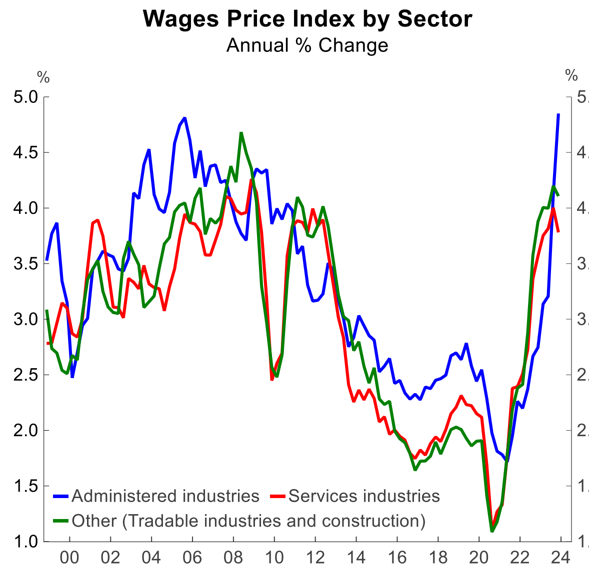
Data Snapshot

Wednesday, 21 February 2024

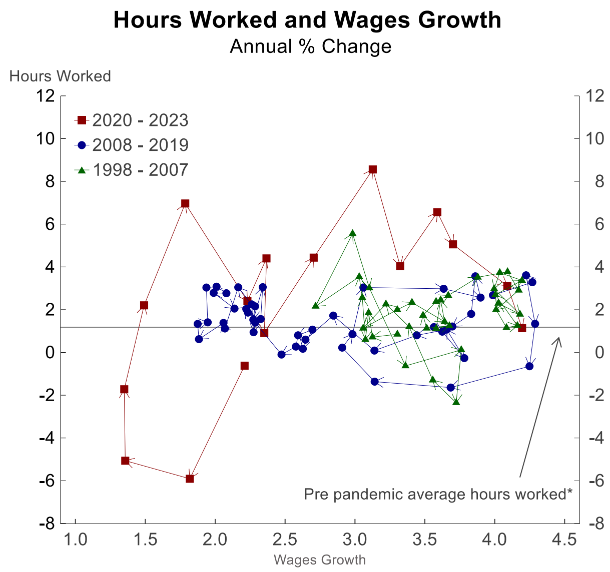
Wage Price Index

Public Sector Wages Masks Slowdown

- **The Wage Price Index (WPI) increased 0.9% over the December quarter to be 4.2% higher in annual terms – the strongest since the mining boom in 2009. The quarterly outcome was consistent with average growth over the past year. Public sector wages led the way, up 1.3% over the quarter, the strongest since December 2008. Private sector wages moderated to 0.9%.**
- **While the headline read was solid, looking at the detail provides further evidence that the labour market is slowing. Firstly, the public sector outperformed. Wages in the public sector are mainly determined by enterprise agreements – these take time to update, negotiate and come into effect. As such, they reflect previous strength in the labour market and policy changes. Wages in sectors where activity is more closely tied to current conditions continue to moderate.**
- **Secondly, bonuses which were once important to attract and keep staff in a tight market are no longer prevalent. In fact, wages growth including bonuses was lower than wages growth excluding bonuses, for the first time since COVID. Finally, the share of private sector employees receiving pay rises was down from a year ago, also pointing to a softening in conditions.**
- **Looking forward, the recent fall in hours worked points to a softening in wages growth. Historically, when growth in hours has been below trend of around 1.5% per annum, resulting in rising underemployment, wages growth tends to moderate to be below 3.5%. This is consistent with our outlook that has wages stepping down to 3.2% by the end of 2024.**
- **Wages growth of 3.5% is consistent with the Reserve Bank's (RBA) inflation target, provided productivity returns to average, which we are confident will happen as capital catches up to hours worked. So where does this leave the RBA? Today's numbers are consistent with our view that the next cash rate move is down and that this will occur in September.**



