

16 September 2016

AUSTRALIAN ECONOMIC DEVELOPMENTS

Activity data released this week confirmed the deterioration in business conditions in August that was evident in Ai Group's **Australian PMI**[®], **Australian PSI**[®] and **Australian PCI**[®] surveys, with the NAB monthly business conditions index declining by a further 2 points.

The labour market also stalled in August, with total employment growth slowing to 1.6% p.a. (trend). Growth in total hours worked slowed to just 0.5% p.a., with 82% of jobs added over the year being part-time. The unemployment rate fell to 5.6% in seasonally adjusted terms, but remained steady at 5.7% in trend terms, as did the participation rate. This suggests that at least some of the fall in the unemployment rate is because fewer people are actively seeking work.

Despite this evidence of weaker conditions in August, confidence remains broadly stable, with the monthly business and consumer confidence indexes indicating a very mildly 'net optimistic' mood. Taken together, these latest indicators underscore the vulnerability of the recent recovery in local business activity that had been building up through 2015-16, as Australia continues to struggle towards a pattern of growth that is less reliant upon resources investment and output (and more recently, upon the housing investment cycle) and more evenly spread across the economy.

Employment growth slows, but unemployment rate steady in August

ABS labour force estimates for August indicate a further slowing in jobs growth, hours worked and labour market participation. The ABS recommends looking to the trend data rather than the seasonally adjusted numbers, so all of the data cited below are in trend terms (see Table 1).¹

In August, 9,900 people were added to the workforce, up 0.1% m/m and 1.6% p.a. This was the slowest monthly jobs growth since April 2016 and the slowest annual growth since April 2015. Over the year to August, 82% of the 191,000 jobs added to the economy were part-time (less than 35 hours per week). Part-time employment grew by 4.3% over the year to August, while full-time employment grew by just 0.4% (see Chart 1). As a result, a record high 31.7% of the workforce are working part-time (46.7% of female workers and 18.8% of male workers). Average hours worked per person per month is down by 1.1% p.a., to a record low of 138.5 hours (about 34.6 hours per week). Aggregate hours worked across the whole economy grew by just 0.5% p.a.

¹ "The ABS produces trend estimates to provide a more reliable indicator of the underlying behaviour of the Labour Force series. ... Trend estimates are considered the best indicators of the underlying behaviour in the labour market." ABS Media Release for Labour Force Australia August 2016, 15 Sep 2016.

Despite this slowing in employment, the unemployment rate stayed broadly steady at 5.7% in August (trend), because fewer people were actively seeking work. The number of unemployed people fell by a further 400 people, to be 42,400 (-5.5%) lower than a year earlier. Of those who were actively seeking work in August, a record high 32.1% of jobseekers were seeking part-time work only, including 41.5% of female jobseekers and 23.5% of male jobseekers.

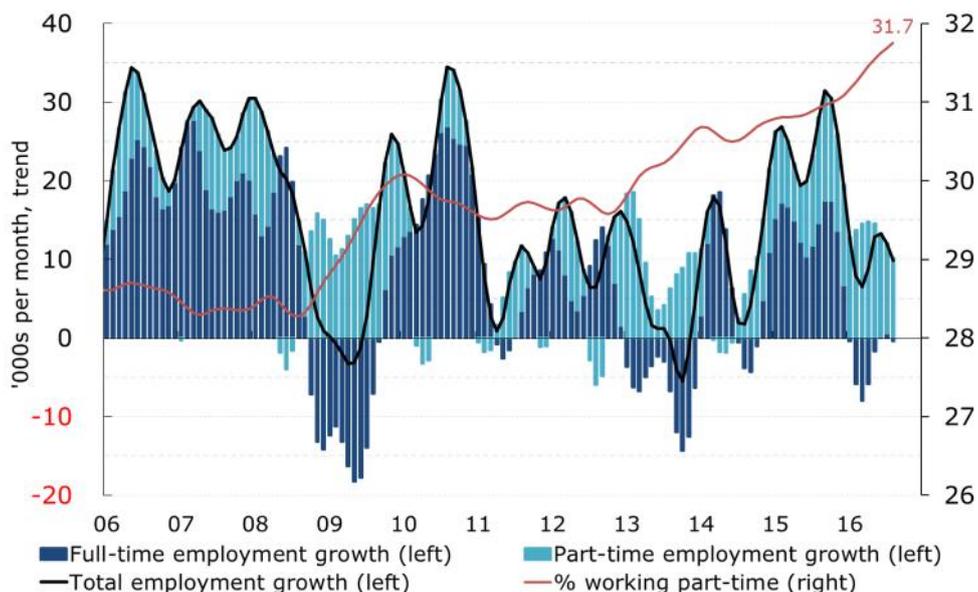
The participation rate and employment to population ratio remained steady in August, but labour force growth (that is, the number of people working or seeking work) slowed to 9,400. This slower rate of growth meant that while employment increased by 191,000 over the year to August (1.6% p.a.), the active labour force grew by only 148,800 (1.2% p.a.). This 'gap' between labour force growth and jobs growth has been sufficient to push the unemployment rate lower over the past year (from 6.1% in August 2015 to 5.7% in August 2016), even as jobs growth weakens.

