



17 November 2017

AUSTRALIAN ECONOMIC DEVELOPMENTS

Australia's leading indicators of business conditions diverged somewhat in October, with the NAB's monthly business conditions index jumping to a record high, but the Ai Group performance of manufacturing, services and constructions indexes collectively showing slower – but still broadly positive – conditions. Both surveys are showing activity surging higher in manufacturing, mining and construction but poor conditions in retail. Business confidence remained at around its long-run average in the NAB business survey however, while forward orders and capacity utilisation were lower, which suggests that this month's record could prove to be a statistical outlier.

Among consumers, confidence dropped back into net pessimism in the first weeks of November, with the Westpac-MI index of consumer sentiment dropping 1.7% m/m to 99.7 points. This index has indicated 'net negative' consumer sentiment for all months but one (October) of 2017 to date. For the upcoming pre-Christmas peak sales period for retailers, Christmas spending plans look modest for most households this year, with a third planning to spend less on gifts than last year and just 11% planning to spend more than last year, the lowest such proportion since 2009.

Far more positively, the national labour market showed further improvement in October, with the national unemployment rate falling to 5.4%, the underemployment rate stable at 8.2% and total employment growing by 3.0% (seasonally adjusted). More of the new jobs are full-time than part-time and so the rate of part-time work fell to 31.5% of the workforce and the number of total hours worked across the economy grew by 3.2% p.a. (seasonally adjusted). Although monthly jobs growth was slower in October than in recent months, further jobs growth looks assured for the remainder of 2017, with the SEEK index of new job ads posted online up 16.1% p.a. in October.

Reflecting these improvements in the labour market in 2017, more people are actively coming back into it, to work or seek work. At 65.2% of the adult population, labour force participation is now approaching Australia's record high of 65.7% achieved in December 2010. Labour force participation for Australian women is now at a record high of 59.9% (trend).

Annual wages growth accelerated slightly in Q3 2017. But at 2.0% p.a.– and 1.9% p.a. in the private sector – wages remains weak and at the bottom of the RBA's inflation target of 2-3% p.a.

ABS estimates of gross state product (GSP, the state equivalent of GDP) indicate the strongest economies in 2016-17 were the two territories (4.0% and 4.6% p.a.), followed by Victoria (3.3% p.a.). Western Australia suffered a contraction in GSP in 2016-17 (-2.7% p.a.), but more recent data indicate the worst seems to be over for this mining-dominated state economy.

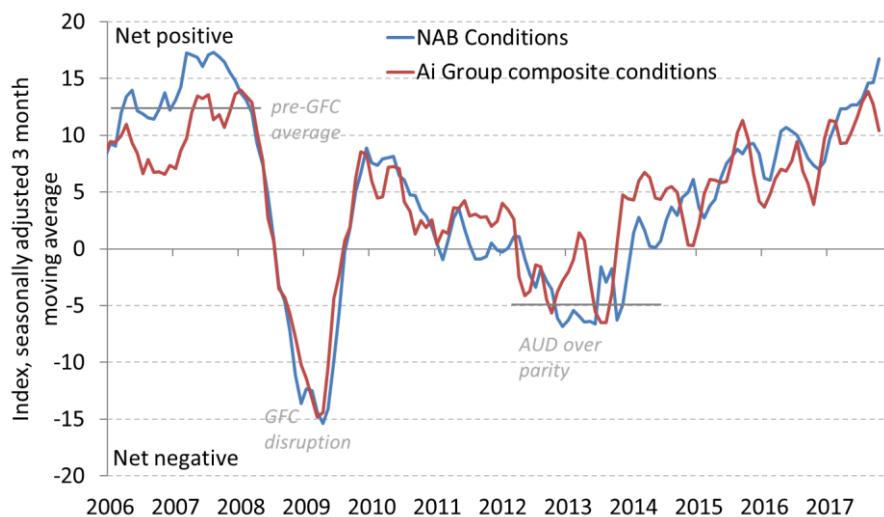
Business conditions and confidence diverge in October

Australia's leading indicators of business conditions diverged somewhat in October, with the NAB's monthly business conditions index jumping to a record high of 21 points (results over zero are 'net positive' in this survey, with higher results indicating better conditions). Surging sales activity manufacturing, mining and construction were the main drivers of this month's result. Profits were higher in mining and some other sectors. As has been evident in other data, the retail trade sector continued to lag behind all others, with net negative sales, employment and orders.

