

In late 2010 and early this year, employer groups began to claim that Australia was on the verge of an unsustainable wages breakout, with real wages rising faster than productivity. This, it was claimed, would tip Australia into an inflationary wage-price spiral, leaving workers no better off. The blame was laid on the Fair Work Act and unions' allegedly unreasonable demands. Employers had little trouble finding publicity for their claims, despite the lack of evidence in favour of them.

At the time, the ACTU strongly disputed the employers' claims, suggesting instead that wages growth was solid but sustainable. The data that have emerged throughout 2011 have supported the ACTU's analysis. If anything, the data show that wages are barely keeping up with the cost of living. The Wage Price Index increased by 3.6% in the year to the September quarter, below the increase in the cost of living for employee households.

This ACTU Wages Report sets out key trends in wages and prices. The Report forms part of a new suite of regular economic reports by the ACTU, along with a Jobs Report and an Economic Report, each of which will be released quarterly. Some measures that are relevant to wage developments, like productivity growth, hours worked, and unit labour costs, will be covered in the other reports. These reports replace the ACTU Economic Bulletin.

## Wages and prices at a glance

	Latest quarter	Level	Quarterly change	Year-ended change
Wage Price Index (WPI)	September	-	0.7%	3.6%
Full-time average weekly ordinary time earnings (AWOTE)	August	\$1323	1.2%	5.3%
Total average weekly earnings (AWE)	August	\$1024	0.3%	4.7%
National Minimum Wage	From 1 July	\$589.30		3.4%
Headline CPI	September	-	0.6%	3.5%
Underlying CPI	September	-	0.3%	2.5%
Employees' cost of living (ALCI)	September	-	0.6%	3.9%
Gender pay gap	August	17.8%	+ 0.1 pps	+ 1.1 pps

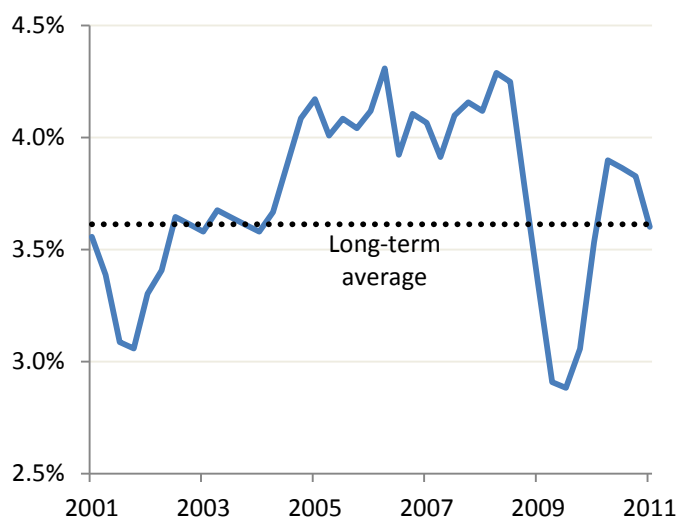
Source: ABS, FWA. Underlying CPI is the average of the trimmed mean and weighted median. All figures are seasonally adjusted other than the CPI and ALCI. The gender pay gap is calculated using full time adult AWOTE.

# Wage Price Index

In late 2010 and early 2011, employer groups began to claim that Australia was on the verge of an inflationary wage-price spiral. The mooted breakout never emerged. Instead, the pace of wages growth has fallen in 2011.

The Wage Price Index (WPI) grew by 3.6% in the year to September. This is a moderate outcome, in line with the long-term average, and hardly 'unsustainable'. If anything, the WPI is lagging behind increases in the cost of living for workers.

**Figure 1 – Wage Price Index growth (year-ended)**

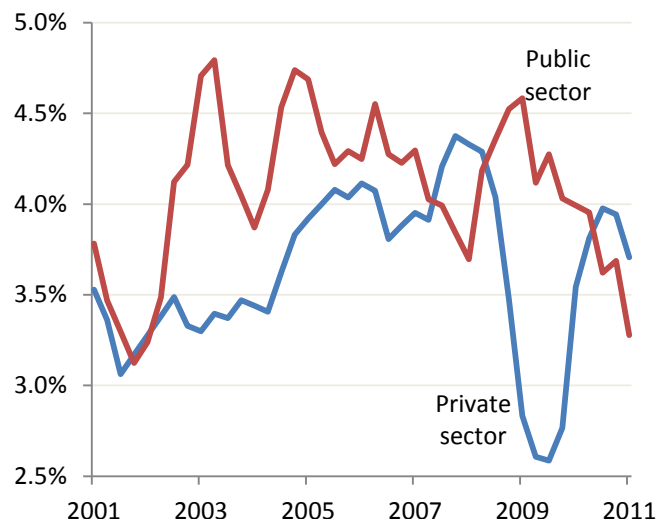


Source: ACTU calculations based on ABS 6345.0

The WPI is a 'pure price' index that measures changes in hourly rates of pay for a fixed 'basket' of jobs. Unlike Average Weekly Earnings, the WPI is not affected by changes in penalty rates, allowances, bonuses or other compositional change.

The WPI is a measure that the RBA keeps a close eye on when adjusting monetary policy – the Bank said in its most recent *Statement on Monetary Policy* that WPI growth "is expected to remain... at a little less than 4 per cent". The latest WPI figures were released after the RBA's *Statement*, and show wages growth slowing more than expected, with a 0.7% increase in the September quarter.

