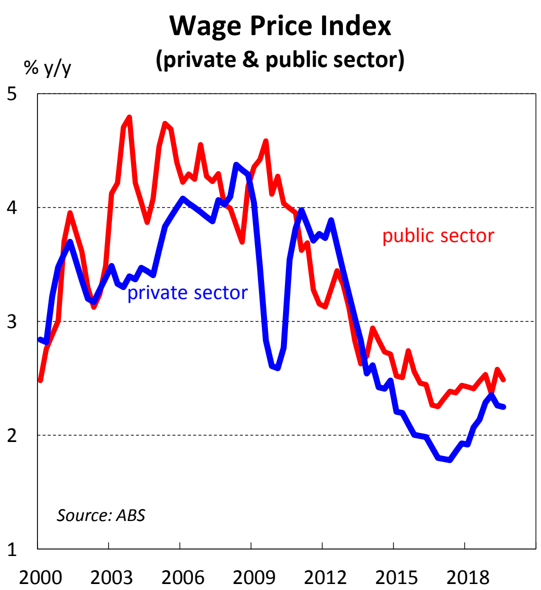
Data Snapshot

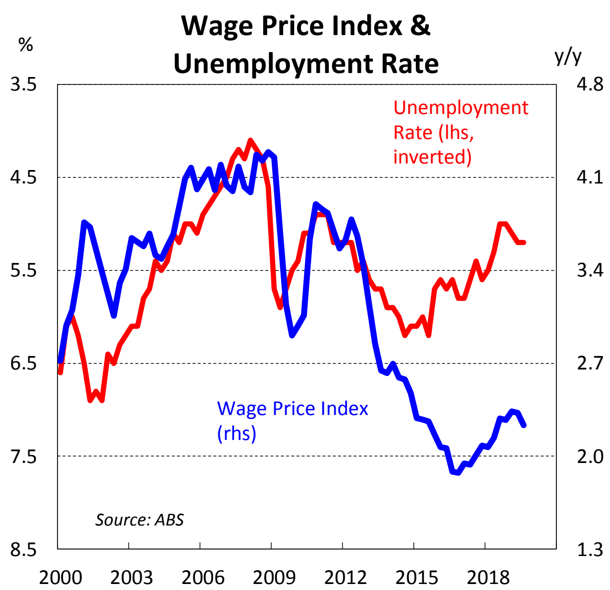
Thursday, 13 November 2019

Wage Price Index

Minimum Wage, Minimal Impact

- **Wages grew at a paltry rate of 0.5% in the September quarter, the same outturn registered for the June quarter. On an annual basis, growth ticked down to 2.2%, the lowest since June 2018.**
- **Growth was muted in both the private and public sectors. Each registered a 0.5% increase over the quarter. At 2.5%, wage growth in the public sector remains higher than in the private sector on an annual basis. Annual private sector wage growth was 2.2% in the September quarter, down from 2.3% in the three months to June.**
- **Public sector wages were boosted in the previous quarter by an increase in Victorian public sector wages for healthcare workers.**
- **A 3% increase in the minimum wage came into effect on July 1. Industries more sensitive to minimum wage changes outperformed over the quarter. Among these were retail trade (1.1%), accommodation (1.6%) and warehousing and transport (1.1%). On an annual basis, wage growth remained highest for the healthcare and social assistance sector.**
- **Low wages growth has been a key factor behind inflation remaining below the lower bound of the Reserve Bank's (RBA) target 2-3% band. Spare capacity in the labour market has persisted throughout 2019 as a rising participation rate and high population growth has offset gains in employment. In its November Statement on Monetary Policy, the RBA acknowledged that this trend is likely to continue, suggesting that inflationary pressures remain scarce.**





Wage price pressures were subdued in the September quarter, according to the latest release of the wage price index. Wages rose 0.5% over the quarter, the same rate registered in the three months to June. On an annual basis, growth ticked down to 2.2% from 2.3% in the June quarter, the lowest rate since June 2018.

There was a 3% increase in the minimum wage which came into effect on July 1. Accordingly, industries more sensitive to minimum wage changes outperformed over the quarter. However, this had little impact on overall wages which haven't grown by more than 0.6% on a quarterly basis since the March quarter of 2014.

Growth was muted in both the private and public sectors. Each registered a 0.5% increase over the quarter. At 2.5%, wage growth in the public sector remains higher than in the private sector on an annual basis. Annual private sector wage growth was 2.2% in the September quarter, down from 2.3% in the three months to June.

The public sector and workers in healthcare remain relative outperformers on an annual basis. This gain is primarily due to a one-off increase in Victorian healthcare and social assistance industry workers which was implemented this year.

By Industry

Wage growth remains muted across most industries. The largest annual gain was again registered in healthcare and social assistance at 3.2%, slightly down from the 3.3% increase in the June quarter of 2019.

No other sector has been able to grow beyond 3% on an annual basis recently. The closest has been the utilities (electricity, gas, water & waste services) sector which registered 2.7% growth. Transport and postal and warehousing services saw an increase in annual growth from 2.3% to 2.5%, the same rate of growth as in professional and technical services.

The weakest industries in terms of wage growth remain those buffeted by weak consumer spending. Retail wages were stuck at annual growth of 1.9% while growth in the wholesale trade sector ticked up slightly to 1.8%. Manufacturing sector wages fell to 1.8%, the lowest since the December quarter of 2016.

By State

The one-off boost to some public sector employees in Victoria kept wages growth elevated at 2.8% over the year, although this was down from the 2.9% growth in the June quarter. Wage growth remained broadly flat at constrained levels elsewhere, including the ACT (2.4%), the Northern Territory (2.3%), Tasmania (2.3%), New South Wales (2.2%) and South Australia (2.2%).

Queensland (2.0%) and Western Australia (1.7%) had the weakest growth of all States.

Implications for the RBA

Low wages growth has been a key factor behind inflation remaining below the Reserve Bank's (RBA) 2-3% target band.

In order for wages to rise, there needs to be significant progress in tightening the labour market. Spare capacity in the labour market has persisted throughout 2019 as a rising participation rate and high population growth has offset gains in employment.

On the labour market, the RBA appears to have conceded that the unemployment rate is likely to remain well above the level at full employment (which it estimates is 4.5%) over the medium term. In its November Statement on Monetary Policy, the RBA acknowledged that this trend is likely to continue, noting that wages growth is likely to remain muted for some time. As a result, inflation is not expected to return to its target range any time soon, leaving the door open for further rate cuts, and potentially unconventional monetary policies.

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