BULLETIN

23 August 2023

Deeper insights on Australian wages
Minimum wage/award increase will boost the September quarter outcome but that doesn't change a softer momentum.

- Wages were again softer than expectations and meaningfully weaker than our forecast. On its own, and with no revisions to our quarterly forecast profile, the 0.8% print versus our 1.0% forecast shaves 0.2ppt of our earlier year end forecast of 4.1%yr if we leave the forecast quarterly profile as is.
- We still expect a post minimum wage up-tick in September, in fact we have revised our forecast up to 1.3% in the quarter to take into account with indexing of some wages to the minimum wage outcome, or the CPI, which takes the annual pace to 3.9%yr. On average a bit more than 40% of jobs are paid a wage increase in the September quarter.
- However, it is clear the underlying pace of wage inflation is meaningfully softer than we initially anticipated.
- Even with the forecast 1.3% rise in September, the softer underlying momentum for wage inflation has seen us revise down our end 2023 forecast from 4.1%yr to 3.8%yr.
- So far, the expected up-tick in public sector wages has not materialised in a way that offsets the softer than expected private sector wages. Wages in the mainland states are converging around 3.5%yr with WA the stand-out with the resources sector driving higher wage outcomes there.
- What was the biggest surprise was the moderation in wage rises for individual bargaining, we had thought that given how tight the labour market is, wages there would still be under pressure. There was a similar moderation in wages for enterprise agreements but we can't be sure if it is normal seasonality or something more significant.
- What we can observe is that while the average wage rise for those that received a wage rise in June was 4.5%, the largest increase in the data the ABS has provided back to 2010, only 12% of jobs received a pay increase compared to 14% in March, 21% in December and 13% in June 2022.
- Our research suggest that underemployment is a far more powerful indicator of labour market conditions and their impact on wage outcomes than unemployment or even underemployment.
- Westpac's forecast for wage inflation to peak at 3.9%yr in the September quarter is consistent with a cyclical low in underemployment in the second half of 2022. Our forecast wage inflation profile is consistent with a steady rise in underemployment moving forward from the June quarter.

Please note: the ABS publishes the segregated data in original terms only. Westpac seasonally adjusted this data. In the following bulletin all data is seasonally adjusted unless otherwise stated.

Various measures from the Wage Price Index*

% change	Sep-22	Dec-22	Mar-23	Jun-23
WPI %qtr	1.07	0.85	0.84	0.83
WPI %yr	3.2	3.4	3.7	3.6
Private WPI %yr	3.4	3.6	3.8	3.8
Public WPI %yr	2.4	2.5	2.9	3.1
Private WPI inc. bonuses %yr#	4.1	3.8	4.1	3.8
WA - fastest state/region %yr#	3.3	3.6	4.1	4.2
NT - slowest state/region %yr#	2.4	2.6	3.0	3.3
Arts & recreation – fastest ind. %yr#	3.4	3.9	4.2	4.5
Public admin – slowest ind. %yr#	2.5	2.5	2.9	2.8

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

State Wage Price Index*

% change	Sep-22	Dec-22	Mar-23	Jun-23
NSW %qtr	1.0	0.9	0.8	0.8
NSW %yr	3.1	3.3	3.5	3.4
Victoria %qtr	1.3	0.7	0.7	0.8
Victoria %yr	3.1	3.3	3.5	3.6
Queensland %qtr	1.0	0.8	0.9	0.9
Queensland %yr	3.4	3.4	3.7	3.7
SA %qtr	1.6	0.7	0.6	0.7
SA %yr	3.3	3.5	3.6	3.7
WA %qtr	1.1	0.9	1.1	1.0
WA %yr	3.3	3.6	4.1	4.2
Tasmania %qtr	1.1	0.9	1.1	0.7
Tasmania %yr	3.6	3.6	4.1	3.9

* Total pay excluding bonuses, seasonally adjusted.
Sources: ABS 6345.0

Forecast Wage Price Index*

% change	Sep-23	Dec-23	Mar-24	Jun-24
WPI %qtr	1.3	0.8	0.8	0.8
WPI %yr	3.9	3.8	3.8	3.8
WPI six month ann. %yr	4.3	4.3	3.3	3.3
Private WPI %yr	4.0	3.9	4.0	3.9
Public WPI %yr	3.3	3.4	3.4	3.5

