



Economics Group

Tim Quinlan, Senior Economist
tim.quinlan@wellsfargo.com • (704) 410-3283

Australian Job Market Continues to Firm

A stronger-than-expected jobs report in Australia pulled the jobless rate two-tenths of a point lower. The firming in the labor market diminishes prospects for more rate cuts this year.

Best Combined Two Months for Jobs in Years

The Australian economy added 37.4K jobs in April. This follows the largest monthly jobs surge in two years in the prior month. Most analysts evidently thought the solid job growth in March might be tough to follow in April judging by the more modest job increase of 5K that was expected by the consensus.

Taken together, the two-month period culminated in the second-largest back-to-back job pickup in Australia in the past 13 years. The only higher point in this period was October and November of 2015 when methodological changes and soaring numbers invited some unwelcome skepticism of the veracity of the numbers during that period. If we left that out, this would have been the fastest combined two-month job growth since September and October of 2004.

The participation rate held also steady at 64.8 percent as the jobless rate fell two tenths of a percentage point to 5.7 percent—one notch above the 5.6 percent rate, which marks the low point for unemployment figures since 2013.

The fact that full-time jobs fell 11.6K takes some of the shine off the apple in today's report, although admittedly the latest minutes from the Reserve Bank of Australia (RBA) stated a diminished concern for the dichotomy between full and part-time work.

We suspect the strength observed in the Australian labor market lately may overstate the health of the Aussie economy at present. After firming in the second half of 2016, the Reserve Bank of Australia's (RBA's) commodity index has turned down more recently falling 3.4 percent between February and April. Additionally, building approvals fell 13.4 percent in March and are now down by 19.9 percent over the past year.

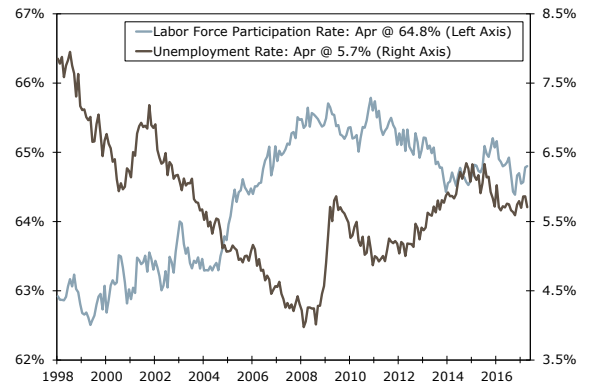
We are, however, encouraged by the improvement in job prospects for Australia and after back-to-back monthly declines in retail sales, the better jobs figures could provide a needed lift to consumer spending.

Business spending has been a drag on growth in nine out of the past 11 quarters in Australia, but there is some indication that may be turning a bit as well. The NAB's measure of business confidence climbed in April to its highest level since 2010.

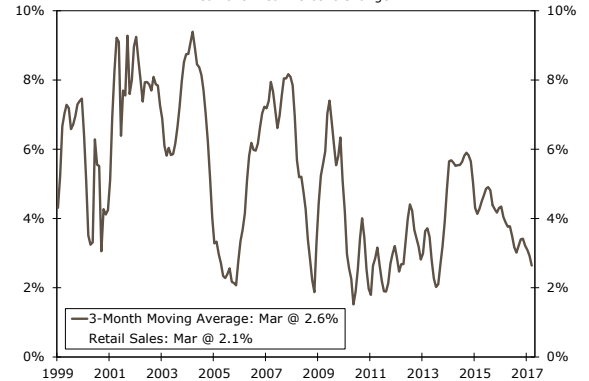
Implications for the Reserve Bank

The stronger-than-expected momentum in labor market diminishes the probability of additional rate cuts in our view; still we also do not believe Australian economic fundamentals currently justify an increase in interest rates any time soon either. With the RBA likely to be on hold until well into 2018 and the Fed expected to continue raising rates, we see downside risk for the value of the Australian dollar against the greenback.

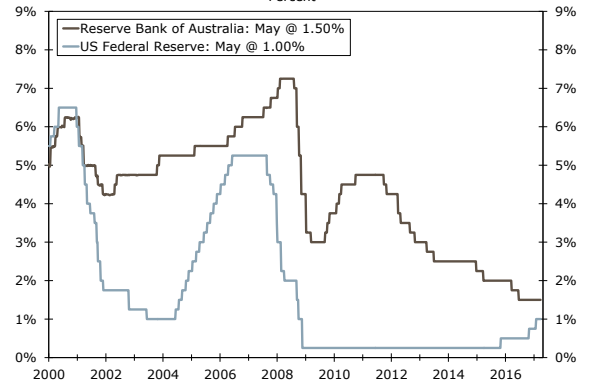
Australian Labor Market Indicators
Seasonally Adjusted



Australian Retail Sales
Year-over-Year Percent Change



Central Bank Policy Rates
Percent



Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2017 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES