

Aust labour force: mthly trend jobs growth still slowing, but unemployment rate nearing NAIURU

Jun employment +45.9k; full-time +18.4k; unemployment rate 5.1% vs 5.1% previously

- Employment surprised on the upside, jumping 45.9k in June after a 22.8k gain previously, once again above consensus (+17.5k). The breakdown was solid again. While part-time gains accounted for the majority of the rise, full-time jobs rose 18.4k, their tenth straight rise. Despite the strong headline jobs gain, monthly trend jobs growth has eased over the last seven months to 20.4k from a Nov-09 peak of 35.8k, in line with our view that monthly trend jobs growth should remain on this more moderate path over 2010 as the spare capacity in the existing workforce is utilised.
- Our composite of business survey employment indices, the LDI, has softened since peaking in April to its preliminary June read, now sitting at a level consistent with smoothed jobs growth of around 15k per month. Employers are lifting average hours worked, in an uptrend for four months. But considerable spare capacity remains, with their trend level now 1.9% below their mid-2008 peak. This also supports our expectation of a continued moderate monthly jobs growth trend as average hours do more of the work.
- This continued moderate pace of trend monthly jobs growth will still see annual trend growth rise to 3%yr through 2010H2, consistent with medium term leads from job ads (still trending up solidly). Indeed, while monthly trend jobs growth slowed, annual trend growth rose to 2.8%yr from 2.6%, the highest since May 2007.
- May's fall in the unemployment rate encouraged higher participation (65.2% vs 65.1%) driving strong labour force growth of 45.7k, offsetting the jobs jump to leave the unemployment rate unchanged, but at a lower than expected 5.1% (consensus 5.2%). The trend unemployment rate fell to 5.17% from 5.20%. Moderate monthly trend jobs growth and rising labour force growth should leave the unemployment rate downtrend very gradual, but nonetheless take it to 5.0% (our NAIURU estimate) by end 2010.

Employment growth was again above consensus in June with a rise of 45.9k after a downwardly revised 22.8k gain previously. The consensus forecast was +17.5k and the top of the forecast range was +25k. The ninth rise in the last ten months has taken the cumulative gain to 327.3k after a cumulative fall of only 33.6k over the prior year.

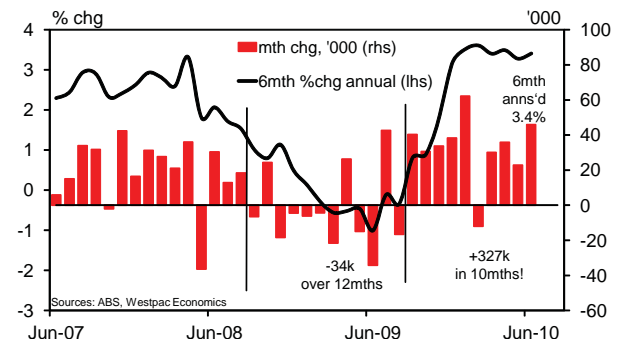
While part-time jobs (+27.5k vs -9.1k prev) explained the majority of the jobs rise this time, the breakdown of the June result was nonetheless solid, with full-time jobs recording their tenth consecutive rise. Full-time jobs rose 18.4k after a 31.9k rise previously, for a cumulative gain of 238.5k in ten months. That is

Labour force report, June 2010

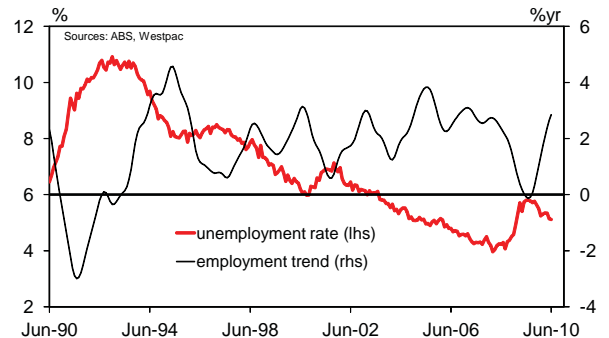
	Monthly		Year to	
	May	Jun	May	Jun
Total employment ('000)	22.8	45.9	273.2	353.2
Total employment (% chg)	0.2	0.4	2.5	3.3
F-time employment ('000)	31.9	18.4	159.3	201.6
F-time employment (% chg)	0.4	0.2	2.1	2.7
P-time employment ('000)	-9.1	27.5	113.9	151.6
P-time employment (% chg)	-0.3	0.8	3.6	4.8
Unemployment rate %	5.1	5.1	5.7*	5.8*
Participation rate %	65.1	65.2	65.4*	65.2*

* Observation one year ago. Sources: ABS 6202, Westpac Economics Research

Aust jobs: 327k total gain in 10 months



Unemployment rate and trend jobs growth



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an annualised full-time jobs growth rate over the last ten months of 3.8%, the strongest ten month annualised pace since June 2005. Annual full-time trend growth rose to 2.5%yr from 2.0%yr previously, the highest since February 2008.

Despite another upside surprise, monthly trend jobs growth has still eased over the last seven months to 20.4k from a peak of 35.8k in November 2009. This slowing in the monthly trend is consistent with our view that smoothed jobs growth should remain on this more moderate path through 2010 as spare capacity in the existing workforce is utilised. Indeed, while derived average hours worked dipped 0.8% adj. in June, that only partially reversed a 2.6% adj. spike in May. That left in place an uptrend in average hours worked over the last four months, with a cumulative trend rise of 0.7%. However, considerable spare capacity remains (albeit less than last month), with trend average hours worked now 1.9% below their mid-2008 peak.