* Total pay excluding bonuses, seasonally adjusted.
Sources: ABS 6345.0

Wages continue to disappoint rising just 3.6% in the year to June

Wages rose just 0.8% in June, softer than the market expectation for a 0.9% lift and Westpac's 1.0% forecast. The bottom of the forecast range in Bloomberg's analysts survey was 0.8%. This saw the annual pace ease back to 3.6%yr from 3.7%yr in March, compared to a broad expectation for an acceleration. Wage inflation has been quite disappointing this cycle compared to just how tight the labour market is and given the announced outsized gain in the minimum wage this year. It is true that the increase in the minimum wage is not applied till July 1st, and so its main impact will appear in the September quarter, but we had thought there might be something of signalling effect on near-term wage bargaining.

The softer print confirmed a moderation in momentum hence revisions to our year end forecasts

The 0.8% increase was meaningfully less than our expectation for 1.0% and, on its own, will result in a 0.2ppt downgrade to our pre-June WPI forecast of 4.1%yr at end 2023. But the important question is: with three quarterly prints of 0.8%, has the momentum in wage inflation topped out? We will have to wait for the September quarter and the post-minimum wage impact, to get a clearer picture but still, we need to have an open mind to the idea there has been a significant change in wage/price setting behaviour and that wage inflation could peak at a lower rate than was initially anticipated.

Post the June WPI, we have revised our forecast profile. We now expect a strong rise in the September quarter of 1.3% (previously 1.1%), but have revised down our December quarter forecast to 0.8% (previously 1.2%). This has lowered our end-2023 forecast from 4.1%yr to 3.8%yr. More details on the basis of our forecast revisions are outlined further in this report.

Public sector is not offsetting weaker private sector

In the June quarter, private sector wages lifted 0.8%qtr/3.8%yr (flat on 0.8%qtr/3.8%yr in March) while the public sector WPI rose 0.7%qtr/3.1%yr. After the March WPI, we had thought that an uptick in public sector wages would be enough to hold our forecast peak at 4.1%yr. However, that forecast implied a step up in the quarterly pace of wage inflation. With the ongoing moderation in the pace of private sector wage inflation, now coupled with a moderation in public sector wages (0.8% in Q4, 1.0% in Q1 and now 0.7% in Q2), it is getting harder to argue for a sustained lift in wage inflation momentum even if we see the expected outsized boost from the minimum wage increase in the September quarter.

Bonus are not boosting wage inflation

Anecdotes suggest that many firms are increasingly using bonuses as a one off cost of living compensation as a way to avoid locking in a higher level of wages. However, even when bonuses are included, private sector wage inflation is still moderating. The private WPI with bonuses rose 0.8% in June, down from 0.9% increase in both March and December, which saw the annual pace ease to 3.8%yr from 4.1%yr in March (which was the fastest pace since March 2011). The public WPI with bonuses lifted 0.7% in June, down from 1.0% in March, for an annual pace of 3.3%yr vs. 3.2%yr in March.

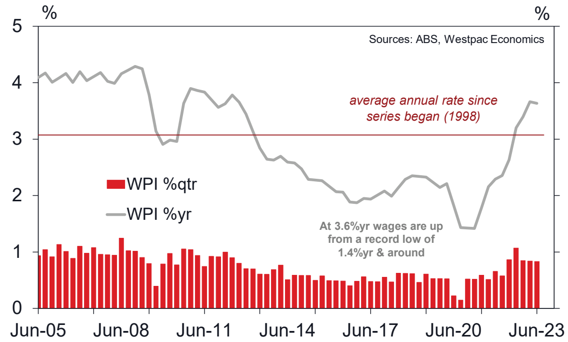
Note these figures were seasonally adjusted by Westpac.

