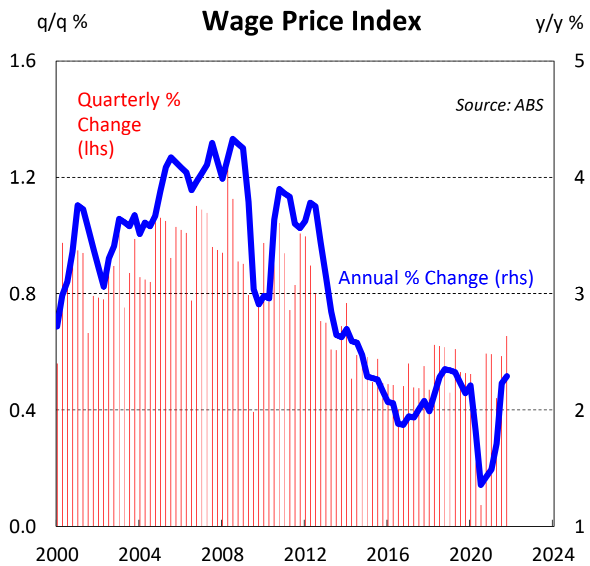
Data Snapshot

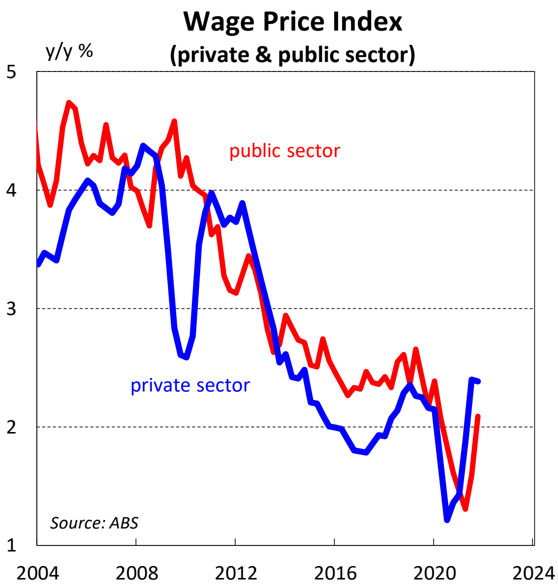
Wednesday, 23 February 2022

Wage Price Index

Quarterly Growth Nears Eight-Year High

- **Wages grew at the fastest quarterly pace in nearly 8 years; up 0.7% over the December quarter, to be 2.3% higher over the year. Momentum is building; wages growth has stepped up to 2.5% in six-month annualised terms in the December quarter.**
- **The jobs market is robust and labour demand has remained strong. Job vacancies have risen to a record high, job ads remain around their strongest levels in over a decade, and the unemployment rate declined to a 13-year low of 4.2% in December.**
- **These factors are starting to feed into wage-setting practices as employers look to retain and attract quality staff. Previously isolated pockets of wage growth have started to spread across more sectors of the economy.**
- **Private-sector wages advanced 0.7% over the December quarter and 2.4% over the year. Public sector wages also grew by 0.7% in the quarter and 2.1% over the year. Despite the pick up in growth, consumer prices have increased faster than wages. As a result, real wages declined by 1.2% over the year.**
- **Liaison suggests that wage pressures are increasing across the economy as more employers offer bonuses to attract staff, and employees switch jobs for a better wage or work more hours at overtime rates. In fact, private-sector wages including bonuses rose by 3.0% over the year.**
- **We project the unemployment rate to have a '3' in front of it before the end of this year – a rate that has not been sustained since the 1970s. We expect this will push annual wages growth over 3% later this year. These forecasts support our view that the first rate hike will occur in August.**





Wages

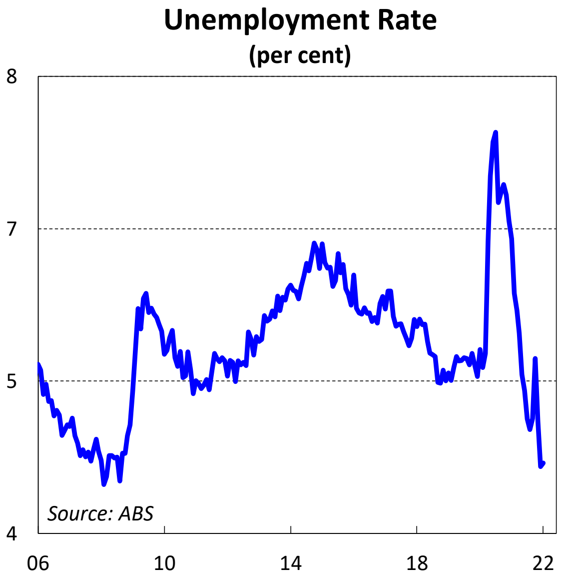
Wages grew at the fastest quarterly pace in nearly 8 years; up 0.7% over the December quarter, to be 2.3% higher over the year, and in line with our expectations. This marks the strongest annual growth since mid 2019. Momentum is building; wages growth has stepped up to 2.5% in six-month annualised terms in the December quarter, up from 2.1% in the September quarter. The quarterly outcome follows 0.6% and 0.4% growth in the September and June quarters, respectively.

