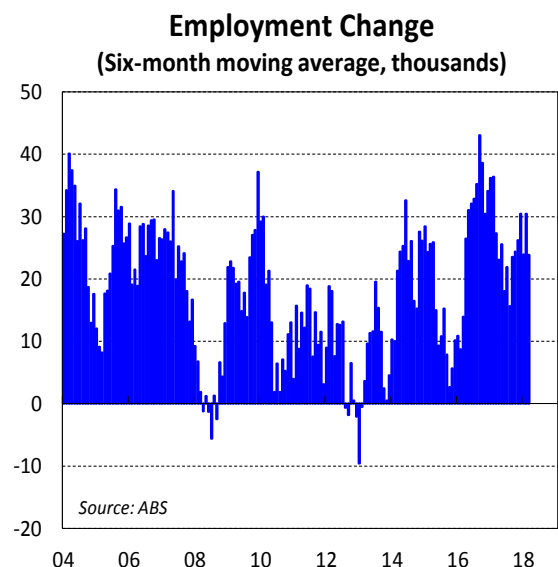
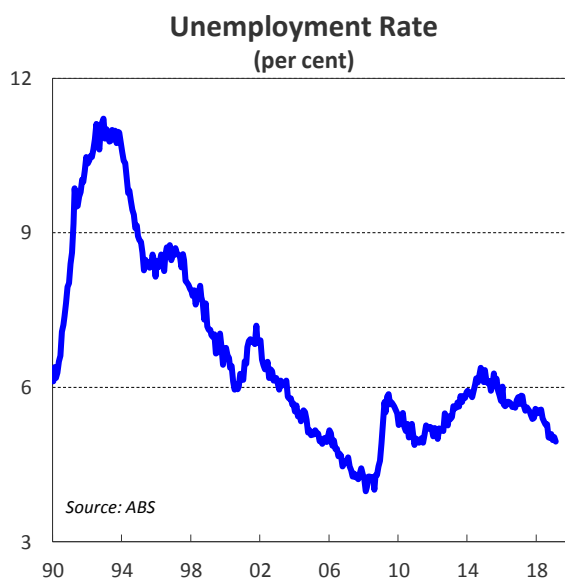


Labour Force Unemployment Rate Below 5%

- The headline-grabbing part of today's labour force release was a fall in the unemployment rate from 5.0% in January to 4.9% in February, the lowest in 7½ years.
- Other aspects of the employment report suggested a less rosy picture of the labour market. Jobs grew a softer 4.6k in February, the weakest increase in seven months. The fall in the unemployment rate was also helped by a drop in workforce participation.
- Is this the beginning of a more long-lasting trend of weaker job growth? It is too early to tell from one month's data and the weaker gain in employment needs to be taken into context of very strong gains in previous months.
- Some leading indicators, such as job vacancies, continue to point to a healthy pace of job growth. Nonetheless, the loss of momentum in the domestic economy particularly over the second half of 2018, the downside risks from the housing downturn and the consumer sector suggest a soft outlook for the labour market.
- While the national unemployment rate fell, there were increases in unemployment rates for NSW and Victoria. Unemployment rates for all other States fell.
- The RBA has described the conflicting signals between the strength in the labour market and the weak economy as being "tensions". Today's data does not provide the resolution for these tensions the RBA is looking for. Nonetheless, we continue to expect that the weaker economy will eventually translate into weakness in the labour market and convince the RBA to cut official interest rates later this year.



The headline-grabbing part of today's labour force release was a fall in the unemployment rate from 5.0% in January to 4.9% in February, the lowest in 7½ years.

The move in the unemployment rate below 5% is all the more significant as the RBA has previously flagged that the unemployment rate at full employment is around 5.0%.