Despite the spike in conditions, business confidence in the NAB business survey did not move higher in October. The confidence index remained at 8 points, which is just above the long-run average for this index but not exceptionally high. The NAB's economists note that this may be because the forward indicators are not as strong as October's record high result might suggest, with forward orders and capacity utilisation moving lower in October. They therefore expect some pull-back from this record high headline index number over the coming months.

In contrast, the Ai Group performance of manufacturing, services and constructions indexes collectively indicated slower – but still broadly positive – conditions in September and October (chart 1). These surveys indicate the same trends as the NAB survey for individual sectors (positive for manufacturing and construction, less positive for retail trade and the more discretionary consumer spending segments) but they do not include the mining or agricultural sectors, which are doing extremely well at present. This omission may account for the divergence.

Chart 1: Ai Group composite business conditions index* and NAB business conditions index, to Oct 2017 (3 month moving averages)



* weighted composite of Ai Group Australian PMI®, PSI® and PCI®. Sources: NAB and Ai Group.

NAB's economists and Macquarie Research analysts suggest October's NAB result may turn out to be an outlier, mainly because the forward indicators are not as strong. Macquarie also noted: *"Other indicators remain more contained, however, raising questions about whether the October*

reading is a bit 'rogue'. Ai Group's surveys actually softened overall in September/October. When this last happened in October 2014, the Ai Group surveys proved the better read."

Consumer confidence becomes pessimistic again in November

Among consumers, confidence dropped back into net pessimism in the first weeks of November, with the Westpac-MI index of consumer sentiment dropping 1.7% m/m to 99.7 points. This index has indicated 'net negative' consumer sentiment for all months but one (October) of 2017 to date.

Consumer confidence has remained steadfastly downbeat in 2017, despite clear improvements in local economic activity and employment. NAB's economists speculate that slow incomes growth and political uncertainty are to blame, with speculation about interest rate rises also affecting sentiment in November. They note that "*The confidence of respondents who hold a mortgage fell by 4.5% [in November] compared to a more modest fall of 1.4% for those owners who are mortgage free and a 0.5% increase for tenants*".

The effects of this negative sentiment can be seen in the poor conditions that have persisted for retailers and other discretionary consumer services (hospitality and local leisure services) in 2017. Unfortunately, this month's survey does not bode well for the all-important pre-Christmas retail period: "*Christmas spending plans also point to moderate activity. Just under a third of Australians expect to spend less on gifts this year than last, with 54% expecting to spend about the same and just 11% spending more – the lowest proportion since we began running this question in 2009.*"

Local consumer spending could also be affected by hotter weather this summer. The Bureau of Meteorology this week issued its climate outlook for December to February. It warns that "*Daytime and overnight temperatures [are] likely to be warmer than average for most of eastern Australia. North eastern NSW and regions surrounding the Gulf of Carpentaria may be drier than average.*"

Labour market improves in October

This week the ABS reported that Australia's unemployment rate fell to 5.4% in October (seasonally adjusted) and 5.5% in trend terms¹, its lowest since early 2013. Total employment grew by 3.0% (seasonally adjusted) or 2.9% (trend) over the year, its strongest annual growth rate since 2008 (table 1).

More of the new jobs have been full-time than part-time in 2017 and so the rate of part-time work (35 hours per week or less) fell to 31.5% of the workforce and the number of total hours worked across the economy grew by 3.1% p.a. (trend) in October. Full-time employment is now growing by 3.6% p.a., its strongest annual rate of growth since 2007.

Growth in part-time work is slower in late 2017 than it has been in recent years, but it is still

¹ The ABS recommends that "*Trend estimates are considered the best indicators of the underlying behaviour in the labour market.*" ABS 6202.0, *Labour Force, Australia, Media Release*. 14 Sep 2017. The data below are all trend.

growing positively, at 1.5% p.a. (table 1 and chart 2). 46.6% of working women were part-time in October (down from an all-time high of 47.2% in early 2017) and 18.3% of working men were part-time (down from an all-time high of 18.9% in September and October 2016, trend).

Commensurate with this lower rate of part-time work, 1.06 million people are now underemployed (in paid work but wanting more work hours), down from an all-time peak of 1.17 million in December 2016. The underemployment rate is stable at 8.2% of the workforce (original data).

