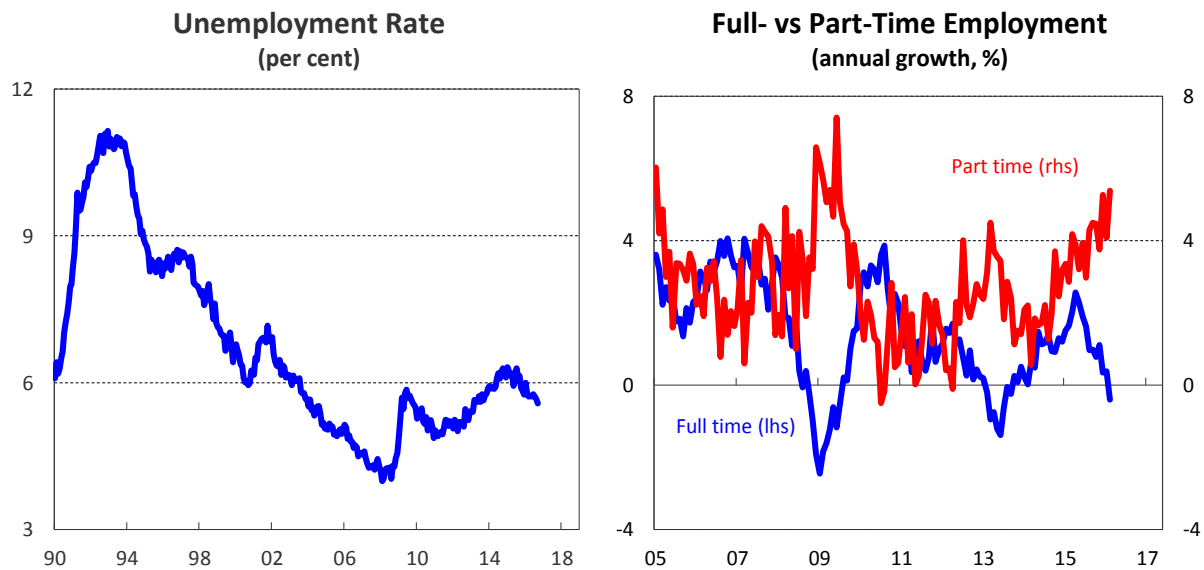




Labour Force Devil is in the Detail

- It was a disappointing set of data in today's labour force statistics. Jobs contracted 9.8k in September following an 8.6k decline in August. The contraction over the two months was the largest back-to-back decline in over two years.
- The unemployment rate was down from a revised 5.7% in August to 5.6% in September, which was the lowest in three years. However, the amount of labour market slack is likely greater than the unemployment rate suggests.
- Some of the detail was even more discouraging – full-time jobs declined 53.0k in September. Over the year, full-time jobs were down 32.9k, which was the first annual decline in nearly 2½ years.
- Part-time jobs gained 43.2k in September. However, a number of part-time workers are likely ready and available to work more hours given the underemployment rate stood at a record high in August. This points to further spare capacity in the labour market.
- In September, the State breakdown saw job growth in only NSW and Tasmania. Jobs declined in Victoria, Western Australia and Queensland. Employment was flat in South Australia.
- Today's data suggests that there might be more underlying weakness in the labour market than previously thought. Softer labour market conditions reduce the prospect that we will see a pickup in wages and inflation over the medium-term. If the current trend continues, the case for a reduction to the cash rate would continue to strengthen.



