

ECONOMICS: AUSTRALASIAN PERSPECTIVES

# AUSTRALIA'S JOB MARKET: PEAK OR PAUSE?

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A better-than-expected labor market report raises the possibility that the Australian economy is on a different track than we have been forecasting. But even after the upside surprise in 2015, we still expect a deteriorating trend to resume in 2016.

### Jobs Report: Signal or Noise?

Over the recent months, the flow of data in Australia has been largely consistent with the story that we have been telling for quite a while—a story that is centered on three elements:

- (1) The drag from the commodity bust will persist for another couple of years.
- (2) “Rebalancing” the economy away from mining towards non-mining as a growth driver would be a drawn-out process.
- (3) The downside risks to the economy coming from a correction in the housing sector are rising quite rapidly, and unemployment may drift higher.

The October jobs numbers released this week, however, represent a challenge to that view. Employment growth of 59,000 in the month was much stronger than expected and almost four times the 15,000-per-month increase required to keep pace with labor force growth. Moreover, the unemployment rate dropped from 6.2% to 5.9%.

The jobs numbers are very volatile, and contain mostly noise, not signal, however. As shown in *Display 1*, month to month the numbers swing violently back and forth. And as shown in *Display 2*, the year-on-year pace of jobs growth has now overshoot

alternative indicators like the National Australia Bank business survey. So a correction in the coming months is likely.

A lot of that noise is down to sampling issues and should be ignored. But it's still possible to have a reasonable degree of confidence in the unemployment rate as a decent indicator of the trend. By construction, it avoids many of the sampling problems. And it now looks to have peaked—a 0.3 percentage point fall is significant—and the fact that the participation rate is rising (*Display 3, next page*) reinforces the sense of improvement.

### Which Path Is More Likely from Here?

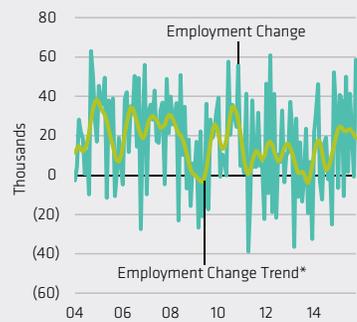
The key question is whether this represents a turning point in the labor market, reflective of much faster genuine rebalancing than I thought was happening.

Is it indicative of a trend that's set to continue through 2016? Or is this merely the lagged effect on jobs from the upswing in the housing construction and prices over the last year or two? If it's the latter, the upward momentum could fade in 2016, and the trend may once again become dominated by our “commodity drag” theme.

At this juncture, I'm still inclined to think the latter, and expect the unemployment rate to resume an upward path over the

Display 1  
Jobs Growth Provides Little Signal

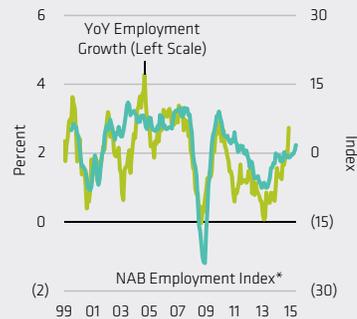
Month-on-Month Employment Change



As of October 2015  
\*Trend = 13-term Henderson moving average (standard Australian Bureau of Statistics calculation)  
Source: Australian Bureau of Statistics and Thomson Reuters Datastream

Display 2  
Jobs Growth Overshoots Survey Data

Employment Growth vs. NAB Employment Index



As of October 2015  
\*Three-month moving average with six-month lead  
Source: Australian Bureau of Statistics and Thomson Reuters Datastream

next 12 months. But I have to acknowledge that 2015 has panned out a bit stronger than I expected.

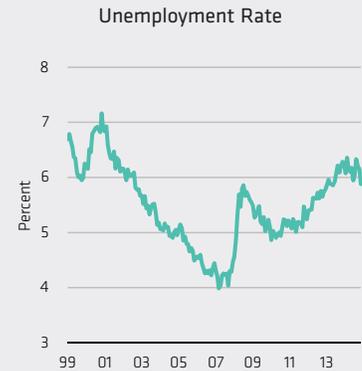
As far as the Reserve Bank of Australia (RBA) goes, they've already set out the case that they have done enough for now, most recently in last week's Monetary Policy Statement. Yes, they retain an easing bias, but with no sense of urgency about delivering further cuts (in part to wait and see the extent of the fallout in housing).

The latest jobs numbers will reinforce the RBA's desire to do nothing for the time

being. It will take a sizeable accumulation of evidence over a number of months to get policy action back in play.

Not surprisingly, there's been a big repricing of the odds of further rate cuts. In mid-October, the market was pricing a cash rate of 1.50%. That represents a 50 basis point (b.p.) cut by September 2016, but now it's now back to 15 b.p. or so. Seems fair to me. ■

Display 3  
Unemployment Remains a More Reliable Indicator



As of October 2015  
Source: Australian Bureau of Statistics and Thomson Reuters Datastream

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