Labour Force

Here We Go Again

- Jobs data has been somewhat of a rollercoaster in recent months. Jobs rose a solid 50.1k in April, following a revised 71.7k rise in February and a 31.1k fall in March. Given recent volatility in the job growth numbers, we will be treating today’s data as a mild aberration in a slowly improving trend.

- Despite the solid rise in employment, the unemployment rate in April only fell from 5.6% to 5.5%. It would have fallen further if the participation rate had not risen from 65.2% to 65.3%.

- There has been a clear shift in the health of the labour market across different States. Western Australia has seen job growth slow as mining investment approaches a peak, resulting in its unemployment rate rising to 5.2%. Meanwhile, an improving labour market in NSW has seen the State close the gap, with its unemployment falling to 5.3%.

- Today’s labour force numbers suggest the economy is still expanding and that previous rate cuts are slowly having an impact. We expect the RBA to remain on hold in coming months unless we are strongly persuaded by the data.

Here we go again! Was today’s leap of 50.1k in the number of people employed an aberration or part of an upward trend? Given recent volatility in the job growth numbers we will be treating it as a mild aberration in a slowly improving trend. Given the structural changes occurring in the economy and struggles within certain sectors such as manufacturing there will be those who cast doubt on the numbers. However, jobs are likely being created in other parts of the economy. Healthcare and professional, technical & scientific services are some sectors which have witnessed
healthy job growth in recent data.

In the first four months of 2013, job growth averaged 25.7k per month, a touch above the decade average of 18.4k per month. Ongoing growth in employment combined with modest increases in wages sets the scene for improved outcomes for retailing and home construction. The solid rise in retail spending in Q1 suggests consumers are beginning to believe that the worst is behind them.

Of particular encouragement was the 34.5k growth in full-time jobs. The number of part time jobs rose by 15.6k in the month of April.

Despite the solid rise in employment, the unemployment rate in April only fell from 5.6% to 5.5%. It would have fallen further if the participation rate did not rise from 65.2% to 65.3%. No sign here of a discouraged worker effect.

As we look ahead to the May employment numbers, we expect some retracement, but not by the full 50.1k and pencil in a preliminary forecast of around negative 20k. This would imply that in trend terms, the labour market continues to create jobs at a reasonable pace.

**State Analysis**

There has been a clear shift in the health of the labour market across different States. After being the standout performer last year, Western Australia has seen job growth slow as mining investment approaches a peak. Meanwhile, a gradual improvement in NSW has seen annual job growth step up to 3.0% overtaking Western Australia’s annual job growth of 1.6%. In the year to April, 107.3k jobs were added in NSW, the first annual gain over 100k in the State since early 2011.

Among other States, WA (+20.6k) added the second most jobs in the year to April, followed by Victoria (+16.1k), SA (+10.6k) and QLD (+6.8k). The Tasmanian job market has been weak, with the State losing 0.4k jobs in the year.

In the month of April, NSW added a solid 19.7k jobs. Meanwhile, there was modest growth in other States. Jobs in Victoria (+8.1k), SA (5.3k), QLD (+5.0k) and WA (+2.1k) grew modestly, while Tasmania lost 0.6k jobs in April.
The strong job gain in NSW saw its unemployment rate drop to 5.3% in April. Softening job growth saw the unemployment rate in WA rise to 5.2%, the highest since February 2010, although it remains the lowest in the country. Victoria’s unemployment rate edged up 0.1 percentage point to 5.8%, while SA’s and QLD’s declined slightly to 5.7% and 5.6% respectively. Tasmania’s unemployment rate rose to 7.5% in April.

**Implications for the cash rate**

Today’s labour force numbers suggest the economy is still expanding and that previous rate cuts are slowly having an impact. For economic growth to remain above 2.5% in the year ahead, non-mining business investment as well as housing construction, needs to pick up. New figures on business investment will be released at the end of May. Business surveys suggest a soft result but that is not a foregone conclusion.

It would be tempting to say that the bottom of the rate cutting cycle has now been reached. Our call had been for a cut in September which proved to be incorrect. Our call for beyond September was for no more cuts. To remain consistent we will stay with that view unless we are strongly persuaded by the data. Today’s data does not shift our view but we acknowledge the risk of a rate cut in June on the pattern of past RBA cuts and the possibility of weak numbers at the end of May.

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