# Data Snapshot

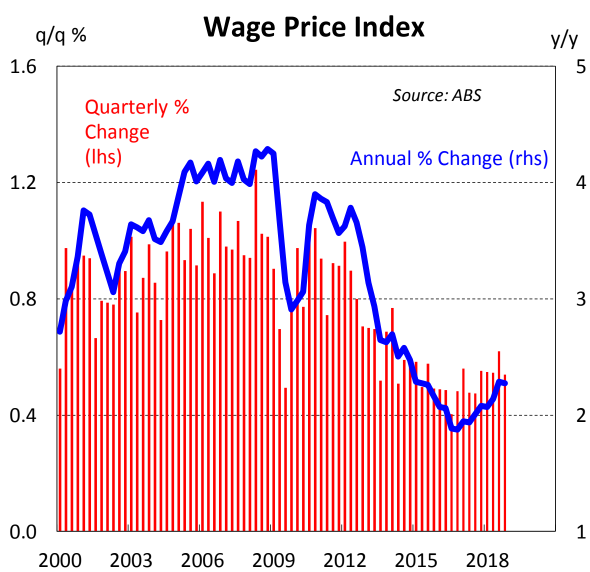
Wednesday, 20 February 2019

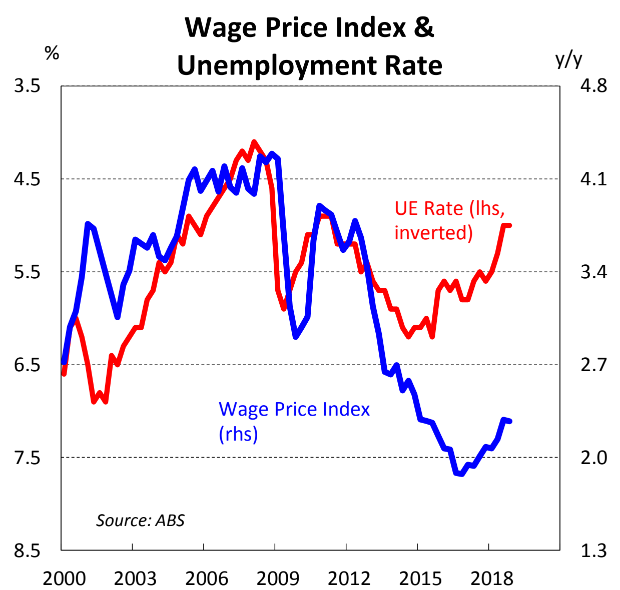
Bank of Melbourne

# Wage Price Index

## Muted Growth

- **The wage price index rose by 0.5% in the December quarter, which was below both our own and consensus expectations for a 0.6% increase. It followed an increase of 0.6% in the September quarter.**
- **The annual rate of wage growth held at 2.3% in the December quarter.**
- **Real wages growth, taking into account inflation, rose slightly in the December quarter. Annual wages growth was 2.3% in both the December and September quarters. Meanwhile annual headline inflation eased to 1.8% in the December quarter, from 1.9% in the September quarter.**
- **Today's data confirms that while wages inflation has lifted off its lows, it remains subdued. More broadly inflation remains low, with underlying CPI inflation below the RBA's 2-3 percent per annum target band at 1.8%. A significant lift in wages growth is likely needed before underlying inflation can move sustainably into the middle of the RBA's target band.**
- **Given continued slow wages growth and low inflation, together with the restrained outlook for the consumer, a rate hike in the near-term has become a far-fetched possibility. Although downside risks to the outlook have increased, we continue to expect that the RBA will leave the cash rate on hold for some time.**



The wage price index rose by 0.5% in the December quarter, which was below both our own and consensus expectations for a 0.6% increase. It followed an increase of 0.6% in the September quarter.

The annual rate of wage growth held at 2.3% in the December quarter, unchanged from the September quarter, and the equal highest annual pace of wages growth in three years. Wages growth appears to have passed its low point, although any trend upwards is proceeding very slowly.

For the quarter, public sector and private sector wages growth both grew at 0.6%. Private sector wages growth was its highest since the June quarter 2018 and prior to that since late 2014. It suggests there is some progress in private sector wage growth picking up, albeit at a sluggish pace.

In annual terms, public sector wages growth continued to outpace that of the private sector, although the gap is narrowing. The annual pace of private sector wages growth picked up to 2.3% in the December quarter, the highest since the December quarter 2014 and up from 2.1% in the September quarter 2018. For the year to the December quarter, public sector wages rose 2.5%, down from 2.6% in the September quarter.

Real wages growth, taking into account inflation, rose slightly in the December quarter. Annual wages growth held at 2.3% in the December quarter. Meanwhile annual headline inflation fell to 1.8% in the December quarter, from 1.9% in the September quarter.

**By Industry**

Wage growth remained slow across all industries, with annual growth at or below 2.8% in all industries in the December quarter. The sectors with the strongest wages growth were healthcare & social assistance (2.8%), electricity, gas, water & waste services (2.8%) and arts & recreation services (2.7%).

The weakest annual wages growth was in information media & telecommunications (1.6%), mining (1.8%) and construction (1.9%).

**By State**

For the year to the December quarter, wages growth was strongest in Victoria (2.6%), followed by Tasmania (2.5%), NSW (2.4%), QLD and South Australia (both at 2.3%), the Northern Territory (2.2%), the ACT (2.0%) and WA (1.6%).

**Implications for the RBA**

Today's data confirms that while wages inflation has lifted off its lows, it remains subdued. More broadly inflation remains low, with underlying CPI inflation below the RBA's 2-3 percent per annum target band at 1.8%. A significant lift in wages growth is likely needed before underlying inflation can move sustainably into the middle of the RBA's target band.

In the minutes from its February meeting released yesterday, the RBA expressed caution on the possible impact of further declines in the housing market on consumption and GDP. Taken together will high household debt and the slowdown in the housing market, subdued wages growth is likely to leave consumers reticent about increasing spending.

Given continued slow wages growth and low inflation, together with the restrained outlook for the consumer, a rate hike in the near-term has become a far-fetched possibility. Although downside risks to the outlook have increased, we continue to expect that the RBA will leave the cash rate on hold for some time.

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**The Detail**

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