

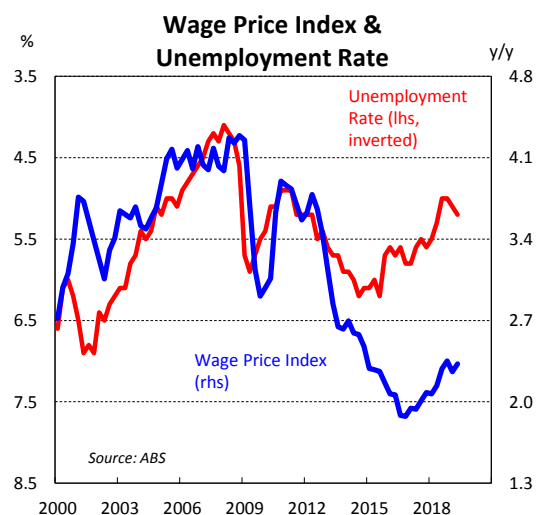
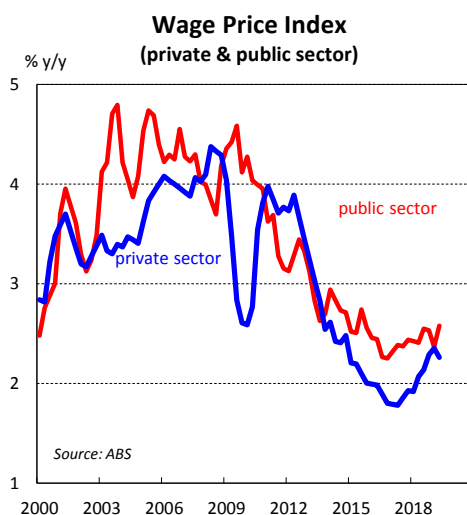
Thursday, 14 August 2019



Wage Price Index

The Road to Nowhere

- Wages grew at a slightly stronger-than-expected rate of 0.6% in the quarter. However, the annual growth remained muted at 2.3%, and in line with forecasts. Annual growth has held at a 2.3% for two consecutive quarters.
- In his testimony to parliament last Friday, RBA Governor Lowe said that he would like wage growth to have a '3' in front. Today's data provides evidence that the pace of wage growth remains far from what the RBA would prefer.
- Wage growth in the June quarter was boosted by Victorian public sector wages in the healthcare sector. The boost drove public sector wages up 0.8% in the quarter, the strongest quarterly increase in five years. However, the underlying story of weak wage growth remains unchanged. Private sector wage growth eased from an annual rate of 2.4% in the March quarter to 2.3% in the June quarter.
- Wage growth across most industries remained well-contained. The standout was healthcare & social assistance, where annual job growth accelerated from 3.0% in the March quarter to 3.3% in the June quarter, the strongest in six years.
- The growing signals that employment growth will slow point to the spare capacity in the labour market persisting for some time. It also suggests limited prospects for wage growth to pick up in a meaningful way. Indeed, we have been highlighting for some time that the risk is that the unemployment rate rises which further lessens the likelihood for stronger growth in wages. With this outlook for ongoing weak wage growth, inflation is likely to remain below the RBA's 2 to 3 per cent target band for some time.



Wages grew at a slightly stronger-than-expected rate of 0.6% in the quarter (versus the market and our forecast of 0.5%). However, the annual pace of wage growth remains muted at 2.3%, and in line with forecasts. Annual growth has held at 2.3% for two consecutive quarters.

Wage growth in the June quarter was boosted by public sector wages, namely in Victoria. The ABS reported that “the most significant contribution to wage growth this quarter came from the public sector component of the health care and social assistance industry, where a number of large increases were recorded in Victoria under a plan to ensure wage parity with other states”. The boost drove public sector wages up 0.8% in the quarter, the strongest quarterly increase in five years. The annual rate picked up from 2.4% in the March quarter to 2.6% in the June quarter, although remains below 3%. In his testimony to parliament last Friday, RBA Governor Lowe said that he would like wage growth to have a ‘3’ in front.

Growth in private sector wages remained lacklustre, which grew 0.5% in the June quarter. The annual rate eased from 2.4% in the March quarter to 2.3% in the June quarter.

By Industry

Wage growth across most industries remained well-contained. The standout was healthcare & social assistance, reflecting the pay increases for public sector health workers in Victoria. Annual job growth accelerated from 3.0% in the March quarter to 3.3% in the June quarter. It was the strongest annual increase in six years.

Wage growth was below 3.0% in all other industries. The strongest wage increases outside of healthcare & social assistance (3.3%) were in electricity, gas, water & waste services (2.8%) and arts & recreation (2.8%). The weakest wage increases were in wholesale trade (1.7%) and retail trade (1.9%) which is facing significant headwinds from soft consumer spending.

By State

The impact of the pay increases to the public sector in Victoria was evident in the State data. Wages picked up from 2.6% in the March quarter to 2.9% in the June quarter, the strongest in nearly six years.

Wage growth held steady in NSW (2.3%), Queensland (2.3%), South Australia (2.1%) and the ACT (2.1%) and eased in Tasmania (from 2.4% to 2.3%) and the Northern Territory (from 2.4% to 2.0%). Wage growth was weakest in Western Australia, holding at 1.6%.

Implications for the RBA

Aside from the pick up in public sector Victorian wages within healthcare, the underlying story of weak wage growth remains unchanged. Wages growth has picked up from its recent lows in 2017, however the pace of growth remains subdued, and has been broadly steady over the past year.

The growing signals that employment growth will slow point to the spare capacity in the labour market persisting for some time. It also suggests limited prospects for wage growth to pick up in a

meaningful way. Indeed, we have been highlighting for some time that the risk is that the unemployment rate rises which further lessens the likelihood for stronger growth in wages. With this outlook for ongoing weak wage growth, inflation is likely to remain below the RBA's 2 to 3 per cent target band for some time.

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