

## Australian employment bounces back

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For ANZ Economics and Markets Research to be the most respected, sought-after and commercially valued source of economics and markets research and information on Australia, New Zealand, the Pacific and Asia.

- **Employment rose by a much stronger than expected 29.8k in June**, more than offsetting the -25.6K decline in May (revised from -19.7k). The unemployment rate dipped back to 4.2%, just shy of its 30-year low.
- Today's data shows a trend slowdown in employment growth to 2.4% yoy from a peak of 2.8% in February - a modest slowing but nothing dramatic.
- **At the minimum, these numbers will force the market to think carefully about what CPI outcome on 23 July could see the RBA hike in August.** Despite soft activity readings over recent weeks, today's numbers reinforce that the economy is being hit by conflicting forces and there is genuine uncertainty about what the ultimate outcome for growth in 2008 will be.
- We do expect some further moderation in employment growth in coming months. However with elevated inflation and skill shortages, it is not clear this slowing will be enough to prevent inflation expectations from seeping into the wage and price setting process in coming quarters.
- Today's **consumer inflation expectations** were a stark reminder of the risks to inflation. Inflation expectations in July remained at a record high of 5.9%.
- In this context, RBA will continue to remain sensitive to any upside surprises on growth or inflation. **We still believe that if interest rates are to move in the next 12 months, it is more likely to be up than down.**

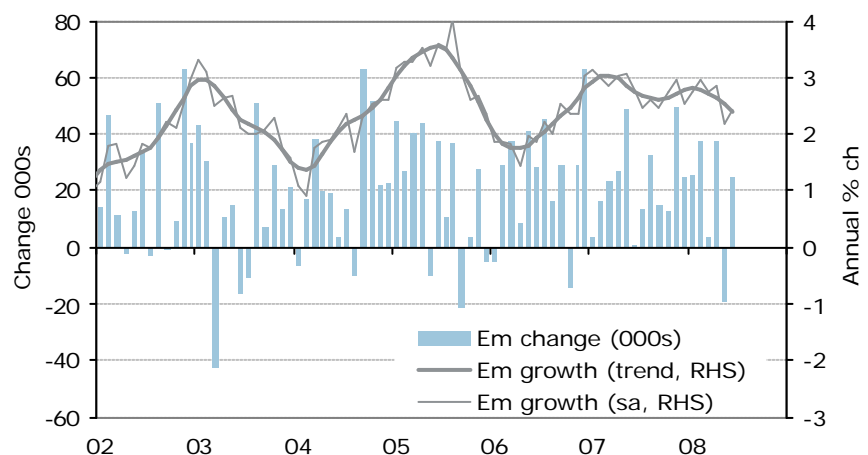
### Key Figures

	Monthly		Year to	
	Jun	May	Jun	May
<b>Employment (change)</b>	<b>29.8</b>	<b>-25.6</b>	<b>252.4</b>	<b>228.8</b>
Full-time	24.0	-12.1	168.7	119.2
Part-time	5.8	-13.6	83.7	109.6
Employment (% change)	0.3	-0.2	2.4	2.2
<b>Unemployment rate (%)</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>
<b>Participation rate (%)</b>	<b>65.3</b>	<b>65.2</b>	<b>65.0</b>	<b>65.0</b>

Source: ABS

\*Rate one year ago

### More volatility in employment to come?



Source: ABS

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**The detail**

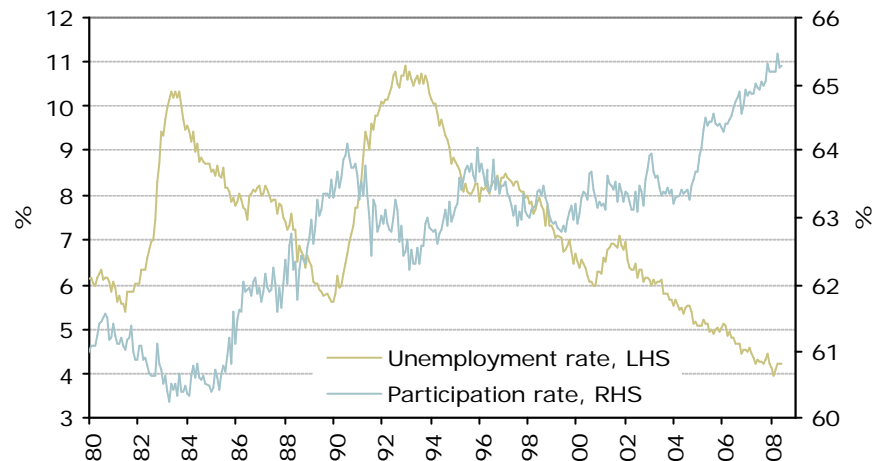
**Employment bounced back in June, with 29,800 new jobs created.** This more than unwound last month's fall of 25,600 (revised down from -19,700). This outcome was well above the median market forecast of +10,000 and even stronger than our +25,000 forecast which was at the top of expectations.

**The gain in June was concentrated in full-time employment,** which rose by 24,000 in June, more than unwinding May's 12,100 fall. Part-time employment rose moderately in June by 5,800 only partly retracing the fall of 13,600 in May.

