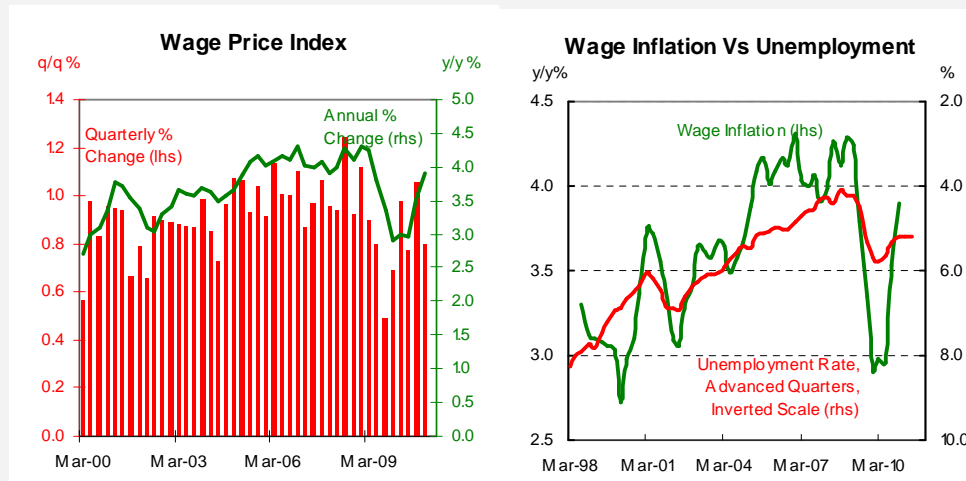


DATA SNAPSHOT

Wage Inflation “Alert But Not Alarmed”

Wednesday, 23 February 2011

- The labour price index was a little stronger than expected, rising 1.0% in the December quarter. Annual wage inflation lifted to 3.9% in December, from 3.5%. This annual rate is still below the RBA’s perceived ‘line in the sand’ of 4.5%, although it has increased from 2.9% a year earlier. This was the low point in the cycle in response to the global economic slowdown, however the improvement in Australian labour market conditions over the past year has now started to flow through to wages inflation.
- We expect the unemployment rate to fall further this year, which could put further upward pressure on wages.
- In a separate release, construction work was softer than expected, rising 0.8% in the December quarter, after falling 1.5% in the previous quarter. The construction sector was supported earlier last year by public sector spending for the Building Education Revolution. However, it appears the private sector has not yet stepped up to the extent necessary to compensate for the tapering off in government spending in the second half of last year.



Private sector wages grew more sharply than public sector wages, reflecting the growing tightness in the labour market. Private sector wages increased 1.0% (although this was down from 1.2% growth in the previous quarter) while public sector wages were up 0.9% in the quarter. For the year, private sector wages are up 3.8%, and public sector wages are up 4.0%, reflecting the softer gains in private sector wages in the aftermath of the GFC).

In non-seasonally adjusted terms, wages rose 0.9% in the quarter. Those States and territories with above average quarterly wages growth were SA (1.1%) and NT (1.0%). Those States showing quarterly increases below the national average were NSW (0.7%) and the ACT and Tasmania (both showing increases of 0.8%). For the year, Queensland (4.2%) and WA (4.0%) saw the largest increases, reflecting the impact of the resources boom on incomes. Tasmania showed the most subdued increase (of 3.3%).

In terms of industries, the electricity, gas, water & waste services industry saw the largest quarterly increase of 1.5%, closely followed by an increase of 1.4% in the wholesale trade and mining industries. In annual terms, the mining industry was the strongest performer, with an increase of 4.6% in wages.

In its Statement on Monetary Policy released earlier this month, the Reserve Bank indicated the improvement in labour market conditions had seen wages inflation pick up. On the outlook, it noted “a further gradual increase in wage growth is expected as the labour market continues to tighten.” On labour market conditions, the RBA said “Firms are generally not experiencing significant difficulty finding suitable labour at present, although

the labour market has tightened and labour shortages have been reported in mining-related industries and for some skilled occupations.”

The RBA has raised official interest rates seven times in the last two years, driven by concerns about inflationary pressures, given limited spare capacity in the economy, against a backdrop of the mining boom. The RBA will continue to closely monitor developments in wages inflation given the tightening in the labour market over the last year. We expect the unemployment rate to fall further this year, which could put further upward pressure on wages. St George expects the RBA to raise interest rates twice later this year.

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