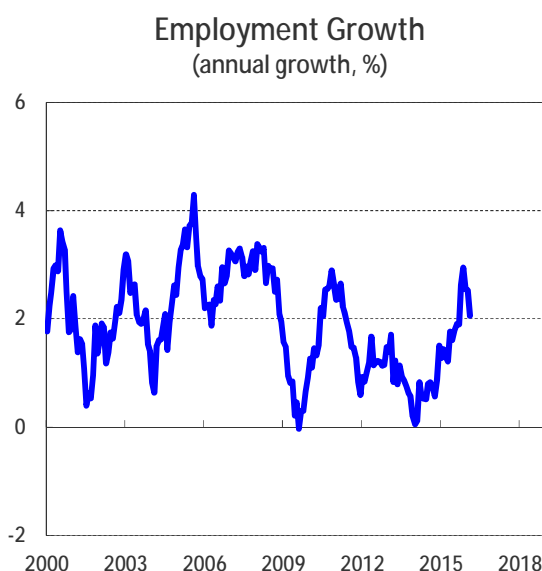


## Labour Force The Slowdown We Were Waiting For

- Jobs grew by just 0.3k in February. The pace of job growth is clearly slowing from the rapid pace of last year. Over the three months to February, jobs have contracted a total of 6.6k. In contrast, a total 124.7k jobs were created in the three months prior from September to November.
- While the job gain was below expectations, it isn't unusual for employment to disappoint after a period of stronger-than-expected job growth. The annual pace of growth has softened to a more realistic pace given the state of the economy, and some weaker employment growth over the course of this year does not come as a complete surprise.
- Despite the weak job outcome for the month the unemployment rate fell from 6.0% in January to 5.8% in the February. The fall in the unemployment rate was completely due to a fall in proportion of people searching for jobs.
- While the top-line job growth figure for Australia was essentially flat, the State and Territory figures told a different story. Queensland reported its first decline in jobs growth in seven months while Western Australia saw its fourth month of jobs decline in six months. Jobs growth in Victoria balanced out job losses in NSW, South Australia and Tasmania.
- With the economy most likely growing close to the new, lower, trend of around 2.75% in the first half of 2016, we see the RBA keeping its cash rate on hold this year. While the RBA may wish for a lower AUD, we doubt it would reduce its cash rate structure with an eye to a competitive devaluation.



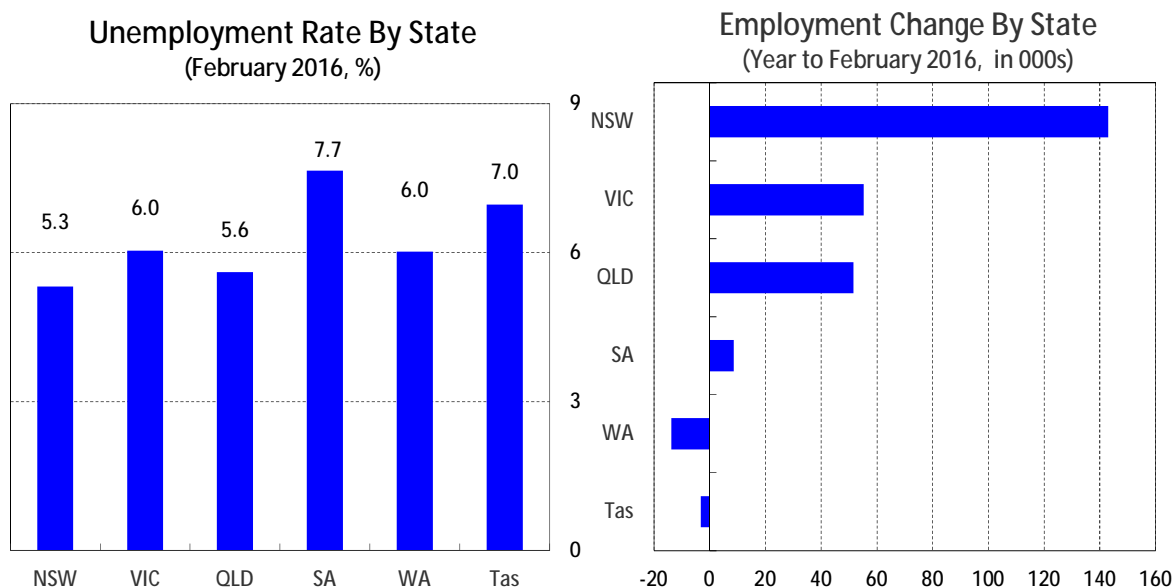
Jobs grew by just 0.3k in February, below consensus and our forecasts. The pace of job growth is clearly slowing from the rapid pace of last year. Over the three months to February, jobs have contracted a total of 6.6k. In contrast, a total 124.7k jobs were created in the three months prior between September and November.

