

Australian Markets Weekly

How fast (or slow) is Australian employment growth?

- The NAB Business Survey and Australian Labour Market data are the key Australian events this week, ahead of the Government's mid-year budget update (MYEFO) next Monday.
- A number of indicators suggest that while employment growth has slowed, it has not done so as significantly as suggested by the ABS. A "true" pace of employment growth is likely closer to 15,000 jobs per month than the reported ABS trend of 3,000.
- That said, we are monitoring recent trends that suggest growth has slowed somewhat – business conditions in the NAB survey overall – and particular in NSW and Retail – have softened in recent months. This is not part of the RBA's core economic scenario.
- In markets, the broad post-Trump trends continue (US\$ strength/\$A softness, higher bond yields, stronger equity markets). Oil prices are up nearly 5% in early Asian trading following the announcement of further production cutbacks on the weekend.
- The Fed is fully expected to raise interest rates early Thursday morning Australian time. Most focus will be on the accompanying announcement plus any change in FOMC members' medium-term views of the interest rate track as they incorporate Mr Trump's stimulus policies and a tighter US labour market into their thinking.

How fast or slow is Australian employment growth?

Two main events on the Australian calendar this week – Tuesday's NAB survey and Thursday's Labour Force update. We will monitor the trend for overall business conditions and business conditions in NSW and retail in particular, all of which have slowed somewhat in recent months. [NB: the preceding statements provide no indication of what may or may not be contained in this month's survey, just the main themes investors should be focused on].

As usual, there will also be significant interest in the ABS's latest Labour Market report to be published on Thursday. As the title of our article implies, there is considerable uncertainty about how fast Australian employment is presently growing, which is extremely important for RBA interest rate deliberations and also government revenues. The latter will be in focus next Monday, when the Government publishes the Mid-Year Economic and Financial Outlook, which could well lead to a downgrade of Australia's credit rating.

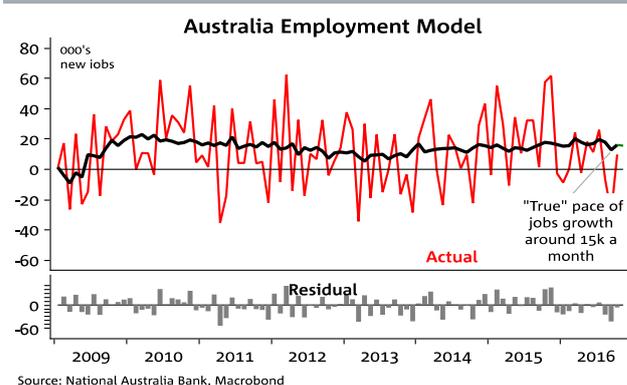
Given the volatility in the ABS's labour market survey over the years, my colleague Peter Jolly has relied on a number of models based off alternative indicators to provide an underlying picture of how the Australian labour market is performing. Chart 1 suggests that while the

Table 1: Market Moves

	Last	% chg week		Last	bp / % chg week
AUD	0.7443	-0.4	RBA cash	1.50	0
AUD/CNY	5.15	0.4	3y swap	2.06	-1
AUD/JPY	86.0	1.1	ASX 200	5,580	3.4
AUD/EUR	0.706	1.7	Iron ore	81.7	5.0
AUD/NZD	1.045	-0.1	WTI oil	54.0	4.3

Source: Bloomberg

Chart 1: True pace of jobs growth around 15k a month



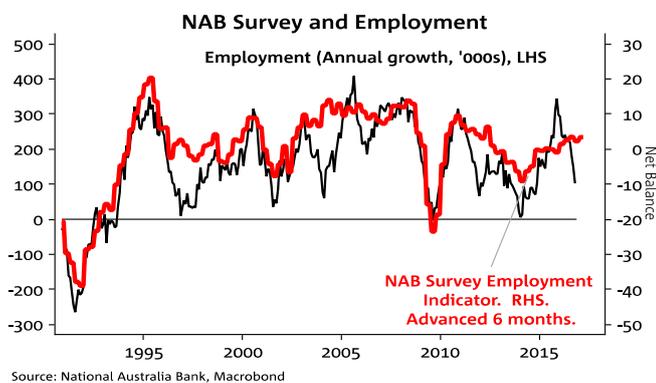
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pace of jobs growth has slowed a little since mid-2016, currently, the underlying pace of employment growth is around 15K per month. Such an underlying result would seem consistent with the slight decline in the unemployment rate that is still being recorded. The current official trend rate of employment growth of 3,000 per month, if sustained, would see the Australian unemployment rate begin to trend higher.

