

Monday, 19 February 2024

# Another Labour Market Litmus Test

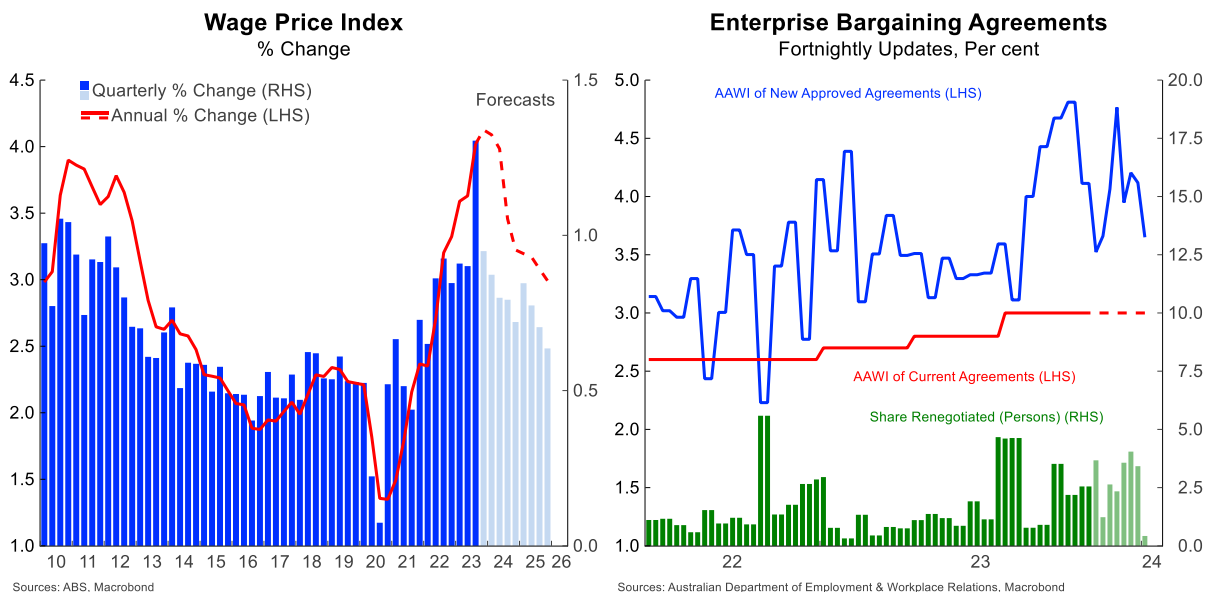
Last week, data from the Australian Bureau of Statistics (ABS) confirmed what we have been expecting for quite some time – that the Australian labour market continues to gradually slow. Conditions started to ease more noticeably in the back half of 2023 and this continued into 2024. Looking ahead, we expect this gradual cooling in conditions to continue.

This week, we will receive another important update on the pressure in the labour market – the December quarter Wage Price Index (WPI). This provides an indication of how base wages are evolving across the economy – i.e. wages not accounting for compositional impacts, such as promotions and people moving between jobs. The release also contains a measure including bonus payments.

Casting our minds back to the September quarter, the WPI printed a historically strong quarterly growth rate of 1.3%. This was the highest quarterly growth rate on record for the series (going back to 1997) and contributed to the annual rate rising to 4.0% – the strongest annual pace in 14.5 years!

There were several factors that played a role in this record quarterly growth rate. Most of these were one offs that will not be repeated in the December quarter. As a result, the quarterly pace of growth is expected to slow materially.

Specifically, we expect the quarterly pace to slow to 0.9%, which would take the annual rate to 4.1%. The slowing in the labour market suggests that nominal wages are nearing their peak in this cycle. We expect this peak to occur around the December 2023 and March 2024 quarters, before the annual pace of wage growth slows over 2024.



The factors impacting the September quarter included the Fair Work Commission’s (FWC) 2023-24 minimum and award wage decision. This led to almost 200k people on the minimum wage receiving an effective 8.6% increase in their wages. Additionally, around 2.7 million people on awards or enterprise bargaining agreements tied to the minimum wage received a 5.75% increase.