The number of unemployed people (not in work but actively seeking work) fell to 709,000 in October, the lowest such number since Nov 2013, and the unemployment rate remained relatively low at 5.5% (trend). Among the unemployed, 31.3% are looking only for part-time work, including 23.2% of unemployed men and 40.3% of unemployed women. With the number of both underemployed and unemployed people falling, the labour market is definitely tightening up.

This tightening is happening despite more people actively coming back into the labour force, to work or seek work. At 65.2% of the adult population, labour force participation is now approaching the record high of 65.7% achieved in December 2010. Labour force participation for Australian women is now at a record high of 59.9% of all women aged 15 years or older (trend).

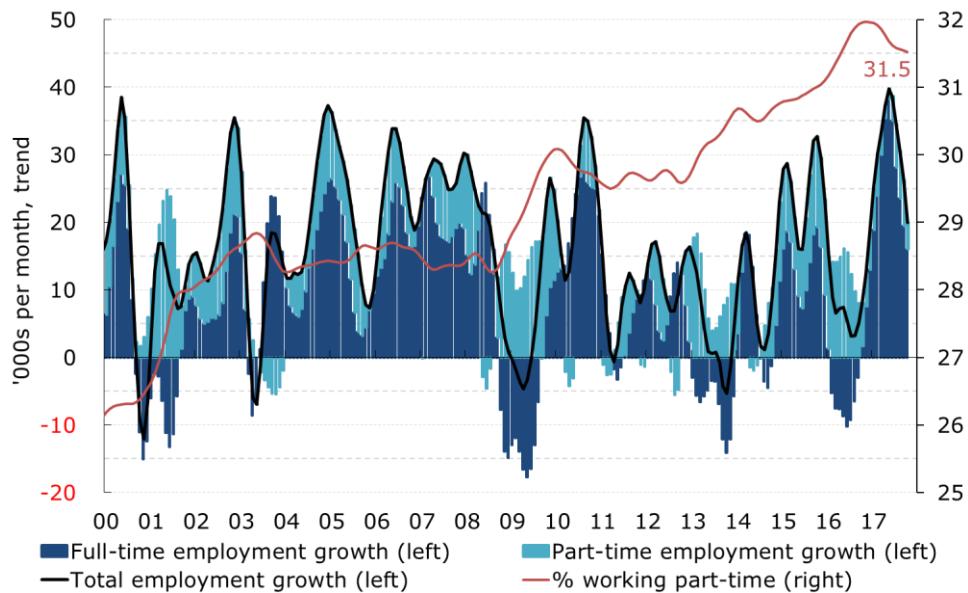
Monthly jobs growth was slower in October than in recent months (chart 2), suggesting that ‘peak growth’ might have already passed in this cycle. Rising job advertisements however (see SEEK job ads below), suggest this might only be a lull, rather than an outright downturn. Further jobs growth seems assured for the remainder of 2017 and into the early months of 2018.

Table 1: Key labour market numbers, October 2017

	Number	Change per month		Change per year	
<i>trend</i>	'000	'000 m/m	% m/m	'000 p.a.	% p.a.
Employment	12,301	20.0	0.2	346.7	2.9
Full-time	8,423	16.0	0.2	289.2	3.6
Part-time	3,878	4.0	0.1	57.4	1.5
Aggregate hours worked	1,720,315	3,486	0.2	48,084	3.1
Labour force	13,011	17.0	0.1	335.1	2.6
Adult civilian population	19,963	23.3	0.1	323.4	1.6
	Number	Rate		Change per year	
	'000	% of labour force		Percentage point change p.a.	
Unemployment (trend)	709.4	5.5		-0.2	
Underemployment (orig)	1,057.9	8.2		0.0	
Underutilization (orig)		13.3		-0.2	
<i>trend</i>		% of adult population		Percentage point change p.a.	
Participation rate		65.2		0.7	
Employment to population ratio		61.7		0.8	

Source: ABS, *Labour force Australia* October 2017

Chart 2: Full-time and part-time employment growth (trend)



Source: ABS, *Labour force Australia* October 2017

Across the states, employment growth has been shifting toward NSW and Queensland during 2017, and away from Victoria, which experienced a surge in employment in 2016. Employment growth appears to be slowing in all states (chart 3). In September and October, Tasmania experienced its first drops in employment since June 2016. Employment in the Northern territory has contracted in each month since February 2017 (trend).

