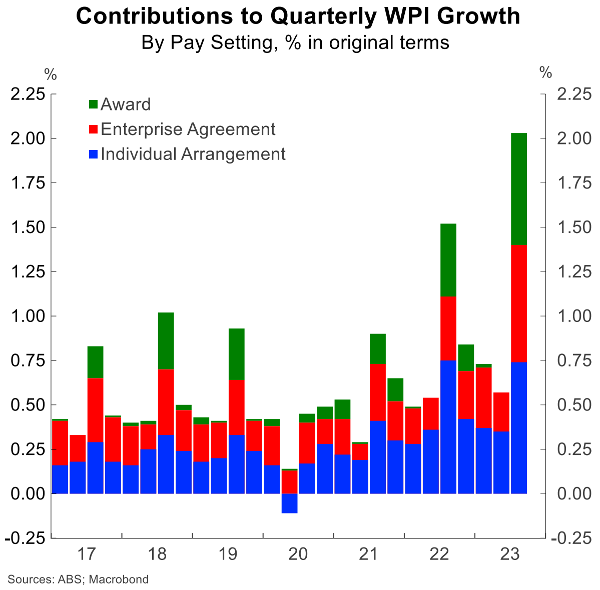
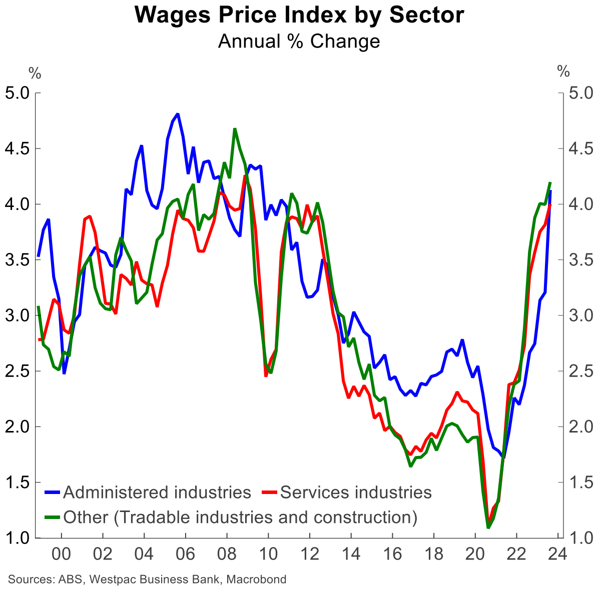
Wednesday, 15 November

Wage Price Index

Temporary Factors Behind Record Jump

- **The Wage Price Index (WPI) increased 1.3% over the September quarter to be 4.0% higher in annual terms. The quarterly increase was the largest on record. Fair Work Commission (FWC) decisions boosted the level of award wages and wages in the aged care sector.**
- **The year ended growth rate was also supported by the fact that the some of last year's FWC decision flowed through in the December quarter 2022.**
- **Once the FWC related spike drops out, we should see significant deceleration in the quarterly growth rate. One sign of this deceleration is that since the end of September, wages growth approved in enterprise bargaining agreements are back to around 3.5% - where they were in the June quarter 2023.**
- **We expect the September quarter was the peak for wages growth. The outcome is consistent with the Reserve Bank's (RBA) forecasts of 4.0% growth over 2023 – without the FWC-tied increases, we expect wages growth to decelerate in the December quarter to be around 0.8%, keeping the annual number unchanged.**
- **A peak of 4.0% is lower than what was recorded during the mining investment boom and below the peak in wages growth elsewhere, including the US. Record growth in the population and the inertia in our wage fixing system are contributing to this outcome. It might also suggest that Australia is able to sustain lower average unemployment rates without higher wages pressures, compared to other comparable economies.**





The Wage Price Index (WPI) increased 1.3% over the September quarter to be 4.0% higher in annual terms.

The quarterly increase in the WPI was the largest on record. Fair Work Commission (FWC) decisions boosted the level of award wages and wages in the aged care sector.

Wages growth remains elevated compared to recent history.

Wages growth at 4.0% in annual terms is the highest since the March quarter 2009.

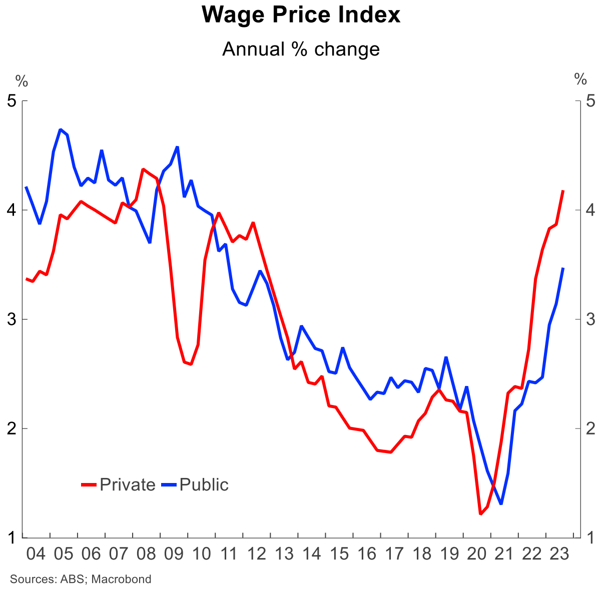
Private sector wages grew at 4.2%, the highest annual growth since the December quarter 2008. Public sector wages are still growing more slowly but are catching up, at 3.5%, the highest rate since June quarter 2011.

