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

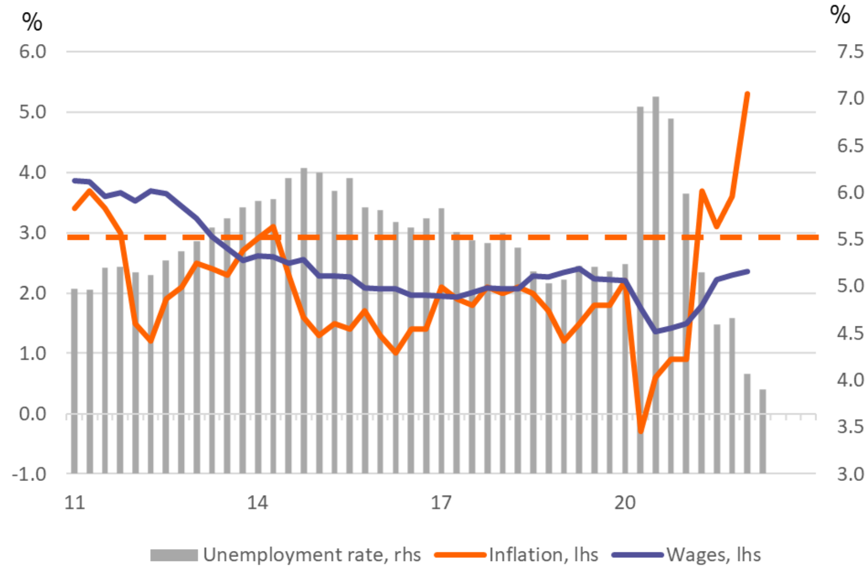
As expected

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

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