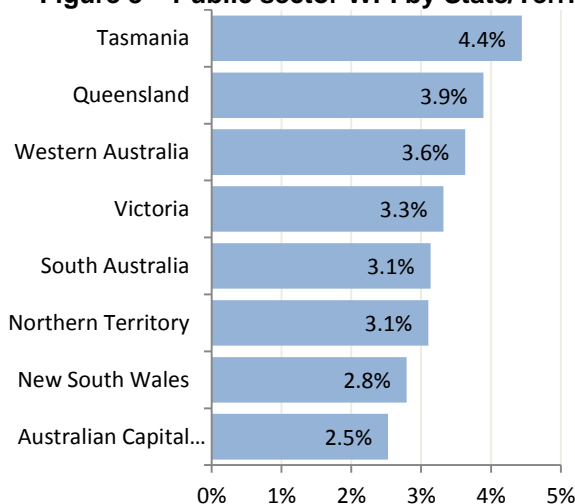
**Figure 2 - WPI by sector**



Source: ACTU calculations based on ABS 6345.0

The slowdown in wages growth has been most pronounced in the public sector. Public sector wages growth averaged 4.3% from 2003 to 2009, but the pace of growth has fallen in the past two years. Public sector wages rose only 0.5% in the September quarter, compared with 0.9% growth in the private sector. Over the year, the private sector WPI increased by 3.7%, whereas the public sector recorded only 3.3% growth. This is the slowest public sector wages growth in year-ended terms since 2002.

**Figure 3 – Public sector WPI by State/Territory**



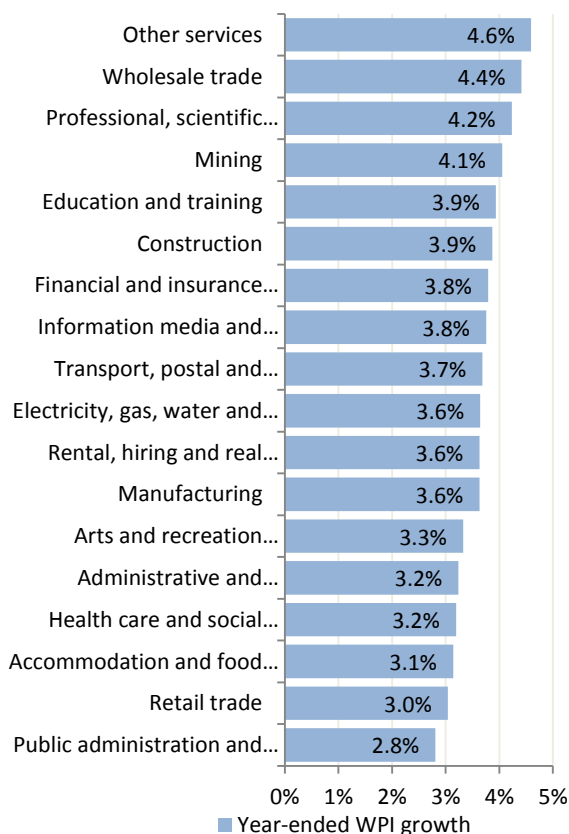
Source: ACTU calculations based on ABS 6345.0 (original)

The weakness in public sector wages growth was most pronounced in the ACT, with the public sector WPI there growing by only 2.5% over the year. The public sector in

Tasmania (which includes Tasmanian employees of the Commonwealth, State and local governments) saw relatively strong WPI growth over the year, though this slowed in the September quarter to a 0.7% increase.

In Australia as a whole, the strongest wages growth in the year to September was recorded in 'other services' – a relatively small industry that includes repair and maintenance, personal services (like hairdressing) and civic and professional interest groups. The WPI in this industry grew by 4.6% over the year, compared with a 3.6% weighted average for all industries. The wholesale trade industry also recorded solid growth of 4.4%.

**Figure 4 – WPI growth by industry (year-ended)**



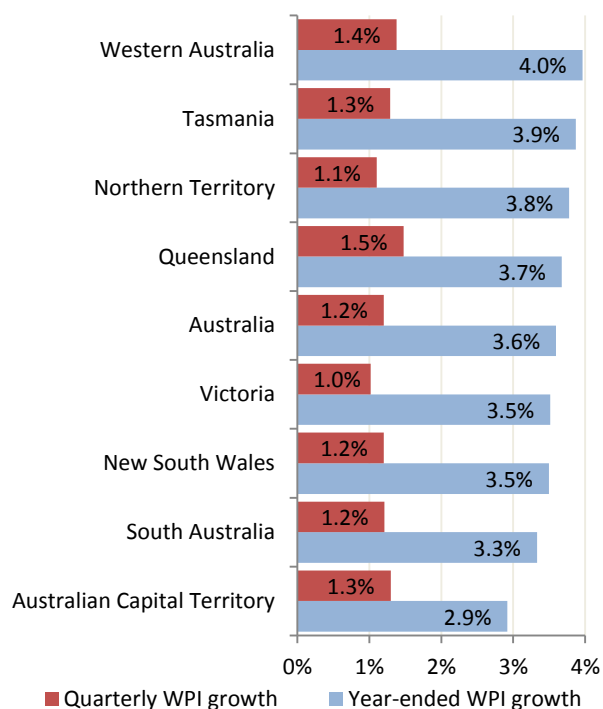
Source: ACTU calculations based on ABS 6345.0 (original)

The weakest wages growth was in public administration; retail trade; and accommodation and food services.

