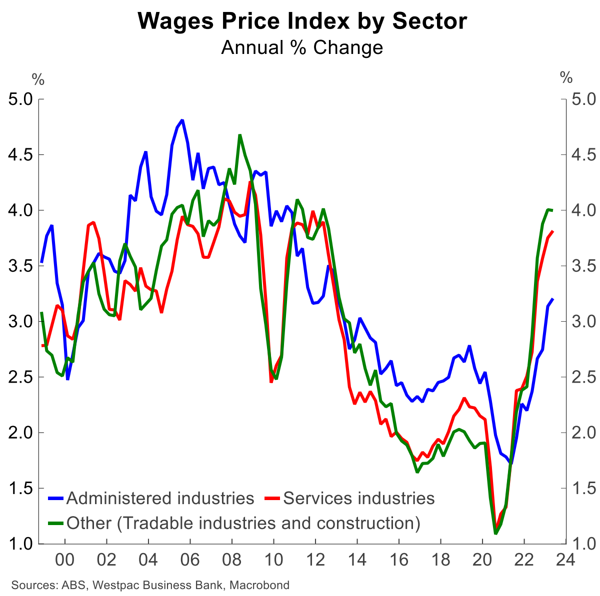
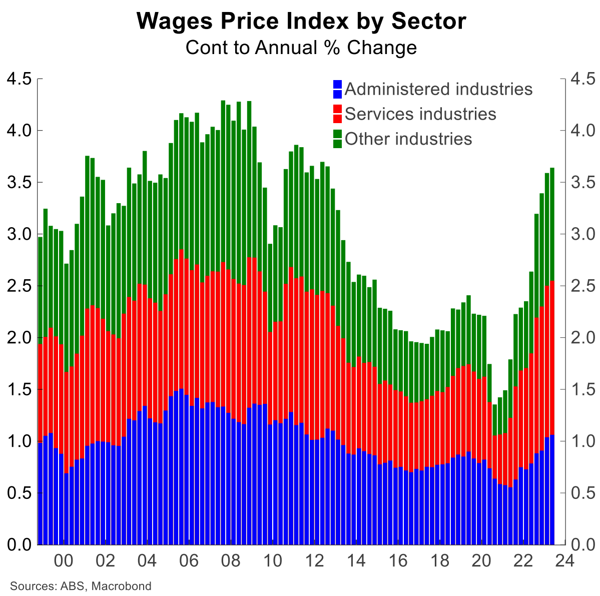
Tuesday, 15 August 2023

Wage Price Index

Wages Stall Ahead Of Min Wage Increase

- **The Wage Price Index (WPI) increased 0.8% over the June quarter to be 3.6% higher in annual terms, a touch lower than the 3.7% recorded in March and forecast by the Reserve Bank (RBA). The WPI has now grown by 0.8% over the last three consecutive quarters.**
- **While the quarterly growth rate has stalled, the composition is shifting in a way we anticipated. Wages growth in industries where prices are regulated by governments (i.e. health care) and have wages determined by collective agreements continue to catchup, while wages in the remaining sectors have moderated.**
- **We expect this shift to continue and wages growth to pick up next quarter as the Fair Work Commission's (FWC) 2023-24 award wage decision and updated public sector enterprise bargaining agreements come into effect. <u>The RBA will be looking for broader wage pressures that could emerge if the FWC decision were to become the new anchor point for negotiations.</u>**
- **Interestingly, wages in the services industries (i.e. professional services) continued to pickup even though we saw a moderation in the prices of certain market services (excluding housing). This suggests that businesses are finding it more difficult to pass on higher costs to customers.**
- **Today's outcome also showed the share of workers receiving a pay rise declined compared to a year ago, but of those that received an increase, the average increase was larger. This suggest that while aggregate labour market conditions are softening, shortages in certain areas remain.**
- **The wages read was slightly below the RBA's forecasts meaning it is unlikely to prompt a 'calibration' in interest rates.**





Wages growth across Australia has been running at 0.8% over the past three quarters (December quarter 2022 to June quarter 2023). This suggests that wages growth has stalled even though the labour market remains extremely tight with the unemployment rate at 3.5%.

Wages growth remain elevated compared to recent history.

Wages growth at 3.6% in annual terms is still the highest since the September quarter 2012.

Private sector wages continue to grow at 3.8%, equalling the highest annual growth since the June quarter 2012. Public sector wages are growing at 3.1%, the highest annual growth since the March quarter 2013.

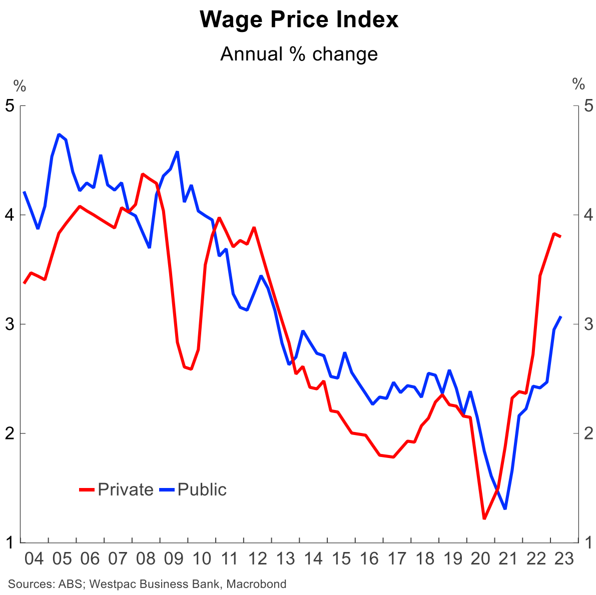
Why has wages growth stalled?

