BULLETIN

28 February 2023

Deeper insights on Australian Wages
The rate of increase in hourly wage rates continues to dissappoint resulting in a downward revision to our forecasts.

- The Wage Price Index (WPI) gained 0.8% in December, less than market expectation for a 1.0% rise and Westpac's 1.1%. This was also a step down from the 1.1% increase in September but it is worth noting that September was revised up from an original print of 1.0%.
- Despite the step down in the quarterly pace, the annual rate lifted to 3.3%yr, a modest increase from 3.2% in September, and well up on the 2.4%yr pace at December 2021. It is also the fastest annual pace since December 2012.
- Private sector wages rose 0.8%qtr, again slightly stronger than the public sector lift of 0.7%. At 3.6%yr, private sector wage inflation continues to outpace pubic sector wage inflation of 2.5%yr, a dynamic that has been evident since mid-2021.
- The ABS noted that while the December wage increase was a step down on the September increase, it was still higher than any December increase in the previous decade.
- The smaller states continue to outperform the larger south eastern states, but even in WA – which had the fastest pace of wage rate inflation in the December quarter – public sector wages are acting as a break on overall wage inflation.
- Wage inflation continues to be faster in goods production and distribution while business services wage inflation has also picked up. Household services wage inflation continues to lag behind with eduction and health services, providing below average wage increases.
- In the year, the change (or lift) in household services wage inflation was significantly less than that for the others.
- Individual wage negotiations continue to provide higher rates of wage inflation as this sector reacts to tightness in the labour market. The impact of the recent lift in awards/minimum wage was mostly present in the September quarter, with less of a contribution from this sector in December. Enterprise bargaining wage inflation continues to lag not just because of the delay from extended duration of agreements but also because agreed wage rises in this sector continue to hold around 3%yr.
- Wage inflation continues to be more benign than expected while the unemployment rate, which bottomed out at a higher level than expected, is already starting to rise.
- Westpac has revised down the end 2023 forecast for WPI inflation from 4½%yr to 4.0%yr.

Various measures from the Wage Price Index*

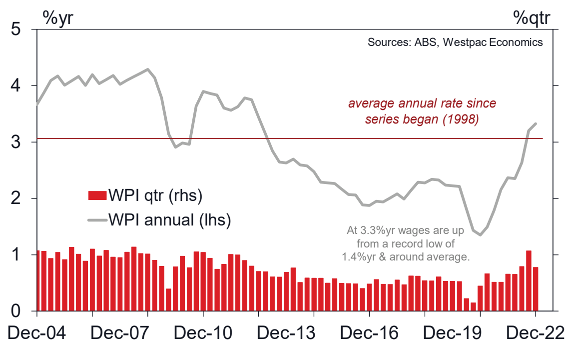
% change	Mar-22	Jun-22	Sep-22	Dec-22
WPI %qtr	0.65	0.79	1.07	0.78
WPI %yr	2.4	2.6	3.2	3.3
Private WPI %yr	2.4	2.6	3.4	3.6
Public WPI %yr	2.2	2.4	2.4	2.5
Private WPI inc. bonuses %yr#	2.6	3.3	4.1	3.8
WA - fastest state/region %yr#	2.2	2.7	3.3	3.6
NT - slowest state/region %yr#	1.9	2.1	2.4	2.6
Wholesale trade – fastest %yr#	2.6	2.9	3.8	4.2
Education & training – slowest %yr#	2.2	2.3	2.2	2.4

* Total pay excluding bonuses, seasonally adjusted.
# Seasonally adjusted by Westpac.
Sources: ABS 6345.0

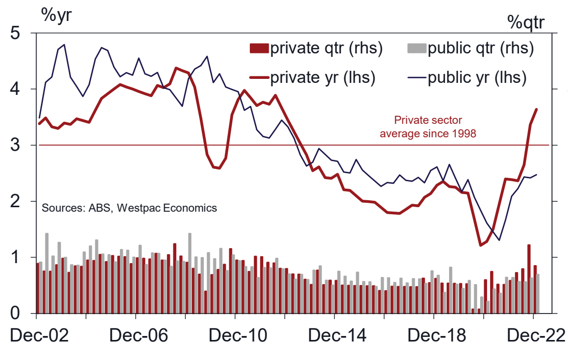
Wage forecasts

		Mar-23	Jun-23	Sep-23	Dec-23
Wage Price Index	(index)	144.2	145.7	147.2	148.7
	(%qtr)	0.8	1.0	1.0	1.0
	(%yr)	3.5	3.8	3.7	4.0

