

## Australia: unemployment rate falls to record low

Labour market indicators suggest that 25bp rate hikes may not be enough to bring inflation swiftly back within the RBA's target range



Reserve Bank of  
Australia Governor  
Philip Lowe

Source: Shutterstock

**3.9%** Unemployment rate  
Record low

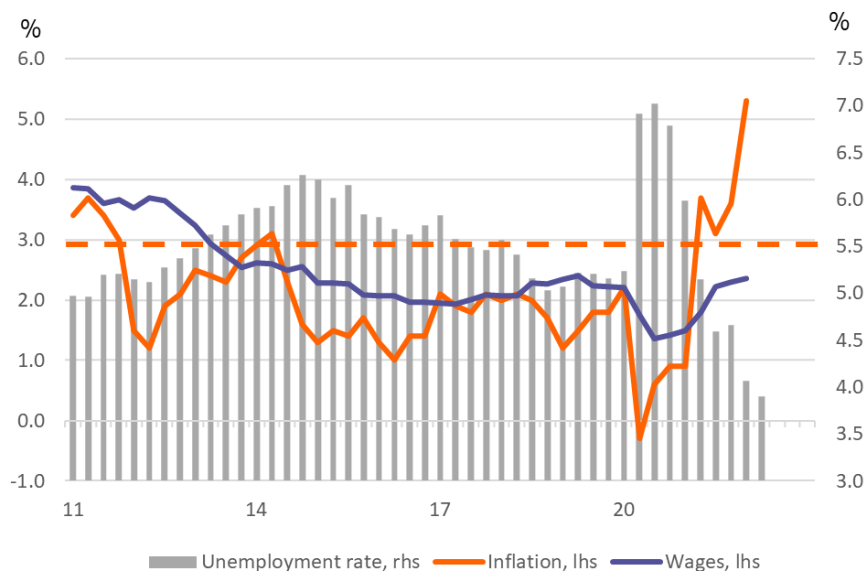
As expected

### Unemployment rate falls to record low

Today's April labour market data showed a smaller than expected gain in total employment of only 4000. But as this was the net result of what looks like a huge transformation of part-time jobs to full-time jobs, the impact on consumer demand will be far more than this headline employment figure suggests. Full-time employment rose by 92,400, just exceeding the 88,400 decline in part-time jobs. But in addition to longer hours, full-time jobs tend to be better paid, and also offer more perks and job security, all of which are likely to encourage greater spending.

Perhaps even more importantly, the unemployment rate fell to 3.9% from 4.0%. This is a new record low, and suggests that the labour market is very, very tight.

## Wages, inflation and the unemployment rate



Source: CEIC, ING

## Labour data more of a marginal consideration now

Before the Reserve Bank of Australia (RBA) responded to the recent surge in inflation with a 25bp increase in the cash rate target, labour market data was scrutinized for signs that the central bank's dovish resolve would be challenged. Now that rates have already been raised, that is no longer the case. But labour market data is not irrelevant. Today's drop in the unemployment rate to a new record low, even alongside the relatively more subdued 1Q wage data released yesterday, raises questions about the pace of future hikes.

The question worth pondering is this: "Does it make sense to raise rates in 25bp increments when the inflation rate is so far above target, and so far above the level of policy rates? Or does it make more sense to front-run the early tightening?"

A number of other central banks in the Asia Pacific region are having the same internal conversation right now, having emerged from a similar period of dovishness assuming that most of the inflation spike would be transitory, or largely bypass their economies for various reasons. The consensus of these other central banks seems to be swinging behind a more rapid pace of withdrawal of accommodation, at least for a while. Rate hikes from the RBA in excess of 25bp in the near future can't be ruled out either.

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.