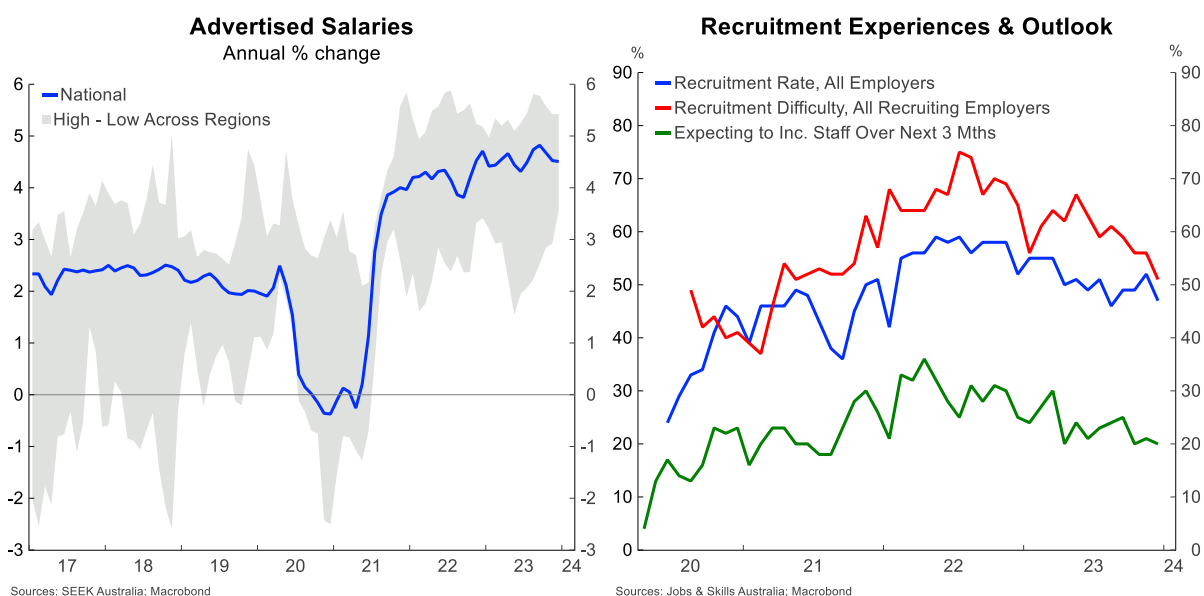
Secondly, this increase was concentrated in the September quarter, rather than being spread over the September and December quarters – as was the case in 2022.

Finally, aged care workers also received a 15% increase in their award wage, which also fell into the September quarter.

Leading indicators of wages growth support our expectation that the December quarter will show an unwind of this strength. The Australian Department of Employment and Workplace Relations provides fortnightly data on enterprise agreements that have been negotiated recently. This allows us to get a sense of award wage developments prior to the release of the WPI.

The data shows that award wage increases peaked at the end of the September quarter – in line with the increase from the FWC decision. Since then, wages for new agreements have trended lower, back below 4% annually.

Leading indicators of private sector wages growth have been going sideways for quite some time. Growth of advertised wages has hovered around 4.5% since early 2022. While measures such as recruitment difficulty have been falling, which suggest easing wage pressures.



## RBA Minutes

The other domestic release this week is the minutes from the Reserve Bank (RBA) Board’s February meeting.

The February meeting heralded the beginning of a new era for the central bank. Following recommendations from the Review of the RBA, the meeting structure was revamped and the Board met for two days, rather than only one under the previous structure. The Governor, Michele Bullock, gave her first post-meeting press conference to a room full of journalists, and the newly structured Statement of Monetary Policy (SoMP) was issued on the day of the meeting, rather than the Friday after the meeting.

On top of this, since the meeting, the RBA Governor and other senior officials have appeared before the House of Representatives Standing Committee on Economics and the Senate Economics Legislation Committee.

It has been quite a whirlwind for the RBA and senior officials as the organisation has been consistently in the spotlight in February.