The strongest growth in the year to September was recorded in WA (4.0%), while Queensland posted a solid 1.5% gain in quarter after some prior sluggishness. The

slowest wages growth was recorded in the ACT, just 2.9% over the year, below the headline CPI.

**Figure 5 – WPI growth by State/Territory**



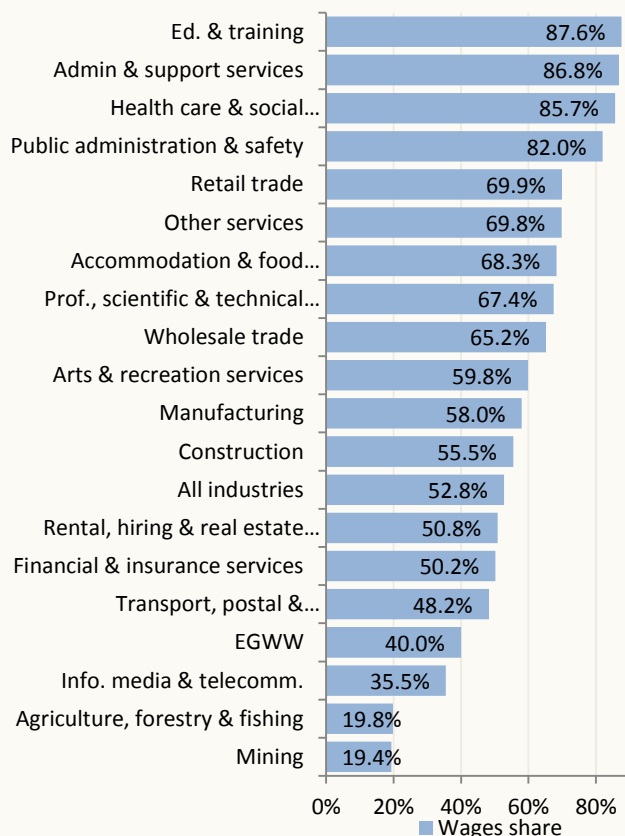
Source: ACTU calculations based on ABS 6345.0 (original)

The State and Territory figures paint the picture you'd expect from the current state of the Australian economy – the mining regions are surging ahead, while tight public sector budgets are restraining wages growth in the ACT. The other States are somewhere in the middle, with Victoria and NSW both recording 3.5% year-ended growth. The apparent anomaly here is Tasmania, recording 3.9% growth in the year. This seems to have been the result of the 4.4% increase in public sector wages in that State over the year to September.

## Feature: The wages share of income by industry

The wages share of national income fell steadily throughout the 2000s. By 2010, it had reached a level not seen since the mid-1960s. A falling wages share indicates that real wages failed to keep pace with productivity growth.

**Figure 6 – Wages share of income by industry (June 2011 quarter)**



Source: ACTU calculations based on ABS 5204.0.<sup>1</sup>

The division of income between wages and profits differs significantly across industries, reflecting the capital intensity of production and other factors. Industries which use a lot of capital and relatively little labour per unit of output, like mining or farming, see less than a fifth of their income paid as wages. Labour-heavy industries like education see a relatively small share of total income paid as profits and a high wages share.

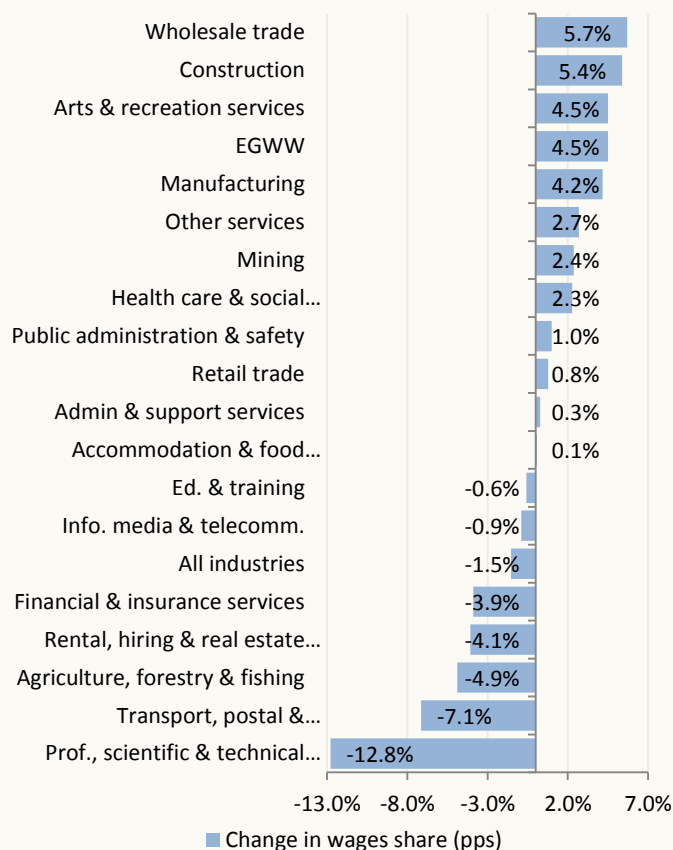
One way to get a rough sense of how workers' bargaining power in each industry has changed over time is to look at how the wages share has changed.