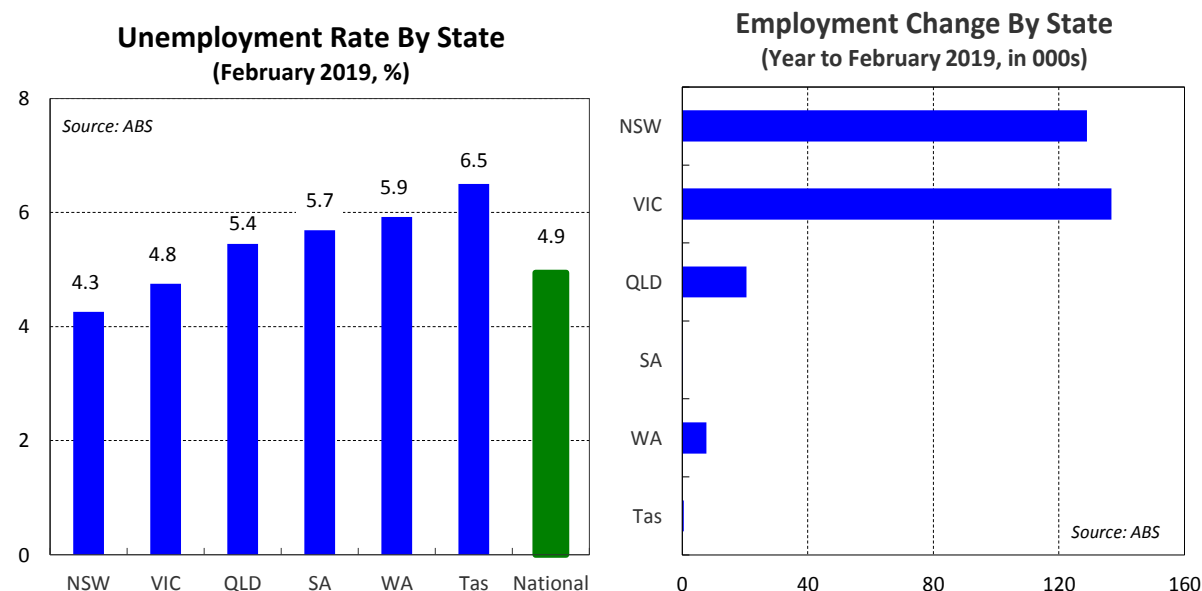
Despite the fall, other aspects of the employment report suggested a less rosy picture of the labour market. Jobs grew a softer 4.6k in February, the weakest increase in seven months. Additionally, job gains were entirely in the part-time category, lifting 11.9k. Meanwhile, full-time jobs fell 7.3k.

The fall in the unemployment rate was also helped by a drop in the participation rate (ie. the proportion of people who are in work or looking for work) from 65.7% in January to 65.6% in February.

We ask ourselves the question - is this the beginning of a more long-lasting trend of weaker job growth?

It is too early to tell from one month's data, particularly given labour force data can be volatile month-to-month. The weaker gain in employment needs to be taken into context of very strong gains in previous months. February's gain followed a 38.3k increase in January, a 20.6k increase in December and a 40.4k gain in November. Average monthly employment gains over the past six months remained solid at 23.8k, although this was down from 30.4k previously.

Some leading indicators, such as job vacancies, continue to point to a healthy pace of job growth. Nonetheless, the loss of momentum in the domestic economy particularly over the second half of 2018, the downside risks from the housing downturn and the consumer sector suggest a soft outlook for the labour market.



States and Territories

All States, except for NSW, had jobs increase in February. NSW jobs fell 5.8k, although this followed a surge of 49.6k in January. There was modest growth in Victoria (5.7k), Queensland (6.4k), South Australia (3.8k), Western Australia (2.8k) and Tasmania (1.9k).

NSW (128.9k) and Victoria (136.7k) continued to have solid job gains in the year, although Victoria is now back on top. There was a modest gain in Queensland (20.4k) and Western Australia (7.7k). Annual job growth was weak in South Australia (-0.1k) which saw its first annual decline in nearly

two years. Jobs in Tasmania were up just 0.4k in the year.

While the national unemployment rate fell, there were increases in the unemployment rate in NSW (up from 3.9% to 4.3%) and Victoria (up from 4.6% to 4.8%). Unemployment rates for all other States fell.

Outlook and Implications

The RBA has described the conflicting signals between the strength in the labour market and the weak economy as being “tensions”.

The RBA is waiting for news which will resolve these tensions.

Today’s data does not provide that resolution the RBA is looking for given the unemployment rate has fallen, and we have not yet seen a convincing sign of a moderation in employment growth.

However, a range of signals point to downside risks to the growth outlook. A weak outlook for consumer spending reflecting the impact of falling house prices and softer construction activity continue to suggest that job growth will weaken. We continue to expect that the weaker economy will eventually translate into weakness in the labour market and convince the RBA to cut official interest rates later this year.

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