

20 October 2017

AUSTRALIAN ECONOMIC DEVELOPMENTS

This week the ABS reported that Australia's unemployment rate fell to 5.5% in September, its lowest since 2013 (trend¹). Employment is up by 2.8% over the year, its strongest annual growth rate since 2008. More of the jobs growth was in full-time rather than part-time work in September 2017 (with falls evident in the proportion working part-time and in the underemployment rate) and more of it was in NSW than in other states. NSW had significantly lower unemployment and underemployment rates than other states in September. Nationally however, monthly jobs growth is only just keeping ahead of labour force growth and is already showing signs of slowing. Job ads are expanding but it is not yet clear whether jobs growth will pick up or slow further from here.

This week GM Holden ceased to assemble passenger cars in Australia, the last company to do so. In December the ABS will release quarterly detail for the three months to November. This will provide a first glimpse of the employment effects of this final closure of car assembly in Australia.

Elsewhere in the economy, the benefits of the (generally lower) Australian dollar in 2017 are evident in overseas arrivals. In August 2017, short-term visitor arrivals (for stays of less than 12 months by foreign residents) rose by 7.9% p.a. to a record high of 764,700 arrivals in the month, or 8.658 million over the year to August (seasonally adjusted). Most short-term visitor arrivals were for holiday purposes or to visit friends and relatives. The single largest (and fastest growing) source country is China, with 17% of short-term arrivals in August (up 22.5% p.a., trend). This is providing a welcome boost to tourism, accommodation and related services businesses in some locations, with flow-on benefits to other industries as a result of the rise in investment and construction by these sectors.

Labour market strengthens in September

Australia's unemployment rate fell to 5.5% in September (lowest since 2013) and annual employment growth accelerated to 2.8% p.a. (strongest since 2008, trend) (table 1 and chart 1).

More of the growth has been in full-time rather than part-time work in 2017, with 271,000 more full-time jobs (+3.3% p.a.) versus 64,000 more part-time jobs (+1.7% p.a.). As a result, the proportion of workers in part-time jobs (35 hours per week or less) has fallen to 31.6% from an all-time high of 32.0% in December 2016. In aggregate, total hours worked across the economy

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.

grew by 2.9% p.a. over the year to September, its strongest annual growth since January 2011. Average hours worked per worker has risen in every month since March. Reflecting this rise in work hours, underemployment (people in work but wanting more work hours) has declined from its recent historic highs as well. The underemployment rate fell to 8.2% of the labour force in September, from 8.5% in August and a record high of 9.1% in January (original unadjusted data).

The causes and consequences of high rates of part-time work are somewhat contentious in Australia at present. In particular, Australia has relatively high rates of part-time work by global standards and our patterns of part-time work strongly reflect typical life stages, such that younger people and women with children are far more likely than others to work part-time. A range of factors contribute to these patterns, mainly arising from outside the workplace. On the supply side of the labour market, a rising share of jobseekers prefer to work part-time (for reasons including study, own health status, family care, and personal preference). As of September 2017, 32% of unemployed jobseekers were seeking part-time work only, up from around 25% at the start of this century. This included 41% of female jobseekers (up from 35% at the beginning of this century) and 24% of male jobseekers (up from 15% at the beginning of this century) (chart 2).

Better job prospects are attracting more people back into the labour market. In September, the participation rate (that is, the proportion of the adult population in work or seeking work) rose to 65.2%, its highest since January 2012. As a result, the labour force grew by 2.6% p.a. over the year to September, its strongest annual growth since 2008.

