

## ECONOMIC UPDATE – WAGE PRICE INDEX AND LABOUR FORCE

15 August 2019

**Australia's labour market continues to generate rapid (and full-time) jobs growth; while wages growth is outstripping inflation.**

The robust trend in jobs growth in Australia continued into July, with employment rising by 41.1k in the month. An increase in labour force participation (to a record high) saw the unemployment rate remain steady at 5.2%. An 'encouraged worker effect' (which is when strong jobs growth sees more people enter the labour market) seems to explain much of the increase in participation over the past year.

The 'headline' measure in the wage price index (total hourly rates of pay excluding bonuses) rose 0.6% in the June quarter 2019 to be 2.3% higher over the year. Overall, the trend in this measure of wages growth appears to be moving sideways. That said, wages growth (of 2.3% as measured by the WPI) is outstripping inflation (of 1.6%). Other wages data released by the ABS this week showed average full-time earnings increased by 3.0% over the past year.

There is some modest evidence that wages growth is higher in states with lower unemployment rates and vice versa. This suggests that faster economic growth and a stronger labour market will help in boosting wages growth. Sustaining faster growth in real wages will also require a pickup in productivity. Worryingly, the most recent data showed a fall in labour productivity over the year to the March quarter 2019.

### June Quarter Wage Price Index

After an increase of 0.5% in the March quarter the headline measure in the wage price index (total hourly rates of pay excluding bonuses) rose 0.6% in the June quarter 2019.

That leaves the series up 2.3% over the year; and above the lows recorded in late 2016 and early 2017.

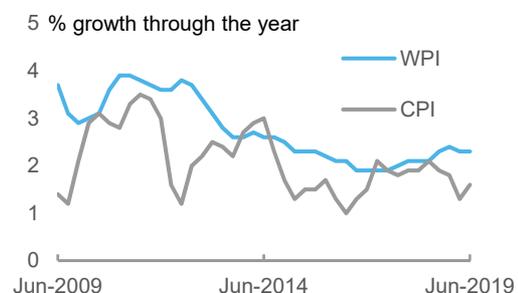
As Figure 1 shows, the yearly increase in the WPI has been around 2.3% to 2.4% for the past four quarters. Figure 1 also shows that the increase in the WPI has comfortably outstripped inflation over the past year.

Looking at the public and private sectors, yearly wages growth in the public sector continues to outstrip that in the private sector.

- Total hourly rates of pay excluding bonuses in the private sector rose 0.5% in the June quarter to be 2.3% higher over the year;
- while in the public sector outcomes were 0.8% in the June quarter and 2.6% over the year.

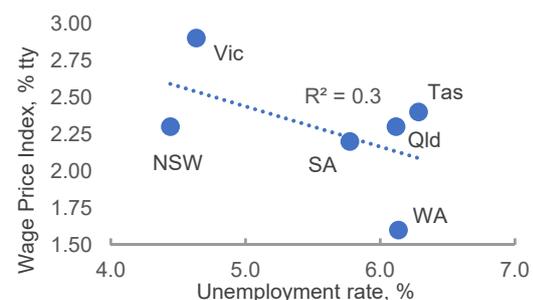
By State, there appears to be some modest evidence that wages growth is faster in those States with a lower unemployment rate and vice versa (see Figure 2).

Figure 1: Wages growth vs inflation



Source: ABS cat. no. 6345.0 and 6401.0

Figure 2: Wages growth versus unemployment rates by State



Source: ABS cat. no. 6345.0 and 6202.0.

Note: unemployment rate is the 12 month average to June 2019.

### July Labour Force

Employment rose 41,100 in July after small fall of 2,300 in June and a 45,200 increase in May. Given the general robustness in employment growth over 2019 to date, the ABS’s trend estimate of monthly employment growth sits at 24,600.

- Within the detail, full-time employment rose 34,500 in July, while part-time employment increased by 6,700.

Over the past year employment has risen by 2.6% or 332,600 people. Of that, full-time employment has risen by 255,600 over the past year, while part-time employment is up 77,000.

The unemployment rate sat at 5.2% in July – with the unemployment rate having been unchanged since April.

The participation rate hit a record high in July of 66.1%. Over the past year, the participation rate has risen by 0.5 of a percentage point. As Figure 5 shows, the large increase in labour force participation over the past year appears consistent with the strength in employment growth (and past trends). That is, an ‘encouraged worker effect’ (which is when strong jobs growth sees more people enter the labour market) seems to explain much of the cyclical increase in participation.

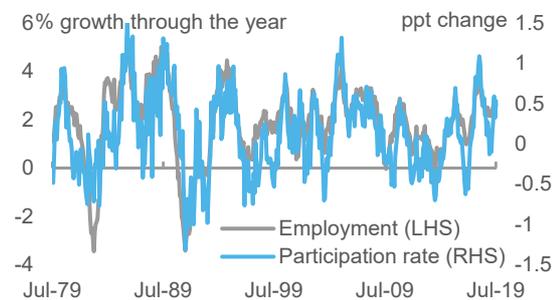
The underemployment rate printed at 8.4% in July versus 8.2% in June and 8.6% in May. Underemployment occurs almost exclusively in the part-time workforce, therefore the increasing proportion of part-time employment in the economy has contributed to a higher underemployment rate over time.

Figure 4: Unemployment rate



Source: ABS cat. no. 6202.0

Figure 5: Employment growth versus labour force participation changes



Source: ABS cat. no. 6202.0

Figure 3: Employment growth



Source: ABS cat. no. 6202.0