

15 June 2018

## AUSTRALIAN ECONOMIC DEVELOPMENTS

This week the Governor of the Reserve Bank of Australia (RBA), Philip Lowe spoke at an Ai Group event on Productivity, Wages and Prosperity. Dr Lowe discussed recent economic trends and observed that wages growth is slow because productivity growth is relatively low and because there is excess spare capacity in the labour market (e.g. due to a rising participation rate). Structural changes and the nature of recent technological progress are also relevant. Governor Lowe's speech *Productivity, Wages and Prosperity* can be found [here](#) and his graphs [here](#).

The latest Australian employment data (released this week by the ABS) confirm the RBA's view that there is still significant spare capacity in the local labour market, despite a slight tightening as of May 2018. The unemployment rate ticked down to 5.4% in May (seasonally adjusted), total employment increased by 12,000 and the number of people in labour force fell by 14,800 (those in work or actively looking for work). The total number of unemployed people fell by 24,800 to around 700,000. The underemployment rate (which measures people in part-time work who are available for more work) fell to 8.5% (from 8.7% one year earlier) but it remains elevated (trend).

Looking through the monthly volatility, the unemployment rate has remained stubbornly stuck at 5.5% since August 2017 (trend), despite strong employment growth, because labour force participation has been rising. SEEK job ads data for May suggest employment growth will continue but it may not be as strong as in 2017, which was a record calendar year for national jobs growth.

Among consumers, confidence stayed 'net optimistic' in early June, marking the best run of optimistic results since 2014, according to the Westpac-MI index of consumer sentiment. Indicators of employment in the NAB business survey and the Westpac-MI consumer survey suggest businesses and consumers are still feeling positive about local labour market conditions in May and June, albeit not quite as positive as at the start of the year.

The [Queensland](#) and [Tasmanian](#) State Government Budgets were also released this week. Ai Group's response to the Queensland State Budget can be found [here](#). The NSW State Budget will be released next Tuesday 19 June and Ai Group's submission can be found [here](#).

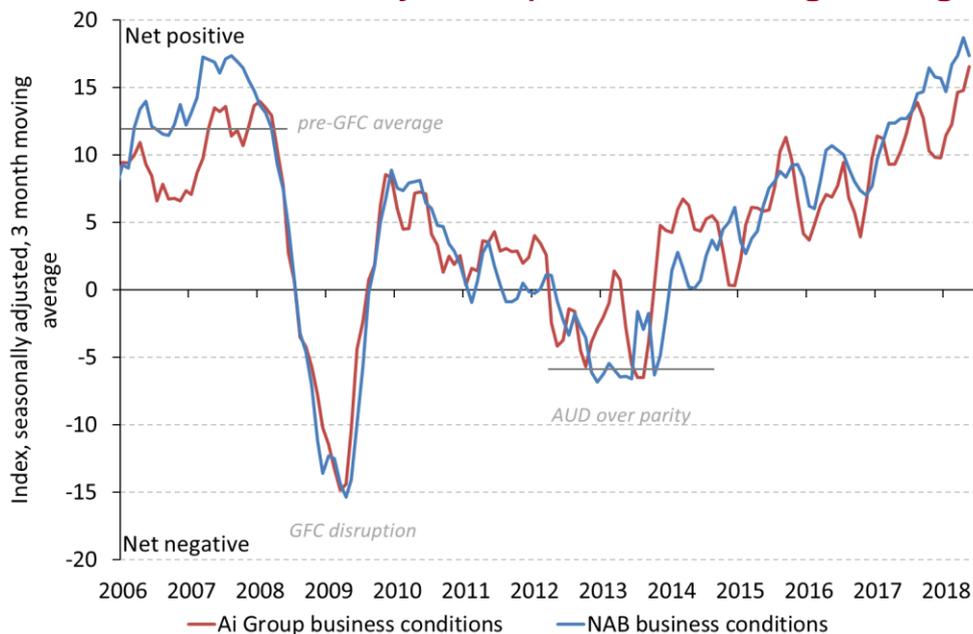
**Australian business conditions remain strong in May 2018**

NAB’s monthly business conditions index fell by 6 points to +15 points in May, after reaching a record high of +21 points in April (results over zero are ‘net positive’ in this survey, with higher results indicating better conditions). The NAB survey confirms that business conditions look healthy across a broad range industries, as was already evident in the Ai Group performance of manufacturing (PMI), services (PSI) and constructions indexes (PCI) in May (released in early June, see Chart 1<sup>1</sup>).

