

Labour Force

Spare Capacity Still Hanging Around

- **Jobs grew 22.6k in April, close to expectations. Nonetheless, April's job gain comes off the back of weakness over February and March, when jobs declined 7.4k and -0.7k, respectively.**
- **Average monthly job gains over 2018 stood at just 13.2k, far below the average monthly gain of 34.6k over 2017. A slower pace of job growth has taken hold since the beginning of the year, although it in part reflects some payback for last year's strength.**
- **The unemployment rate edged up from 5.5% in March to 5.6% in April. After back revisions, it was the highest in nine months. However, this was mostly as a result of more people entering the workforce. The participation rate lifted from 65.5% in March to 65.6% in April, close to a record high.**
- **The slower pace of employment growth since the turn of the year raises doubts as to whether sufficient spare capacity in the labour market will be absorbed for a meaningful pickup in wages and inflation.**
- **We expect that jobs will continue to grow sufficiently for some reduction in the unemployment rate. The upswing in the global economy, buoyant business conditions and the pace of domestic demand points to a relatively healthy rate of job growth.**
- **That said, we are far from hitting a 5.0% unemployment rate, the RBA's estimate of the unemployment rate at full employment. Indeed, there is a risk that the unemployment rate at full-employment is even lower. It suggests that there is not much prospect of a meaningful pickup in wages while spare capacity in the labour market is likely to persist.**

Unemployment Rate
(per cent)



Participation Rate
(per cent)



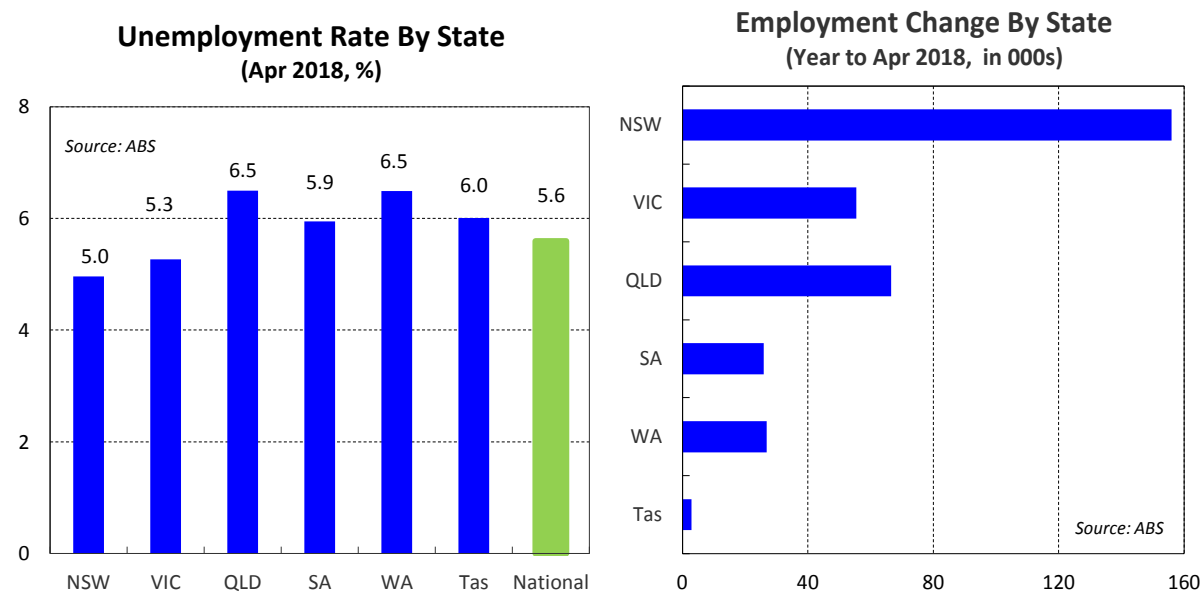
Jobs grew 22.6k in April, which was mostly in line with consensus and our forecast for a 20k increase. Nonetheless, April's job gain comes off the back of weakness over February and March, when jobs declined 7.4k and -0.7k, respectively.

It takes average monthly job gains over the course of 2018 to just 13.2k, far below the average monthly gain of 34.6k over 2017. A slower pace of job growth has taken hold since the beginning of the year, although it in part reflects some payback for last year's strength.

The slowdown in employment in recent months resulted in the annual pace of job growth stepping down from 3.0% in March to 2.7% in April. It was the slowest since July 2017, but closer to a pace of growth consistent with the growth in the domestic economy.

The unemployment rate edged up from 5.5% in March to 5.6% in April. After back revisions, it was the highest in nine months. However, this was mostly as a result of more people entering the workforce. The participation rate lifted from 65.5% in March to 65.6% in April, close to a record high.

Full-time jobs recovered 32.7k in April, after contracting in the previous month. Meanwhile, part-time jobs fell 10.0k in April. On an annual basis, full-time work (3.2%) continued to outpace part-time work (1.7%).



States and Territories

In April, job growth was concentrated in NSW (27.1k), followed by Western Australia (8.3k). There was also a modest job gain in South Australia (2.7k). Jobs declined in all other States including Victoria (-10.0k), Queensland (-8.2k) and Tasmania (-1.0k).

On an annual basis, NSW (156.0k) has become the standout in terms of job growth. Queensland (66.5k) and Victoria (55.5k) also had relatively healthy job gains but the pace of growth in both these States has moderated from recent peaks. There has been a notable pickup in job growth in South Australia (25.9k), where economic activity has improved of late. The annual job gain in South Australia was the strongest since July 2008. Job growth was also healthy in Western Australia (26.9k) and to a lesser extent in Tasmania (2.9k).

NSW continued to have the lowest unemployment rate of all States (steady at 5.0%). This was

followed by Victoria (5.3%), then South Australia (5.9%), Tasmania (6.0%), Queensland (6.5%) and Western Australia (6.5%). In trend terms, unemployment rates in the ACT and the Northern Territory were steady at 4.0% and 4.3%, respectively.

Outlook

The slower pace of employment growth since the turn of the year raises doubts as to whether sufficient spare capacity in the labour market will be absorbed for a meaningful pickup in wages and inflation.

Nonetheless, we expect that jobs will continue to grow sufficiently for some reduction in the unemployment rate. The upswing in the global economy, buoyant business conditions and the pace of domestic demand points to a relatively healthy rate of job growth - we estimate between 17 and 20k per month.

That said, we are far from hitting a 5.0% unemployment rate, the RBA's estimate of the unemployment rate at full employment. Indeed, there is a risk that the unemployment rate at full-employment is even lower. It suggests that there is not much prospect of a meaningful pickup in wages given spare capacity in the labour market is likely to persist for a while yet. In this environment, the RBA is expected to leave rates on hold for an extended time.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist

Josephine Horton
hortonj@bankofmelbourne.com.au
(02) 8253 6696

Senior Economist

Janu Chan
chanj@bankofmelbourne.com.au
(02) 8253 0898

The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.