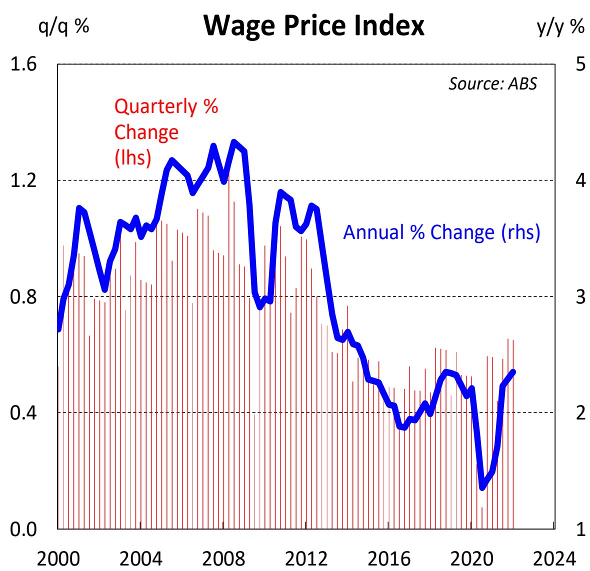
Data snapshot

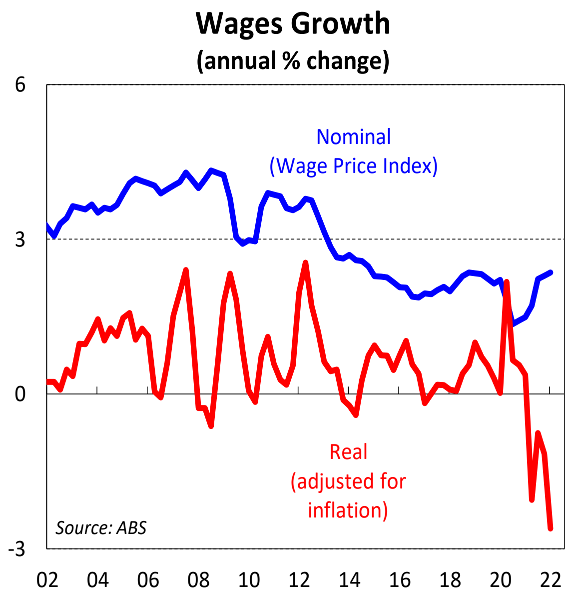
Wednesday, 18 May 2022

Wage Price Index

Wages Disappoint But Won't Stop Hikes

- **The Wage Price Index (WPI) rose by 0.7% over the March quarter, matching the quarterly pace set in the December quarter. In annual terms, wages grew by 2.4%, the fastest annual pace since the December quarter 2014. In two-quarter annualised terms, growth hit 2.6%, the highest since March 2014.**
- **The result was weaker than the 0.8% quarterly growth projected by consensus forecasts but won't be enough to stop the Reserve Bank hiking in June, although may mean they lean in favour of a smaller-sized hike.**
- **Wages growth has fallen well short of inflation, meaning households have experienced a reduction in purchasing power. Real wages fell 2.6% over the year to the March quarter of 2022 – the largest fall since the September quarter of 2000, following the introduction of GST.**
- **Wages growth continued to be led by the private sector in the March quarter. Private and public sector wages increased 2.4% and 2.2%, respectively in annual terms.**
- **In quarterly terms, wages growth was fastest in the education & training, arts & recreation and admin & support services industries, which all increased by 0.8%. By region, annual wages growth was fastest in Tasmania, followed by the ACT, Queensland and NSW.**
- **The Governor has stressed the importance of getting "back to business as usual". Our core view is for a rate hike of 40 basis points in June, but today's softer wages outcome might mean the odds have shortened for a more "standard" sized move of 25 basis points next month.**





Wages

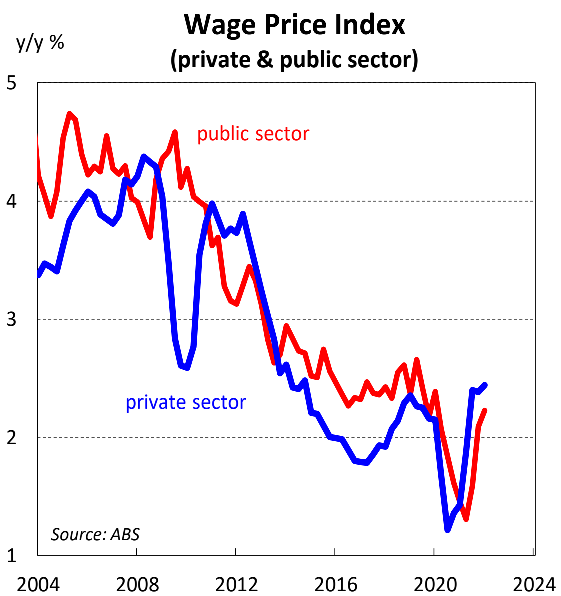
The Wage Price Index (WPI) rose by 0.7% over the March quarter, matching the quarterly pace set in the December quarter. In annual terms, wages grew by 2.4%, the fastest annual pace since the December quarter 2014. In two-quarter annualised terms growth hit 2.6%, the highest since March 2014.

