

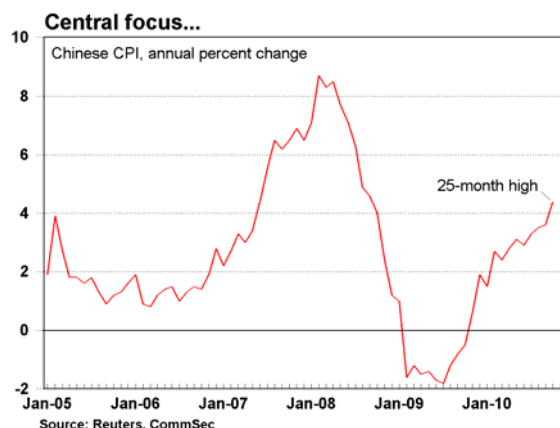
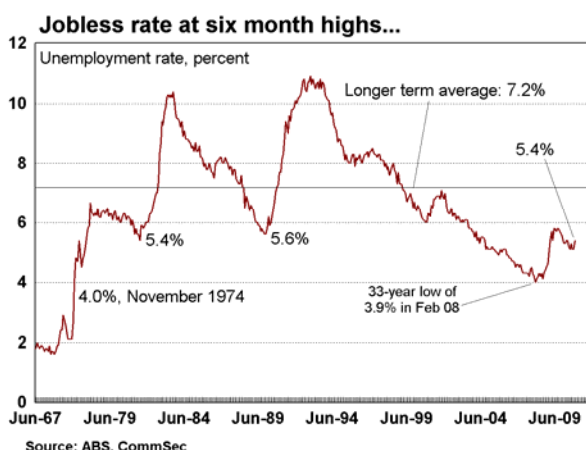
More looking, but not all finding work

Labour force; Chinese data

- Employment rose by 29,700 in October, in line with forecasts centred on job gains of around 20,000. Full-time employment fell by 14,100 and part-time jobs rose by 43,800 – the biggest gain in 15 months.
- The unemployment rate rose from 5.1 per cent to a six-month high of 5.4 per cent as job growth was outpaced by the rise in new entrants. The size of the labour force rose by 0.5 per cent in October – matching the largest monthly increase in 21 months.
- The participation rate rose from 65.6 per cent to 65.9 per cent. Average hours worked rose by 0.5 per cent. Hours worked are up 3.7 per cent over the year. The working age population grew by 19,800 in October..
- Chinese consumer prices rose at a 4.4 per cent annual pace in October – the fastest pace in over two year.
- China's industrial production and retail sales slowed in annual terms in October. Urban property prices continue to moderate.

What does it all mean?

- The resilience of the labour market has certainly been one of the shining lights of the Australian economy. Over the first ten months of 2010 more than 300,000 jobs have been created, more than double the jobs growth of 2009. And with two more months of data to come employment growth looks likely to surpass 2007 – a period that marked the height of the commodity boom. However the rapid fire rate hikes and sluggish consumer activity is starting to show cracks in the labour market data.
- The top line result looks encouraging, but delve a little deeper and the latest employment figures loses some of its lustre. Full time employment tracked backwards, albeit after a very robust period of strength. Also there were certainly a lot more workers looking for work but unable to find it, as a result the unemployment rate jumped to a six month high of 5.4 per cent. The last time the unemployment rate surged by 0.2 of a per cent was during the global financial crisis. The result is consistent with CommSec view that the economy is softer than what the Reserve Bank has been suggesting in recent times.
- The Australian Bureau of Statistics has revised the population benchmarks. In principal the economy needs to