Business conditions in the NAB business survey were particularly positive in May in Victoria and South Australia (both +20 points), Tasmania (+18 points) and NSW (+17 points) (trend). Western Australia continued to lag the other states as it recovers from a mining-related slump.

Business confidence in the NAB business survey weakened by 5 points to +6 points in May. Capacity utilisation and forward orders edged lower in May, but in trend terms, these forward-looking indicators continue to point to a positive outlook across most non-mining industries.

**Chart 1: Ai Group composite business conditions index\* and NAB business conditions index, to May 2018 (3 month moving averages)**



\* weighted composite of Ai Group Australian PMI®, PSI® and PCI® fitted to the NAB business survey scale. Sources: NAB and Ai Group.

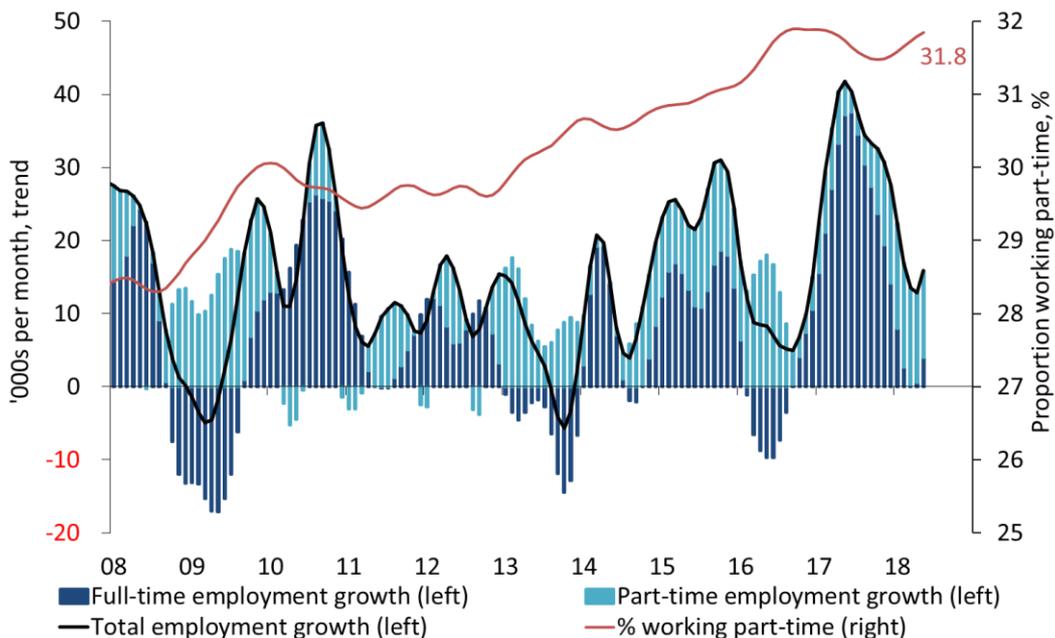
<sup>1</sup> Differences between Ai Group and NAB business surveys from month to month can reflect differences in industry coverage and information collection. For example, Ai Group business surveys do not include the mining and agricultural sectors which are doing very well in 2018 and are included in the NAB business survey.

**Part-time jobs drive employment growth in May**

The ABS estimates that the national unemployment rate dropped to 5.4% in May 2018 from 5.5% in April. Total employment increase by 12,000, with an additional 32,600 part-time jobs (those working 35 hours or less per week) more than offsetting a fall of 20,600 full-time jobs. These monthly labour market data are volatile and are subject to revision. For these reasons, the ABS recommends the trend estimates as the best guide to underlying patterns in the labour market<sup>2</sup>.

In trend terms, the national unemployment rate held steady at 5.5% in May. Employment increased by 15,900, with full-time employment increasing by 4,000 and part-time employment increasing by 11,900. Part-time employment accounted for 31.8% of the workforce in May 2018, just below the record high of 32.0% in November 2016 (Chart 2 and Table 1). Since the start of 2018, employment growth has averaged 16,300 per month, which is well below the record high of 33,800 per month in 2017, but above the long-term historical average of 13,500 per month (since March 1978). The majority of employment growth in 2018 to date has been in part-time employment. About 15% of jobs created in 2018 have been full-time, compared to 79% in 2017.

