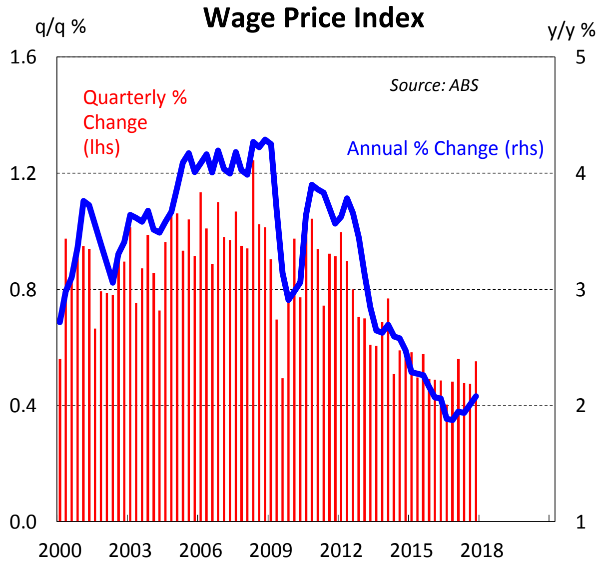
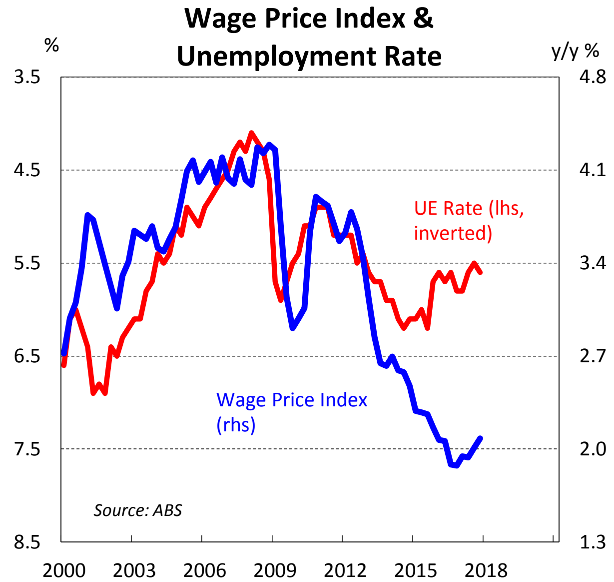
Wage Price Index

Is it Finally Here?

- **The wage price index rose by 0.6% in the December quarter, which was slightly above both our own and consensus expectations. This followed growth of 0.5% in the September quarter.**
- **The annual rate of wage growth edged up to 2.1% in the December quarter, from 2.0% in the year to the September quarter. It was the highest annual pace since the June quarter 2016.**
- **Despite the increase in the annual rate, wages growth remains very weak. The soft pace of wages growth reflects ongoing slack in the labour market, in addition to technological changes, globalisation of the workforce and changes to wage bargaining arrangements over time.**
- **Slow wages growth is expected to continue to hinder household spending, particularly given high levels of household debt. Additionally, there would need to be a stronger increase in the pace of wages growth for a meaningful impact on CPI inflation. We remain comfortable with our view that the RBA will leave official interest rates unchanged in 2018.**





The wage price index rose by 0.6% in the December quarter, which was slightly above both our own and consensus expectations. This followed growth of 0.5% in the September quarter. The annual rate of wage growth edged up to 2.1% in the December quarter, from 2.0% in the year to the September quarter. It was the highest annual pace since the June quarter 2016.

For the quarter, the pace of public sector wages growth lifted, rising by 0.6%, from 0.5% in the September quarter. This puts it above growth in private sector wages which was at 0.5% for the fourth consecutive quarter. In annual terms, public sector wages growth continues to outpace that of the private sector. For the year to the December quarter, public sector wages rose 2.4%, an unchanged annual pace from the previous three quarters. Private sector wages rose 1.9% in the year to the December quarter, an unchanged pace from the previous quarter.

Despite the increase in the annual rate, wages growth remains very weak. Despite the creation of 403.3k new jobs in the year to January, there is still slack in the labour market. Strong jobs growth has attracted more people into the workforce, so called "discouraged workers", so that the workforce participation rate has risen from 64.6% in January 2017 to 65.6% in January 2018. Over the same time period the unemployment rate has moved less dramatically, edging down from 5.7% to 5.5%. The RBA has estimated the full-employment level of the unemployment rate at around 5.0%.

Meanwhile, the underemployment rate, which measures those who are employed part-time but would like to work more hours, was at 8.3% in the November quarter 2017, equal to where it was a year earlier. Provided there remains a pool of workers who are available to apply for newly created jobs, it minimises the need for employers to 'bid up' their wages, and allows wages growth to wallow.

In addition to slack in the labour market, technological change, globalisation of the workforce and changes in wage bargaining arrangements are also likely putting downward pressure on wages growth.

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 strongest sectors for wages growth were healthcare & social assistance (2.8%), arts & recreation (2.6%), other services (2.4%) and education & training (2.4%).

The weakest annual wages growth was, once again, mining, although the pace has lifted in recent quarters, to be 1.4% in the year to the December quarter. Wage growth was also particularly weak in rental, hiring and real estate (1.6%) and retail trade (1.6%).

By State

Annual wage growth was mixed across the States and territories in the December quarter. For the year to the September quarter, wages growth was strongest in Victoria (2.4%), followed by Queensland and Tasmania (both 2.2%), NSW (2.1%) and South Australia and the ACT (both 2.0%). Annual wages growth was weakest in the Northern Territory (1.1%), followed by Western Australia (1.5%) as the slowdown in mining investment continues to impact.

Implications for the RBA

Real wages edged slightly higher in the December quarter. With headline inflation growth of 1.9% in the December quarter, wages growth of 2.1% is unlikely to convince households to spend. Slow wages growth is expected to continue to hinder household spending, particularly given high levels of household debt. Additionally, CPI inflation also remains low. There would need to be a stronger increase in the pace of wages growth for a meaningful impact on CPI inflation. We remain comfortable with our view that the RBA will leave official interest rates unchanged in 2018.

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The Detail