

Economic research note

13th March 2009

Further deceleration in the labour market

- In February 2009 annual employment growth was 1.0%, well below the long term average of 2.2%. Between January and February the number of employed persons rose by 1,800.
- The unemployment rate increased from 4.8% in January 2009 to 5.2% in February 2009.
- As real annual GDP growth slows over 2009, the unemployment rate is likely to continue to rise.

Data

The deterioration in the Australian labour market in 2008 has accelerated in 2009, as shown in Figure 1. Annual employment growth slowed from 3.0% in February 2008 to 1.0% in February 2009. The small rise, of 1,800 new jobs, was due to a steep rise in part-time positions (up 56,000 persons) offsetting a large fall in full-time employment (down 54,000 persons). This suggests strong substitution of labour within individual firms coping with lower demand.

In the year to February 2009 the unemployment rate has risen from a historic low of 3.8% to 5.2% with the number of unemployed persons rising by 47,000 during this period after rising 33,000 in the previous month. This is the largest monthly rise since April 1991. Given there was job creation in February, a large part of the rise in the unemployment rate can be explained by a rise in the participation rate from 65.3% to 65.5% in the month.

Figure 1

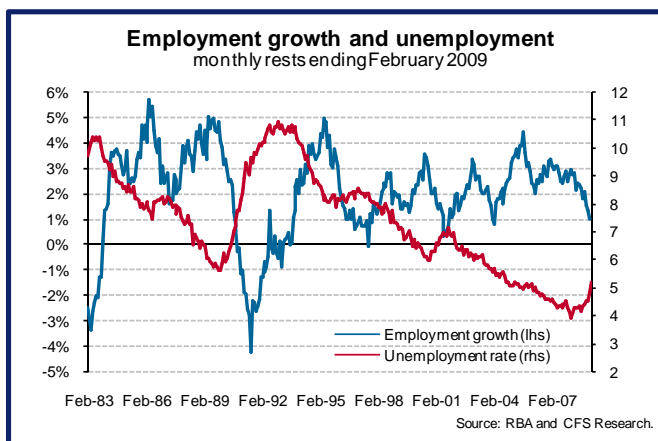
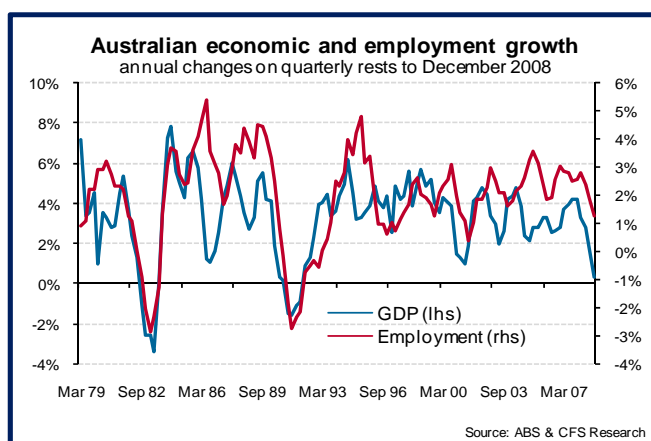


Figure 2



Analysis

Rising unemployment has long been expected in 2009, and particularly in 1H09, due to the deterioration in economic activity over 2008 that was recently confirmed by the contraction in economic activity in Q408 (see [Monthly economic snapshot - February](#)).

With no recovery in economic growth likely to emerge over 1H09, we expect further labour market deterioration. Figure 2 shows the relationship between GDP growth and employment growth. Historically, the relationship between GDP and employment growth has been positive with a short lag (GDP slows and recovers around two quarters prior to the labour market).

Using this relationship, we constructed a simple model to forecast the likely range for the unemployment rate at the end of 2009, assuming different scenarios for economic growth over 1H09. It suggests a range for the unemployment rate of between 6% and 7% by the end of 2009 based on an estimate of annual GDP growth at the end of 1H09 of between 0.0% and -1.0%. The forecast range broadly matches the forecasts of an earlier piece of work that examined employment levels across sectors (see [Labour market will deteriorate over 2009](#)). For comparison, the Australian Treasury forecasted the unemployment rate to rise to 5% by June 2009 and 7% by June 2010.