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



Over the year to May 2018, Australia’s unemployment rate declined by just 0.2 percentage points to 5.5% in May 2018 (trend). This relative stability is mainly because rising participation (those working or looking for work) has meant monthly labour force growth is roughly matching the rise in employment. This rise in participation is a normal response to stronger demand for labour.

<sup>2</sup> 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*. June 2018. The data below are all trend.

**Table 1: Key labour market numbers, May 2018 (trend)**

	Number	Change per month		Change per year	
	'000	'000 m/m	% m/m	'000 p.a.	% p.a.
<b>Employment</b>	<b>12,522</b>	<b>15.9</b>	<b>0.1</b>	<b>317.7</b>	<b>2.6</b>
Full-time	8,534	4.0	0.0	202.2	2.4
Part-time	3,988	11.9	0.3	115.5	3.0
Aggregate hours worked	1,747,117	2,807.1	0.2	43,863.8	2.7
Labour force	13,246	14.4	0.1	306.3	2.4
Adult civilian population	20,212	24.8	0.1	315.8	1.6
	Number	Rate		Change from one year ago	
	'000	% of labour force		Percentage point change p.a.	
<b>Unemployment (trend)</b>	<b>723.7</b>	<b>5.5</b>		<b>-0.2</b>	
Underemployment (trend, quarterly)	1127.2	8.5		-0.2	
Underutilisation (trend, quarterly)		13.9		-0.4	
		% of adult population		Percentage point change p.a.	
Participation rate		<b>65.5</b>		0.5	
Employment to population ratio		61.9		0.6	

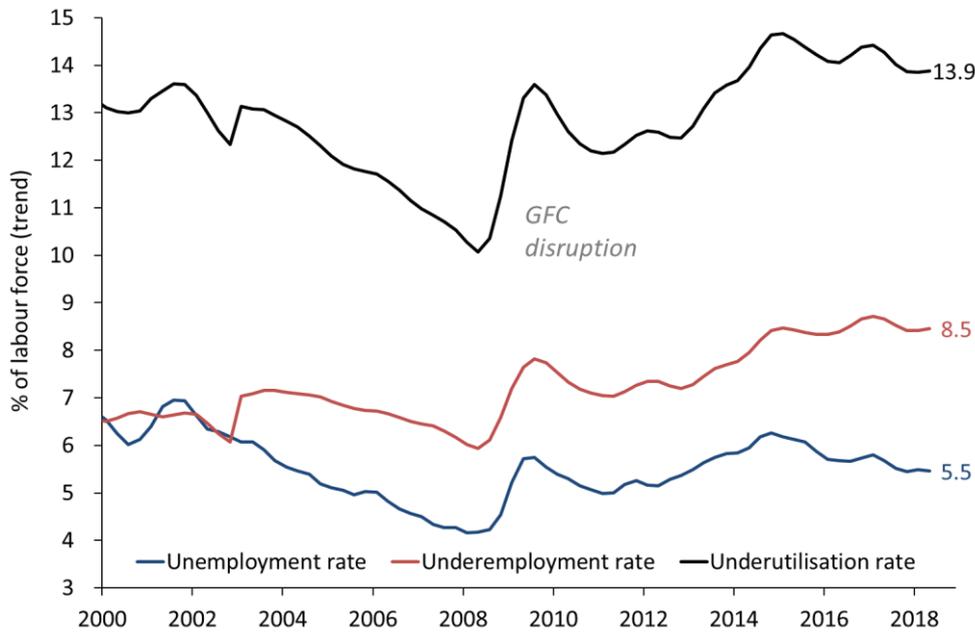
Source: ABS, *Labour force Australia*, May 2018.

Over the same period, the underemployment rate (that is, the proportion of the labour force who are working but are willing and able to work more hours) also declined by 0.2%, to 8.5% in May. Most under-employed workers are working part-time. As RBA Governor Dr Lowe noted in his speech to Ai Group members this week, this under-employment adds to total 'spare capacity', which remains relatively elevated (chart 3):

*“around one-third of workers work part time, with most of these people wanting to work part time for personal reasons. However, of those working part time, around one-quarter would like to work more hours than they do; on average, they are seeking an extra two days a week.”*