Wage rises were softer than expected from individual arrangements

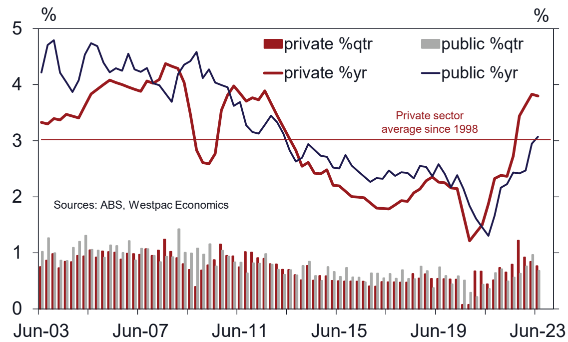
In terms of wage pressure by bargaining arrangement, we are starting to see something of a moderation in the contribution from individual wage arrangements. Back in 2022, the contribution from this group lifted from 0.28ppt in March to 0.36ppt in June. This year the contribution dropped from 0.37ppt in March to 0.35ppt in June. It may be an early sign that maybe we have seen the peak in the momentum in wage inflation from individual arrangements.

There may be something of a minimum wage boost in September as some individual arrangements are indexed to the minimum wage and, of course, if the wage paid by an agreement is less than the new minimum wage post the increase, then the agreement wage will have to be lifted to match the new minimum wage.

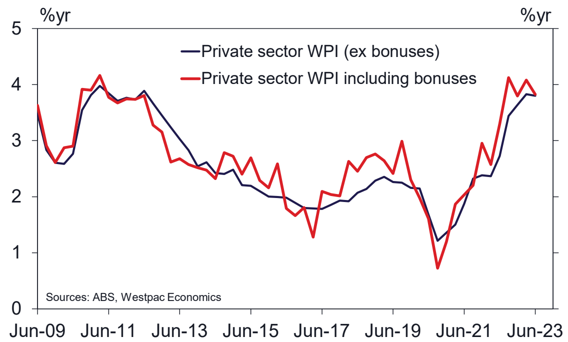
Wage inflation above average



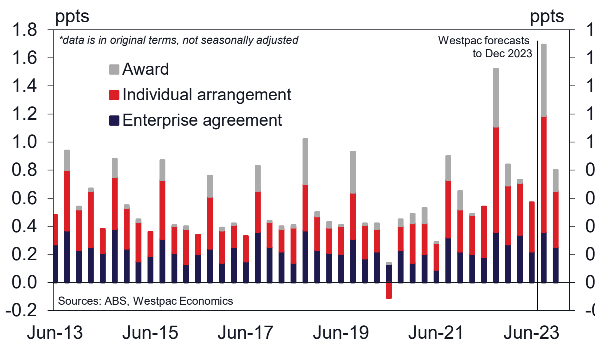
Public vs. private wages



Wages plus bonuses



Wage inflation contributions



However, both are likely to be a once off boost and the impact should fade as we move through the December quarter.

Enterprise agreements also softened in June quarter. There appears to be something of a seasonal pattern for a softer June quarter but there are not enough observations to effectively seasonally adjust the data. As such, we are not sure how much is seasonal and how much is fundamental. In 2022, the contribution from enterprise agreements fell from 0.20ppt March to 0.18ppt June. In 2023, the contribution fell from 0.34ppt to 0.22ppt in the March and June quarters respectively. Just like for individual agreements, there are enterprise agreements that are indexed to the minimum wage as well as some that are indexed to the CPI. Both tend to be indexed in the September quarter, so we are again looking for a boost this year.

Awards also show a seasonal pattern of much smaller wage rises in the June quarter. In 2022, their contribution fell from 0.01ppt to 0.00ppt from March to June and in 2023, it fell from 0.02ppt to 0.00ppt over the same period of time. Very few awards get a wage rise in the first half of the year with a significant majority getting that rise in the September quarter.

Looking forward to September, there is a clear risk that wage rises due to the 5.94% average increase in minimum wage/award flow on to other bargaining arrangements. We also have to consider the 15% aged care award increase as well as the indexation of some wages to the CPI as a significant risk to our previous September WPI forecast for a 1.1% increase.

