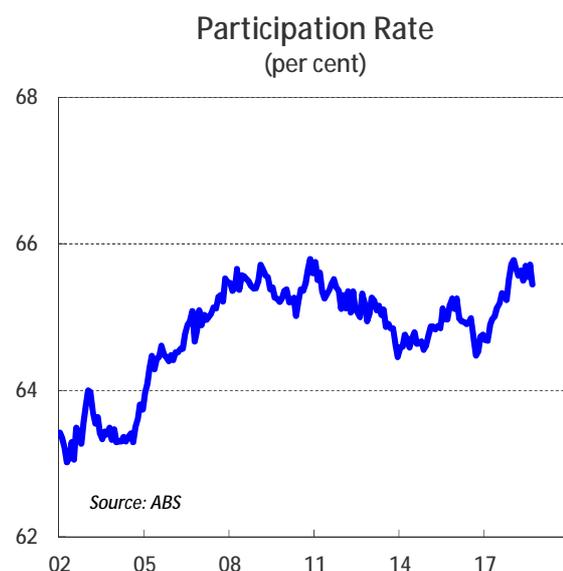
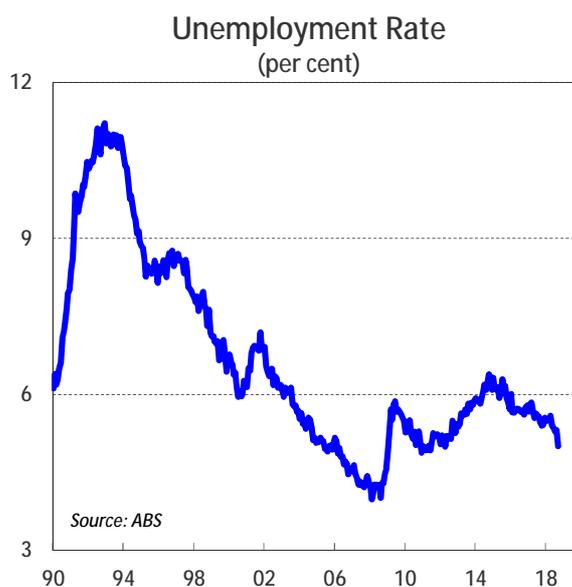


Labour Force Full-Employment – Are We There?

- The unemployment rate fell from 5.3% in August to 5.0% in September, the lowest in six years, underscoring the recent strength of the labour market.
- The RBA's estimate of the unemployment rate at full employment is 5.0%. We, however, think it is too early to declare that the economy is at full employment, as wage growth remains subdued and rates of underutilisation in the labour force remain high. Moreover, labour force data is volatile month to month.
- Employment rose a modest 5.6k in September, following a surge of 44.6k in August. Employment growth has been particularly volatile over the last few months. However, looking through month-to-month volatility, employment gains have averaged a solid 20.0k per month over 2018.
- Unemployment rates edged down in NSW (from 4.6% to 4.4%) and Victoria (from 4.7% to 4.5%), to a ten-year and seven-year low, respectively. These States continue to stand out as being the lowest across States. Unemployment rates also fell in all other States except for Tasmania.
- The near-term outlook continues to be promising given the strong pace of growth in the domestic economy. Other leading indicators, including job ads, job vacancies and reports of above-average business conditions suggest that jobs will continue to grow at a solid pace. These indicators suggest that the unemployment rate could fall further.



