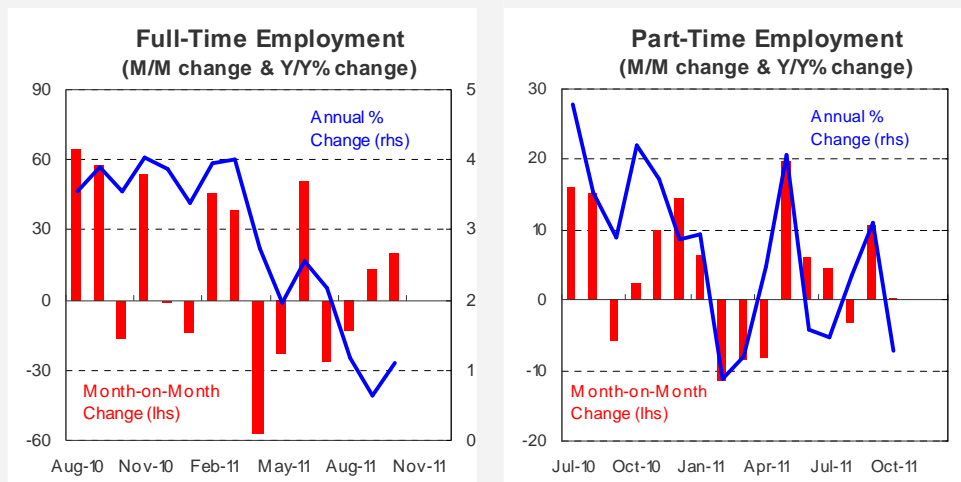


DATA SNAPSHOT

Labour Force – Playing Catch Up

Thursday, 10 November 2011

- Employment rose 10.1k in October, in line with our forecast and consensus expectations. The unemployment rate edged down from 5.3% to 5.2% in October.
- The job market has gained 32.6k jobs over the two months to October, the strongest back-to-back gain in seven months. The job gains over September and October reflect some catch up after unexpected weakness earlier in the year. The overall pace of growth however remains soft. Annual job growth is only 0.9% the weakest annual pace since late 2009.
- The gain October was entirely owing to 20.0k net rise in full-time jobs, which was offset by a 9.9k fall in part-time jobs. Net full-time jobs created have now taken over part-time jobs, reversing the tendency to hire part-time workers earlier in the year.
- Business confidence has improved recently but ongoing turbulence in financial markets and uncertainty about the global outlook could weigh on hiring intentions.
- Despite some catch up in job gains, the labour market overall remains soft. Further, the RBA's predominant focus is on developments in Europe, which are posing a significant downside risks. Our core view is for the RBA to cut rates by another 25 bps in February, but an escalation of concerns in the Euro zone over the past few days, particularly about Italy, has increased the possibility the RBA could move again before year end.



Employment rose 10.1k in October, in line with our forecast and consensus expectations. The unemployment rate edged down from 5.3% to 5.2% in October, although September's unemployment rate was previously reported as 5.2%.

The job market has gained 32.6k jobs over the two months to October, the strongest back-to-back gain in seven months and a marked improvement from the job gains earlier this year. Furthermore, much of the gain in September and October has been in the more stable full-time job category. The outcome compares favourably with job growth between January and August 2011 when average monthly job gains were only 2.3k.

The overall pace of growth however remains soft. Reflecting weaker growth earlier in the year, annual job growth is only 0.9% the weakest annual pace since November 2009.

The job gains over the last two months therefore reflect some catch up after unexpected weakness earlier in the year. We had previously flagged that the slowdown in jobs growth

earlier in the year had been greater than anticipated, and that leading indicators of jobs, such as job advertisements suggested that the jobs slowdown showing up in the official data might have been overdone.

That said, we aren't expecting robust job gains over the next few months, and are more likely to see a moderate pace of job growth, averaging around 10-15k a month. There remains a risk the unemployment rate will edge up marginally. Business confidence has improved recently in response to the 25bps rate cut from the Reserve Bank of Australia (RBA), delivered last week, but ongoing turbulence in financial markets and uncertainty about the global outlook could weigh on hiring intentions.

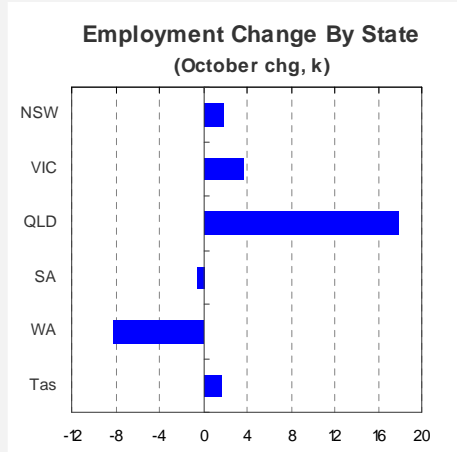
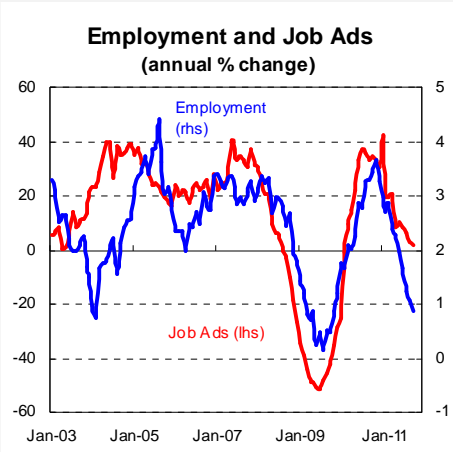
The gain October was entirely owing to 20.0k net rise in full-time jobs, which was offset by a 9.9k fall in part-time jobs. Full-time jobs this year has now taken over part-time jobs, reversing the tendency to hire part-time workers earlier in the year. Over 2011 so far, net full-time jobs created have been 35.2k, while the part-time jobs have risen by 16.2k.

Aggregate hours worked rose by 0.6% in October, and has risen in five out of the last six months. On an annual basis, it rose by 1.6%, up from 1.3% previously, suggesting that demand for labour remains healthy.

Looking across the States, job gains in October were driven by QLD, which recorded a 17.9k job gain, the biggest monthly increase in six months, and likely reflects a pick up in economic activity.

Jobs growth in other States was much softer. Jobs growth in NSW remains very subdued and rose by just 1.9k. The annual pace of jobs in NSW slowed to 0.4%, the weakest annual pace in over two years.

Other States to record small gains were Victoria (3.7k), and Tasmania. (1.8k). Meanwhile, WA lost the most jobs in October, falling 8.2k, but still has the lowest unemployment rate in the country at 4.2%. SA also had a net job loss of 0.6k.



Outlook for the Cash Rate:

Despite some catch up in job gains over the past few months, the labour market overall remains soft. Further, the RBA's predominant focus is on developments in Europe, and is posing a significant downside risk. Our core view is for the RBA to cut rates by another 25 bps in February. However, an escalation of concerns in the Euro zone over the past few days, particularly about Italy, has increased the possibility the RBA could move earlier. We could therefore not rule out a rate cut in December, particularly if current fears about Italy are not alleviated.

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