Data Snapshot

Wednesday, 22 February 2023

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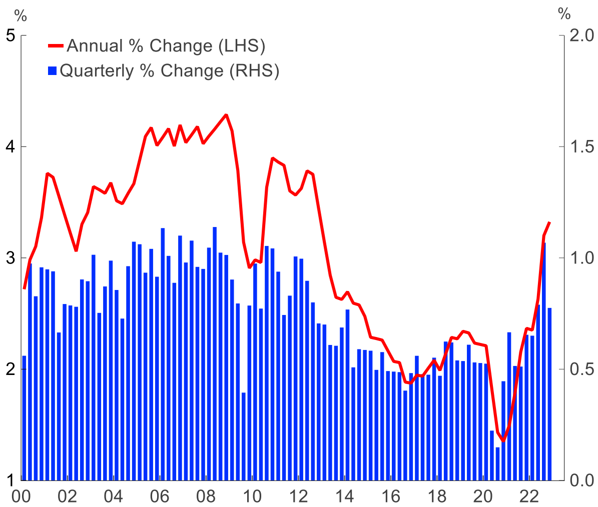
Wage Price Index

Has Peak Tightness In The Market Passed?

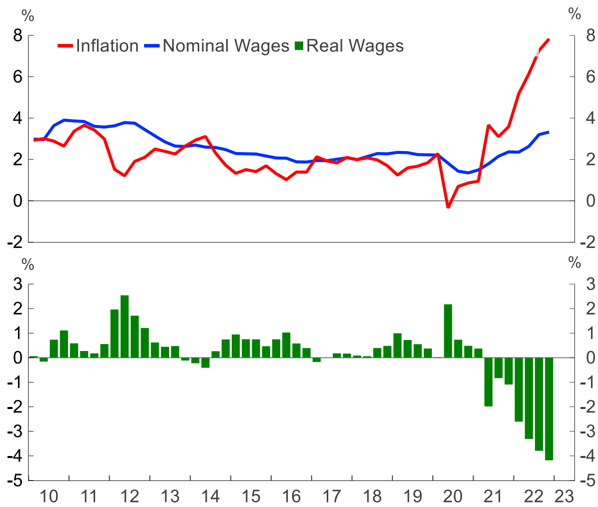
- **The Wage Price Index (WPI) increased 0.8% over the December quarter. This was a slowdown from 1.1% in the September quarter and was also marginally weaker than the June quarter. In annual terms, the WPI grew 3.3%, lower than the Reserve Bank's (RBA) forecast of 3.5%.**
- **Importantly, the result disappointed and was below even the most pessimistic of economists' forecasts.**
- **Private sector wages grew by 0.8%, to be 3.6% higher in annual terms. The quarterly pace is a significant slowdown from the 1.2% in the September quarter. Public sector wages increased by 0.7%, slightly above the September quarter outcome, to be 2.5% higher in annual terms.**
- **The December quarter marked the sharpest annual fall in real wages on record as the stronger growth in pay packets wasn't enough to keep pace with inflation over the same period.**
- **The weaker-than-expected outcome suggests we may have passed the peak in labour market tightness. Given the inertia in Australia's wage fixing system, we expect to see public sector wages growth tick up going forward. However, private sector wages growth could underperform on the back of a slowing economy and increased labour supply from net overseas arrivals.**
- **Wages remain a key consideration for the RBA and today's outcome adds another piece of data to the puzzle. Given the strength of inflationary pressures, this data point alone is unlikely to dissuade the Board from a further hike in March. A lot will depend on whether inflationary expectations remain well anchored.**

Wage Price Index
% Change



Sources: ABS; Macrobond

Nominal vs Real Wages Growth
Annual % change



Sources: ABS; Macrobond

Wages

The tightest labour market in a generation continues to translate into stronger wages growth. However, the December quarter outcome was not as strong as expected and disappointed economists' predictions, adding to other evidence that conditions in the labour market may be starting to slow.

