Super-strong Australian employment growth

The Reserve Bank of Australia (RBA) will have its work cut out to keep sounding dovish if it is faced with more data like this latest February employment release. Their defence will be "There is still a long way to go". Maybe. But at this sort of pace, it won't take until 2024 to get there

Source: istock

88,700

Employment change

February

Higher than expected

The numbers

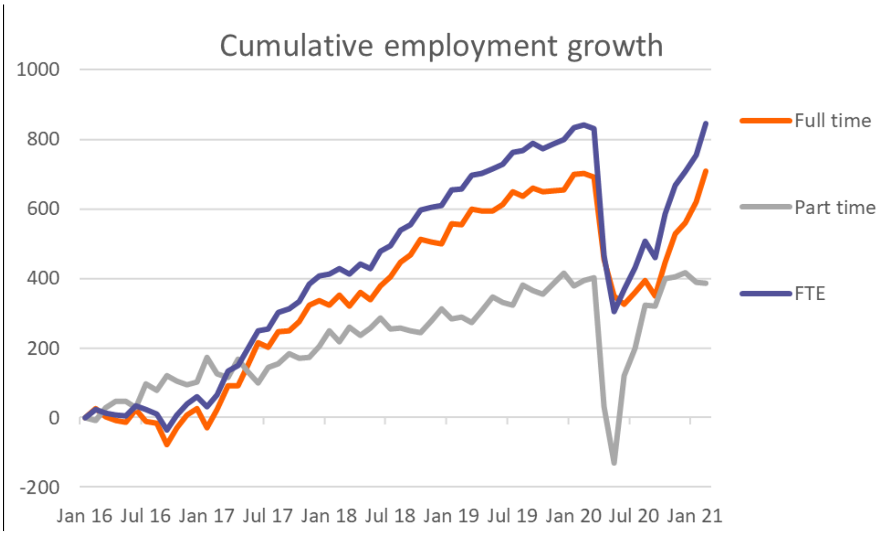
The bare facts of this latest labour release don't take much explaining. After a very solid 29.5K increase in employment in January, Australia added a further 88,700 jobs in February. Not only that, but these were entirely in the full-time sector, which means that the spending power implications of this are much stronger than had this been split between part-time and full-time jobs.

The unemployment rate for January was revised lower to 6.3%, but the February release showed it falling still further to only 5.8%. This came about from a 28,200 fall in the numbers of unemployed.

There were minimal changes in the labour force (participation rate remains 66.1%) so we can't attribute anything meaningful to the drop in the unemployment rate to quirks in the denominator of that calculation.

Looking at the employment side of the release, full-time jobs look to have regained all the ground lost as a result of the Covid-19 pandemic. Everything from here on in will eat away at any slack the RBA believes still exists in the labour market. And the faster that happens, the sooner we can expect them to have to concede that their policy stance is no longer appropriate.

Australian employment back to pre-covid-19 levels



Source: CEIC, ING

What does this mean for the Reserve Bank of Australia

From March 10, when RBA Governor Lowe stepped up to the podium to deliver a speech designed to bring Australian government bonds back under control and moderate AUD strength and followed by the dovish minutes released on 15 March about the March rate meeting, the RBA's message has been clear. They consistently state that there is still a very long way to go before they will change their policy stance. And any eventual change rests firmly on actual progress being made in the labour market, without which, they feel, no sustained increase in inflation is likely.

But while all that is fair, they have been pushing back at a market that has at times challenged their statement that such progress is not likely until 2024. Today's employment release provides the market with another excuse to challenge the RBA's assertions, and reasonably so. And just as the FOMC may have managed to avoid a bigger selloff in US Treasuries overnight, but will still likely see bond yields drift higher over the coming weeks, the same looks likely for longer-maturity Australian government bonds, and for that, we don't need the RBA to do anything with rates.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
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.

 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.