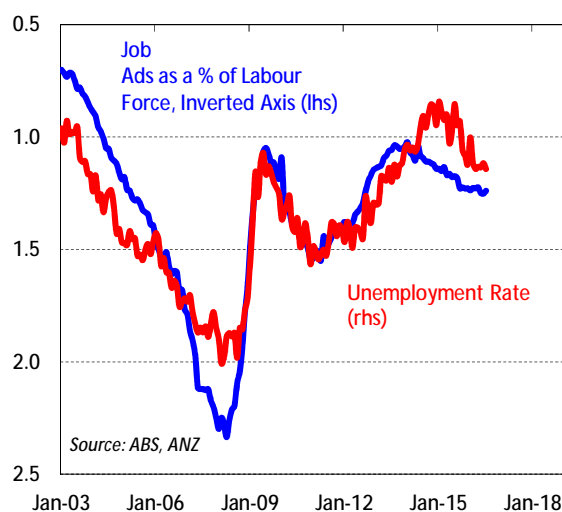


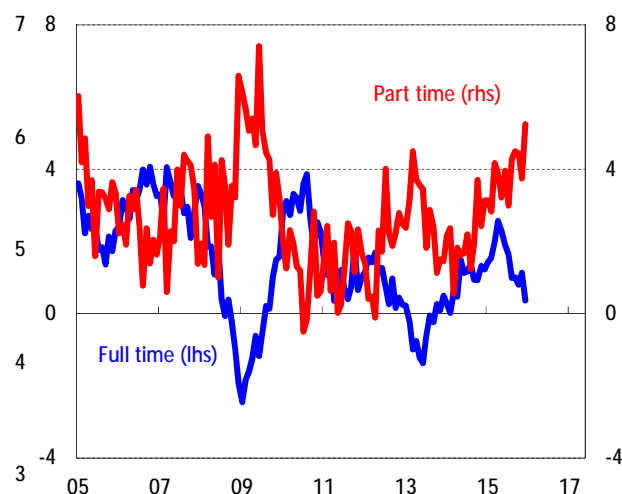
Labour Force All That Glitters is not Gold

- The labour market added a solid 26.2k in July. This was more than the consensus estimate of 10.0k but close to our forecast for a 25k increase. We had been anticipating a pickup in the pace of job growth after moderating earlier this year.
- The improvement in job growth is encouraging. However, some of the detail in today's release was less positive. Job gains continue to be overwhelmingly in the part-time category, which might be suggestive of still elevated under-employment (proportion of workers who want to work more hours).
- The unemployment rate edged down from 5.8% in June to 5.7% in July, and has been broadly steady over the past six months. We continue to expect the unemployment rate to track sideways for the remainder of the year.
- Queensland led the charge amongst the States for employment gains for the month, adding 12.3k new jobs in July. Unemployment rates remain lowest in the territories at 3.5% in the Northern Territory and 3.6% in the ACT (both in trend terms).
- Today's data is consistent with the RBA's view of the labour market. However, the strength in part-time work, soft wage growth and an unemployment rate at 5.7% suggests that a fair degree of spare capacity remains. Without a more substantial decline in the unemployment rate, inflation is unlikely to return back to the RBA's target band. As such, we expect that the RBA will continue to cut official interest rates to as low as 1.0% by mid next year.

Unemployment and Job Ads



Full- vs Part-Time Employment
(annual growth, %)



The labour market added a solid 26.2k in July, more than the consensus estimate of 10.0k but