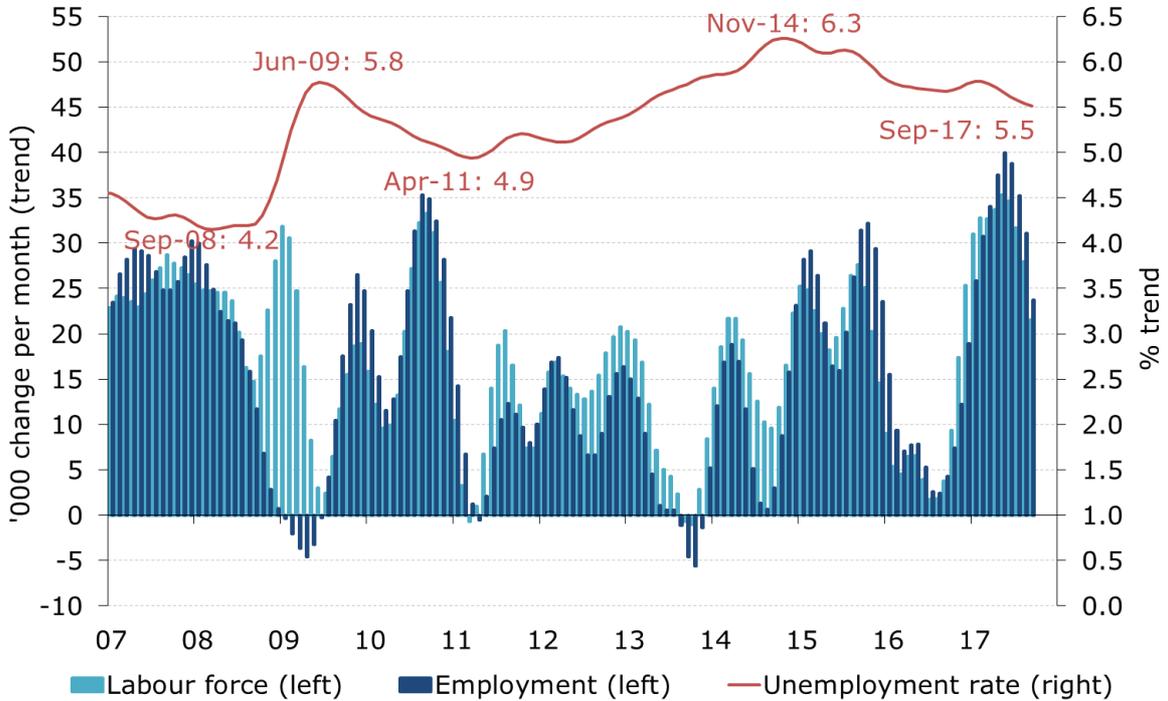
In number terms, jobs growth (24,000 per month and 335,000 p.a., trend) is only just outpacing labour force growth (21,500 per month and 333,000 p.a., trend) at present, so any slowing in employment growth and/or a further rise in labour force participation could easily cause the unemployment rate to rise again. Monthly jobs growth is already showing signs of slowing (see charts 1 and 3). It is not yet clear whether jobs growth will pick up again or slow further from here.

Table 1: Key labour force numbers, September 2017

	Number	Change per month		Change per year	
<i>trend</i>	<i>million</i>	<i>'000 m/m</i>	<i>% m/m</i>	<i>'000 p.a.</i>	<i>% p.a.</i>
Employment	12,281	23.8	0.2	335.5	2.8
Full-time	8,403	16.0	0.2	271.4	3.3
Part-time	3,878	7.7	0.2	64.1	1.7
Aggregate hours worked	1,714,470	3,080	0.2	44,963	2.9
Labour force	12,998	21.5	0.2	333.3	2.6
Adult civilian population	19,939	25.3	0.1	323.5	1.6
	<i>million</i>	<i>% of labour force</i>	<i>ppt change, m/m</i>		<i>ppt change, p.a.</i>
Unemployment (trend)	716.6	5.5	0.0		-0.2
Underemployment (orig)	1,068.8	8.2	-0.3		-0.2
Underutilization (orig)		13.6	-0.4		-0.3
<i>trend</i>		<i>% of adult population</i>	<i>ppt change, m/m</i>		<i>ppt change, p.a.</i>
Participation rate		65.2	0.0		+0.6
Employment to population ratio		61.6	0.0		+0.7