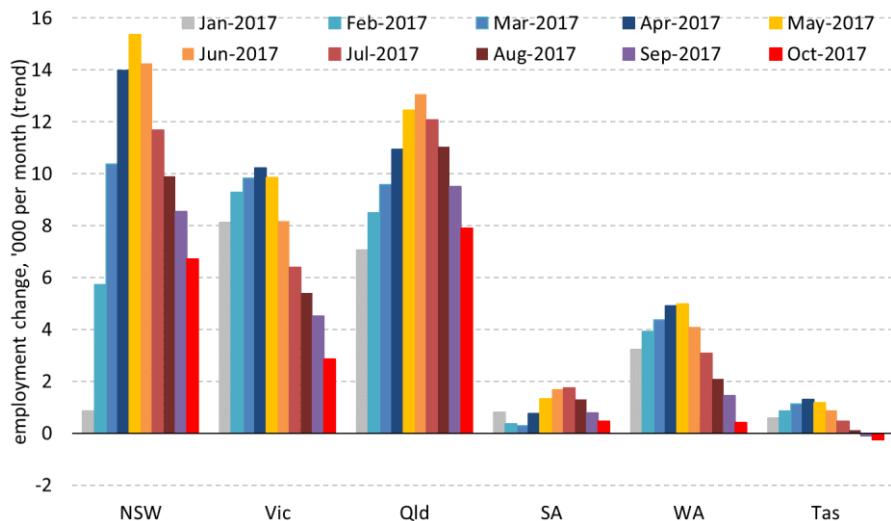
Unemployment and underemployment rates are now highest in Tasmania and lowest in NSW and the two territories, indicating significantly tighter labour supply in NSW and the territories (table 2). Unemployment is higher in Victoria and Queensland than in NSW, but has improved.

Table 2: Employment, unemployment and participation by state, Oct 2017

trend	Employment growth			Part time workers %	Unemploy- ment rate % (orig.)	Underemploy- ment rate % (orig.)	Participation rate %
	'000 m/m	'000 y/y	% p.a.				
NSW	6.7	90.9	2.4	29.8	4.7	7.7	63.7
VIC	2.9	87.5	2.8	32.7	5.9	8.3	66.0
Qld	7.9	108.1	4.6	31.8	5.9	7.9	65.7
SA	0.5	12.5	1.5	35.0	5.6	8.8	61.9
WA	0.4	37.0	2.8	32.3	5.8	9.4	68.1
Tas	-0.3	7.2	3.0	38.4	6.0	10.7	60.9
NT	-0.1	-3.0	-2.2	21.2	4.2	4.4	73.8
ACT	1.4	6.7	3.1	27.2	3.8	5.9	71.6
Aust	20.0	346.7	2.9	31.5	5.5	8.2	65.2

Source: ABS, *Labour force Australia*, Oct 2017

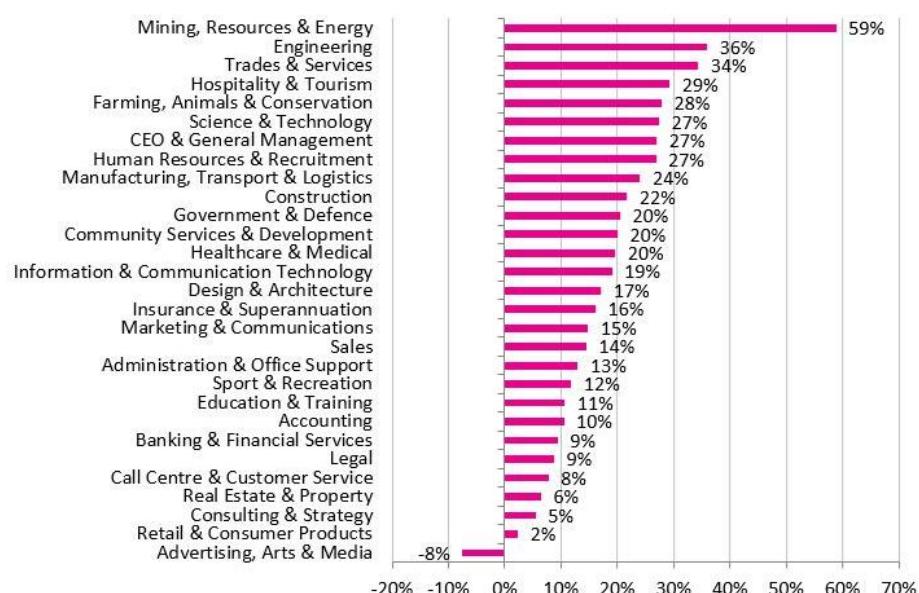
Chart 3: Monthly employment growth by state, Jan to Oct 2017