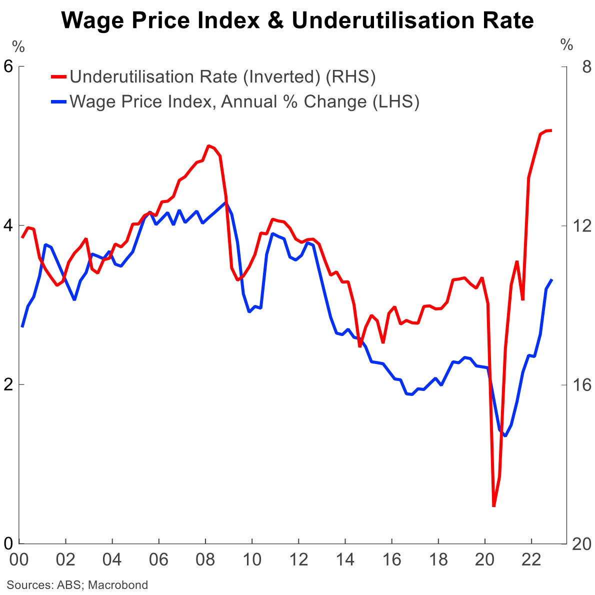
Over the December quarter, the wage price index (WPI) grew by 0.8%. This was down from the revised 1.1% outcome in September quarter (revised up from 1.0%) and was also weaker (to the second decimal place) than the 0.8% outcome in the June quarter. The weaker-than-expected outcome surprised economists. In fact, it was below even the most pessimistic forecast from economists surveyed ahead of the release.

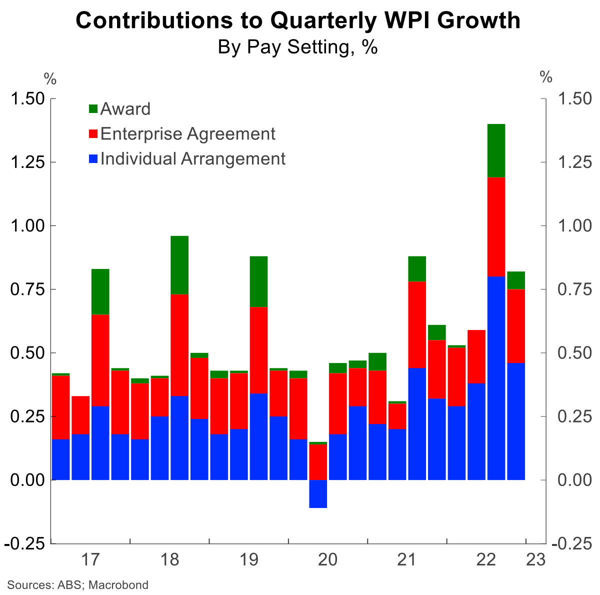
The deceleration in the quarterly pace suggests that the build-up in wage pressures may be beginning to wane, and in combination with other labour market data, indicates that the peak tightness in the labour market is now behind us.

A rapid increase in labour supply, reflecting a surge in overseas migration following the reopening of the international borders, has contributed to an easing in labour market tightness. This has been also reflected in a rapid increase in the working age population. This loosening in conditions is expected to flow through to wage outcomes with a lag.

In annual terms, the WPI rose by 3.3%, up from the 3.2% annual outcome in the September quarter. This was the fastest pace of annual wages growth in 10 years, following consistently weak wages growth since the end of the mining investment boom.

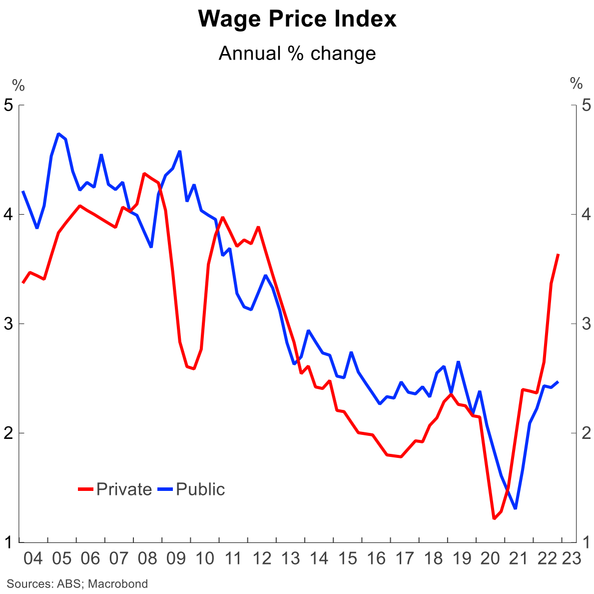
When including the impact of bonuses, quarterly growth declined from 1.4% in the September quarter to 0.8% in the December quarter. Annual growth including bonuses also slowed to 3.5% in the December quarter, from 3.8% in the previous quarter. Businesses have been increasing their use of bonuses and one-off payments to keep and attract staff in a tight labour market. This practice also appears to have eased into the end of 2022 as the labour market became less tight.

