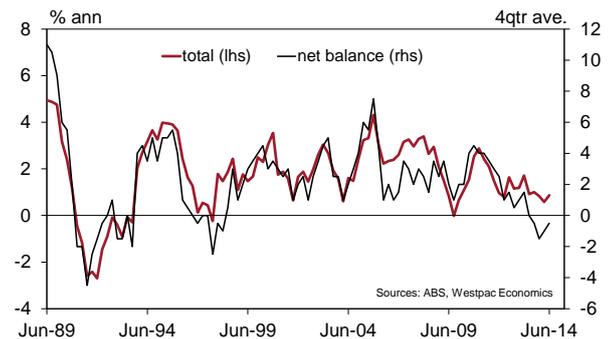


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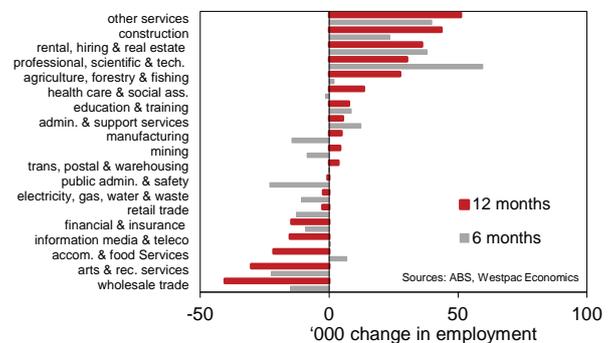
Aust. labour market in transition away from mining but it is narrowly based & quite tentative.

- Total employment in May surprised by contracting 4.8k. Also Apr was revised to +10.3k from an original estimate of 14.2k. Total employment is now up 98.7k in the year to May. True this is a moderation from the +100k reported in Apr, but it is a solid result given that 98.0k jobs have been added in 2014.
- Each quarter the ABS releases more detailed data (taken from the mid-month of each quarter) from the Labour Force Survey. This allows us to take a closer look at the industry/sector/state composition of the labour market.
- This data reveals a switching from mining to construction as a key source of jobs. There has also been a strong gain in other services which includes repair & maintenance, personal & other and household services.
- Recovery in construction has also had flow on benefits to those sub sectors of manufacturing that have some relationship with construction. Were it not for the construction recovery, we speculate that manufacturing employment would have been much weaker than the 0.5%yr print recorded in May.
- Health has been an important part of the story for the strength of household services employment but in 2014 hospitals, residential care and social services were a drag on employment.
- Business services are now a drag on employment in NSW but construction is picking up the slack. Vic is getting a bounce in household services as manufacturing losses continue and business services flatten. Mining is looking as if it has peaked in Qld but household and business services are surging. In WA, mining is now trending down whereas business services employment has sprinted ahead.

Distribution of employment is quite narrow



Job creation & losses to May 2014



Winners through to May 2014 '000 employed*

	Construction	Real estate	Prof & technical	Mining, ag & utilities	Education & health	Manufact.	Total
12mth to Nov 13	13.7	-2.4	-20.9	47.0	49.4	-17.8	69.0
6mth to Nov 13	20.1	-1.8	-29.3	46.7	13.8	19.2	68.6
6mth to May 14	23.4	37.9	59.5	-17.3	7.2	-14.4	96.3
total last 12 months	43.5	36.0	30.1	29.4	21.0	4.8	164.9

Losers

	Wholesale & transport	Finance	Other business services	Retail	Leisure & hospitality	Government	Total
12mth to Nov 13	-16.8	-5.6	-43.2	35.4	-6.1	61.5	25.2
6mth to Nov 13	-21.8	-5.5	-22.6	10.1	-24.8	22.4	-42.2
6mth to May 14	-15.1	-9.1	12.6	-12.7	24.0	-23.0	-23.3
total last 12 months	-36.9	-14.7	-10.0	-2.6	-0.8	-0.6	-65.5

*this data does not sum to, or exactly equal, the monthly labour force data

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In the mid-month of each quarter, the ABS releases the labour force data by sector and by using the May data, we can take a deeper look at not just which sectors are responsible for the recovery in employment but also view how widespread, or concentrated, that recovery is.

From the May data we can see that the turnaround is due to both greater industry gains and smaller industry losses. This is highlighted by our winners/losers table on page one. Here aggregated sectors are ranked by the 12 month change in employment. In the six months to Nov 13, the winners added 68.6k to total employment compared to a loss of 42.2k (net +26.4k). By May 14, this swung to the winning sectors adding 96.3k and the losing sectors shedding 23.3k (net +73.0k). This is a promising sign as it suggests that a combination of more employment and less firing is driving the recovery.

But the turnaround is narrowly based.

Unfortunately, the contributions to this lift in employment remain very narrowly based while retrenchments even if they are less, remain quite widespread. From Table 1, +144.8k in total employment in the last six months can be allocated to just four sectors: construction (+23.4k); real estate (+37.9k); professional & technical (59.5k); and leisure & hospitality (+24.0k - this sector includes other services).

