

## Australian unemployment rate drops to 4.2%

December employment growth comes in on track at 64,800. But the unemployment rate dropped unexpectedly from 4.6% to only 4.2%



# 4.2%

Dec Unemployment rate

From 4.6%

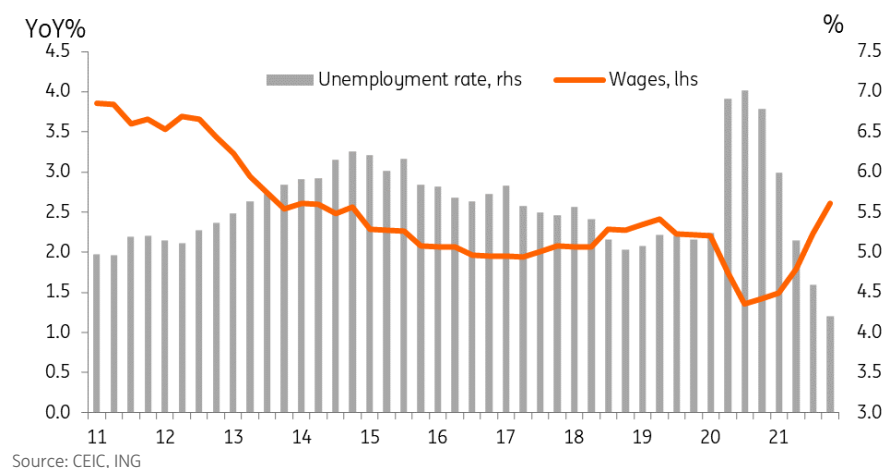
Lower than expected

### Employment in line, but unemployment much lower than expected

December employment in Australia rose by 64,800 following the big 366,100 gain in November as states left lockdowns behind and people returned to work. The December employment gain was broadly in line with expectations with a 41,500 gain in full-time employment and a 23,300 rise in part-time jobs.

The "shock number" in the release was the unemployment rate, which dropped from 4.6% to only 4.2%. This was a much bigger decline than the 4.5% consensus expectation. And it was seemingly achieved without any notable swing in the participation rate, which remained at 66.1%.

## Australian unemployment rate and wages growth



## Wages are the key for the RBA

The steep fall in the unemployment rate could be a factor for the Reserve Bank of Australia (RBA) to consider when it mulls its monetary policy options this year. However, until they see evidence of higher inflation or wage acceleration, we don't expect them to change their dovish message on rates.

The next wage price index (for 4Q21) is not due until 23 February, though we will get 4Q21 CPI inflation next week (25 Jan). That data print will probably show inflation staying at about 3.0%YoY, allowing the RBA to maintain its dovish message.

Markets are pricing in a much more aggressive tightening schedule this year from the RBA. And though the RBA's forward guidance appears to us to show rates remaining low for longer than we think plausible, the market has gone completely the other way. Some convergence of both the market and the RBA's guidance in the middle-ground looks likely to us over 2022.

## Author

**Robert Carnell**

Regional Head of Research, Asia-Pacific

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

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