

Real wage cuts, not a ‘breakout’, for workers

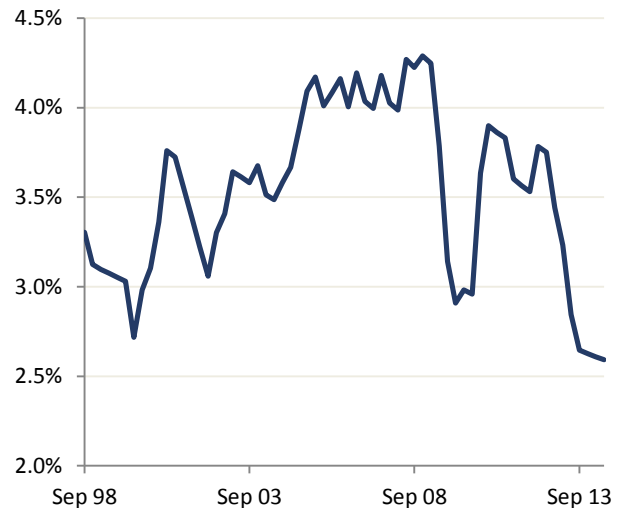
Key points

- Growth in the Wage Price Index has been the slowest in its 17-year history.
- Wages growth has slowed in all industries.
- Other measures of wages growth are also slow.
- With wages growth relatively slow and productivity growth strong, the cost of employing workers to produce a given amount of output has been growing at a slow pace.
- The slowing in wages growth reflects a weaker labour market, with higher unemployment and slower employment growth.

The Australian warned in a 2010 [editorial](#) that the Australian economy was “facing an economically irrational assault on a scale we have not witnessed for a quarter of a century” in the form of a “wages breakout.” Others have issued similar warnings about unsustainable wages growth in Australia, such as Minister Abetz who [said](#) “we risk seeing something akin to the wages explosion of the pre-Accord era” in a speech in January.

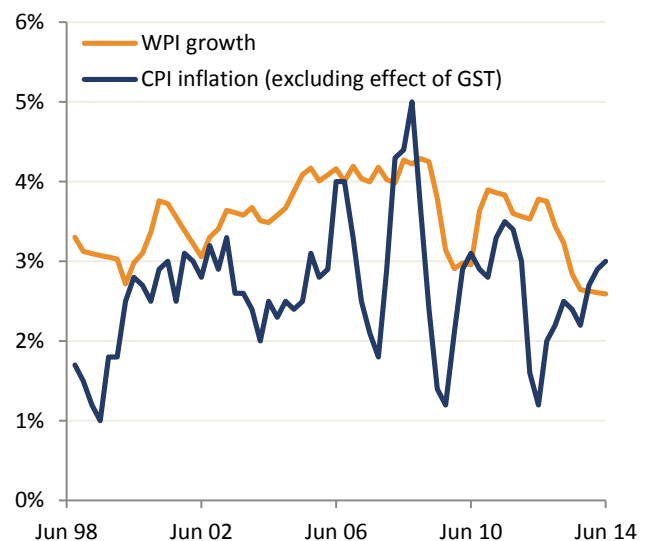
The “breakout” or “explosion” has failed to materialise. The Wage Price Index (WPI) grew by just 2.6% over the year to the June 2014 quarter, the slowest wages growth in the 17-year history of that series, as shown in Figure 1. Wages growth of 2.6% wasn’t enough to keep up with inflation, as the CPI rose by 3% over the year to the June quarter. This is only the second time real wages have fallen since the creation of the WPI.

Figure 1: Year-ended growth in the Wage Price Index



Source: ABS 6345, seasonally adjusted.

Figure 2: Annual growth in wages and inflation

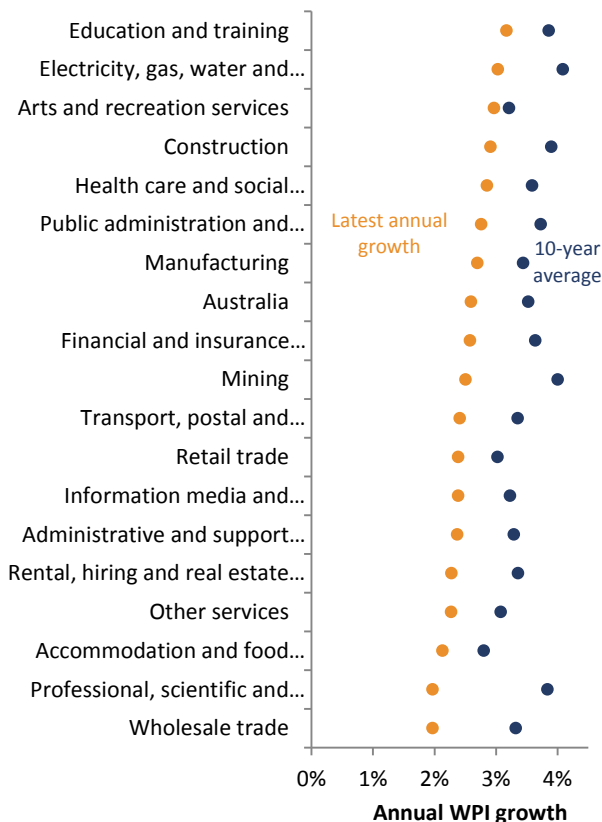


Source: ABS 6345 and RBA. The CPI measure used here is from RBA table G1; it excludes interest and the tax changes of 1999-2000.

