Australia's unemployment rate stays at 5.2%

The Reserve Bank of Australia (RBA) thinks the unemployment rate needs to fall to 4.5% (or lower) to spur inflation back to target - so we can expect more rate cuts as this isn't happening yet

5.2%

Higher than expected

May unemployment rate

Unchanged from April

Labour report not as strong as it looks

On the face of it, this was a solid looking labour report. Employment growth in May was up 42.3 thousand, and there were some upward revisions to the previous month's total, which was similar at 43.2 thousand (formerly reported as 28.4K).

The problem comes with the details. Full-time employment rose only 2 thousand four-hundred. So more than 94% of all employment created was part-time. And barely two-thousand full- time jobs have been created in total in the last two months.

Even so, a job is a job, and that ought to help lower the unemployment rate. But jobs created is not the same as unemployment reduced. Unemployment only fell by two thousand in May from April, and even with the participation rate rising a bit (66% from 65.9%) the denominator (labour force) didn't rise enough, and the numerator (unemployment) didn't fall enough to nudge the unemployment rate down from 5.2%, even on rounding.

RBA still has work to do

With the RBA believing that an unemployment rate of 4.5% (perhaps even lower if Assistant Governor Luci Ellis is to be believed) is now necessary to push inflation higher, and today's figure showing the gap between the current unemployment rate and the full employment rate as wide as ever, about the only conclusion you can draw is that the RBA will need to provide further monetary stimulus to bridge that gap.

The next rate meeting is on 2 July, and markets are already pricing in a 64.1% probability that it results in a further cut. We don't have a strong objection to this market pricing. Though it has come a long way in a short time. The one cut already made won't make much difference to the economy, and about the only argument for taking a slower and more considered approach to easing would be that it takes a long time for rate cuts to have their full effect, so it makes picking the point at which to cease easing without overshooting a little easier.

Then again, with limited room for easing in total (many believe that an effective lower bound for the RBA is 0.5%), the counter-argument is that you get more bang for your buck by being bold with policy. It is a tricky decision, but today's labour report does play to current market pricing of more, and more rapid easing than either we or the market thought likely a month or two ago.

Author

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