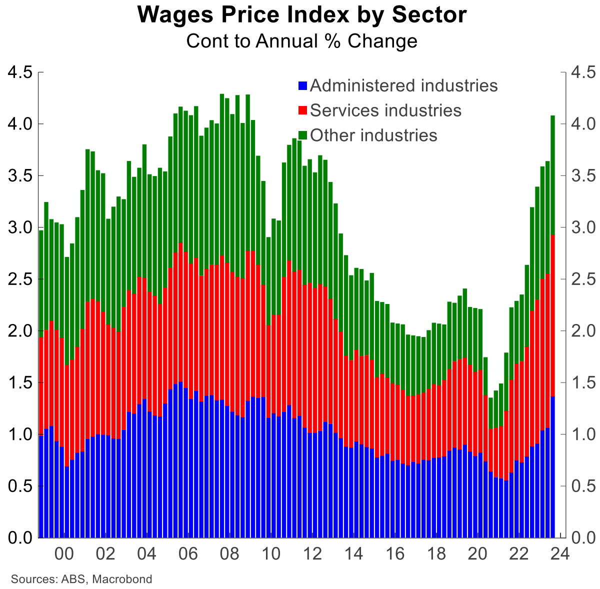
The composition is shifting in the way we anticipated.

Wages growth in industries where prices are regulated by governments (e.g. health care) and have wages determined by Enterprise Bargaining Agreements (EBAs) continue to catchup. This reflects the inertia in our wage fixing system, with EBAs having an average life span of around three years.

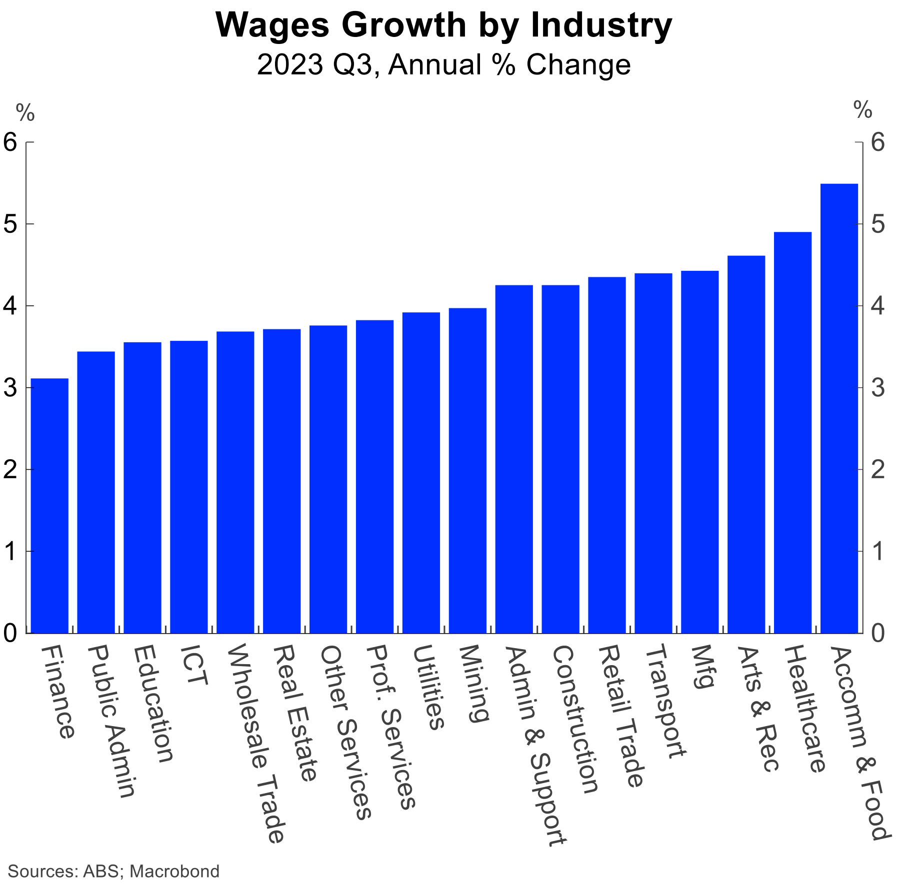
Wages in industries that produce internationally traded goods (such as wholesale trade) have moderated recently on the back of easing global inflationary pressures.