Annual growth stepped down from 2.5% in January to 2.1% in February, and down from the strong 2.9% growth recorded in the year to November 2015.

Although the monthly outcome was below consensus estimates, it isn't unusual for employment to disappoint expectations after a period of stronger-than-expected job growth. The annual pace of growth has softened to a more realistic pace given the state of the economy, and some weaker employment growth over the course of this year does not come as a complete surprise.

Despite the weak job outcome for the month, the unemployment rate fell from 6.0% in January to 5.8% in the February. The fall in the unemployment rate was completely due to a fall in proportion of people searching for jobs. The participation rate fell from 65.1% in January to 64.9% in February. Had the participation rate remained steady, the unemployment rate would have edged up to 6.1%.

There was some good news in the part-time/full-time job breakdown. Full-time jobs rose 15.9k in February, and offset a 15.6k decline in part-time jobs. In terms of annual growth, part-time jobs, at 3.0% in the year to February, continued to grow at a faster pace than full-time jobs which grew 1.7%.



### State Analysis

While the top-line job growth figure for Australia was essentially flat, the State and Territory figures told a different story. Victoria (30.3k) saw solid job growth while Western Australia (-10.1k) saw its fourth month of jobs decline in six months. The Queensland (-5.8k) figures also stood out. Queensland reported its first decline in jobs growth in seven months. The lower AUD appears to be assisting net job creation in Victoria and Queensland while Western Australia continues to see job losses associated with the downturn in its mining sector. Elsewhere, job losses were reported in NSW (-3.9k), South Australia (-2.4k) and in Tasmania (-1.3k). In trend terms the ACT (0.2k) saw its sixth straight month of job gains while the Northern Territory (-0.3k) had its eighth straight

month of job losses.

State unemployment rates were strongly influenced by their respective rates of labour participation. NSW (5.3%) continues to have the lowest unemployment rate among the States. Its unemployment rate declined from 5.5% in January despite 3.9k job losses. The ACT (4.9%) and the Northern Territory (4.3%) have lower unemployment rates than NSW. South Australia reported a sharp rise in unemployment from 6.6% to 7.7% as a result of a sharp increase in its participation rate and the loss of 2.4k jobs. The unemployment rate in Victoria fell from 6.3% to 6.0% while in Western Australia it rose from 5.9% to 6.0%. The unemployment rate in Queensland fell to 5.6% while in Tasmania it rose to 7.0% from 6.6% in January.

On an annual basis, there were solid gains over the year for NSW (143.0k) but this was slower than the 167k jobs growth seen in the year to January. Annual job growth in Victoria picked up to 55.3k while in Queensland, as significantly smaller economy, jobs growth was a solid 51.5k. Western Australia (-13.7k) saw job losses over the year as did Tasmania (-3.3k). South Australia (8.5k) and the ACT (2.7k) saw job growth but the Northern Territory (-1.6k) reported job losses.

### Outlook and Implications for Monetary Policy

The labour market has lost some of the momentum it achieved in late 2015. In its defence, there have not been large scale job losses, but the upside surprises witnessed last year have not occurred so far in 2016. At the same time, the participation rate has declined leaving the unemployment rate lower than it might have been.

We expect modest job growth to continue and the unemployment rate to remain close to 6.0% over the next few months.

With the economy most likely growing close to the new, lower, trend of around 2.75% in the first half of 2016, we see the RBA keeping its cash rate on hold this year. While the RBA may wish for a lower AUD, we doubt it would reduce its cash rate structure with an eye to a competitive devaluation. The AUD is significantly lower than it was three years ago and Australia's interest rate structure remains historically low and very accommodative. These factors will assist the economy in its somewhat painful and slow transition away from the epic resources related construction boom of the past few years.

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