Wage inflation above average



Public vs. private wages



Wage pressures ease even if they remain elevated

The 0.8% increase in December was a step down in the quarterly pace of wage inflation. However, the ABS noted that the December increase in hourly wage rates was higher than any December quarter increase in the previous decade. This follows on from the September and June 2022 quarter increases which were also higher than their comparable quarters back to 2012.

Private sector wages show signs of peaking

During the COVID crisis the Fair Work Commission (FWC) adjusted the timing of wage increases by sector so the timing of minimum/award wage increases were spread out through the year rather than being lumped into the September quarter. In 2022 the FWC return to more normal timing with most sectors getting an increase in September except for hospitality, tourism and aviation jobs which would be paid in December.

In September 2022 the proportion of jobs getting a wage increase rose to 46%, the largest percentage in the data back to 2012, with an average pay increase of 4.3% (also the largest wage increase back to 2012).

For December, the proportion in the private sector getting a wage increase fell back to 21%, down on the 23% in 2021 but still stronger that the average of 15% from 2012 to 2019. The average wage increase moderated a touch to 4.0% in December, softer than September but only beaten for second place by a 4.1% increase in June 2012.

On average it does appear that those getting a wage increase in December tend to get a smaller increase compared to those getting an increase in September, but this is not always the case. In 2020, those getting a wage rise in December saw a larger than average increase than those who had a wage rise in September (2.7% vs. 2.4%) but given this was in the middle of the COVID crisis, it is safe to assume this is an extreme outlier. There was, however, no change in the September and December wage increase paid in 2015 and 2016.

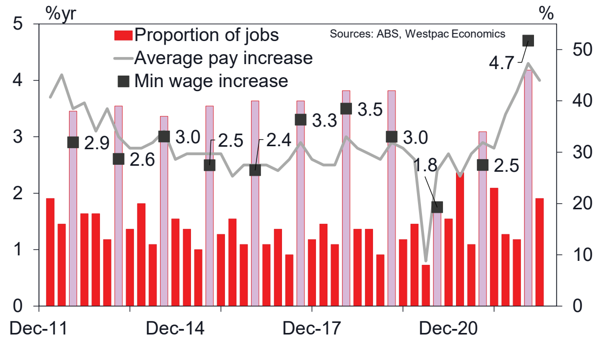
Public sector wages lifting but still lagging private sector

In contrast to the private sector, the average hourly wage increase for public sector jobs in December was higher than that paid in September (2.8% vs. 2.3%) and higher than the same quarter a year earlier (2.2%). This was the result of higher state wage caps, interim arrangements for Commonwealth agencies and enterprise agreements benchmarked against CPI. The public sector average wage increase has been gradually strengthening since 2020 but with an average increase of just 2.8% for those getting an increase, it is still well below that for the private sector and the award/minimum wage increase.

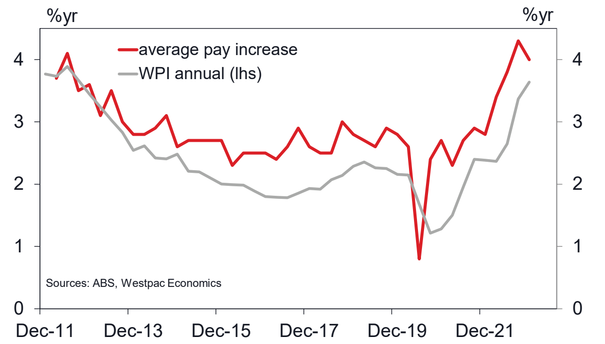
While more on enterprises agreements get a pay rise those on individual arrangements get a larger pay rise

Jobs covered by an individual arrangement were the main drivers of wage growth in December. The ABS did note that fewer jobs covered by individual arrangements received a wage increase in December compared to jobs covered by an enterprise agreements. However, jobs covered by an individual arrangements continue to received higher average increases than those on enterprise agreements or awards/minimum wage. Hence, the average quarterly increase for individual arrangements, and the contribution from individual arrangements to the total average increase, was larger than that for enterprise bargaining or awards/minimum wage.