Source: ABS, *Labour force Australia*, Oct 2017

Further jobs growth in the remaining months of 2017 seems assured, with the SEEK index of new job ads posted online up 16.1% p.a. in October. SEEK reports that job ads lifted in October and in the year to October in 28 of the 29 sectors that they monitor. Only their “advertising, arts and media” sector experienced a decline in job ad numbers in the year to October (chart 4). In raw number terms, the highest number of job vacancies on SEEK were in “Trades & Services”, followed by the “Information & Communications Technology”, “Healthcare & Medical” and “Manufacturing, Transport & Logistics” sectors. Job ads were up in all states and territories.

Chart 4: SEEK new jobs ads posted online, annual change to Oct 2017



Source: SEEK, *Employment data report*, Oct 2017.

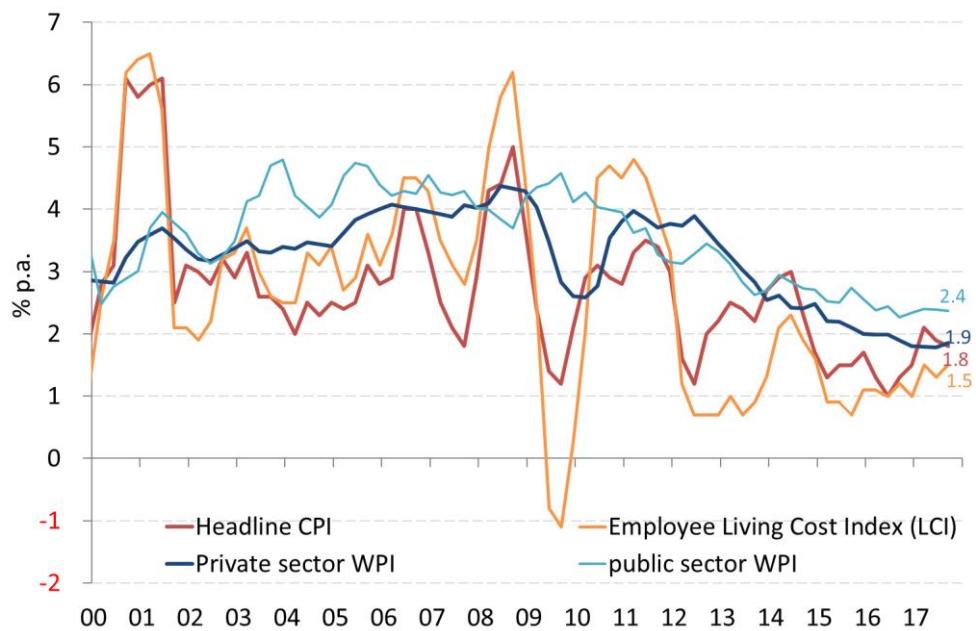
Wages growth accelerates slightly in Q3 2017, but remains relatively weak

Annual wages growth accelerated slightly in Q3 2017. But at 2.0% p.a. for all sectors – and 1.9% p.a. in the private sector – wages growth remains weak and at the bottom of the RBA's inflation target of 2-3% p.a. Quarterly rates of change were stable, at 0.5% q/q for all industries and 0.5% q/q for private sector industries.

Annual wages growth in the private sector (1.9% p.a.) is now tracking just above headline inflation (1.8% p.a.) and remains well above the ABS estimate of change in living costs for employees in Q3 (1.5% p.a.). Annual wages growth remains faster in the public sector, at 2.4% p.a. (chart 5). The ABS noted that “*The higher wage growth in the September quarter was driven by enterprise agreement increases, end of financial year wage reviews and the Fair Work Commission’s annual minimum wage review*”.