Annual wages growth has now accelerated for six consecutive quarters, after sinking to a low of 1.4% in the September quarter of 2020. Clearly, momentum is building for wages growth alongside a recovering economy and tight labour market. Indeed, the six-month annualised growth rate in the WPI rose to an 8-year high of 2.6% in the March quarter.

Wages growth is still relatively low compared to historical levels – the long-run average annual growth rate is 3.1%. The data dates back to the late 1990s. This reflects inertia in wage setting practises – for example, a large number of Australians are on enterprise bargaining agreements or award wages, which take time to renegotiate and respond to changes in economic conditions. However, measures of wages growth which respond faster to changes in the economy indicate a material lift in wage pressures. The Reserve Bank certainly seems confidence in the pick up in wages, pointing to strong signals from its business liaison program.

However, wages growth failed to keep up with inflation, meaning real wages headed backwards and households are facing a reduction in purchasing power. The consumer price index (CPI) surged 5.1% over the year to the March quarter, meaning real wages fell 2.6% over the year to the March quarter of 2022. This is the largest annual decline in real wages since the September quarter of 2000, following the introduction of GST.

Wages growth continued to be led by the private sector in the March quarter. Private sector wages increased by 0.7% to be up 2.4% in annual terms. Annual wages growth in the private sector has now been steady at 2.4% for three consecutive quarters. The growth figure can be split into the average size of wage increases and the proportion of jobs recording those rises. In another sign of building wage pressures, the average size of wage rises in the private sector increased to 3.4% in the quarter, the highest since the June quarter 2013. The proportion of jobs recording these rises, 15%, eased back to pre-pandemic levels, partly reflecting the staggered implementation of the Fair Work Commission's Annual Wage Review.



Meanwhile, public sector wages rose 0.6% in the March quarter, compared to a 0.7% rise in the prior quarter. Wages in the public sector grew by 2.2% in annual terms, the fastest annual pace since the March quarter of 2020. Public sector wages growth continues to lag the private sector. A large share of public sector jobs are covered by enterprise arrangements, which are typically less responsive to changes in the labour market.

The labour market has undergone an incredible recovery and reports of labour shortages and difficulty attracting the right staff are common. The unemployment rate is at its lowest level in over 47 years, and liaison suggests that firms are increasingly paying bonuses to attract and retain talent, while employees are hopping jobs for higher pay. While wage pressures are growing in the WPI, they remain relatively subdued by historical standards.

By pay settings

Workers are subject to one of three broad pay settings which determine how their wages are set. Enterprise agreements cover a larger share of employees and due to their coverage and complexity are generally negotiated over several years. Similarly, employees subject to award wages have set annual wage increases which are reviewed every four years. This compares to workers on individual agreements who can negotiate wage increases directly with their employee in accordance with their contract.

Individual agreements are typically quicker to respond to changes in labour market conditions compared to enterprise agreements and awards, and we have seen this over the last few quarters. In the March quarter, wage increases continued to be driven by individual arrangements, while the contribution of enterprise agreements to wages growth was consistent with previous March quarters. The contribution of award wages to growth returned to its historical level in the March quarter following a higher than usual contribution in the March quarter of 2021, alongside the Fair Work Commission’s wage review.

By industry

In quarterly terms, wages growth was fastest in the education & training, arts & recreation and admin & support services industries, which all increased by 0.8%. 11 of 18 industries experienced quarterly wages growth of 0.5% or higher in the March quarter. The weakest growth was reported in electricity, gas, water & waste services, which rose 0.3% in the quarter.

On an annual basis, workers in the rental, hiring & real estate industry (3.1%) experienced the largest growth in wages, followed by manufacturing (2.7%) and professional, scientific & technical services (2.7%). Only two industries reported annual wages growth below 2% over the year to the March quarter, these were the electricity, gas, water and waste services (1.5%) and mining (1.8%) industries. Annual wages growth accelerated in 12 of 18 industry groups in the March quarter and was unchanged in a further two industries.

By state

Quarterly wages growth was strongest in Tasmania (0.6%), SA (0.6%) and WA (0.5%), while growth was weakest in the NT (0.3%) and Victoria (0.5%). In quarterly terms, wages growth accelerated in SA and WA, while the pace of growth was unchanged or slowed in the remaining states and territories.

In annual terms, wages growth was fastest in Tasmania (2.8%), followed by the ACT (2.8%), Queensland (2.5%) and NSW (2.4%). Wages growth in the ACT hit its fastest annual pace since the June quarter of 2013. Annual wages growth accelerated in Queensland, SA, WA and the ACT in the March quarter, while growth was unchanged in NSW.

Outlook

Wages growth was slightly softer than expected in the March quarter, however, there are clear signs that wages growth is on the move. The labour market is at its tightest in almost 50 years and we are hearing more frequent reports of firms paying higher wages to attract talent. We expect as these pressures continue to materialise and the labour market tightens further that we will see wages growth begin to rise more quickly, reaching a peak of 4.0% at the end of next year.

The RBA had previously highlighted its focus on today's wages update in considering the path of the cash rate. However, the RBA has more recently flagged that it is paying closer attention to the timelier information provided through its liaison program which is suggesting that labour costs are rising at a faster pace and that this is likely to continue.

The wages report today, while a little softer than projected by consensus estimates, won't sway the RBA from hiking in June. Our core view is for a rate hike of 40 basis points in June, but today's softer wages outcome might mean the odds have shortened for a more "standard" sized move of 25 basis points next month.

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