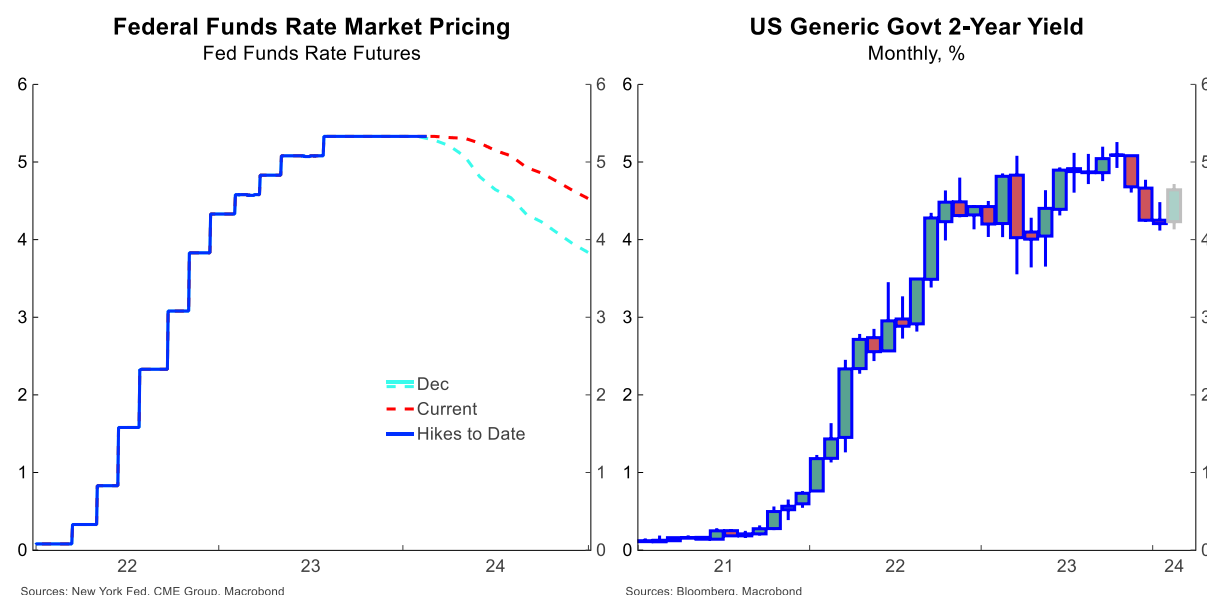
After hearing so much from the RBA recently, the minutes are unlikely to provide much in the way of new groundbreaking information.

However, they will still be closely watched. Firstly, they are the first iteration of the minutes following the significant changes to the structure of the meetings, so they may receive their own makeover. Additionally, market commentators will be looking for any additional insights on how the new meeting structure went, what factors were considered by the Board, and what options were on the table.

### International

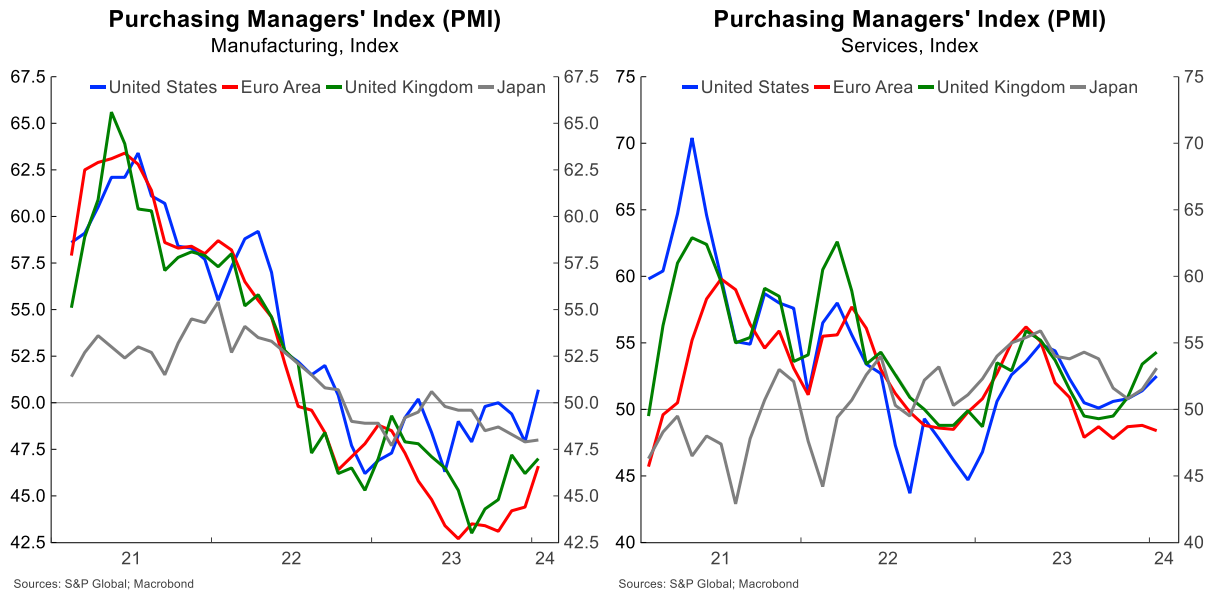
Turning our attention overseas, the Federal Reserve will also be publishing the minutes from their January meeting. These will provide important insights into the thinking of members and what signals they are likely to be looking for before they begin cutting rates.

