

Aust Q2 WPI: below consensus but private wage growth disinflationary influence waning

Q2 2010 wage price index 0.8%qtr and 3.0%yr

- **The Wage Price Index was weaker than consensus in 2010Q2, rising 0.8%qtr (consensus 0.9%) after a 0.9%qtr rise previously. Annual growth was unchanged at 3.0%yr, up slightly from a 2009Q4 low of 2.9%, but remains well below its full history average pace of 3.6%yr.**
- **While the quarterly aggregate WPI pace decelerated in Q2, private sector WPI growth maintained the acceleration seen from Q4 to Q1 in Q2. The private sector WPI rose 0.8%qtr lifting annual growth for the second consecutive quarter to 2.8%yr from 2.6% previously. The public sector WPI rose 1.0%qtr slowing annual growth to 4.0%yr from 4.2% previously.**
- **The broader private sector WPI measure of total hourly rates of pay including bonuses also maintained its reacceleration from Q4 to Q1 in Q2, with the private sector rate steady at 2.9%yr, up from a Q4 low of 2.6%yr, but still well below its 3.5%yr full history average pace.**
- **With WPI growth well under the RBA's 4½% 'speed limit', the data should provide comfort for the Bank's near-term inflation forecasts. But with the reacceleration in annual private sector WPI growth over the last two quarters following the historical pattern of a two quarter lag from when the unemployment rate peaked in mid-09, and unemployment expected to fall below the 5% NAIU in 2010/11, private wage growth is waning as a disinflationary influence with a further acceleration likely through 2010H2 and 2011.**

Wage growth, using the Wage Price Index (WPI), was below consensus in Q2. The WPI rose 0.8%qtr (consensus 0.9%) after 0.9%qtr previously. With a 0.8%qtr result from a year ago dropping out, annual growth was steady at 3.0%yr, up slightly from a 2009Q4 low of 2.9%yr. However, the annual rate remains well below its full history (since 1998) average pace of 3.6%yr.

The private/public sector split showed a deceleration in public sector wage inflation was behind the unexpected slowing in the aggregate quarterly WPI pace; private sector WPI growth held on to the acceleration from Q4 to Q1 and Q2. The public sector WPI rose 1.0%qtr (vs 1.1%qtr prev) slowing annual growth to 4.0%yr from 4.2%, the weakest since 2008Q3.

We find that WPI growth responds to labour market developments with around a two quarter lag, and with the trend unemployment rate peaking in July 2009 at 5.8%, falling to 5.5% in December 2009, and subsequently to 5.3% at end-Q1 2010, the reacceleration in quarterly private sector WPI growth from Q4 to Q1 and Q2, and rise in annual private sector WPI growth over

Various measures from the Wage Price Index*

% change	Sep 09	Dec 09	Mar 10	Jun 10
WPI %qtr	0.7	0.6	0.9	0.8
WPI %yr	3.6	2.9	3.0	3.0
Private WPI %yr	3.1	2.5	2.6	2.8
Public WPI %yr	4.6	4.1	4.2	4.0
Private WPI inc. bonuses %yr [#]	2.9	2.6	2.9	2.9

* Total pay excluding bonuses, seasonally adjusted.

Original data.

Sources: ABS 6345.0

the last two quarters, fits broadly with that historical lagged relationship. The further nudge down in the trend unemployment rate to 5.2% in July and our forecast for a further gradual decline to below the 5.0% NAIU in 2010/11 argues for a continued acceleration in WPI growth through 2010H2 and 2011.

The private sector WPI rose 0.8%qtr in Q2, a repeat of Q1's print after three consecutive 0.6%qtr outcomes, the strongest quarterly pace since 2008Q4. Annual growth rose to 2.8%yr from 2.6% previously and a trough of 2.5% in 2009Q4, the highest since 2009Q3 but still well below its full history average pace of 3.5%yr.

The reacceleration in private sector WPI growth from 2009 to 2010H1, but to a still below average pace, is consistent with the RBA's expectations. In the recent August Statement on Monetary Policy (SoMP), the Bank noted "Labour cost growth has been picking up this year, after a period of unusually low outcomes in 2009, particularly in the private sector." They also noted the annual WPI pace was "more than ½ percentage point below its decade average, reflecting subdued quarterly outcomes during 2009." In an acknowledgement that while wage growth is rising, it is still historically subdued, they noted "Business surveys and the Bank's liaison in recent months also suggest that labour cost growth is picking up, although both indicate that, in general, firms are continuing to have relatively little difficulty finding suitable labour". Recall also that this week's August RBA meeting minutes cited as a factor behind the recent slowing in underlying inflation "the slowing in private-sector wage growth in 2009". While aggregate WPI growth of 3.0%yr and 2.8%yr for the private sector remains well under the RBA's 4½% 'limit' consistent with the inflation target ceiling, that disinflationary influence is waning, and faces further upside pressure through 2010/11.

