Data Snapshot

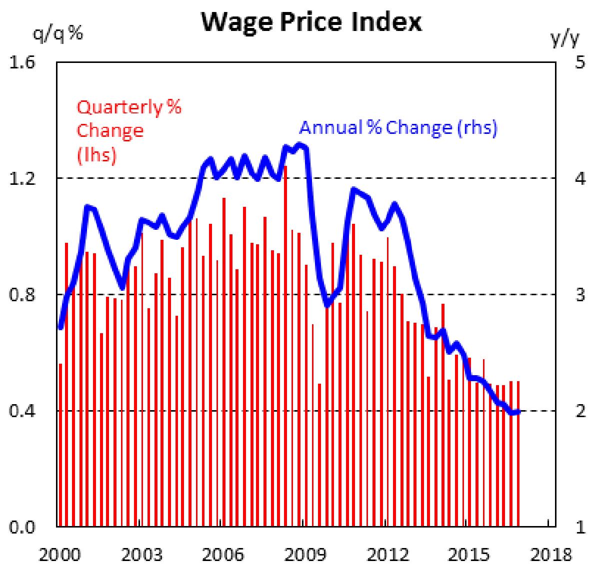
Wednesday, 17 August 2016

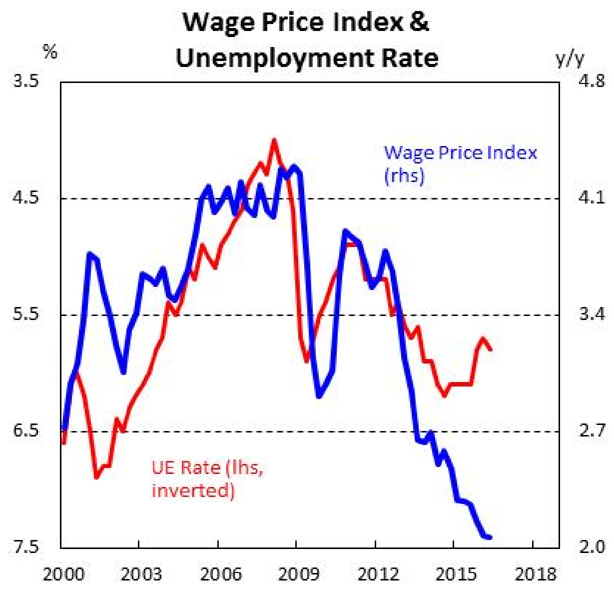
Bank of Melbourne

Wage Price Index

Wage Stagnation Continues

- The wage price index rose 0.5% in the June quarter, following an increase of 0.5% in both the March and December quarters. The subdued wage growth was in-line with our own and market expectations.
- The annual rate was steady at 2.1% in the year to the June quarter, and in line with the lowest on record since the series began in 1997. While wages growth is low, it is above the annual rate of headline inflation, which sat at 1.0% in the year to the June quarter.
- The slow pace of wage growth points to spare capacity in the labour market and a greater degree of flexibility in setting wages, against a backdrop of low inflation globally.
- The slow rate of wages growth was broad-based across industries and States. Annual wages growth was equal to or below 2.6% in all industries and equal to or below 2.2% in all States.
- The Reserve Bank of Australia (RBA) cut official interest rates earlier this month, citing low inflation and wages growth as key inputs in this decision. The spare capacity in the labour market and ongoing low inflation suggest another interest rate cut is on the cards. We have an outlook for interest rates falling to as low as 1.0% by mid next year.





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The slow pace of wage growth points to spare capacity in the labour market and a greater degree of flexibility in setting wages, against a backdrop of low inflation globally. Employment has been growing at a moderate pace. However, slow wages growth has allowed businesses to employ more people than they may have otherwise. The unemployment rate currently sits at 5.8% in June 2016, down from a high of 6.3% in July last year. Wage growth is currently weaker than what the unemployment rate is suggesting based on a historic comparison.

In the recent Minutes of the RBA Board Meeting in August, the RBA notes, "Forward looking labour market indicators had been mixed, but on balance pointed to employment growth consistent with the unemployment rate remaining at its current level over the coming months… which suggested that there would be ongoing spare capacity in the labour market." Without the prospect of a substantial reduction in spare capacity we are unlikely to see any sizeable pick-up in wages growth.

Public sector wages growth continues to outpace that of the private sector, albeit marginally. In the public sector, wages rose 0.6% in the June quarter, up from from 0.5% in the March quarter. For the year to the June quarter, public sector wages rose 2.4%. Private sector wages rose just 0.5% in the June quarter, in line with 0.5% in the previous five quarters. For the year to June quarter, growth in private wages were stable at 2.0%, in line with the slowest annual pace since these records began in 1997.

By Industry

Wage growth in annual terms remained slow across all industries. No industry saw wages growth in excess of 2.6% over the year to the June quarter. The strongest sectors for wages growth were electricity gas, water & waste services (2.6%), closely followed by education & training (2.5%).

The weakest wages growth for the year to June quarter was, unsurprisingly, in mining which rose just 1.3%, closely followed by private administrative & support services (1.4%) and construction (1.5%).

By State

Annual wage growth was subdued across all States and territories, at 2.2% or below. New South Wales and South Australia saw the 'strongest' wages growth of 2.2% in the year to the June quarter. This was followed by Victoria and Tasmania (both 2.1%), Queensland and the ACT (both 1.9%). The slowest growth in wages in the year to the June quarter was in the Western Australia (1.8%).

Implications for the RBA

Today's data confirms that wages inflation remains very low. Despite this, wages inflation continues to outpace CPI inflation. The RBA cut official interest rates this month, citing low inflation and wages growth as key inputs in this decision.

Against a backdrop of soft price pressures globally, wage growth is expected to remain subdued in coming quarters given spare capacity is expected to persist in the labour market. This spare capacity, along with global influences suggests inflation will remain low and keep another interest rate cut on the cards. We expect official interest rates will fall as low as 1.0% by mid next year.

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