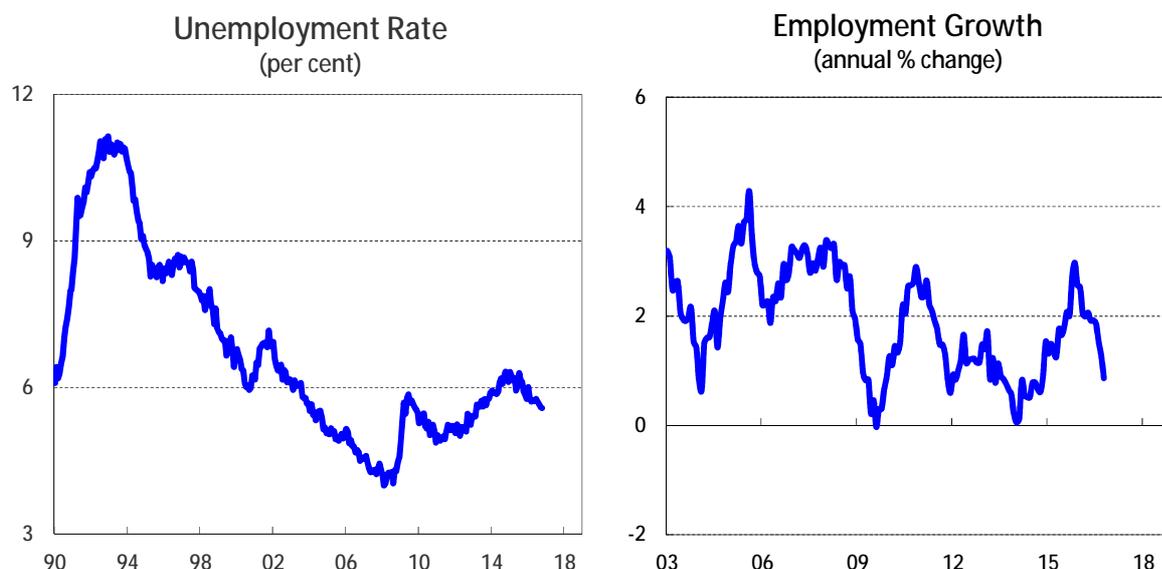


Labour Force Job Engine Spluttering

- Labour market data continued to disappoint in October. Employment grew just 9.8k in the month, after declining in the two months prior. Moreover, September's decline, which was previously reported as a 9.8k drop was revised to a fall of 29.0k.
- This year has been a poor year of job gains to date. There has been an average of just 4.3k job gains per month over 2016 compared with average monthly job gains of 24.8k in 2015. The annual pace of growth has softened to 0.9%, the slowest pace of growth in nearly two years and well down on the November 2015 peak of 3.0%.
- The unemployment rate was unchanged at 5.6%, at a three-year low. However, low workforce participation has kept the unemployment rate lower than otherwise would be the case. Moreover, the high rate of underemployment also point to more spare capacity within the labour market as suggested by the unemployment rate. We will obtain an update on the rate of underemployment in the next November release.
- On an annual basis, Victoria is leading the way in terms of job gains. Meanwhile, job growth has continued to slow significantly in NSW. South Australia had modest job gains in the year. Jobs however, contracted in Queensland, Western Australia and Tasmania.
- Softer labour market conditions reduce the prospect that we will see a pickup in wages and inflation over the medium-term. Taken with other signs that economic activity has lost some momentum, there is a heightened risk that the RBA is not done cutting rates in this cycle.



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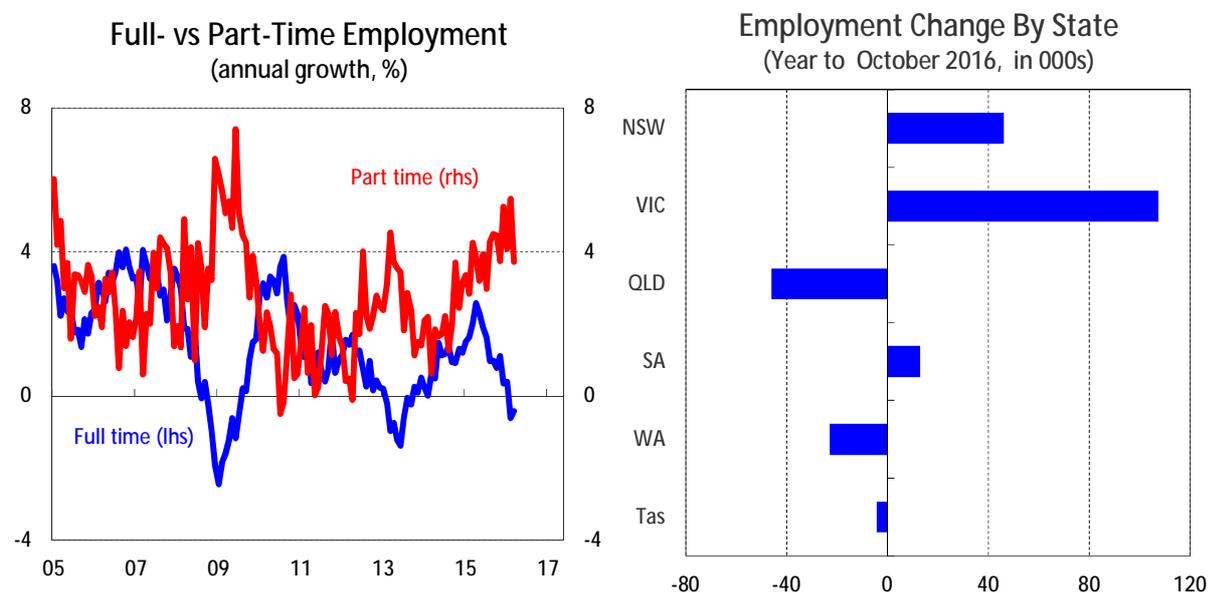
after declining in the two months prior. Moreover, September's decline, which was previously reported as a 9.8k drop was revised to a fall of 29.0k.