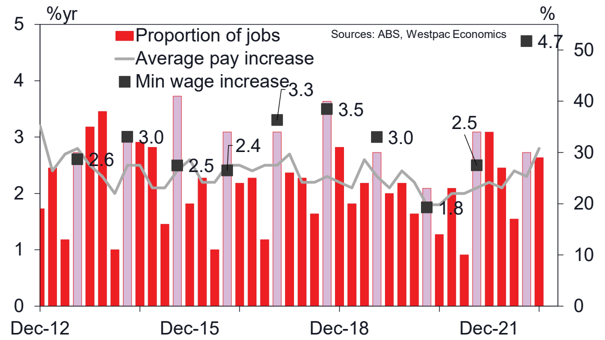
Private sector wage increase in quarter



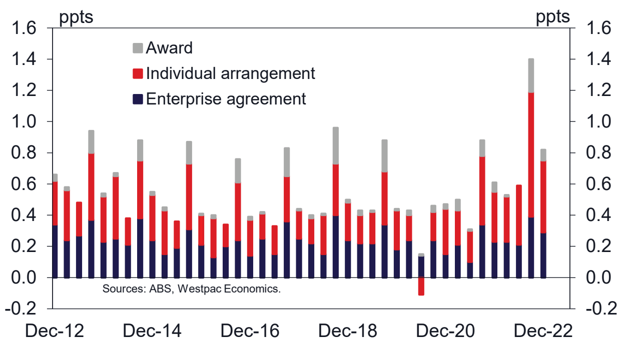
Private pay increase in quarter vs annual WPI



Public sector wage increase in quarter



Wage inflation by bargaining arrangement



We tend to focusing on wage outcomes from individual arrangements as historically, they seem to be more market sensitive and thus more reactive to changes in labour market conditions. Various surveys suggest that ongoing robust demand for labour, and the competition for skilled labour in particular, resulted in employers granting larger wage increases than usual to retain and/or attract workers for key roles.

This quarter the ABS also noted that the proportion of jobs covered by an individual wage arrangements has increased steadily since 2017. Back in December 2017 the proportion of jobs covered by an individual arrangement was 36%, lower than the proportion covered by an enterprise agreement at 49%. By December 2022 the proportion covered by both pay setting methods was the same at 43%.

As we noted earlier, the average increase in award/minimum wages for 2022 was between 4.6% and 5.2%. The increases in award wages were scheduled to be paid in two stages, with award-based rises to hospitality, tourism and aviation jobs to be paid in December. All other award-based rises were paid in the September quarter which is part of the reason why we historically see a surge in wage increases in the September quarter.

Enterprise bargaining wage rises drifting higher

In the February Statement on Monetary Policy (SoMP) the RBA noted that their liaison program continued to report that the increase in wages growth was driven by strong demand, the need to attract and retain staff as well as higher inflation outcomes. The Bank noted that wages growth in enterprise agreements remained moderate, reporting that average annual wage increases in newly lodged private agreements were 3.1% the December quarter, slightly higher than the September average of 2.9%.

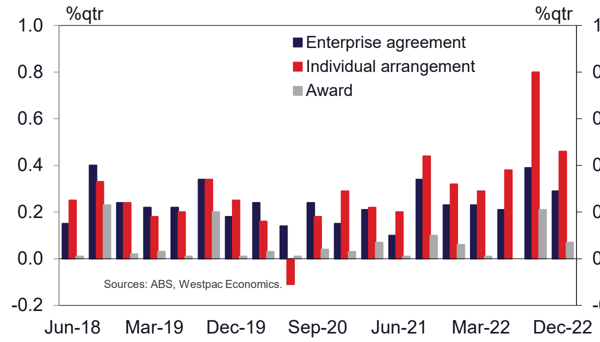
From the bargain contributions to the average wage hourly wage rate increase supplied by the ABS, we estimate that annual wage inflation for enterprise agreements has lifted from a low of 1.8%yr at June 2021 to 2.6%yr at December 2022. The flow of enterprise agreement data from the Dept. of Employment & Workplace Relations suggests this pace is likely to drift a bit higher than a 3%yr pace by mid-2023.

