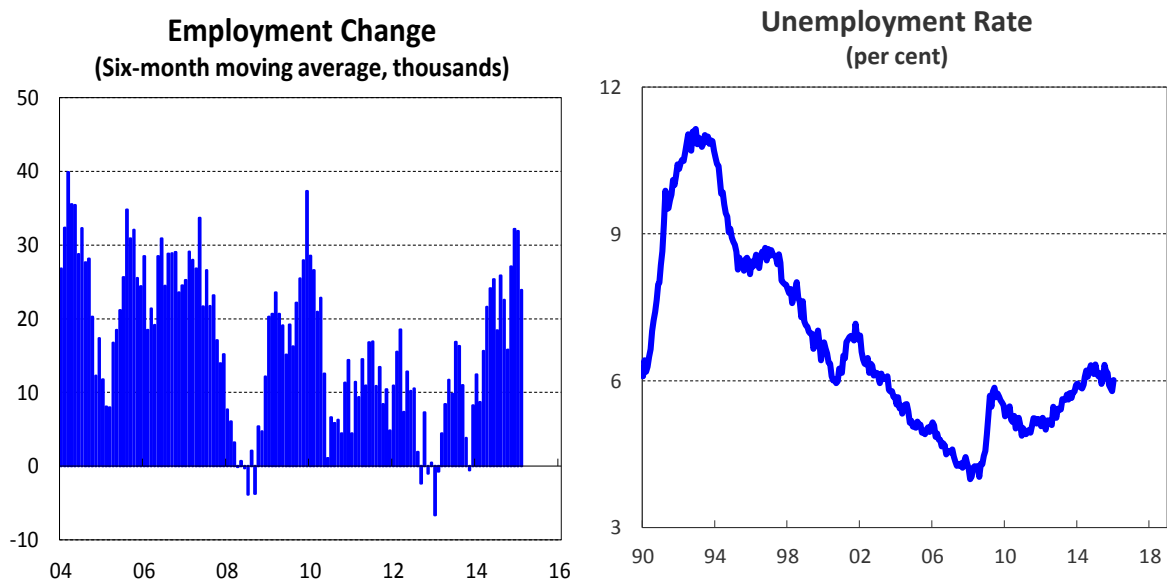




## Labour Force Back Down to Earth

- After some significant gains towards the end of 2015, employment eased in the two months to January. Jobs edged down 7.9k in January, following a 0.8k decline over December. While the decline disappointed markets, on average, job growth has weakened to a more realistic pace given the below-trend pace of economy.
- The decline in jobs in January saw the unemployment rate edge up from 5.8% in December to 6.0% in January, although this remains below the July 2015 peak of 6.3%.
- Job losses have been concentrated in NSW and Victoria for two consecutive months, following strong gains over late 2015.
- Leading indicators continue to point to a relatively healthy labour market in the near-term, and supports the view that the unemployment rate is not about to trend significantly higher. Ongoing above-average conditions in non-mining sectors of the economy should also help prop up demand for employment.
- Nonetheless, today's data will add to the RBA's doubts about the recent underlying strength in the labour market. A larger than expected pullback in the labour market in coming months will raise the chances the RBA will cut rates again, particularly if uncertainty in global financial conditions remains elevated. However, given our expectation of a broadly steady unemployment rate, we retain our view that the RBA will leave rates on hold for all of 2016.



