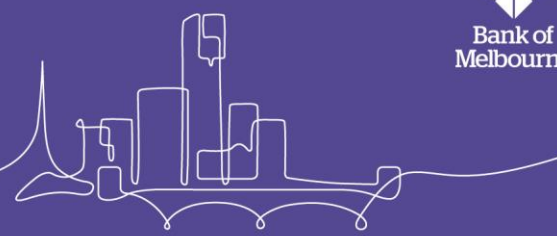


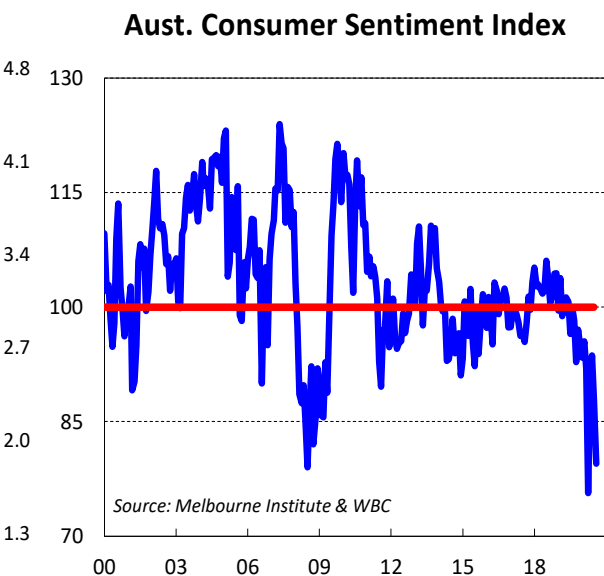
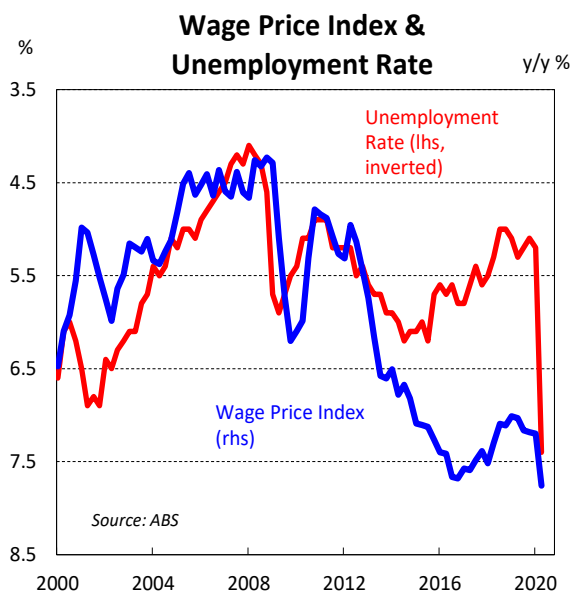


Wednesday, 12 August 2020



Wage Price Index Weakest Wage Growth on Record

- The lockdown measures across the nation had a substantial impact on the labour market and incomes. Wages growth slowed significantly in the June quarter, with growth at just 0.2%. It was the slowest pace in the history of the series which dates back to 1997.
- It highlights the significant degree of slack in the labour market.
- On an annual basis, wages growth slowed from 2.2% in the March quarter to 1.8% in the June quarter, the weakest annual pace of growth since the series began.
- For the first time in the history of the series, wages declined in certain industries. There were falls in wages in six out of 18 industries in the June quarter, including other services, construction, professional, scientific & technical services, accommodation & food services, wholesale, and rental, hiring & real estate services.
- It would not be surprising if further falls in wages occurred in some parts of the economy over the September quarter as lockdown measures once again took effect in Victoria. Further weakness in wages is expected for some time, especially as spare capacity in the labour market is set to continue.
- In separate data, consumer confidence fell 9.5% to 79.5 in August, approaching the very low level of confidence recorded in April during the nationwide lockdown. The sharp drop in confidence was led by NSW and Victoria.



Wages

The lockdown measures across the nation had a substantial impact on the labour market and incomes. Wages growth slowed significantly in the June quarter, with growth at just 0.2%. It was the slowest pace in the history of the series which dates back to 1997.