Wage inflation slowest in household services

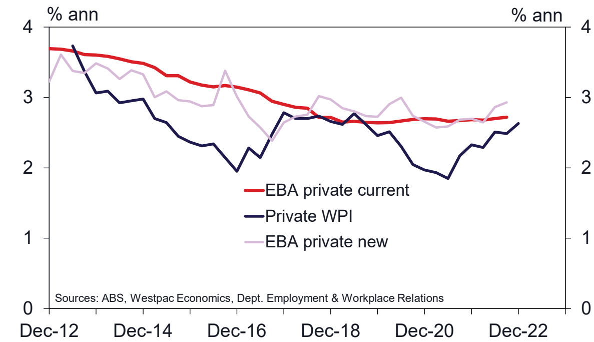
As durable goods inflation peaks, attention has shifted to services inflation and as labour is the key input into services, wage inflation in this sector has also come under increasing scrutiny. For now, services wage inflation has lagged behind goods production and distribution wages. In the year to December goods production wages are up 3.8%yr, goods distribution wages are up 3.7%yr while business services are up 3.6%yr and household services are up 3.0%yr - household services wages have the lowest rate of inflation. From this point there is not a compelling argument to suggest that we can be confident that as goods and business services wage inflation slows as expected through 2023 that household services wage inflation will pick up and fill the gap. On a half year annualised basis, goods production wages have lifted 4.1%, goods distribution wages are up 4.9%, business services are up 4.1% while household services wages continue to lag lifting just 3.5%.

Looking at household services industries' wages helps shed some light on what is going on. Outside of eduction, where wage inflation continues to track along at just under 2½%, the recent lift in other household services industries appears to be driven by the bounce back from the moderation in wage rises during the COVID period. Arts & recreation and other services wage inflation are currently running around 4%yr while accommodation and food services are at 3.4%yr and health care is at

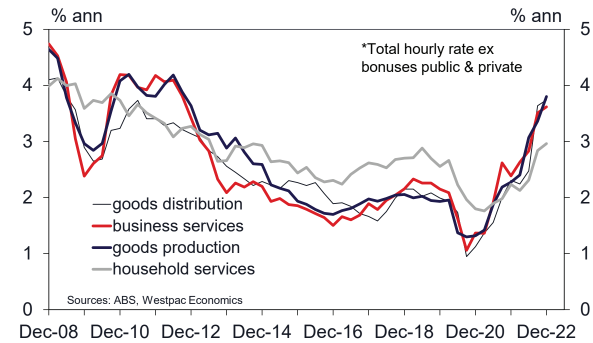
Wage increases by bargaining arrangement



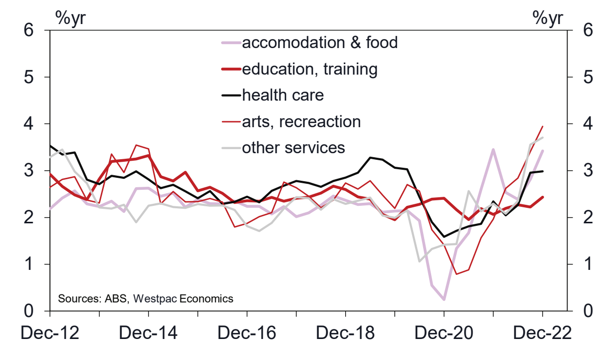
Enterprise bargaining wages



Wages by broad sectors



Household services wages



3.0%yr. Given that wages in accommodation & food services, other services and even arts & recreation would have suffered from staff shortages during the COVID period, the reopening of the borders and surge in working age population seen through 2022 should go some way to relieve these pressures and thus wage inflation is likely to peak in 2023.

All industries have seen some acceleration in wage inflation but the pace is far from equal

As the RBA noted in the February SoMP, wages growth accelerated in just about all industries in the year to September, supported by the tight labour market. Wages growth had been the strongest in the retail trade industry, supported by two award wage increases in the year reflecting the high share of jobs in that industry either on awards or that are covered by enterprise agreements or individual arrangements linked to awards.