There are two counter-balancing short-term qualifications to this outcome. Negatively, Australia's labour market is now more flexible. This enables firms, as capacity utilisation falls, to lay-off labour more easily and/or, as already observed, to shift labour from full-time to part-time work. Positively, the size of the twin stimuli, at this stage of the downturn is more substantial than in previous downturns, providing households with greater support and encouraging employment stability in retail and construction. In the medium term the impact of these qualifications may reverse as a flexible labour market prompts a quicker recovery and the stimulus proves excessive or is unwound rapidly as inflation threatens.

Another feature of the labour market data since February 2008 has been the divergence in the trends across states, as Figure 3 highlights. The greatest negative impact has been in NSW where over 64,000 jobs have been lost and total employment has fallen by 27,000. While employment has shrunk in NSW and Victoria, it has risen in the remaining states.

This reflects different recent trends in state economic activity. In NSW and Victoria growth slowed through 2008 as rising interest rates and petrol prices slowed domestic demand. Conversely, the big resource states, Queensland and Western Australia, slowed only very recently as global demand reduced dramatically in the worsening credit crisis. This analysis suggests stabilisation in the labour market could first occur in NSW and Victoria as the stimuli of monetary and fiscal policy encourages domestic demand, notwithstanding their exposure to the global economy through financial services and manufacturing.

Figure 3



Investment Implications

Deteriorating labour market conditions will result in falling consumption expenditure. The impact on asset markets will largely be dependent on the size and duration of the contraction in consumption. More specifically, the commercial office and retail property sectors are likely to experience a period of negative income growth due to weakening demand for space and a pull-back in spending by households as job security fears rise. On the positive side, such a labour market does mean that interest rates are likely to remain low in 2009 and, in time, this should prompt new investment.

CFS Research has a global reach and the expertise to tailor research to your needs.

Contact details

Anthony De Francesco	Head of Research	+612 9303 3598
Mary Culjak	Research Assistant	+612 9303 3518

For further information

cfsinstitutional@colonialfirststate.com.au

Head of Business Development, Australia and New Zealand

Tony McFadyen +61 2 9303 2699

Institutional Account Management

Jeremy Edmonds +61 2 9303 2695

Daniel Bristow +61 2 9303 6311

Institutional Business Development

Peter Weldon +61 2 9303 6860

Matt Russell +61 2 9303 7024

Ali Karmali +61 2 9303 6070

Liz Krajewski +61 2 9303 2927

Helen Squadrito +61 2 9303 6142

Nadene Moore +61 3 8628 5615

Hugh O'Neill +61 2 9303 6116

Simon Good +61 3 8628 5681

Lucas Rooney +61 7 3328 5875

DISCLAIMER

Product Disclosure Statements (PDS) and Information Memoranda (IM) for the funds issued by Colonial First State Investments Limited ABN 98 002 348 352, Commonwealth Managed Investments Limited ABN 33 084 098 180, and CFS Managed Property Limited ABN 13 006 464 428 (collectively CFS) are available from Colonial First State Global Asset Management. Investors should consider the relevant PDS or IM before making an investment decision. Past performance should not be taken as an indication of future performance.

No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of CFS. This material contains or is based upon information that we believe to be accurate and reliable. While every effort has been made to ensure its accuracy we cannot offer any warranty that it contains no factual errors. We would like to be told of any such errors in order to correct them.

This material has been prepared for the general information of clients and professional associates of CFS. You should not rely on the contents. To the fullest extent allowed by law, CFS excludes all liability (whether arising in contract, from negligence or otherwise) in respect of all and each part of the material, including without limitation, any errors or omissions.

This material is intended only to provide a summary of the subject matter covered. It does not purport to be comprehensive or to render specific advice. It is not an offer document, and does not constitute a recommendation of any securities offered by CFS. No person should act on the basis of any matter contained in this material without obtaining specific professional advice.

Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia ABN 48 123 123 124.

Copyright © CFS 2009

All rights reserved.