

## Box D

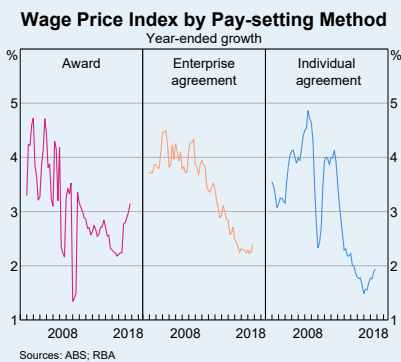
# Trends in Wages Growth By Pay-setting Method

Over recent years, low wages growth has been evident across most industries and regions in Australia. Using data on each job that underpins the Wage Price Index (WPI), this trend can also be seen across the three main pay-setting methods in Australia: awards, individual agreements and collective or enterprise bargaining agreements (EBAs) (Graph D1).<sup>[1]</sup> Different dynamics drive changes in wages across these three methods, which are relevant when assessing the outlook for wages growth. The majority of award wages are set by the Fair Work Commission (FWC) and have grown more quickly than the wages in other pay-setting methods over recent years. Wages growth in individual agreements is most responsive to changes in labour market conditions, while average wages growth in EBAs tends to respond to conditions with a lag because these agreements generally apply for several years and can be subject to delays during negotiations.

The FWC raised the national minimum and award wages by 3.5 per cent on 1 July 2018, following an increase of 3.3 per cent in the previous year.<sup>[2]</sup> Around one-fifth of all Australian employees are on minimum and award wages according to a separate Australian Bureau of Statistics (ABS) survey; award reliance is particularly high in the accommodation & food services, administrative & support services, and retail trade industries. Workers on awards tend to earn less per hour on average than workers who have their pay set by other methods, both in aggregate and within industries (Graph D2).

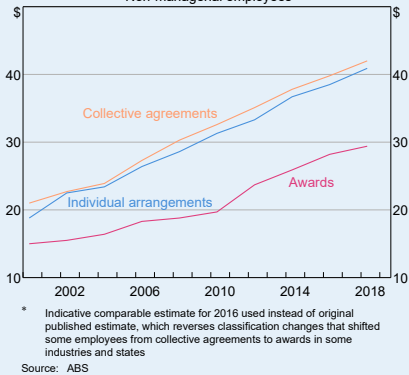
Average wages growth for workers on individual agreements has increased over the past year, but remains around 2 per cent. These agreements cover around 40 per cent of workers and tend to be more prevalent in the business services, mining and

### Graph D1



### Graph D2

**Average Hourly Earnings\***  
Non-managerial employees



construction industries. At the peak of the commodity price boom, in 2011, average wages growth for workers on individual agreements was around 4 per cent. Previous work suggests that this was because large wage rises were needed during the mining investment boom to attract workers to the mining-exposed parts of the economy.<sup>[3]</sup> Subsequently, the average size of wage increases for these workers declined and a higher-than-average share of workers experienced outright wage freezes. Over the past year, average wages growth for workers on individual agreements increased because the share of workers experiencing wage freezes declined and, more generally, labour market conditions have improved. Wages growth in a small share of individual agreements may have also been influenced by award wage increases.

Average wages growth for workers on EBAs has been little changed over recent years. A

number of factors have contributed to this stable outcome. First, EBAs set out pay rises for the duration of the agreement, which is usually around three years. This means that average WPI growth for EBA workers tends to respond to changing labour market conditions with a lag. Second, the bulk of public sector employees are on EBAs, and government policies have kept average wages growth in public sector EBAs stable at around 2½ per cent in recent years. Third, longer-than-usual delays in renegotiating EBAs have also resulted in wage freezes of one year or longer for some employees on EBAs. Over the past year, wages growth in new private sector agreements has been a little higher than wages growth in the stock of active agreements, so there is likely to be some gradual upward pressure on average wages growth for those on EBAs over time.



## Endnotes

[1] This analysis is the result of a recent collaboration between the Reserve Bank and the ABS using data on wages growth for around 18,000 jobs (see Bishop and Cassidy, forthcoming). It includes data up to September quarter 2018. The underlying data are not publicly available. See also <https://www.abs.gov.au/websitedbs/D3310114.nsf/home/ABS+Chief+Economist+-+Full+Paper+of+Wage-setting+methods+and+wage+growth+in+Australia>.

[2] Some employees are on state awards set by state industrial tribunals or authorities, rather than the national awards set by the FWC. As a result of this, award wages growth in Graph D1 does not align exactly with recent FWC adjustments to national minimum and award wages.

[3] See J Bishop and N Cassidy (2017), 'Insights into Low Wage Growth in Australia', *RBA Bulletin*, March, pp 13–20 Available at <https://www.rba.gov.au/publications/bulletin/2017/mar/bu-0317-2a.html>.