In the December quarter retail wage inflation (3.9%yr) slipped down to fourth place, replaced by wholesale trade (4.2%yr), manufacturing (4.0%yr) and arts & recreation (3.9%yr) and only just above financial services (3.8%yr). Of the top ten industries with the fastest pace of wage inflation, ranging from wholesale (4.2%yr) to professional & scientific services (3.6%yr) there were three household services in the list; arts & recreation, retail and other services (3.7%yr).

When ranked by percentage point change in the annual rate of wage inflation (second chart over) utilities are at the top (2.4ppt), then arts & recreation (2.0ppt), wholesale trade (1.9ppt), manufacturing, financial services, transport, mining and administrative support (all 1.5ppt). At the bottom with no significant change in wage inflation are four major household services industries; health care (0.6ppt), education & training (0.4ppt), public admin (0.1ppt) and accommodation & food services (0.0ppt).

Overall wage inflation has little variation between mainland states but WA leaps ahead for private sector wages

WA does have the fastest pace of wage inflation at 3.6%yr, a touch faster than the national average of 3.3%yr and while the NT has the slowest pace for any state/territory at 2.6%yr the mainland states rate of wage inflation are compatible; NSW and Vic at 3.3%yr, Qld at 3.4%yr with SA and Tas at 3.5%yr. It is marginal, but the smaller states are experiencing faster wages growth than the two large south eastern states.

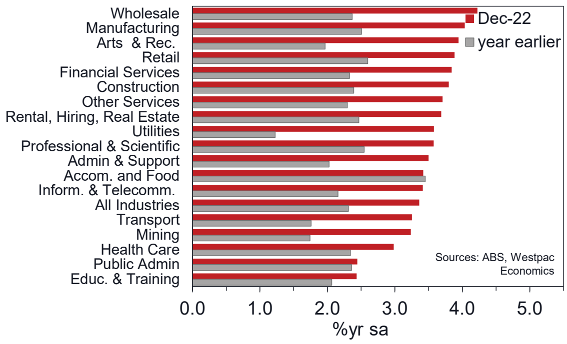
However, when you look at private sector wage rates then it is clear the smaller states stand out with faster than average wages growth. As noted earlier, private sector wages are growing at a 3.6%yr pace but in WA they have grown 4.2%yr compared to 3.4%yr in Victoria and 3.5%yr in NSW. Private wages in Qld are not much faster than the south eastern corner at 3.6%yr but they have lifted by 3.8%yr in SA and 3.9%yr in both Tas and the NT.

As a result, it has been the drag from public sector wage rates that has been holding back wage inflation. While this is true at a national level, 2.5%yr vs. 3.6%yr, WA is the most extreme example with public wage rate inflation of just 1.1%yr vs. 4.2%yr for the private sector. Only the NT is worse with public sector wage inflation of just 0.6%yr. NSW public sector wage inflation is around the national average for the sector at 2.5%yr. Vic is a bit stronger at 2.8% while Qld and SA outperform the average at 2.9%yr. Tas is not far behind at 2.7%yr but there is no state where public wages are growing faster than the national average for all wages and they are well behind private sector wage inflation.

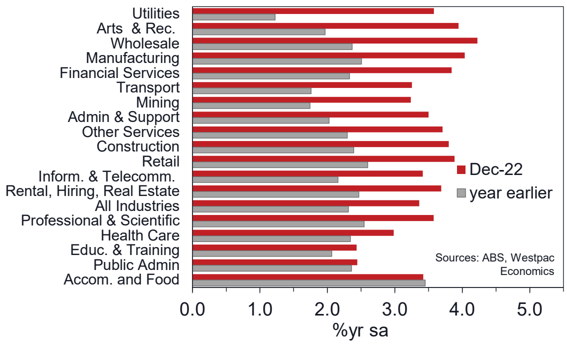
Sign that wage inflation will peak around 4%

Before the release of the December WPI, Westpac was forecasting that wage inflation would peak at 4½yr around the end of

