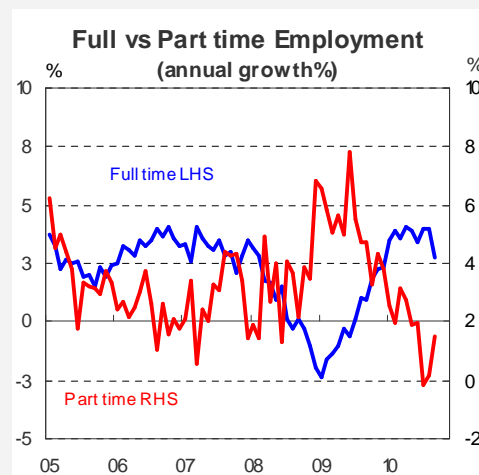
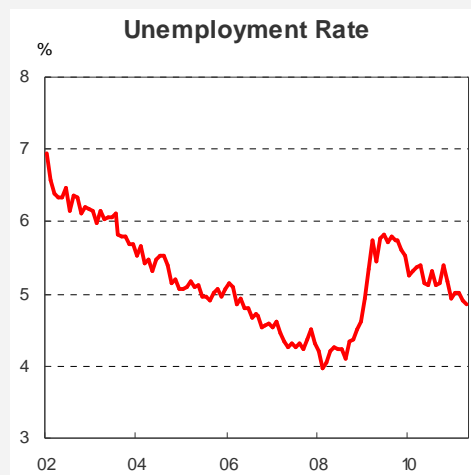


DATA SNAPSHOT

Labour Force: Unfazed by jobs slip

Thursday, 12 May 2011

- Employment decreased by a surprising 22.1k in April as full-time jobs plunged 49.1k. This was partially offset by a 26.9k increase in part-time jobs. The unemployment rate remained steady at 4.9%.
- The decline in employment, likely reflects some pullback after experiencing very strong growth late last year.
- Although today's data may signify that the job market is beginning to soften, employment growth will likely stay solid. We do not believe the sharp decline in jobs will adversely affect the RBA's decision. The low unemployment rate still points to a tight labour market and we continue to expect a rate hike in the coming months.



Employment decreased by a surprising 22.1k in April as full-time jobs plunged 49.1k. This was partially offset by a 26.9k increase in part-time jobs. While today's drop was much worse than consensus expectations, some pullback in employment growth was likely to eventuate, given the robust pace seen since late last year. From July to December 2010, annual employment growth averaged at 3.3%. Over the year to April, jobs growth has eased but remains solid at 2.4%. Further, the sharp decline follows a 43.3k surge in jobs in March, which has been revised upwards from 37.8k.

Despite the decline in jobs, the unemployment rate remained steady at 4.9% as the participation rate edge lower to 65.6% from 65.8% in March. Currently, the unemployment rate is still at or near the 'natural' rate of unemployment, indicating the labour market remains tight and the threat of wage inflation high.

Driving the employment decline in April was a 49.1k drop in full-time jobs, the biggest fall in 26 months. Greater attention is paid to the full-time jobs component as it is a better and more stable indicator of job market health. This series were was incredibly strong over Q1, adding 71k jobs, thus some retreat was likely to eventuate.

Part-time jobs on the other hand jumped by 26.9k in April, and grew by 1.5% over the year, up from 0.2%. Jobs in this component may be picking up after being very weak in previous months.

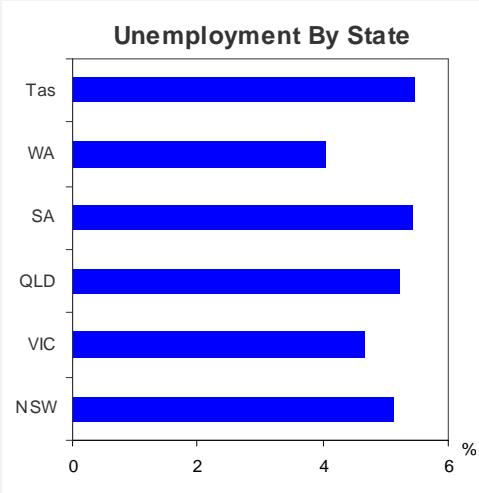
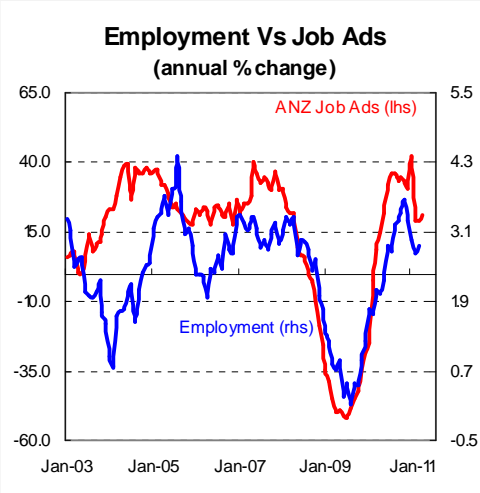
States:

A breakdown of the states shows that job losses were confined to NSW and Victoria. NSW shed a massive 44k and annual employment growth slowed from 3.8% to 2.1%. In Victoria, jobs were 12.2k lower and employment growth eased from 3.5% to 2.9% over the year to April. It appears that previous RBA rate hikes may be weighing on these state economies, although jobs growth is easing from a very strong pace. In Queensland, employment growth has resumed after the floods and cyclones rising by 18k in April following a 13.1k rise in March. In January and February, jobs declined by almost 30k. The labour market continues to tighten in WA with their unemployment rate edging 0.1pp lower to 4.1%, the lowest in 10 months.

Outlook for Jobs and Cash Rate:

Although today's data may signify that the job market is beginning to soften, employment growth will likely stay robust. Forward looking indicators of employment such as job advertisements point to jobs growth remaining solid, albeit at a weaker pace than last year.

Despite the strong reaction in financial markets to today's data, we do not believe the sharp decline in jobs will adversely affect the RBA's decision. The central bank has already recognised employment growth will moderate. The low unemployment rate still points to a tight labour market, and the central bank has flagged rising unit labour costs as an upside risk. The RBA appears quite concerned about the current inflation outlook with underlying inflation expected to exceed their 2-3% target in 2013. We continue to expect a rate hike in the coming months and the RBA could move as soon as June.



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