



23 June 2017

## AUSTRALIAN ECONOMIC DEVELOPMENTS

This week the RBA released its minutes from the June board meeting, at which it left the cash rate unchanged at 1.50%. The RBA noted that in Australia weak retail sales and slower residential construction are weighing on growth. More positively, business conditions and sentiment are relatively high and non-mining business investment appears to be finally improving. The labour market is also improving, although growth continues to be skewed toward part-time jobs and underemployment is at a record high. The OECD concurs with this conclusion, in its latest assessment of Australia's employment outlook (also released this week and summarised below).

Detailed labour market data from the ABS (released this week) confirms some improvement in the three months to May 2017, with better growth in employment and total hours worked compared to late 2016. By industry, employment growth continues to be dominated by the large service sectors and construction.

The New South Wales and South Australian State Governments released their annual Budgets for 2017-18 this week. For more information, see: <https://www.aigroup.com.au/policy-and-research/mediacentre/releases/>

## Jobs growth improving in May 2017

The detailed quarterly employment data released by the ABS this week provide a snapshot of Australian employment in the three months to May 2017 across industries, states, occupations, work hours, sex and other characteristics. These data show 174,700 jobs were added to the workforce in the year to May 2017 (1.5% p.a. growth), down from 217,200 jobs created one year earlier (1.9% p.a. growth, trend data). The majority of jobs added in the year to May 2017 were full time (+148,200 jobs and 1.8% p.a., original data), although the pace of growth was higher for part-time jobs (+86,500 jobs and 2.3% p.a., original data).

Nationally, the industries with the strongest jobs growth in the year to May 2017 were public administration (including government administration, defence personnel, police, emergency services and regulatory services, +48,100), construction (+42,400), education (+38,700), and health (+33,200) (trend data, see chart 1 and table 1). The healthcare sector (including health, welfare and social services) accounts for the largest share (12.9%) of all workers (1.6 million), although its high rate of part-time work (44.8% of healthcare workers) means it accounts for a smaller share (11.5%) of all hours worked across the economy.

**Chart 1: Employment growth by industry, year to May 2017 (trend)**



Source: ABS, Labour Force Australia, Quarterly Detail.

Manufacturing employment continued to recover in the year to May 2017 (+15,100 and 1.7% p.a.) however growth turned negative in the final three months, with the loss of 5,400 jobs in the three months to May. This may be related to the departure of passenger car assembly from Australia, which still employed around 24,000 people as of June 2016 (with 12,400 in motor vehicle manufacturing and 11,600 in motor vehicle parts manufacturing in June 2016, according to ABS *Australian Industry*, 2015-16).

More positively, total hours worked increased by 2.4% over the year to May 2017, which may reflect the recovery in full-time employment growth, despite an increasing number and share of part-time workers (35 hours or less per week). A record high 32.0% of all workers were part-time in May (up from 31.5% the previous quarter). Reflecting this recovery in full-time employment, actual hours worked per week per worker averaged 33.5 hours in May 2017, up from 33.3 hours one year earlier, but down from 34.6 hours one decade earlier.

Underemployment (part-time workers who wish to work more hours) remains relatively high at 9.1% in May 2017 (down from 9.4% in February). Across industries, underemployment ratios tend to be higher in the large services sectors with high proportions of part-time workers (see table 1). These include hospitality (20% of its workforce underemployed), arts & recreation (16%), retail trade (16%), and administrative services (13%).