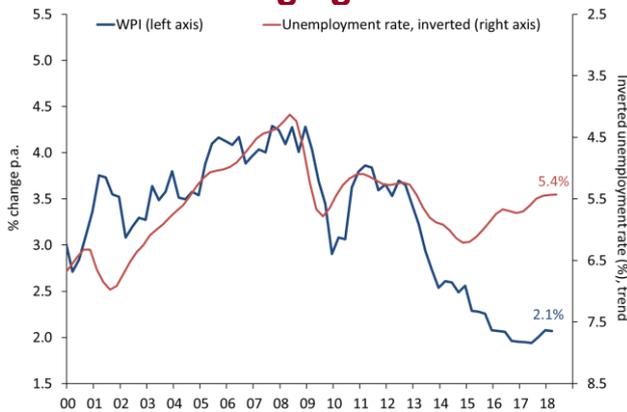
Underemployment has remained above the historical average in Australia since around 2014, even though the unemployment rate has declined (chart 3). Over the same period, a 'gap' has opened between the unemployment rate and wage growth (Chart 4), but not between the underutilisation rate (the unemployment rate plus the underemployment rate) and wage growth (Chart 5). This suggests a growing influence on wages is being exerted by the incidence of underemployment in Australia. This has been found to be the case internationally by the IMF.

**Chart 3: Unemployment, underemployment and underutilisation rates (trend)**



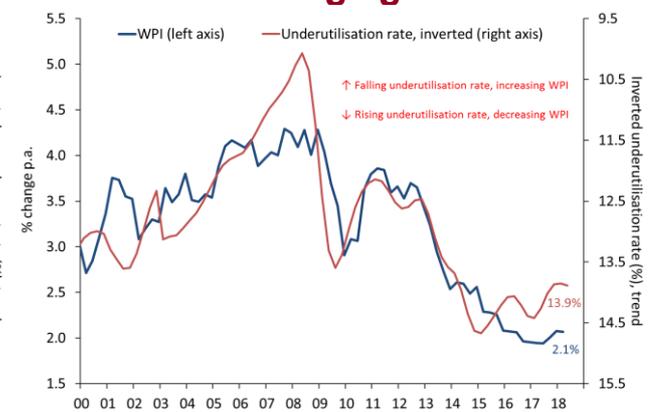
Source: ABS, *Labour force Australia*, May 2018.

**Chart 4: Unemployment rate and wage growth**



Sources: ABS, *Wage Price Index*, Mar 2018; ABS, *Labour Force Australia*, May 2018.

**Chart 5: Underutilisation rate and wage growth**



Across the states, employment grew over the year to May 2018 in all states and territories, with growth rates ranging from 0.5% p.a. in the Northern Territory to 3.6% p.a. in NSW. The largest absolute increases were in NSW (up 137,200 employed persons), Queensland (up 70,400 persons), Victoria (up 69,900 persons) and Western Australia (up 20,400 persons).

On a monthly basis, Victoria and Western Australia experienced the largest monthly increase in jobs this month, adding 7,500 and 2,500 jobs respectively in May. Monthly employment growth has been slowing in all states except South Australia in 2018. Outright job losses have occurred in Tasmania and the ACT in 2018 (see Table 2 and Chart 6).

Part-time work rates remain highest in Tasmania and South Australia (see table 2), reflecting the demographics of their populations (older than other states) and structure of their industries, with larger proportions working in health and welfare services.