Wages growth has slowed in every industry. Figure 3 compares wages growth in the year to June 2014 to the average for each industry over the period 2004 to 2014. Wages in mining rose by only 2.5% over the past year, compared to an average of 4% over the past 10 years. The fall in wages growth was even larger in professional, scientific and

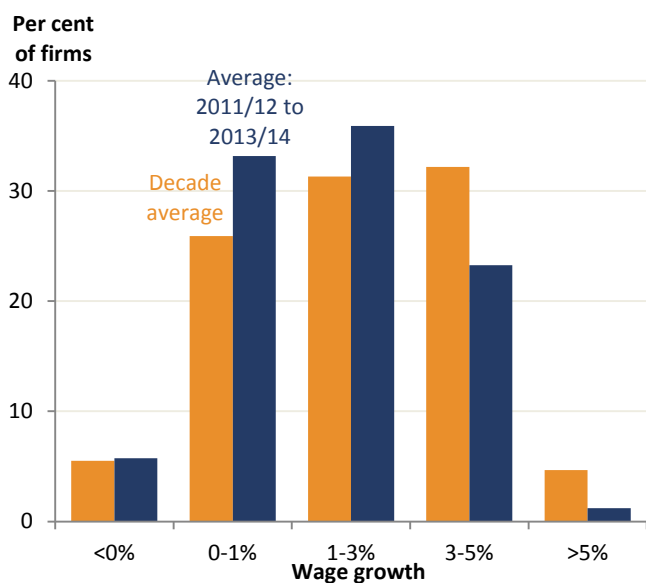
technical services, where wages rose by 2% over the past year rather than the 3.8% decade-average growth. Wages growth has slowed considerably in both the private and public sectors.

Figure 3: WPI growth by industry – year to June 2014 and 10-year average



Source: ABS 6345 and ACTU calculations.

Figure 4: Distribution of wage growth across firms



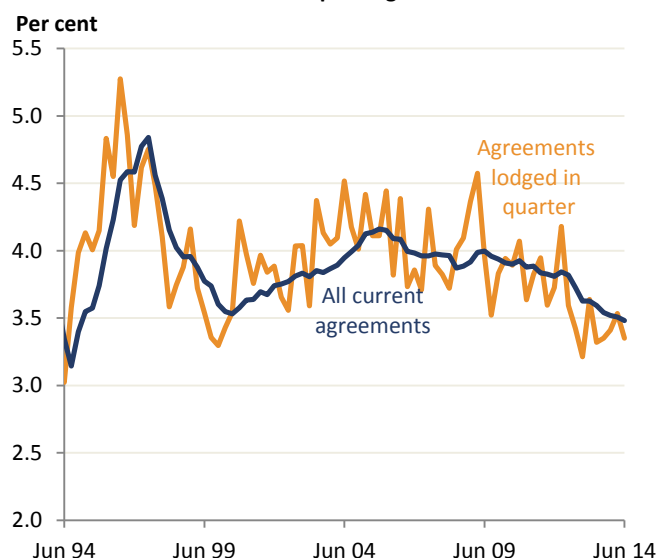
Source: NAB data and RBA analysis. See [Kent 2014](#).

There is no pocket of rapid wages growth – all industries have seen growth slow to below its 10-year average. It's not the case that overall wages

growth has slowed, while some industries continue to record strong growth. Only a tiny minority of firms (a little over 1%) have recorded wages growth for their employees of over 5% in recent years, while the proportion of firms paying wage increases of 3-5% has fallen from about 32% over the decade to about 23%, as shown in Figure 4.

Other measures of wages have also slowed. On average, current enterprise agreements provide for a 3.5% annual wage increase¹; this is the lowest average wage increase in enterprise agreements since 1994.

Figure 5: Average annualised wage increase in federal enterprise agreements



Source: Department of Employment, [Trends in Federal Enterprise Bargaining](#).

Table 1 summarises various measures of wages growth. Each measure is below its average for the past decade. The National Accounts measure of wages (average compensation per employee) rose by only 2.3% over the year, down from a decade average of 3.9%. Average weekly earnings for full-time adults rose by 2.3%, barely half of its average over the past decade (4.5%).

¹ Average annualised wage increase per employee in registered federal enterprise agreements. Note that legislative changes (such as the referral of state industrial relations powers to the Commonwealth) have changed the scope of this series.

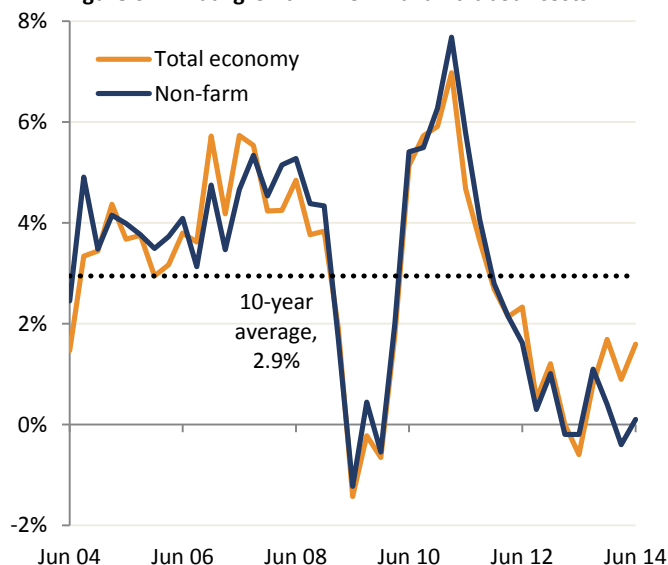
Table 1: Summary of wages measures

	Latest annual growth	10 year average
Average compensation per employee	2.3%	3.9%
Wage Price Index	2.6%	3.6%
Average weekly ordinary time earnings (full-time adults)	2.3%	4.5%
Average weekly earnings (all employees)	1.6%	4.2%
Minimum wage	3.0%	3.2%
Median full-time earnings	0.0%	4.1%
Average wage increase in current EBAs	3.5%	3.9%
Average wage increase in EBAs lodged in quarter	3.3%	3.9%

Source: ABS 5206; ABS 6345; ABS 6302; FWC; ABS 6310; Department of Employment; ACTU calculations.

