

Australian employment remains strong

Economic research note

8 July 2010

- Australia's employment surged by a further 45.9k in June, bring the total number of new jobs created in 2009/10 to 353k.
- The unemployment rate was unchanged at 5.1%, well down from the 5.8% peak of October 2008 and is one of the lowest unemployment rates in the global economy.
- The strength of the labour market is, however, likely to be one of the factors the RBA looks at in deciding the future of interest rates.
- Combined with the rally in 'risk assets' overnight, the strong employment data has seen the markets shift from an *easing* bias to a *tightening* bias by year-end – a much more sensible position given the local fundamentals.

Strong June jobs data:

Australia's employment surged a further 45.9k in June, well above market expectations of a gain of just 15k and up from the revised May reading of 22.8k.

In the past 12 months (ie. the 2009/10 financial year) the Australian economy has generated 353k new jobs, with full-time jobs up 202k and part-time up 151k.

For June the surge in employment, combined with a small rise in the participation rate to 65.2%, from 65.1%, saw the unemployment rate at a post-GFC low of 5.1% (May was also revised to 5.1% from 5.2%) and a peak of 5.8% in October 2009. See chart over page for details.

The increase in jobs in June was skewed a little to part-time employment, which was up 27.5k, while full-time employment also rose a solid 18.4k.

The increase in jobs in June saw the annual pace of employment growth accelerate to 3.3%/yr (the equal strongest since September 2005), from 2.5%/yr in May and a low point of -0.3%/yr in August 2009. The chart over provides details.

Hours worked actually declined a little in June, down 0.4%/mth, but this followed a 2.8%/mth rise in May. The annual pace of hours worked is still very solid at 3.2%/yr.

It is interesting to note that the surge in employment in June came at the same time as both consumer and business confidence indicators weakened sharply in that month – likely on the back of both local political concerns and global economic worries. Clearly, this shift lower consumer and business confidence did not translate into a weaker employment market.

By state, the unemployment rate is the lowest in WA, down at 4.0% in June (from 4.1% in May). The NSW unemployment rate was unchanged at 5.2% in June, with Victoria unchanged at 5.4%. Qld's unemployment rate eased to 5.3% (from 5.5%), with SA up slightly to 5.4% (from 5.3%), while Tasmania rose to 6.5% (from 6.1%).

Australia's unemployment rate of 5.1% compares very favourably to 9.5% in the US, 8.1% in Canada, 7.5% in Brazil, 10.0% in the EU, 7.9% in the UK, 4.2% in China, 7.3% in India, 5.2% in Japan and 6.0% in New Zealand.



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Source: ABS & Bloomberg, data to June 2010

Financial market implications

The strength in the labour market data is likely to continue to show up in wages growth in the year ahead, which currently stands at 3.0%/yr, from 2.9%/yr at the end of 2009 and a peak of 4.3%/yr at the end of 2008.

This is likely to be an area of focus for the RBA given that the 28 July release of the Q2 10 CPI data is widely expected to show both headline and underlying inflation near the top end of the RBA's 2%-3% target range.

Prior to today's strong employment data (and last night's rally in 'risk assets') the short-end of the local interest rate market was pricing in around a 30% risk of a monetary policy *easing* by the end of the year. Currently the market is now priced for around a 40% probability of a monetary policy *tightening*, with around a 20% chance of a move as early as the August board meeting.

Given the local economic fundamentals, market pricing for the monetary policy outlook now looks much more sensible (ie. things would have had to go seriously wrong, both globally and locally, for the RBA to have been easing before the end of the year).

As noted above, markets will now be increasingly focused on the 28 July release of the Q2 10 CPI data to see if the RBA will need to raise interest rates as early as August, or if they have a few more months breathing pace (also bearing in mind an election is likely to be held around August/September).

The trend back to pricing in monetary policy tightening is likely to see bond yields trend higher in the months ahead, but with global factors also to be key.

The AUD has received a boost from the labour market data and the 'risk on' trend in markets last night, trading back above \$US0.8700 from \$US0.8400 earlier in the week. Any resumption to Australia's tightening path should be expected to be bullish for the AUD.

The local equity market should also welcome the strong employment data as a signal that the broader economy continues to improve. The more people in work the better for consumption, demand for housing etc.

For further information

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