Table 1: Australian labour market, August 2016

| | Aug-16 | Jul-16 | Aug-16 | Jul-16 |
|--|------------|-------------|--------------|--------------|
| trend | m/m | m/m | y/y | y/y |
| Employment (change, 000s) | 9.9 | 12.0 | 191.2 | 209.4 |
| Full-time (change, 000s) | -0.4 | 0.6 | 33.9 | 48.8 |
| Part-time (change, '000s) | 10.2 | 11.4 | 157.3 | 160.5 |
| Total Employment (change, %) | 0.1 | 0.1 | 1.6 | 1.8 |
| Aggregate hours worked (change, %) | 0.1 | 0.1 | 0.5 | 0.6 |
| Unemployment rate (% of labour force, trend) | 5.7 | 5.7 | | |
| Underemployment ratio (% of employed people, original) | 9.1 | 9.5 | | |
| Underutilization rate (% of labour force, original) | 14.2 | 14.5 | | |
| Participation rate (% of pop., trend) | 64.8 | 64.8 | | |
| Employment to population ratio (% of pop., trend) | 61.1 | 61.1 | | |
| Labour force growth (change, %, trend) | 0.1 | 0.1 | 1.2 | 1.3 |

Source: ABS

Chart 1: Part-time and full-time employment growth per month (trend)



Across the states, the strongest jobs growth in August 2016 was in Victoria (up 8,200) and NSW (up 1,600). The largest decrease was in Western Australia (-1,800, or 0.1% m/m). In relative terms, the ACT had the strongest jobs growth (0.4% m/m), followed by Victoria (0.3% m/m).

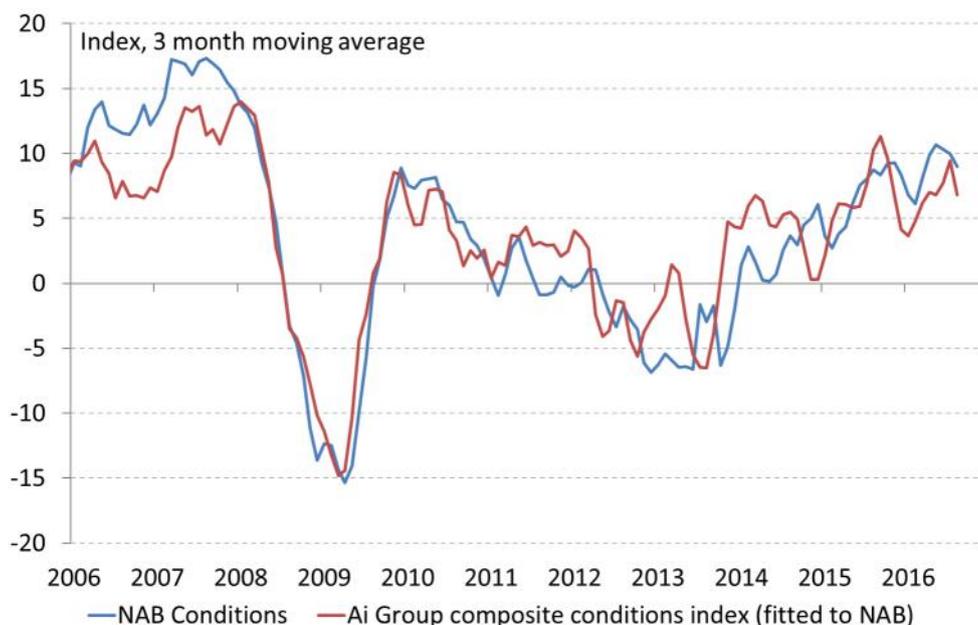
NSW's unemployment rate held steady at 5.5% in August. It was the lowest among the states. In Western Australia and Tasmania, the unemployment rate increased by 0.1 percentage point, taking Tasmania's to the nation's highest unemployment rate at 6.7%. The unemployment rate in South Australia fell by 0.1 percentage point to 6.6% (trend).