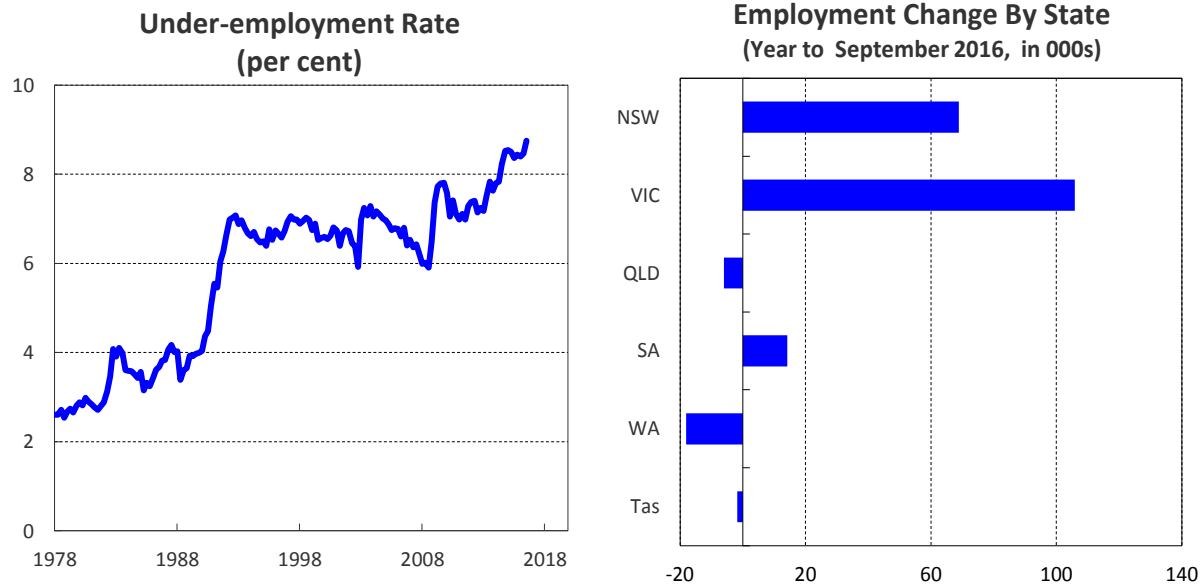
It was a disappointing set of data in today's labour force statistics. Jobs contracted 9.8k in September following an 8.6k decline in August. The 18.4k contraction over the two months was the largest back-to-back decline in over two years.

Some of the detail was even more discouraging – full-time jobs declined 53.0k in September. Over the year, full-time jobs were down 32.9k, which was the first annual decline in nearly 2½ years. The loss in full-time jobs further reinforces the notion that excess capacity remains in the labour market.

Part-time jobs gained 43.2k in September. However, given the underemployment rate stood at a record high in August, a number of part-time workers are ready and available to work more hours, and point to further spare capacity in the labour market. Part-time jobs grew at an annual rate of 5.4% in September the fastest since February 2010, and have continued to significantly outpace full-time jobs. By comparison, full-time jobs contracted at an annual rate of 0.4%.

The unemployment rate was down from a revised 5.7% in August to 5.6% in September, which was the lowest in three years. That said, this was helped by a fall in the participation rate which fell from 64.7% to 64.5%.

Looking through monthly volatility, the pace of employment growth has slowed considerably since late 2015. The annual pace of job growth stood at 1.4% in September, the slowest in 1½ years and well down from a recent peak of 3.0% in November.



State Analysis

In September, the State breakdown saw job growth in only NSW (6.7k) and Tasmania (2.3k). Jobs declined in Victoria (-11.7k), Western Australia (-7.6k) and Queensland (-4.1k). Employment was flat in South Australia.

On an annual basis, the strongest job growth continues to be from the two largest States, although job growth has slowed significantly in NSW. Annual job gains in NSW slowed from a peak of 173.9k in December 2015, to 68.9k in September. Meanwhile, annual job growth in Victoria (105.8k) is exceeding growth in NSW. South Australia was the other State (14.2k) which saw gains in the year, however, there were declines in Western Australia (-18.1k), Queensland (-6.0k) and Tasmania (-1.8k).

The lowest unemployment rate across States was in NSW, which edged down to 4.9% in September, the lowest in four years. Victoria's unemployment rate edged higher from 5.6% to 5.7%, but sits second behind NSW. Unemployment rates in Queensland (6.0%), South Australia (6.7%), and Western Australia (6.2%) all edged lower in September, despite poor job growth in the month.

Outlook and Implications for Monetary Policy

Employment growth has slowed considerably over the past year or so, even though the unemployment rate has declined. Moreover, the contraction in full-time work and high underemployment suggests there remains spare capacity in the labour market.

The RBA has pointed out that the unemployment rate may be underestimating the how much slack there is in the labour market. The RBA has also stated that the labour market is one of the key uncertainties to the outlook, and will therefore have a big influence on the rate cut debate.

While we continue to expect that the unemployment rate will remain broadly steady this year, today's data suggests that there might be more underlying weakness in the labour market than previously thought. Softer labour market conditions reduce the prospect that we will see a pickup in wages and inflation over the medium-term. If the current trend continues, the case for a

reduction to the cash rate would continue to strengthen.

The decision for a November RBA rate cut will hinge significantly on CPI data due on 26th October. A weak inflation outcome, along with today's disappointing labour force data, would bolster the case for a 25 basis point cut in November.

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The Detail

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