



Economics | May 18, 2022

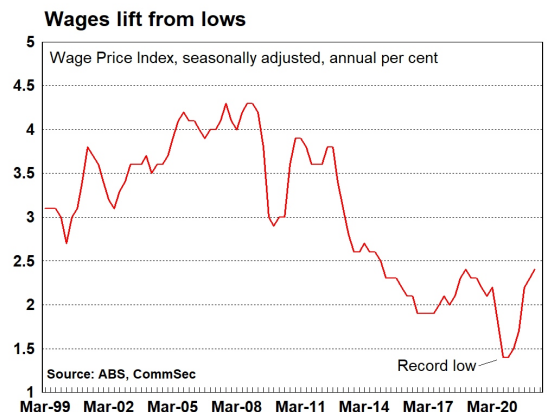
Annual wage growth only edges slightly higher

Wage Price Index

- The main measure of wage growth, the Wage Price Index (WPI), grew by 0.7 per cent in the March quarter, equalling the December quarter increase. Annual wage growth lifted from 2.3 per cent to 2.4 per cent – equalling the fastest growth in three years (since the year to December quarter 2018).
- Annual growth of private sector wages was steady at 2.4 per cent. Annual growth of public sector wages rose from 2.1 per cent to 2.2 per cent.
- Including bonuses, wages rose 0.4 per cent in the March quarter with the annual growth rate falling from 2.8 per cent to 2.4 per cent.

What does it mean?

- While the Wage Price Index (WPI) is the main statistical measure of wages in Australia, it is not the 'best' measure or the most 'timely' measure of wage pressures in the country. That is evidenced by the Reserve Bank (RBA) lifting interest rates last month before the latest WPI figures were released. The Reserve Bank is placing more emphasis on its 'business liaison' program, its on-going surveying of businesses across capital cities and regional areas.
- There may be some disappointment that the WPI isn't growing at a faster rate. But it is important to note that when wages are starting to lift, the gains first show up in surveys. That is, higher wages first show up for those people getting new jobs or changing jobs. But for 'rank-and-file' workers, wage increases are generally paid once or twice a year – generally when the latest financial year results are released. So the breadth and size of pay increases will really start to be reflected in the September and December quarter's WPI. The Reserve Bank would clearly be playing catch up if it waited that long to get evidence of wage and price pressures.
- Wage growth is certainly picking up. In fact, the annual wage growth rates in Western Australia and Queensland are the highest since late 2014 and in the ACT wage growth is the fastest in nine years. And nationally, annual wage growth last rose at a faster pace seven years ago.
- The RBA Board noted yesterday that while it had considered waiting for March quarter wage figures before lifting rates, *"the recent evidence on wages growth from the Bank's liaison and business surveys was clear."*
- No doubt the RBA has been shocked by its recent soundings of businesses – firms noted that *"upstream price pressures were increasingly being passed on to final consumer prices of many goods, as supply chain pressures persisted and demand remained strong."*
- And in the Statement on Monetary Policy, the RBA wrote: *"Liaison reports suggest that wages growth will pick up further over coming quarters. More than half of firms expect to pay wage increases above 3 per cent over the year ahead, consistent with*



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further tightening in the labour market and a greater focus on attracting and retaining workers.”

- The RBA has also noted that “average earnings were expected to increase at a faster pace than the WPI, as firms turned to bonuses, allowances and other measures to attract and retain workers. While the inertia arising from multi-year enterprise agreements and current public sector wages policies would continue to weigh on aggregate wages growth in the near term, a period of faster growth in labour costs overall was in prospect.”
- Arguably today’s broader measure of wages – including bonuses – is the better measure to watch at present. But wages, including bonuses, actually only rose by 0.4 per cent in the quarter to be up 2.4 per cent on the year.
- With the labour market tight as a drum, pushing up wages and prices, the first order of business for the new government will be to focus on measures to boost the supply of workers. This may include measures to lift migration of skilled workers, measures to reduce disincentives for people moving to obtain jobs around the country and increasing incentives to encourage both internal and overseas in-bound migration.
- Commonwealth Bank (CBA) Group economists expect annual growth of the WPI to lift to 2.9 per cent in the June quarter; 3.2 per cent in the September quarter; and 3.3 per cent in the December quarter. Real wage growth is not expected to re-appear until the March quarter 2023. Real wage declines are common across all major economies currently. In Australia, real wage declines have only occurred over the past six months if the trimmed mean (underlying inflation) is used for the inflation measure.
- CBA Group economists tip rate hikes, each by 25 basis points, in June, July, August and November in 2022 and then in February 2023. That would take the cash rate to 1.60 per cent – still historically low, despite an active rate hiking cycle.

