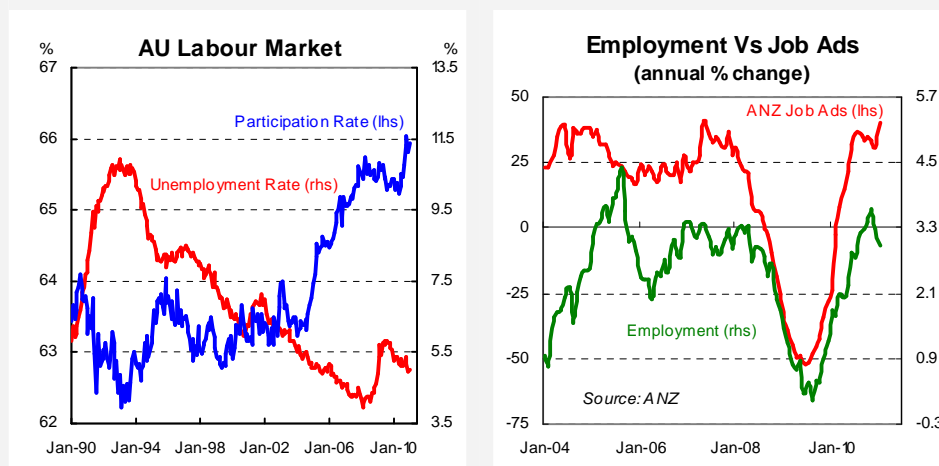


DATA SNAPSHOT

Labour Market

Thursday, 10th February 2011

- The employment market was strong in the wake of adverse weather: 24k jobs were created in January on top of the 364k created over 2010. The outcome was better than market expectations for a 10k increase.
- Much of the job creation in January was in part-time positions (+32k) while full-time employment fell (-8k). It has not always been the case, however, as over 2010 full time jobs rose 300k while part-time jobs were only 64k higher.
- The number of people entering the labour market rose (participation rate up to 65.9% from 65.8%). The improvement in jobs helped hold the unemployment rate steady at 5.0%.



The ABS today stressed the reduced quality in the January labour market numbers because of difficulties obtaining estimates in flood-affected QLD. While the ABS has taken this into account in completing their survey, care should be taken in reading too much into the numbers, especially for QLD.

Overall, the underlying national employment trend remains positive and this is what leading indicators are suggesting as well. ANZ job ads, for example, continued their run of strong gains through to January this year and are a hefty 40.5% higher from a year ago.

There were several notable flood-related impacts evident in today's estimates. One was a large drop in national hours worked of 12.7 million hours in January, which is the largest fall since May 2009. Another was a large decline in QLD's participation rate, or the number of people entering the labour force, to 67.8% from 68.3%. Employment also fell, by 5.1k. There are question marks, however, surrounding the actual magnitude of the falls in employment and the participation rate given difficulties obtaining estimates in QLD. Also, the large drop in QLD's unemployment rate, from 6.0% to 5.6%, on the surface would appear quite surprising. But much of this anomaly could be attributed to a significantly weaker number of people looking for jobs in this month.

The QLD numbers are likely to be volatile in the short-term and so the estimates should be taken with a grain of salt. Nonetheless, the underlying trend for QLD has been robust (in trend terms, employment has been improving since mid 2009). The outlook also remains positive and much of this has to do with QLD being a mining state where 60% of Australia's coking coal exports are sourced along with a sharp rise in coal prices. Much of Australia's investment boom is set to take place in this State so the path is being paved for additional employment opportunities. Indeed, over the last decade, as immigration and inter-state

migration into the State rose and coal export prices increased QLD outperformed the other States in terms of the number of jobs created. QLD's employment market will also benefit this year from flood rebuilding and repair efforts.

Elsewhere, the States and Territories that registered employment gains were VIC (with the most, 17,800 jobs created), WA (+3,200), TAS (500), ACT (500) and NSW (200). SA (-400) and NT (-300) recorded marginal losses. Over the last year, the State with the largest increase in jobs was NSW (+129k), followed by VIC (+88.1k), QLD (+66.5k), WA (+37k). SA (-3.3k) was the only State to record a decrease in employment.

National job prospects for this year remain positive as indicated by the non-stop gains in job ads over the last 12 months. So Australia's unemployment rate is likely to fall further towards 4.5%, which is in turn suggesting further upside pressure to wages. Inflationary pressures are also rising due to higher national incomes and a greater propensity to spend via rising export prices. So the case is building for the RBA to lift interest rates further. Our forecast is for another rate hike by mid this year.

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