In September 2022, awards contributed 0.41ppt to the WPI based on an average 4.7% increase in the minimum wage/awards. This year the average increase in the minimum wage/awards was 5.94%, suggesting the contribution should be somewhat larger. If we factor in the direct (via awards) and indirect (enterprise bargains and individual arrangements) impacts of the minimum/award wage increase, along with the 15% pay rise in the Aged Care sector, we now expect a 1.7% increase in original terms, 1.3% for the headline seasonally adjusted estimate. This will see the through the year rate peak at 3.9%yr in September before easing back to 3.8%yr in December.

Note: ABS estimates of pay setting arrangements contributions to the WPI are NOT seasonally adjusted.

The softer rise in private sector wages was due to less getting a pay rise this June quarter

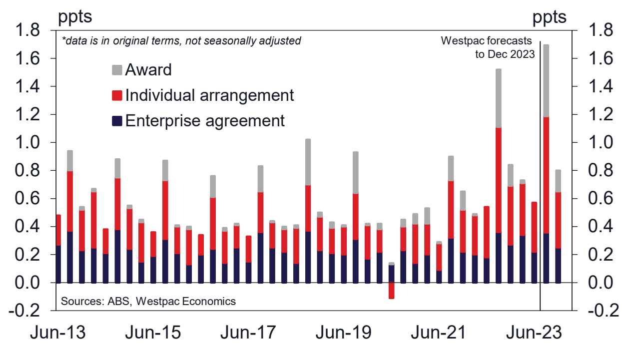
Looking at the size of the wage rise from jobs that recorded a wage rise in the quarter, rather than the average for all jobs, can be insightful in regards to current wage dynamics. For the private sector, the average hourly wage increase for those jobs that received an increase was 4.5%, higher than the 4.3% in March and well above the 3.8% in the same quarter in 2022. The softer print for the average increase for all private sector jobs was due to 12% of private sector recording a wage increase the June quarter, a touch less than the 13% reporting a wage rise in the June 2022. In March 14% received a pay rise and 21% did so in December.

Last year the 4.7% increase in the minimum wage resulted in an average wage increase of 4.3% in the September quarter of 2022, for those that received an increase. This year the 5.9% increase in the minimum wage should result in a significantly larger average increase. On average more than 40% of jobs are paid a wage increase in the September quarter.

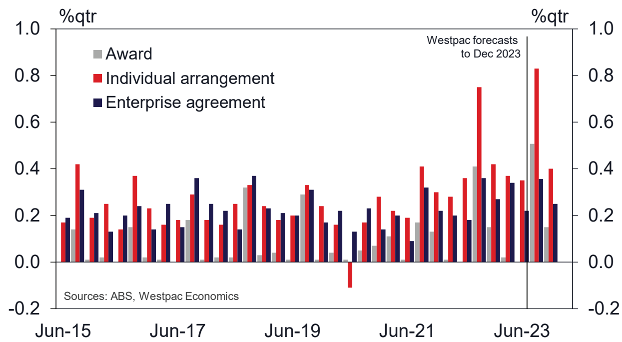
Outside of WA wage inflation is converging

In the regional data there was a clustering between 3.4%yr (NSW) and 3.7%yr (Qld) for the eastern mainland states. The stand out was WA where wage inflation was boosted by a resources recovery lifting to 4.2%yr in June, the fastest pace for any state or territory. This is also seen in WA private sector wage inflation which hit 4.5%yr in March before easing back a touch to 4.3%yr in June, the fastest rate for any state. In WA the fastest wages growth was in professional,

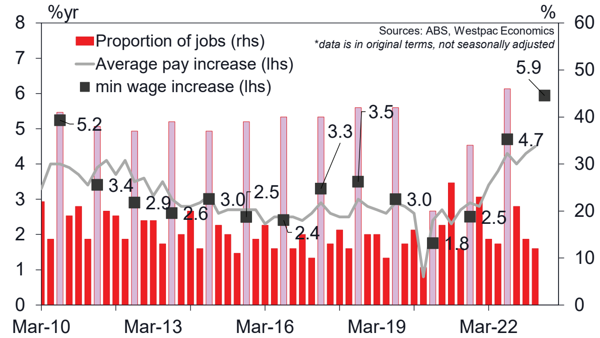
Wage inflation contributions



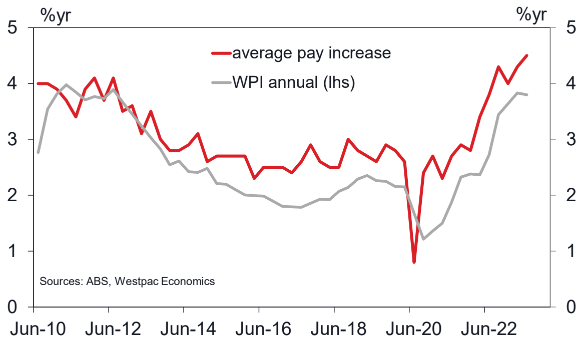
Wage increases by bargaining arrangement



