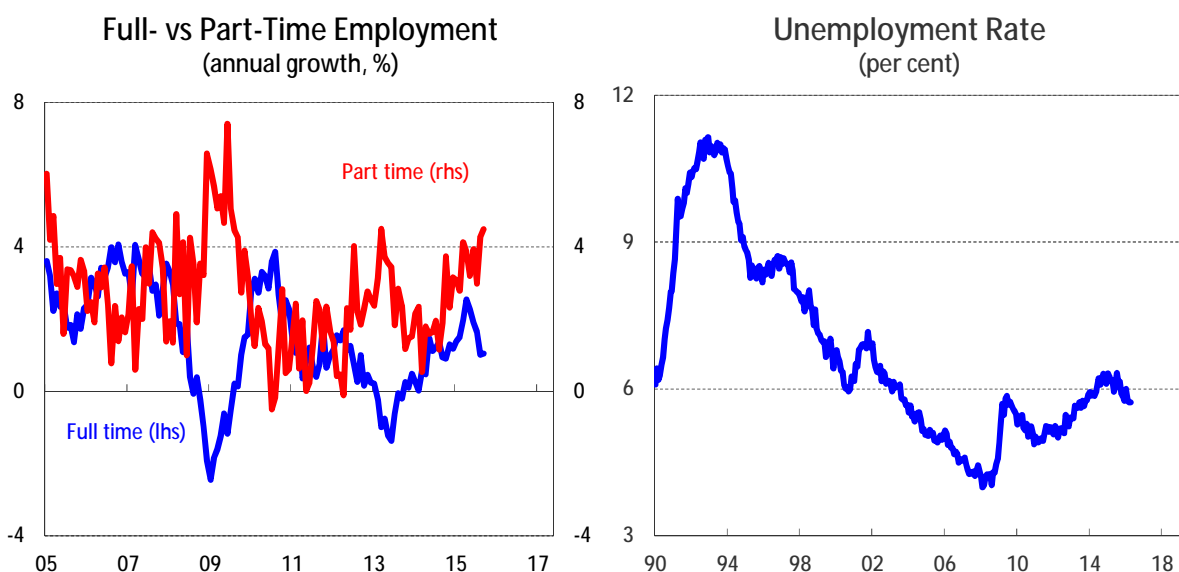


Labour Force Out of the Fast Lane

- Jobs grew by 10.8k in April, in line with our expectations. The pace of job gains has been softened considerably this year after the phenomenal strength in 2015. However, a softening in labour market conditions was largely expected. Some payback for the earlier strength in the labour market was likely. Further, the current pace of growth is more consistent with an economy growing close to trend.
- Some of the detail also signalled softer labour market conditions including a shift to part-time work from full-time and a decline in hours worked.
- The unemployment rate was steady at 5.7%, which was helped by a fall in the participation rate. We expect that the labour market will be strong enough to see the unemployment rate broadly steady over the remainder of the year.
- In terms of annual growth, job growth in NSW and Victoria continues to be the strongest as these State economies are performing relatively well. There were however, moderate job gains in the year for Queensland, South Australia and Western Australia although jobs in Tasmania declined over the year.
- Today's data is consistent with the RBA's view on the labour market and economic activity. However, there remains spare capacity in the labour market and downside risks to the already soft inflation outlook. This was further confirmed by soft wages data yesterday, and supports the view for another rate cut from the RBA.



Jobs grew by 10.8k in April, in line with our expectations. The pace of job gains has been moderate this year – monthly growth has averaged 6.5k so far for 2016. This is well down on the 24.7k average monthly gains over 2015. However, a softening in labour market conditions was largely expected. Some payback for the earlier strength in the labour market was likely. Further, the current pace of growth is more consistent with an economy growing close to trend.

