

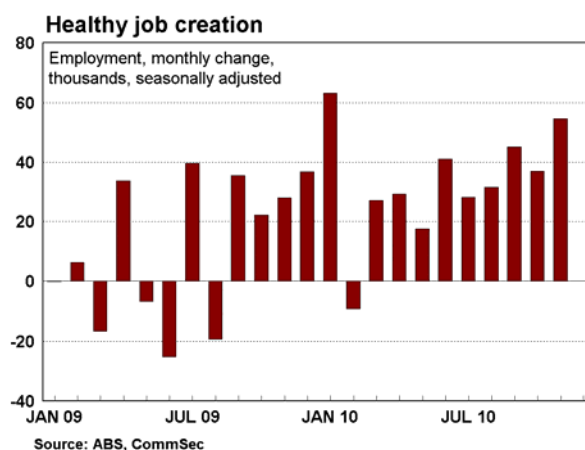
# Employment soars; productivity now in focus

## Labour force

- Employment rose by 54,600 in November, well above forecasts centred on job gains of around 20,000 (range from +5,000 to +35,000 jobs). The October result was revised up to show job growth of 36,900 (previously showed a rise of 29,700). Full-time employment rose by 55,100 (October jobs were down by 7,600) and part-time jobs fell by 400 (October jobs rose by 44,500).
- The unemployment rate fell from 5.4 per cent to 5.2 per cent. The participation rate rose from 65.9 per cent to a record high of 66.1 per cent. The working age population rose by 20,100.
- Average hours worked were largely flat (up 0.04 per cent) in November but were up by 3.1 per cent over the year.
- Across the states and territories unemployment rates in November were: NSW 5.1 per cent (5.4 per cent in October); Victoria 5.5 per cent (5.6 per cent); Queensland 5.5 per cent (5.6 per cent); South Australia 5.6 per cent (5.7 per cent); Western Australia 4.5 per cent (4.7 per cent); Tasmania 5.4 per cent (5.2 per cent); Northern Territory 3.1 per cent (3.1 per cent); ACT 3.1 per cent (3.1 per cent).

### What does it all mean?

- At face value this is another tremendous result, but it probably raises more questions than answers. If employment is surging, why are the numbers of hours worked barely moving? And if more Australians are working than ever before, why aren't consumers spending?
- While it's good news that plenty of Aussies have jobs, now the focus will need to shift to Australia's awful productivity growth. More people are getting jobs but plenty of us must also be working fewer hours and putting out less output. While hours worked are up 3.1 per cent on a year ago, productivity is up only 0.5 per cent. In short, we shouldn't celebrate too loudly.
- Clearly the latest employment result highlights the huge gap with the US - and for that matter most other advanced nations. Australia has a jobless rate of 5.2 per cent and the Reserve Bank is maintaining tight monetary policy. In the US, the Federal Reserve is still trying to kick start growth and the jobless rate stands at 9.8 per cent.
- It's important to note that it now takes smaller job gains to cause the jobless rate to fall. In October the Bureau of Statistics estimated that the working age population grew by just 19,800 – the smallest gain for over four years. And in November this population estimate rose by 20,100. Given that just over 66 per cent of people are in jobs or looking for work, this means it only takes employment gains of 15,000-20,000 to cause the jobless rate to fall.
- What is really important is where the jobs are being created – not just the industries and regions but what demographic groups are benefitting most. Unfortunately only the top level data is available today and we will have to wait another week for more detailed estimates. CommSec research of past trends has revealed that older workers have been the big winners over the past two years. Since the job market



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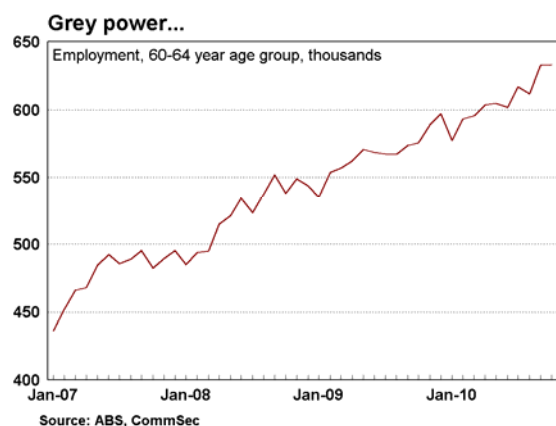
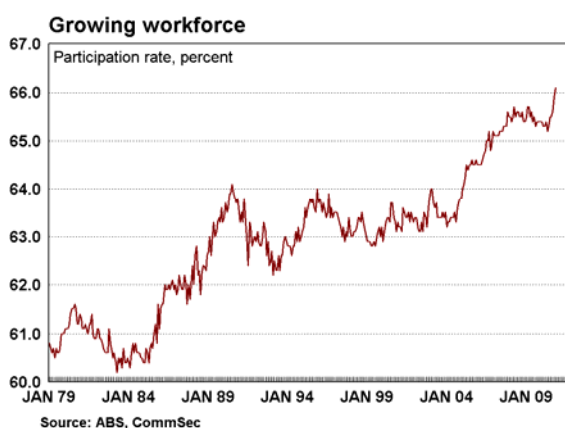
last peaked in late 2008, employment for workers aged 65 years and over has lifted by a massive 25 per cent with employment of those between 60-64 years surging 17 per cent with the number of jobs up by 95,000. And employment for those aged 55-59 has risen 9 per cent or 74,000 people. Senior Australians have different spending patterns than their children, accounting for the tepid gains in traditional retail spending and greater outlays on services.