Private sector wage increase in quarter



Private pay increase in quarter vs annual WPI



scientific & technical services (4.9%yr) while the slowest was in public administration (3.0%yr)

ACT (a territory not a state) did top the league table for private sector wages so far this year printing 4.6%yr in March and 5.1%yr in June. However, with ACT public sector wages growing at just 2.7% in the year to June this dragged the average down to 4.0% in the year.

NSW private sector wage inflation was 3.8% in the year to June, the softest print for any state or territory. In NSW, wages were growing the fastest in manufacturing (4.3%yr) and the slowest in education & training (2.4%yr).

Household sector wages may be accelerating but they still lag production, distribution and business services wages

It is true that household services wage inflation is gathering momentum, lifting from 2.3%yr in June 2022 to 3.5%yr in June 2023. However, this is still less than the 4.0%yr for goods production wages, and 3.8%yr for good distribution and business services wages.

It is interesting to note that the household services includes arts & recreation wages – which grew at 4.7% in the year to June, the fastest for any industry – and other services which reported an above average wage increase of 4.2%yr. Holding down the average wage increase for household services has been education & training (3.2%yr), health care (3.3%yr) and accommodation & food services (3.6%yr).

The industries that reported wages growing faster than 4.0%yr outside the household services sector were mining and manufacturing, both at 4.1%yr, and wholesale trade at 4.2%yr.

Of the 18 industries, 17 reported wage inflation of more than 3%yr, the only industry not to was public administration which reported just 2.8%yr. The spread from the lowest to highest rate of wage inflation is 2.8%yr to 4.5%yr.

Underemployment suggests late 2023 is the peak in wage inflation

The Phillips curve, where wage inflation is compared to unemployment, is the most common way to get a measure on how labour market conditions are impacting wage bargaining outcomes. However, Westpac's research suggests underemployment has far more explanatory power than unemployment or even underutilisation (which combines unemployment and underemployment, so should hold more information on labour market conditions than either measure individually). Using a simple exponential linear trend where the labour market indicator is lagged two quarter, the R^2 for unemployment is just 0.18 while for underemployment it is 0.74. For underutilisation it is 0.65, much better than unemployment but still not as good as underemployment.

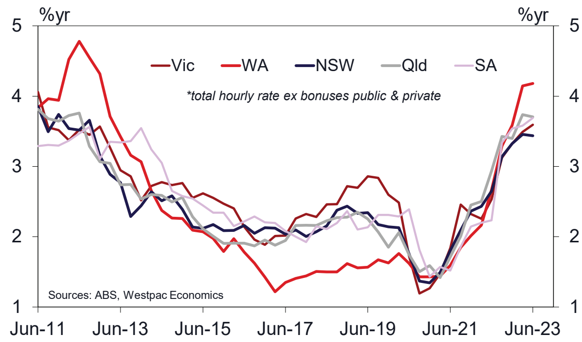
Taking quarterly averages, as the WPI is a quarterly survey while the Labour Force is a monthly survey, the cycle low for underemployment was 6.0% in the September and December quarters of 2022. While this suggests wage inflation is likely to peak six months later (in the March and June quarters of 2023, the March quarter average for underemployment was just 6.1%, not a significant change from 6.0% suggesting it is possible for the momentum in wage inflation to continue a little longer).

It was not until the June quarter 2023 that there was a more meaningful rise to 6.3% which is forecast to drift a little higher through September and December before lifting to 7.3% in the June quarter of 2024. As shown in the chart over, this profile is consistent with our revised forecast for wage inflation as measured by the WPI.