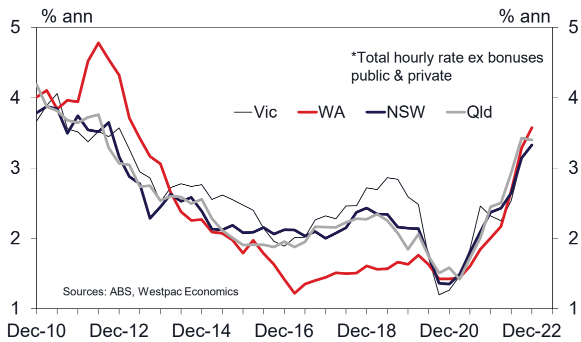
Wages growth by industry, sa



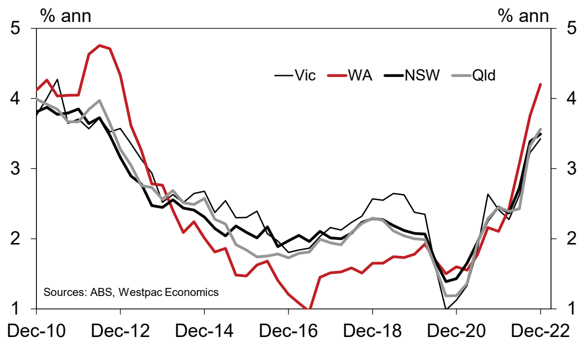
Industry wages growth ranked by ppt change



Wage inflation by state



Private sector wages



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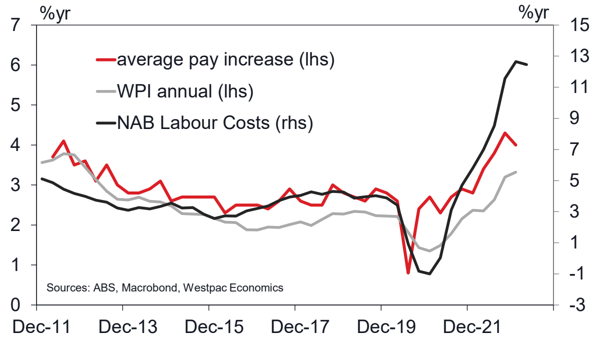
2023. However, not only do we have an update on wages that further highlighted wage inflation accelerating at a much slower than expected pace but we also had confirmation that the labour market is turning over, making us more convinced that wage pressures are likely to ease through 2023.

Annual growth in the Labour Cost Index from the NAB business survey peaked near the end of 2022 and has moderated as we headed into 2023. The quarterly change in the Seek Asking Salary Index, which saw some volatility through 2021 and 2022, has begun to show some signs of moderating moving into 2023.

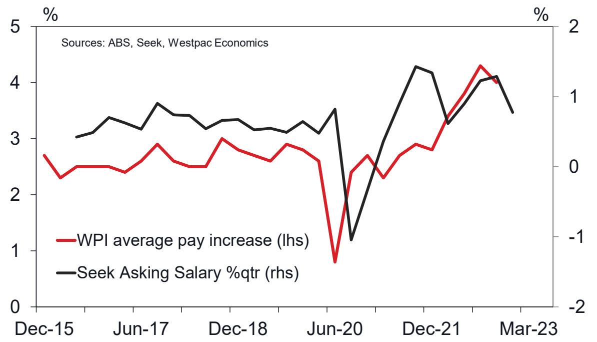
We are also seeing something similar in household/consumer surveys. The Westpac Melbourne Institute Consumer Sentiment Survey has a number of wage indicators. Coming out of COVID lock down, expected wage increase lifted from a low of 0.1% in 2020 to a peak of 1.1% in September 2022 before holding around 1.0% as we moved into 2023. While wage expectations may have levelled out, they are still higher than the 2019 average of 0.8%.

Actual wage increases paid, as reported by the Westpac Melbourne Institute Consumer Sentiment Survey, peaked at 1.0% in September 2022 and has moderated to under 1% in early 2023. Perhaps more importantly, actual wage rises are currently just on par with the 2019 average of 0.9%. It is surprising that actual wage rises paid, as reported by this survey, only just returned to be on par with the pre-COVID rates when we had expected them to be a fair bit stronger. This observation is supported by the proportion expecting to get a pay rise; peaking at 39.3% in December, this has moderated in early 2023 while the recent peak was also less than the 2019 average of 41.7%. Given just how tight the labour market was 2022, and reports of widespread wage increases being paid, it is quite surprising the pro-