That lack of breadth in the employment recovery can also be found in the net balance of sectors derived by subtracting the number of sectors with falling employment from the number of the sectors with rising employment. In May 14 the net balance was -0.5 in four quarter average terms, an improvement on Feb 14's -1.0 but still less than the long run average of +2.7. But we are watching this space closely as the quarterly net balance fell to -1 in May from the +5 in Feb. Based on the Feb update we had hoped that the lift at the time was a sign of a broader recovery in employment. But the fall back into negative territory in May suggests the recovery remains quite fragile.

Cyclical sectors are yet to really fire.

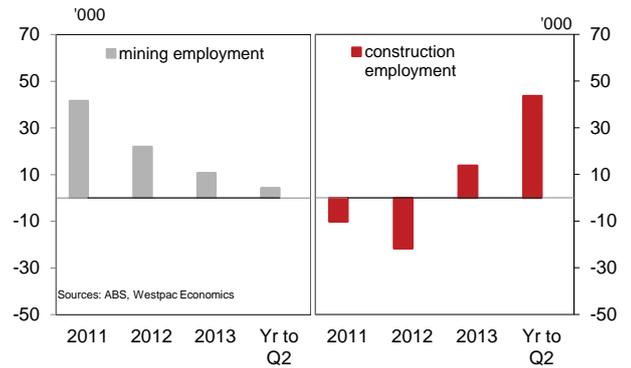
For some time now, Westpac has identified that a limited number of private sectors, plus the public sector, have been responsible for the bulk of the growth in employment since 2008. The "Top 5" (mining, utilities, education, health, public and business services) account for 48% of total employment and yet they have accounted for a larger share of the growth in employment: +64k last year and a gain of 789k since Aug 2008. By comparison, all the rest (other private) have gained 36k employees in the last year and lost 7k since Aug 2008. That this group's total employment has tracked sideways for more than five years now is very unusual. You would have expected (hoped) that these sectors would have matched the broader recovery by now given that this grouping includes normally cyclical sectors such as construction, retail trade, accommodation & food services and other services.

Household services the main source of employment growth.

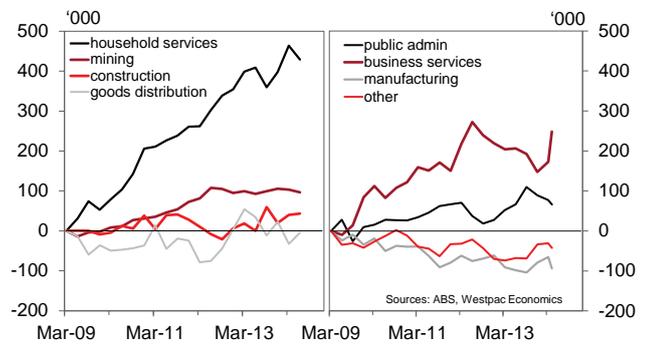
Nationally, household services remain an important source of employment growth, but the pace has slowed with total employment rising just 20k in the year to May compared to a 43.3k rise in the year to Nov. Key to this moderation has been a dip in healthcare employment driven by a recent correction in hospitals, residential care and social assistance employment.

Offsetting the recent soft patch in household services has been something of a recovery in business services, which rose 42k in the year to May compared to a 72k contraction in the year to

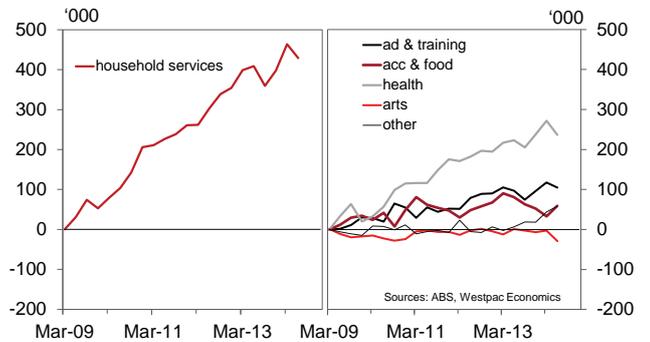
Construction is taking over from mining



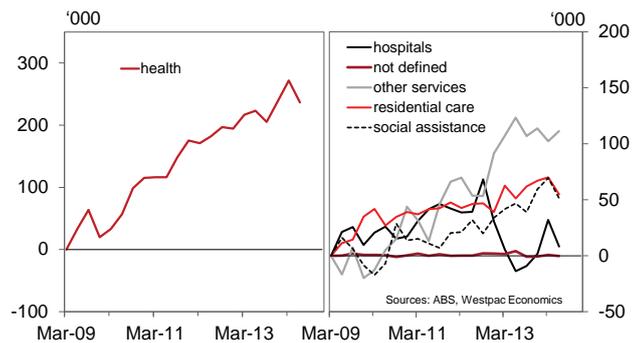
Cumulative change in industry employment



Health largest contributor to household services



Dip due to hospitals, residential & social services



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Nov. There has been a major turnaround in rental, hiring & real estate services (+36k in year to May compare to 2.4k in the year to Nov) and a bounce in admin & support services (+5k in year to May versus -10k in year to Nov).

Construction employment lifted by building activity.

