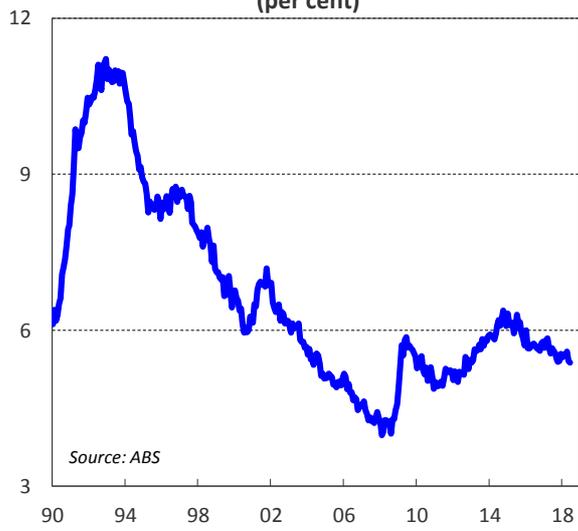


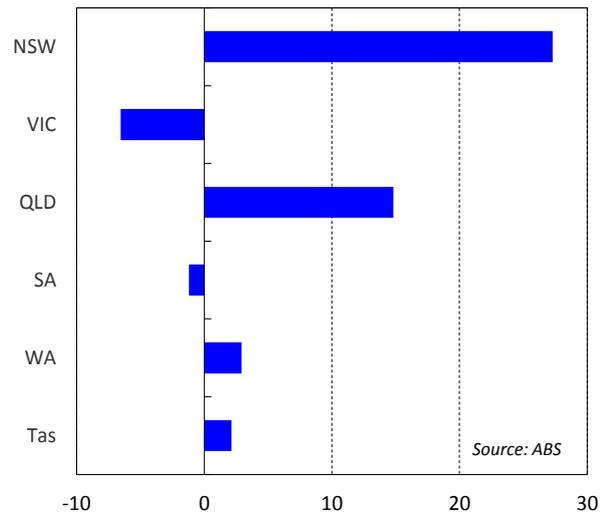
Labour Force NSW Steals the Show!

- **Jobs jumped 50.9k in June, well above the range of consensus forecasts of 5.0-30.0k. It is also the biggest jump in jobs in seven months and driven by a strong rise of 41.2k in full-time jobs, which was also the largest gain in seven months.**
- **The unemployment rate stayed steady at 5.4%, but that was because more people joined the labour force, preventing a fall in the jobless rate. The participation rate ticked up to 65.7% in June, from 65.6% in May.**
- **It is an impressive set of numbers, except that when we look at the State-wide detail, much of the rise came from sharp job gains in NSW. Indeed, NSW accounted for over half of all jobs created in June, reflecting strong activity in the NSW economy.**
- **Victoria has been a standout in recent years, but some of the shine is wearing off. Jobs fell by 6.6k in June. Moreover, Victoria's jobs growth has taken a step down in 2018. In contrast, NSW's job market has retained much of its momentum.**
- **Aggregate average monthly hours worked rose by 0.6% in June. However, the annual pace was subdued at 2.0% in the month. The share of firms reporting skilled labour shortages has been rising. But the close historical relationship between this share and wages growth might no longer hold as tight.**
- **Therefore, wages growth might continue to recover in Australia as the labour market continues to tighten, but it might remain gradual in nature. Part of the explanation might lie with the rise of "superstar" firms.**

Unemployment Rate
(per cent)



Employment Change By State
(June 2018, in 000s)



Employment jumped 50.9k in June, well above consensus expectations for a rise of only 16.5k and our own forecast of 20k. It was also outside of the range of consensus forecasts, which was 5.0-30.0k. It is also the biggest jump in jobs in seven months and driven by a strong rise of 41.2k in full-time jobs, which was also the largest gain in seven months. Part-time jobs rose by 9.7k, however, the annual rate of growth in part-time work was 4.7% in June, the fastest pace in nearly two years (since September 2016). Full-time jobs grew at an annual rate of 1.9%.

The unemployment rate stayed steady at 5.4%, but that was because more people joined the labour force, preventing a fall in the jobless rate. The participation rate ticked up to a four-month high of 65.7% in June, from 65.6% in May. A strengthening jobs market generally encourages more people back into the workforce and this is evident in the trend in the participation rate.

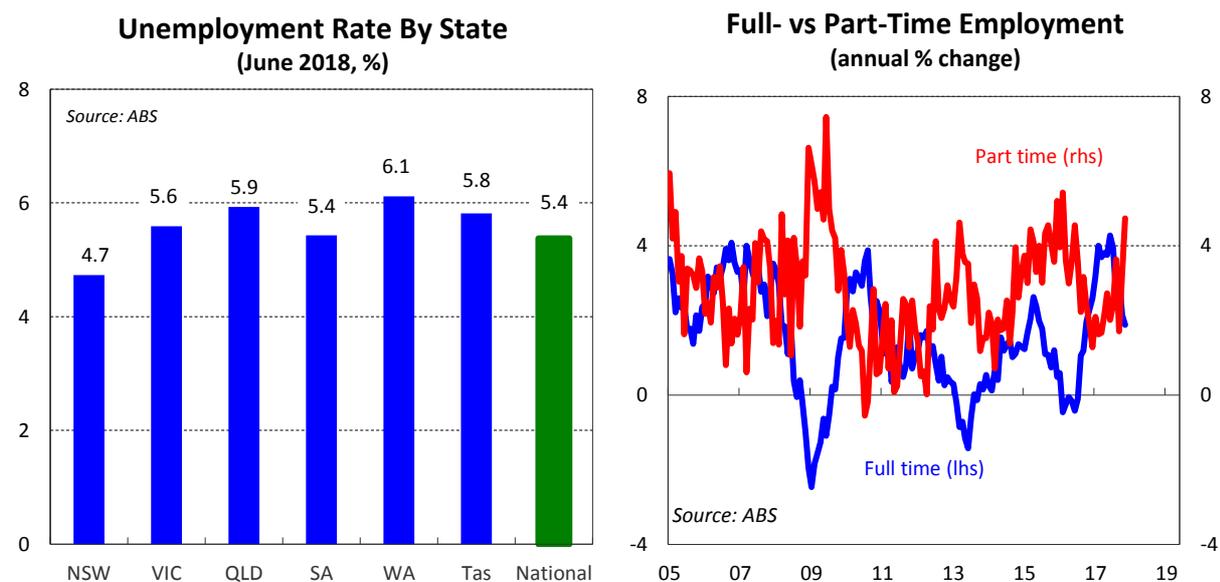
States and territories

It is an impressive set of numbers, except that when we look at the State-wide detail, much of the rise came from sharp job gains in NSW. Indeed, NSW accounted for over half of all jobs created in June, reflecting the strong economic activity in NSW¹. A record spend on infrastructure is underpinning activity in NSW.

Victoria has been a standout in recent years, but some of the shine is wearing off. Jobs fell by 6.6k in June. Victoria's jobs growth has taken a step down in 2018. Jobs have risen on average by 3.6k per month in 2018 so far, which is around half of the pace of last year (of 7.4k). In contrast, NSW has retained much of its momentum in 2018 with the average monthly rise in employment at 10.4k compared with 11.8k in 2017.

Across the other States in June, jobs rose by 14.8k in Queensland, after a subdued four-month run. Jobs also lifted in WA and Tasmania of 2.9k and 2.1k, respectively. South Australia recorded a net job loss of 1.2k in the month.

The change in fortunes in Victoria is also evident in the unemployment rate. The Victorian unemployment rate rose from 5.1% in May to 5.6% in June. In NSW, the unemployment rate dropped 0.2 percentage points to 4.7% in June. The unemployment rate has not been lower in NSW for seven months.



¹ Note that the sum (or total) of the employment change across the States does not equal the headline national employment change.

All other States recorded falls in the unemployment rate; in WA to 6.1%, in QLD to 5.9%, in Tasmania to 5.8%, and in SA to 5.4%. A lower rate has not been recorded in QLD for nine months and South Australia's unemployment rate is the lowest since November 2012. South Australian economic data has improved over the past six months and this recovery is flowing through to the labour market.

In trend terms (seasonally-adjusted data is not provided for the territories), the ACT and NT recorded job gains of 0.5k and 0.7k, respectively. The unemployment rates in these territories stayed steady at 4.1% and 5.4%, respectively.

Outlook

Leading indicators of jobs growth suggest firm employment gains can continue over the rest of this year. It suggests some cyclical wage pressures should build in the economy.

The wages outlook has a critical bearing on the inflation outlook, which in turn will determine how long the Reserve Bank (RBA) waits takes to raise the cash rate. Earlier this week, the RBA released minutes for its July board meeting and confirmed that it expects the next move in the cash rate to be up (although not in the near term). The underlying strength in jobs growth suggests cyclically wages growth should move higher.

Today's data gives us information of labour utilisation. If existing workers are working more hours, firms could need to raise wages to attract workers. Aggregate average monthly hours worked rose by 0.6% in June. However, the annual pace was subdued at 2.0%. The share of firms reporting skilled labour shortages in business surveys has been rising, but the close historical relationship between this share and wages growth might no longer hold as tight (as in the US).

Therefore, while strong jobs growth might lead to wages growth recovering in Australia, it might well stay gradual in nature. Part of the explanation might lie with the uneven take-up of technology in the economy, resulting in "superstar" firms with high profits, but a low share of labour in value added.

High-productivity firms are mainly using their higher productivity levels and growth rates to increase profit mark-ups and/or reduce output prices rather than raising the wages of their workforce. But lower productivity "laggard" firms feel under increasing competitive pressure; many of these firms are responding by having a strong focus on containing costs, including wages.

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The Detail

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