**Table 1: Employment, work hours, by industry, May 2017**

Employment data (trend) Hours data (original)	Employment Level		Employment Qtr change		Employment Annual change		Total hours Actually worked		Average hours per worker	Part-time workers	Underemployment ratio
	'000 people	% of total	'000	%	'000	%	% of total	y/y%	hours per week	% of industry	% of industry
Agriculture	296.7	2.4	0.4	0.1	-21.9	-6.9	3.1	-9.6	41.3	28.7	4.6
Mining	235.8	1.9	0.8	0.4	13.4	6.0	2.4	2.3	43.9	3.2	0.9
Manufacturing	906.5	7.5	-5.4	-0.6	15.1	1.7	8.3	4.1	37.4	14.8	4.4
Utilities	125.5	1.0	-3.1	-2.4	-7.8	-5.9	1.1	-5.5	38.0	8.1	3.5
Construction	1,108.3	9.1	13.4	1.2	42.4	4.0	10.4	3.2	38.2	15.6	6.7
Wholesale Trade	391.0	3.2	6.9	1.8	16.9	4.5	3.7	7.3	37.9	16.2	4.4
Retail Trade	1,228.4	10.1	5.2	0.4	-25.2	-2.0	8.6	0.3	28.9	49.1	16.1
Food & Accommodation Services	872.1	7.2	10.0	1.2	28.1	3.3	5.3	0.0	27.0	59.8	20.0
Transport, Post & Warehousing	614.0	5.1	5.2	0.8	-10.7	-1.7	5.6	0.1	36.8	21.5	7.3
IT, Media & Telecomms	211.4	1.7	2.4	1.2	9.0	4.5	1.8	5.7	35.0	21.9	6.7
Finance & Insurance	436.1	3.6	3.9	0.9	5.6	1.3	3.9	0.5	36.6	17.5	3.0
Rental & Real Estate services	212.8	1.8	-0.7	-0.3	-4.6	-2.1	1.9	2.4	36.7	26.0	6.6
Professional services	1,018.5	8.4	-6.9	-0.7	7.2	0.7	9.0	3.1	35.4	23.8	5.6
Administrative services	411.0	3.4	-12.8	-3.0	-14.5	-3.4	3.1	-0.3	30.8	43.1	12.9
Public Administration & Safety	812.0	6.7	-1.2	-0.2	48.1	6.3	6.4	2.4	33.1	21.5	4.8
Education	971.8	8.0	5.8	0.6	38.7	4.2	7.6	4.4	31.3	41.0	9.0
Health	1,562.6	12.9	29.2	1.9	33.2	2.2	11.5	3.2	29.5	44.8	10.8
Arts & Recreation	215.7	1.8	-0.6	-0.3	-16.7	-7.2	1.5	-11.6	27.4	50.4	16.5
Personal & Other Services	491.0	4.1	4.0	0.8	17.1	3.6	4.2	5.2	33.9	32.6	9.3
<b>All Industries</b>	<b>12,113.3</b>	<b>100.0</b>	<b>63.5</b>	<b>0.5</b>	<b>174.7</b>	<b>1.5</b>	<b>100.0</b>	<b>2.4</b>	<b>33.5</b>	<b>32.0</b>	<b>9.1</b>

Source: ABS, Labour Force Australia, Quarterly Detail.

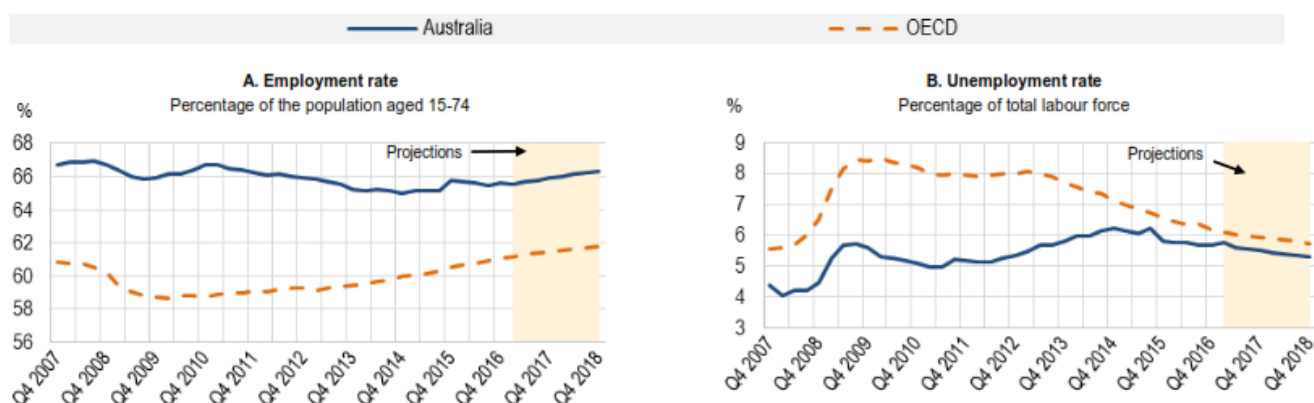
In other labour market data released this week, job advertisements appear to be improving, with the Department of Employment's Internet Vacancy Index (IVI) rising by 1.2% m/m in May, to be up 2.7% over the year (trend). This follows modest growth of +0.8% in April. Job advertisements increased in all states in May, with the strongest monthly growth in Victoria (+1.4% m/m, +4.9% p.a.), followed by Queensland (+1.0%, +6.7% p.a.), New South Wales (+0.9% m/m, -1.7% p.a.), South Australia (+0.9% m/m, +14.9% p.a.) and Western Australia (+0.8% m/m, +6.9% p.a.). Encouragingly, labour demand in the mining states appear to be picking up, with job ad growth more evenly dispersed across the states and territories than in 2016.

