Investment markets research – Economic note

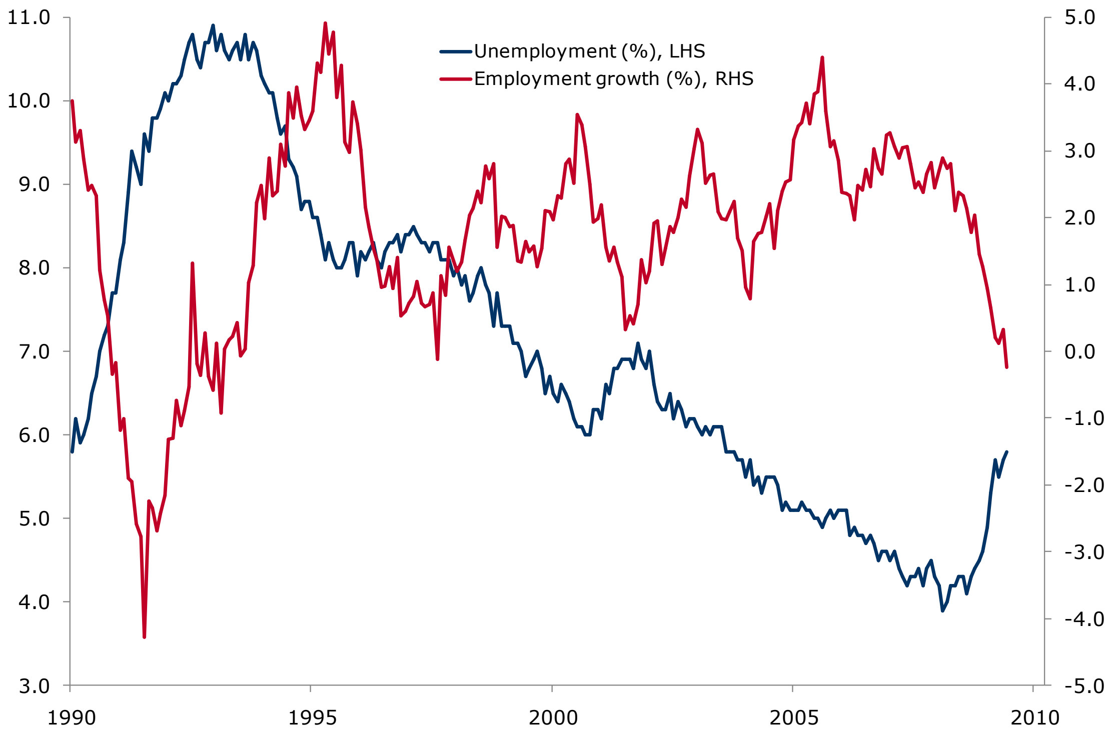
9 July 2009

Further Australian labour market weakness

The Australian labour market weakened further in June 2009. The unemployment rate rose to 5.8% (from 5.7%), its highest level since October 2003. Annual employment growth turned negative, recording -0.2% (was 0.3%), and was its weakest rate since February 1993. In June 21,900 full-time jobs were lost while 400 part-time jobs were added. The fall in the participation rate from 65.4% in May to 65.3% was a key reason for the limited rise in the unemployment rate. Previously, the rising participation rate was a key driver of the steep rise in the unemployment rate.

The previous month also showed revisions to the data, employment was revised down from -1,700 to -8,500 with jobs lost in three of the previous four months.

On a state-by-state basis, the highest unemployment rate in June was in NSW at 6.5% (an increase from 6.4% the previous month); Victoria at 6.0% (up from 5.9%), South Australia at 5.4% (no change from May), Queensland at 5.4% (up from 5.3%) and Western Australia at 5.1% (up from 5.0%).



Source: Australian Bureau of Statistics. Data to 30 June 2009

The further decline in the Australian labour market has aligned to market expectations. It now seems as though the deterioration in the labour market will be slow and grinding rather than as rapid as observed in other global economies.

The resilience of the labour market reflects two drivers:

- The structural industrial relations reforms of the last two decades, that were designed to create flexibility between employees and employers, have stood up well to its first substantial test since the 1990s, and
- The domestic economy's strength, particularly through government spending packages, has replaced some of the demand lost due to the slowdown in the global economy and has supported employment.

As yet there are no signs this slow and grinding pace will ease over the coming months. A number of surveys, including the NAB Business Confidence and the ANZ Job Ads series continue to point to deterioration. In addition, hours worked continues to decline suggesting the marginal demand for labour remains negative and has implications for income levels in the months ahead. As these indicators begin to become more positive for employment a shift in monetary policy may emerge.

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