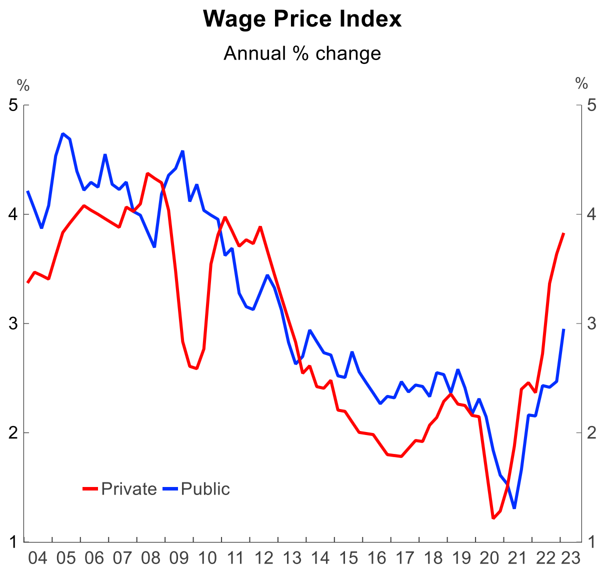
Data Snapshot

Wednesday, 17 May 2023

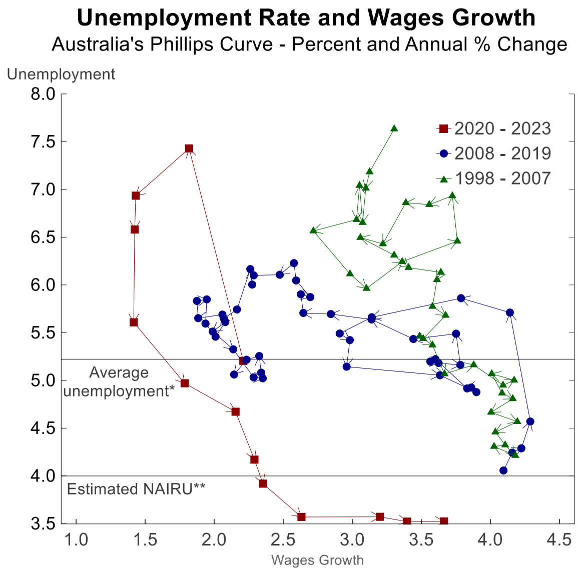
Wage Price Index

Will The Shift Continue?

- **The Wage Price Index (WPI) increased 0.8% over the March quarter to be 3.7% in annual terms. The WPI has now grown at a quarterly rate of 0.8% over the last two quarters - consistent with annual wages growth of around 3.4%.**
- **While the quarterly aggregate rate has stayed unchanged, the composition is shifting in a way we anticipated. Public sector wage growth has accelerated from low levels as more enterprise agreement are renegotiated. On the other hand, private sector wages growth has moderated.**
- **The key question is: will the compositional shift continue, keeping wages growth around 3.5%-4%? There's reason to believe underlying private sector wages growth will moderate – record growth in migration and the slowdown in household spending should see wage pressures ease.**
- **On the other hand, public sector wages growth should continue to catch up, as governments relax wage caps in a controlled manner (i.e. requiring productivity offsets) and implement one off decisions such as the Fair Work Commission (FWC) aged care decision.**
- **The key unknown is the impact of the FWC minimum wage increase for 2023-24. Unions are asking for an increase of around 7%. The number of people the decision impacts will be as important as the recommended increase. If the decision only impacts minimum wage earners, the aggregate impact could be modest. If it also includes award earners, the aggregate impacts would be larger – last year, minimum wage earners received a 5.2% increase while most award earners received a 4.6% increase; this led the WPI to grow by 1.1% in the September quarter.**
- **Outside of this minimum wage increase, quarterly growth has average 0.8% over the past year – much lower than the rates recorded overseas and relatively subdued compared to history.**



Sources: ABS; Macrobond



Sources: ABS; Macrobond

The tightest labour market in a generation continues to translate into a sustainable pickup in wages growth. The Wage Price Index (WPI) increased 0.8% over the March quarter to be 3.7% higher in annual terms. The WPI has now grown at a quarterly rate of 0.8% over the last two quarters - consistent with annual wages growth of around 3.4%.