The slowing in monthly trend jobs growth should continue over the near term. Our composite of private sector business survey employment indices, the Labour Demand Indicator (LDI), softened from an April peak to May, and has fallen further in its preliminary June read. It now sits at a level broadly consistent with smoothed jobs growth around 15k/mth.

While monthly trend growth has slowed and we expect it to remain moderate over the rest of 2010 as average hours worked continue their renewed uptrend, annual trend jobs growth continues to accelerate, rising in line with our prognosis to 2.8%yr in June from 2.6%yr previously, the highest since May 2007. The medium term lead from the continued uptrend in jobs ads remains consistent with our view that trend growth will reach 3%yr in 2010H2, but that can still be achieved with a continuation of the current more moderate monthly trend growth pace.

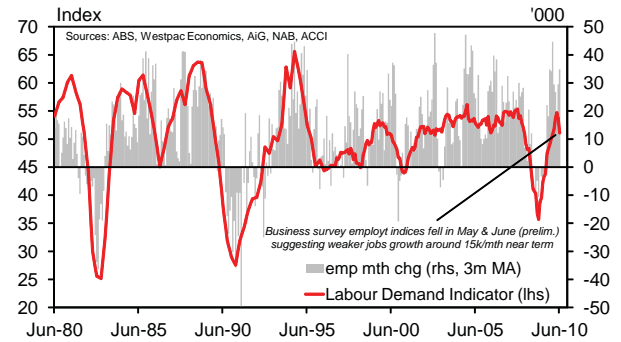
As we expected, the 0.2ppt fall in the unemployment rate in May (now revised to a fall from 5.3% to 5.1% vs originally published fall from 5.4% to 5.2%) encouraged more job seekers into the market, lifting the participation rate to 65.2% from 65.1%. This resulted in strong monthly labour force growth of 45.7k, offsetting the jobs jump to leave the unemployment rate steady. But it was steady at a downwardly revised 5.1% (consensus 5.2%). The trend unemployment rate remained in a very gradual downtrend, falling (to two decimals) to 5.17% from 5.20%, the lowest since January 2009.

Looking forward, we continue to expect moderate monthly trend jobs growth and rising labour force growth as the downtrend in the unemployment rate encourages higher participation and population growth remains strong. This should leave the unemployment rate downtrend very gradual. Nevertheless, the trend unemployment rate is expected to reach 5.0% (our estimate of the NAIRU) before end-2010, leaving in place upside risks for wage inflation in 2011.

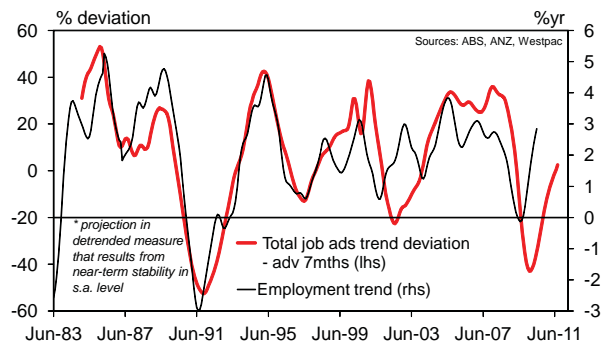
The State breakdown of the June employment jump showed gains across all States, led by Western Australia (+21.6k), NSW (+14.8k) and Queensland (+7.2k). Notably in May, Queensland and Western Australia also led the gains (+14.8k and +14.0k respectively). This recent acceleration in resource State employment is readily apparent in the accompanying chart of 6mth annualised jobs growth. This smacks of the terms of trade and associated resource investment boom rearing its head in the labour market. With regards to Western Australia, work on the \$43bn Gorgon project commenced in December 2009, but is reported to be ramping up at present.

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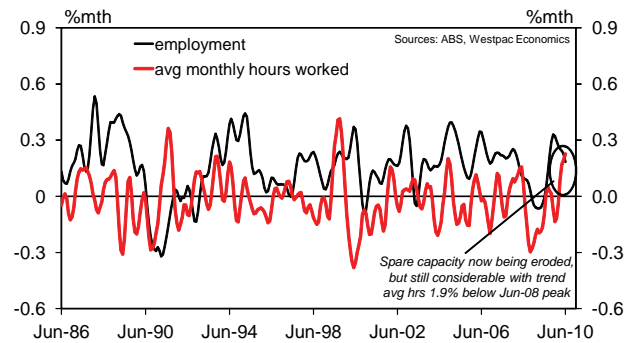
Westpac Australian Labour Demand Indicator



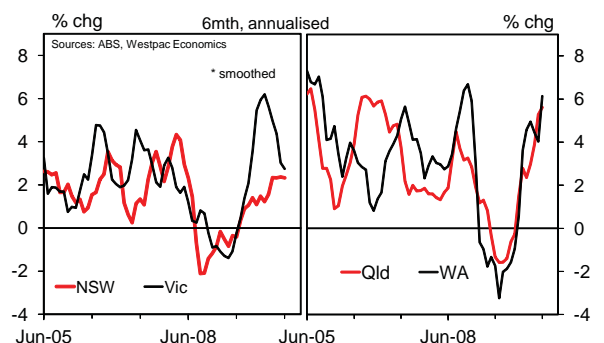
Job ads (detrended, proj*) & employt growth



Trend jobs & avg hours worked growth



Jobs growth: resource states accelerate



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