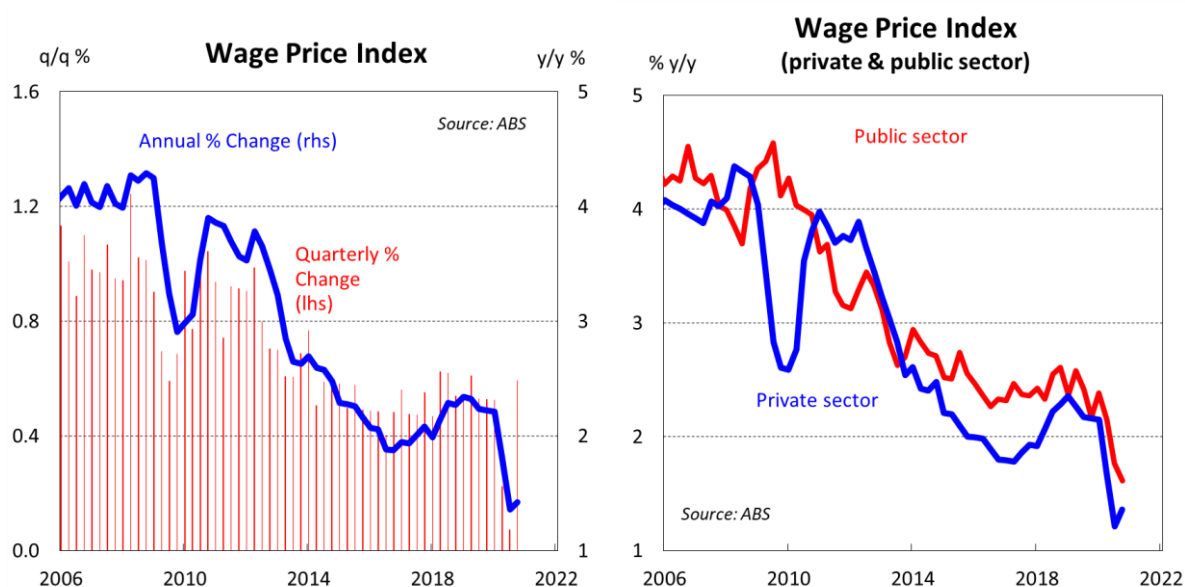


Wednesday, 24 February 2021

Wage Price Index

Wages Growth Remains at Record Lows

- Wages growth remained around historically low levels in the December quarter alongside significant spare capacity in the labour market.
- Wages growth increased 0.6% from the September quarter, a notable pickup from recent quarterly growth figures. This largely reflects the unwinding of wage freezes and wage cuts from earlier in the year.
- Growth remained muted in year-ended terms, increasing 1.4%.
- In quarterly terms, private sector wages rose 0.7% while public sector wages grew 0.3%. In year-ended terms, public sector wages continue to increase faster than in the private sector, with growth at 1.6% and 1.4% respectively.
- All sectors at least reported positive (albeit slow) wages growth.
- Growth was weakest in the accommodation and food services sector (0.3%) as the sector continued to be hit by lockdowns and border closures.
- In year-ended terms, wages growth was highest in Queensland and the Northern Territory and weakest in Victoria.
- Annual growth is weaker than in the same period in 2019 across all states.
- The outlook for wages remains anaemic. The RBA has stated we need wages growth at 3.5-4% in year-ended terms in order to generate CPI inflation within the target range of 2-3%. There is no sign of this happening anytime soon.



Wages

Wages growth remained around historically low levels in the December quarter as significant spare capacity in the labour market continued to weigh. This largely reflects the unwinding of wage freezes and wage cuts from earlier in the year.

Growth remained muted in year-ended terms, increasing 1.4%. The results were slightly stronger than expected (0.3% q/q and 1.1% y/y).

In quarterly terms, private sector wages rose 0.7% while public sector wages grew 0.3%. In year-ended terms, public sector wages continue to increase faster than in the private sector, with growth at 1.6% and 1.4% respectively.

By Industry

The effects of COVID-19 continued to be felt unevenly across sectors. In some positive news, all sectors at least reported positive (albeit slow) wages growth in the December quarter. Some sectors experienced falls in wages earlier in 2020.

On an annual basis, wages grew at the fastest pace in the education and training (2.4%) and electricity, gas, water and waste services sectors (2%). Growth was weakest in the accommodation and food services sector (0.3%) as the sector continued to be hit by lockdowns and border closures.

By State

Victoria and the Northern Territory recorded the highest quarterly growth of 0.8%. Growth in Victoria was driven by the unwinding of wage cuts recorded across several industries in previous quarters. The pickup in the Northern Territory mostly reflected the public sector wage growth.

In year-ended terms, wages growth was highest in Queensland and the Northern Territory and weakest in Victoria. Annual growth is weaker than in the same period in 2019 across all states.

Outlook

The outlook for wages remains anaemic. Over the next couple of years, we expect that wages growth will increase a little from current levels as we emerge from the COVID-induced downturn. However, the RBA has stated we need wages growth at 3.5-4% in year-ended terms in order to generate CPI inflation within the target range of 2-3%. There is no sign of this happening anytime soon.

Even beyond the COVID-19 pandemic, central banks globally are facing structural headwinds to achieving their inflation objectives. These include low productivity growth and changes competitive dynamics resulting from globalisation and technological change. This supports the view that the RBA will take longer than markets may anticipate before tightening policy.

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