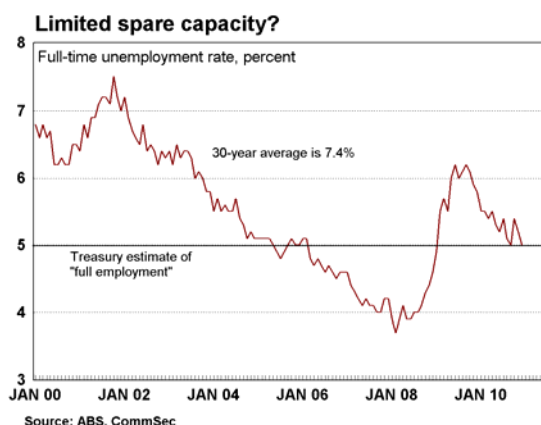
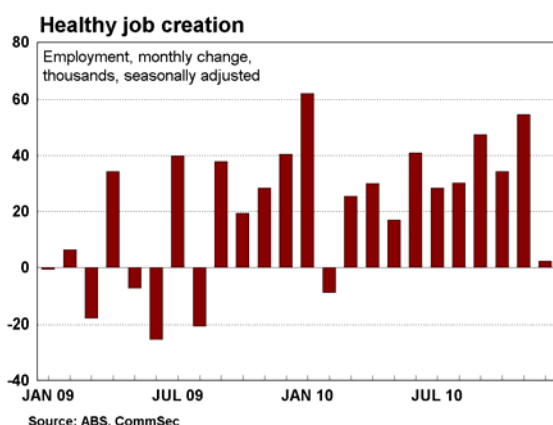


Employment slows: A case of lies, damned lies and statistics? Labour force

- Employment rose by just 2,300 people in December, well below forecasts centred on job gains of around 25,000 (range from +10,000 to +40,000 jobs). The November result was not revised – recording job growth of 54,600 people. Full-time employment rose by 1,700 in December (November jobs were up by 55,400) and part-time jobs rose by 600 (November jobs fell by 800).
- Despite the meagre job growth, the unemployment rate fell from 5.2 per cent to 5.0 per cent. The main reason for the drop in unemployment was an apparent fall in the number of people in the workforce. The participation rate fell from a record high of 66.0 per cent to 65.8 per cent. The working age population rose by 19,700.
- Average hours worked fell by 0.2 per cent in December but rose by 2.8 per cent over the year.
- Across the states and territories unemployment rates in December were: NSW 4.6 per cent (5.0 per cent in November); Victoria 4.9 per cent (5.5 per cent); Queensland 6.0 per cent (5.6 per cent); South Australia 5.6 per cent (5.6 per cent); Western Australia 4.4 per cent (4.5 per cent); Tasmania 5.0 per cent (5.4 per cent); Northern Territory 2.6 per cent (2.7 per cent); ACT 3.3 per cent (3.2 per cent).

What does it all mean?

- Take the latest job figures with a grain of salt. Employment probably didn't creep higher by just over 2,000 in December just as it probably didn't soar by almost 55,000 positions in November. The truth lies in between. Overall the pace of job growth is probably slowing in line with a raft of other indicators, but from unsustainable levels.
- Just as the top level results are hard to believe, so are the changes in state unemployment rates. Apparently Victorian unemployment fell from 5.5 per cent to 4.9 per cent in the space of a month and NSW unemployment fell from 5.0 per cent to 4.6 per cent. The job market is in reasonable shape but not to justify such sharp movements in the space of a month.



Savanth Sebastian – Economist (Author)

