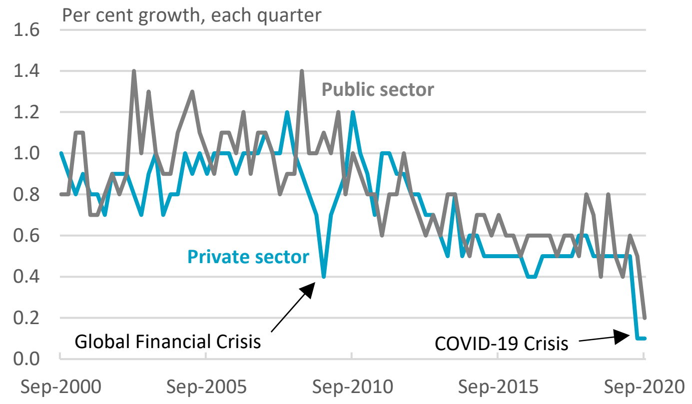
ASFA Economic Snapshot: week ending 20 November

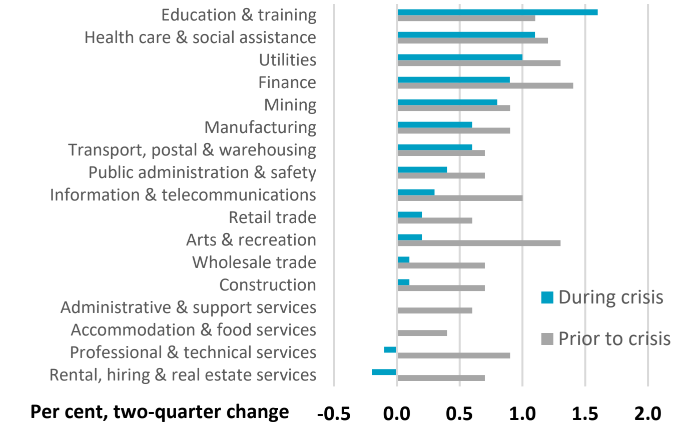
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Wage growth has slowed …



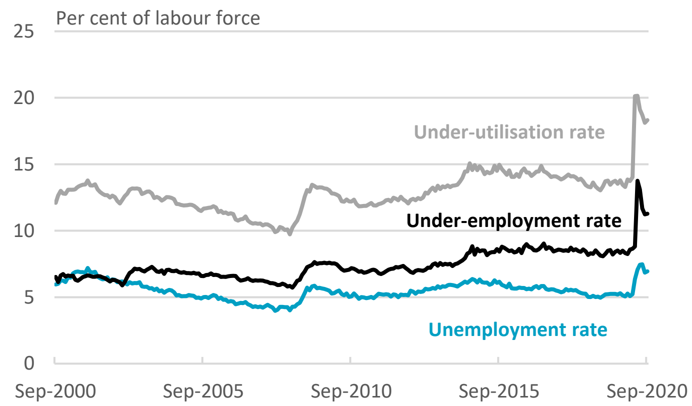
The Wage Price Index (WPI) reflects the wages of about 18,000 jobs. As a 'pure price' metric, changes in the index reflect changes in the underlying demand for, and supply of, labour (and is a better indicator of labour market conditions than other measures). In the September quarter, growth for private-sector WPI was 0.1% (the same as for the June quarter). Growth had already been declining for about 10 years.

… and is very weak in some industries



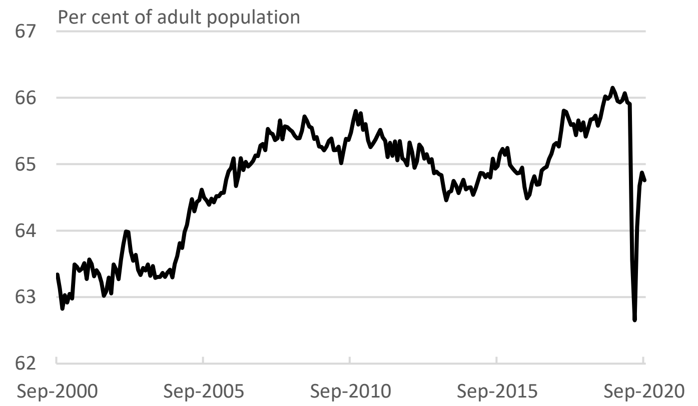
This chart shows WPI growth for each (private sector) industry during the 6 months from March to September (blue bars), and for the previous 6 months (grey bars). Wages growth has effectively stalled in industries hit hardest by the crisis. In 8 of the 17 industries, wages growth was 0.2% or less (or even negative) during the past 6 months.

Elevated spare capacity in the labour force …



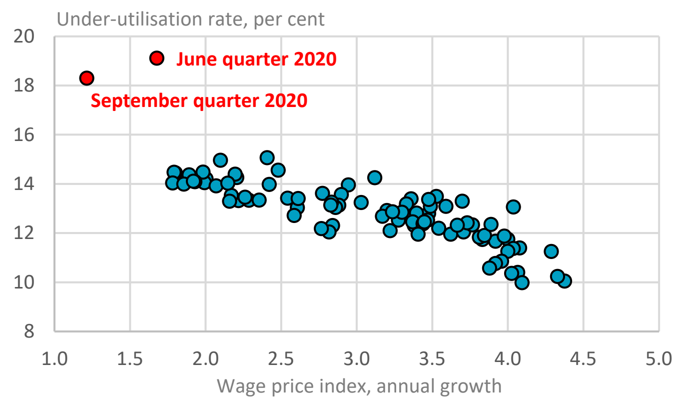
Lower demand for labour is reflected in higher spare capacity in the labour force. The unemployment rate (people looking for work) was 6.9% in September, while under-employment (workers wanting more hours) was 11.4%. The combined metric (under-utilisation) was 18.3%. The rise in this rate since February equates to 620,000 people.

… and people have dropped-out too



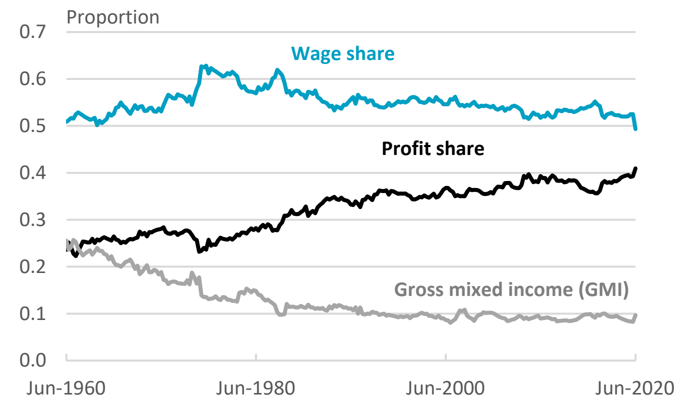
This chart shows the share of people aged 15+ who are participating in the labour force (either have a job, or searching for work). Sharp falls in the (participation) rate typically reflect discouraged job seekers leaving the job market. While the September rate is higher than the May low, it equates to a loss of 240,000 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 (the two latest quarters are the red dots). Even if under-utilisation has already peaked, it will take a number of years for employment to recover (and reduce under-utilisation). This suggests that low wage growth will persist for a prolonged period.

… following a period when it should have been higher



This chart shows the share of national income accruing to labour (wage share), and owners of capital (profit share). GMI accrues to owners of unincorporated businesses. The wage share, which includes compulsory superannuation (SG) contributions, has been trending down for 40 years and is now at its lowest level since the series began. This suggests that there is scope for future wage and SG increases.

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