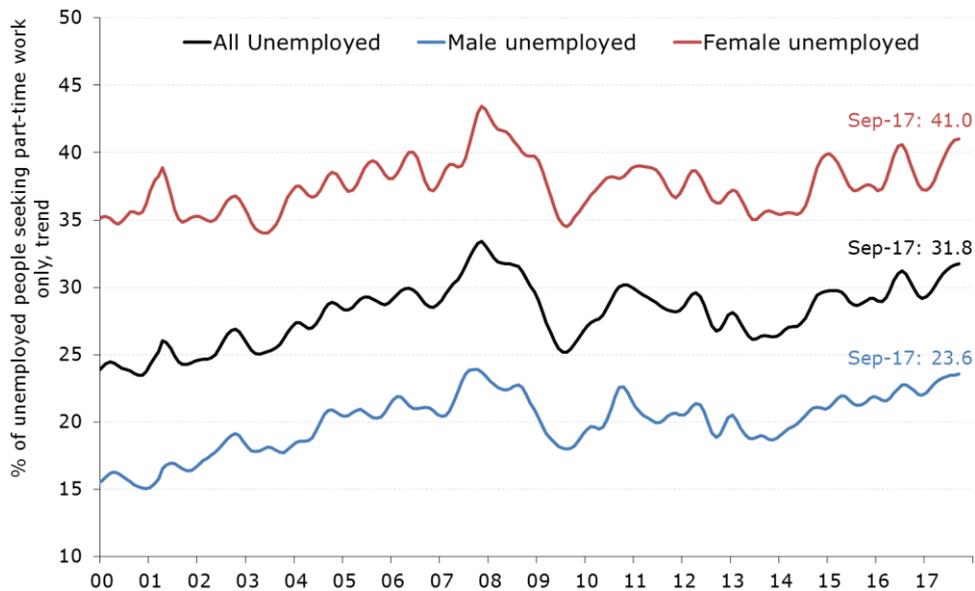
Source: ABS, *Labour force Australia*, September 2017

Chart 1: employment growth, labour force growth and the unemployment rate (trend)



Source: ABS, *Labour force Australia* September 2017

Chart 2: Unemployed but seeking part-time work only, rate (trend)



Source: ABS, *Labour force Australia* September 2017

Labour conditions continue to vary markedly across states and territories in 2017. Across the states, NSW is showing the strongest employment growth numbers and the lowest unemployment rate in September, Rates of part-time work and underemployment are also lower in NSW than in other states (table 2).

Interestingly, the participation rate is significantly lower in NSW than in Victoria or Queensland and has been for the past two years. This might suggest that more people in NSW are 'discouraged jobseekers' instead of unemployed active jobseekers than is the case in the other states. Conversely, Victoria and Queensland have higher unemployment rates than NSW, even though their employment growth rates are stronger, which suggests that more people are actively seeking work (and counted as unemployed) rather than sitting on the sidelines (and outside the labour force). The reasons for these differences over just the past two years are not clear, since the demographic profile and labour demand trends in these three states have been very similar.

South Australia and Tasmania have lower participation rates and higher part-time work rates than other states. This is a consistent long-term trend that reflects the older demographic profile of these states and the larger proportions of their workforces employed in healthcare, aged care and welfare services, which tend to employ more part-time staff than other industries.

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

<i>trend</i>	Employment growth			Part time workers	Unemployment rate	Underemployment rate	Participation rate
	'000 m/m	'000 y/y	% p.a.	%	%	% (orig.)	%
NSW	7.6	79.1	2.1	29.9	4.8	7.7	63.8
VIC	5.6	96.5	3.1	32.9	6.0	8.6	66.2
Qld	7.5	95.9	4.1	31.9	5.9	9.1	65.5
SA	1.5	15.1	1.9	36.1	5.8	9.9	62.1
WA	2.0	39.1	2.9	31.4	5.6	10.1	68.1
Tas	0.3	9.3	3.9	38.4	5.9	10.9	61.2
NT	-0.8	-3.2	-2.4	21.0	4.1	4.6	73.2
ACT	1.0	4.3	2.0	26.9	4.4	6.3	71.3
Aust	23.8	335.5	2.8	31.6	5.5	8.7	65.2