<sup>1</sup> EGWW is 'Electricity, Gas, Water and Waste Services'.

There are obviously many factors other than bargaining power that affect the division of factor income – things like changes in the nature of production, trade, the proportion of businesses that are incorporated, and the business cycle all affect this.

With that caveat in mind, it is still illuminating to examine the change in the share of income that is paid to workers in each industry. Over the past five years (an arbitrary timeframe), workers have claimed a greater share of the total pie in the wholesale trade and construction industries, among others. Professional, scientific and technical services has seen the labour share decline considerably.

**Figure 7 – Change in wages share of income by industry – 2006 to 2011**



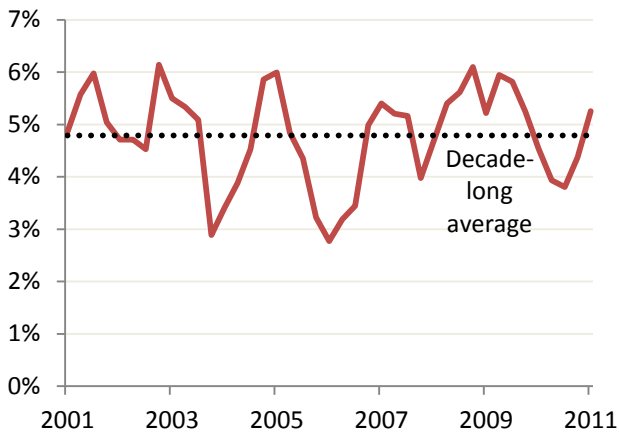
Source: ACTU calculations based on ABS 5204.0

The first edition of the ACTU Economic Report will examine other measures of the division of factor income by industry, like the sales/wage ratio.

# Average Weekly Earnings

Full time adults' average weekly ordinary time earnings (AWOTE) rose by 5.3% over the year to August, slightly above the average for the past decade of 4.8%. This comes after four quarters of below-average growth in year-ended terms.

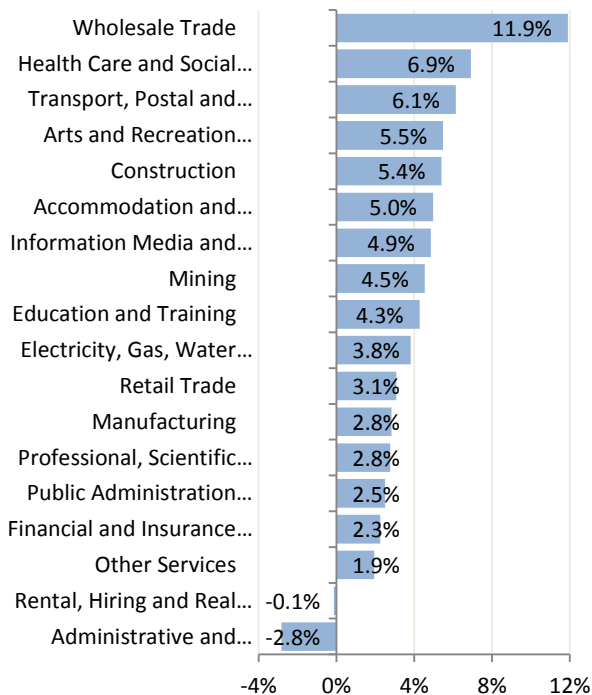
**Figure 8 - Full time AWOTE growth (year-ended)**



Source: ACTU calculations based on ABS 6302.0

Strong gains were recorded in the Wholesale Trade industry, whereas average earnings in the Administrative and Support Services industry fell over the year.

**Figure 9 - AWOTE growth by industry (year-ended)**

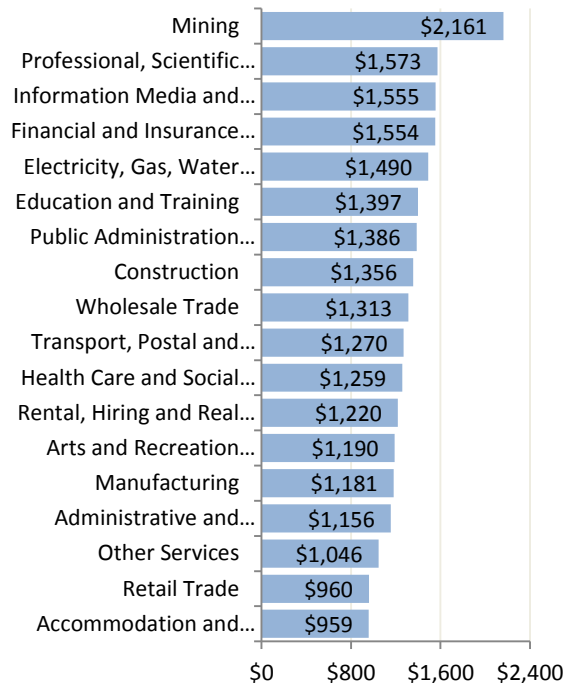


Source: ACTU calculations based on ABS 6302.0 (original)

The wide range in wage growth rates across industries added to the polarisation of the Australian labour market, with well-paid sectors pulling further ahead of other

industries. Average earnings for full time workers in mining, the most well paid industry, are now around 2.3 times the average for full time workers in accommodation and food services.

