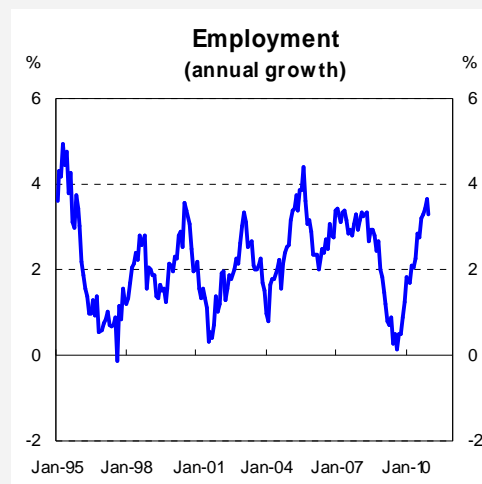
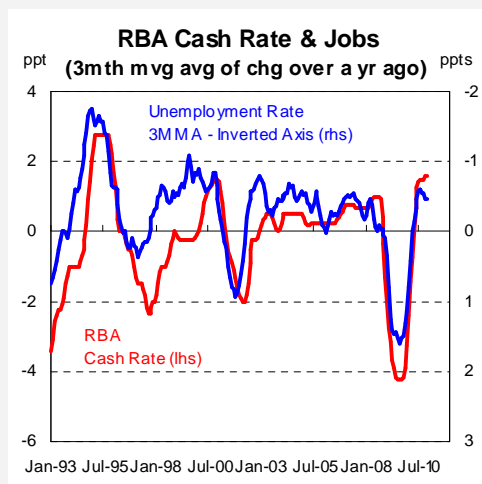


DATA SNAPSHOT

Labour Market

Thursday, 13 January 2011

- Employment rose just 2,300 in December, surprising on the soft side of the ledger, but it follows a string of strong outcomes over much of 2010.
- The unemployment dropped to 5%, from 5.2%; it is the lowest rate since January 2009 when it was also 5.0%.
- Over the next few months, we expect the Reserve Bank to stay on the sidelines. But an unemployment rate as low as 5% means that the Reserve Bank can't keep its fingers off the trigger for a long time.
- In the near term, the floods may be a drag on employment, but once rebuilding and repair works are underway, labour demand should strengthen and add to wage worries.



Employment rose just 2,300 in December, surprising on soft side of the ledger, but it follows a string of strong outcomes over much of 2010. In 2010, 364,000 new jobs were added, significantly up from 135,000 in 2009. The soft outcome in December may reflect the impact of the rate rise late last year and the strength of the Aussie dollar that is hurting some local industries.

The unemployment dropped to 5%, from 5.2%; it is the lowest rate since January 2009 when it was also 5.0%. The reason the unemployment rate fell was largely due to a fall in the number of people in the workforce and looking for work, which is reflected in the participation rate. The participation rate fell from a record rate of 66.0% in November to 65.8% in December.

Both part-time and full-time employment growth was soft in the month but the underlying trend stayed strong. Full-time employment lifted by 1,700 in December, but after a huge 55,400 jump in November. Annual full-time employment growth remains extremely robust at just under 4%. Part-time employment rose by just 600 in December, following a small increase in November also.

Over the next few months, we expect the Reserve Bank to stay on the sidelines. But an unemployment rate as low as 5% means that the Reserve Bank can't keep its fingers off the trigger for a long time, given the underlying dynamics in the economy are firm. The chart above on the left highlights the strong relationship between movements in the unemployment rate and the cash rate.

An unemployment rate of 5% just above the natural rate of unemployment, which is an unemployment rate when the economy is operating close to full capacity or a rate at which the

unemployment rate gravitates to in the long run. The unemployment rate is likely overstating the lack of capacity in the labour market to some degree, but the low rate of unemployment still means that there is a threat to wage pressures building.

A better measure of the spare capacity in the labour market is the aggregate hours worked. This measure fell in the month but on a year ago is healthy at 2.8%.

The leading indicators of employment are also still robust, but have eased more recently. In the near-term too, the impact of the floods will weigh on employment figures, especially for the month of January. Once rebuilding and repair efforts begin, we can expect employment to recover and add to pressures in the labour market. Queensland's unemployment rate lifted to 6% in December, the highest rate in a year.

Across the States more generally, the NSW economy added the most jobs in December, of 6,500. The unemployment rate in NSW fell to 4.6%, its lowest rate since April 2008. Other economic indicators in NSW recently have also been showing a broader improvement.

The Victorian economy posted the largest losses of net jobs in December; 5,200 jobs were lost in the month, although the unemployment rate moved lower from 5.5% to 4.9%. WA also posted a fall in jobs of 4,100, but its unemployment rate is incredibly low at 4.4%. All the remaining States recorded increases in employment in the month.

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