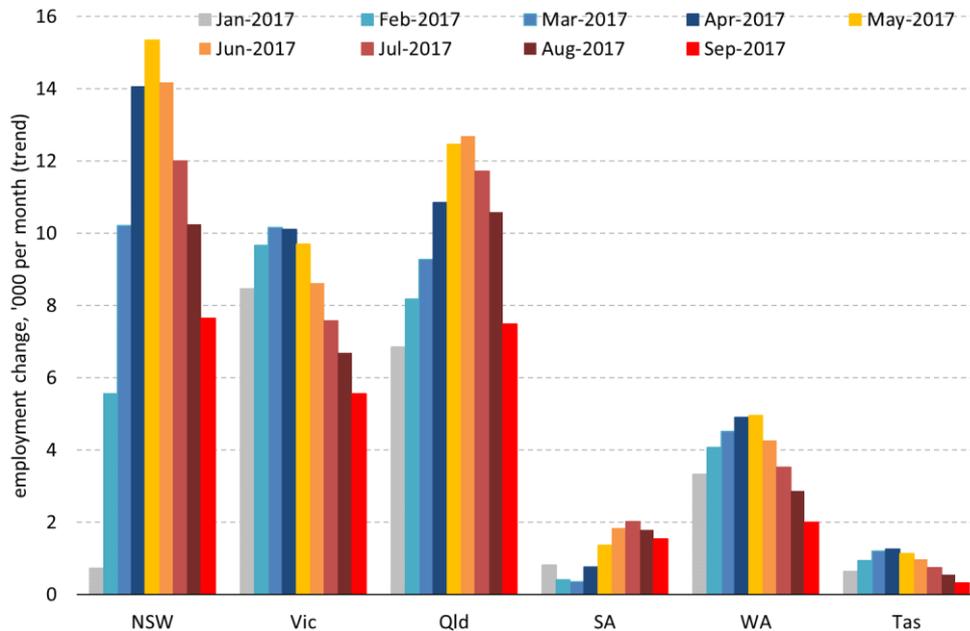
Source: ABS, *Labour force Australia*, September 2017

Of concern to the outlook, it appears that jobs growth may have already peaked in every state earlier in 2017 (chart 3). Job advertisement numbers have been strong in recent months (e.g. in the monthly SEEK and ANZ job advertisement series) so this deceleration could turn around over the next few months.

If monthly jobs growth continues to slow however, the recent pickup in labour force participation will mean the unemployment rate could soon rise again, as new entrants to the labour market begin to outnumber the new jobs being added to the economy. This would not be an unusual or unexpected development at this stage in the labour market cycle, since stronger jobs growth often encourages people who were previously 'discouraged' to move back into more active job-seeking

and thus back into the ABS definition of ‘unemployed’. This appears to be happening already in Victoria and Queensland, which are attracting more jobseekers than jobs.

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



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

Permanent arrivals slowing, but visitor arrivals grow to a record high in 2017

The ABS estimates Australia’s resident population (ERP) to be 24.7 million people in October 2017, with 1 new person being added every 1 minute and 26 seconds. This equates to an ERP growth rate of around 1.6% p.a. (the most recent growth estimate for the March quarter 2017).

ABS data indicate that 10,380 people arrived in Australia as ‘permanent settler arrivals’ in August 2017 or 128,440 over the year to August. This indicates a slower rate of permanent arrivals compared to the peak of 165,000 arriving in 2008-09. August 2017 also saw 36,260 arrivals by visitors for long-term stays (over 12 months), taking total long-term visitor arrivals to a record high of 507,480 over the year to August. Another 11,000 Australian residents returned from long-term stays overseas in August 2017, taking the total number of long-term resident returns to a record high of 141,530 over the year to August. All of these permanent settler and long-term arrivals by visitors and residents add to Australia’s ERP.

Detracting from ERP were 290,900 long-term departures by Australian residents and 210,940 departures by long-term visitors over the year to August 2017. The main purposes for these long-term arrivals and departures were study, employment (including ‘backpackers’) and business.

In addition to the ERP, there are large numbers of short term (under 12 months) movements in and out of Australia for holiday, study, business or other purposes. In August 2017, short-term

visitor arrivals rose by 7.9% p.a. to a record high of 764,700 arrivals in the month (seasonally adjusted), or 8.658 million arrivals over the year to August.

At the same time, there were 878,500 Australian residents returning from a short-term stay overseas, up 5.3% from one year earlier but lower than the record peak of 895,000 in May 2017. Short-term resident departures for short-term stays overseas numbered 900,000 in August 2017, not far below the record peak of 1.195 million Australian resident departures in December 2016.

