Will the Labour Market Roll Over?

After a quiet week on the domestic data front, this week we will receive the labour market report for the month of June as well as the minutes of the July Reserve Bank (RBA) Board meeting. Both releases will provide additional insights leading into the RBA's August Board meeting.

While the RBA Board decided to leave rates unchanged in July, key omissions in the RBA Governor's policy statement were the real surprise. For the very first time this cycle, the Governor's statement dropped its reference to the goals of keeping the economy on an "even keel" and achieving a "soft landing". The Statement acknowledged that rates have gone up significantly and will continue to weigh heavily on spending, so much so that the likelihood of a soft landing had diminished.

The statement also cut out any references to potential upside inflation risks. If you recall, the hike in June and public communication after the June RBA Board meeting emphasised that the balance of risks to inflation had shifted to the upside and as a result, the RBA had to respond. In his speech delivered just last week, the RBA Governor confirmed that in June "the Board responded to this shift in risk with a further lift in interest rates". In July, references to upside risks to inflation were all but removed from the Policy Statement. The weaker than expected monthly consumer price index gauge could have been the catalyst for the RBA's updated risk assessment.

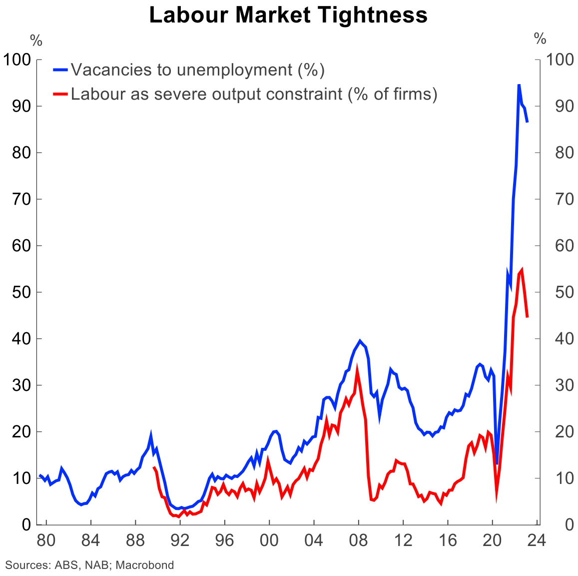
The minutes will provide more background on these omissions and more importantly, guidance on how they should be interpreted. One interpretation could be that the risks between inflation on the one hand, and the economic outlook on the other, are now more evenly balanced and the RBA will take a cautious approach. Another interpretation could be that in the RBA's view, at least in the short run, real economic activity will need to suffer to get inflation back to target - this points to a more aggressive approach.

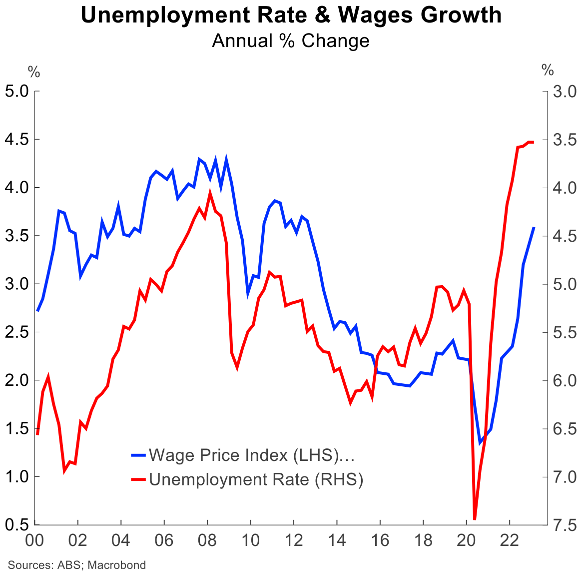
A key upside risk to inflation remains the ongoing strength in the labour market. The incoming RBA Governor, Michele Bullock, recently gave a speech where she stated that an unemployment rate of around 4.5% is consistent with the RBA's inflation target. Unemployment below the non-accelerating inflation rate of unemployment (NAIRU) increases the risk that wages growth accelerates to unsustainable levels, leading to elevated inflation going forward.

Economists will be looking for signs the turn in the labour market is gaining momentum after a surprise 80k jobs were added in May. This highlighted the resilience of the labour market and saw the unemployment rate tick down to 3.6% from 3.7% over the previous month.

Given still elevated job vacancy numbers, we're expecting labour market conditions to normalise after the bumper May outcome, rather than turn in a material manner. We forecast that the labour market added around 25k jobs over June, enough to keep the unemployment rate unchanged at 3.6%. Market economists are expecting job gains of 15k over June and an unchanged unemployment rate.

Furthermore, given the recent resilience in the labour market and the still elevated number of job vacancies, we're also expecting to see the unemployment rate increase more slowly to 4.0% by the end of 2023, rather than 4¼% previously expected.





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Group Forecasts

		2023		2024			
End Period:	**Close (14 Jul)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	4.10	4.60	4.60	4.60	4.35	4.10	3.85
90 Day BBSW, %	4.29	4.80	4.80	4.63	4.38	4.13	3.88
3 Year Swap, %	4.25	4.30	4.15	4.00	3.80	3.60	3.50
10 Year Bond, %	4.00	3.90	3.70	3.50	3.30	3.20	3.10
US Interest Rates:							
Fed Funds Rate, %	5.125	5.375	5.375	5.125	4.625	4.125	3.625
US 10 Year Bond, %	3.76	3.70	3.50	3.30	3.10	3.00	2.90
USD Exchange Rates:							
AUD-USD	0.6838	0.69	0.69	0.71	0.72	0.73	0.74
USD-JPY	138.80	138	136	134	132	130	128
EUR-USD	1.1228	1.11	1.12	1.12	1.13	1.14	1.15
GBP-USD	1.3093	1.28	1.28	1.29	1.29	1.30	1.30
NZD-USD	0.6370	0.62	0.62	0.63	0.64	0.65	0.66
AUD Exchange Rates:							
AUD-USD	0.6838	0.69	0.69	0.71	0.72	0.73	0.74
AUD-EUR	0.6090	0.62	0.62	0.63	0.64	0.64	0.64
AUD-JPY	94.9	95.2	93.8	95.1	95.0	94.9	94.7
AUD-GBP	0.52	0.54	0.54	0.55	0.56	0.56	0.57
AUD-NZD	1.07	1.11	1.11	1.13	1.13	1.12	1.12

	2021	**2022**	**2023 (f)**	**2024 (f)**
GDP, %	4.6	2.6	0.6	1.0
CPI (Headline), %	3.5	7.8	4.2	3.2
CPI (Trimmed mean), %	2.7	6.9	4.1	3.2
Unemployment Rate, %	4.7	3.5	4.0	5.3
Wages Growth, %	2.3	3.4	4.1	3.3

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

For more information

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