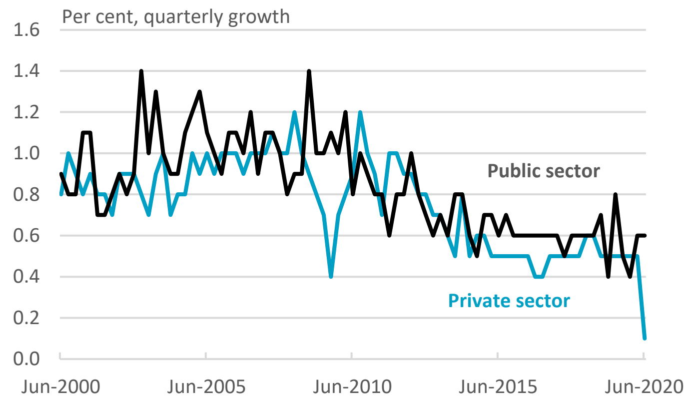
ASFA Economic Snapshot: week ending 14 August

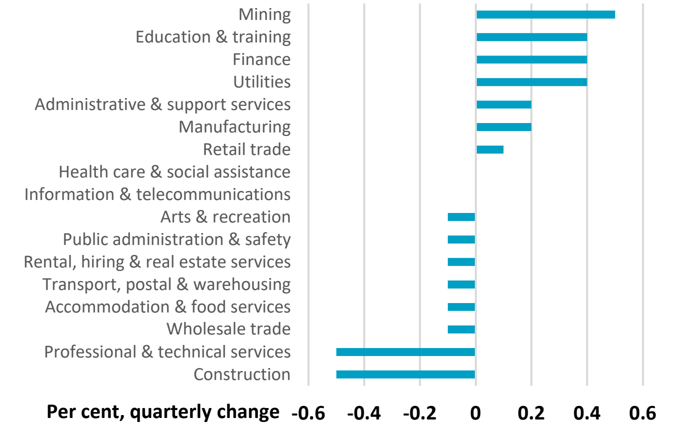
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Wages growing at much slower rates …



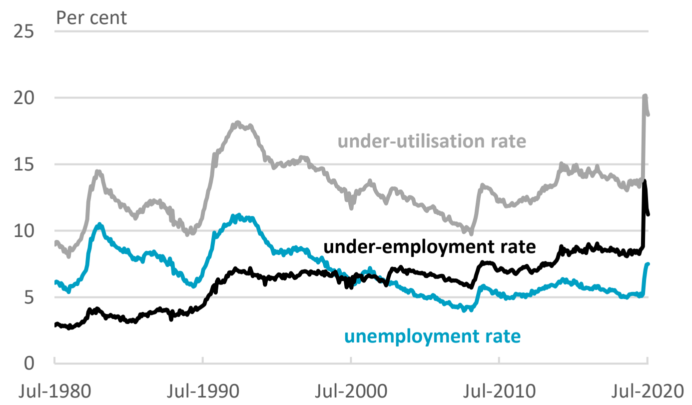
The Wage Price Index (WPI) aggregates wages associated with about 18,000 jobs. As a 'pure price' metric, changes in the index reflect only changes in the underlying demand for and supply of labour (and is a better indicator of labour market conditions than Average Weekly Earnings). In the June quarter, growth for private-sector WPI fell to 0.1%. Growth had already been weak for about 10 years since the GFC.

… and declining in some industries



Disaggregated data, for the private sector, show that the WPI fell for 8 industries in the June quarter. This is unprecedented. Since the start of the series (in 1997), the WPI has not declined for any industry, in any quarter. Even during the aftermath of the GFC (2009 and 2010), the lowest quarterly growth rate for any industry was zero.

High spare capacity in the labour force …

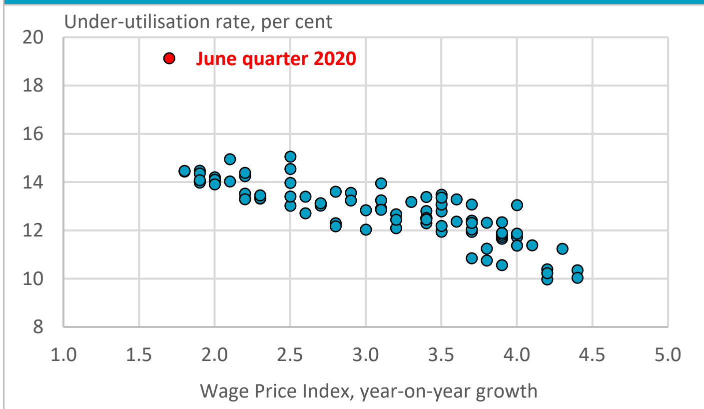


The fall in demand for labour is reflected in greater spare capacity in the labour force. The unemployment rate (people looking for work) was 7.5% in July, while the under-employment rate (workers desiring more hours) was 11.2%. The combined metric (under-utilisation), was 18.7%. The rise in this rate since February equates to 640,000 people.

… and people have dropped-out too

This chart shows the share of people aged 15+ who are participating in the labour force (either have a job, or searching for work). Sharp falls in the (participation) rate typically reflect discouraged job seekers leaving the job market. While the July rate is higher than the May low, it still equates to a loss of 220,000 people from the labour force.

Wage growth will remain weak …



This chart is a version of the 'Philips curve'. Using 20 years of data, it shows that a higher under-utilisation rate is related to lower (annual) growth in private-sector WPI (June quarter 2020 is the red dot). Given that unemployment is yet to peak, and it will take a number of years for employment to recover (and reduce under-utilisation), the chart suggests that low wages growth will persist for a prolonged period.

… following a period when it should have been higher

This chart shows the relationship between the *real* value of goods and services produced per worker (labour productivity), and the *real* cost of labour for firms (producer real wage), which includes compulsory superannuation contributions. That the (producer) real wage has grown slower than labour productivity over the past 20 years suggests that there is scope for future wage and superannuation increases.

Sources for each panel: (1 & 2) ABS, *Wage Price Index*, June; (3 & 4) ABS, *Labour Force Survey*, June; (5) ABS, *Wage Price Index*, June and ABS, *Labour Force Survey*, June; (6) ABS, *National Accounts*, March.