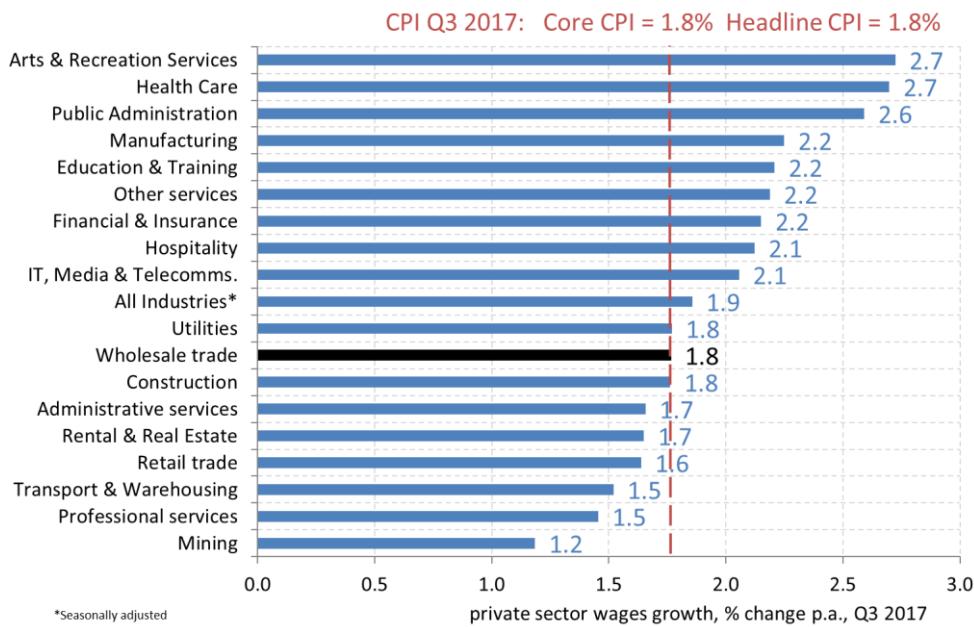
Across industries, private sector annual wage growth varied from 2.7% p.a. in ‘arts and recreation services’ and healthcare services’ to 1.2% p.a. in the mining industry (chart 6). Across the states, Western Australia recorded the lowest annual wage growth for all sectors (1.3%) while Victoria, Queensland and Tasmania recorded the highest annual wage growth rates (2.2%).

Chart 5: Inflation, living costs for employees and wage price indexes



Source: ABS *Wage Price Index, Consumer Price Index, Living Cost Indexes*, Sep 2017.

Chart 6: Private sector WPI by major industry, % change in Q3 2017

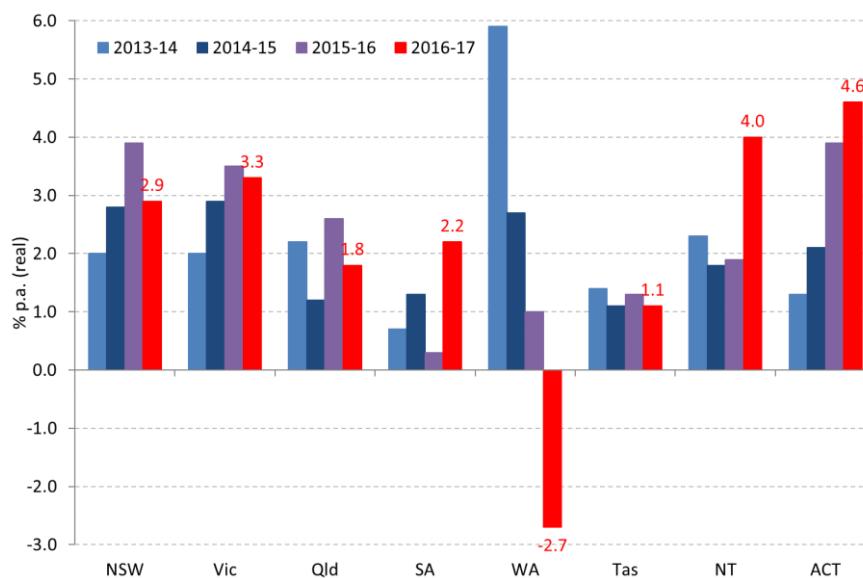


Source: ABS *Wage Price Index*, Sep 2017.

Two territories outpaced all of the states in 2016-17

ABS estimates of gross state product (GSP, the state equivalent of GDP) indicate the strongest economies in 2016-17 were the two territories, followed by Victoria (chart 7). Western Australia suffered a contraction in GSP in 2016-17 (-2.7% p.a.), but more recent data indicate the worst seems to be over for this mining-dominated state economy.

Chart 7: Gross state product, annual change, 2016-17



Source: ABS *State Accounts*, 2016-17.

