

# Australia Economic Release Notes

## August labour force data to be ignored by the RBA

- **The headlines were incredible.** According to the ABS, employment increased by 121k in August. This is the highest monthly net jobs gain in the history of the series that goes back to 1978. That wasn't the only massive improvement. The monthly 88k increase in the labour force was the largest in over twenty years and the unemployment rate unwound all of last month's unexpected large rise, falling back to 6.1%.
- **But we don't believe the data.** We are skeptical that a domestic economy that is growing below trend and with slower wages growth would suddenly report the largest ever increase in employment. We also doubt that with rising unemployment expectations, household would feel more encouraged to enter the labour force. This makes the large increase in labour force dubious.
- **Even the ABS probably doesn't believe it.** The ABS says it has investigated the unusually large rise in part-time employment (106.7K) but estimated that even accounting for the incoming rotation group in the survey having a higher proportion of part-time employed, this still left an unexplained rise of 60K in part-time employment. Normally between July and August the original estimate of part-time employment falls sharply but this time it rose by 111.8K. Consequently, the seasonal adjustment isn't the main contributor to the atypical rise in part-time employment this month. It is likely the change in the ABS methodology measuring labour force participation is the culprit but the ABS claims it cannot find any evidence for this.
- **What do we look at instead?** Searching through the wreckage that is the labour force data, we suspect it is best to look at full-time employment. While we discount the headline employment change, the full-time employment data look relatively free of the data distortions present in the part-time employment data. Full-time employment rose 14.3K in August and while full-time hours worked fell, it is on an improving trend. You could also look at the trend series for the unemployment rate. Even though this is based on the seasonally adjusted data, there is enough smoothing to provide an imperfect estimate at the underlying health of the labour market. This data shows that the unemployment rate is slowly moving higher, up from 6.1% in July to 6.2% in August. We would also point to measures of underemployment. These continue to move higher. Underemployment (those workers employed but who want to work more hours) moved from 7.7% to 8.5%. Even if some of the rise was biased by the sample changes, this does not suggest that previous spare labour market capacity has in any way diminished.
- **The RBA will probably steer clear of the August labour force data and instead rely on liaison and private sector surveys of employment demand.**

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Figure 1. Labour Force: August

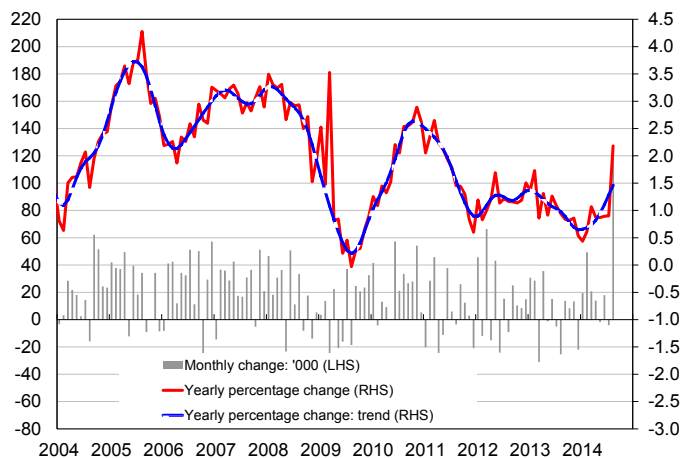
	Act	Citi	Mkt	Prev
Employment change (K)	121	10.0	15.0	-4.1
Unemployment rate (%)	6.1	6.3	6.3	6.4
Participation rate (%)	65.2	64.8	64.8	64.9
Hours worked (% change)	0.0	na	na	-1.0
Labour force change (K)	88	5	na	38
YoY employment change (%)	1.1	na	na	0.9
YoY labour force change (%)	2.5	na	na	1.7

Source: ABS, Bloomberg & Citi Research

### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

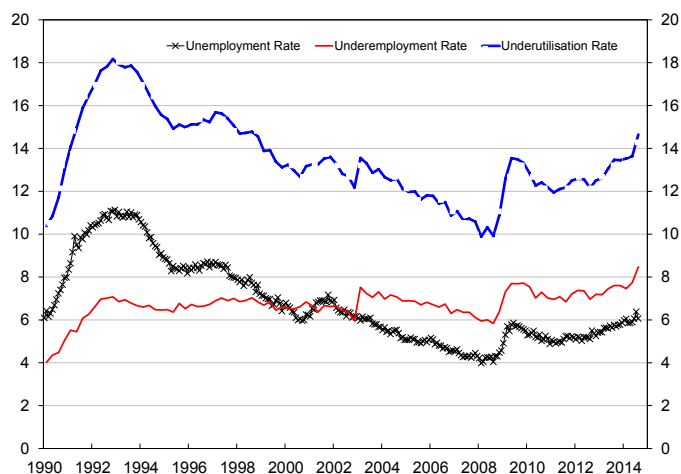
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Figure 2. Headline labour force results



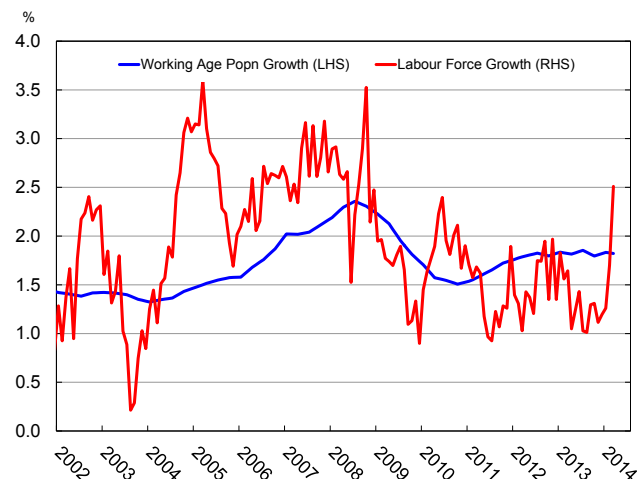
Source: ABS & Citi Research

Figure 3. Underemployment measures



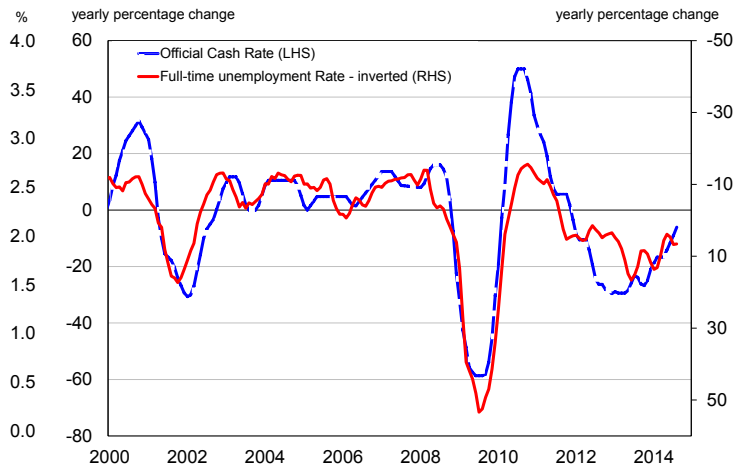
Source: ABS & Citi Research

Figure 4. Labour force gain outpaced population growth in August



Source: ABS & Citi Research

Figure 5. Monetary policy and the full-time unemployment rate



Source: ABS, RBA & Citi Research

## Appendix A-1

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