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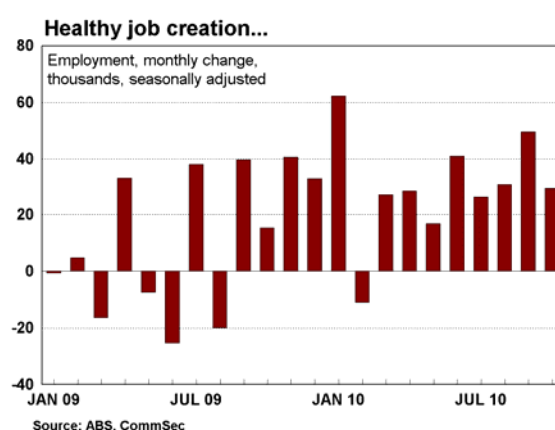
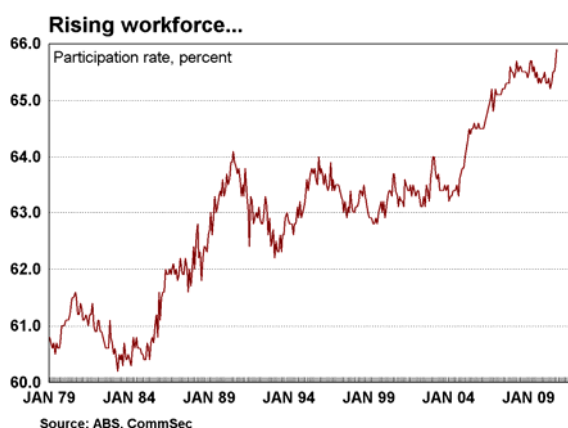
generate around 20-25,000 jobs each month to cover new entrants however the surge in the labour force effectively meant a lot more jobs needed to be created to keep the unemployment rate stable

- It is important to highlight that the data is backward looking, capturing how the economy was tracking around 4-5 months ago. The more forward looking indicators like the job ads series suggest that while employment growth will remain a feature it is likely to be a less robust in the near term. The job ads series posted just 0.6 per cent growth in October – the weakest increase in six months.
- The economy has softened in the last couple of months. Manufacturing, construction and the services sector are all contracting, while businesses are trimming new orders and profitability is being affected - given the lack of activity. No doubt the softer economy is ensuring that businesses remain cautious and the gains in part time employment adds further weight to that picture. Part time employment recorded the strongest growth in 15 months. Overall it is unlikely that the Reserve Bank will be pursuing further interest rate rises anytime soon. CommSec expects the next rate hike to be well into 2011.
- The surprise Reserve Bank rate hike last week was largely due to the tight capacity issues in the labour market. And while economic growth is expected to be above trend in the coming year, limited spare capacity and resulting wage pressures are unlikely to be an issue in the short term. CommSec expects the unemployment rate to end the year around 5.0 per cent.
- Looking across the states, most of the jobs growth occurred in NSW and Queensland, with job losses all based in Western Australia. In fact the unemployment rate in NSW fell to a two-year low, while Victoria has posted annual jobs growth of 4.3 per cent – the best result in 12 years. Interesting the latest data on dwelling finance has highlighted the outperformance of the Victorian economy compared with its peers.
- The latest batch of Chinese economic data certainly had a few surprises, and it came in the form of inflation. China's inflation rate accelerated to the fastest pace in more than two years and the goal by Chinese authorities to keep inflation at around 3 per cent certainly seems like a difficult proposition.
- It should be noted that the real problem is the rising food inflation while non-food inflation is still tame. However given that growth and optimism are abound it is likely that policymakers will need to take more stringent measures in coming months to restrain inflation.
- Apart from inflation, Chinese authorities have also got a challenge in ensuring an asset bubble does not occur in equity markets. This is especially the case given that the revaluation of the Yuan will be a feature of the Chinese landscape over the coming year and add to "hot money" and speculators taking bets on the Chinese currency.
- The good news is that the Chinese economy is growing at a firm pace, with retail activity and investment remaining buoyant. Also house price growth is moderating. The recent rise in interest rates and the hike in the reserve ratio will help to moderate lending and activity in the midterm.

What do the figures show?