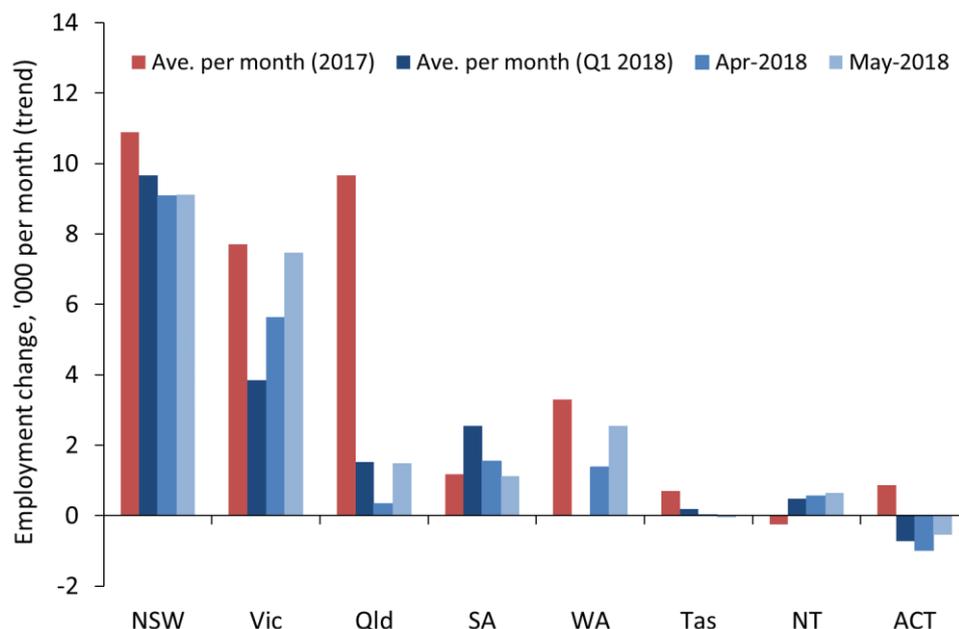
State unemployment rates were highest in Western Australia and Tasmania in May 2018. Unemployment rates rose by 0.1 percentage points to 6.4% in Western Australia and 6.3% in Tasmania and have been rising since the start of 2018. Victoria (5.1%), South Australia (5.7%) and the ACT (3.7%) experienced 0.1 percentage point decreases in trend unemployment rates in May. Unemployment rates in NSW, Queensland and the Northern Territory were unchanged.

**Table 2: Employment, unemployment and participation by state, May 2018**

Trend	Employment growth			Part time workers %	Unemployment rate %	Under-employment rate %	Participation rate %
	'000 m/m	'000 y/y	% p.a.				
NSW	9.1	137.2	3.6	30.6	4.9	8.0	64.8
VIC	7.5	69.9	2.2	32.9	5.1	7.9	65.4
Qld	1.5	70.4	2.9	31.6	6.2	9.2	65.8
SA	1.1	19.4	2.4	35.5	5.7	9.6	62.9
WA	2.5	20.4	1.5	32.8	6.4	9.2	68.6
Tas	-0.1	2.9	1.2	36.4	6.3	10.1	61.4
NT	0.6	0.7	0.5	20.7	4.0	3.8	76.4
ACT	-0.5	4.8	2.2	26.6	3.7	5.4	70.5
<b>Australia</b>	<b>15.9</b>	<b>317.7</b>	<b>2.6</b>	<b>31.8</b>	<b>5.5</b>	<b>8.5</b>	<b>65.5</b>

Source: ABS, *Labour force Australia*, May 2018.

**Chart 6: Monthly employment growth by state, May 2018**



Source: ABS, *Labour force Australia*, May 2018.

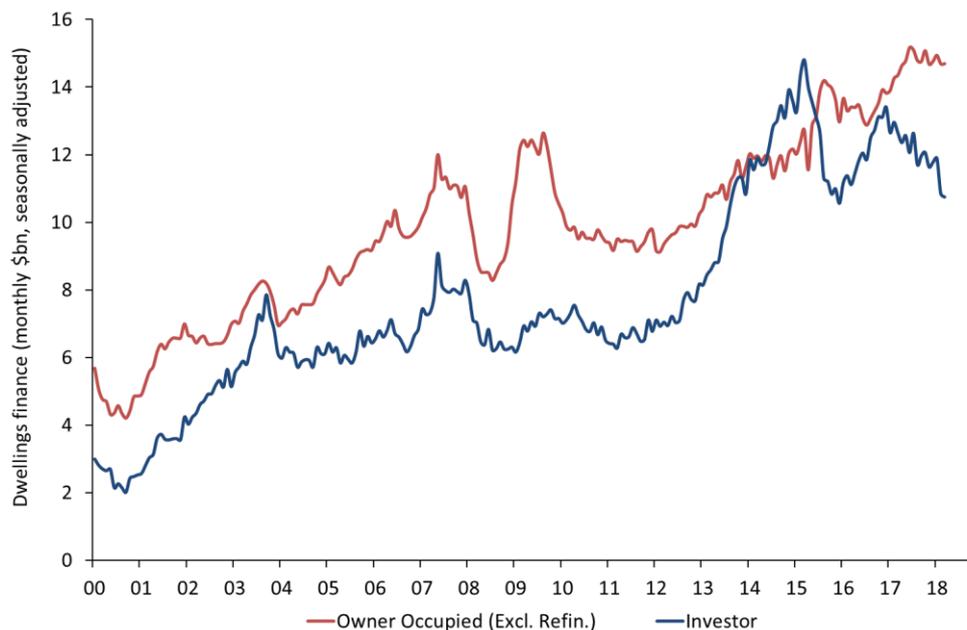
**Housing finance for investors falls further in April 2018**

ABS data released this week show the total value of housing finance fell by 0.2% m/m (seasonally adjusted) in April, following a 4.5% m/m fall in March. Total housing finance has now fallen by 3.2% p.a. to \$31.7bn, as of April 2018.