Sources: ABS, Westpac Business Bank, Macrobond



Sources: ABS, Westpac Business Bank, Macrobond

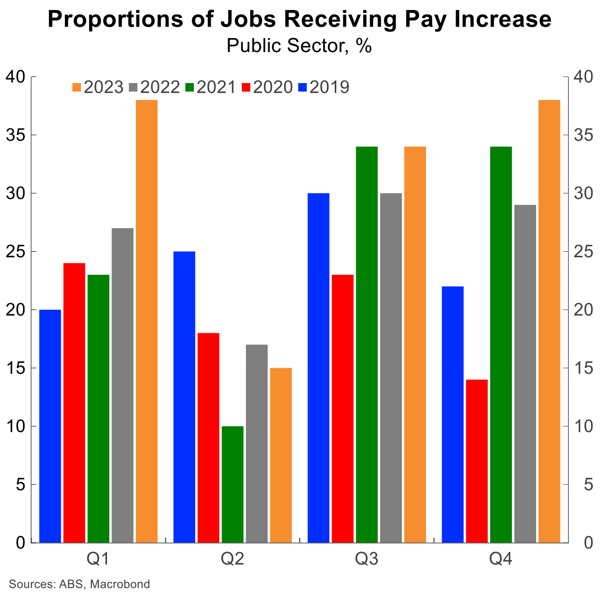
The Wage Price Index (WPI) increased 0.9% over the December quarter to be 4.2% higher in annual terms. This was the strongest annual increase since March 2009 and comparable to the growth rates recorded during the mining investment boom.

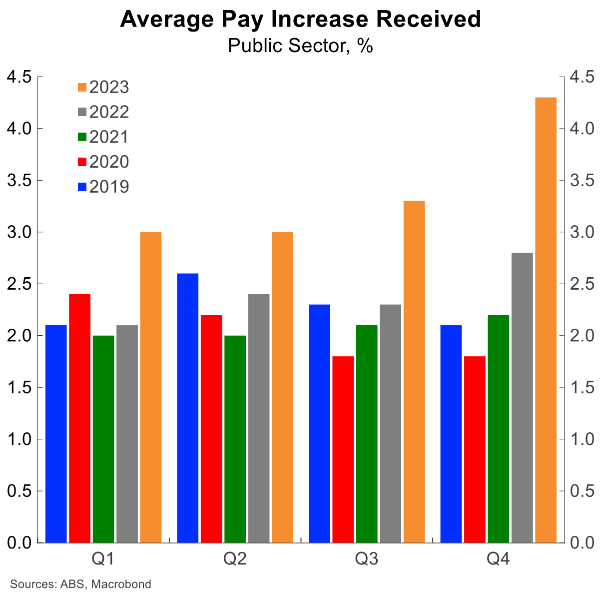
The quarterly outcome was consistent with average growth seen over the past year. Public sector wages led the way, up 1.3% over the quarter, the strongest since December 2008. Private sector wages moderated to 0.9% over the quarter from 1.5.% in the September quarter.

Enterprise agreements reflects previous labour market conditions and changes to policy.

The strong growth in administrative or public sector wages was primarily due to newly implemented enterprise agreements in the health care and education/training industries following changes to state based wages policies. December also saw a higher share of public sector workers record a pay increase – 38% up from the 29% recorded in the same quarter last year.

The ABS reported that 72% of public sector jobs received a pay rise over the last six month suggesting a large share of public sector agreements have been finalised. As such, as we move through 2024 it is unlikely we will see another large quarterly jump in wages. It's also important to note that wages growth in the administrative or public sector tends to lag those in other sectors where wages are determined by individual agreements (i.e. the services sectors) or even awards. Wages growth in these other sectors have started to slow down, and we expect to see public sector wages follow.





In addition, the ABS provides data on the contribution to wage inflation from Awards, Enterprise Bargaining and Individual Agreements. Using this data Westpac estimates that Enterprise Bargaining wages are storming ahead lifting 1.5% in the quarter to be up 5.7% over the year, while Award wages lifted a more modest 0.8% in the quarter and 5.2% in the year. Awards jumped 4.2% in the September quarter on the back of the larger than usual increase in the Minimum and Award Wage so we are not surprised to see a large step down in the pace in December.