This week's data and events, 13 November – 17 November 2017

Day	Date	Data / event	Data period	Current release
Mon	13 Nov	RBA Deputy Governor speech	Nov (M)	<i>Topic: business investment</i>
Tue	14 Nov	NAB monthly business survey	Oct (M)	conditions +21 confidence +8
Wed	15 Nov	ABS wage price index	Sep (Q)	+0.5% q/q; +2.0% p.a.
		ABS Marriage Law Postal Survey	2017	YES: 61.6%
		Westpac-MI consumer confidence	Nov (M)	99.7 points
		RBA Assistant Governor speech	Nov (M)	<i>Topic: future sources of growth</i>
Thu	16 Nov	ABS labour force statistics	Oct (M)	unemployment rate 5.5%(tr) employment +2.9% p.a.(tr)
		SEEK job ads online	Oct (M)	New job ads online: +16.1% p.a.
Fri	17 Nov	ABS State Accounts	2016-17 (A)	-
		ABS sales of new motor vehicles	Oct (M)	-0.4% m/m; +1.0% p.a. (trend)
		ABS overseas arrivals and departures	Sep (M)	Short-term visitor arrivals: +6.7% p.a. Short-term resident returns: +5.5% p.a.

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

Next week's data and events, 20 November – 24 November 2017

Day	Date	Data/event	Data period due for release	Previous release
Tues	21 Nov	RBA minutes of board meeting	Nov (M)	Cash rate: 1.50%
		RBA Governor Lowe speech	-	-
Wed	22 Nov	ABS construction work done, prelim.	Sep (Q)	Jun: +9.3% q/q, +6.8% p.a.
		ANZ Stateometer	Nov (Q)	-
Thurs	23 Nov	ABS water account	2015-16 (A)	-
Fri	24 Nov	ABS estimates of multifactor productivity	2016-17 (A)	-

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

Australian economy: latest full-year growth rates and government forecasts

RBA SoMP (Nov 2017)	2015-16 actual	2016-17 actual	Jun '18 f	Jun '19 f	Dec '19 p
GDP, % change p.a., year end	3.1	1.8	2.75	3.5	3.25
Unemployment rate, %, year end	5.8	5.6	5.5	5.5	5.25
Inflation (CPI), % change p.a., year end	1.0	1.9	2.0	2.25	2.25
Treasury 2017-18 Budget (May 2017)	2015-16 actual	2016-17 actual	2017-18 f	2018-19 f	2019-20 p
GDP, % change p.a., year average	2.6	2.0	2.75	3.0	3.0
<i>Household consumption, % p.a., year average</i>	2.9	2.6	2.75	3.0	
<i>Dwelling investment, % p.a., year average</i>	10.6	-2.5	1.5	-4.0	
<i>Business investment, % p.a., year average</i>	-10.3	-1.6	0.0	3.0	
Employment growth, % p.a., year end	1.9	2.1	1.5	1.5	1.5
Unemployment rate, %, year end	5.8	5.6	5.75	5.5	5.5
Terms of trade, % change p.a., year end	-10.2	14.9	-2.75	-4.25	
Inflation (CPI), % change p.a., year end	1.0	1.9	2.0	2.25	2.5
Wages (WPI), % change p.a., year end	2.1	1.9	2.5	3.0	3.5

f = forecast. p = projection.

Sources: ABS various data; RBA Statement on Monetary Policy (SoMP), latest quarter; Australian Treasury, Budget 2017-18 (May 2017).

Australian economy: latest indicators

Economy	FX and commodity prices (Friday morning)				
RBA official cash rate, %	Nov (M)	1.50	-	AUD/USD exchange rate	US\$0.7598
Real GDP, % change p.a.	Jun (Q)	1.8%	▲	Oil price (WTI light crude, USD/BBL)	US\$55.31
Headline CPI, % change p.a.	Sep (Q)	1.8%	▼	Gold price (USD/OZ)	US\$1,282.70
Unemployment rate, % trend	Oct (M)	5.5%	-	Copper price (USD/tonne, LME spot)	US\$6,715.00

Australian Industry Group monthly performance of industry indexes

Australian PMI®	Oct (M)	51.1	▼
Australian PSI®	Oct (M)	51.4	▼
Australian PCI®	Oct (M)	53.2	▼

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 Thu); London Metals Exchange market prices (as of Fri).

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