Business conditions deteriorate in August, but confidence is stable

The latest **National Australia Bank (NAB) Monthly Business Survey** confirmed a small deterioration in business conditions in August 2016, with the conditions index declining by 2 points to +7 points (results over zero indicate 'net positive' conditions in this survey). This was below the stronger conditions evident earlier in 2016, but still above long-run average for this index of +5. The NAB measure of business conditions continues to follow a similar trend to Ai Group's **Australian PMI®**, **Australian PSI®** and **Australian PCI®** surveys (see Chart 2).

Reflecting Ai Group's **Australian PMI®** and **Australian PSI®** for August, conditions in the manufacturing sector dropped sharply in the NAB survey in August, while key services sectors such as retail and wholesale trade continued to exhibit relatively subdued conditions. With the exception of Western Australia, business conditions were positive across all states (results above zero) in August. Business conditions have eased in NSW in recent months, but it is still the strongest state in the NAB survey, marginally ahead of Victoria.

Chart 2: Composite PMI, PSI & PCI index and NAB business conditions



Source: Ai Group and NAB

In contrast to the weakening in condition, business **confidence** in the NAB survey improved slightly to +6 points in August (up from +4 in July). The RBA's lower cash rate in August may have bolstered sentiment in the month, but the improvement was not broad-based. Confidence fell in mining and retail, but was steady in construction. Confidence improved in manufacturing, consistent with better forward orders for manufacturers reported in the NAB survey.

For consumers, the **Westpac MI Index of Consumer Sentiment** increased by 0.3% to 101.4 points in September, indicating that optimists continue to outnumber pessimists by a slim margin (100 divides the optimists from the pessimists in this survey). September marked the sixth month of relatively stable consumer sentiment. The Index has averaged 100.3 points since March.

The more detailed consumer sentiment results in September suggest that householders are feeling more positive about their own jobs and current financial situation, but are generally less optimistic about the health of the economy and their finances over the year ahead. Indexes for:

- 'unemployment expectations' fell by 2.0% (indicating more confidence about job security);
- 'family finances compared to a year ago' increased by 3.5%;
- 'family finances over the next 12 months' decreased by 2.3%;
- 'economic conditions over the next 12 months' declined by 4.6%;
- 'economic conditions over the next 5 years' increased by 1.1%; and
- The 'time to buy a dwelling' sub-index declined by 2.5% in September. This accords with ABS data released this week showing that the value of lending for owner occupied housing fell by 3.1% m/m in July (seasonally adjusted). Annual growth slowed to +2.3%, the slowest in 20 months. Investment lending for housing was up by just 0.5% m/m in July (after growth of 3.3% m/m in June) to be 9.3% down over the year.

A separate survey from the Westpac-Melbourne Institute indicated that consumers continued to adjust their inflation expectations downwards in September, with the inflation expectations index down by 0.2 percentage points to 3.3% in September.

In contrast, pay expectations about the coming 12 months (asked quarterly in this survey) rose to 2.1% in September from 1.0% in June. In their media release, Melbourne Institute economists noted that *"although pay expectations appear to have improved over the last couple of quarters, there remains considerable uncertainty about economic conditions, with expectations still below the levels observed this time last year."*

This week's data and events, 12 – 16 September 2016

| Day | Date | Data/event | Data period | Latest |
|-----|--------|-----------------------------------|-------------|--|
| Mon | 12 Sep | ABS Lending finance | Jul (M) | owner occupied housing: -3.1% m/m investor finance: +0.5% m/m |
| Tue | 13 Sep | NAB monthly business survey | Aug (M) | conditions: 7 points confidence: 6 points |
| Wed | 14 Sep | Westpac-MI consumer confidence | Sep (M) | 101.4 points |
| Thu | 15 Sep | ABS Labour force Australia | Aug (M) | emp growth: -3,900 Unemp. rate: 5.6% |
| | | ABS sales of new motor vehicles | Aug (M) | +0.1% m/m, +2.9% p.a. |
| | | Westpac-MI inflation expectations | Sep (M) | 3.3% p.a. |

M = monthly. Q = quarterly. A = annual. H = half-yearly. All data are seasonally adjusted unless otherwise noted.

