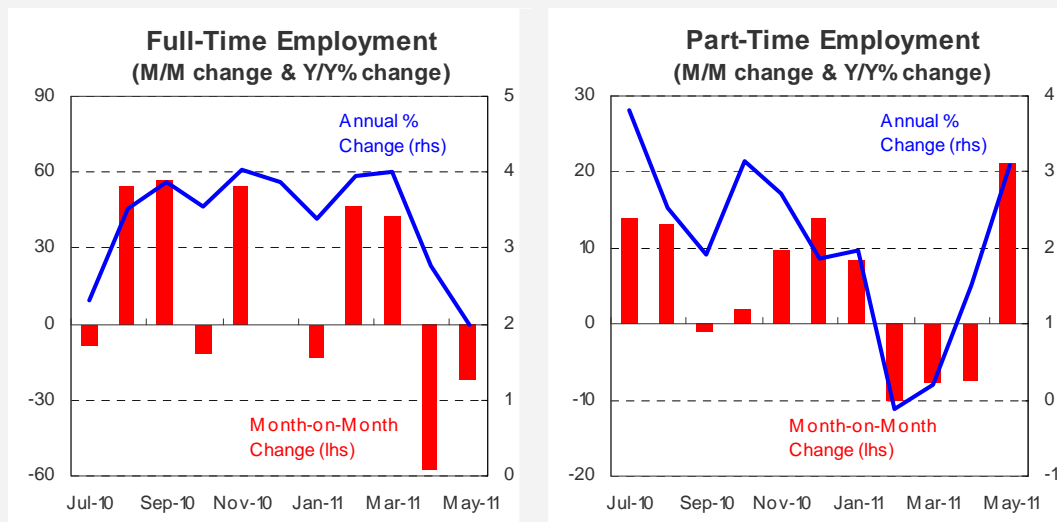


DATA SNAPSHOT

Jobs Growth Shifts Down a Gear

Thursday, 9 June 2011

- Employment has shifted down a gear; jobs are now growing at a moderate pace after strong growth last year. It is most evident in full-time employment. Full-time jobs dropped 22k in May, taking the drop over the last two months to 79.2k, which is the biggest back-to-back fall in more than two years. But annual growth is still robust at 2%, albeit a lot slower than 4% just two months ago.
- We had surmised that some of the strength in full-time jobs over the second half of last year and earlier this year might have reflected employees working more hours and becoming reclassified as full-time (from part-time previously). This effect may have now run its course. Part-time jobs growth accelerated to a 7-month high of 3.1% per annum.
- Net jobs growth in Queensland is close to nil year to date. Jobs surprisingly fell in May, but production has further to recover in this State and employment is a lagging indicator.
- The unemployment remained steady at 4.9%. An unemployment rate with a 4 in front of it still points to a tight labour market and the threat of wage pressures building remains.
- This more moderate jobs growth does not alarm us. We expect the pace of economic activity and jobs growth will pick up as we progress through this year, driven by a deepening of the private investment upswing and reconstruction in the disaster-affected areas. So we are still expecting a tightening from the RBA in the September quarter.



Employment has shifted down a gear. Today's data suggests that jobs growth has softened to a more moderate rate. Jobs lifted by 7.8k in May, but it is a small bounce after a fall of 29.4k in April. Annual jobs growth is also down from as high as 3.6% in November 2010 to 2.3%.

The softer patch is most evident in full-time employment, which is the more stable form of employment. Full-time jobs dropped 22k in May after a drop of 57.2k in April. This back-to-back fall of 79.2k is the sharpest in over two years (since March 2009). Annual growth of full-time jobs is still robust at 2% but it has eased from as much as 4% just two months ago.

The aggregate hours worked grew by 0.4% in May and on a year ago stands at 1.1% growth. This annual growth rate is significantly slower than 4.3% recorded in August 2010. We had surmised that some of the strength in full-time jobs over the second half of last year and earlier this year might have reflected employees working more hours and becoming reclassified as full-time (from part-time previously). This effect may have now run its course.

While full-time jobs have eased in the last two months, part-time employment is witnessing a bit of a revival with annual growth now at a seven-month high of 3.1%. Part-time jobs rose by 29.8k in May and have lifted by 57.6k over the April-to-May period, which is the most in nearly one year.

The unemployment remained steady at 4.9% for the fourth straight month. An unemployment rate with a 4 in front of it still points to a tight labour market and suggests the threat of wage pressures building remains. Meanwhile, the participation rate also stayed steady at 65.6%.

Looking across the States, it is likely that the impact of the natural disasters are weighing on jobs growth with annual growth in Queensland weakening significantly to 1.0% over the year to May. This is well down from a peak of 4.1% growth in November 2010. Net jobs growth in Queensland is down 2.2k year to date. Jobs surprisingly fell in Queensland in May, but production has further to recover in this State and employment is a lagging indicator.

In contrast, NSW (2.9%), Victoria (3.0%) and WA (2.9%) posted relatively solid annual growth rates. NSW and Victoria also had healthy gains of 25.6k and 12.9k, respectively in May, partly reversing hefty job losses seen in April.

Outlook for the Cash Rate:

The Reserve Bank has flagged for some time that it expected jobs growth to slow from the very strong pace recorded in the second half of last year. This more moderate jobs growth does not alarm us unless the trend was to continue to soften. We expect that economic activity will improve as we progress through this year, driven by a deepening of the private investment upswing and reconstruction in the flood-and-cyclone-affected areas. So we are still expecting a tightening from the RBA in the September quarter.

Besa Deda, Chief Economist

Ph: (02) 9320-5854

Email: dedab@stgeorge.com.au

Contact Listing

Chief Economist	Besa Deda	dedab@stgeorge.com.au	(02) 9320 5854
Senior Economist	Josephine Heffernan	heffernanj@stgeorge.com.au	(02) 9320 5751
Economist	Janu Chan	chanj@stgeorge.com.au	(02) 9320 5892

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