

## 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%

May unemployment rate

Unchanged from April

Higher than expected

### 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](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>.