While wages growth has been slow, labour productivity growth has picked up strongly in the past few years, with GDP per hour worked rising by 2.8% in the year to the June quarter. Slow wages growth and strong labour productivity growth mean that unit labour costs (ULCs) have barely risen – non-farm ULCs increased by just 0.1% over the year.²

Figure 6: Annual growth in nominal unit labour costs



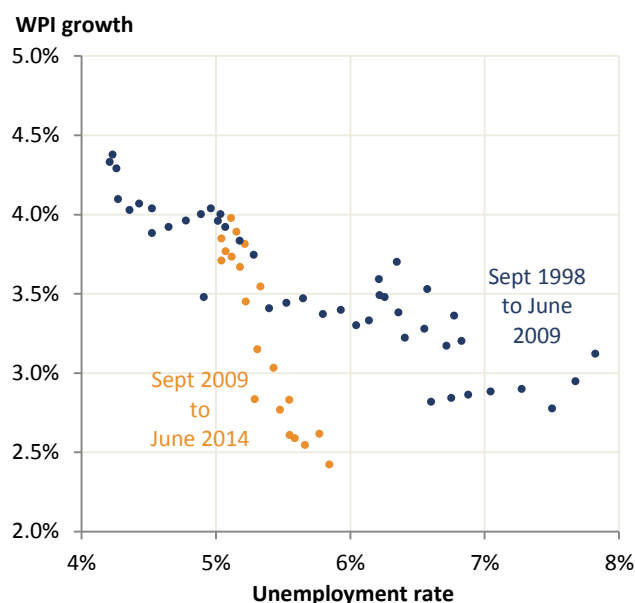
Source: ABS 5206.

The cause of recent sluggish wages growth is not a mystery. Unemployment has been rising as the

² ULCs measure the cost of employing labour to produce a fixed volume of output.

economy slows. Rising unemployment has been accompanied by slowing wages growth, as would be expected. If anything, the pace of wages growth has slowed a little more than would be expected given the unemployment rate. The last time unemployment was around current levels (in 2004), private sector wages were growing at 3.4%, rather than the current 2.4%. Wage growth appears more sensitive than previously to changes in labour market conditions. This is depicted in Figure 7.

Figure 7: Wage Phillips Curve – unemployment rate and private sector WPI growth



Source: ABS 6202 and ABS 6345. Shows year-ended growth in the private sector WPI and year-average unemployment rate (trend).

The ‘wages breakout’ is a hardy perennial of the national newspapers, a bogeyman for the business set. Despite many warnings, it has repeatedly failed to materialise. A greater concern for the national debate should now be the prospect of the opposite of a wages breakout – a prolonged period of stagnation in real living standards.

Please send any comments, corrections, criticisms or compliments to Matt Cowgill at mcowgill@actu.org.au.

Summary of recent data

Employment and unemployment

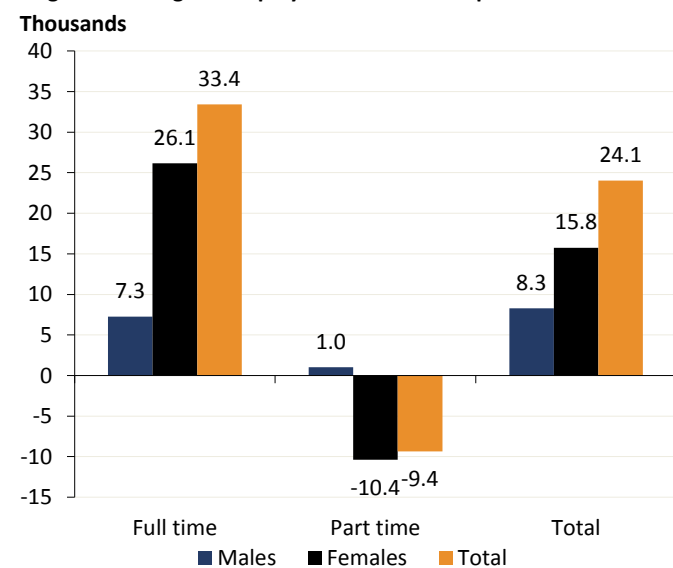
The tables and charts below summarise the latest available data about the Australian labour market.

Table 2: Summary of labour force figures

	Level	Monthly change	Year-ended change
Employed persons	11,592,200	24,100	105,500
- Full time employment	8,058,500	33,400	65,200
- Part time employment	3,533,700	-9,400	40,300
Working age population	19,150,800	29,500	340,700
Employment-to-population ratio	60.5%	0.0	-0.5 pts
Unemployment rate	6.2%	0.0	0.5 pts
Unemployed persons	772,100	7,100	71,300
Youth unemployment rate	14.0%	0.5 pts	1.0 pts
Participation rate	64.6%	0.1 pts	-0.2 pts
Underemployment rate (quarterly)	7.9	0.1 pts	0.2 pts

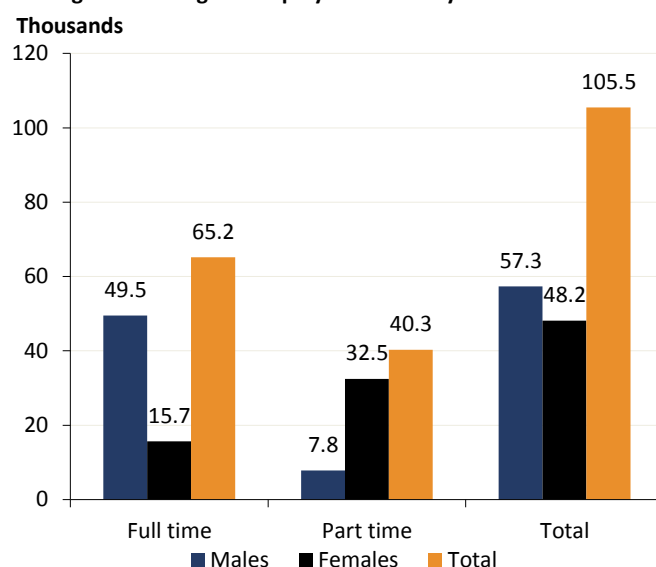
Source: ABS 6202, seasonally adjusted.