Despite the pick up in growth, consumer prices have risen faster than wages over recent quarters. This means that workers' purchasing power has declined in real terms. Headline inflation rose by 3.5% over the year to the December quarter. Consequently, real wages, after taking inflation into account, actually declined by 1.2% over the year to the December quarter.

The jobs market has recovered and labour demand has remained strong amid an improvement in economic conditions. There have been persistent reports of labour shortages across the economy as businesses search for workers. Reflecting this, job vacancies have risen to a record high and job ads remain around their strongest levels in over a decade. The unemployment rate declined to a 13-year low of 4.2% in December and remained there in January, despite the impact of Omicron.

These factors are starting to feed into wage setting practices as employers look to retain and attract quality staff. Previously isolated pockets of wage growth have started to spread across more sectors of the economy. In fact, there were a larger share of wage increases than is common in the December quarter across the private and public sector.

Private-sector wages advanced 0.7% over the December quarter and 2.4% over the year. Public sector wages also grew by 0.7% over the December quarter, to be 2.1% higher over the year. The lifting of wage freezes across the NSW and Queensland public service contributed to the increase in the public sector.



By pay settings

Wages growth can also be considered by different methods of setting pay. Individual agreements are typically quicker to respond to changing labour demand than enterprise agreements or award wages, which are generally negotiated for several years.

Over the December quarter, individual agreements led the increase in wages. This pattern has been consistent for the last few quarters. There were also increases across enterprise agreements and award wages.

Multi-year enterprise bargaining agreements and infrequent reviews of award wages build inertia into wage-setting practices, as these agreements are often slow to respond to changes in labour market conditions. This was exacerbated in recent quarters as many enterprise agreements were subject to wage freezes. However, over the December quarter, the end of wage freezes drove an increase in wages for jobs covered by enterprise agreements.

By industry

In quarterly terms, wages grew at the fastest pace across retail trade (1.2%), followed by information media & telecommunications (1.1%), and accommodation & food services (1.0%). All three sectors reported wage growth above 1.0% and above their respective long-run averages.

Quarterly wages growth was weakest in education & training (0.3%) for the second quarter running. The industry was impacted by the expiry of some enterprise agreements. Professional, scientific & technical services (0.4%), and construction (0.4%) reported the next weakest growth.

In annual terms, wages growth was strongest for accommodation & food services (3.5%), which was impacted by wage increases over the year as determined by the Fair Work Commission. Retail trade (2.6%) and professional, scientific & technical services (2.5%) also recorded strong increases.

Annual wages growth was weakest in electricity, gas, water & waste services (1.3%), transport, postal & warehousing (1.8%), and mining (1.8%).

Despite the improvement in wages growth, annual wages continue to grow below their long-run averages across all sectors, except accommodation & food services.

By state

Queensland (0.8%), the ACT (0.7%), and NSW (0.7%) recorded the strongest quarterly wages growth. Quarterly growth was weakest in WA (0.4%), Victoria (0.5%), and the NT (0.5%).

On an annual basis, Tasmania was the only state to record growth starting with a '3', at 3.0%. The ACT (2.6%), Queensland (2.4%), and NSW (2.4%) were the next strongest states and territories. Annual wages growth was at or above 2.0% for all states and territories but was weakest in WA (2.0%), followed by the NT (2.1%), and SA (2.1%).

Monetary policy

As talk of when the Reserve Bank (RBA) will increase the cash rate from its record low continues to gather pace, attention has turned towards developments around wages growth. The RBA has stated that it wants to see wage pressure pick up before it can conclude that inflation will remain sustainably within the 2-3% target band.

The RBA has previously referred to 3% as a minimum level of wages growth that would be consistent with inflation being sustainably within the band. Tasmania is the only state to have reached that level in the December quarter. More recently, the RBA Governor has pushed back against a specific target and noted that the RBA Board will be considering broader measures of wage pressures as part of its monetary policy decision making.

This is consistent with reports of other measures of remuneration increasing at faster rates than base wages. The RBA's and our own liaison suggest that wage pressures are increasing across the economy as more employers offer bonuses to attract staff, and employees switch jobs for a better wage or work more hours at overtime rates. In fact, private-sector wages including bonuses rose by 3.0% over the year, the fastest growth since before the pandemic.

Outlook

The labour market has proven to be incredibly resilient throughout a range of lockdowns and shocks to the economy. The unemployment rate is currently around 13-year lows and is expected to head lower. We project the unemployment rate to have a '3' in front of it by the end of 2022. The unemployment rate has not been sustained at these levels since the 1970s.

A continued decline in the unemployment rate, in conjunction with strong labour demand, is expected to feed through into stronger wage increases over 2022. We expect this will push annual wages growth over 3% later this year. Today's data is in line with our expectations and suggests that wage pressures are flowing through to base wages, albeit with some lag.

An increase in wage pressure, combined with continued strength in the economy, a falling unemployment rate, and upward pressure on inflation is supportive of our view that the first rate hike will come in August 2022. However, we cannot rule out an earlier move.

Jarek Kowcza, Senior Economist
Ph: 0481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
0481 476 436

Associate Economist
Jameson Coombs
jameson.coombs@banksa.com.au
0401 102 789