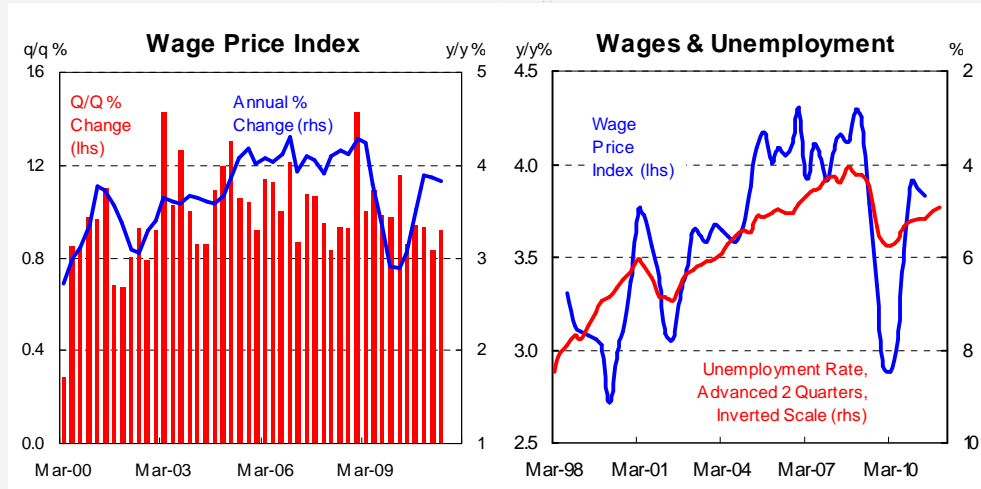


DATA SNAPSHOT

Wage Price Index: Steady As She Goes

Wednesday, 17 August 2011

- Growth in the wage cost index was in line with expectations in the June quarter, rising by 0.9%. The annual rate edged down to 3.8%, further below the RBA's unofficial 'line in the sand' of 4.5%, suggesting wage inflation is contained.
- A risk for the RBA is the significant pick-up expected in mining investment and its potential to exert pressure on wages and other costs. However, this is balanced by concerns about the global economic outlook and signs of a moderation in domestic economic data.
- Looking across different industries, wages growth has become more uniform across industries. Fewer industries are showing low levels of annual growth, while at the higher end, only one out of eighteen sectors (wholesale trade) is now posting annual growth above 4.5%.



The wage cost index rose by 0.9% over the June quarter, which was in line with expectations, following a 0.8% increase in the previous quarter. Over the year to June wages rose by 3.8%, easing from 3.9% in the year to March (previously reported as 3.8%).

Growth in private sector wages slowed to 0.7% in the June quarter, from 0.9% previously. This saw the annual rate for private sector wages ease to 3.8% (from 4.0%). Public sector wages growth rebounded to 0.9% in the June quarter, from 0.8% in the March quarter. This saw the annual rate rise to 3.7%.

Annual wages growth remains under the unofficial 'line in the sand' rate of 4.5% per annum. Growth at or above this rate is traditionally seen as uncomfortable wages growth. With strong wage growth above 4.5% per annum seen in only one out of eighteen sectors, the data suggests that wage pressures are not broad-based across the economy.

Looking across different industries, wages growth has become more uniform across industries. In original terms, the strongest annual wages growth was in wholesale trade (4.7%), followed by financial and insurance services (4.5%). Some industries which had been showing concerning wages growth, slipped back below the RBA's 4.5% 'line in the sand' in the June quarter. This included mining (4.1% in the June quarter, from 4.6% previously) and professional, scientific and technical services (4.0% in the June quarter, down from 4.6% previously). For the quarter, the largest increases in wages growth were in mining and rental, hiring and real estate services (both up 0.9%), while the slowest quarterly growth was seen in the accommodation and food services industry (0.1%).

By State, the quarterly growth in wages eased back in original terms, reflecting the seasonal impact on wages growth. The sharpest growth recorded in Victoria (0.7%), followed by NSW, Queensland and Tasmania (all at 0.6%) in the June quarter, compared to growth at 0.9% or above for five of the States and Territories in the March quarter. In annual terms, wages growth was highest in Victoria (4.1%), followed by NT (3.9%) and lowest in South Australia (3.3%).

Today's data suggests wage inflation is contained for now. Although the unemployment rate has risen to 5.1% from 4.9%, the labour market remains quite tight, suggesting wage inflation remains a potential risk in the future. Against the current global economic backdrop and signs of a moderation in domestic economic data, however, there is little in today's wages data that is of immediate concern to the RBA.

In the minutes released yesterday, the RBA suggested current levels of wages growth would become concerning if we don't see a significant pick-up in productivity growth, saying "the task facing monetary policy would become more difficult if a continuation of poor productivity growth were combined with an expectation of growth in nominal wages and profits at the same sorts of rates seen over the past two decades." This will be a challenge facing the Australian economy over the next decade, given it is unlikely we will continue to see the terms of trade rise at the same rate as they have over the past decade.

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