Figure 8: Change in employment between Sept and Oct 2014



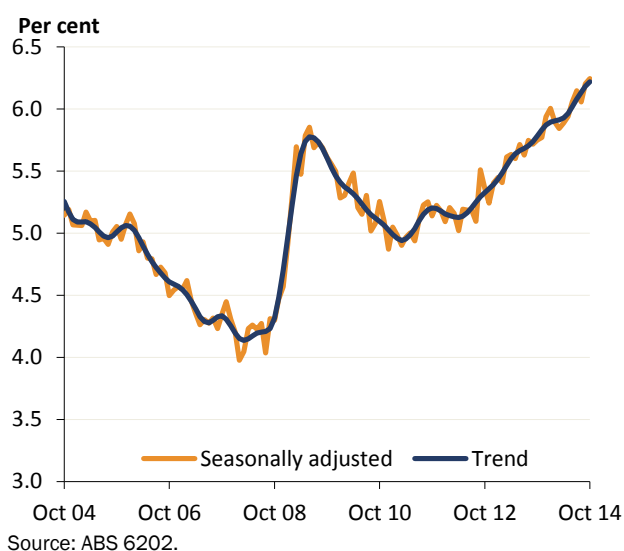
Source: ACTU calculations based on ABS 6202, seasonally adjusted.

Figure 9: Change in employment in the year to October



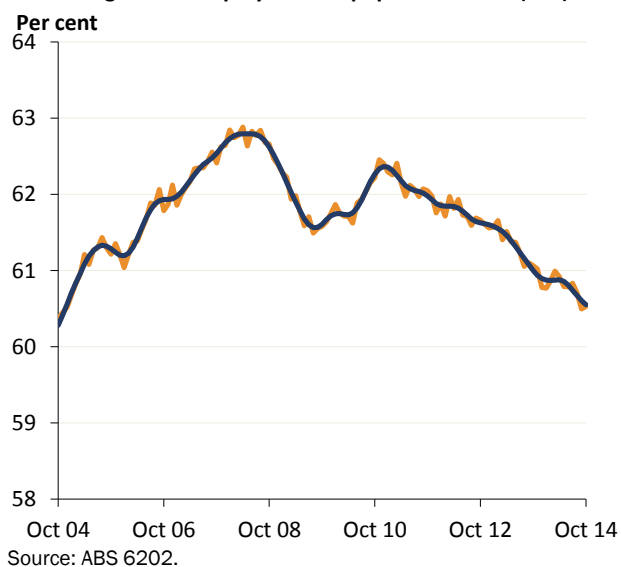
Source: ACTU calculations based on ABS 6202, seasonally adjusted.

Figure 10: Unemployment rate



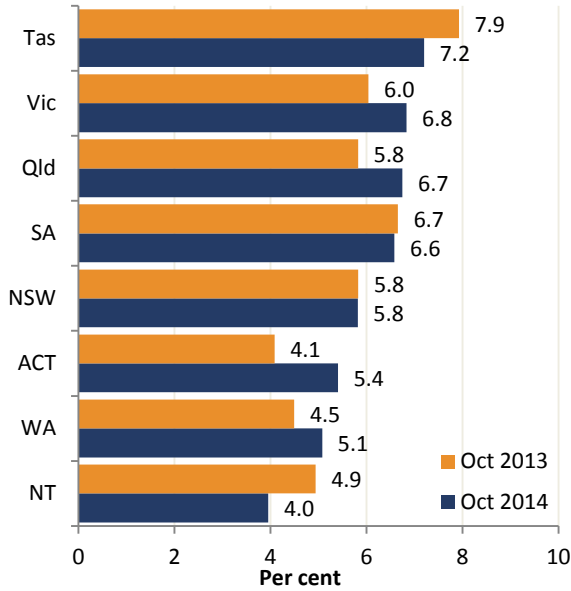
Source: ABS 6202.

Figure 11: Employment to population ratio (15+)



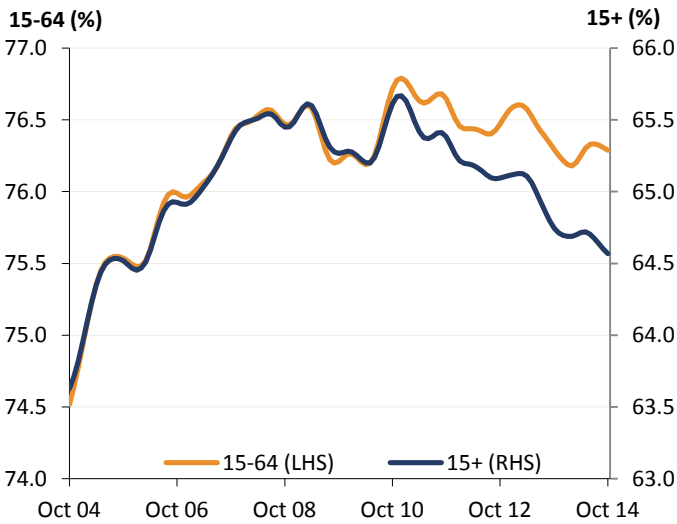
Source: ABS 6202.