**Figure 10 - AWOTE by industry**



Source: ACTU calculations based on ABS 6302.0 (original)

During the 1990s and early 2000s, average earnings in the highest-paid Australian industry were generally around double the average in the lowest paid industry. That ratio began to increase in 2007, with ratio of highest to lowest average earnings by industry now at 2.3.

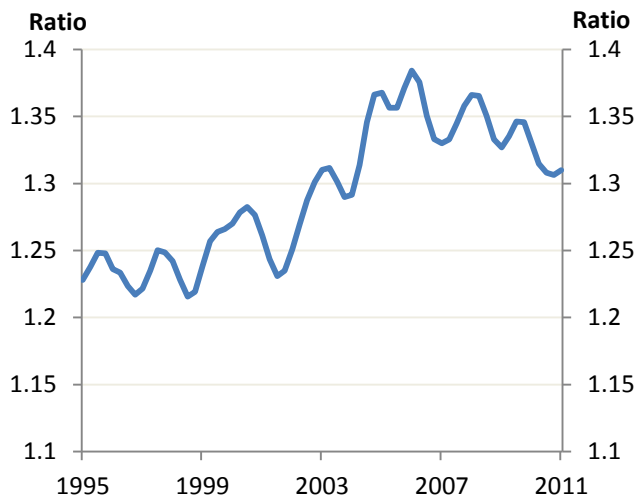
**Figure 11 - Ratio of highest AWOTE to lowest AWOTE by industry**



Source: ACTU calculations based on ABS 6302.0 (original)

The gap between average earnings by State has also increased over the past decade, though it has moderated somewhat since the mid-2000s.

**Figure 12 – Ratio of highest AWOTE to lowest AWOTE by State/Territory**

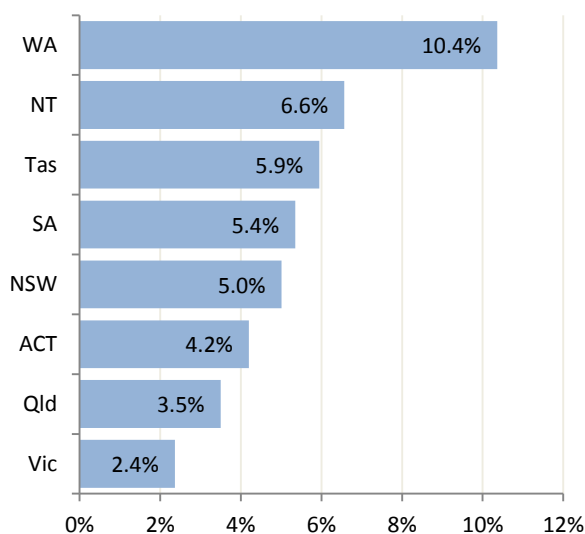


Source: ACTU calculations based on ABS 6302.0 (trend)

AWOTE for full time West Australian adults increased by 10.4% in the year to the September quarter, while Victorian full time AWOTE increased by only 2.4% over the same period.

At \$1527 per week, WA's average earnings for full time adults has just overtaken the ACT's on \$1525. Tasmania has the lowest average of any State or Territory at \$1166 per week.

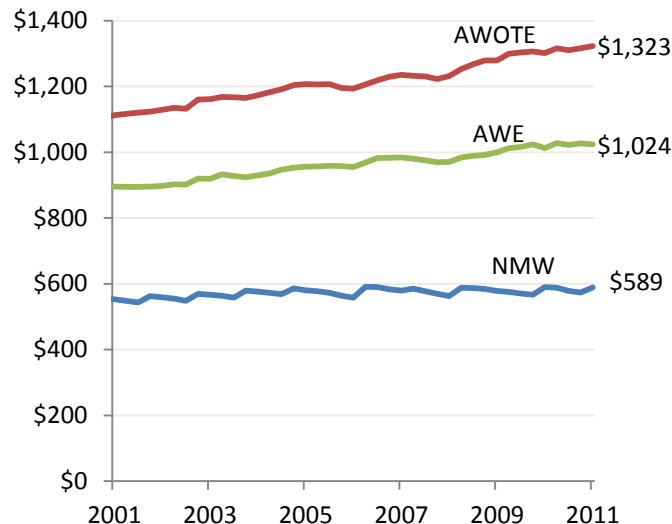
**Figure 13 - Change in AWOTE by State (year-ended)**



Source: ACTU calculations based on ABS 6302.0 (trend)

In real, inflation-adjusted terms, average total earnings for all employees (AWE) increased by 1.1% in the year to September, while real AWOTE increased by 1.7%. Figure 14 shows these wage measures as well as the National Minimum Wage (NMW) in constant September 2011 dollars.

**Figure 14 - Real wages (September 2011 dollars)**



Source: ACTU calculations based on ABS 6302.0, ABS 6401.0, FWA.