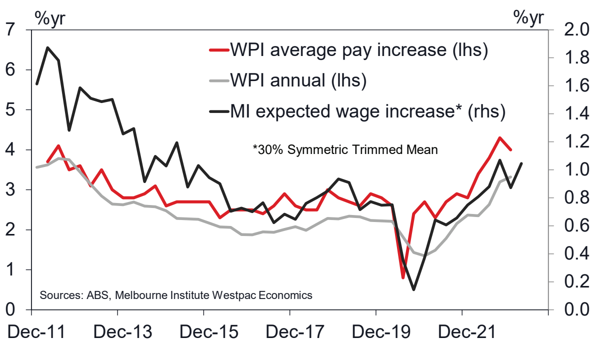
Ave pay increase in quarter vs annual WPI



Ave pay increase in the quarter



Ave pay increase vs MI expected wage increase



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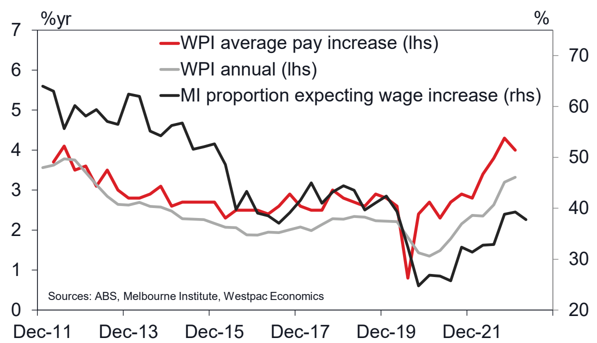
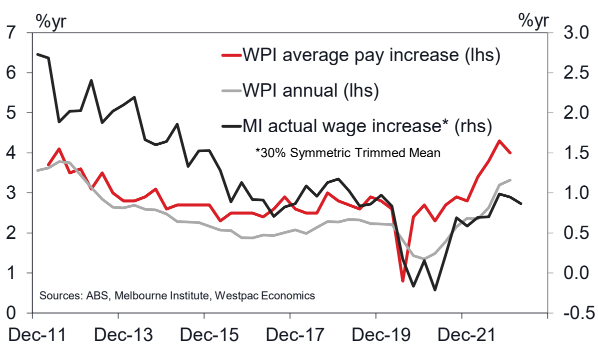
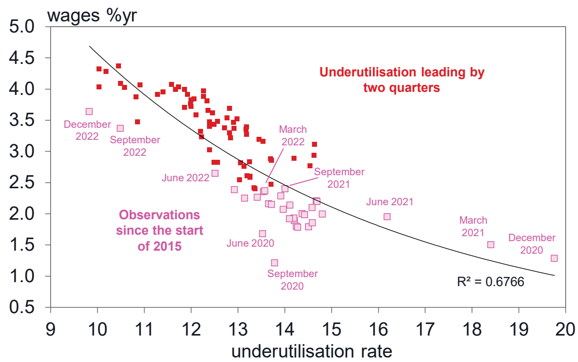


Ave pay increase vs MI wage increase



Underutilisation & private wages, national



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portion reporting wage rises did not get back to the pre-COVID level which was what we at least expected. In fact, given how tight the labour market was, we would have hoped that the proportion expecting wage rises would have been stronger than it was in 2019.

We have lowered our wage inflation forecast for end 2023

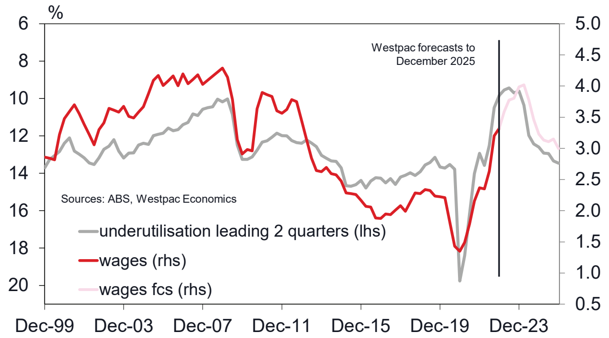
Before the release of the December WPI, Westpac was forecasting that annual growth in the WPI would peak at 4½%yr in late 2023 on the back of an up-tick of the pace of wage inflation reflecting the tightening of the labour market through 2022 (wage inflation lags the labour market by around six months). In the charts over you can see how the fall in underutilisation to historical lows represents a significant tightening of the labour market supported by businesses reporting just how hard it is to find labour from the Westpac-Australian Chamber Industrial Trends Survey.