More importantly, Individual Agreement wages lifted 0.7% in the quarter to see the annual pace ease back a touch from 3.5%yr to 3.4%yr. Individual Arrangements now represent a significant share of the workforce and it is this bargaining stream that is most responsive to changes in labour market conditions.

Real time indicators suggest the labour market continue to soften.

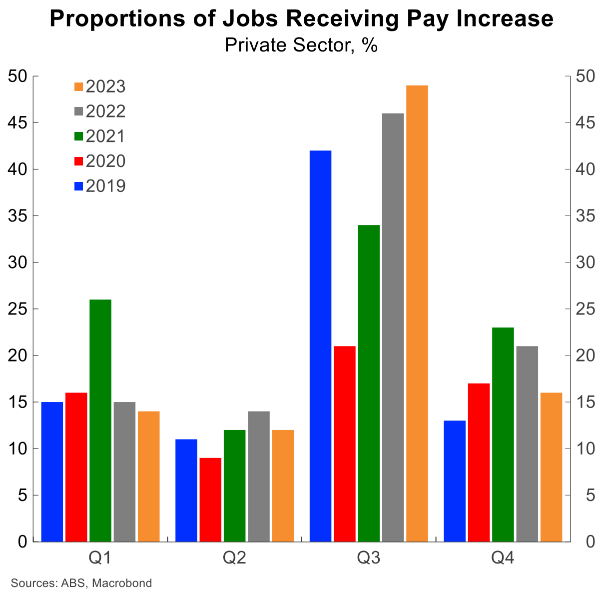
In sectors of the economy where wages are more responsive to current economic conditions, such as the services sector, wages have clearly started to moderate.

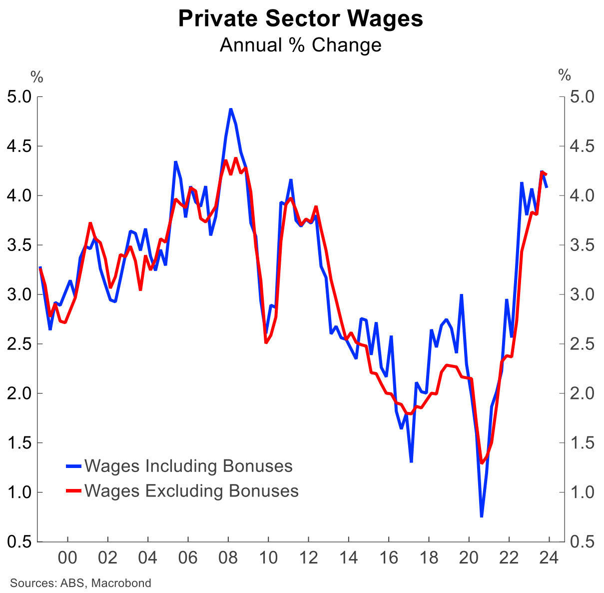
In addition, other indicators are also pointing to a softening in labour market conditions.

Bonuses, which were once important to attract and keep staff and were particularly widespread in the private sector, are no longer prevalent. For example, annual wages growth including bonuses were running at 4.2% in the September quarter 2022, compared to wages growth excluding bonuses where were running at 3.4% – a chunky 0.75 percentage point difference.

Today's outcome shows that the gap has become negative – employers no longer need to provide these incentives and therefore compared to a a year ago, wages including bonuses have grown by less than wages including bounces (4.1% vs 4.2% respectively). This is the first time since the pandemic that this has occurred.

Another real time indicator is the share of private sector employees receiving pay rises. When the labour market is tight, more employees tend to change jobs to receive higher pay. In these situations, employers are willing to pay, particularly when there are skill shortages. We have now seen the share of private sector employees receiving pay rises fall– 16% in the December quarter 2023 compared with 21% a year ago.





Where do we expect wages to go?