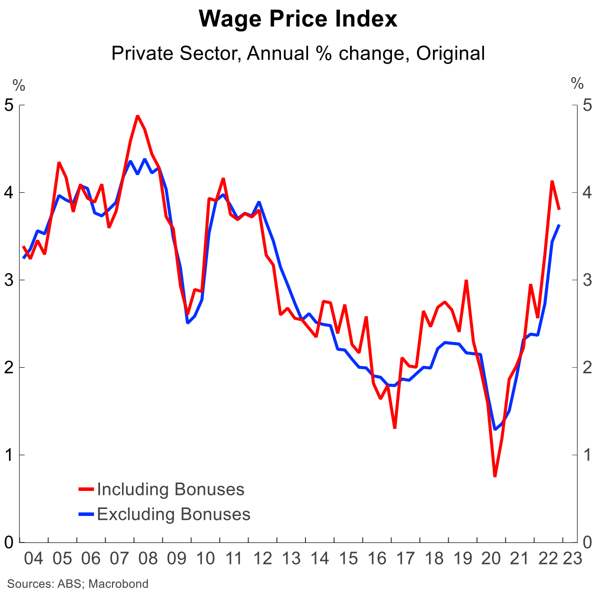




As in previous quarters, individual agreements drove most of the gain in quarterly wages growth. Jobs covered by individual agreements tend to be the most responsive to labour market conditions and typically react to changes in conditions the fastest. Individual agreements contributed 0.46 percentage points to the 0.8% quarterly gain. Enterprise bargaining agreements contributed 0.29 percentages points, while awards contributed only 0.07 percentage points.

Despite the gain in nominal wages, real wages remain under pressure as headline inflation accelerated in the December quarter. In fact, real wages declined by 4.2% over the year to the December quarter. This was weaker than the 3.8% decline in the September quarter and was the largest fall in real wages on record (going back to 1998).





By sector

As has been the case earlier in 2022, wages growth in the private sector was stronger than the public sector. In quarterly terms, private sector wages grew by 0.8%. This was a deceleration from the 1.2% growth in the September quarter, however, it was the second strongest quarterly print since the pandemic began (i.e. since December quarter 2019).

In annual terms, private sector wages grew by 3.6% over the year to the December quarter. This was an acceleration from the 3.4% annual pace in the September quarter. This was the fastest pace of annual private sector wage growth since the September quarter of 2012.

The share of jobs in the private sector that received a pay increase pulled back significantly during the December quarter. This is expected as businesses typically offer pay increases after the end of the financial year, resulting in those increases falling into the September quarter.

Taking this into account, it is better to compare the share of increases to the same quarter in previous years. The share of increases in the December quarter was down on last year. In the December quarter of 2022, 21% of private sector jobs received a pay increase. This compares with 23% in the December quarter of 2021. However, the share of increases was above what has been recorded in all other December quarters over the past decade.

Of those that received a pay increase, the average size of the increase was 4.0%. This was down from the 4.3% recorded in the September quarter but was above increases recorded in December quarters over the past decade.

In a tight labour market, it is notable that the average increase declined from the September to the December quarter. A rapid increase in the supply of labour, through the recovery in migration, has eased some of the most acute labour shortages, which has likely impacted these results. However, other factors have also had an effect. The September quarter included the pass through of increases in the minimum wage and award wages, which also impacted other agreements that are linked to these instruments. As a result, the September quarter outcome was pushed higher.

Growth in the private sector was well above that in the public sector. In quarterly terms, public sector wages were 0.7% higher. This was stronger than recent quarterly prints, with five consecutive quarterly prints of 0.6% being record prior to today's release.