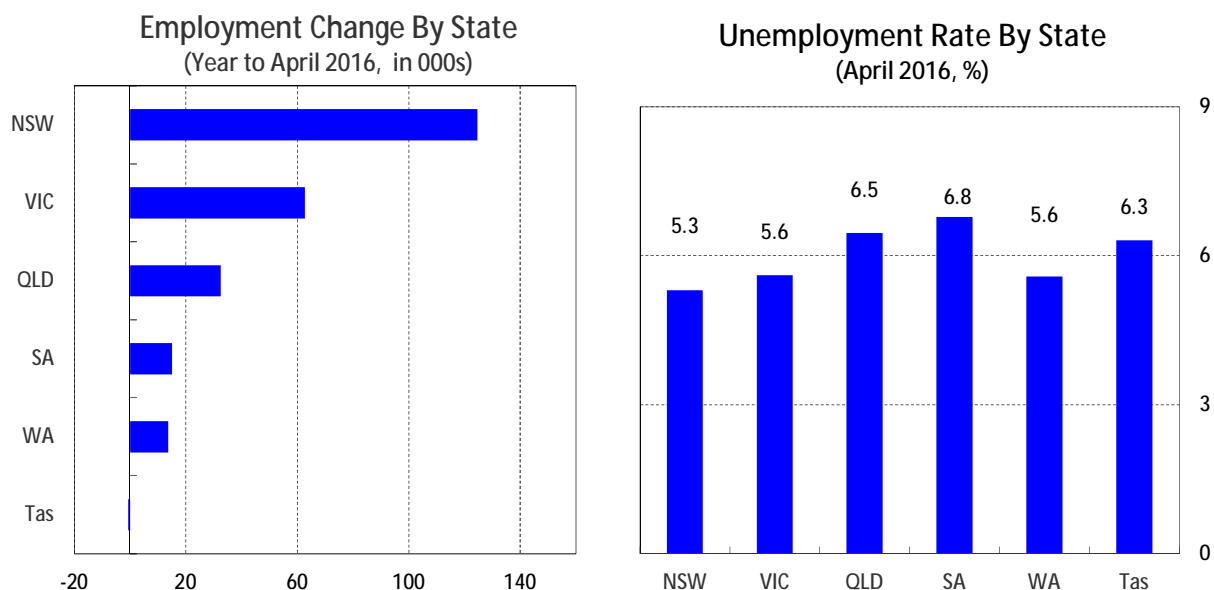
Annual job growth has stabilised around 2.0%, and stood at 2.1% in April, down from a recent peak of 2.9% in November.

The unemployment rate was steady at 5.7%, which was helped by a fall in the participation rate from 64.9% to 64.8%.

Some of the detail also signalled softer labour market conditions.

Job gains were concentrated in part-time work, which added 55.8k jobs over the two months to April. These gains came at the expense of full-time jobs which lost 19.3k over the same period. While many workers choose to work part-time, a trend towards more part-time work could signal softer economic activity or less demand from employers for longer hours.

Another indicator of moderating labour market conditions is hours worked, which declined 1.1% in April and have fallen for three consecutive months. In the year to April, hours worked declined 0.5%.



State Analysis

In April, job growth was strongest in NSW (8.4k), followed by South Australia (5.4k). There were marginal job gains in Western Australia (0.7k), Victoria (0.1k) and Tasmania (0.1k), while jobs declined in Queensland (-5.6k), a third successive month of decline.

In terms of annual growth, job growth in NSW (124.7k) and Victoria (62.7k) continues to be the strongest where these State economies are performing relatively well. There were moderate job gains in the year for Queensland (32.5k), South Australia (15.2k) and Western Australia (13.6k), but jobs in Tasmania declined (0.7k) over the year.

NSW also continued to have the lowest unemployment rate across States, being steady at 5.3% in April. Victoria's edged lower from 5.7% to 5.6%, as did South Australia's (7.1% to 6.8%). Queensland's (6.2% to 6.5%) and Western Australia's (5.5% to 5.6%) unemployment rates both edged higher, but the unemployment rate fell in Tasmania (6.8% to 6.3%).

Outlook and Implications for Monetary Policy

Labour market conditions have eased considerably from the phenomenal strength of last year. The pace of job growth in recent months has been unspectacular, but it is also unsurprising given the current pace of economic activity. That said, we continue to see moderate job gains, and we expect that the labour market will be strong enough to see the unemployment rate broadly steady over the remainder of the year.

Today's data is consistent with the RBA's view that the unemployment rate will "remain around current levels for the next year or so". The RBA's assessment on economic activity and labour market should therefore be little changed by today's data.

However, an unemployment rate still above levels which would be considered as 'full-employment' combined with slowing wage growth (in data released yesterday), confirms that there is still a fair amount of spare capacity within the labour market. Weak growth in wages highlights the risk that inflation will remain below the RBA's 2 to 3 per cent target for some time. These downside risks to inflation supports the view the RBA will cut rates again, and we continue to pencil in August as the timing of such a move.

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The Detail

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