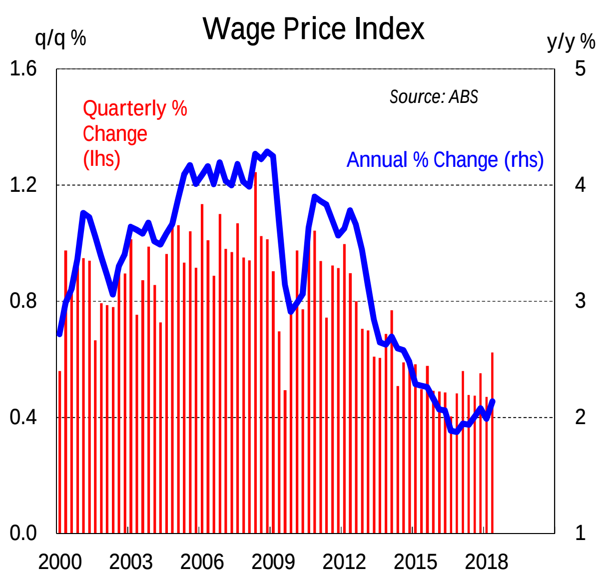
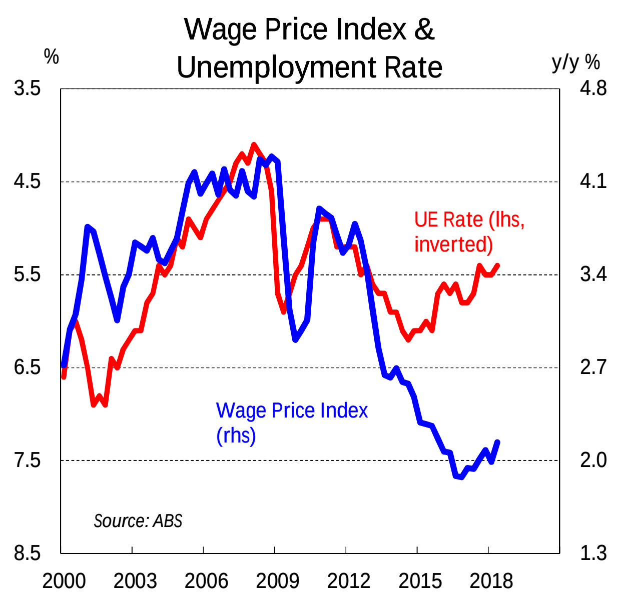
Wage Price Index

Feeling the Pinch

- The wage price index rose by 0.6% in the June quarter, which was in line with both our own and consensus expectations. This followed an increase of 0.5% in the March quarter.
- The annual rate of wage growth rose to 2.1% in the June quarter, up from 2.0% in the March quarter, although the March quarter's result was revised from 2.1% previously.
- Real wages growth, taking into account inflation, deteriorated in the June quarter. Annual wages growth increased to 2.1% in the June quarter, from 2.0% in the March quarter. However, annual headline inflation also rose to 2.1% in the June quarter, from 1.9% in the March quarter.
- Workers are feeling the pinch. With high household debt and real wages going nowhere, consumers are unlikely to increase spending significantly. Ongoing slow wages growth and low inflation leave us comfortable with our expectation that the RBA will leave rates on hold for some time.
- In other data today, Westpac-MI consumer sentiment fell 2.3% in August, to a reading of 103.6. The index remains above 100 signalling more consumers are optimistic than pessimistic.





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The annual rate of wage growth rose to 2.1% in the June quarter, up from 2.0% in the March quarter, although the March quarter's result was revised from 2.1% previously.

For the quarter, the pace of public sector wages growth remained stronger than the private sector at 0.6% for the third consecutive quarter. Private sector wages growth rose by 0.5% in the June quarter, for the sixth consecutive quarter.

In annual terms, public sector wages growth continued to outpace that of the private sector. For the year to the June quarter, public sector wages rose 2.4% for the sixth consecutive quarter. The annual pace of private sector wages growth picked up. Private sector wages rose 2.0% in the year to the June quarter, up from 1.9% in the previous quarter.

Wages growth edged slightly higher in the year to the June quarter. However, real wages growth, taking into account inflation, actually deteriorated in the June quarter. Annual wages growth increased to 2.1%, from 2.0% in the March quarter. However, annual headline inflation also rose to 2.1% in the June quarter, from 1.9% in the March quarter.

Although 339k new jobs were created in the year to June, there remains slack in the labour market. The creation of new jobs has occurred in conjunction with an increase in the workforce participation rate, while the fall in the unemployment rate has been more contained. In June the workforce participation rate was at 65.7%, up from 65.1% a year earlier. At the same time the unemployment rate fell from 5.7% to 5.4%. This suggests a significant portion of the newly created jobs are being filled by "discouraged workers" who weren't registered as unemployed previously.

The Reserve Bank of Australia has indicated the "full-employment" rate of unemployment is around 5%, although it has highlighted a risk that it could be lower. This has been the experience of other advanced economies where inflation has remained low despite unemployment rates slipping below the estimated unemployment rates at "full-employment".

Meanwhile, the underemployment rate, which measures those who are employed part-time but would like to work more hours, was at 8.5% in the May quarter 2018. Although this is down from 8.7% a year earlier, it remains elevated. While there is a pool of people who are available to apply for newly created jobs, employers will not be forced to 'bid up' their wages, keeping wages growth low.

The Federal Budget for 2018-19, released in May, forecast wages growth of 2.25% in 2017-18, rising to 3.50% in 2020-21. In our Budget Report we noted that the wage forecasts from 2018-19 may not come to fruition. Today's wages update indicates wages growth averaged 2.1% in 2017-18, below the Budget estimate for 2.25% growth.

By Industry

Wage growth remained slow across all industries, with annual growth at or below 2.7% in all industries in the June quarter. The strongest sectors for wages growth were healthcare & social assistance (2.7%) and education & training (2.5%), two of the country's out-performing sectors.

The weakest annual wages growth was, once again, mining, at 1.3% in the June quarter.
Wage growth was also particularly weak in retail trade (1.5%) and rental, hiring and real estate (1.7%).

By State

For the year to the June quarter, wages growth was strongest in Victoria and Tasmania (both at 2.5%), followed by South Australia (2.2%), NSW (2.1%), Queensland (2.1%), the ACT (1.9%), Western Australia (1.5%) and the Northern Territory (1.5%).

Implications for the RBA

Workers are feeling the pinch. With high household debt and real wages going nowhere, consumers are unlikely to increase spending significantly. Underlying inflation remains just below the RBA's 2-3 percent target band, at 1.9%. A lift in wages growth is needed before underlying inflation can move sustainably into the middle of the RBA's target band. Ongoing slow wages growth and low inflation leave us comfortable with our expectation that the RBA will leave rates on hold for some time.

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