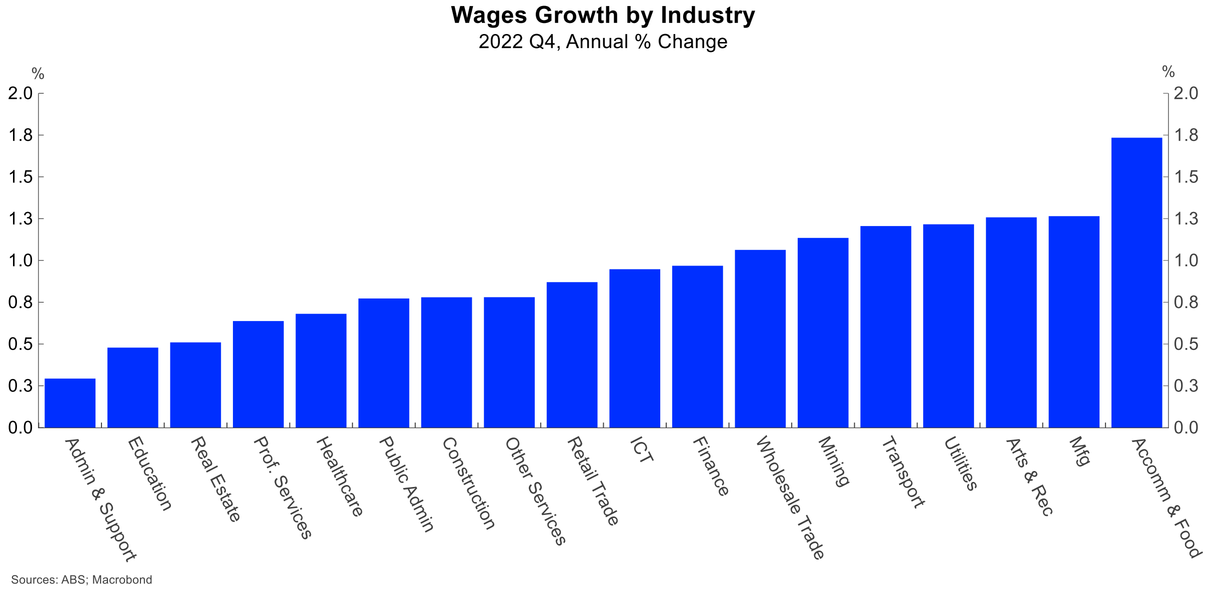
In annual terms, public sector wages grew by 2.5% over the year to the December quarter, up from annual growth of 2.4% in the September quarter. Annual growth was at its highest level since the June quarter of 2019.

Public sector wages are largely set through collective and enterprise bargaining agreements, which are typically renegotiated once every two to three years. As a result, public sector wages are slower moving and take longer to reflect broader labour market pressures, both on the upside and downside. Higher wage outcomes are also being recorded in the public sector – but it will take time for these outcomes to flow through to aggregate wages.

29% of public sector jobs received an increase in the quarter, down slightly from 30% in the September quarter. However, the average wage increase for those that received one was 2.8%. This was up from 2.3% in the September quarter and was the strongest increase in almost a decade.

By industry

Wage pressures remain mixed across industries and occupations. Over the December quarter, 8 of the 18 industry groups reported wages growth of 1.0% or more. This was down from 14 industries in the September quarter.



Quarterly growth ranged from 1.7% for jobs in accommodation and food services to 0.3% for jobs in administrative and support services. Wages growth in accommodation and food services was mainly driven by the deferred increases for modern awards in the hospitality and tourism industries from the Fair Work Commission (FWC) Annual Wage Review. This decision also supported the 1.3% quarterly growth recorded in the arts and recreational services. Importantly, wages growth in the construction sector has eased, growing by 0.8% over the December quarter, down from the cycle peak of 1.4% recorded in the June quarter 2022.

In annual terms, 12 of 18 industries reported wages growth of 3.5% or more. The outcome for the wholesale trade industry recorded the highest annual growth at 4.2%. The education and training industry recorded the lowest annual growth at 2.4%. The education industry tends to use enterprise bargaining agreements to settle wage outcomes. These agreements take time to negotiate and are therefore likely to reflect previous labour market conditions.

By state

Wages growth eased across every state and territory over the December quarter 2022. Quarterly growth was below 1.0% in each state and territory. The ACT and NSW had the highest quarterly growth at 0.9%. Tasmania and the NT recorded the lowest quarterly growth at 0.6%. This was a step down from the September quarter where all states and territories recorded quarterly growth of more than 1.0%. Seasonal factors, including the outcome of the FWC minimum wage decision, likely impacted this outcome.

In annual terms, wages growth was above 3.5% in WA and Tasmania, both recording a 3.6% increase in wages. The NT recorded the lowest annual growth at 2.5%. In NSW, wages growth was 3.3% over the year to the December quarter. This is weaker than expected given the unemployment rate is sitting at 3.1%, and potentially reflects the influx of migrants who are adding to labour supply.

Outlook

As the economy recovered from the pandemic, the labour market reached its tightest levels in a generation. Historically, stronger wages growth has been correlated with reduced slack in the labour market, for example, as measured by the underutilisation rate. We have observed this relationship through increases in the WPI and other broader measures of wages and income.

The labour market remains tight and wages growth is expected to remain robust given this dynamic. However, the labour market is expected to slow over 2023 and into 2024 and the latest wages data suggests that there is a risk that momentum is slowing earlier than expected.

Wages remain a key consideration for the RBA and today's outcome adds another piece of data to the puzzle. Broader measures of wages growth will also be available in the December quarter national accounts, published on 1 March. However, given the strength of inflationary pressures, this data point alone is unlikely to dissuade the Board from a further hike in March.

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