In the last year, the recovery in construction employment has been driven by a lift in building construction (+22k in year) and engineering (+26k in the year). By comparison the largest sub-sector, construction services (660k vs. 250k in building construction) employment has been quite volatile but overall employment in this subsector has been broadly flat since 2009.

Turning to the states, employment data can provide a timely indicator of how the construction cycle can vary around the country. In 2014 NSW has been the source of all the recovery in construction employment, matching the rise in construction activity, with employment lifting 46k in the year to May. By contrast construction employment in Vic has risen 3k while it has been flat in Qld. Construction employment has levelled out in WA while it has fallen 7k in the year to May in SA.

Retail employment is tracking sideways.

Retail employment has been quite volatile over last few years but overall it was basically flat in the last 12 months (-3k in the year to May on 1.2mn employees) compared to a 35k rise in the year to Nov 13 and a 41k gain in the last two years.

In the last year, there have been strong gains in 'other store' employment (+26k) supported with modest gains in motor vehicles (+7k) and fuel (+3k). Losses have started to mount in 'otherwise not defined' (-23k) which combined with further losses in food (-4k) and non-store (-7k).

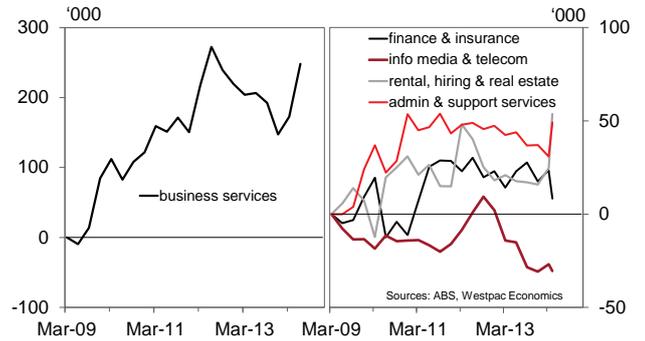
Manufacturing remains in the doldrums.

Manufacturing now represents only slightly more than 8% of total employment. There has been a small improvement in 2014, with 5k jobs added in the year to May compared to a 17.8k loss in the year to Nov. Nevertheless, manufacturing has shed 18k jobs in the last two years and is down 114k since Aug 2008. But the recent recovery is interesting in that it has been driven by an improvement by food products, wood products, primary metal and transport employment. The rise in primary metal and transport employees is interesting as these are the sub sectors that should have the strongest links with the auto industry. Employment in these sub sectors is up slightly in the last two years suggesting we are yet to see any significant impact from the downsizing by the Australian auto industry. (see more below)

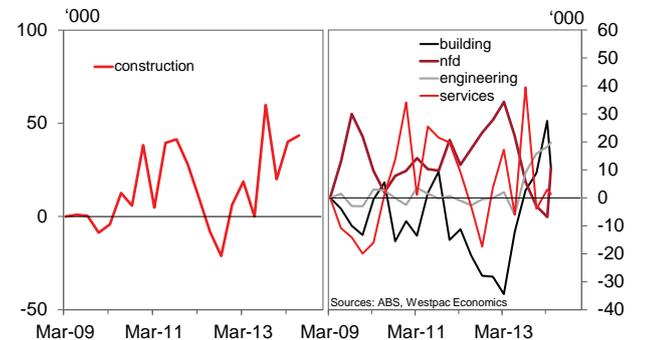
Construction is also boosting manufacturing.

Westpac has for some time noted the ongoing decline in manufacturing that has close links to the construction sector; wood products, non-metallic minerals, primary metal products, fabricated metal products, and furniture. Since Aug 1998 employment in these sub sectors has fallen 92.4k. So we are closely watching the recent bounce from this group, which gained 45k employees in the last year compared to a 39k fall in non-construction related manufacturing. Just under half of the gains come from wood products (+18k in the year) with support from primary metal (+14k) and furniture (+9k). As such, it could be that the recovery in construction activity is, for now, providing something of an offset to the auto industry downturn.

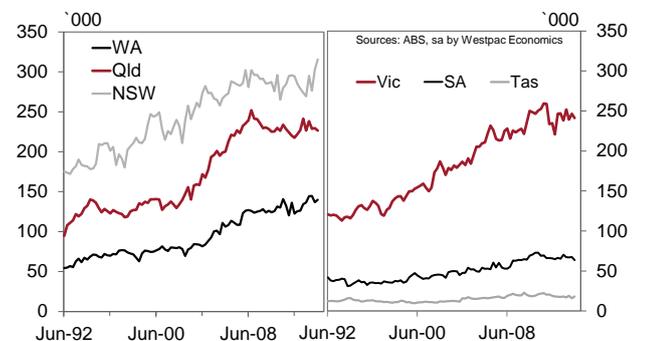
Real estate & admin driving recent bounce



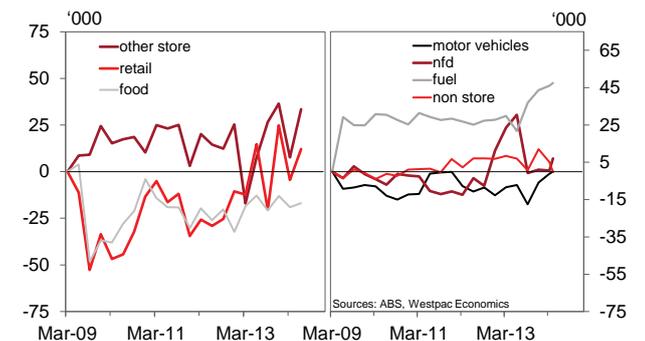
Construction strength in building & engineering



Construction employment by state



Retail strength other stores, fuel & motor vehicles



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Mining employment has now started its trend decline.