Figure 12: Unemployment rates by state/territory



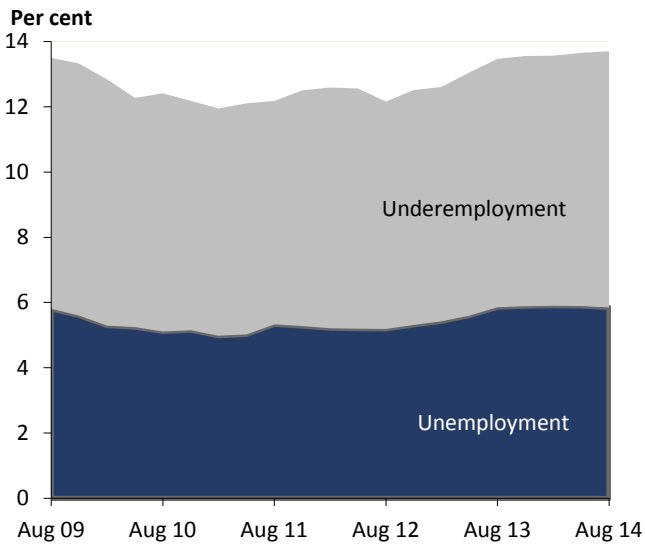
Source: ABS 6202, trend.

Figure 13: Participation rate



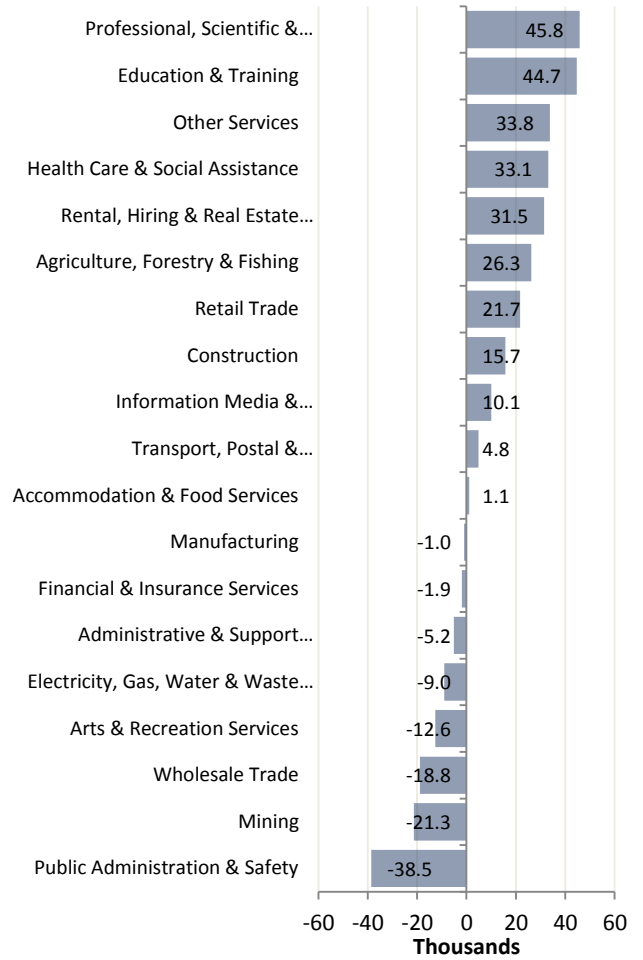
Source: ABS 6202.

Figure 14: Underemployment and unemployment rates



Source: ABS 6202, trend.

Figure 15: Employment growth in the year to August 2013



Source: ACTU calculations based on ABS 6202, trend.

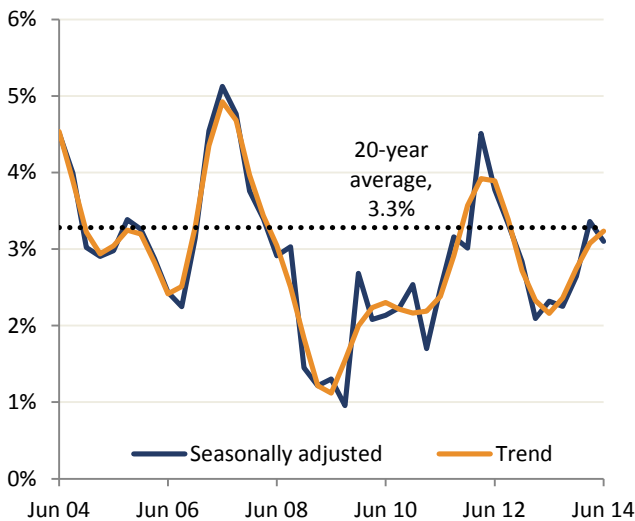
Output and productivity growth

Table 3: Summary of March quarter National Accounts

	Level	Quarterly change	Year-ended change
Quarterly real GDP	396463	0.5%	3.1%
Real GDP per capita	16879	0.1%	1.5%
Labour productivity (total economy)	-	1.0%	2.8%
Labour productivity in the market sector	-	0.7%	3.2%
Terms of trade	-	-4.1%	-7.9%
Wages share of income	53.5%	0.5	-0.2
Profits share of income	26.6%	-0.8	-0.2

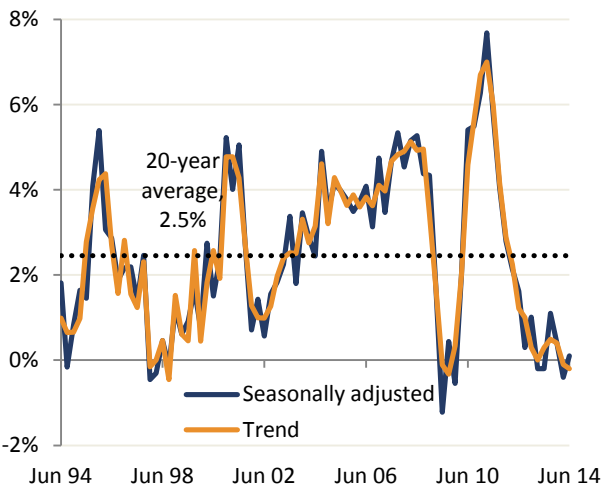
Source: ABS 5206.