This year has been a poor year of job gains to date. There has been an average of 4.3k job gains per month over 2016, and an average of only 0.1k per month in the four months to October. By comparison, 2015 saw average monthly job gains of 24.8k. The annual pace of growth has softened to 0.9%, the slowest pace of growth in nearly two years and well down on the November 2015 peak of 3.0%.

The slowdown in job growth might reflect some payback for the stronger-than-expected job growth in 2015. However, taking into account some weakening in business conditions and consumer spending, it appears that economic activity has lost some momentum over recent months.

The unemployment rate was unchanged at 5.6%, at a three-year low. However, low workforce participation has kept the unemployment rate lower than otherwise would be the case. The participation rate was unchanged at 64.4%, at a near 11-year low. Moreover, the high rate of underemployment (part-time workers who wish to work more hours) also point to more spare capacity within the labour market as suggested by the unemployment rate. We will obtain an update on the rate of underemployment in the next November release.

The shift from full-time work to part-time work partly reversed in October. Full-time jobs regained 41.5k in the month while part-time work contracted 31.7k. However, on an annual basis, the trend towards part-time work remains intact. Full-time jobs contracted 34.7k in the year to October. Meanwhile, part-time jobs were 136.9k higher in the year to October.



State Analysis

The State breakdown saw job growth in October concentrated in Victoria (20.5k), Western Australia (6.8k) followed by South Australia (3.2k). Jobs declined in Queensland (-16.9k), NSW (-5.5k) and Tasmania (-3.4k).

On an annual basis, Victoria is leading the way in terms of job gains. The State added 107.3k jobs in the year to October. Meanwhile, job growth has continued to slow significantly in NSW. Job gains in NSW slowed to 46.1k in the year to October, well down on the peak of 173.9k in the year

to November 2015. South Australia (12.9k) had modest job gains in the year. However, jobs contracted in Queensland (-46.0k), Western Australia (-22.9k) and Tasmania (-4.3k).

The lowest unemployment rate across States continued to be in NSW, steady at a four-year low of 4.9%, and is despite softer job growth in recent months. Victoria's unemployment rate edged lower from 5.8% to 5.7% in October. Unemployment rates in Queensland (5.8%), South Australia (6.4%) and Tasmania (6.4%) also edged lower in the month, while Western Australia's unemployment rate rose to 6.5%, the highest in nearly a year.

Outlook and Implications for Monetary Policy

Employment growth has continued to slow significantly over the course of this year although the unemployment rate is at a three-year low. Falling workforce participation, the trend from full-time work towards part-time work combined with high underemployment suggests there remains spare capacity in the labour market. The ongoing weak growth in wages, which have slowed to its lowest since records began in 1997, further points to a fair degree of labour market slack.

We continue to expect sufficient job gains to keep the unemployment rate broadly steady over the coming year. However, we would more than likely need to see job growth pickup from current levels unless the participation rate continues to fall. Indeed, leading indicators continue to point to a moderate pace of employment growth.

Nonetheless, the softening in labour market conditions, combined with some moderation in business conditions and weaker consumer spending suggests some loss of momentum in economic activity in recent months. This lessens the prospect of a pickup in economic growth which will be sufficient to result in a pickup in inflation. Further, softer labour market conditions reduce the prospect that we will see a pickup in wages and inflation over the medium-term.

While the RBA has been encouraged by the overall decline in the unemployment rate, it has pointed out that the unemployment rate may be underestimating the how much slack there is in the labour market. The RBA has also stated that the labour market is one of the key uncertainties to the outlook. The case for a further reduction to the cash rate would continue to strengthen, particularly if this weaker trend in the labour market continues.

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The Detail

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