Employment in mining stabilised in the last year, a rise of just 4k in the year to May, but it has fallen 11k in the last two.

The largest sub sector employer is metal ores (31% of mining employment) and employment in this sector has fallen 12k in the last year (-19k in the last two).

Exploration is the second largest sub sector (23%) but its employment level is very volatile. For now, employment in this sector is up 21k in the last year and 8k in the last two. We are closely watching this sector and suspect that some of the recent gains may be associated with mines outsourcing some of their requirements to mining support services which are included in this sub sector.

Coal mining is the next largest sub sector (21%) and it appears to be in a modest recovery mode, +26k in the last year compared to -2k in the last two. This is consistent with the continued gains in Australia coal exports and the expansion of the newer, more efficient mega mines. The media reports of mine closures and jobs layoffs is associated with the shutting down of smaller, less efficient mines while the expansion of the larger mines tends to go unreported.

The sub sector that has taken the biggest hit in the last year is not elsewhere defined (10%). Employment here has fallen 25k in the last year, -10k in the last two.

The oil and gas extraction sub sector (9%) is still in expansion mode, with employment rising 4k in the year, +13k in the last two.

Agriculture long-term downtrend remains in place.

Agricultural output is very dependent on seasonal conditions and following the breaking of drier than average conditions in 2012, growth in production peaked 9.7%yr in 2013Q4, before easing back to 3.6%yr in 2014Q1. This has provided a very positive boost to agriculture employment which lifted 7.4%yr in Nov and then accelerating to 9.3%yr in May 2014.

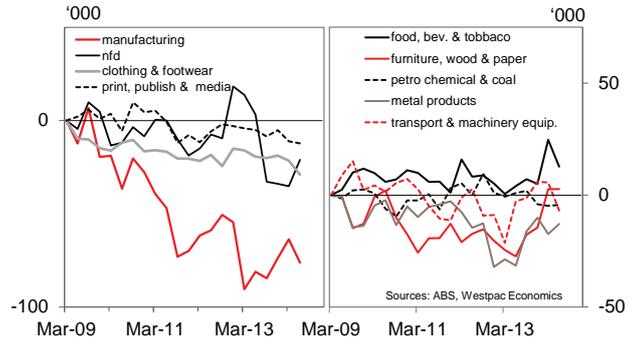
We would, however, be cautious about projecting ongoing growth in agricultural employment going forward. Firstly, seasonal conditions may be moving against agricultural production as a large El Nino is forming in the Pacific Ocean and this is often associated with drought conditions in Eastern Australia.

In addition, the recent bounce does not break the downtrend in agricultural employment we have seen since the severe drought of 2003. Employment in this sector has a trend decline of -1.6%yr since then compare to a trend rise in agricultural output of 1.8%yr. It appears that farmers are still trying to downsize their workforce and lift productivity.

By state, growth in sectors can be vastly different.

Employment in **NSW** has had a similar mix to the national average but the difference has been that most sectors, outside of goods production, have been growing more slowly than the national average for that sector. Household services fell 1.9%yr compared to the national average of +0.5%yr due to falling employment in accommodation & food services (-8.7%yr), education & training (-4.1%yr), health care (-2.3%yr) and a -10%yr collapse in other services. Government has fallen -6.6%yr (-0.1%yr nationally) while goods distribution is down -5.1%yr (-1.8%yr nationally). The one sector of outperformance in NSW was goods production which included construction. This sector

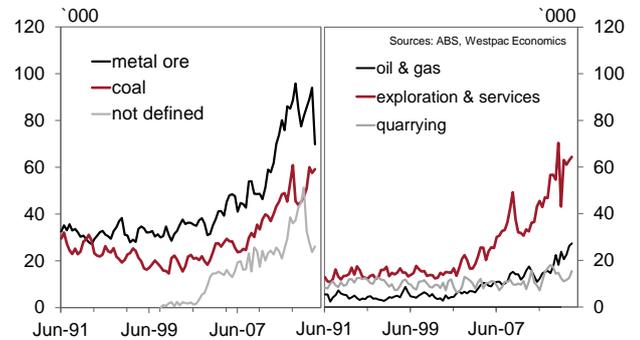
Manufacturing, the decline is not uniform



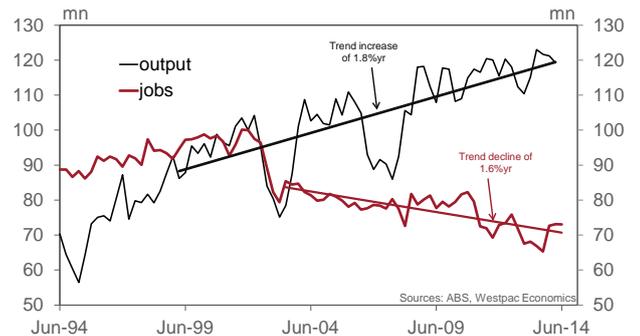
Construction source of stability for manufacturing.