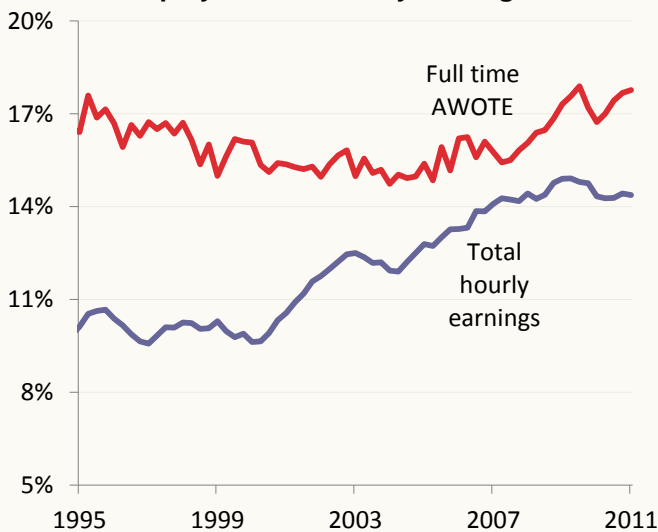
It should be noted that the average (ie. mean) earnings of full time workers is much higher than the median. In August 2010, the median weekly earnings of full time workers was \$1050, while the average was \$1256.

## Feature: The gender pay gap

After falling more or less steadily, though slowly, from the mid-1980s, the gender pay gap began to rise in the 2000s. In late 2004, Australian full time women's ordinary time earnings were 85.3% of men's earnings, a gender pay gap of 14.7%. The gap has now widened to 17.7%. The slow gains in gender equity that had been made over the course of two decades have been eroded in a few short years.

The gender pay gap is typically presented as the gap between male and female full time AWOTE. By excluding part time workers and focusing on ordinary time earnings, this measure comes close to comparing 'like with like'. It's also possible to derive an estimate of the pay gap based on total hourly earnings. Both measures are presented in Figure 15.

**Figure 15 - Gender pay gap: Full time AWOTE basis and all employees total hourly earnings basis**

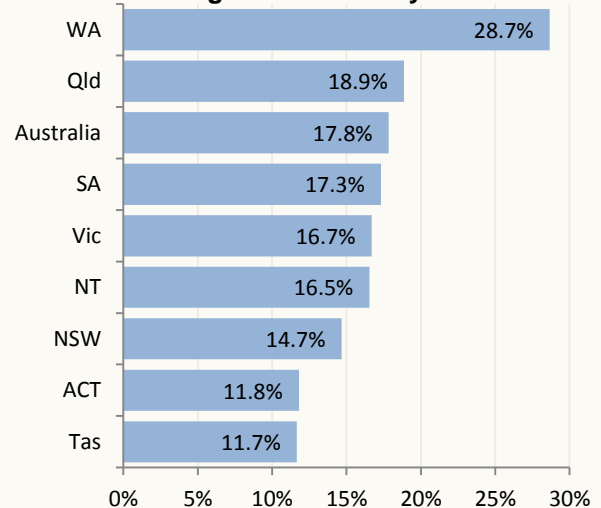


Source: ACTU calculations based on ABS 6302.0 (seasonally adjusted and original) and ABS 6291.0.55.003 (original). The total hourly earnings GPG is a 5-quarter centred moving average.

The pay gap calculated using total hourly earnings is smaller than the full-time AWOTE gap, but the trend is even more troubling. The gap in total hourly earnings was below 10% in late 2000, but had spiked to around 15% by late 2009.

There is significant disparity in the size of each State's gender pay gap.

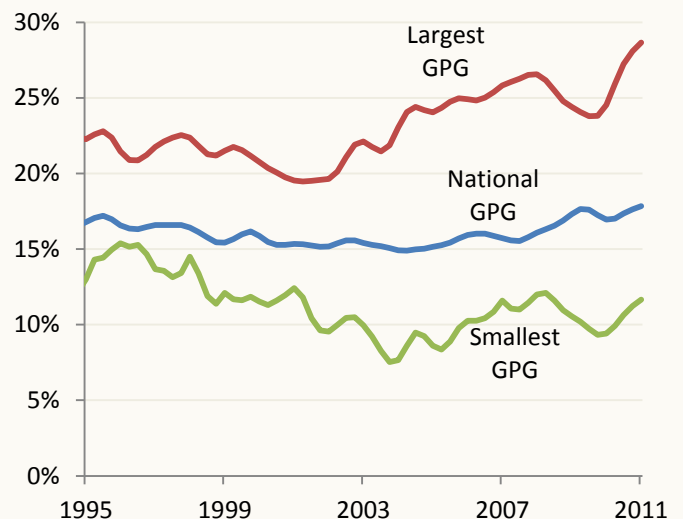
**Figure 16 - GPG by State**



Source: ACTU calculations based on ABS 6302.0 (trend)

The gap between the largest and smallest GPGs grew markedly in the 2000s. WA has had the largest gap in the country since at least the early '90s, and WA's gap has pulled further away from the national average in the past decade. The smallest gap has generally been in Tasmania or the ACT, and the pay gap in those States has remained relatively low even while the national average has risen.