Note that this measure of wages calculates changes over time for like-for-like work and is unaffected by changes in the quality or quantity of work performed. It therefore does not account for the sharp loss of incomes due to hundreds of thousands of workers being stood down across the country.

Nonetheless, it was a very weak outcome and highlights the significant degree of slack in the labour market.

On an annual basis, wages growth slowed from 2.2% in the March quarter to 1.8% in the June quarter, the weakest annual pace of growth since the series began.

The slowing in wage growth was most prevalent in the private sector. Wages growth in the private sector eased from 0.5% in the March quarter to 0.1% in the June quarter. In contrast, there was less evidence of slower wage growth in the public sector, which grew 0.6% in the June quarter, equal to the pace of growth in the March quarter. Annual rates of both private and public sector wages slowed to 1.7% and 2.1%, respectively.

- By industry

For the first time in the history of the series, wages declined in certain industries. There were falls in wages in six out of 18 industries. The largest falls in wages were in other services, which declined 0.9%, followed by construction and professional, scientific & technical services, both falling 0.5% in the June quarter. Wages in accommodation & food services (-0.1%), wholesale (-0.1%), rental, hiring & real estate services (-0.1%) also declined. It highlights the broad impact on the labour market from COVID-19.

On an annual basis, only a handful of industries had wage growth in excess of 2%. The fastest annual growth was in arts & recreation (2.6%), followed by utilities (2.5%), healthcare & social assistance (2.4%) and education & training (2.3%). The weakest annual growth was in construction (0.8%), other services (1.1%) and professional, scientific & technical services (1.3%), reflecting the fall in wages in the quarter.

- By State

Among States, weakest growth in wages occurred across the eastern seaboard. Victoria was the only State where wages declined in the June quarter (-0.1%), although wages were flat in NSW and Queensland. These States, particularly Victoria and NSW, have felt the impact of inbound travellers being halted, as well as the restrictions aimed at stemming the spread of COVID-19. Subdued growth was also recorded in the Northern Territory (0.1%), Western Australia (0.2%) and the ACT (0.2%). South Australia (0.4%) and Tasmania (0.4%) had the strongest pace of growth in the June quarter, although wages growth in these States also remains weak.

On an annual basis, wage growth was the weakest in Western Australia (1.6%), followed by Victoria (1.7%) and Queensland (1.7%). NSW (1.8%) and the ACT (2.0%) also had wage growth of 2.0% or less. The strongest annual growth was in Tasmania (2.5%), followed by South Australia

(2.4%) and the Northern Territory (2.2%).

It would not be surprising if further falls in wages occurred in some parts of the economy over the September quarter as lockdown measures once again took effect in Victoria. Further weakness in wages is expected for some time, especially as spare capacity in the labour market is set to continue. Indeed, the unemployment rate is likely to rise from its current level of 7.4% and is at risk of hitting double-digits.

Consumer Sentiment

Consumer confidence fell 9.5% to 79.5 in August, approaching the very low level of confidence recorded in April during the nationwide lockdown. The sharp drop in confidence was led by NSW and Victoria. Confidence in NSW declined by 15.5% to 78.0 and in Victoria it dropped 8.3% to 78.0. The survey was conducted 3-8 August with Victoria beginning Stage 4 lockdown on 2 August. Perhaps it is surprising that the fall is bigger in NSW than in Victoria. Potentially it reflects concerns that NSW would follow Victoria into lockdown. NSW has continued to witness a rising number of clusters.

In Queensland, there was a fall of 8.1% to 79.7, only slightly above NSW and Victoria. The index in South Australia fell by 5.8% to 81.8 while only Western Australia was stable, falling by 1.5% to 85.9.

All five components of the index declined in August with the largest fall around expectations for the economy and assessments of time to buy a major household item.

Confidence in containing the pandemic and confidence in the outlook improving are vital to the recovery for the Australian economy. We anticipate with Victoria in stage 4 lockdown that the nationwide economic recovery will be delayed until the December quarter.

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The Detail

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