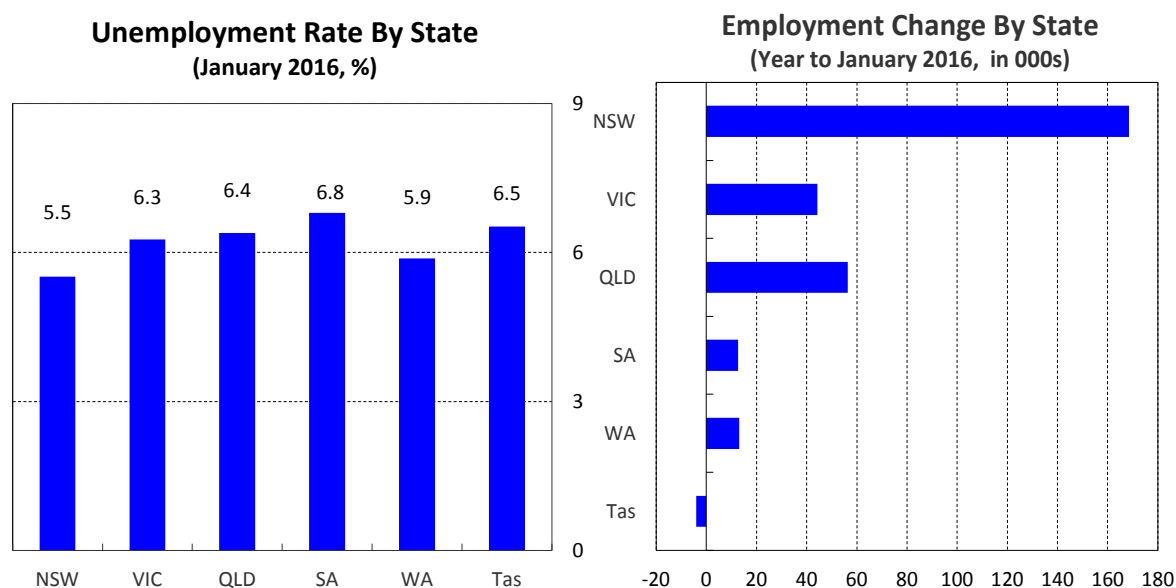
After some significant gains towards the end of 2015, employment eased in the two months to January. Jobs edged down 7.9k in January, following a 0.8k decline over December. Although the

7.9k decline was below expectations, a pullback in jobs sometime this year does not come as a complete surprise.

The weakness over the past two months means that the six-month average pace of growth has fallen to 23.9k from over 30k in the six months to December. This is a more realistic pace of growth given the below-trend pace of economic growth in the economy, although there is scope for further slowing in employment growth.

The decline in jobs in January saw the unemployment rate edge up from 5.8% in December to 6.0% in January, although this remains below the July 2015 peak of 6.3%.

The decline over January was entirely driven by full-time jobs, which fell 40.6k. It partly reverses the extraordinarily strong 103.3k full-time job gain over the three months prior. Meanwhile, part-time jobs rose 32.7k in January.



### State Analysis

The decline in jobs was concentrated in NSW and Victoria. After losses in both States over December, jobs declined 13.4k in NSW and 9.0k in Victoria over January. WA (-0.2k) was the other State to witness a decline, while there were gains in January for Queensland (9.6k), Tasmania (1.3k) and South Australia (0.9k).

As a result of recent weakness, NSW's unemployment rate edged up to 5.5% in January from 5.2%, and Victoria's edged up to 6.3% from 6.0%. Queensland's unemployment rate also rose from 5.9% to 6.4%, but South Australia's (6.8% from 7.1%) and Western Australia's (6.3% to 5.9%) declined.

On an annual basis, there were still solid gains over the year for NSW (168.8k). Annual job growth in Victoria however, has slowed significantly to 34.7k in January, down from a recent peak of 91.7k in November. Annual jobs gains have picked up in Queensland (75.5k), but remain modest in South Australia (8.1k) and Western Australia (7.7k). Tasmania lost 2.1k jobs in the year to January.

### Outlook and Implications for Monetary Policy

Employment growth appears to have softened after the very strong gains over late 2015. Some

pullback is unsurprising given the extent of recent gains, and sits better with the story of an economy growing at a below trend pace. We expect a more moderate pace of job gains averaging 15-18k over the course of this year, and would imply a sizeable step down from the 25k average monthly increases over 2015. However, this pace of growth should see the unemployment rate broadly steady over the near-term, notwithstanding some volatility from month-to-month. This implies that we don't expect that the lift in the unemployment rate in today's data will be the beginning of a renewed upward trend.

Leading indicators continue to point to a relatively healthy labour market in the near-term, and supports the view that the unemployment rate is not about to trend significantly higher. Ongoing above-average conditions in non-mining sectors of the economy should also help prop up demand for employment.

Nonetheless, today's data will add to the RBA's doubts about the underlying strength in the labour market. A larger than expected pullback in the labour market in coming months will raise the chances the RBA will cut rates again, particularly if uncertainty in global financial conditions remains elevated. However, given our expectation of a broadly steady unemployment rate, we retain our view that the RBA will leave rates on hold for all of 2016.

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