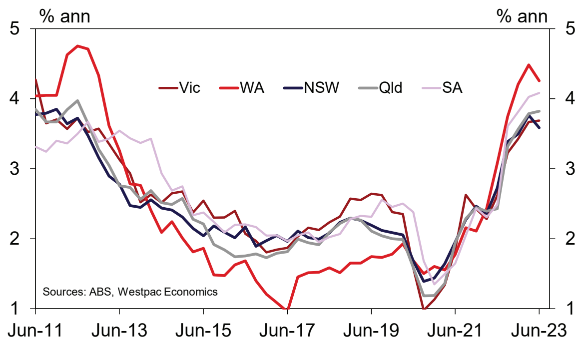
Average weekly earnings also reporting a lift in wage inflation

The Average Weekly Earnings survey is now a half yearly rather than a quarterly survey. In the year to the June quarter, average weekly ordinary time earnings rose 3.9%, an acceleration from the 3.4%yr pace in December 2022 and 1.9%yr in June 2022.

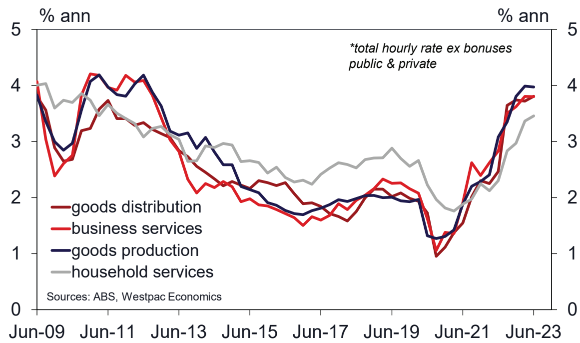
Wage inflation by state



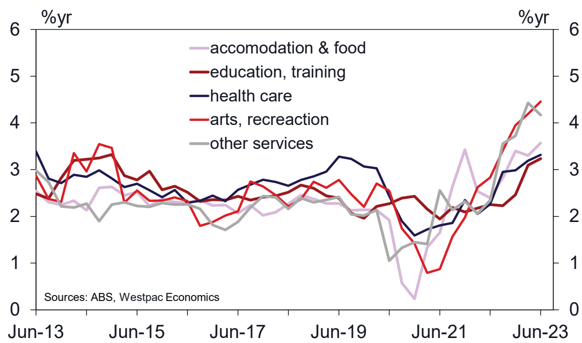
Private sector wages



Wages by broad sectors



Household services wages

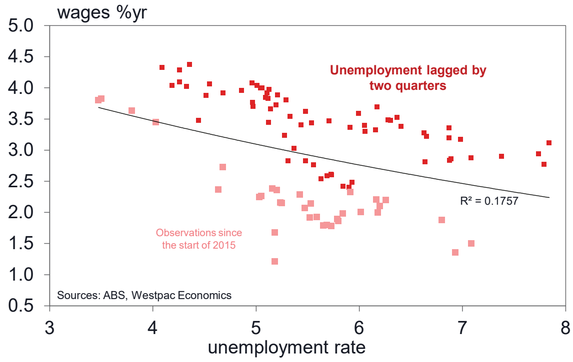


Other leading indicators also suggest a peak in wage inflation

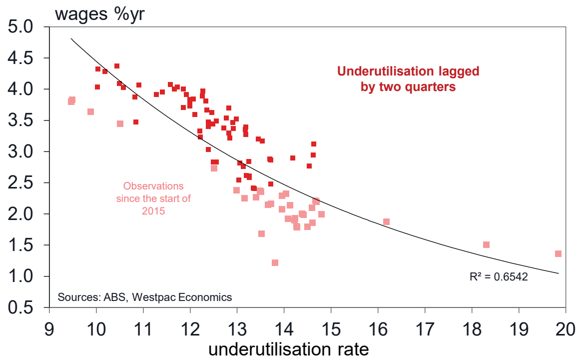
There are also a number of alternative leading indicators that also suggest that wage inflation may be nearing a peak. The Labour Cost series from NAB's business survey peaked in the March quarter this year and has since moderated. Expected wage increases from the Melbourne Institute survey has lifted significantly from the COVID low but is it not meaningfully different from the pre-COVID levels currently, even though the labour market is significantly tighter. In addition, the expected wage increases are significantly less than they were though 2012 and 2013. It is a similar story for those reporting a wage increase – while the share of those expecting a wage increase is around 40%, on par with pre-COVID levels, it is significantly less than the 62% that were expecting a wage increase in March-June 2014.