(02) 8223 7130 (work), 0414 188 161 (mobile) | savanth.sebastian@cba.com.au

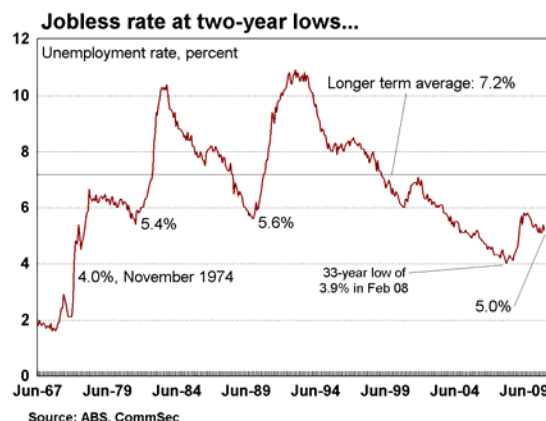
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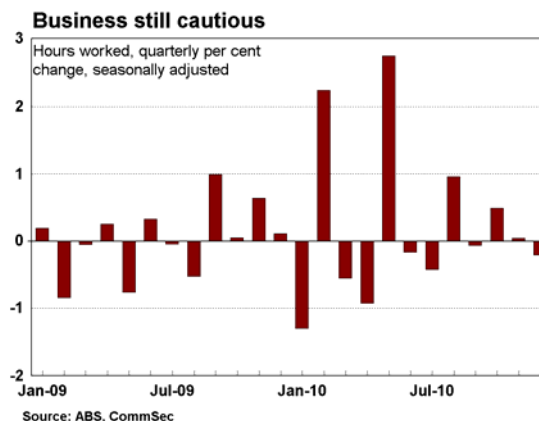
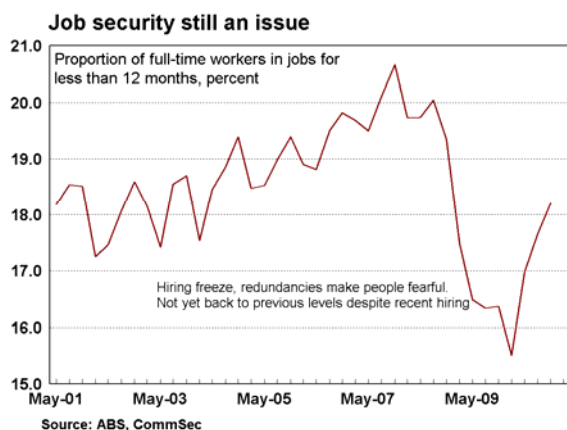
- Without a doubt the labour market has been the outstanding indicator of the Australian economy. And while most analysts will focus on the 360,000 plus jobs that were created over the past year, more importance should be paid to the growth rate which eased modestly in December from the fastest pace of job creation in more than five years – a time that signalled the start of the commodity boom.
- While the performance of the labour market over the past year is certainly phenomenal. 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 Advantage job index recorded the weakest result in 18 months in December, and more importantly other job ads series have also highlighted a slowdown in potential new hiring.
- It clear that the pace of jobs growth in the early part of 2011 is likely to be more sedate. 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. No doubt the softer economy is ensuring that businesses remain cautious, and more importantly the November rate hike is yet to have a full impact on the domestic economy.
- Many investors are puzzled why consumer spending has failed to lift despite strong gains in employment over the past year. One reason is the fact that older workers have grabbed the bulk of new jobs as opposed to those in their 20s and 30s. And then there is job security. The latest data shows that 18.2 per cent of full-time workers have been in jobs less than a year. While this is up from 15.5 per cent at the start of the year, it is well off levels of around 20 per cent that held over 2007 and 2008. If more and more new workers are joining firms, people tend to feel more relaxed about their jobs. And while job growth has lifted, existing workers still harbour doubts about job security, thus making them more reluctant to spend freely.
- Overall it is unlikely that the Reserve Bank will be pursuing further interest rate rises anytime soon. The full impact of the Queensland floods is still an unknown and the Reserve Bank is unlikely to raise interest rate until it has more data. However the mid-term outlook is somewhat more concerning, as there will be a substantial amount of labour required later this year as the rebuilding phase begins in earnest. The demand for labourers, construction workers and other tradies is likely to add to wage and prices pressures – putting further pressure on the Government to ease restrictions on skilled migration.



What do the figures show?

Labour force

- Employment rose for the tenth straight month in December, lifting by 2,300 workers. Full-time employment rose by 1,700 after rising by 55,400 in November. Part-time employment rose by 600 after falling by 800 in November.
- Employment has risen by 364,000 over the past year. Annual employment eased from 3.7 per cent to 3.4 per cent.



- The unemployment rate eased from 5.2 per cent to 5.0 per cent. The participation rate fell from 66.0 per cent to 65.8 per cent.
- Average hours worked fell by 0.2 per cent in December but rose by 2.8 per cent over the year.
- NSW led the job gains in December (up 6,500) followed by Queensland (up 3,300), Tasmania (up 1,000), South Australia (up 700), and the ACT (up 600). Employment fell in Victoria (down 5,300), Western Australia (down 4,100) and the Northern Territory (down 500).
- Across the states and territories unemployment rates in December were: NSW 4.6 per cent (5.0 per cent in November); Victoria 4.9 per cent (5.5 per cent); Queensland 6.0 per cent (5.6 per cent); South Australia 5.6 per cent (5.6 per cent); Western Australia 4.4 per cent (4.5 per cent); Tasmania 5.0 per cent (5.4 per cent); Northern Territory 2.6 per cent (2.7 per cent); ACT 3.3 per cent (3.2 per cent).
- The working age population rose by 19,700 in December after lifting by 20,100 in November. The working age population grew by 2.07 per cent over the past year – the smallest gain in 36 months.

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.

What are the implications for interest rates and investors?

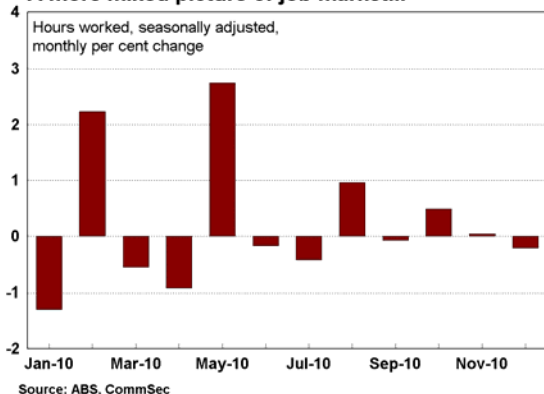
- CommSec expects the jobless rate to ease to around 4.2 per cent over the coming year. But if the Federal Government was to provide a much needed boost to labour supply by lifting the migrant intake and easing work visa restrictions, the job market may not need to tighten as much as expected
- We don't expect the Reserve Bank to touch official interest rates until at least April 2011. The flood disaster in Queensland has the potential to push back the next rate hike.
- The Federal Government now needs to give consideration to increasing labour supply (migration) to prevent inflationary pressures from emerging. Looking forward, productivity and migration need to lift to prevent inflationary pressures from developing.

Savanth Sebastian, Economist, CommSec

Work: (02) 8223 7130;

Mobile: 0414 188 161

A more mixed picture of job market...



Growing workforce