Next week's data and events, 19 September – 23 September 2016

| Day | Date | Data/event | Data period due for release | Latest |
|-----|--------|--|-----------------------------|--------------------------------|
| Tue | 20 Sep | RBA Board meeting minutes | Aug (M) | - |
| | | ABS residential property price indexes | Jun (Q) | Mar (Q): -0.2% q/q; +6.8% p.a. |
| Thu | 22 Sep | ABS labour force detailed quarterly | Aug (Q) | - |
| | | ABS estimated resident population | Mar (Q) | Dec (Q): +1.4% p.a. (Aust.) |

M = monthly. Q = quarterly. H = half-yearly. A = annual. All data are seasonally adjusted unless otherwise noted.

Australian economy: latest full-year estimates and government forecasts

| RBA (Aug 2016) | 2014-15 actual | 2015-16 actual | 2015-16 f | 2016-17 f | 2017-18 f | 2018-19 p | 2019-20 p |
|--------------------------------|-------------------|-------------------|--------------|--------------|--------------|--------------|--------------|
| GDP, % change p.a. | 2.2 | 3.3 | 2.5-3.5 | 2.5-3.5 | 3.0-4.0 | - | |
| Inflation (CPI), % change p.a. | 1.5 | 1.0 | 1.5 | 1.5-2.5 | 1.5-2.5 | - | |
| Treasury (July 2016) | | | | | | | |
| GDP, % change p.a. | 2.2 | 3.3 | 2.5 | 2.5 | 3.0 | 3.0 | 3.0 |
| Household consumption, % p.a. | 2.7 | 2.9 | 3.0 | 3.0 | 3.0 | | |
| Dwelling investment, % p.a. | 7.9 | 8.3 | 8.0 | 2.0 | 1.0 | | |
| Business investment, % p.a. | -6.2 | -14.7 | -11.0 | -5.0 | 0.0 | | |
| Employment growth, % p.a. | 1.6 | 1.9 | 2.0 | 1.75 | 1.75 | 1.25 | 1.5 |
| Unemployment rate, % | 6.1 | 5.8 | 5.75 | 5.5 | 5.5 | 5.5 | 5.5 |
| Terms of trade, % change p.a. | -10.3 | -5.4 | -8.75 | 1.25 | 0.0 | | |
| Inflation (CPI), % change p.a. | 1.5 | 1.0 | 1.25 | 2.0 | 2.25 | 2.5 | 2.5 |
| Wages (WPI), % change p.a. | 2.3 | 2.1 | 2.25 | 2.5 | 2.75 | 3.25 | 3.5 |

Sources: ABS various data; RBA *Statement on Monetary Policy*; and Australian Treasury, *Federal Budget 2016-17*. f = forecast. p = projection.

Australian economy: latest indicators

| Economy | | | | FX and commodity prices (as of Friday) | | |
|-----------------------------|---------|------|---|--|--------------|---|
| RBA official cash rate, % | Sep (M) | 1.50 | - | AUD/USD exchange rate | US\$0.7513 | ▼ |
| Real GDP, % change p.a. | Jun (Q) | 3.3% | ▲ | Oil price (WTI light crude, USD/BBL) | US\$43.68 | ▼ |
| Headline CPI, % change p.a. | Jun (Q) | 1.0% | ▼ | Gold price (USD/OZ) | US\$1314.33 | ▼ |
| Unemployment rate, % trend | Aug (M) | 5.7% | - | Copper price (USD/tonne, LME spot) | US\$4,725.00 | ▲ |

Australian Industry Group monthly indexes

| | | | |
|-----------------|---------|------|---|
| Australian PMI® | Aug (M) | 46.9 | ▼ |
| Australian PSI® | Aug (M) | 45.0 | ▼ |
| Australian PCI® | Aug (M) | 46.6 | ▼ |

M = monthly. Q = quarterly. All data are seasonally adjusted unless otherwise noted.

Arrows represent direction of movement relative to last week for prices, and last observation for growth rates and indexes.

Sources: ABS various data; Ai Group; Australian Financial Review market prices (as of Fri); London Metals Exchange market prices (as of Fri).

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