However, it does appear we are past the best for the labour market. Back in June 2022 we had thought that the unemployment rate would fall to 3.2% by end of 2022. In the end the unemployment rate hit a low of 3.4% in November 2022 before lifting back to 3.7% in January 2023. While there might be some isolated factors that resulted in a weaker than expected employment outcomes (see January Labour Force - as illness fades more go on holidays), it does not change the fact the labour market has softened sooner than expected and we are now looking for the unemployment rate to be back to around 4.6% by end 2023 compared to our comparable forecast back in June 2022 of 3.5%. We also see the underutilisation rate (unemployment plus underemployment) rising from here, lifting 9.4% in the December quarter 2022 to 12% at the December quarter 2023.

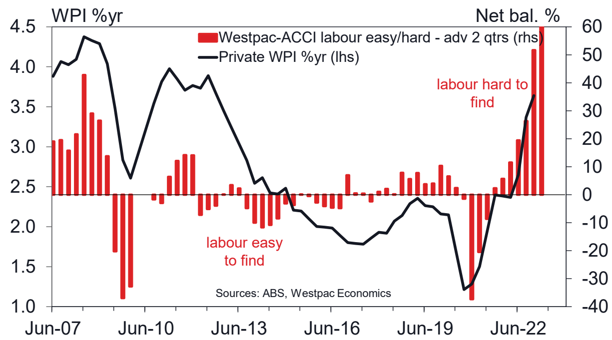
For these reasons we have lowered our peak in wage inflation at end 2023 from 4½%yr to 4.0%yr.

Justin Smirk, Senior Economist, ph (61–2) 8254 9336

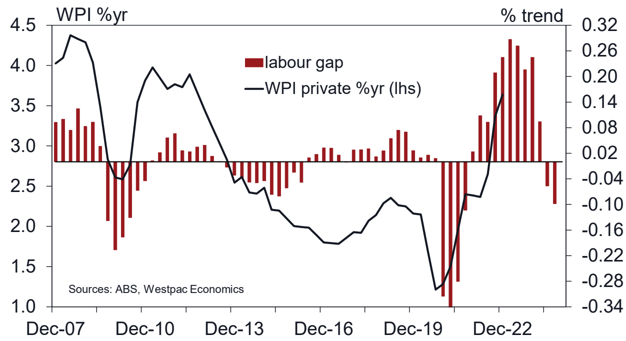
Labour market drives wages



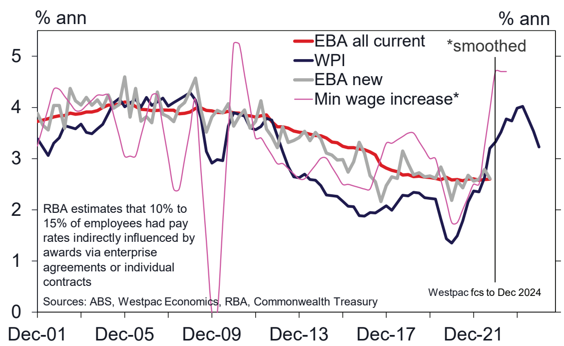
It is very very hard to find labour



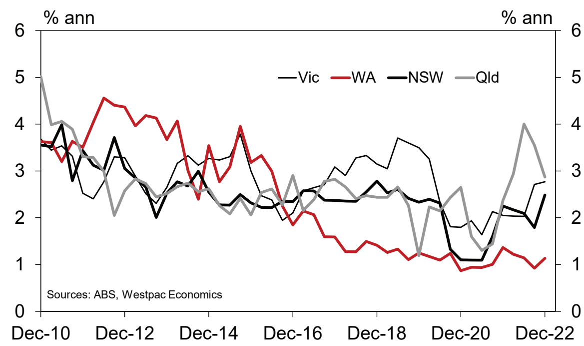
Labour market pressures set to ease in 2023



Wages growth by bargaining sector



Public sector wages



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