Mining; metal have peaked nfd collapsing



Agriculture: employment in structural decline



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rose 5.9%yr vs. 3.0%yr nationally with this sector rising 1.2%yr in Vic, 0.7%yr in Qld and falling -0.5%yr in WA.

By comparison, **Vic** showed a strong outperformance in goods distribution (3.6%yr compared to -1.8%yr nationally) due to robust gains in retail trade (6.7%yr) with solid gains in transport & postal (2.4%yr) more than offsetting the -2.9%yr loss in wholesale trade. However, overall the gains in Vic were still constrained by a -1.8%yr fall in business services and a -0.9%yr fall in government. Employment growth in household services at 0.3%yr was also less than the national average (0.5%yr).

The outperformance in **Qld** over the last year (2.6%yr vs 0.9%yr nationally) has been due mostly to the significant outperformance in household services (5.4%yr or +45k) with solid contributions from other services (12.5%yr), education (12%yr) and health care (7.4%yr). Goods production rose 3%yr, powered by solid gains in agriculture (9.4%yr), construction (4.4%yr) and mining (1.6%yr) which were only partially offset by losses in utilities (-1.6%yr). Public administration employment has lifted 10k or 7.1% in the year to May.

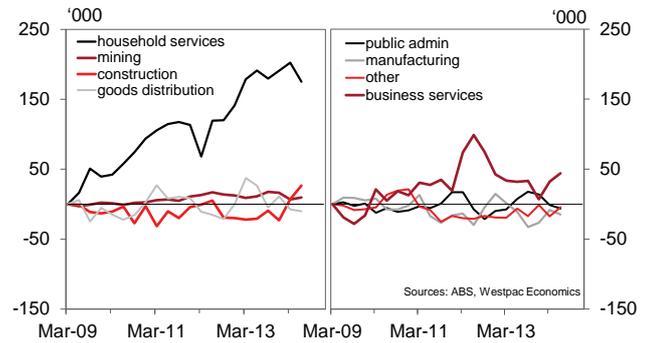
WA had the fastest growth in employment in the year to May (3.0%yr) due almost entirely to an 18.8%yr gain in business services employment.

Business services employment appears to be catching up to output.

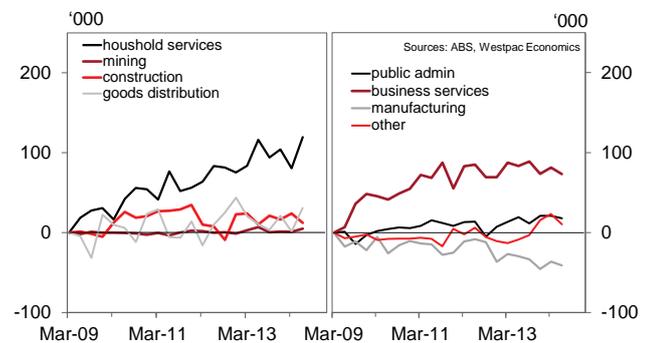
Business services represent 18.3% of total employment and 22.7% of output. In the year to May 2014, employment in this sector lifted to 1.9%yr finally catching up to robust output growth (2.9%yr to Q1). Employment in this sector had been lagging output suggesting firms were focusing on productivity.

When you break this sector down, some very interesting trends emerge. Employment by finance & insurance has been flat to negative since 2012 (-3.5%yr to May) while growth in output was a sound 2.8%yr in Q1. Clearly the finance sector remains tightly focused on cost control and lifting productivity rather than

Change in industry employment NSW



Change in industry employment Vic



Total employment by state & by sector (% through the year)