**Figure 17 - Spread between largest and smallest GPGs by State/Territory**

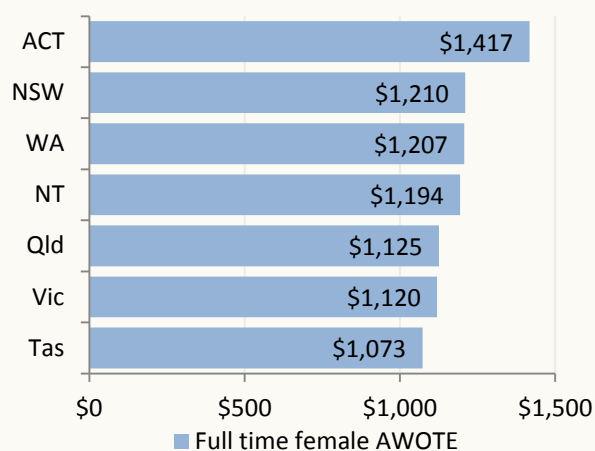


Source: ACTU calculations based on ABS 6302.0 (trend)

While the ACT and Tasmania both have relatively small gender pay gaps, the earnings picture in those jurisdictions looks quite different. In Tasmania, both men and women earn less than the national average, and the

gap between the genders within the State is relatively small. In the ACT, the gap is relatively small, but both men and women have higher average earnings than the national average.

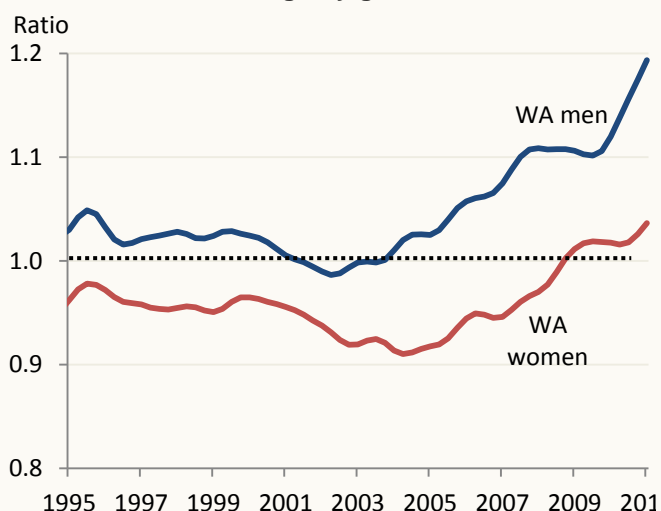
**Figure 18 - Average full-time earnings for women by State (August 2011)**



Source: ACTU calculations based on ABS 6302.0 (trend)

WA's gender pay gap is the most striking, both for its level and its change over time. Until 2009, WA women not only earned far less than WA men, but they also earned less than Australian women generally. In early 2003, before the mining boom took off, the average earnings of WA men were around the same as the national male average; men in WA now earn around 20% more than Australian men generally.

**Figure 19 - WA wages compared to the national average by gender**



Source: ACTU calculations based on ABS 6302.0 (trend)

Figure 19, above, shows the ratio of WA male AWOTE to Australian male AWOTE, and WA female AWOTE to Australian female AWOTE. The mining boom is clearly a

factor in explaining WA's large gap, but it is not the only factor. Mining only accounts for around 5% of employment in WA, and WA had a large pay gap well before the mining boom began.

At the national level, the biggest pay gaps are to be found in Financial and Insurance Services (33.3%) and Health Care and Social Assistance (31.4%), while Retail Trade (4.3%) has the smallest gap.

**Figure 20 - GPG and AWOTE by gender and industry**

	GPG	Male AWOTE	Female AWOTE
Retail Trade	4.3%	\$978	\$935
Public Administration & Safety	7.2%	\$1,429	\$1,327
Transport, Postal & Warehousing	9.2%	\$1,293	\$1,174
Education & Training	9.9%	\$1,487	\$1,340
Accommodation & Food Services	10.0%	\$995	\$896
Other Services	10.7%	\$1,086	\$971
Electricity, Gas, Water & Waste Services	14.5%	\$1,533	\$1,311
Construction	16.9%	\$1,388	\$1,153
Administrative & Support Services	18.0%	\$1,259	\$1,033
Arts & Recreation Services	18.4%	\$1,284	\$1,048
Information Media & Telecommunications	18.6%	\$1,664	\$1,354
Manufacturing	19.3%	\$1,229	\$992
Wholesale Trade	19.3%	\$1,388	\$1,120
Mining	22.5%	\$2,229	\$1,727
Rental, Hiring & Real Estate Services	27.0%	\$1,398	\$1,021
Professional, Scientific & Technical Services	29.4%	\$1,781	\$1,257
Health Care & Social Assistance	31.4%	\$1,615	\$1,108
Financial & Insurance Services	33.3%	\$1,853	\$1,236

Source: ACTU calculations based on ABS 6302.0 (original)

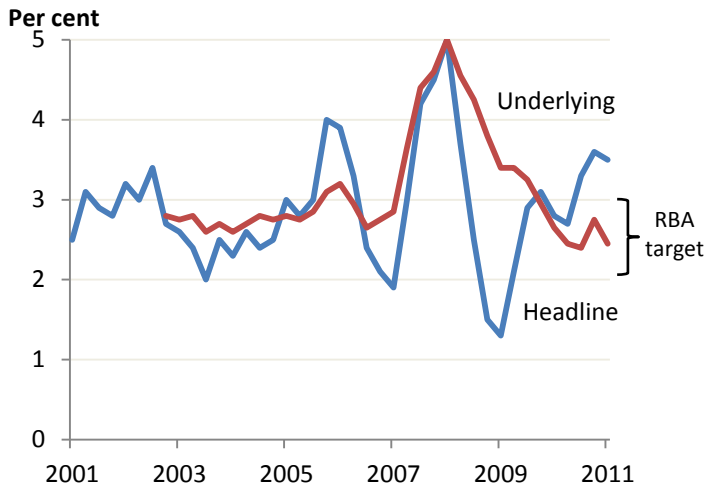
A major study commissioned by FaHCSIA found that only 40% of the gender pay gap could be explained by observable factors like differences in qualifications, experience or firm size, with 60% of the gap ascribed to gender.<sup>2</sup> The equal remuneration case launched by the ASU, HSU, AWU Queensland, LHMU and the AEU is a very important step towards gender pay equity in Australia, but much more needs to be done.