Chart 2 shows that the question about employment intentions over the next six months contained in the NAB business survey has done a more than useful job in anchoring NAB's views on when the ABS might be either overstating or understating employment growth. As can be seen, the indicator was suggesting that while the labour market outlook was improving through 2015, the true pace of jobs growth was likely significantly lower than the above 300,000 reported by the statistician. Similarly, the NAB survey now suggests the weakness reported by the ABS likely significantly understates the true pace of employment growth at the present time (200K versus circa 120K).

Chart 2: NAB survey suggests employment understated



Part of the understatement likely reflects what looks like a rogue Queensland employment cohort introduced two months ago – remember the ABS warned about this and indeed suppressed part of this signal initially – when the September sampling from Queensland first occurred. The latest report suggests that net 19,000 jobs have been lost nationally over September and October, all due to 30,000 jobs being lost in Queensland over that time period.

This 1.3% decline in Queensland employment in two months is simply too large to be believed and likely overstates the slowing in employment growth occurring both in that state and nationwide over the past two months. At some stage that will reverse – perhaps some time in the next month or so, if not when that weird Queensland cohort rotates out of the sample in six further months. [As an aside, I would personally like to see the ABS produce a “trial” labour market series which removed the sample rotation effects from the series. This could be done by only using the movement in new cohorts’ employment status between month 1 and month 2 of the survey (the matched sample), thereby removing that part of the volatility related to cohort rotation].

Back to the data! Two further indicators that suggest employment growth has slowed somewhat, but is not as slow as the ABS currently suggests. SEEK's job ads series

Chart 3: Slower job advertising in big states recently

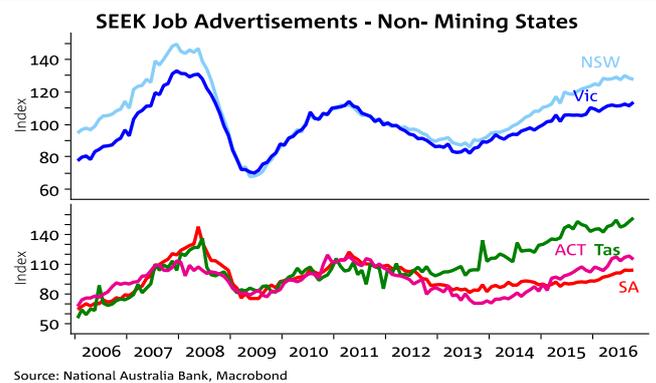
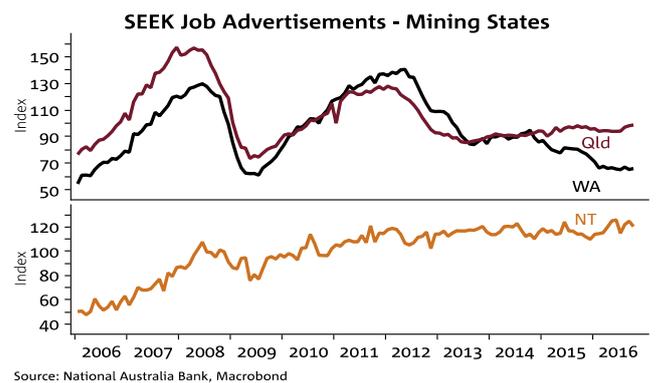


