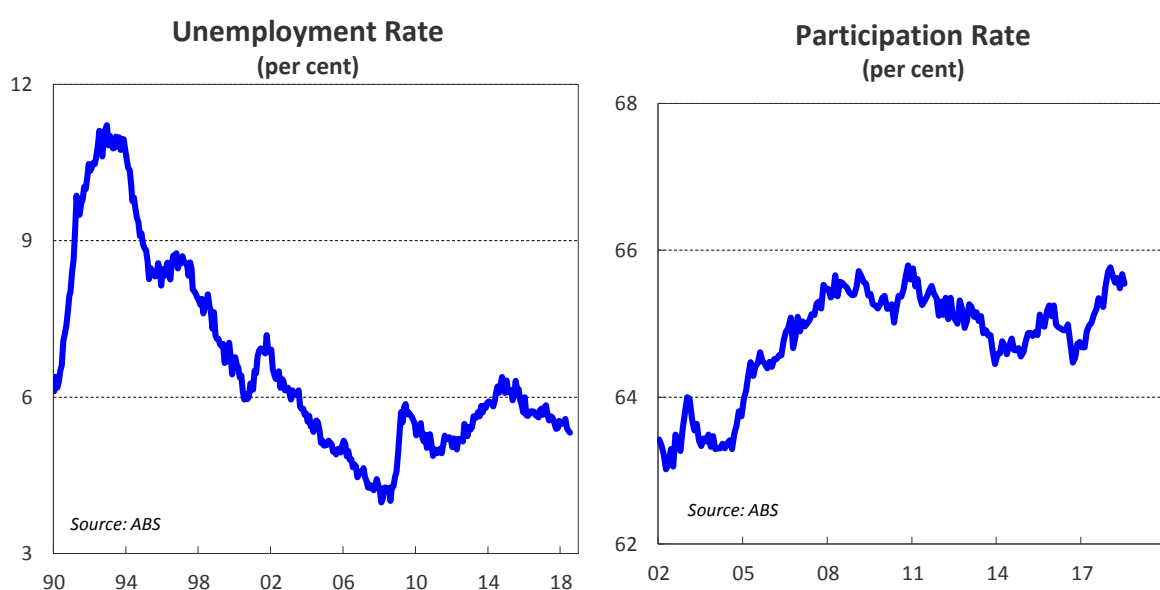




## Labour Force

### Unemployment Rate Falls to Six-year Low

- Employment fell 3.9k in July, only the second drop in jobs in nearly two years. However, in the context of a 58.2k increase in jobs over June, the soft monthly outcome for July does not come as a major surprise. The overall picture of the jobs market continues to be one of strength.
- The unemployment rate fell from 5.4% in June to 5.3% in July, the lowest in nearly six years. The fall reflected a drop in the participation rate from 65.7% in June to 65.5% in July. However, the gradual reduction in the unemployment rate over the past few years is pointing to a lessening of spare capacity in the labour market.
- Leading indicators and solid economic growth suggest employment gains should be sufficient to continue to bring the unemployment rate down over time. Indeed, we believe there is a reasonable risk that the unemployment rate will hit 5% in 2019, ahead of the RBA's timing. This would suggest that the economy could approach full-employment some time next year, and point to a risk that wage pressures will build.
- We, however, remain sceptical that wage growth will pick up sufficiently for the RBA to lift interest rates any time soon, even with the unemployment rate approaching 5.0%. The experience from overseas suggests technological change and competition could limit the ability of firms to lift wages substantially.



Employment fell 3.9k in July, only the second drop in jobs in nearly two years. However, in the context of a 58.2k increase in jobs over June (previously reported as a 50.9k gain), the soft monthly outcome for July does not come as a major surprise. The overall picture of the jobs market continues to be one of strength. Looking through recent monthly volatility, the last three months have averaged 22.4k job gains per month. This pace of jobs growth is firm, and if continued would be sufficient to expect the unemployment rate to fall over time.

The major highlight from today's report was a fall in the unemployment rate to 5.3% in July, the lowest in nearly six years. The fall reflected a drop in the participation rate from 65.7% in June to 65.5% in July. However, the gradual reduction in the unemployment rate over the past few years is pointing to a lessening of spare capacity in the labour market.

Further underscoring the strength in the labour market was robust growth in full-time jobs. In July, 19.3k full-time jobs were added, coming off the back of a 43.2k gain in June. Meanwhile, part-time jobs declined 23.2k in July.

