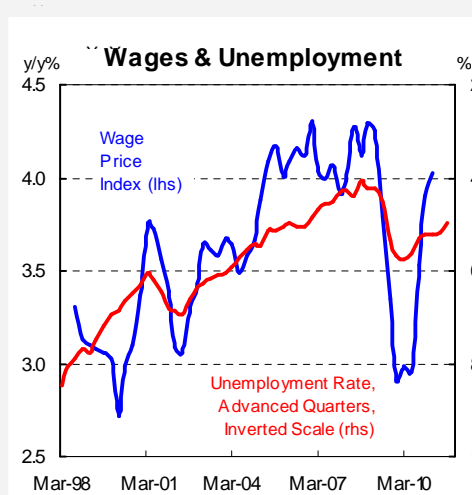
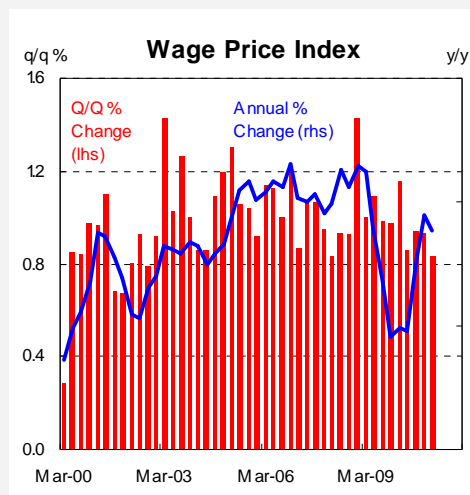


DATA SNAPSHOT

Wage Price Index: RBA Buys Some Time

Wednesday, 18 May 2011

- Growth in the wage cost index was unexpectedly weaker in the March quarter, rising by 0.8%. This weaker wages outcome means there is less urgency for the Reserve Bank to hike as soon as June.
- 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. Thus, we maintain our long held view of further tightening this year, but not until Q3.
- Looking across different industries, wage pressures are still not broad-based, with only two out of eighteen sectors posting annual growth above 4.5%



The wage cost index rose by 0.8% over the March quarter, which was weaker than expected and followed a 1.0% increase in the December quarter. Over the year to March they rose by 3.8%, easing from 3.9% previously.

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 only confined to two out of eighteen sectors, the data suggests that wage pressures are not broad-based across the economy.

Both public and private sector wage growth slowed from the December quarter, rising by 0.9% and 0.8%, respectively in Q1.

Looking across industries, the strongest increase over Q1 was for education and training, rising by 1.6% and mining with a 1.2%. The rise in education and training wages are likely owing to seasonal factors, while mining wages reflect the strength in the sector amid surging commodity prices.

Over the year to the March quarter, the strongest increases were for mining and professional, scientific and technical services rising by 4.6%.

By State, the NT and Tasmania recorded the largest rises increasing by 1.2% and 1.1%, respectively in the March quarter. Resource-rich WA had wage growth rose by 4.1% over the year, however, annual wage growth was quite robust across all States, ranging from 3.5% in Tasmania to 4.1% in WA and NT.

Today's data suggests wage inflation is contained for now. But the unemployment rate at 4.9% is low pointing to a tight labour market and suggesting wage inflation remains a risk in the future. Other surveys point to high capacity utilisation and strong growth in labour costs.

The weaker than expected outcome for Q1 wages lessens the urgency for the RBA to hike as soon as June. However, a risk for the RBA is the significant pick-up in mining investment and its potential to exert pressure on wages and other costs. Thus, we maintain our long-held view of a rate hike in Q3.

Janu Chan, Economist
Ph: (02) 9320-5892
Email: chanj@stgeorge.com.au

St.George Contact Listing

Economics & Strategy:

Chief Economist	Besa Deda	dedab@stgeorge.com.au	(02) 9320 5854
Senior Economist	Josephine Heffernan	heffernanj@stgeorge.com.au	(02) 9320 5751
Economist	Janu Chan	chanj@stgeorge.com.au	(02) 9320 5892

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