<sup>2</sup> Cassells, et al. 2010, *The Impact of a Sustained Gender Wage Gap on the Australian Economy*, Report for the Office for Women, FaHCSIA, NATSEM, University of Canberra, Canberra.

# Prices

Underlying inflation increased by 2.5% in the year to the September quarter, in the middle of the Reserve Bank's target band of an average of two to three per cent. The all-groups CPI ('headline inflation') increased by 3.5% over the year, but the pace of inflation slowed significantly in the September quarter to 0.6%, down from 1.0% and 1.5% in the previous two quarters.

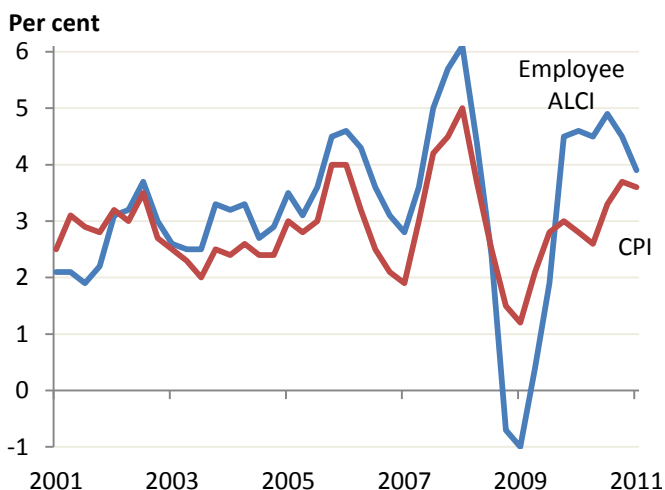
**Figure 21 - Consumer Price Inflation (year-ended)**



Source: ABS 6401.0. Underlying inflation is the average of the weighted median and trimmed mean.

While underlying inflation is under control, the cost of living for employee households has risen faster than the CPI since mid-2009. In the year to September, the Analytical Living Cost Index (ALCI) for employee households increased by 3.9%, down from a 4.5% increase in the year to June.

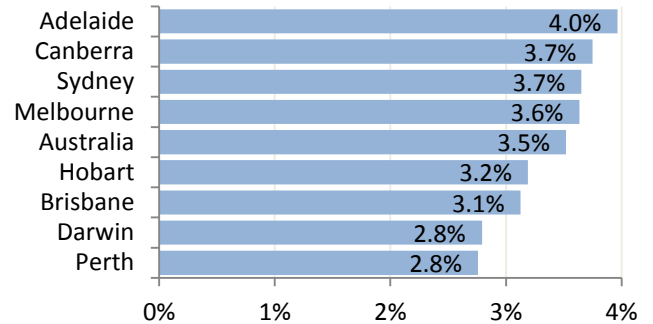
**Figure 22 - Change in employees' cost of living and the CPI (year-ended)**



Source: ABS 6463.0.

The largest increase in inflation in the year to September was recorded in Adelaide (4%), while the CPI for Perth and Darwin increased by only 2.8%.

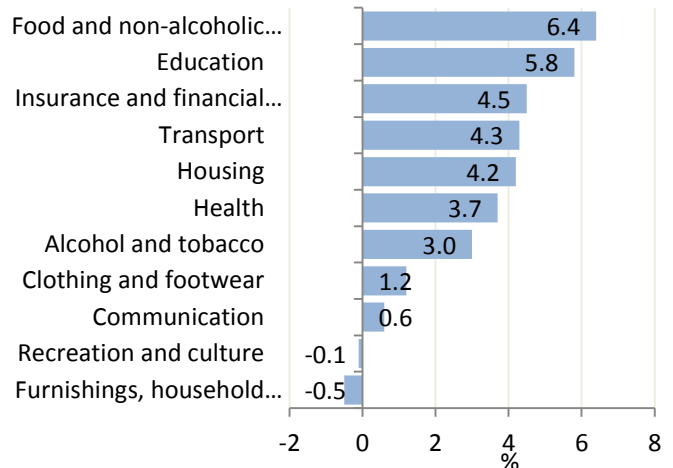
**Figure 23 - CPI by State (year-ended)**



Source: ABS 6401.0

The largest increases over the year to September were recorded in the Food and non-alcoholic beverages group (6.4%), followed by Education (5.8%). Inflation in both these groups moderated in the September quarter, with the Food group index falling by 0.2% and Education increasing by only 0.1%. The Food group in particular was heavily affected by the natural disasters of early 2011 and their impact on the price of bananas and other fresh fruit and vegetables.

**Figure 24 - Year-ended inflation by CPI group**



Source: ABS 6401.0

The RBA forecasts in its latest *Statement* that CPI inflation will be 2% in the year to June 2012, with underlying inflation at 2.5%.