

# Australian labour market still loosening

## More rate cuts expected

**The Aussie labour force survey never fails to surprise. Statistical noise in the monthly data is rife. While the headline employment estimates fell by -29k jobs, with full-time rising solidly and part-time falling sharply, the unemployment rate was steady in the month, at 5.2%, as the participation rate plummeted. Cutting through the noise, it looks like the labour market is still loosening, although the deterioration is happening quite slowly. We still expect the RBA to cut rates by 50bps in Q1, probably in two steps, as the labour market is easing modestly and global risks persist.**

### Facts

- Total employment fell by -29.3k jobs in December, well below consensus (+10k) and HSBC's expectation (+5k). However, it is worth noting the wide standard errors on these measures. The statistics bureau indicated that the 95% confidence interval around the December employment number was -84k to +26k.
- In annual terms, employment was flat (+0.0%), down on the 10 year average of 2.3% pa.
- Total hours worked rose in the month and are 1.4% higher y-o-y.
- The unemployment rate remained unchanged at 5.2% in December. The participation rate declined 0.3ppts in December to 65.2% - the third consecutive monthly decline.
- Across the states, unemployment rose in New South Wales (5.6% from 5.2%) but fell in Victoria (5.2% from 5.5%) and Queensland (5.4% from 5.7%). The other main states were unchanged.
- Full-time employment increased by +24.5k, partly reversing the -39.4k decline in November. Part-time employment fell -53.7k, after rising by +32.9k in November.
- Population growth remains moderate (+1.2% y-o-y), down on the 5-year average of 2% pa.

### Implications

The Australian labour force survey never fails to surprise. The employment numbers are very volatile month-to-month.

So reading the labour force survey is open to a fair bit of interpretation and usually has something for everyone. Our approach is to look for the steadiest consistent trends and then give some weight to the volatile bits to try to assess turning points.

To smooth out the noise in the month-to-month data, the Bureau of Statistics provides trend measures, which can often be helpful. This month we think they capture the flavour of the data quite well.

In trends terms, employment is estimated to have fallen by 2,000 jobs in December, the participation rate was broadly steady at 65.4% and the unemployment rate was steady at 5.3%.

In our view, this suggests that there is a continual modest easing in the labour market in progress. But, much as we said last month, it is better to grind than jump. The easing is taking place at a much steadier pace than it did in late 2008 and early 2009 after the Lehman's event.

Over the year, employment was flat, though hours worked grew by a modest 1.4%. This reflects that firms have been more willing to ramp up hours than take on new employees. In our view, this is because weaker business confidence and uncertainty about the future have reduced firm's willingness to commit. However, the continual growth in hours worked suggests that there is still more work to be done.

All in all, cutting through the noise, it looks as though the labour market is still loosening, although the deterioration is happening quite slowly.

#### Bottom line

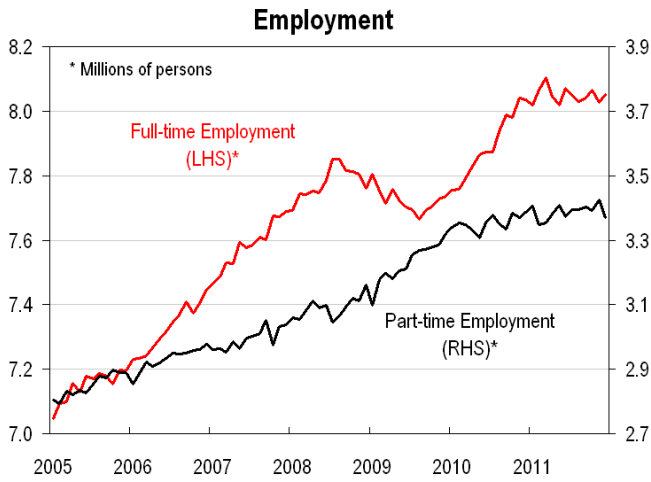
Looking through the noise, today's release suggests that the labour market is continuing to ease.

We still expect the RBA to cut rates by 50bps in Q1, probably in two 25bp steps.

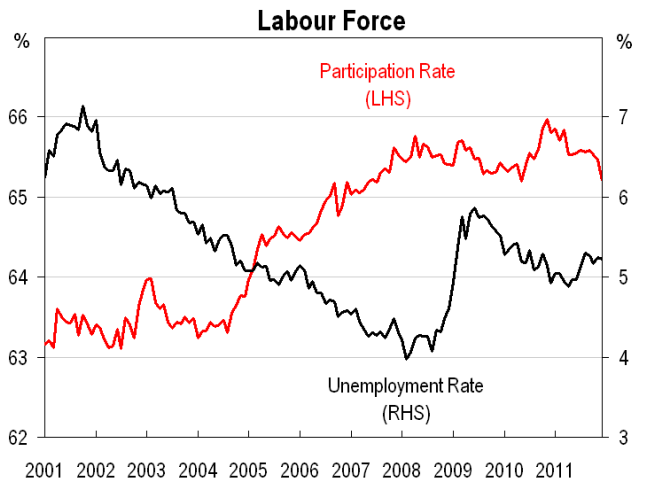
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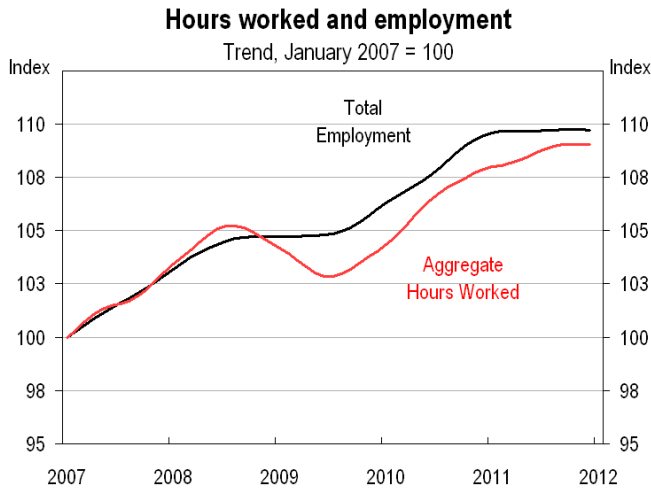
Labour Force Chart Summary



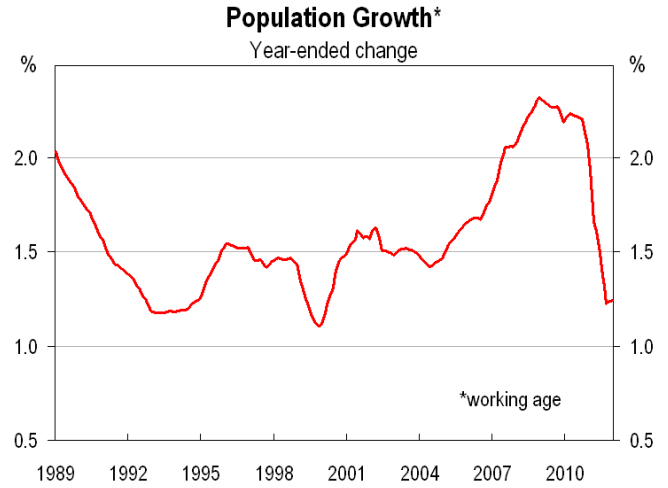
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