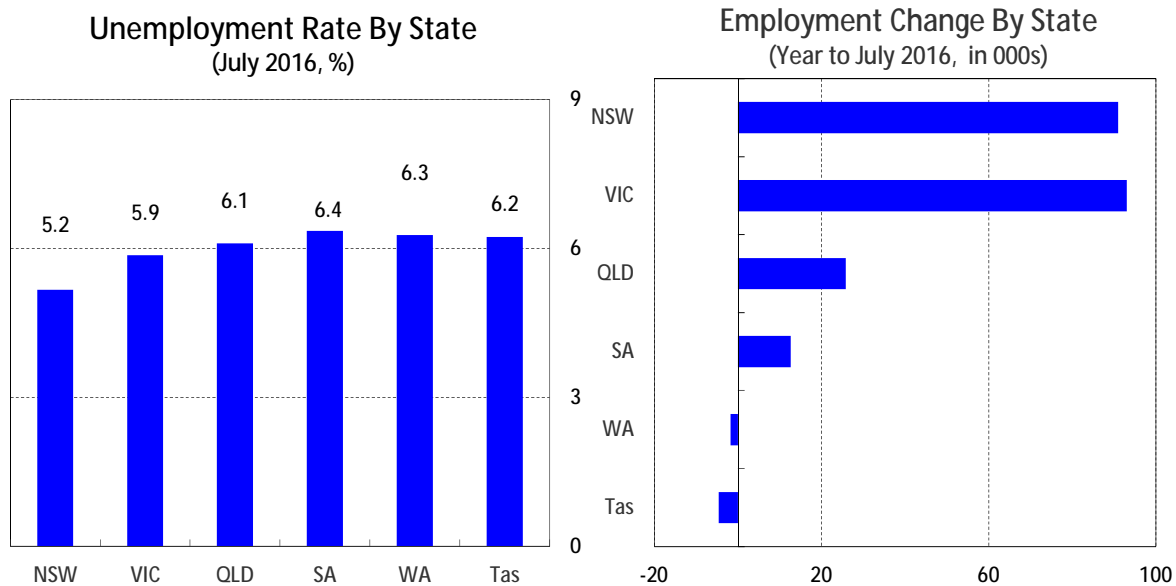
close to our forecast for a 25k increase.

We had been anticipating a pickup in the pace of job growth after moderating earlier this year. Leading indicators and business surveys had been pointing to an improvement in job growth. In the three months to July, job gains have averaged a relatively healthy 18.8k, up from an average of 8.3k in the three months prior.

However, some of the detail in today's release was less positive. Job gains continue to be overwhelmingly in the part-time category, where 71.6k jobs were created. Meanwhile, 45.4k full-time jobs were lost in July. On an annual basis, the divergence is just as stark. Full-time jobs added just 29.8k in the year to July, while part-time jobs lifted 190.1k jobs over the same period.

The elevated under-employment rate, which includes the unemployed and part-time workers who wish to work more hours, suggests that many of these part-time workers may not be in their situation by choice. The underemployment rate stood at 8.4% in May, and is close to its record high of 8.5% set in August 2015. We will receive an update on underemployment in the next August release.

As a result of the strong gain in the month, the unemployment rate edged down from 5.8% in June to 5.7% in July, equal to the unemployment rate from March to May. The unemployment rate has been broadly steady over the past six months, and has stayed between 5.7%-5.8%.



State Analysis

Queensland led the charge amongst the States for employment gains this month, adding 12.3k new jobs in July. The figures in Queensland this month reverse a trend of 5 consecutive months of job declines. Western Australia saw some jobs growth this month and put the brakes on a downward trend resulting from the unwinding of the mining boom, up 3.6k in July. Victoria and New South Wales also saw job gains, albeit at a slower pace than in previous months, with jobs in Victoria increasing 2.1k and New South Wales 1.1k. Both States have now added around 90k jobs for the year to July. South Australia also recorded positive growth for June with 3k new jobs. Tasmania was the only state to job losses in July, shedding 700 jobs.

New South Wales recorded a 5.2% unemployment rate, down from 5.3% the previous month. Victoria's rose to 5.9% and Queensland's slipped to 6.1%. The highest unemployment was seen in

South Australia (6.4%) and Western Australia (6.3%). Unemployment rates were lowest in the territories, with trend data reporting an unemployment rate of 3.5% in the Northern Territory and 3.6% in the ACT for in July.

Outlook and Implications for Monetary Policy

It was encouraging to see employment growth pickup. This improvement needed to occur at some point to prevent the unemployment rate from drifting higher. We continue to expect the unemployment rate to remain broadly steady for the remainder of the year. Leading indicators such as job ads and relatively firm business conditions reported in surveys suggest that the labour market can maintain a moderate pace of growth, and that the unemployment rate will continue to track sideways.

Today's data is consistent with the RBA's view that the unemployment rate will "move only a little lower" over the medium term. However, there were still pockets of concern in today's release. The strength in part-time work, which could be suggestive of still high underemployment, and soft wage growth data released yesterday suggests that a fair degree of spare capacity remains in the labour market. An unemployment rate at 5.7% is still above estimates of what could be considered as full-employment and also indicative of spare capacity.

We would need to see a more substantial decline in the unemployment rate if spare capacity is to be reduced and provide enough confidence that inflation will pickup towards the RBA 2 to 3% per annum target band.

While we expect further moderate job gains, we do not expect that there will be enough strength in the labour market for such a decline in the unemployment rate. As such, we expect that the RBA will continue to cut official interest rates to as low as 1.0% by mid next year.

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The Detail

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