The broader WPI measure of wage growth which includes bonuses also maintained its acceleration from Q4 to Q1 in Q2. The WPI for total hourly rates of pay including bonuses is only published in original terms, so we focus on trends in the annual pace. The

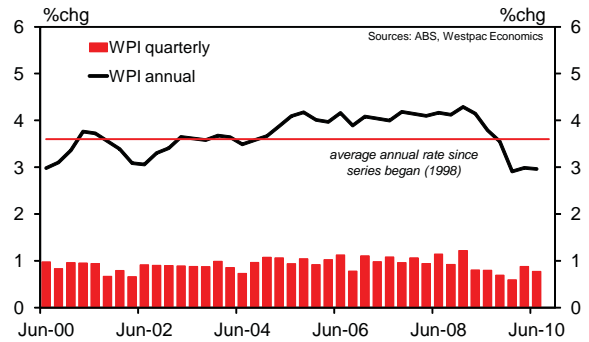
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private sector WPI of total hourly rates of pay including bonuses showed unchanged annual growth of 2.9%, up from a 2009Q4 low of 2.6%, but below its 3.5%yr long run average.

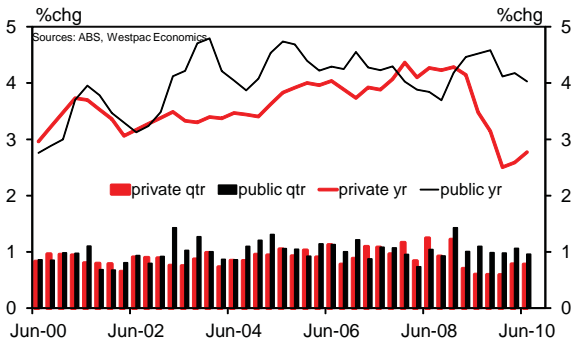
On an industry basis, the data is only published in original terms, so we focus on trends in the annual rates here also. Out of 18 industry sectors, two were unchanged (information media & telecommunications 2.0%yr; professional, scientific & technical services 2.9%yr) and eight saw a deceleration (utilities 4.7%yr vs 4.8% prev; construction 2.9%yr vs 3.0% prev; wholesale trade 1.7%yr vs 2.1% prev; transport, postal & warehousing 3.2%yr vs 3.4% prev; public administration & safety 3.7%yr vs 3.9% prev; education & training 3.9%yr vs 4.3% prev; arts & recreation services 2.8%yr vs 3.0% prev; other services 2.4%yr vs 2.6% prev). That was fully offset by accelerations in eight industry sectors (mining 3.8%yr vs 3.4% prev; manufacturing 2.5%yr vs 2.1% prev; retail trade 2.7%yr vs 2.4% prev; accommodation & food services 2.0%yr vs 1.8% prev; financial & insurance services 3.1%yr vs 2.9% prev; rental, hiring & real estate services 2.5%yr vs 2.2% prev; administrative & support services 2.5%yr vs 2.0% prev; health care & social assistance 4.0%yr vs 3.8% prev). As with the aggregate WPI results remaining well below their long run averages, only two of the 18 industry sectors at this stage are recording WPI growth at or above their respective long run averages (utilities 4.7%yr vs LR avg 4.2%yr; health care & social assistance 4.0%yr vs LR avg 3.7%yr).

Anthony Thompson, Senior Economist

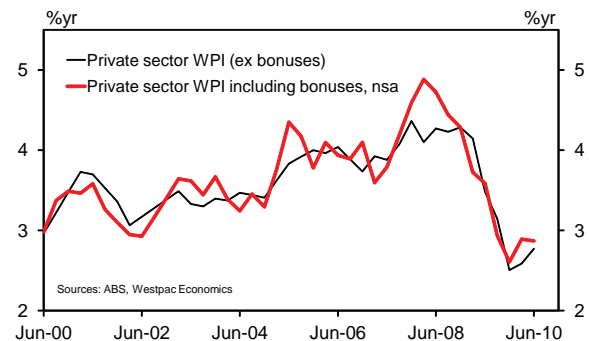
Wage inflation reacceleration mild so far



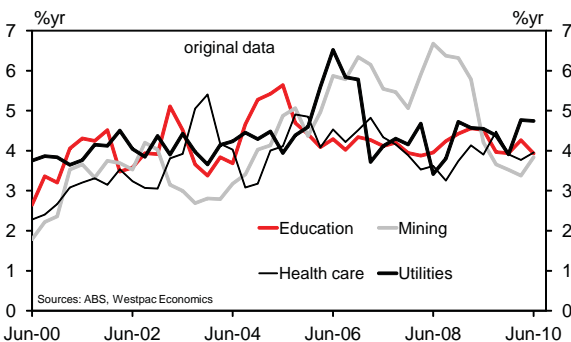
WPI: Private vs public sector



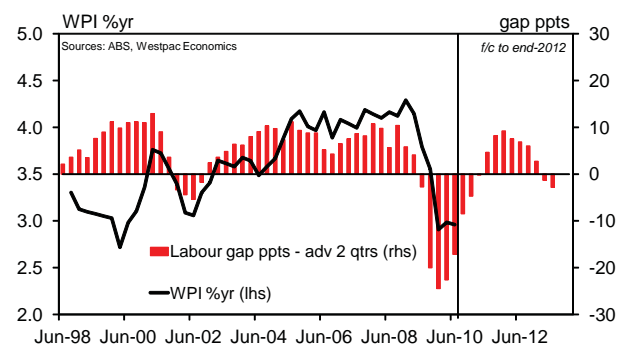
Private wages growth turning from low base



Sectors of strongest WPI growth



Australian labour gap vs WPI



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