Wages in industries where a large share of the wage bill is determined by FWC-reliant award wage increases received a boost. This includes the services sector, such as hospitality.





Looking at industries, over the September quarter, eight of the 18 industry groups reported annual wages growth of 4.0% or more. Industries where a high share of employees are on award wages, such as accommodation & food services and healthcare, recorded the strongest growth. Finance and public administration recorded the weakest growth.



Where do we expect wages to go?

We expect the September quarter was the peak when it comes to wages growth.

The labour market has reached a turning point, and we expect softer conditions to lead to a controlled easing in wages growth, initially those wages determined by Individual Agreements, before spreading more widely.

Without the FWC-tied increases, we expect wages growth to decelerate in the December quarter to be around 0.8%, keeping the annual number unchanged.

Why has wages growth been slower than elsewhere and compared to history?

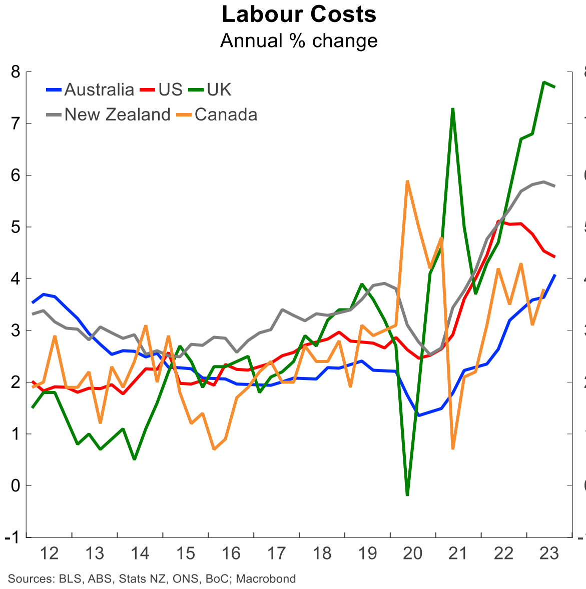
The unemployment rate has remained at around 3.5% over the past year. Based on this persistent pressure and previous cycles we would expect wages growth to be stronger. Indeed, over the past 30 years when the unemployment rate has been below 5.25%, wages growth has accelerated to be closer to 4.5% in annual terms – significantly higher than the current rate given the comparative tightness of the labour market in this cycle.

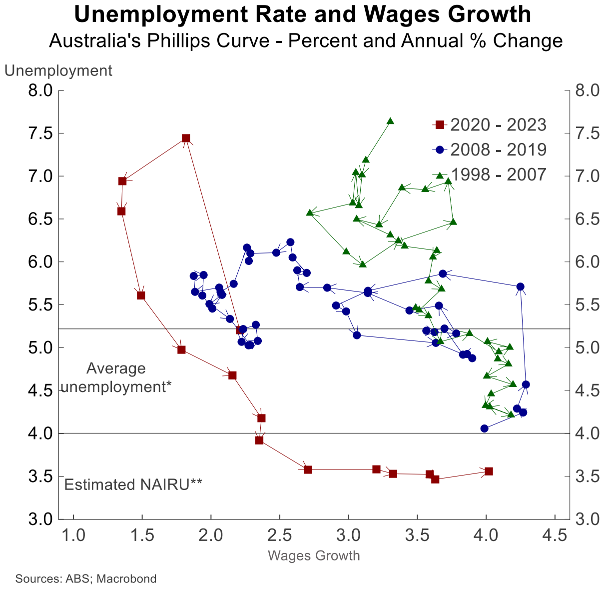
Possible reasons for the subdued wages response include:

- Wages in the administered sector are still catching up. Wages in this sector are determined by awards and enterprise barraging agreements and tend to lag economic conditions given it takes time to negotiate, agree and land on new pay deals.
- The rapid increase in labour supply has contributed to an easing in competitive pressure in the labour market. This is contributing to a moderation in wages growth in other sectors of the economy. Labour supply received a boost initially from an increase in the number of females, and young and older Australian in jobs. Now that international borders have

reopened, the record return of migrants is providing an influx of labour which is helping to fill worker shortages.

It might also suggest that Australia is able to sustain lower average unemployment rates without higher wages pressures, compared to other comparable economies.





Appendix: Fair Work Commission decisions

The Fair Work Commission (FWC) 2023-24 minimum and award wage decision came into effect from 1 July. It saw:

- 184k people on the minimum wage receive a level shift in their wages from $812.60 per week to $834.80 per week (C14 award wage). This higher level was then grown by 5.75% from 1 July 2023 to $882.80 per week.
- 2.7 million people on awards receive an increase of 5.75% from 1 July 2023.
- 74k persons on enterprise barraging agreements tied to the minimum wage also receive an increase of 5.75% from 1 July 2023.

In addition, there are around 320k aged care workers who received a 15% increase in their award wage.

These increased occurred from 1 July rather than been spread over two quarters like last year.

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