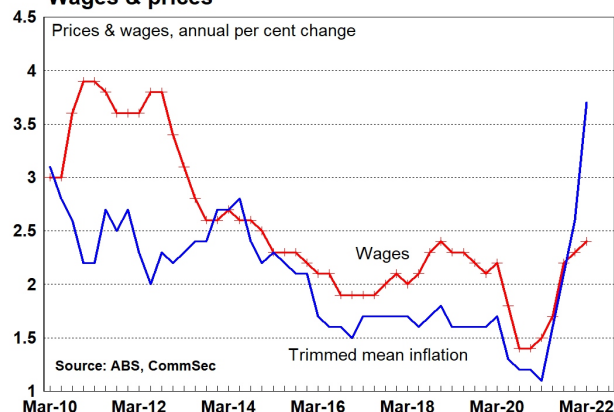
March Quarter 2022

Total hourly rates of pay excluding bonuses - industry

	Annual %	Quarter %
Mining	1.8	0.4
Manufacturing	2.7	0.6
Electricity, gas, water and waste services	1.5	0.3
Construction	2.5	0.5
Wholesale trade	2.6	0.7
Retail trade	2.3	0.3
Accommodation and food services	2.6	0.3
Transport, postal and warehousing	2.0	0.5
Information media and telecommunications	2.7	0.7
Financial and insurance services	2.3	0.6
Rental, hiring and real estate services	3.1	0.7
Professional, scientific and technical services	2.7	0.6
Administrative and support services	2.6	0.8
Public administration and safety	2.4	0.4
Education and training	2.2	0.8
Health care and social assistance	2.1	0.4
Arts and recreation services	2.6	0.8
Other services	2.1	0.4
All Industries	2.4	0.6

Source: ABS, CommSec

Wages & prices



What do you need to know?

Wage Price Index (WPI) – March quarter

- Wage growth, as represented by the **Wage Price Index (WPI)**, grew by 0.7 per cent in the March quarter, equalling growth in the December quarter. Annual WPI growth lifted from a 2.3 per cent to 2.4 per cent in the March quarter, the equal strongest rate in three years (since December quarter 2018).
- **Including bonuses (total hourly rates of pay)**, wages rose by 0.4 per cent in the December quarter to be up by 2.4 per cent on a year ago.
- **Private sector wages** rose by 0.7 per cent in the March quarter to be 2.4 per cent higher when compared to a year ago.
- **Public sector wages** lifted by 0.6 per cent in the March quarter to be up 2.2 per cent on the year.

Distribution of Wages Growth



* Expectations for the year ahead for firms reporting in the March and June quarters of 2022.

Source: RBA

- **Industries with fastest annual wage growth over the year to March:** Rental, hiring and real estate services (up 3.1 per cent); and Manufacturing, Professional, scientific and technical services, and Information media and telecommunications (all up 2.7 per cent).
- **Industries with slowest annual wage growth over the year to March:** Electricity, gas, water and waste services (up 1.5 per cent); Mining (up 1.8 per cent); and Transport, postal and warehousing (up 2.0 per cent).
- **By state and territories over the year to March:** NSW (up 2.4 per cent); Victoria (up 2.3 per cent); Queensland (up 2.5 per cent); South Australia (up 2.2 per cent); Western Australia (up 2.2 per cent); Tasmania (up 2.8 per cent); Northern Territory (up 1.9 per cent); and the ACT (up 2.8 per cent).

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