Figure 16: Growth in real GDP per year



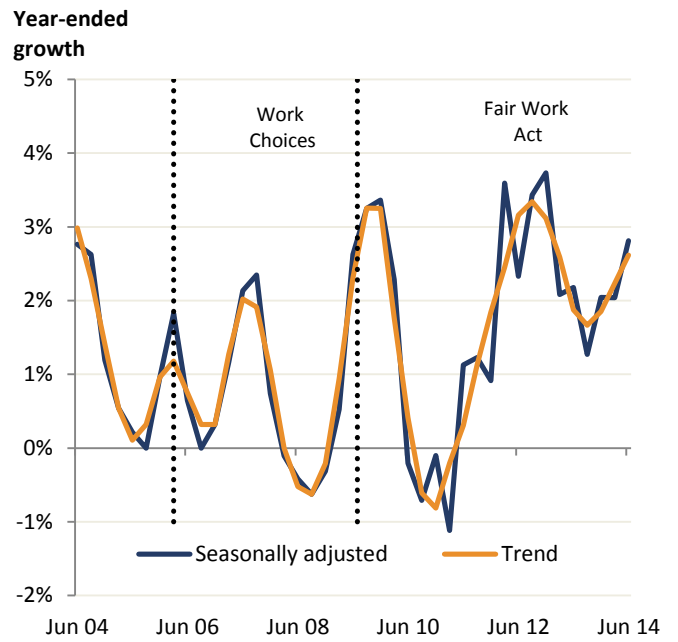
Source: ABS 5206 and ACTU calculations.

Figure 17: Annual growth in nominal unit labour costs



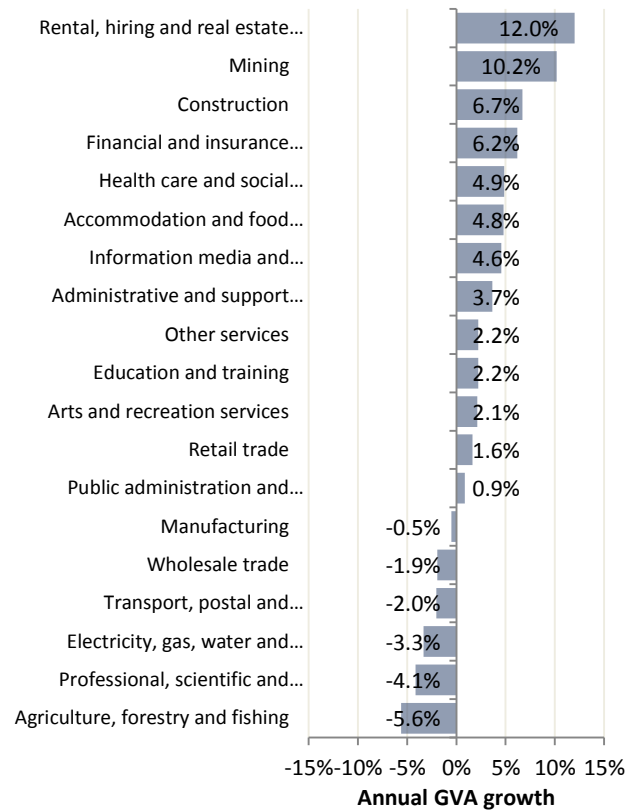
Source: ABS 5206 and ACTU calculations. Non-farm.

Figure 18: Annual growth in labour productivity (GDP per hour)



Source: ABS 5206.

Figure 19: Growth in output (gross value added) - year to March 2013



Source: ABS 5206.

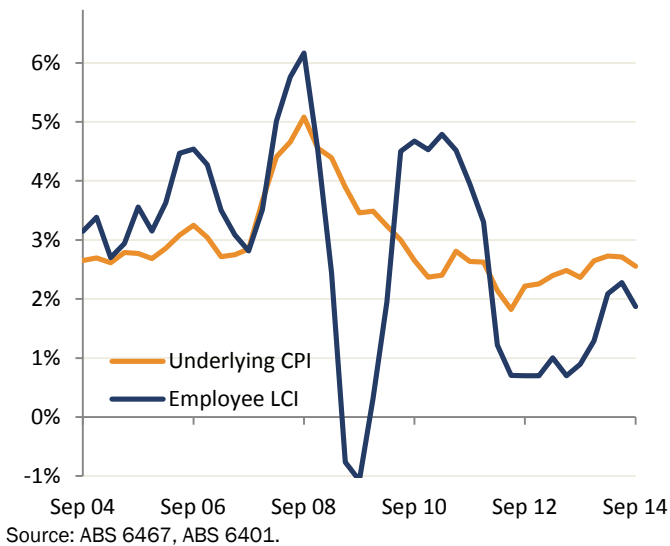
Prices and wages

Table 4: Summary of prices and wages data

	Latest quarter	Level	Year-ended change
Wage Price Index (WPI)	June	-	2.6%
Full-time average weekly ordinary time earnings (AWOTE)	May	\$1,454.10	2.3%
Real full-time AWOTE	May	\$1,454.10	-0.7%
Total average weekly earnings (AWE)	May	\$1,123.00	1.6%
National Minimum Wage per 38 hour week	1 Jul 14	\$640.90	3.0%
Headline CPI	September	-	2.3%
Trimmed mean (underlying CPI)	September	-	2.5%
Employees' cost of living (LCI)	September	-	2.3%
Gender pay gap	May	18.3%	0.8%

