Australia: Strong headline employment growth, weak details

Another strong headline employment growth figure looks considerably weaker when de-composed. However, given the volatility in this data, it is too soon to start drawing any conclusions about what this means for Reserve Bank policy

47,500

Total employment change

From previous month

Higher than expected

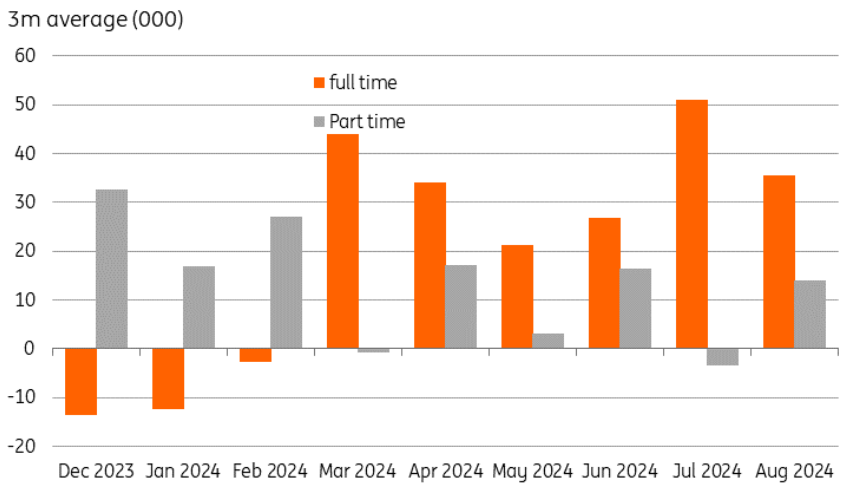
The devil is in the detail

Another employment growth figure of close to 50,000 (47,500) in August should dispel thoughts of imminent easing from the Reserve Bank of Australia (RBA). Until recently, there was an odd kink in the implied cash rate curve at the September meeting, indicating that some investors still believed the RBA would follow the Fed lower this month. This has now disappeared.

Still, for the doves, this latest labour report contains some suggestions of weakness that they may want to cling to.

Despite the strong headline employment growth number, the increase all came from the part-time sector. These jobs, which are almost by definition more poorly paid, and often come with lower job security, perks and other benefits, will have a smaller impact, job-for-job, on household spending than full-time employment growth. Full-time jobs actually fell by 3,100 in August. While part-time jobs grew by 50,600.

Full-time and part-time employment growth (monthly change, 3mma)



It's way too early to draw any firm conclusions

It would be wrong to get too carried away by this month's data. This is an extremely volatile set of figures, and we prefer to draw our conclusions only from trends, such as the 3-month moving averages shown in the chart above.

When examined in this way, we can see that the trend of employment growth is still being driven by full-time jobs, although the pace of full-time employment growth does seem to be waning slightly. At this stage, we are not drawing any inferences from the numbers, and we doubt the RBA is either.

We had also thought that this month may show a slight increase in the unemployment rate to 4.3% from 4.2%. In the end, it remained at 4.2%. Labour force growth slowed slightly to 37,000 in August from 75,400 in July but remains robust. But the number of unemployed declined by 10,500, which shows that the labour market remains reasonably firm. Again, a small monthly decline in the number of unemployed is not remarkable. We had a similar fall in May and in February this year. It does not herald a dramatic shift in the labour market. That said, this month's unemployment rate figures came perilously close to being rounded down to 4.1%, and that may have caused a bigger market reaction if it had happened. It's certainly something to watch out for next month.

Market response was positive, but muted

The immediate market response to today's data was a positive one - though fairly muted. The AUD had been trading weaker going into the data but jumped slightly following the release. 2Y Australian government bond yields likewise rose from about 3.62% to 3.66%. 10Y Australian government bonds rose about the same from about 3.91% to 3.94%.

We remain of the view that the RBA will not be following the Fed anytime soon and that easing is going to be a 2025 story with a first RBA cash rate cut tentatively forecast for the first quarter of that year and a total of 100bp of cuts priced in this cycle. If anything, we feel that the risks to even these forecasts are that the RBA may start easing later, and by less in total for 2025.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com