## OECD says Australia's Employment Outlook will continue to improve through 2017 and 2018

In the latest OECD Employment Outlook Report (2017), the OECD finds that Australia's labour market is broadly improving, with employment growth picking up and unemployment rates edging down. It expects further recovery in Australian labour demand through 2017 and into 2018. The OECD notes that Australia's employment ratio (the proportion of the working age population in work) is above the OECD average (66% in Q1 2017 compared to an OECD average of 61%) and is forecast to rise further. Conversely, Australia's unemployment rate is lower than the OECD

average (5.8% in Q1 2017 compared to an OECD average of 6.1%) and is forecast to fall further (see chart 2). The OECD concludes that Australia's labour market is relatively resilient and "seems to have weathered the commodity price/mining bust well".

**Chart 2: Australian employment and unemployment rate forecasts, OECD 2017**

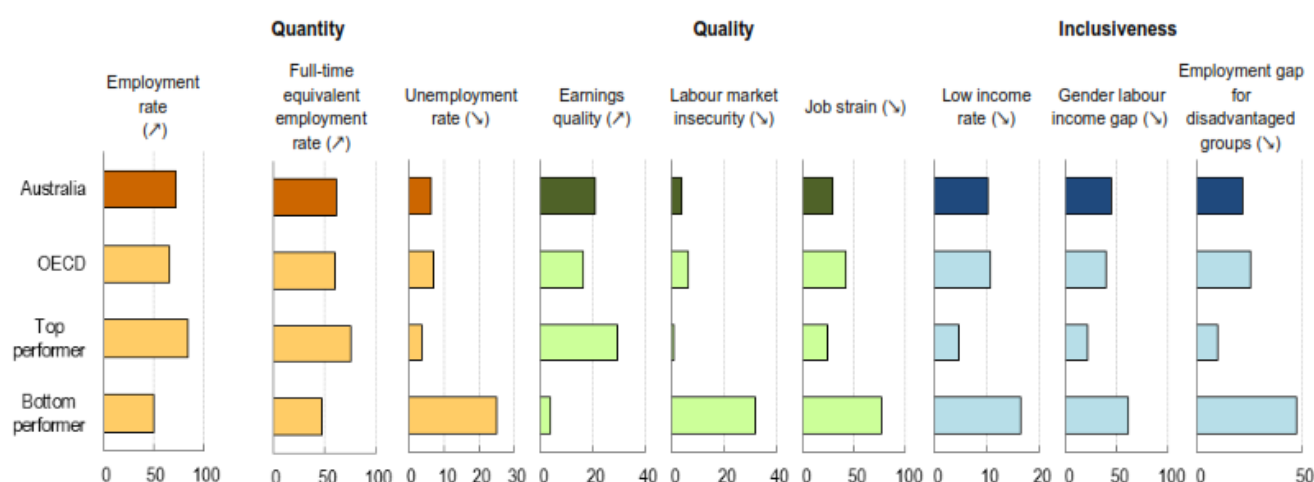


Note: OECD weighted average.

Source: OECD calculations based on OECD Economic Outlook Database (No. 101), June 2017.

In assessing Australia's labour market strengths and weaknesses, the OECD finds that Australia tends to score relatively well across a range of indicators of job quantity, quality and inclusiveness (see chart 3). Australia ranks around average compared to other OECD countries on most of these measures, however the percentage of workers experiencing 'job strain' is relatively high, at 32.9%. The average 'employment gap' for disadvantaged groups is also relatively high, at 21.4%. Nordic countries (Iceland, Switzerland, Sweden and Norway) tended to score much higher compared to other OECD countries due to higher rates of participation and full-time work, lower unemployment and better scores on inclusiveness (less low income workers, lower employment gap for disadvantaged persons).

On the impacts of technology on the labour force, the OECD found that employment is becoming increasingly polarised (less middle-skill jobs and more high-skilled and low-skilled jobs) but this is only partly due to technology change and de-industrialisation. The OECD found that greater use of ICT has led to slower employment growth in manufacturing but not in services industries. The OECD found no evidence that increased globalisation or integration of global value chains causes changes in the occupational mix within industries or the relative growth of different industries within OECD countries.