While the quarterly aggregate number remains unchanged, the composition is shifting in a way we anticipated in several published research pieces.

Private sector wages grew by 0.8% to be 3.6% higher in annual terms. The quarterly pace continued to moderate from the 1.2% recorded in the September quarter – which was driven by the minimum wage increase. <u>Around 14% of jobs received pay increases, which was lower than the 21% share recorded last quarter and in line with the share recoding pay increase a year ago.</u>

Public sector wages increased by 0.9% to be 3.0% higher in annual terms. This represents an acceleration from the 0.8% recorded in the December quarter. <u>The increase was mainly driven by a larger share of jobs receiving pay increases (38% compared with 29% in the December quarter and 27% a year ago) on the back of state wage outcomes and renewed enterprise agreements.</u>

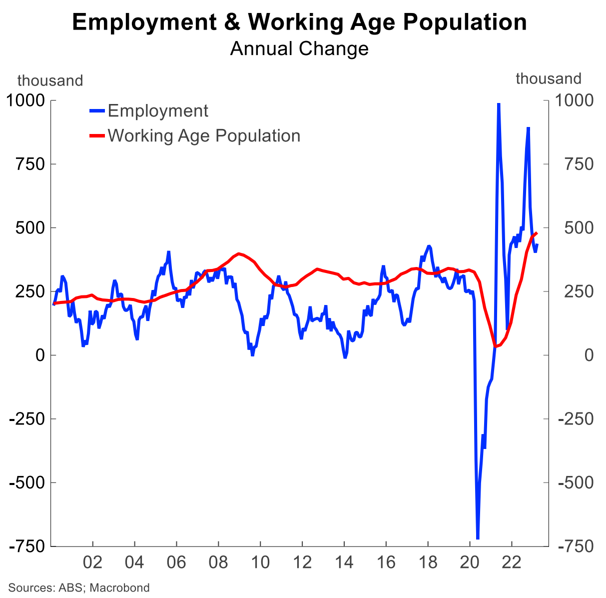
Will the compositional shift continue?

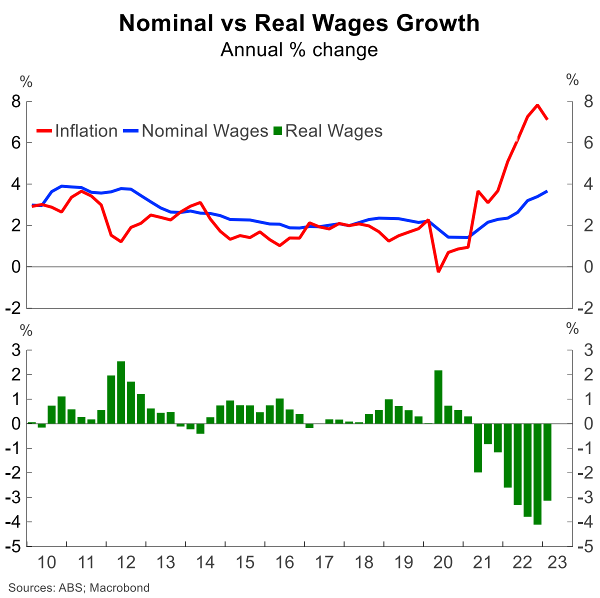
The rapid increase in labour supply, reflecting a surge in overseas migration following the reopening of the international borders, has contributed to an easing in labour market tightness. This has been also reflected in a rapid increase in the working age population. This loosening in conditions is expected to flow through to private sector wage outcomes with a lag.

In addition, wages growth of 3.7% on an annual basis means that real wages continue to decline at a record pace. Coupled with higher interest rates, which is seeing interest expense as a share of income grow rapidly, we expect to see spending and demand ease, reducing demand for labour.

Increasing supply and falling demand should see demand for labour and private sector wage pressures ease. As more and more enterprise bargaining agreements continue to land, we expect to see public sector wages pick up the slack.

Overall, we continue to expect wages growth to peak a tad above 4%, before falling to 3.5% over the next year or so.