**The unemployment rate fell slightly to 4.2%.** It remains only slightly above the 33-year low of 3.9% achieved in February (revised from 4.0%).

**The annual pace of employment growth continued to ease in trend terms to 2.4% yoy from a peak of 2.8% yoy in February** (see chart on page 1). **However this can only be considered a modest slowdown.**

**The pace of employment growth is still consistent with solid growth in household incomes.** This reinforces the risk that consumer spending and domestic demand could reaccelerate later in the year, particularly if petrol prices start to ease. While we do expect some further moderation in labour market conditions, this is only expected to be gradual, and is unlikely to be enough to take pressure off wage growth and inflation.

**Unemployment rate hovers just above record lows**

Source: ABS

**The States – NSW turns around**

Labour market developments amongst the states remain mixed.

**After posting the largest fall in employment in May, NSW added the most jobs in June (+10,800).** This was driven by higher full-time (+5,800) and part-time employment (+5,000). **Nevertheless, NSW experienced a net loss of jobs in Q2 as a whole** with an average monthly loss of 2,800 per month compared with an average gain of 16,600 in Q1.

Other states to post employment gains this month were Western Australia, South Australia, Tasmania, the Northern Territory and the ACT. **WA's gas crisis does not yet seem to have affected its labour market,** with 6,300 new jobs created. Full-time employment was particularly strong (+15,900) and offset a fall in part-time employment (-9,600). There is still a possibility that we could see employment fall in WA in July, although this is likely to be temporary and the RBA will look through it.

**Employment was also solid in South Australia** in the month (+4,200), with 3,000 part-time and 1,200 full-time jobs created. Nevertheless, South Australia still has a fairly high unemployment rate (4.8%) compared to the national

average (4.2%). **Employment also rose firmly in Tasmania (+400), the Northern Territory (+400) and the ACT (+300).**

**Employment eased slightly in both Victoria (-3,600) and Queensland (-1,100) in June.** Full-time employment in fell particularly sharply in Victoria (-12,200) which was only partly offset by a 8,600 gain in part-time employment. This saw the unemployment rate spike up to 4.6% in the month in seasonally-adjusted terms, although it was unchanged at 4.4% in trend terms (slightly above the national average of 4.2%).

**While employment fell overall in Queensland, full-time employment was quite strong (+15,100). In contrast, part-time employment fell (-16,200).** Despite the small fall in employment, the unemployment rate remained at 3.8%, one of the lowest in the country.

#### Labour force data by state and territory

	Employment (change, 000s)		Unemployment rate (%)	
	Jun	May	Jun	May
NSW	10.8	-16.9	4.6	4.7
Vic	-3.6	7.5	4.6	4.3
Qld	-1.1	9.3	3.8	3.8
SA	4.2	-2.7	4.8	5.0
WA	6.3	-0.2	3.2	3.7
Tas	0.4	1.2	4.2	4.3
NT*	0.4	0.5	3.6	3.7
ACT*	0.3	0.5	2.6	2.6

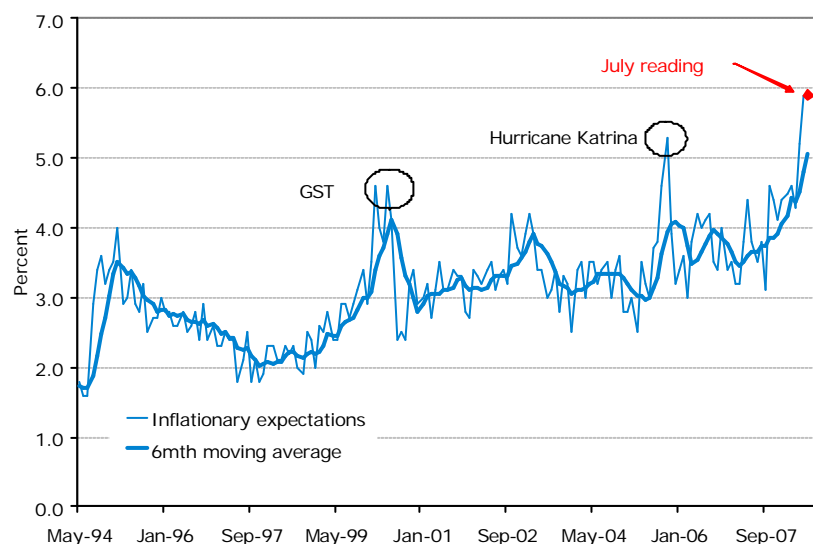
Source: ABS and ANZ, \* Trend

### Consumer inflation expectations remain high

**Inflation expectations in July remained at a record high of 5.9%.** The number of survey respondents who expect inflation to stay within the RBA's 2-3% band slipped to 7.5%, the lowest on record (abstracting from the impact of the GST). Clearly, rising petrol prices, rents and food prices are impacting inflation expectations - and while this survey is reasonably volatile month-to-month, there's no denying the 142bps rise in the 6mth m.a. over the last year.

**The possibility of high inflation expectations impacting on the wage and price setting behaviour in coming months remains a real risk.**

#### Inflation expectations a key upside risk to inflation



Source: MI

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