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

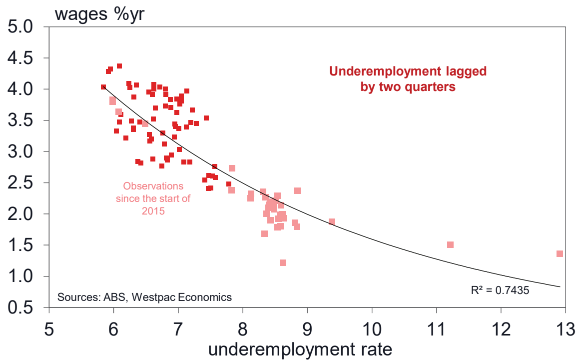
Unemployment & private wages



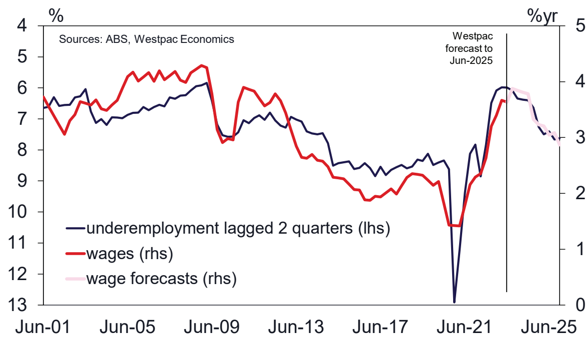
Underutilisation & private wages



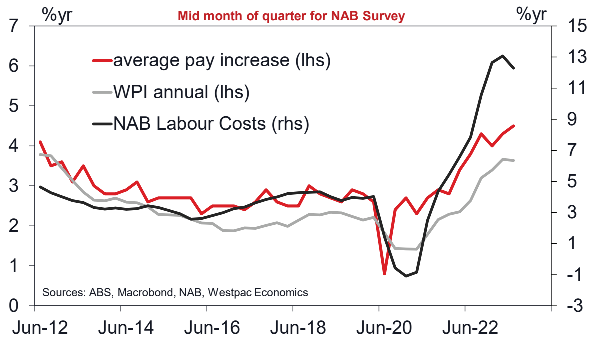
Underemployment & private wages



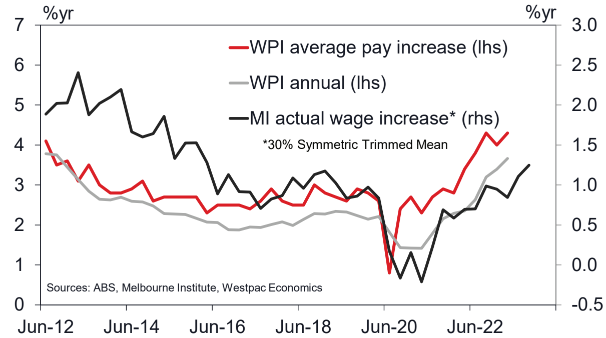
Underemployment & wages



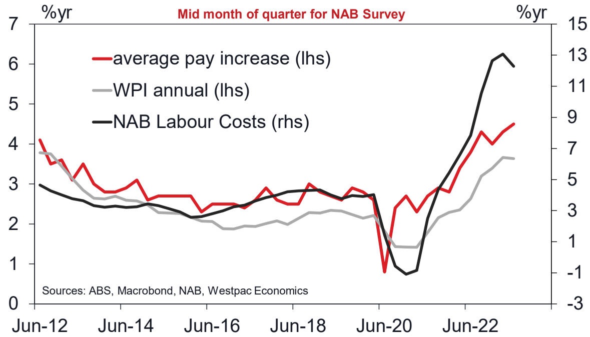
Avg pay increase in quarter vs annual WPI



Avg pay increase vs. MI wage increase paid



Avg pay increase in quarter vs annual WPI



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