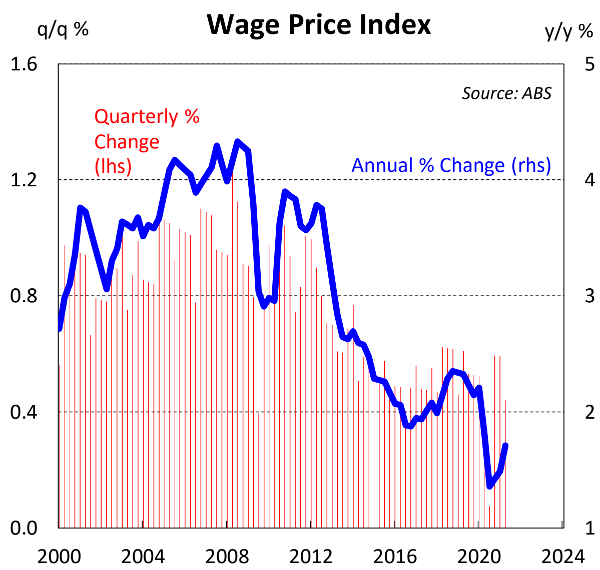
Data Snapshot

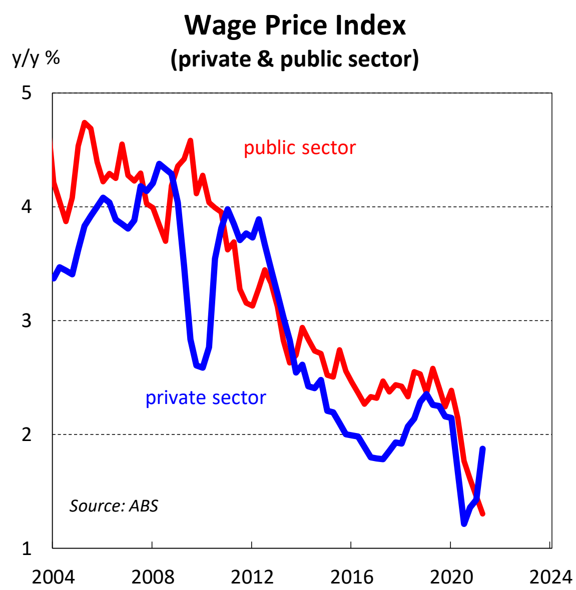
Wednesday, 18 August 2021

Wage Price Index

Wage Pressures Fail to Ignite

- **Wages growth remained subdued in the June quarter. Wages grew by 0.4% in the quarter to be 1.7% higher over the year. A tightening of the labour market and pockets of labour shortages failed to translate into a broad-based lift in wages growth.**
- **The soggy nature of wages growth is more concentrated in the public sector. Public sector wages grew by 0.4% in the June quarter compared with 0.5% for the private sector. In annual terms, public-sector wages grew at their softest pace since 1997 at 1.3%.**
- **Private-sector wages growth appears to have turned a corner; annual growth lifted to 1.9% - the fastest in over a year. But some of this is driven by unwinding of wage reductions a year ago.**
- **The rental, hiring & real estate sector recorded the fastest quarterly growth (0.6%). Quarterly growth was weakest in industries that included healthcare & social assistance and arts & recreation (0.1% each). In annual terms, growth was weakest in arts & recreation services (0.9%), which has been heavily impacted by the pandemic.**
- **The ACT and Tasmania reported the strongest quarterly growth in wages of 0.6%. The NT and Victoria had the weakest quarterly growth rates of 0.1% and 0.3%, respectively.**
- **Today's data suggests that the labour market is not yet tight enough to produce wage pressures that are material enough to lift inflation into the RBA's inflation band of 2-3%. The lockdowns in NSW and several other places around Australia means the unemployment rate will temporarily rise, delaying a possible build up in wages pressure from a tightening labour market. The good news is that the economy tends to rebound quickly once restrictions lift.**





Wages

Wages growth remained subdued in the June quarter. Wages grew by 0.4% in the June quarter, down from growth in the March quarter of 0.6% and suggests that wages growth remains sluggish. Annual growth came in at 1.7% over the year to June, which was above growth over the year to March of 1.5%.

For the past few months, we have been hearing reports of labour shortages and wage pressures in certain industries, particularly those most affected by international border closures. However, these pressures have so far failed to translate into a broad-based lift in the growth of wages, as the RBA has also noted.

In quarterly terms, private sector wages grew by 0.5%, while public sector wages grew by 0.4% for the third month in a row. In annual terms, private-sector wages growth lifted to 1.9% - the fastest rate in over a year. But some of this uplift is driven by the unwinding of wage reductions implemented a year ago. Public sector wages grew by 1.3%, which was the lowest annual growth in the history of the series, dating back to September quarter of 1997.

The Australian Bureau of Statistics (ABS) also provided an update on a measure of wages growth designed to remove the impact of the unwinding of short-term reductions in wages for certain employees due to the pandemic. For example, wages were reduced and bonuses frozen for senior staff of certain companies. These impacts are now being unwound. This measure shows that annual wages growth would have been around 0.2% weaker once removing these impacts.

By industry

In quarterly terms, the rental, hiring & real estate sector recorded the fastest growth (0.6%), followed by industries that included wholesale, construction and professional, scientific & technical services (0.4% each). Wages growth was weakest in industries that included healthcare & social assistance and arts & recreation (0.1% each).

In annual terms, the other services sector recorded the strongest wages growth rate (2.6%), followed by professional, scientific & technical services (2.5%) and construction (2.2%). Growth was weakest in arts & recreation services (0.9%), which has been heavily impacted by the pandemic. Annual growth rates in every sector were below their respective long-run averages.

By state

The ACT and Tasmania reported the strongest quarterly growth rates of 0.6% each. WA (0.4%) also printed stronger growth than other states and territories. The NT and Victoria had the weakest quarterly growth of 0.1% and 0.3%, respectively.

On an annual basis, growth was highest in Tasmania (2.2%), followed by the NT (1.9%) and Victoria (1.8%). SA (1.6%), WA (1.6%) and the ACT (1.7%) had the weakest rates of annual growth.

Outlook

Prior to the outbreak of the Delta strain and associated lockdowns across NSW and other states and territories, the economy and labour market had recovered more rapidly than expected. Unemployment had fallen to a 10-year low in June of 4.9% and economic output had returned to its pre-pandemic level in the March quarter. Reports of isolated skills shortages and wage pressures had also been emerging over recent months.

However, these positives signs in the economy had yet to filter through to broad-based increases in wages growth. Wages growth in the June quarter has remained subdued. The RBA has emphasised that unemployment and spare capacity in the labour market will need to reduce further before a meaningful increase in wages will be seen. Robust wage growth is necessary to drive inflation back within the RBA's inflation band of 2-3%.

The current lockdowns across NSW, Victoria, ACT, NT and their associated effects will impact the economy and labour market over the September and December quarter. We expect the economy to contract by 2.6% over the September quarter, before recovering in the December quarter. We expect these lockdowns to lead to an increase in the unemployment rate over the near term.

Today's data suggests that the labour market is not yet tight enough to produce wage pressures that are material enough to lift inflation to the RBA's inflation band of 2-3%. The lockdowns in NSW and several other places around Australia means the unemployment rate will temporarily rise, delaying a possible build up in wages pressure from a tightening labour market.

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