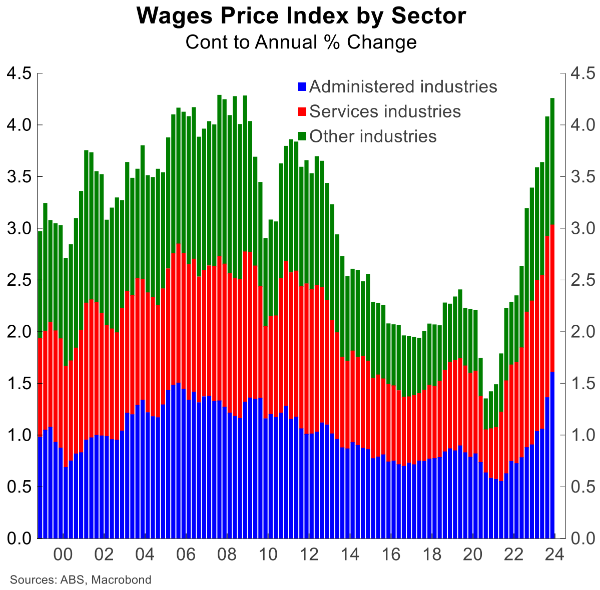
Looking forward, the recent fall in hours worked points to a softening in wages growth.

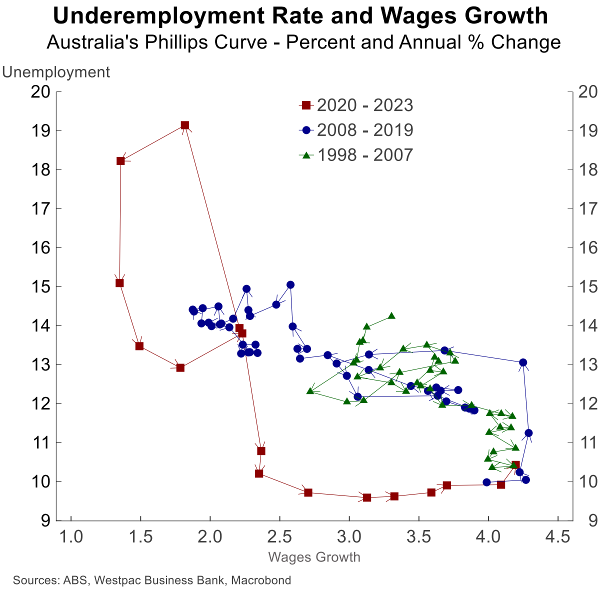
Historically, when growth in hours has been below trend of around 1.5% per annum, resulting in rising underemployment, wages growth tends to moderate to be below 3.5%. This is consistent with our outlook that has wages stepping down to 3.2% by the end of 2024.

There are risks, however. We will be keeping a close eye on enterprise bargaining agreements and this year's Fair Work Commission award wage decision. Any upside risk to wage inflation is likely to emanate from these sources.

We are expecting wage outcomes for enterprise bargaining agreements to peak in the first half of 2024. However, the public sector wage catch up may take longer than expected. Additionally, changes to government wages and industry policy could provide some upside.

On Awards, we are expecting a still significant, if slightly smaller, increase in the Minimum and Award Wage this year. If the Fair Work Commission decision for 2024-25 is stronger than the 2023-24 decisions, this would also provide some upside to our forecasts.





Outlook

With hours worked now in decline and underemployment rising, it is clear that the Australian labour market peaked in the first half of 2023 and while it may still be historically tight, it has now entered a softening trend.

We expect this trend to continue through 2024 which will see wage inflation from Individual Arrangements, and in the services industries in particular, continue to moderate and be a drag on aggregate wage inflation. While lags in Enterprise Bargaining agreements, and the catch up in public sector wages present some upside risk, given current labour market conditions this is not our base case.

There is also the possibility that the Fair Work Commission could land on an even larger increase than last year's minimum and award wage increase. With inflation moderating and unemployment rising this is not our core view.

Overall, the forecast moderation in wage inflation, along with a cyclical improvement in productivity, will lower unit labour cost taking the pressure of market services inflation, the core domestic inflationary pressure the RBA has been keeping a close eye on.

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