This fall has been driven by slowing investor financing, while owner occupier borrowing remained flat. Investor lending fell by 0.9% m/m, after falling by 8.8% m/m in March. Investor lending has slowed since APRA introduced macro-prudential measures in April 2017, which capped interest-only lending at 30% of new loans issued. Investor lending has now fallen by 15.0% p.a. and accounts for the lowest share of borrowing by investors since 2012, at 42%. This indicates these regulatory measures are having their intended impact. Owner-occupier finance (excluding refinancing) was relatively steady in April and is up by 2.4% over the year (see chart 7).

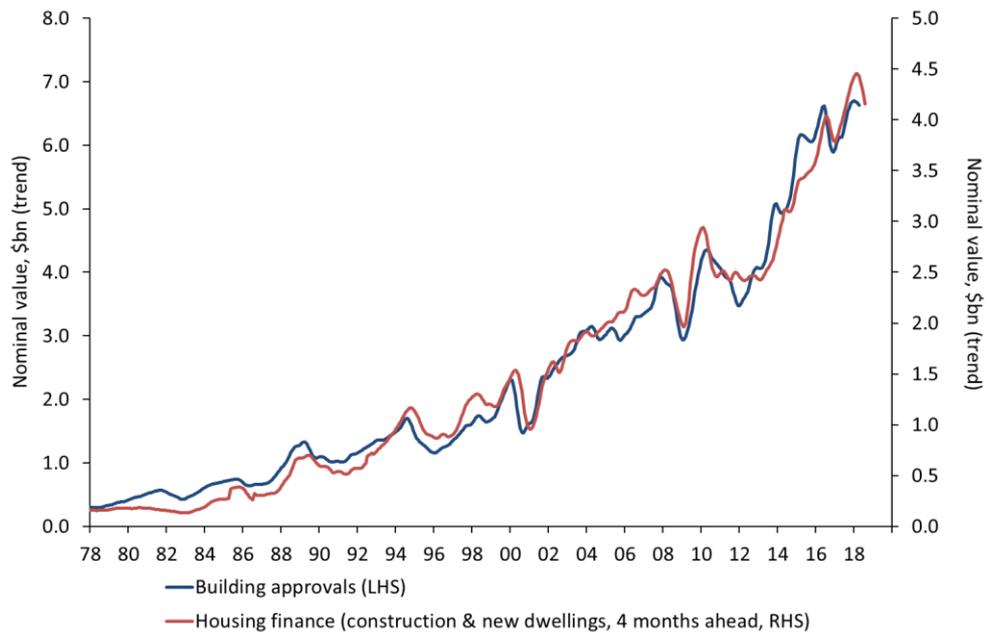
The value of financing for the construction and purchase of new dwellings tends to ‘lead’ the value of building approvals by about 4 months (see chart 8). The value of financing for the construction and purchase of new dwellings is now trending lower. This suggests that building approvals might fall from their relatively elevated levels in the coming months.

**Chart 7: Value of housing finance commitments by purpose**



Source: ABS *Housing Finance*, Apr 2018.

**Chart 8: Building approvals and housing finance, trend**



Source: ABS *Housing Finance*, Apr 2018 and ABS *Building Approvals*, Apr 2018

## This week's data and events, 11 Jun – 15 Jun 2018

Day	Date	Data/event	Data period	Previous release
Tue	12 Jun	ABS Housing Finance	Apr (M)	Value of dwelling finance -0.2% m/m
		ABS Lending Finance	Apr (M)	Commercial finance +1.1% m/m
		NAB Business Survey	May (M)	Conditions +15 points, Confidence +6 points
Wed	13 Jun	RBA Speech by Governor Philip Lowe to the Ai Group, Melbourne	June	N/A
		Westpac-MI Consumer Sentiment	June (M)	102.1 points
Thu	14 Jun	ABS Labour Force	May (M)	Emp growth: +2.6% p.a., Unemp rate: 5.5% (trend)
		ABS Summary of IT Use and Innovation in Australian Business	2016-17 (A)	95.4% of businesses with internet access
Fri	15 Jun	ABS Australian Environmental-Economic Accounts 2018	2018 (A)	Natural capital \$6.4bn
		RBA Speech by Assistant Governor Luci Ellis	June	N/A