Leading up to the January meeting, interest-rate markets were pricing a nearly 44% chance of a cut at the subsequent March meeting. However, Fed Chair Jerome Powell pushed back at the prospects of cuts so soon in 2024, as have other Fed speakers since then. This jawboning – in addition to stronger-than-expected consumer and producer inflation data – has contributed to markets pushing out the probability and number of cuts in 2024. Markets now expect cuts to begin in June, with a total of 90 basis points of cuts (i.e. slightly less than four quarter-point cuts) priced in for 2024. Bond yields have moved higher in line with these updated expectations.



Additionally, global purchasing manager indices (PMIs) from S&P will be published for February. These are key leading indicators providing a health check on the manufacturing and services sectors of major global economies. Not only do they provide indicators of activity, but a range of important sub-indices are also published. These include prices paid and received by businesses,

which are notable leading indicators of inflation.



The global landscape is shifting and a greater divergence of fortunes is emerging across major developed economies. We continue to receive upside surprises on the economic resilience of the US economy. While other economies, such as the UK, EU, and even Japan are facing significant challenges or have recently been confirmed to be in recession.

The PMIs will provide a timely update on how these economies are performing. Market participants will be watching closely as they may feed into interest-rate expectations around the world, and subsequently, key financial variables such as exchange rates and bond yields.

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## Group Forecasts

End Period:	2024				2025		
	Close (16 Feb)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
<b>Aust. Interest Rates:</b>							
RBA Cash Rate, %	4.35	4.35	4.35	4.10	3.85	3.60	3.35
90 Day BBSW, %	4.34	4.40	4.37	4.12	3.92	3.67	3.47
3 Year Swap, %	3.99	4.05	3.95	3.85	3.75	3.65	3.60
10 Year Bond, %	4.19	4.20	4.05	3.95	3.85	3.90	3.90
<b>US Interest Rates:</b>							
Fed Funds Rate, %	5.375	5.375	5.125	4.625	4.375	4.125	3.875
US 10 Year Bond, %	4.28	4.15	4.00	3.90	3.80	3.85	3.90
<b>USD Exchange Rates:</b>							
AUD-USD	0.6531	0.66	0.68	0.69	0.70	0.71	0.72
USD-JPY	150.21	147	144	141	138	135	132
EUR-USD	1.0777	1.09	1.11	1.13	1.14	1.15	1.16
GBP-USD	1.2602	1.26	1.27	1.28	1.29	1.30	1.30
NZD-USD	0.6124	0.62	0.63	0.64	0.64	0.64	0.64
<b>AUD Exchange Rates:</b>							
AUD-USD	0.6531	0.66	0.68	0.69	0.70	0.71	0.72
AUD-EUR	0.6061	0.61	0.61	0.61	0.61	0.62	0.62
AUD-JPY	98.10	97.0	97.2	97.3	96.6	95.9	95.0
AUD-GBP	0.5183	0.52	0.53	0.54	0.54	0.55	0.55
AUD-NZD	1.0664	1.06	1.07	1.08	1.09	1.11	1.13

	2021	2022	2023 (f)	2024 (f)
GDP, %	5.4	2.3	1.4	1.6
CPI (Headline), %	3.5	7.8	4.1	3.0
CPI (Trimmed mean), %	2.6	6.8	4.2	3.1
Unemployment Rate, %	4.6	3.4	3.8	4.5
Wages Growth, %	2.4	3.3	4.1	3.2

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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