The question is why wages growth is subdued compared with history. For example, looking at the Phillips curve, which shows the relationship between wages growth and unemployment, we would expect to see higher wages growth. In the decade before the pandemic, an unemployment rate of 4.0% would have led to wages growth of around 4.3%. Today, the unemployment rate sits at 3.5% and nominal wages growth is running at around 3.7% per annum.

In our view, the labour supply response, coupled with the inertia created by our wage fixing system, has meant that wages growth continues to be consistent with our inflation target.

The growth in labour supply was initially driven by an increase in the number of females, and young and older Australian in jobs. Now that international borders have reopened, the return of migrants is providing an influx of labour which is helping to fill worker shortages.

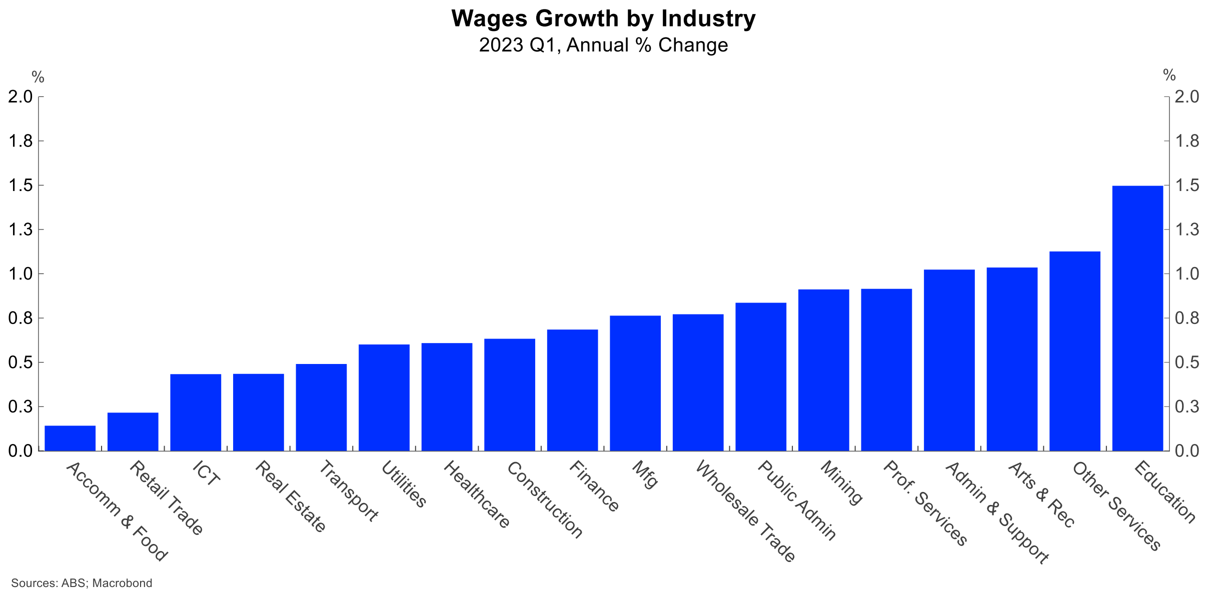
But there is upside risk.

The key unknown is the impact of the FWC minimum wage increase for 2023-24. Unions are asking for an increase of around 7%, ensuring wages keep up with inflation. Employer groups are demanding wages growth of 3.5%.

The number of persons impacted will be as important as the recommended increase. If the decision only impacts minimum wage earners (estimated by Treasury to be around 184k) the aggregate impact would be modest. If it also includes award earners (around 2.7 million employees) the aggregate impacts would be larger – last year, minimum wage earners received a 5.2% increase while most award earners received a 4.6% increase; this led the WPI to grow by 1.1% in September.

By industry

Wage pressures remain mixed across industries and occupations. Over the March quarter, 6 of the 18 industry groups reported wages growth of 0.8% or more. This was down from 9 industries in the December quarter.



Quarterly growth ranged from 1.5% for jobs in Education and training to 0.1% for jobs in Accommodation and food services. The Education and training industry recorded the highest quarterly index growth at 1.5%. Wage growth in this industry was driven by increases for jobs in New South Wales and Queensland primary education.

Pat Bustamante, Senior Economist
Ph: +61 468 571 786

Contact Listing

Chief Economist
Besa Deda
dedab@stgeorge.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@stgeorge.com.au
+61 401 102 789