	Agric.	Mining	Man.	Util-ities	Con-struct.	Whole-sale.	Retail	Accom. & Food	Trans.	Inf. & Telecom.	Financial Services	Rental & Real Estate	Prof.	Admin.	Public Admin.	Educ.	Health Care	Nation/State
May-13																		
Through the year growth rates (%yr)																		
NSW	7.4	-9.2	5.2	-12.3	-7.3	33.3	-3.0	19.7	10.7	-9.5	-5.6	-1.8	-3.9	-6.0	-11.1	13.7	5.8	2.4
Vic	-9.5	8.1	-5.2	-10.0	5.9	2.2	7.6	8.5	9.3	6.8	9.1	-16.5	4.5	-11.1	0.1	3.2	2.7	1.8
Qld	-9.8	17.7	-9.7	-39.2	9.7	9.5	-0.9	1.0	13.3	-16.4	-0.6	-18.7	10.8	1.3	2.7	-3.4	2.4	0.9
WA	8.2	5.4	-9.4	34.0	-1.7	12.3	7.5	-3.2	12.7	35.1	-2.9	-28.5	17.7	17.5	2.4	6.1	-4.5	2.7
National	-7.2	7.0	-3.1	-12.1	0.9	16.0	1.1	8.3	10.4	-2.6	-2.1	-12.2	3.9	-1.4	-2.5	6.3	3.5	1.7
May-14																		
Through the year growth rates (%yr)																		
NSW	9.0	-3.3	-1.4	-13.8	17.0	-8.4	-9.5	-8.7	7.0	-8.9	-3.6	27.5	2.8	2.7	-6.6	-4.1	-2.3	-0.3
Vic	23.0	-10.0	-4.1	7.3	0.9	-2.9	6.7	-1.8	2.4	-6.7	-2.2	-5.1	1.7	-5.4	-0.9	2.1	2.4	0.7
Qld	-17.0	5.2	5.8	7.2	-0.2	-21.6	8.4	-4.5	-6.7	-3.9	-6.9	18.9	-0.3	3.5	7.1	12.1	7.4	2.6
WA	4.7	-4.9	1.0	-9.1	2.4	-4.0	4.2	3.4	-2.8	12.2	14.1	51.8	19.5	4.3	-2.6	6.4	-3.6	3.0
National	9.4	1.6	0.5	-1.6	4.4	-9.5	-0.2	-2.7	0.6	-7.2	-3.5	18.6	3.3	1.4	-0.1	0.9	1.0	0.9
Variation to sector national average May 2014 (ppt)																		
NSW	-0.3	-4.9	-1.9	-12.2	12.6	1.1	-9.3	-5.9	6.4	-1.7	-0.1	8.9	-0.5	1.3	-6.5	-5.0	-3.3	-1.2
Vic	13.7	-11.6	-4.6	8.9	-3.5	6.6	6.9	1.0	1.8	0.6	1.3	-23.7	-1.6	-6.8	-0.8	1.3	1.5	-0.2
Qld	-26.3	3.6	5.3	8.7	-4.6	-12.1	8.6	-1.8	-7.3	3.4	-3.4	0.3	-3.6	2.2	7.2	11.3	6.4	1.8
WA	-4.7	-6.6	0.5	-7.6	-2.0	5.5	4.4	6.1	-3.4	19.5	17.7	33.2	16.2	2.9	-2.5	5.5	-4.6	2.1
Variation to state average Mat 2014 (ppt)																		
NSW	9.3	-3.0	-1.1	-13.5	17.4	-8.1	-9.2	-8.3	7.3	-8.6	-3.3	27.8	3.1	3.0	-6.3	-3.8	-2.0	na
Vic	22.3	-10.7	-4.8	6.6	0.2	-3.6	6.1	-2.5	1.7	-7.4	-2.9	-5.7	1.0	-6.1	-1.6	1.4	1.8	na
Qld	-19.6	2.6	3.2	4.5	-2.8	-24.2	5.8	-7.1	-9.3	-6.5	-9.5	16.3	-2.9	0.9	4.5	9.5	4.8	na
WA	1.7	-7.9	-2.0	-12.2	-0.6	-7.0	1.2	0.4	-5.9	9.2	11.1	48.8	16.5	1.3	-5.6	3.4	-6.6	na

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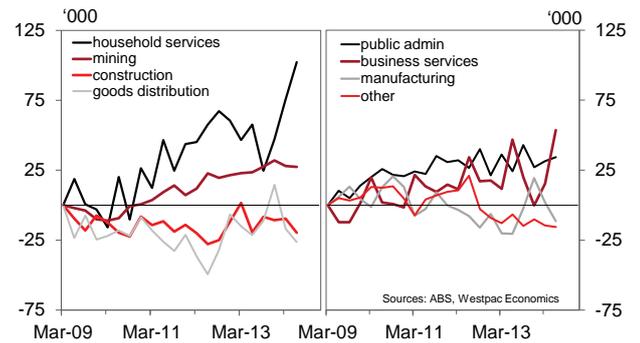
expansion. Employment had also been lagging output growth in administrative services but the small lift to 1.4%yr in May has employment growth narrowing on the Q1 2.8%yr pace in output. In our previous report, we argued that the downward correction in real estate employment though 2013 looked to be overdone and we expected that the catch-up observed in Feb was likely to continue at least into May. This it has done, and more, with employment up 18.6%yr to May compared to a relatively more modest 7.2%yr rise in output.

Goods production employment lifts as construction picks up the baton from mining and extending the boost into manufacturing.

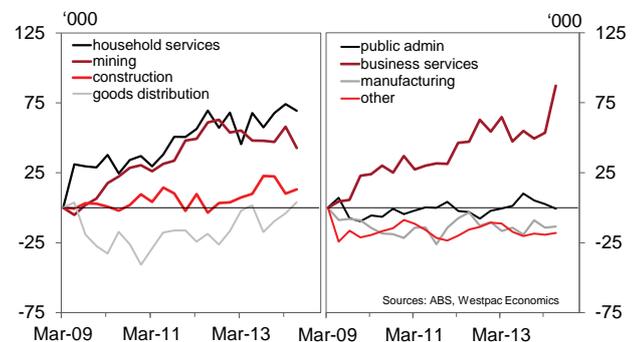
In 2014 we have seen a lift in goods production employment, from -2.8%yr in May 2013 to 3.0% in May 2014. We have also seen output from this sector spike from just under 3%yr in Feb 2014 to around 6%yr in May 2014. And it is not a mining story. While mining output surges as the mega investment project come on line, currently running at around 14%yr, employment is running a more subdued pace of around 1½%yr. Mining employment growth last peaked at just under 30%yr in May 2012.