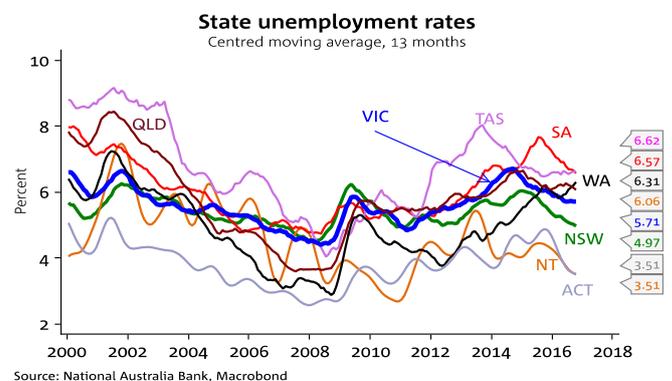
Chart 4: Recovery in QLD & stabilisation in WA advertising



shows some improvement in QLD job ads in recent months. Of note, the rate of growth in NSW and Victoria has slowed but advertising has not declined, in recent months.

Finally, the trend for the national and state unemployment rates also argues against the current reported weakness in employment being “true”. The unemployment rate is broadly flat or declining slightly in all states and territories with the exception of WA, where unemployment continues to rise. WA remains the state hardest hit by the mining downturn. Unemployment is continuing to decline even in Qld, the state which has reportedly just witnessed this significant decline in employment.

Chart 5: Unemployment flat or declining except in WA



So what does this all mean? The latest labour market data likely overstate the actual slowdown in employment growth and the national economy in recent months – much like the Q3 GDP figures last week, which due to a collection of special factors including especially wet weather, produced a

quarterly contraction in output. NAB expects this negative GDP outcome to be a one quarter event, with a preliminary Q4 GDP forecast of +0.9% q/q.

That said, a broad set of indicators suggest Australian growth has flattened out in recent quarters. We continue to watch near-term signs in the NAB business survey and the Australian employment data that NSW and the Retail industry have seen growth slow and business conditions deteriorate in recent months. This is important as: (i) these are big parts of the Australian economy; (ii) NSW was previously performing strongly; and (iii) these developments are very much, not part of the RBA's current forecasts, which broadly envisage a reduced drag from mining (which seems on track), but a continued contribution from consumer spending.

Medium-term, NAB's forecasts continue to include two further interest rate reductions by the RBA around the middle of 2017. These are predicated on a forecast slowing in the economy and rise in the unemployment rate in 2018.

Recent developments and The Week Ahead

The broad market trends in place since the election of Donald Trump remain in force – a stronger US\$ (and weaker \$A), higher global bond yields and stronger share markets. Australian interest rate markets briefly bucked the trend mid-week on the weaker-than-expected Q3 GDP print, but were again under the influence of global market trends later in the week. An announcement of further OPEC and non-OPEC production cuts over the weekend has seen oil prices rise nearly 6% (over \$3 a barrel) in early Asian trading. [Clients wishing regular detailed coverage of NAB's interest rate and foreign exchange views should email nab.markets.research@nab.com.au to request to be added to our strategists' mailing lists].

Apart from the main Australian events this week covered above, the main focus will be on the Federal Reserve's 13-14 December rate meeting. This is widely expected to see the FOMC raise US interest rates for just the second time in this cycle. With the market fully discounting a December rate rise early on Thursday morning Australian time, most focus will be on both the text of the announcement and how the FOMC's constituent members might change their medium-term views of where interest rates are headed, especially in light of new assumptions on likely further stimulus to the US economy following the election of Donald Trump. This stimulus is being applied to a full employment US economy – and indeed arguably a fuller employment US economy than was seen to be the case a month ago, given the latest US unemployment rate printed at a cycle-low of 4.6%. This is contributing to some in the market worrying that the Fed may be more active in raising interest rates in the next year or so. NAB forecasts two interest rate increases by the Fed in 2017.

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Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 12 December 2016								
CH	New Yuan Loans/Aggregate Financing CNY	Nov		720/1098.17		651.3/896.3	10-15 Dec release	
CH	Aggregate Financing CNY	Nov		1098.17		896.3	10-15 Dec release	
CH	Foreign Direct Investment YoY CNY	Nov		1.95		1.2		
NZ	REINZ House Sales YoY	Nov				-14.2		
JN	Machine Orders MoM/YoY	Oct		1.1/-4.9		-3.3/4.3	0.50	10.50
JN	PPI MoM/YoY	Nov		0.3/-2.3		-0.1/-2.7	0.50	10.50
JN	Tertiary Industry Index MoM	Oct		0.3		-0.1	5.30	15.30
JN	Machine Tool Orders YoY	Nov P				-8.9	7.00	17.00
CA	Bloomberg Nanos Confidence	Dec 9				55.6	16.00	2.00
Tuesday, 13 December 2016								
NZ	Mfg Activity Volume/Activity QoQ	3Q				2.8	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Dec 11				118.6	23.30	9.30
AU	NAB Business Conditions/Confidence	Nov				6.0	1.30	11.30
AU	House Price Index QoQ/YoY	3Q		2.5/4.6		2.0/4.1	1.30	11.30
CH	Industrial Production YoY/YTD YoY	Nov		6.1/6		6.1/6.0	3.00	13.00
CH	Retail Sales YoY/YTD YoY	Nov		10.2/10.3		10.0/10.3	3.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Nov		8.3		8.3	3.00	13.00
GE	CPI EU Harmonized MoM/YoY	Nov F		0/0.7		0.0/0.7	8.00	18.00
UK	CPI MoM/YoY	Nov		0.2/1.1		0.1/0.9	10.30	20.30
UK	CPI Core YoY	Nov		1.3		1.2	10.30	20.30
UK	PPI Input NSA MoM/YoY	Nov		-0.5/13.5		4.6/12.2	10.30	20.30
UK	PPI Output Core NSA MoM/YoY	Nov		0.2/2.3		0.4/1.9	10.30	20.30
UK	House Price Index YoY	Oct		7.3		7.7	10.30	20.30
EC	Employment QoQ/YoY	3Q		/		0.4/1.4	11.00	21.00
GE	ZEW Survey Current Situation/Expectations	Dec		59/14		58.8/13.8	11.00	21.00
EC	ZEW Survey Expectations	Dec				15.8	11.00	21.00
US	NFIB Small Business Optimism	Nov		96.5		94.9	12.00	22.00
US	Import Price Index MoM/YoY	Nov		-0.4/0.1		0.5/-0.2	14.30	0.30
Wednesday, 14 December 2016								
AU	Westpac Consumer Conf Index/MoM	Dec		/		101.3/-1.1	0.30	10.30
JN	Tankan Large Mfg Index/Outlook	4Q		10/18		6.0/16.0	0.50	10.50
JN	Tankan Large All Industry Capex	4Q		6.1		6.3	0.50	10.50
AU	New Motor Vehicle Sales MoM/YoY	Nov		/		-2.4/1.2	1.30	11.30
JN	Industrial Production MoM/YoY	Oct F		/		0.1/-1.3	5.30	15.30
JN	Capacity Utilization MoM	Oct				-2.0	5.30	15.30
UK	Jobless Claims Change	Nov		6.5		9.8	10.30	20.30
UK	Average Weekly Earnings/ex bonus 3M/YoY	Oct		2.3/2.6		2.3/2.4	10.30	20.30
UK	Employment Change/Unemployment rate 3M/3M	Oct		50/4.8		49.0/4.8	10.30	20.30
EC	Industrial Production SA MoM/YoY	Oct		0.1/0.8		-0.8/1.2	11.00	21.00
US	MBA Mortgage Applications	Dec 9				-0.7	13.00	23.00
US	Retail Sales Advance/ex autos and gas MoM	Nov		0.3/0.4		0.8/0.6	14.30	0.30
US	Retail Sales Control Group	Nov		0.4		0.8	14.30	0.30
US	PPI Final Demand MoM/YoY	Nov		0.1		0.0	14.30	0.30
CA	Teranet/National Bank HPI MoM/YoY	Nov				0.3	14.30	0.30
US	Capacity Utilization	Nov		75.1		75.3	15.15	1.15
US	Industrial Production MoM	Nov		-0.2		0.0	15.15	1.15
