

Economic Analysis

Wage Price Index Q3 2021

The Wage Price Index, measuring total hourly rates of pay excluding bonuses, increased a seasonally adjusted 0.6% in Q3 2021, as expected. This was faster than the 0.4% recorded in Q2 and saw annual wage inflation pick up to 2.2% from 1.7%.

| % | QoQ | YoY |
|---------------------------------|-----|-----|
| WPI Seasonally Adjusted | 0.6 | 2.2 |
| WPI Unadjusted | 0.9 | 2.2 |
| WPI Private Seasonally Adjusted | 0.6 | 2.4 |
| WPI Public Seasonally Adjusted | 0.6 | 1.7 |

According to the ABS, the Q3 report showed a return to a more regular seasonal pattern, driven by end of financial year wage and salary reviews, enterprise agreements and annual increases in awards.

Annual growth in private sector wages continued to accelerate, rising to 2.4% YoY, the fastest pace since Q1 2019. Annual public sector wages growth picked up for the first time since March 2020, rising to 1.7% YoY from a record low of 1.3% in Q2.

Industry Sectors (Unadjusted)

There were wide disparities in unadjusted wages growth among industries during the quarter. Professional, scientific and professional services, construction and a number of other industries saw increases of 1.0% or more while wages growth in industries such as mining and retail was relatively subdued.

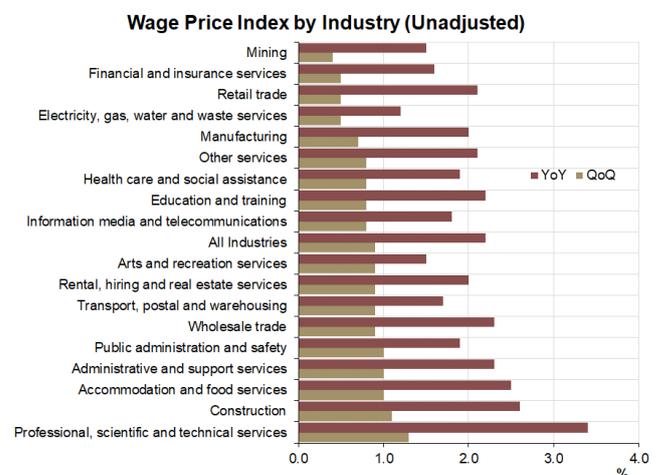
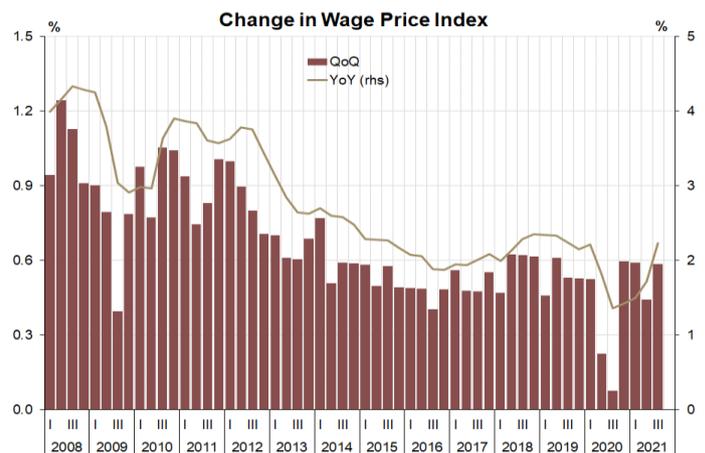
Annually, wages growth in professional, scientific and technical services was particularly strong at 3.4%, while annual growth in construction industry wages increased to a seven-year high of 2.6%. Workers in electricity, gas, water and waste services continued to trail the field, with annual wages growth of just 1.2%, held back by the 0.8% annual rise in the public sector component.

States (Unadjusted)

Tasmania again led the increase in wages, both in quarterly (1.0%) and annual terms (2.7%). Quarterly growth was also strong across the rest of the eastern seaboard.

Western Australia and South Australia saw the weakest quarterly and annual wages growth, despite these states seeing comparatively little disruption from COVID-19 during the quarter compared to the hard lockdowns in New South Wales and Victoria.

| WPI (Unadjusted, %) | QoQ | YoY |
|---------------------|-----|-----|
| Western Australia | 0.8 | 1.9 |
| New South Wales | 0.9 | 2.1 |
| Victoria | 0.9 | 2.5 |
| Queensland | 0.9 | 2.0 |
| South Australia | 0.7 | 1.8 |
| Tasmania | 1.0 | 2.7 |
| Australia | 0.9 | 2.2 |



Comment

Wages growth continued to normalise in Q3. Annual growth rose at the fastest rate since Q1 2020, just before COVID-19 pandemic took hold of the economy, with the first restrictions being imposed in mid-March 2020.

The ABS reports that pockets of wages pressure continued to build in some industries, including construction, technical and business services as firms looked to retain and hire new staff.

Although wages growth is returning to more normal patterns, it is worth remembering that growth was subdued prior to the pandemic and was well below the 3.0% that the RBA has identified as consistent with CPI inflation sustainably within the RBA's 2% to 3% target.

Workers on individual arrangements, which tend to be more responsive to shifts in labour demand, made a larger than usual contribution to wages growth in the quarter. Whether this is a leading indicator of a broader acceleration or confined to those industries experiencing labour shortages, remains to be seen.

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