

Box B

The Slowing in Wage Growth

Over the past year, a range of measures of wages have displayed a decline in the pace of growth (Graph B1). The wage price index (WPI) measures wages and salaries for a constant quantity and quality of work performed. In the year to March, the WPI grew at its slowest pace since the early 2000s, other than for a short period of weak growth following the global financial crisis. Growth in the measure of average earnings from the national accounts (AENA) per hour has also slowed. This measure covers wages across the economy but also captures other labour costs, such as payments-in-kind and bonuses, and it tends to be more volatile. The moderation in growth has also been evident across wages set by enterprise bargaining agreements (EBAs) as well as awards and

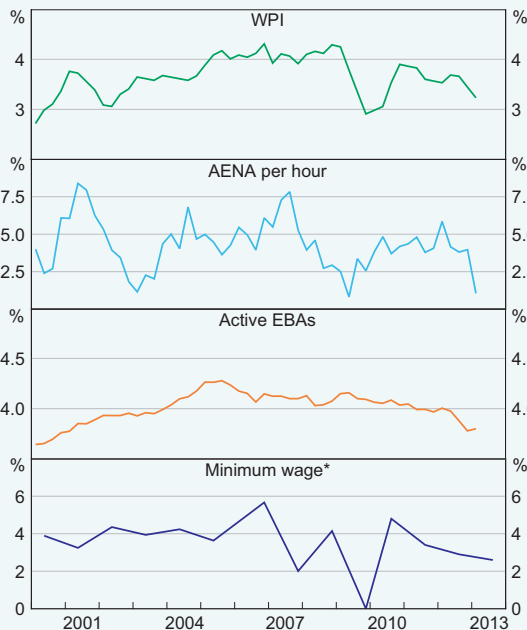
the minimum wage, which are determined centrally. Real wage growth has declined by less than nominal wage growth over recent quarters (depending on the measure chosen) given that both inflation and inflation expectations have declined over that period.

The greater volatility apparent in growth in AENA per hour than in the WPI in part reflects compositional change, such as shifts in the industry and occupational composition of employment, as well as changes in the share of ordinary versus overtime hours worked. In particular, over the past year increases in employment have tended to be greater in lower-paying industries while employment has increased by less and even declined in some higher-paying industries (such as mining). This change in the composition of employment lowers the average level of wages, and so may partly explain the weakness of the growth in AENA per hour relative to the WPI. The extent of overtime, the use of promotions and the payment of bonuses is also likely to have declined somewhat in response to more subdued labour market conditions, depressing the growth in AENA per hour.

A number of factors are likely to have contributed to the overall softer wage outcomes observed recently. In the public sector, wage growth has been constrained by fiscal restraint. More broadly, the gradual increase in the unemployment rate over the past year or so indicates that there are more people actively looking for work, placing downward pressure on wages (Graph B2).

However, the unemployment rate may not fully capture the extent to which conditions in the labour market have softened. For example, firms may have responded to weaker demand by reducing the

Graph B1
Wage Growth
Year-ended



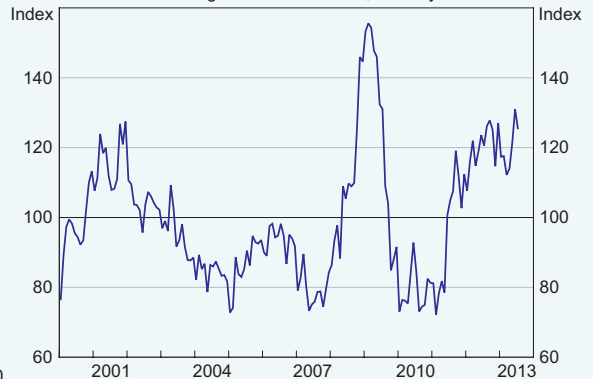
* The time period over which each increase applies varies
Sources: ABS; DEEWR; Fair Work Commission

Graph B2
Wage Growth and Unemployment*
 2005–2013, quarterly



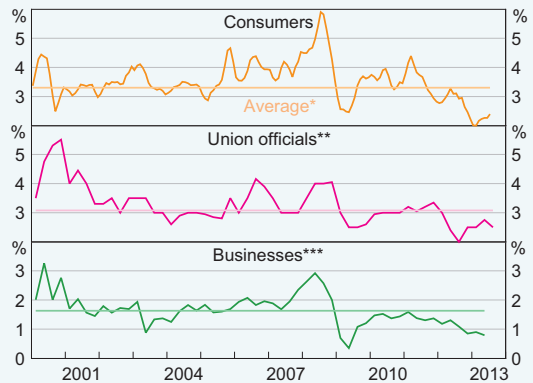
* Wage price index growth (year-ended) and unemployment rate (year-average) from March quarter 2005 to March quarter 2013
 Sources: ABS; RBA

Graph B3
Unemployment Expectations*
 Average since 1980 = 100, monthly



* Index based on proportion of respondents expecting higher unemployment in the next year
 Source: Melbourne Institute and Westpac

Graph B4
Inflation Expectations



* Post-1996 average
 ** Median inflation expectation of union officials over the year ahead (excluding carbon price)
 *** Annualised measure of expected inflation in selling prices over the quarter ahead
 Sources: Melbourne Institute of Applied Economic and Social Research; NAB; RBA; Workplace Research Centre

hours worked by their staff rather than by reducing the number of employees. Indeed, ABS data on average hours worked have trended lower since late 2011, consistent with labour demand being weaker than implied by the rate of aggregate employment growth. Lower average hours worked are also consistent with firms facing greater pressure to increase productivity in recent years.

Workers' sense of job security appears to be relatively low, which may also be contributing to lower wage demands. In particular, household survey data indicate that there has been a rise in the proportion of respondents expecting higher unemployment in a year's time and this proportion is now at a relatively high level (Graph B3).

Inflation and inflation expectations also influence wage-bargaining outcomes. Employees generally look for higher nominal wage growth when inflation is higher, in order to maintain the purchasing power of their earnings. Consumers' and unions' inflation expectations have been relatively subdued over the past year or so, implying that employees may have been more willing to accept lower nominal wage increases than they would have otherwise (Graph B4). Since inflation expectations are often affected by recent inflation, the moderate pace of

inflation in recent quarters may have also influenced employees' wage demands. Moreover, firms will be less willing to offer high growth of wages if the prices of the goods and services they sell are rising at a slower pace. Over recent years, growth in firms' domestic output prices has been subdued and the prices received for exports have declined. The resulting push to contain costs in some industries is likely to have contributed to the downward pressure on wage growth. ✦