US	Business Inventories	Oct		-0.1		0.1	16.00	2.00
US	FOMC Rate Decision (Lower/Upper Bound)	Dec 14		0.5/0.75		0.25/0.50	20.00	6.00
Thursday, 15 December 2016								
NZ	BusinessNZ Manufacturing PMI	Nov				55.2	22.30	8.30
NZ	Value of All Buildings SA QoQ	3Q		2.1		5.5	22.45	8.45
AU	Consumer Inflation Expectation	Dec				3.2	1.00	11.00
AU	Employment Change/Unemployment rate	Nov		17.5/5.6		9.8/5.6	1.30	11.30
AU	Participation Rate	Nov		64.5		64.4	1.30	11.30
AU	RBA FX Transactions Market	Nov				439.0	1.30	11.30
JN	Machine Tool Orders YoY	Nov P				-8.9	7.00	17.00
GE	Markit/BME Germany Manufacturing/Services PMI	Dec P		54.5/54.9		54.3/55.1	9.30	19.30
GE	Markit/BME Germany Composite PMI	Dec P		54.9		55.0	9.30	19.30
EC	Markit Eurozone Manufacturing/Services PMI	Dec P		53.7/53.8		53.7/53.8	10.00	20.00
EC	Markit Eurozone Composite PMI	Dec P		53.9		53.9	10.00	20.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Nov		0/6		2.0/7.6	10.30	20.30
UK	Bank of England Bank Rate	Dec 15		0.25		0.3	13.00	23.00
UK	BOE Asset Purchase/Corporate Bond Target	Dec		435/10		435.0/10.0	13.00	23.00
CA	Manufacturing Sales MoM	Oct		0.5		0.3	14.30	0.30
US	Current Account Balance	3Q		-111.35		-119.9	14.30	0.30
US	Empire Manufacturing	Dec		3		1.5	14.30	0.30
US	CPI MoM/YoY	Nov		0.2/1.7		0.4/1.6	14.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Nov		0.2/2.2		0.1/2.1	14.30	0.30
US	Initial Jobless Claims	Dec 10		255		258.0	14.30	0.30
US	Philadelphia Fed Business Outlook	Dec		9		7.6	14.30	0.30
CA	Existing Home Sales MoM	Nov				2.4	15.00	1.00
US	Bloomberg Consumer Comfort	Dec 11				45.1	15.45	1.45
US	Markit US Manufacturing PMI	Dec P		54.3		54.1	15.45	1.45
US	NAHB Housing Market Index	Dec		63		63.0	16.00	2.00
Friday, 16 December 2016								
US	Total/Long term Net TIC Flows	Oct		/		-152.9/-26.2	22.00	8.00
NZ	ANZ Consumer Confidence Index/MoM	Dec		/		127.2/3.5	1.00	11.00
NZ	Non Resident Bond Holdings	Nov				63.9	3.00	13.00
EC	Trade Balance SA	Oct		24.5		24.9	11.00	21.00
EC	Labour Costs YoY	3Q				1.0	11.00	21.00
EC	CPI MoM/YoY	Nov		-0.1/0.6		0.2/0.5	11.00	21.00
EC	CPI Core YoY	Nov F		0.8		0.8	11.00	21.00
UK	CBI Trends Total Orders/Selling Prices	Dec		-5/20		-3.0/19.0	12.00	22.00
CA	Int'l Securities Transactions	Oct				11.8	14.30	0.30
US	Housing Starts/MoM	Nov		1230/-7		1323/25.5	14.30	0.30
US	Building Permits/MoM	Nov		1236/-1.9		1229/0.3	14.30	0.30
US	Fed's Lacker, Bank of America's Moynihan to Speak in Charlotte						18.30	4.30
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	15-Dec	0.5-0.75%	0.5-0.75%		0.25-0.50%		
UK	BOE	15-Dec		0.25%		0.25%		
Japan, BoJ		20-Dec		-0.1% to +0.1%		-0.1% to +0.1%		
Europe ECB		19-Jan		0.00%		0.00%		
Canada, BoC		19-Jan				0.50%		
Australia, RBA		7-Feb	1.50%	1.50%		1.50%		
New Zealand, RBNZ		9-Feb	1.75%	1.75%		1.75%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

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