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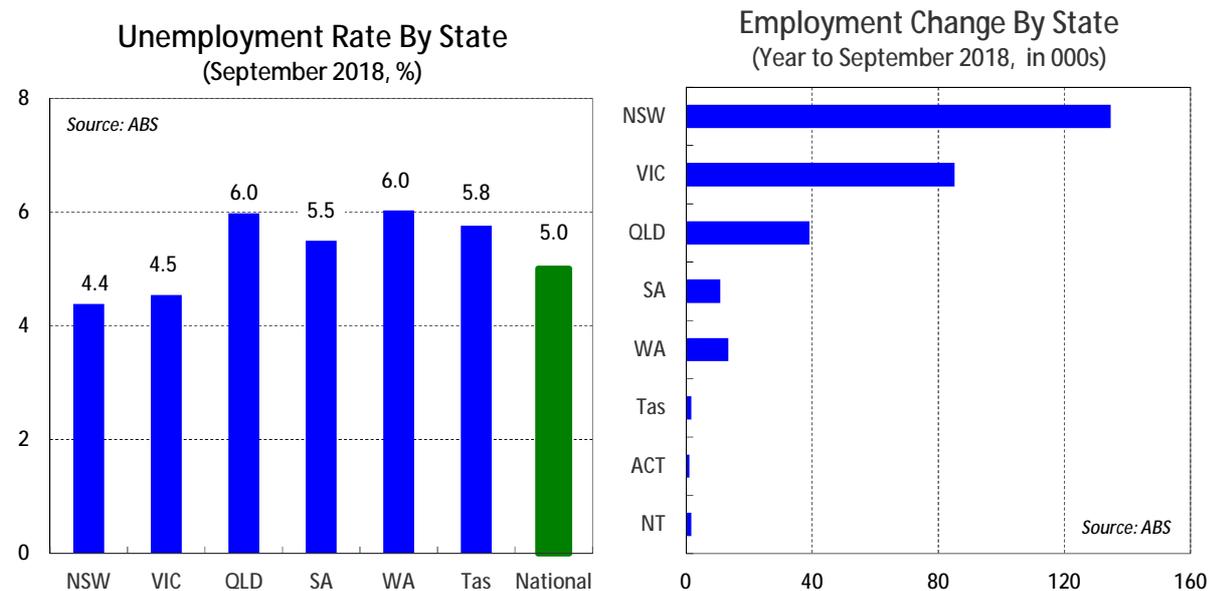
Employment rose a modest 5.6k in September, following a surge of 44.6k in August. Employment growth has been particularly volatile over the last few months. However, looking through month-to-month volatility, employment gains have averaged a solid 20.0k per month over 2018. If sustained, this pace of growth would be enough to put downward pressure on the unemployment rate if the participation rate holds steady.

For the month, the fall in the unemployment rate was helped by the fall in the participation rate from 65.7% in August to 65.4% in September.

Much will be made of the unemployment rate hitting 5.0%, which is the RBA's estimate of the unemployment rate at full employment. We, however, think it is too early to declare that the economy is at full employment as wage growth remains subdued and rates of underutilisation in the labour force remain high. Moreover, labour force data is volatile month to month.

Nonetheless, today's data is clearly showing that the downward trend in the unemployment rate is continuing. Another indicator, the employment-to-population ratio at 62.2% is close to its highest in seven years.

The strength in full-time job creation is also suggesting that there is firm demand for labour. Full-time jobs rose 20.3k in September, while part-time jobs declined 14.7k. Over the past year, nearly 80% of the 280.9k net jobs created were in full-time work. Furthermore, full-time jobs are growing at an annual rate of 2.6%, well above their long-run average.



States and territories

Victoria had the strongest job gain over September, lifting 20.0k. Among other States, there were modest gains in NSW (2.8k) and Western Australia (3.1k). Jobs declined in Queensland (-11.6k) and to a lesser extent in South Australia (-0.2k) and Tasmania (-1.4k).

In annual terms, NSW (134.2k) and Victoria (85.5k) continue to drive the bulk of the employment gains. Queensland (35.6k), Western Australia (15.9k) and South Australia (6.6k) continue to have moderate growth in the year. Tasmania (-0.9k) was the only state with employment down in the year to September.

Unemployment rates edged down in NSW (from 4.6% to 4.4%) and Victoria (from 4.7% to 4.5%),

to a 10-year and seven-year low, respectively. These States continue to stand out as being the lowest in Australia. Unemployment rates also fell in other States, including Queensland (from 6.3% to 6.0%), South Australia (from 5.7% to 5.5%) and Western Australia (from 6.4% to 6.0%). Tasmania was the exception (steady at 5.8%).

On a trend basis, the unemployment rate in the ACT edged down from 3.7% to 3.6%, and in the Northern Territory it rose from 4.0% to 4.1%.

Outlook

The strength of the job market is consistent with an economy currently growing at above potential and above-average conditions in the business sector. Near-term indicators on the labour market such as job vacancies point to ongoing strength in the labour market in the near term, and it suggests that the unemployment rate is at risk of falling further.

The RBA's latest forecasts published in August imply that the unemployment rate has hit 5.0% sooner than it was anticipating. We will be watching for any pickup in wage pressures, but we expect global and structural factors will keep wage growth subdued. The experience from overseas suggests technological change and competition could continue to prevent firms from lifting wages substantially.

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The Detail

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