Labour force

- Employment rose for the eight straight month in October, lifting by 29,700 workers. Full-time employment fell by 14,100 – the biggest monthly fall in 14 months. But part-time jobs rose by 43,800 – biggest monthly gain in 15 months.
- The unemployment rate rose from 5.1 per cent to 5.4 per cent. The participation rate increased from 65.6 per cent to 65.9 per cent.
- Average hours worked rose to record highs, up by 0.5 per cent in October. Hours worked are up 3.7 per cent on a



year ago.

- NSW led the job gains in October (up 23,600) followed by Queensland (up 15,800), Victoria (up 4,200), South Australia (up 3,800), Tasmania (up 1,200), ACT (up 500) and Northern Territory (up 300). Job losses occurred in only Western Australia (down 5,200).
- Across the states and territories unemployment rates in October were: NSW 5.4 per cent (5.3 per cent in September); Victoria 5.6 per cent (5.3 per cent); Queensland 5.6 per cent (5.4 per cent); South Australia 5.7 per cent (5.5 per cent); Western Australia 4.7 per cent (4.6 per cent); Tasmania 5.1 per cent (5.2 per cent); Northern Territory 3.1 per cent (3.1 per cent); ACT 3.0 per cent (3.1 per cent).
- The working age population rose by 2.16 per cent over the past year (previous estimate 2.21 per cent), and short of the record 2.32 per cent annual pace recorded in the year to December 2008.

Chinese Data

- **The annual rate of consumer price Inflation** lifted from 3.6 per cent in September to a 25-month high of 4.4 per cent in October (consensus 4.0 per cent). Food prices rose by 8.0 per cent over the year.
- **The annual rate of producer price inflation** rose from 4.3 per cent to 5.0 per cent in October (consensus 4.1 per cent).
- **Industrial output** expanded at a 13.1 per cent annual pace in October, down from 13.3 per cent in September (consensus 13.4 per cent). Production is now growing at the slowest annual pace in 13 months, well off the highs of 20.7 per cent in January/February.
- China's **urban fixed asset investment**, such as spending on roads and power plants, grew at a 24.4 per cent annual pace in the ten months to October (consensus per cent), down from 24.5 per cent over the nine months to September, and down from the peak of 33.4 per cent in the nine months to September 2009.
- **Retail sales** grew at an 18.6 per cent annual rate in October (consensus 18.8 per cent), down from the 18.8 per cent annual pace in the year to September.
- **Chinese property prices** slowed. Urban property prices rose by 8.6 per cent in the year to October, down from 9.1 per cent in the year to September and the 12.8 per cent peak in April.

What is the importance of the economic data?

- The **Labour Force** estimates are derived from a monthly survey conducted by the Bureau of Statistics. The population survey is based on a multi-stage area sample of private dwellings (currently about 22,800 houses, flats, etc.) and a sample of non-private dwellings (hotels, motels, etc.). The survey covers about 0.24 per cent of the population of Australia and includes all people over 15 years of age, except defence personnel.
- If more people are employed, then there is greater spending power in the economy. But at the same time companies may adjust the work hours of employees. If employees work less hours, and therefore get paid less, then spending power in the economy is reduced.
- **China's National Bureau of Statistics** releases its monthly economic statistics around the middle of each month. Quarterly GDP data is released around the 16th of January, April, July and October. China is Australia's largest trading partner and changes in the Chinese economic have major implications for the Aussie economy.

What are the implications for interest rates and investors?

- The recent data suggests that the Australian economy has slowed, and the latest rate hike is likely to ensure that activity moderates in the near term. The Reserve Bank is unlikely to move on interest rates until well into 2011. The strength of the labour market and resulting wage inflation pressures will be crucial in deciding on the trajectory of rate hikes going forward.
- The fortunes of the Chinese economy ties closely with domestic growth prospects. Simply, a strong Chinese economy means more demand for resources, more money flowing into the Australian economy and potentially more inflationary pressures.

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