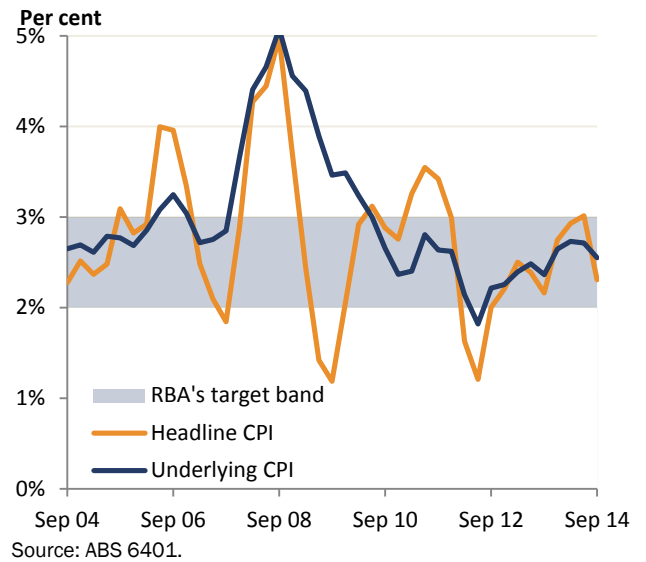
Source: ABS 6345, ABS 6302, FWC, ABS 6401, ABS 6467, ACTU calculations.

Figure 20: Annual growth in the CPI and workers' cost of living (Employee LCI)



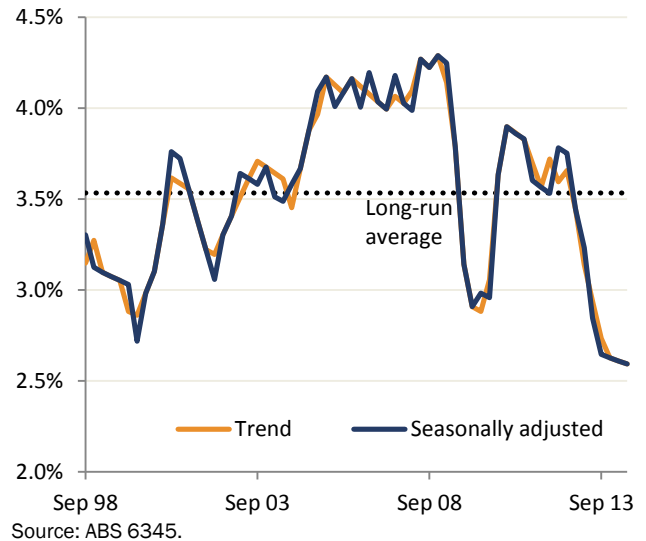
Source: ABS 6467, ABS 6401.

Figure 21: Headline and underlying CPI inflation



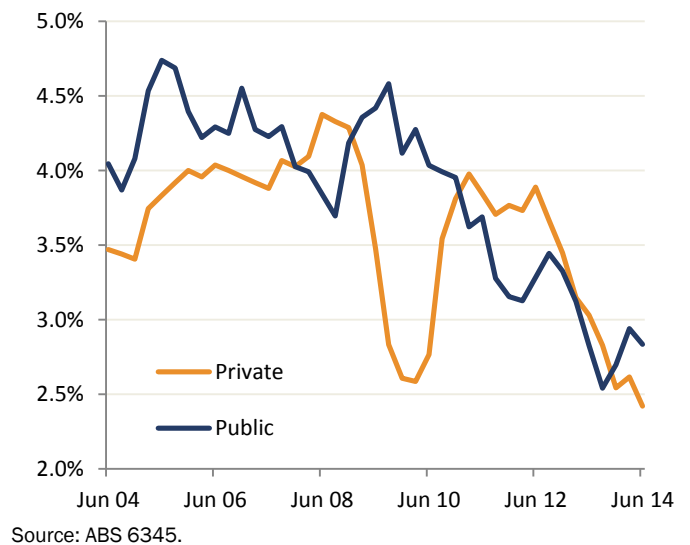
Source: ABS 6401.

Figure 22: Wage Price Index growth



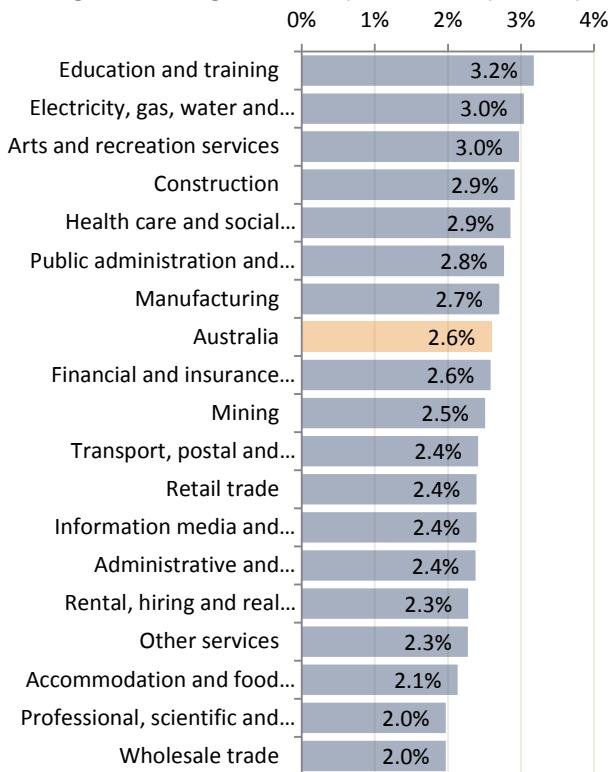
Source: ABS 6345.

