

## Economic Analysis

## Wage Price Index Q2 2021

The Wage Price Index, measuring total hourly rates of pay (excluding bonuses), increased a seasonally adjusted 0.4% in Q2 2021. This was slower than the 0.6% recorded in the previous quarter and came against the market expectations that growth would again be 0.6%. Annual wage inflation picked up to 1.7% from 1.5% in Q1.

%	QoQ	YoY
WPI Seasonally Adjusted	0.4	1.7
WPI Unadjusted	0.3	1.8
WPI Private Seasonally Adjusted	0.5	1.9
WPI Public Seasonally Adjusted	0.4	1.3

According to the ABS, a slowdown in wages growth in Q2 was evident across the private sector despite a few isolated examples of skill shortages putting pressure on employers. Private sector wages growth slowed to 0.5% in Q2, the slowest since Q3 2020, to be 1.9% up through the year thanks to the low base from a year ago.

Public sector wages growth was unchanged at 0.4% in the quarter and slowed to a fresh series low of 1.3% through the year.

### Industry Sectors (Unadjusted)

Wages growth remains subdued across all industry sectors, despite pockets of rising wages pressure indicated in the monthly business surveys and press reports. Wages growth stalled or decelerated in the majority of industries, with administrative and support services as well as rental, hiring and real estate services being the two exceptions.

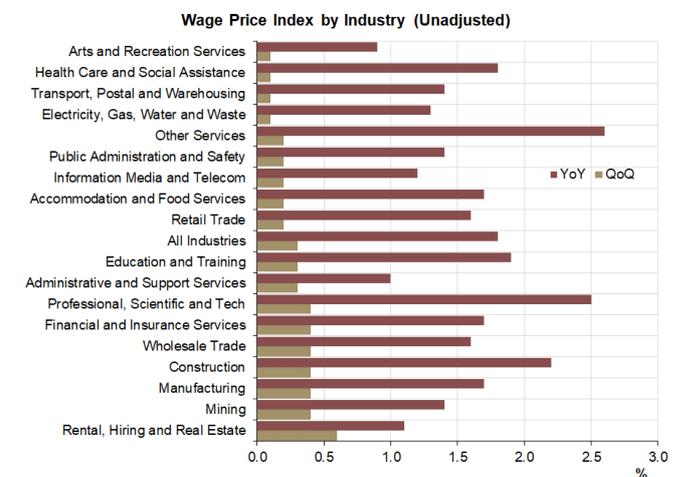
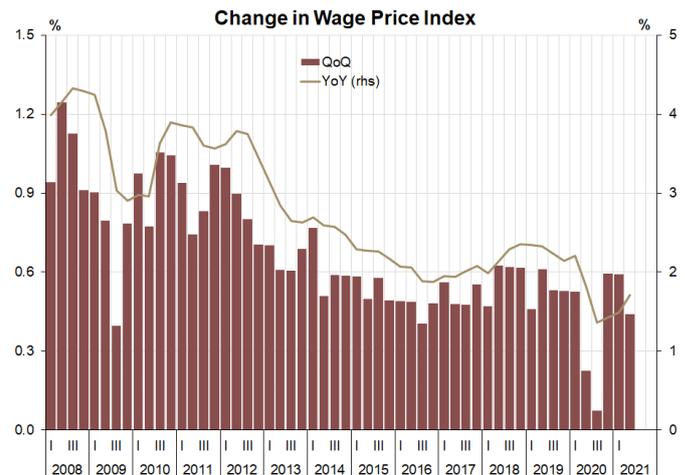
Mining sector wages grew at the same pace as in Q1. Wages also failed to accelerate in the construction sector, which is anecdotally experiencing acute labour shortages.

### States (Unadjusted)

Tasmania again led the increase in wages, both in quarterly (0.5%) and annual terms (2.2%). In other states wage growth was weaker, ranging 0.3-0.4% in the quarter and 1.6-1.8% over the year.

Western Australian wages growth decelerated to 0.3% in Q2 but picked up to 1.6% in annual terms.

WPI (Unadjusted, %)	QoQ	YoY
Western Australia	0.3	1.6
New South Wales	0.3	1.8
Victoria	0.3	1.8
Queensland	0.3	1.7
South Australia	0.4	1.6
Tasmania	0.5	2.2
Australia	0.3	1.8



### Comment

Despite the impressive recovery over the past year, the Australian labour market still had a lot of spare capacity left even prior to the current COVID-19 outbreaks. This has translated into stubbornly subdued wages growth, even in sectors affected by labour constraints.

Looking forward, the recent lockdowns will likely add to labour market slack over the coming months.

The ABS advise that if the changes due to the reversal of pandemic-related wage cuts are removed, annual wage growth would have been even slower.

In its August projection, the RBA remained optimistic about employment growth over the medium run, after the current restrictions are lifted. At the same time, however, the RBA continues to expect that wage growth will remain below the 3% mark until at least the end of 2023 which is the baseline level it considers as consistent with inflation sitting sustainably in its target band and necessary for considering any cash rate hikes.

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