Construction output has lifted 7½%yr to Q1 and employment is running at just under 10%yr. But the benefits of the recovery in construction appear to have extended further with employment in the construction related manufacturing sub sectors growing at around 18%yr in May. Compare this to the -5.8%yr decline in non-construction related manufacturing which explains the very soft 0.5%yr print for overall manufacturing employment. It is clear that the outperformance in manufacturing employment in 2013 (the pace peaking at 2.8%yr in Feb 2014) was a temporary blip. We

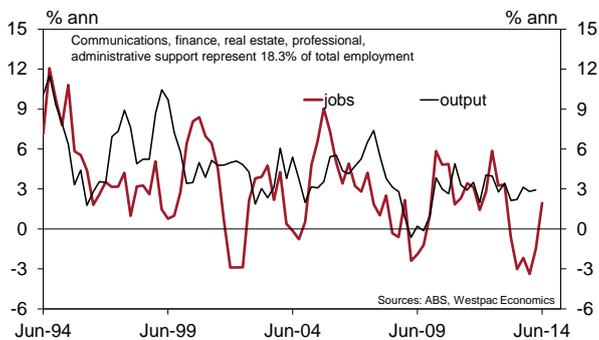
Change in industry employment Qld



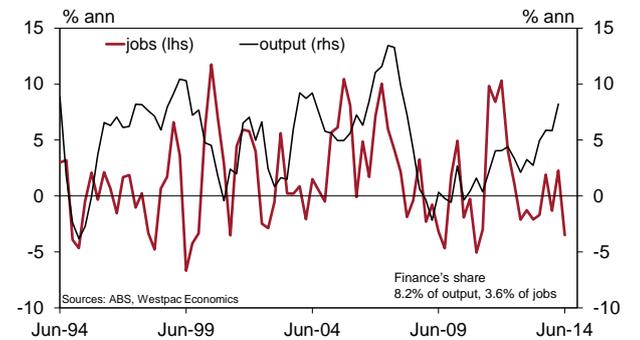
Change in industry employment WA



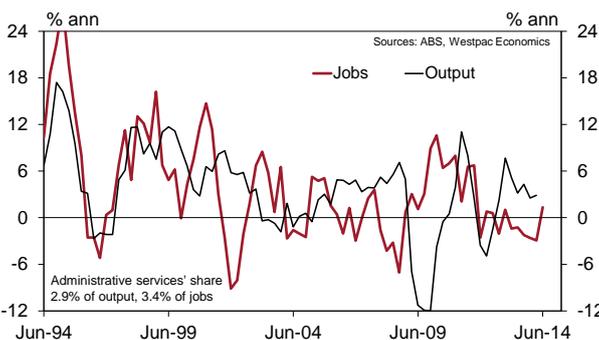
Business services employment lagged output....



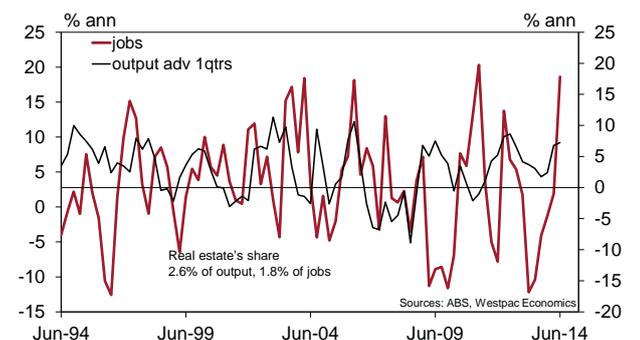
... as finance focus on productivity....



...administrative services put in modest gains...



...real estate jobs bounce with output...



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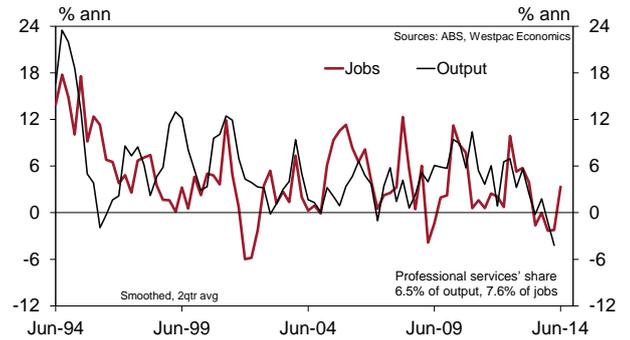
would also argue were it not for the recovery in construction, the manufacturing sector would be in a much more dire state than it currently is.