**Chart 3: OECD scoreboard of labour market performance, Australia, 2017**


Note: An upward ↗ (downward ↘) pointing arrow for an indicator means that higher (lower) values reflect better performance.

*Earnings quality*: Gross hourly earnings in USD adjusted for inequality. *Labour market insecurity*: Expected monetary loss associated with the risk of becoming unemployed as a share of previous earnings. *Job strain*: Percentage of workers in jobs characterised by a combination of high job demands and few job resources to meet those demands. *Low income rate*: Share of working-age persons living with less than 50% of median equivalised household disposable income. *Gender labour income gap*: Difference between average per capita annual earnings of men and women divided by average per capita earnings of men. *Employment gap for disadvantaged groups*: Average difference in the employment rate for prime-age men and the rates for five disadvantaged groups (mothers with children, youth who are not in full-time education or training, workers aged 55-64, non-natives, and persons with disabilities) as a percentage of the employment rate for prime-age men.

Source and definitions: OECD calculations using data for 2015 or latest year available from multiple sources. See [OECD Employment Outlook 2017](#).



**This week's data and events, 19 June – 23 June 2017**

Day	Date	Data/event	Data period due for release	Previous release
Mon	19 Jun	ABS sales of new motor vehicles	May (M)	+2.9% m/m, +4.9% p.a.
		RBA meeting minutes	Jun (M)	-
Tue	20 Jun	NSW state budget	2017-18 (A)	-
Wed	21 Jun	SA state budget	2017-18 (A)	-
Thu	22 Jun	ABS labour force detailed quarterly	May (Q)	-

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

**Next week's data and events, 26 June – 30 June 2017**

Day	Date	Data/event	Data period due for release	Previous release
Tue	27 Jun	ABS census data	2016	-
		ABS estimated resident population	Dec 2016 (Q)	Sep: +1.5% p.a.
Wed	28 Jun	ABS engineering construction activity	Mar (Q)	Dec: -2.1% q/q, -18.1% p.a.
		ABS characteristics of Australian exporters	2015-16 (A)	
		HIA new home sales	May (M)	Apr: -3.3% p.a.
The	29 Jun	ABS job vacancies	May (Q)	Feb: +2.6% q/q, +9.4% p.a.
Fri	30 Jun	RBA private sector credit	May (M)	Apr: personal -0.1% m/m business +0.4% m/m

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 (May 2017)	2015-16 actual	2016-17 f	2017-18 f	2018-19 f	2019-20 p	2020-21 p
GDP, % change p.a., year end	3.1	1.5-2.5	2.75-3.75	2.75-3.75		
Unemployment rate, %, year end	5.8	5.75	5-6	5-6		
Inflation (CPI), % change p.a., year end	1.0	2.0	1.5-2.5	2.0-3.0		
<b>Treasury 2017-18 Budget (May 2017)</b>						
GDP, % change p.a., year average	2.6	1.75	2.75	3.0	3.0	3.0
Household consumption, % p.a., year average	2.9	2.5	2.75	3.0		
Dwelling investment, % p.a., year average	10.6	4.5	1.5	-4.0		
Business investment, % p.a., year average	-10.3	-6.0	0.0	3.0		
Employment growth, % p.a., year end	1.9	1.0	1.5	1.5	1.5	1.5
Unemployment rate, %, year end	5.8	5.75	5.75	5.5	5.5	5.25
Terms of trade, % change p.a., year end	-10.2	16.5	-2.75	-4.25		
Inflation (CPI), % change p.a., year end	1.0	2.0	2.0	2.25	2.5	2.5
Wages (WPI), % change p.a., year end	2.1	2.0	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 (as of Friday)		
RBA official cash rate, %	Jun (M)	1.50	-	AUD/USD exchange rate	US\$0.7541	▼
Real GDP, % change p.a.	Mar (Q)	1.7%	▼	Oil price (WTI light crude, USD/BBL)	US\$42.89	▼
Headline CPI, % change p.a.	Mar (Q)	2.1%	▲	Gold price (USD/OZ)	US\$1,249.95	▼
Unemployment rate, % trend	May (M)	5.7%	-	Copper price (USD/tonne, LME spot)	US\$5,648.00	▼

## Australian Industry Group monthly performance of industry indexes

Australian PMI®	May (M)	54.8	▼
Australian PSI®	May (M)	51.5	▼
Australian PCI®	May (M)	56.7	▲

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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