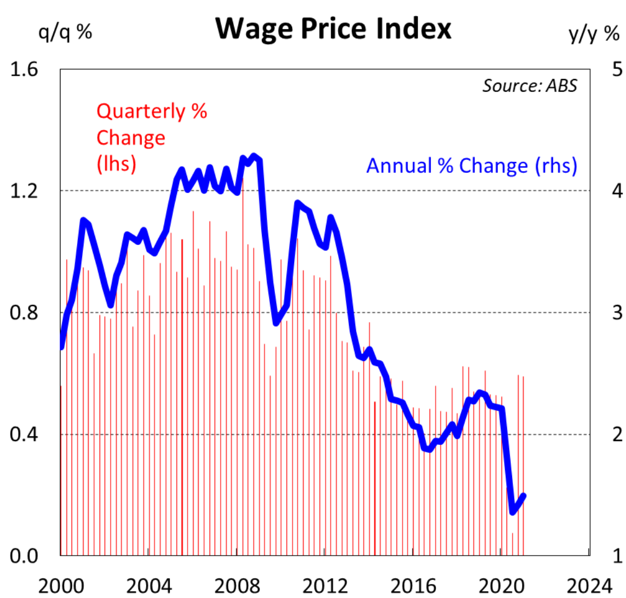
Data Snapshot

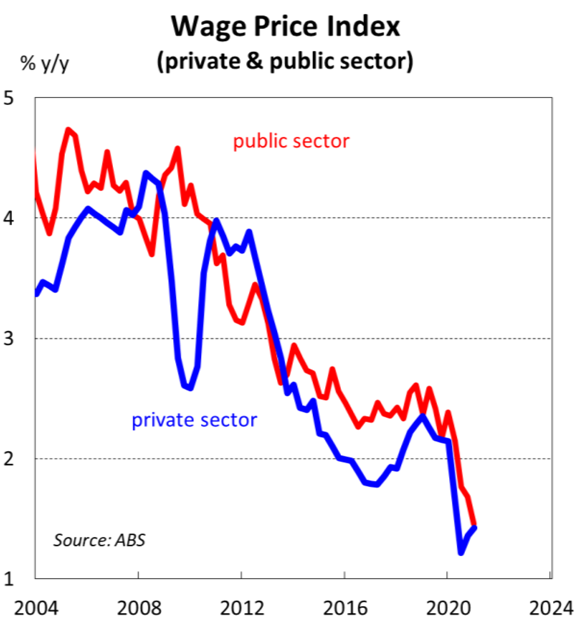
Wednesday, 19 May 2021

Wage Price Index

Still Soggier than a Wet Weet-Bix

- **Wages growth picked up in the March quarter. A little. But that is coming off a record low in the December quarter. There is still a lot of spare capacity in the labour market and so wages growth is still soggier than a wet weet-bix.**
- **Wages grew 0.6% in the March quarter to take annual growth to 1.5%, up from 1.4% in the previous quarter. In quarterly terms, private sector wages picked up 0.6% while public sector wages grew 0.4%. In year-ended terms, public sector wages growth slowed to 1.5%, a new record low. Private sector wages grew 1.4% over the year.**
- **The strongest growth in the quarter was in accommodation and food services (1.2%). The main driver of the rise was increases for award jobs as a result of the Fair Work Commission Annual Wage Review.**
- **There have been reports of labour shortages in pockets of the economy, particularly for low-skill sectors, like hospitality, which rely on foreign workers. Inertia in wage-setting practices mean it could be slow for such pressures to flow through to the data.**
- **Tasmania recorded the strongest quarterly growth (0.8%) amongst the states and territories, followed by Victoria (0.6%).**
- **The Reserve Bank has suggested we need to see wages growth at or above 3% to get inflation sustainably back into the central bank's target band. We are still a long way from this. For now, a material pick up in wages growth still looks to be some way off.**





Wages

Wages growth picked up in the March quarter. A little. But that isn't saying a lot because it is coming off a record low in the December quarter.

Wages grew 0.6% in the March quarter to take annual growth to 1.5%, up from 1.4% in the previous quarter, in line with our forecasts.

While jobs have bounced back much faster than economists and policymakers expected, there is still a lot of spare capacity in the labour market. And so wages growth is still soggier than a wet Weet-Bix.

In quarterly terms, private sector wages picked up 0.6% while public sector wages grew 0.4%. In year-ended terms, public sector wages growth slowed to 1.5%, a new record low. Private sector wages grew 1.4% over the year.

By Industry

There was wages growth across all sectors. The strongest growth in the quarter was in accommodation and food services (1.2%). The main driver of the rise was increases for award jobs as a result of the Fair Work Commission Annual Wage Review 2019-20.

There have been reports of labour shortages in pockets of the economy, particularly for low skill sectors, like hospitality, which rely on foreign workers. Inertia in wage-setting practices mean it could be slow for such pressures flow through to the data. Regardless, so far there isn't evidence of a sizeable pick up in the wages data.

On an annual basis, wages grew the fastest in education and training (2.2%). Over the past year, growth has been weakest in the arts and recreation sector (0.8%). Border closures, lockdowns and capacity restrictions have all weighed on this sector.

By State

Tasmania recorded the strongest quarterly growth (0.8%) amongst the states and territories, followed by Victoria (0.6%), according to ordinary hourly rates of pay excluding bonuses.

In year-ended terms, wages growth is strongest in Tasmania (2.0%) and the Northern Territory (1.9%). Annual growth is weakest in the ACT (1.2%) alongside low public sector wage growth influenced by wage deferrals and limiting wage increases.

Outlook

The outlook for wages is still lacklustre. We expect wages growth will increase over the next couple of years as the labour market tightens, although growth will remain low by historical standards. The Reserve Bank (RBA) has suggested we need to see wages growth at or above 3% to get inflation sustainably back into the central bank's target band. We are still a long way from this.

There is debate about exactly how far the unemployment rate will need to fall to generate a significant pick up in wages. The RBA estimates the unemployment rate will need to fall to the 'high 3s or low 4s' while Treasury estimates it is around 4.5–5.0%. In March, the unemployment rate printed at 5.6%. We will receive April data tomorrow.

For now, a material pick up in wages growth still looks to be some way off.

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