- Its worth noting that there are still 57,000 fewer workers aged between 15-19 years than there was two years ago. Employment in the biggest demographic (35-44 years) has only lifted by 1.3 per cent over the past two years or 32,000 people, thus constraining consumer spending.
- The economy lost momentum in the September quarter and would have gone backwards during the period had it not been for strong growth in the rural sector. And that slowdown in growth will show up in the job market in coming months. Employment is a lagging indicator and it can take 4-5 months from the time a job is advertised to the time that the new worker takes on the role. Job advertisements have slowed in trend terms for the past nine months and that will lead to smaller job gains in early 2011.
- We don't expect the Reserve Bank to touch official interest rates until at least April 2011 but the chances of an earlier move have increased with the latest jobs data. It is always important to note that monthly jobs data is volatile.
- CommSec expects the jobless rate to ease to around 4.5 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. Clearly a boost to labour supply would reduce upward pressure on wages and prices and therefore allow rates to remain on hold for longer.

## What do the figures show?

### Labour force

- Employment rose for the ninth straight month in November, lifting by 54,600 workers. Full-time employment rose by 55,100 after falling by 7,600 in October. But part-time fell by 400 after rising by 44,500 in October.
- Employment has risen by 402,500 over the past year – the best gain in just over five years. Annual employment lifted from 3.4 per cent to 3.7 per cent.
- The unemployment rate eased from 5.4 per cent to 5.2 per cent. The participation rate increased from 65.9 per cent to a record high of 66.1 per cent.
- Average hours worked inched up to record highs, up by just 0.04 per cent in November. Hours worked are up 3.1 per cent on a year ago.
- NSW led the job gains in November (up 20,200) followed by Victoria (up 16,900), Western Australia (up 9,100), Queensland (up 3,300), ACT (up 600) and Tasmania (up 100). Employment fell in South Australia (down 3,200), and Northern Territory (down 200).
- Across the states and territories unemployment rates in November were: NSW 5.1 per cent (5.4 per cent in October); Victoria 5.5 per cent (5.6 per cent); Queensland 5.5 per cent (5.6 per cent); South Australia 5.6 per cent (5.7 per cent); Western Australia 4.5 per cent (4.7 per cent); Tasmania 5.4 per cent (5.2 per cent); Northern Territory 3.1 per cent (3.1 per cent); ACT 3.1 per cent (3.1 per cent).
- The working age population rose by 20,100 in November after lifting by 19,800 in October (smallest gain in over four years). The working age population grew by 2.12 per cent over the past year – the smallest gain in 34 months.
- Employment by demographic group is only available a week after the main data and only in original terms.



CommSec has found that over the two years to October 2010 employment rose most in the 65 years plus age group (up 25.2 per cent or 66,700 people) followed by the 60-64 age group (up 17.7 per cent or 95,000 people) followed by the 55-59 years group (up 8.6 per cent or 74,300). Employment in the 15-19 age group is still down 7.6 per cent or 57,500 people on two years ago.

- Female workers have tended to do better than male workers in job growth over the past two years.

### 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?

- The employment data can't be taken at face value. One month jobs could rise 55,000 and the next month jobs fall a similar magnitude. But on average it is clear that job growth is very healthy.
- The Federal Government now needs to give consideration to increasing labour supply (migration) to prevent inflationary pressures from emerging.
- Federal Treasury has been successful in its PPP policy. Population has risen, although slowing more recently. Participation is up – especially more senior workers in the workforce. But productivity is still a work in progress.
- We need not fear a strong job market. But productivity and migration need to lift to prevent inflationary pressures from developing.
- A key reason why retail spending is soft is because the key spending demographic groups aren't the big winners in the jobs stakes, but rather senior Australians. The trend bears watching.

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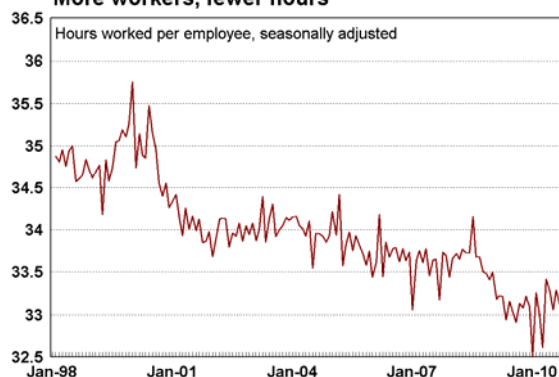
### Job market winners & losers

Age group	Change in jobs ('000) past 2 years*
25-34	111.3
60-64	95.0
45-54	84.6
55-59	74.3
65+	66.7
35-44	32.6
20-24	27.8
15-19	-57.5
<b>TOTAL</b>	<b>434.7</b>

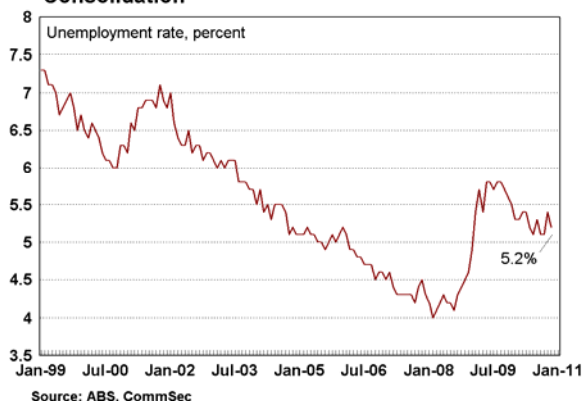
Source: ABS, CommSec

\* to October 2010

### More workers, fewer hours



### Consolidation



### Below-average productivity growth