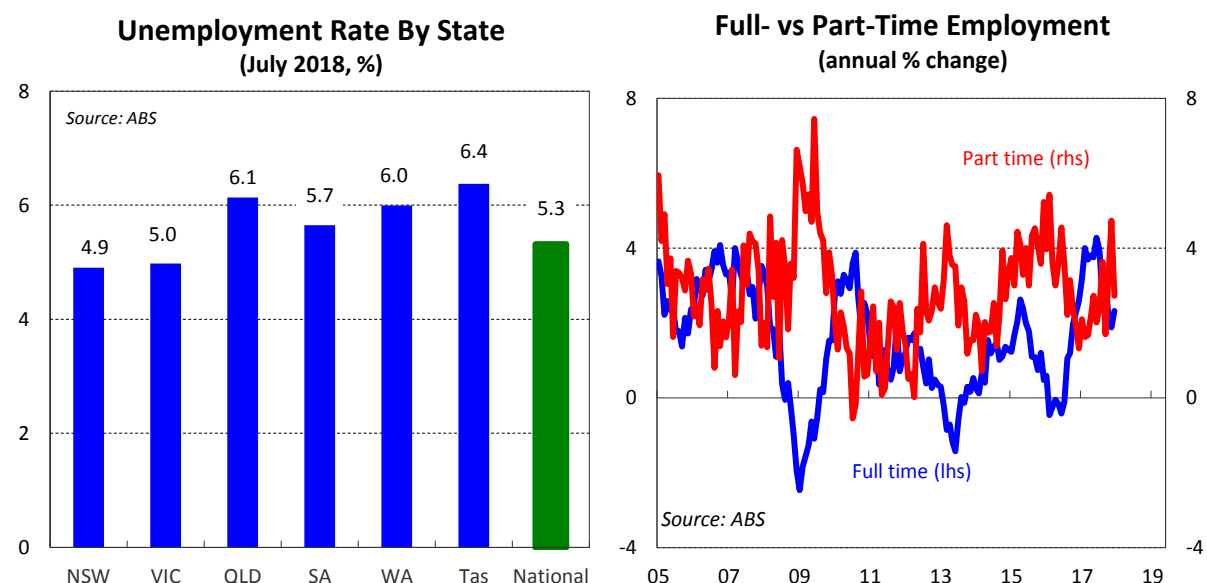
### States and territories

Victoria led job growth in July, with a gain of 29.4k. In contrast, NSW lost 27.1k jobs in July, although this followed a solid 29.5k gain in June. Other States were mixed – jobs in South Australia (1.7k) and Tasmania (0.1k) edged slightly higher. However, jobs edged down slightly in Queensland (-1.9k) and Western Australia (-3.0k).

On an annual basis, NSW continues to be the standout, adding 113.7k jobs in the year to July. Victoria's labour market (94.1k) is also performing well, although the pace of job growth has eased from a blistering pace last year. Other States, including Queensland (49.3k), South Australia (16.7k), and Western Australia (11.8k), are also adding jobs at a modest pace.

Victoria's strong job gain in the month saw its unemployment rate fall to 5.0%, a 6½ year low. Meanwhile, NSW's unemployment rate edged up from 4.7% to 4.9% in July, but it remains the lowest of all States.

Among other States, unemployment rates in Queensland (6.0% to 6.1%), South Australia (5.4% to 5.7%) and Tasmania (5.9% to 6.4%) all lifted. Western Australia's unemployment rate however, edged lower (from 6.1% to 6.0%).



In trend terms (seasonally-adjusted data is not provided for the territories), the ACT and NT both recorded job gains of 0.6k. The ACT's unemployment rate was steady at 3.6%, while the Northern Territory's unemployment rate edged down from 4.1% to 4.0%.

### **Outlook**

Looking past the decline in jobs in the month, there continues to be buoyant conditions in the labour market. Leading indicators and solid economic growth (expected at close to 3.0% this year and next) suggest employment gains should be sufficient to continue to bring the unemployment rate down over time. Indeed, we believe there is a reasonable risk that the unemployment rate will hit 5% before 2020, when the RBA expects.

This would suggest that the economy could approach full-employment sometime next year, and point to a risk that wage pressures will build.

However, we remain sceptical that wage growth will pick up sufficiently for the RBA to lift interest rates any time soon, even with the unemployment rate approaching 5.0%. There is the risk that unemployment rate at full-employment is lower than 5.0%. Moreover, the experience from overseas, suggests technological change and competition could continue to prevent firms from lifting wages substantially. We expect that it will be some time before wages and inflation pickup to a point which will warrant further tightening by the RBA.

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