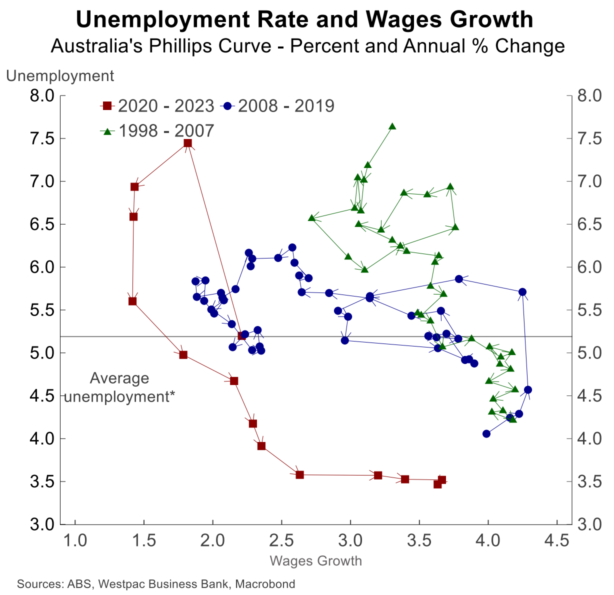
The unemployment rate has remained at around 3.5% over the past 3 quarters, based on this persistent pressure and previous cycles we would expect wages growth to accelerate rather than stall.

Indeed, over the past 30 years when the unemployment rate has been below 5.25%, wages growth has accelerated to be close to 4.5% in annual terms – a significant 1 percentage point higher than the current rate.

Possible reasons for the subdued wages response include:

- Wages growth in the administered sector are still catching up. Wages in this sector are determined predominantly by awards and enterprise barraging agreements and tend to lag economic conditions given it takes time to negotiate, agree and land on new pay deals. We expect this catch up to continue next quarter as the FWC 2023-24 wage decisions and updated public sector enterprise bargaining agreements come into effect.
- The rapid increase in labour supply has contributed to an easing in competitive pressure in the labour market. This is contributing to a moderation in wages growth in the other sectors of the economy. Labour supply received a boost initially from an increase in the number of females, and young and older Australian in jobs. Now that international borders have reopened, the return of migrants is providing an influx of labour which is helping to fill worker shortages.

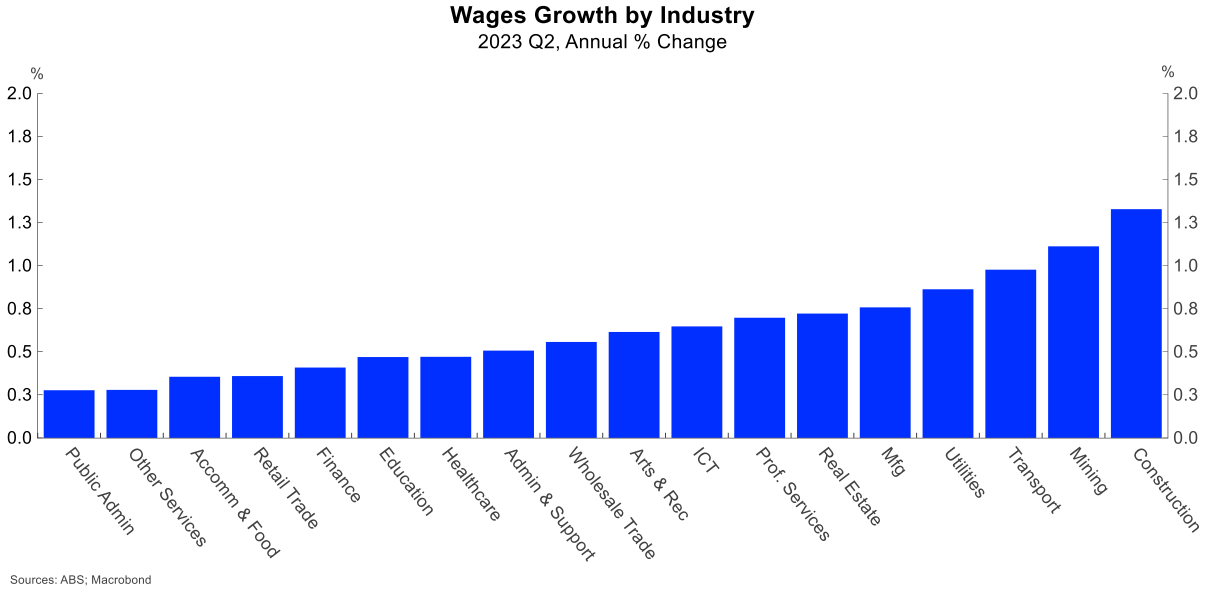




What does this mean for the labour market?

Today's outcome also showed the share of workers receiving a pay rise declined compared to a year ago, but of those that received an increase, the average increase was larger. This suggest that while aggregate labour market conditions are softening, shortages in certain areas remain.

Over the June quarter, only 5 of the 18 industry groups reported wages growth of 0.8% or more. This was down from 9 industries in the December quarter.



Quarterly wages growth ranged from 1.3% for jobs in construction to 0.3% for jobs in other services. The arts and recreation industry recorded the highest annual growth, at 4.5%. The Public administration and safety industry recorded the lowest annual growth at 2.8%.

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