4.4% in the year to May.



State Analysis

There continues to be a large divergence in labour markets across States. In May, NSW added the most jobs of all States (29.6k). Victoria was the only other State to record a job gain (3.4k). Jobs declined in Queensland (-1.7k), South Australia (-11.5k), Western Australia (-0.5k) and Tasmania (-0.8k).

In terms of annual growth, job growth in NSW (141.8k) was well ahead of other States. Victoria also had healthy gains in the year (65.9k). These reflect relatively stronger economic activity in these States. Queensland (8.9k) and Western Australia (3.6k) had modest gains in the year to May, while South Australia (-2.9k) and Tasmania (-1.9k) saw jobs decline in the year to May.

The unemployment rate in NSW fell to a five-month low (from 5.3% to 5.2%) and continued to have the lowest unemployment rate across States. The unemployment rate also edged lower in Queensland (from 6.5% to 6.4%) despite the job loss for the month. However, unemployment rates lifted in Victoria (from 5.6% to 5.8%), South Australia (6.8% to 6.9%), Western Australia (from 5.6% to 5.7%) and Tasmania (from 6.3% to 6.5%). In trend terms, the ACT unemployment rate edged down to 3.8% in May, the lowest in two years.

Outlook and Implications for Monetary Policy

Labour market conditions remain relatively soft compared to the phenomenal strength of last year. However, this period of modest gains is unsurprising as some payback was likely following the strong gains previously.

The labour market is where we expected it to be –adding enough jobs for the unemployment rate to be broadly steady. We expect a moderate pace of job gains to continue and for the unemployment rate to stay close to current levels for the remainder of the year.

There are however, signs that the labour market is not in tip top condition. The shift towards part-time work may be painting a better picture than otherwise would be. Moreover, weak wage growth and an unemployment rate still above levels which would be considered as ‘full-employment’ suggests that there is still a fair amount of spare capacity within the labour market.

Today’s data remains consistent with the RBA’s view that the unemployment rate will “remain around current levels for the next year or so”. The RBA’s assessment on economic activity and labour market should therefore be little changed by today’s data.

Nonetheless, the focus for the RBA is on the inflation outlook. Ongoing spare capacity and weak growth in incomes highlights that downside risks to inflation remain. These downside risks to support the view that the RBA will cut rates again and we continue to pencil in August as the timing of such a move.

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