The distribution sectors remain in a deep funk

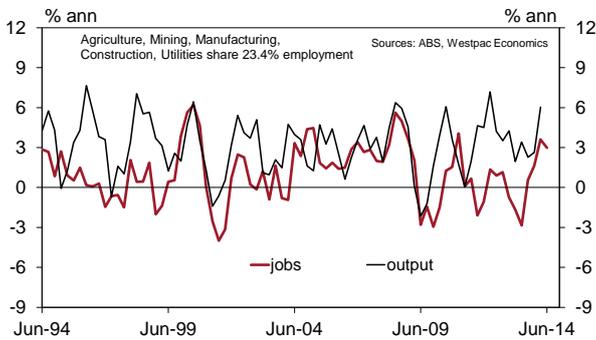
Wholesale trade, transport and retail, as a group, continue to underperform in terms of output (-1.1%yr in Q1) and employment (-2.8%yr in Feb). Retail employment is flat despite output growing at around 2%yr, wholesale trade is declining (-1.6%yr on output, -9.5%yr on employment) while the transport sector is not doing much better (-3.4%yr on output, 0.6%yr on employment).

Justin Smirk, Senior Economist, ph (61-2) 8254 9

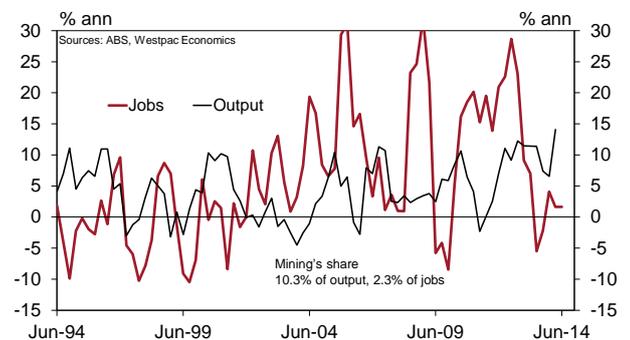
... & professional services post modest gains.



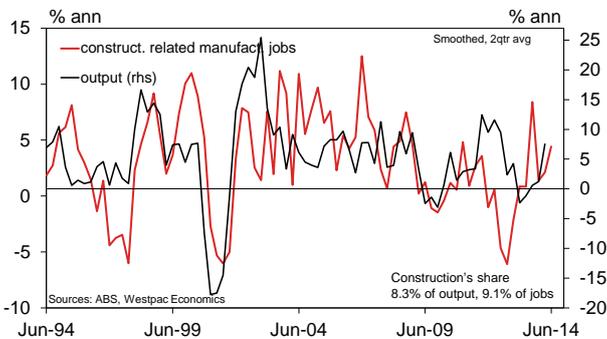
Goods production employment recovers



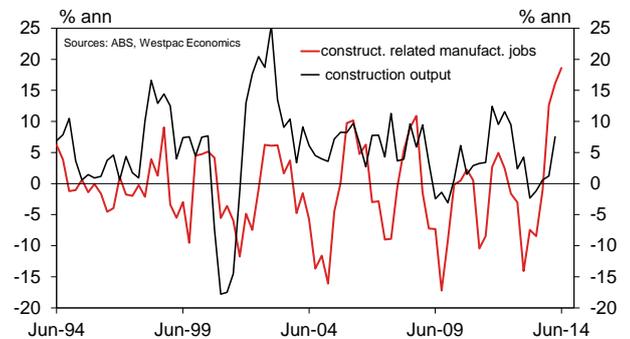
Mining employment lifted in investment phase...



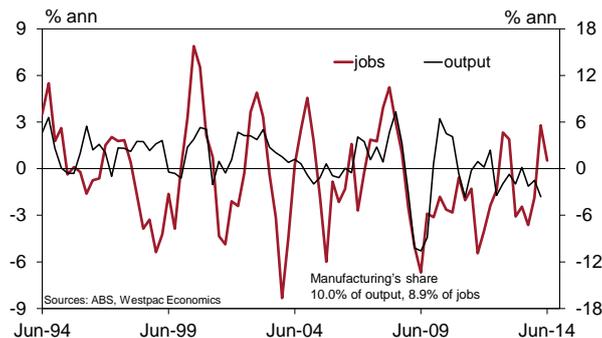
...now it is construction's turn...



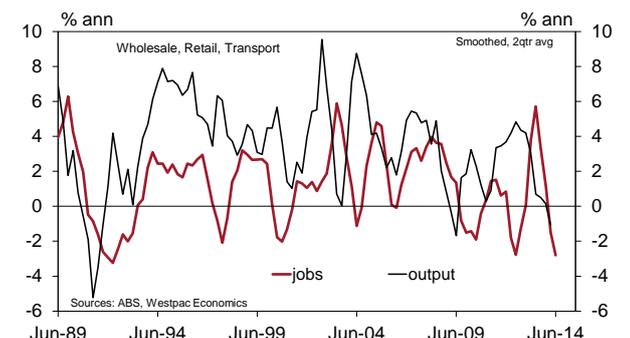
...which is boosting related manufacturing...



...but overall manufacturing looks like a blip.



Distribution jobs match weak activity



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