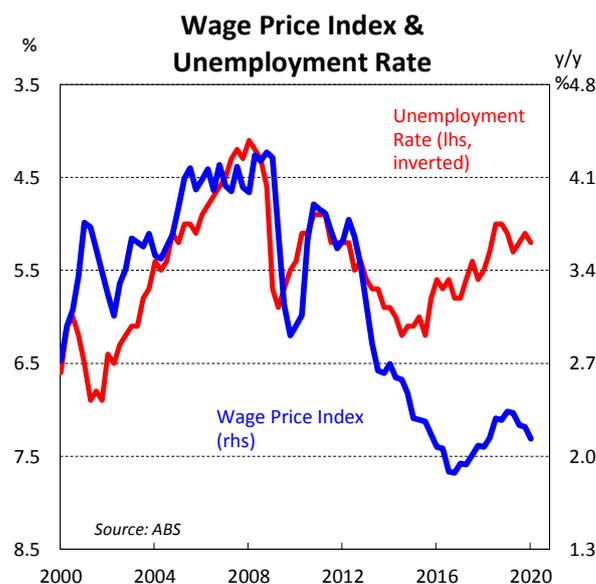
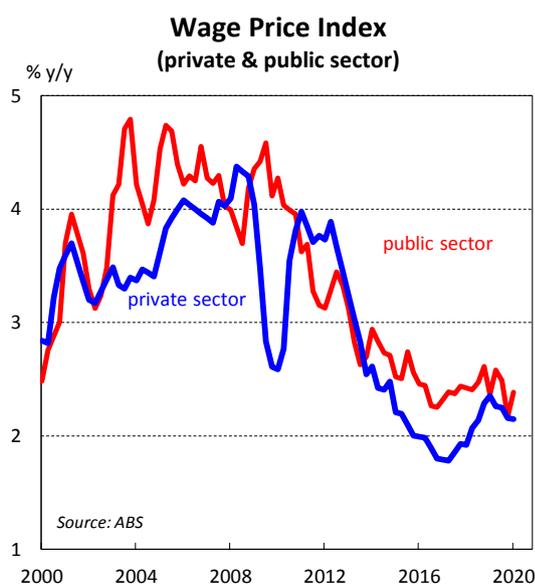


Wednesday, 13 May 2020

Wage Price Index

No Pressure Ahead of COVID-19 Shock

- The wage price index rose 0.5% for the fourth consecutive quarter in the March quarter, confirming that there was little upward pressure on wages ahead of the widespread movement restrictions introduced in Australia to contain the spread of the coronavirus.
- On an annual basis, wage price growth slipped to 2.1%, from 2.2% in the December quarter of 2019, the weakest in nearly two years
- Public sector wages grew slightly faster than those in the private sector, at 0.6% compared with 0.5%, respectively.
- Annual wage growth continued to slow in Victoria, but it remained the highest of the States at 2.6% growth in the March quarter. New South Wales wages growth remained sluggish at 2.1% while wages growth improved from a low base in the mining States of Queensland (2.1%) and Western Australia (1.8%).
- Wage growth varied across industries, but most remain subdued. The largest annual gain in the December quarter was registered in health care and social assistance at 3.0%. The weakest pace of growth was in information, media & telecommunications at 1.6%.
- There have been some early signs of wages growth slowing amid an increase in unemployment and a fall in aggregate demand. With the unemployment rate expected to remain elevated for some time, wage growth is likely to remain subdued.



Wages growth remained subdued in the March quarter, just before the widespread measures to contain the spread of the coronavirus were introduced in Australia. The latest data show that there was spare capacity in the labour market before the onset of the health crisis, amid sluggish economic growth over the past year. The Australian Bureau of Statistics said that the wage prices were measured during the mid-point of the quarter (February).

The wage price index rose 0.5% over the quarter, as we and the market expected. The index has increased by 0.5% for four consecutive quarters. On an annual basis, wage price growth slipped to 2.1% from 2.2% in the December 2019 quarter. It was the lowest annual pace of growth since the June quarter of 2018.

Public sector wages grew slightly faster than those in the private sector, at 0.6% compared with 0.5%, respectively. This was the reverse of last quarter's outcome, when public sector wage growth was lower than in the private sector for the first time since 2012. Annual public sector wages were 2.4% higher, compared with a 2.1% increase in the private sector.

By industry

Wages growth was subdued across most industries. Annual growth remained highest in the health care and social assistance sector, which rose 3.0%. Annual wages growth in this sector has decreased for three consecutive quarters from a high of 3.3% reached in the June 2019 quarter. The relatively strong annual increase reflects an earlier wage hike for Victorian healthcare workers.

The arts & recreation sector saw a 2.7% increase in annual wages in the March quarter, up from 2.2% recorded in the December 2019 quarter. New high frequency data released by the ABS measuring weekly payrolls wages and jobs show that the arts and recreation sector has been one of the hardest hit by the restrictions aimed at curbing the spread of the coronavirus. The new data series also suggests that wages in the accommodation & food services sector will come under downward pressure. This industry will be starting from a low base, with annual wages growth of 2.2% in the March quarter.

Sectors exposed to household consumption generally underperformed, reflecting the soggy state of consumer spending over the past year. Wages in retail trade rose 1.8% over the year. Despite signs of a rebound in building approvals and continued house price growth over the first quarter, annual wage growth in the construction sector remained muted at 1.8%. The lowest pace of wages growth was once again recorded in the information, media and telecommunications industry, where wages rose by an annual rate of 1.6% for the second consecutive quarter.

By State

The strongest annual growth in wages was recorded in Victoria for the seventh consecutive quarter in the March quarter. Victorian wages grew by 2.6%, although this rate has eased from 2.9% registered in the June quarter of 2019. A one-off increase in wages to some public sector employees, particularly in the health care sector, have been driving the relatively strong gain in Victorian wages.

Wages growth picked up in the ACT to 2.4%, matching the pace recorded in the Northern Territory and Tasmania. South Australian wages grew by 2.3% while annual growth in New South Wales was slightly lower, at 2.1% in the March quarter compared with 2.2% previously.

Queensland saw a pick up in annual wages growth from 1.8% to 2.1%. Western Australia wages growth was the lowest of the States at 1.8%. On a positive note, wages growth in Western Australia has been on a steady upward trajectory since their recent trough of 1.2% recorded in the March quarter of 2017.

Outlook

The steady outturn for wages growth in the March quarter did not come as a surprise. Government measures to contain the spread of the coronavirus were not introduced until after this data was collected. The tepid outcome for wages growth over the quarter confirms that there was spare capacity in the labour market in the lead up to the health crisis.

Wages growth is likely to slow over the coming year given an expected sharp increase in unemployment..

Weekly payrolls data shows that total amount of wages paid by businesses fell 8.2% between the week ending March 14 and April 18, indicating a large drop in the demand for labour. The weekly data series reveal a sharp divergence in fortunes across sectors, highlighting that that different jobs are likely to be affected by varying degrees.

The wage price index is unlikely to weaken as significantly over the June quarter, as it aims to track the price of labour accounting for heterogeneity in jobs, rather than measuring the lost incomes due to a fall in the number of hours worked. The hourly wage rate is influenced by many factors, including the demand for workers across various industries and positions.

We expect that labour market conditions will remain challenging in coming months, and the unemployment rate is expected to stay relatively high for some time. The expected increase in unemployment suggests that wages growth, and inflation, is set to weaken further. With the cash rate at its lower bound of 0.25% and the RBA already pursuing a raft of unconventional policy measures, monetary policy is likely to remain loose for some time.

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