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

## Next week's data and events, 18 Jun – 22 Jun 2018

Day	Date	Data/event	Data period due for release	Previous release
Mon	18 May	ABS Overseas Arrivals and Departures	Apr (M)	Mar (M): arrivals +2.4% m/m, departures +4.1% m/m
Tue	19 May	RBA Minutes	Jun (M)	Jun (M): Cash rate 1.50%
Wed	20 May	Department of Jobs and Small Business Internet Vacancy Index	May (M)	Apr (M): -0.5% m/m, +9.0 p.a. (trend)
		ABS Characteristics of Australian Exporters	2016-17 (A)	2015-16 (A): 53,350 exporting businesses, +5% p.a.
		ABS Government Benefits, Taxes and Household Income	2015-16	2009-10: N/A
Thu	21 May	ABS Demographic Statistics	Dec (Q)	Sep (Q): Estimated Resident Population (ERP) +1.6% p.a.
		ABS Labour Force Detailed Quarterly	May (Q)	Feb (Q): N/A
		RBA Bulletin	Jun (Q)	Mar (Q): N/A

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

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

RBA SoMP (May 2018)	2016-17 actual	2017-18 f	2018-19 f	2019-20 f	2020-21 p	2021-22 p
GDP, % change p.a., year end	1.8	2.75	3.5	3.0		
Unemployment rate, %, year end	5.6	5.5	5.25	5.25		
Inflation (CPI), % change p.a., year end	1.9	2.0	2.25	2.25		
<b>Treasury Budget 2018-19 (May 2018)</b>						
GDP, % change p.a., year average	2.1	2.75	3.0	3.0	3.0	3.0
Household consumption, % p.a., year average	2.6	2.75	2.75	3.0		
Dwelling investment, % p.a., year average	2.8	-3.0	1.5	0.0		
Business investment, % p.a., year average	-4.0	4.5	3.0	4.5		
Employment growth, % p.a., year end	1.9	2.75	1.5	1.5	1.25	1.25
Unemployment rate, %, year end	5.6	5.5	5.25	5.25	5.25	5.0
Terms of trade, % change p.a., year end	14.4	1.5	-5.25	-2.25		
Inflation (CPI), % change p.a., year end	1.9	2.0	2.25	2.5	2.5	2.5
Wages (WPI), % change p.a., year end	1.9	2.25	2.75	3.25	3.5	3.5

f = forecast. p = projection.

Sources: ABS various data; RBA *Statement on Monetary Policy* (SoMP), latest quarter; Australian Treasury, *Budget 2018-19* (May 2018).

**Australian economy: latest indicators**

Economy			FX and commodity prices (Friday morning)		
RBA official cash rate, %	May (M)	1.50	AUD/USD exchange rate	US\$0.7457	▼
Real GDP, % change p.a.	Mar (Q)	3.1% ▲	Oil price (WTI light crude, USD/BBL)	US\$66.93	▲
Headline CPI, % change p.a.	Mar (Q)	1.9% -	Gold price (USD/OZ)	US\$1,301.01	▲
Unemployment rate, % trend	May (M)	5.5% -	Copper price (USD/tonne, LME spot)	US\$7201.00	▲

**Australian Industry Group monthly performance of industry indexes**

Australian PMI®	May (M)	57.5 ▼
Australian PSI®	May (M)	59.0 ▲
Australian PCI®	May (M)	54.0 ▼

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).

**Ai Group Economics and Research Team**

<b>Julie Toth</b>	<b>Chief Economist</b>	<b>(03) 9867 0124</b>
David Richardson	Senior Economist	(02) 9466 5456
Colleen Dowling	Senior Research Analyst	(03) 9867 0251
Andrew Bridger	Economist	(03) 9867 0231
Molly Knox	Research Assistant	(03) 9867 0108

[economics@aigroup.com.au](mailto:economics@aigroup.com.au)

[www.aigroup.com.au/policy-and-research/economics/](http://www.aigroup.com.au/policy-and-research/economics/)