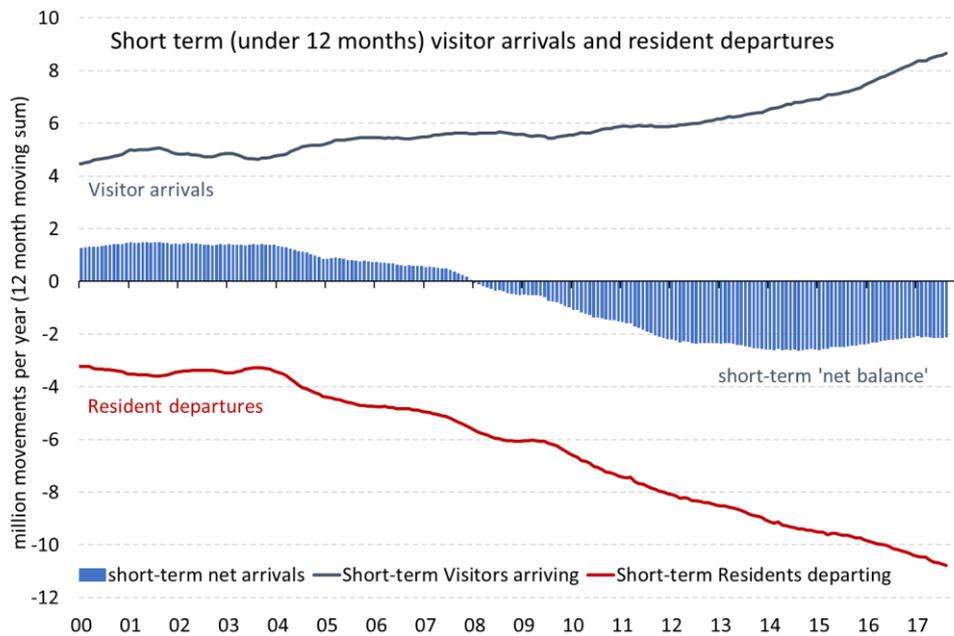
Most short-term visitor arrivals and resident departures are for holiday purposes (with people arriving or departing for study or work purposes more likely to be in the 'long-term' group). In net terms, this means Australia is still running a net 'holiday deficit', despite the record high numbers of arrivals (charts 3 and 4). This long-running 'deficit' has implications for local spending on tourism and leisure-related spending in Australia and could be dragging down local spending with retail, hospitality, recreation and other local businesses.

For short-term visitor arrivals, the top five source countries in August 2017 were:

- China (125,600 arrivals, 17% of all short-term arrivals and up 22.5% p.a., trend);
- New Zealand (113,500 arrivals, 15% of all short-term arrivals and up 0.2% p.a. trend);
- USA (66,100, 8.7% of all short-term arrivals and up 6.8% trend);
- UK (57,900, 7.6% of all short-term arrivals and down 3.2% p.a. trend); and
- Malaysia (39,800, 5.2% of all short-term arrivals and up 15.7% trend).

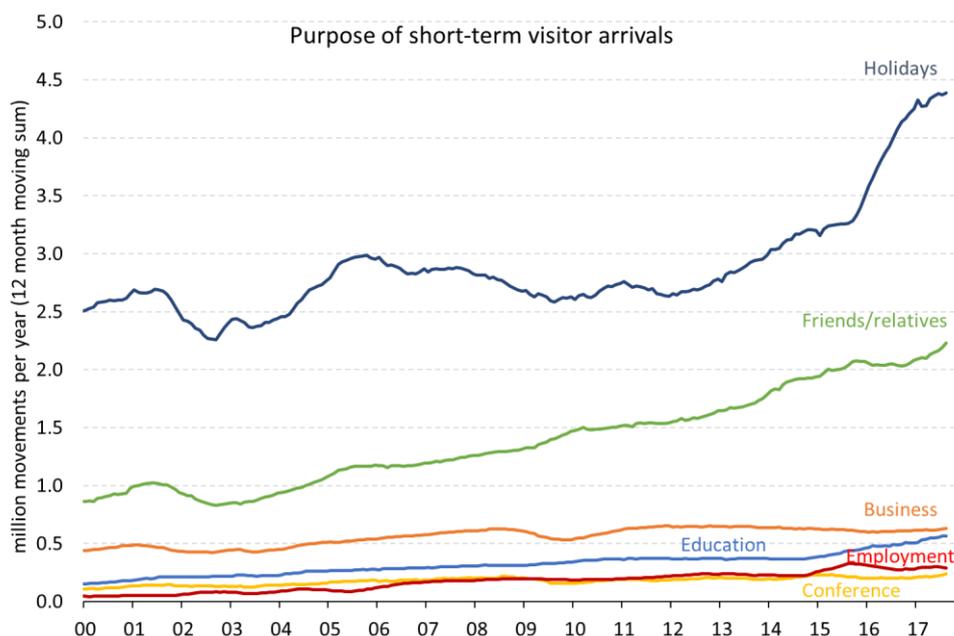
For Australian residents returning from short-term stays overseas, the top ten destinations in August 2017 were (in order) Indonesia, New Zealand, USA, UK; Thailand; China; Singapore; Fiji; Vietnam and Italy.

Chart 4: Short term (under 12 months) visitor arrivals and resident departures



Source: ABS overseas arrivals and departures, August 2017.

Chart 5: Short term (under 12 months) visitor arrivals by purpose



Source: ABS overseas arrivals and departures, August 2017.

This week's data and events, 16 October – 20 October 2017

Day	Date	Data/event	Data period	Result
Mon	16 Oct	ABS lending finance	Aug (M)	Housing finance +0.9% m/m Commercial finance +2.3% m/m
		ABS overseas arrivals & departures	Aug (M)	Short term visitor arrivals +7.9% p.a. Short-term resident returns +5.3% p.a. (trend)
Tues	17 Oct	ABS sales of new motor vehicles	Sep (M)	Number of sales -0.8% p.a.
		RBA minutes of board meeting	Oct (M)	Oct cash rate: 1.50%
Wed	18 Oct	ABS life expectancy tables	2014-16 (A)	-
Thurs	19 Oct	ABS labour force	Sep (M)	Jobs growth: +2.8% p.a. Unemployment rate: 5.5%
		NAB business survey quarterly detail	Sep (Q)	-

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

Next week's data and events, 23 October – 27 October 2017

Day	Date	Data / event	Data period due for release	Previous release
Mon	24 Oct	ABS census of population and housing QuickStats and community profiles	2016	-
Wed	25 Oct	ABS consumer price index (CPI)	Sep (Q)	Jun: 1.9% p.a.
Thurs	26 Oct	ABS international trade price indexes	Sep (Q)	Jun: import prices +0.3% p.a. export prices +22.5% p.a.
Fri	27 Oct	ABS producer price index (PPI)	Sep (Q)	Jun: final prices +1.7% p.a. intermediate prices + 2.5% p.a. preliminary prices +2.4% p.a.
		ABS Annual national accounts (GDP)	2016-17 (A)	2015-16: GDP 3.1% p.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 (Aug 2017)	2015-16 actual	2016-17 actual	2017-18 f	2018-19 f	2019-20 p	2020-21 p
GDP, % change p.a., year end	3.1	1.8	2.5-3.5	3.0-4.0		
Unemployment rate, %, year end	5.8	5.6	5.0-6.0	5.0-6.0		
Inflation (CPI), % change p.a., year end	1.0	1.9	1.75-2.75	2.0-3.0		
Treasury 2017-18 Budget (May 2017)						
GDP, % change p.a., year average	2.6	1.8	2.75	3.0	3.0	3.0
Household consumption, % p.a., year average	2.9	2.6	2.75	3.0		
Dwelling investment, % p.a., year average	10.6	-2.5	1.5	-4.0		
Business investment, % p.a., year average	-10.3	-1.6	0.0	3.0		
Employment growth, % p.a., year end	1.9	2.1	1.5	1.5	1.5	1.5
Unemployment rate, %, year end	5.8	5.6	5.75	5.5	5.5	5.25
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	2.5
Wages (WPI), % change p.a., year end	2.1	1.9	2.5	3.0	3.5	3.75

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, %	Oct (M)	1.50	-	AUD/USD exchange rate	US\$0.7840	▲
Real GDP, % change p.a.	Jun (Q)	1.8%	▲	Oil price (WTI light crude, USD/BBL)	US\$51.36	▲
Headline CPI, % change p.a.	Jun (Q)	1.9%	▼	Gold price (USD/OZ)	US\$1,284.40	▼
Unemployment rate, % trend	Sep (M)	5.5%	▼	Copper price (USD/tonne, LME spot)	US\$6,919.00	▲

Australian Industry Group monthly performance of industry indexes

Australian PMI®	Sep (M)	54.2	▼
Australian PSI®	Sep (M)	52.1	▼
Australian PCI®	Sep (M)	54.7	▼

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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