Figure 23: WPI growth in the public and private sectors



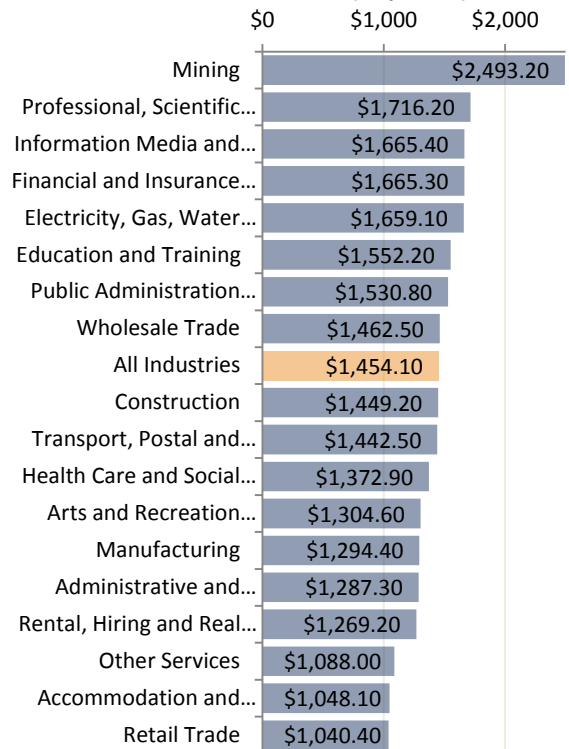
Source: ABS 6345.

Figure 24: WPI growth in the year to June by industry



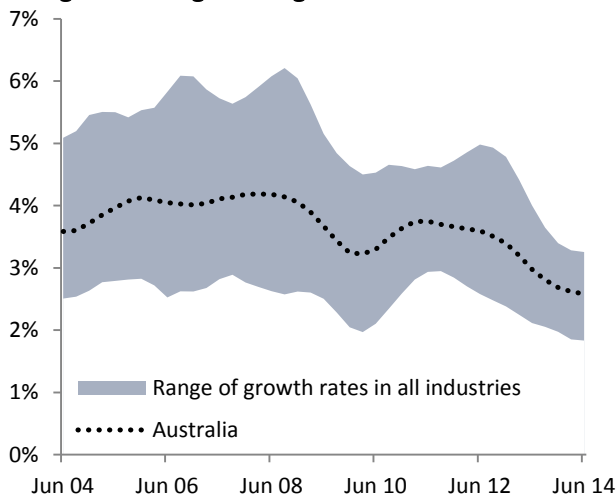
Source: ABS 6345.

Figure 27: Average weekly ordinary time earnings for full-time adults (May 2014)



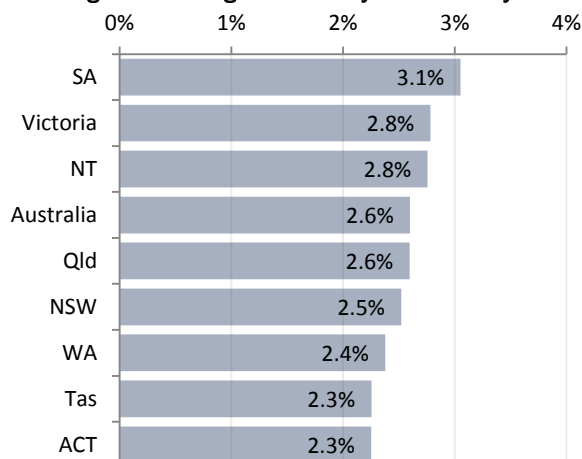
Source: ABS 6302.

Figure 25: Range of WPI growth rates across industries



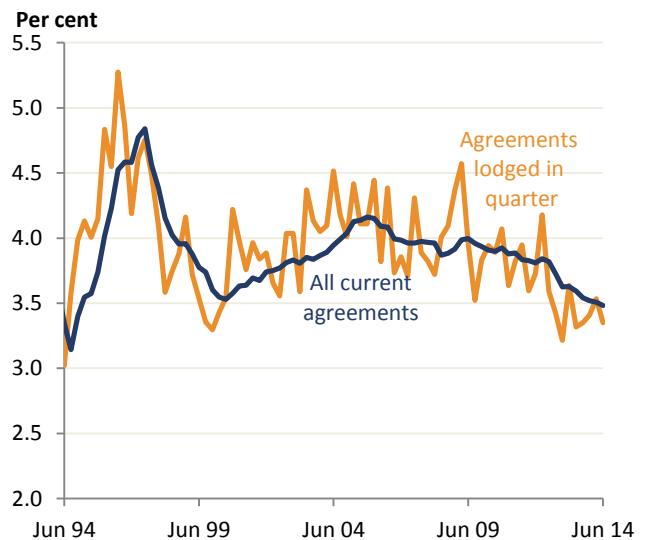
Source: ABS 6345 and ACTU calculations.

Figure 26: WPI growth in the year to June by state



Source: ABS 6345.

Figure 28: Average annualised wage increase in federal enterprise agreements



Source: Department of Employment, [Trends in Federal Enterprise Bargaining](#).