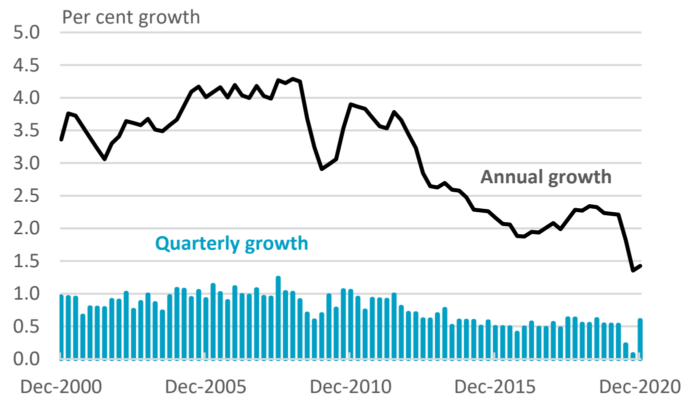
ASFA Economic Snapshot: week ending 26 February

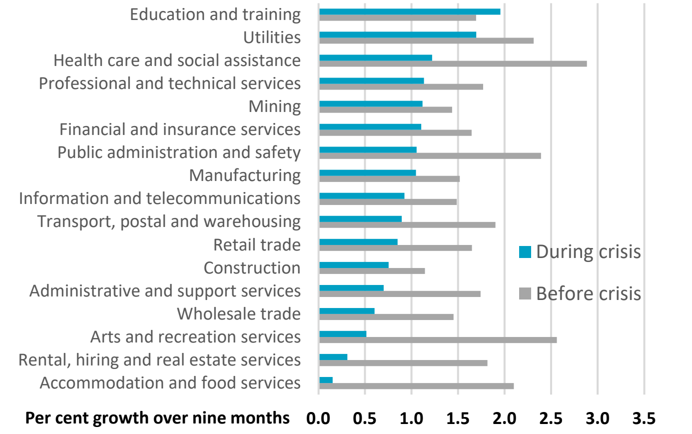
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

For some workers, delayed wage rises realised …



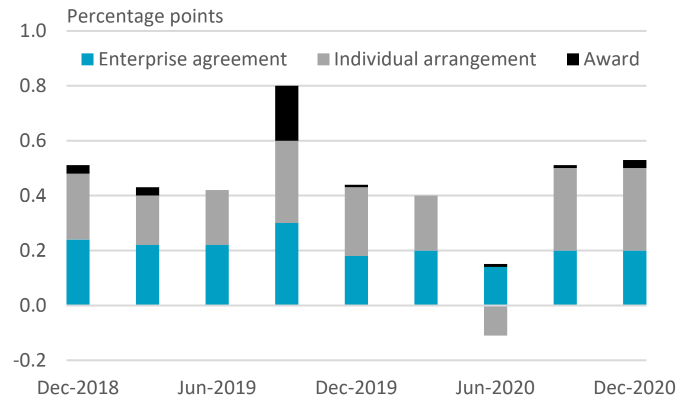
The Wage Price Index (WPI) incorporates wages-rates for about 18,000 jobs. In terms of quarterly outcomes (blue bars), average wage-rate growth bounced-back in the December quarter – in part because wage rises that had been delayed due to the crisis, for some workers on individual agreements, were realised (see Panel 3). In annual terms, growth in the WPI remains around record lows (at 1.4% for 2020).

… but wage outcomes remain low in many sectors



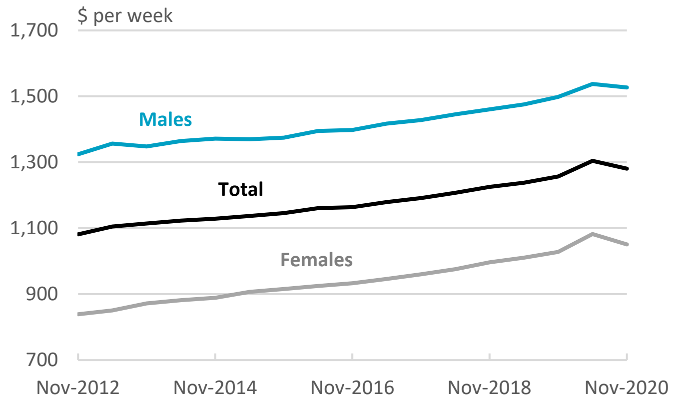
This chart shows WPI growth for the private-sector for the 9 months since March 2020 (blue), and for the preceding 9 months (grey). For industries hit hardest by the crisis, the gap between the two figures is particularly large – looking ahead improved wage outcomes will depend, in large part, on tightening market conditions (see Panel 5).

Workers on individual arrangements most affected



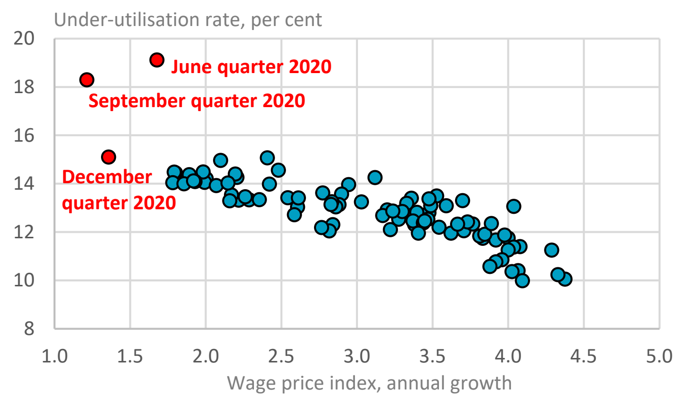
This chart shows contributions to quarterly WPI growth, by pay setting (Panel 3 differs from Panel 1 as the latter is adjusted for seasonality). Wage rates for jobs under individual arrangement tend to be more reactive to conditions, so have been most affected by the crisis. In contrast, wage outcomes under other arrangements are staggered.

On average, earnings have fallen more for women



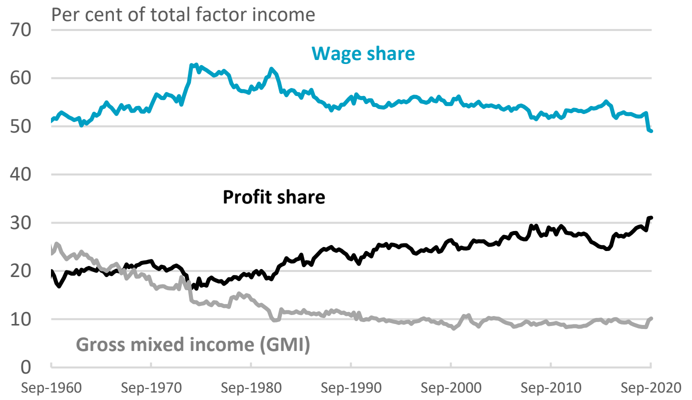
An alternate wages measure is average weekly earnings (AWE). While changes in the WPI reflects changes in wage rates, AWE also reflects changes in hours worked and where employees have shifted between full/part-time work and between industries. Overall, the crisis has seen average earnings for women fall by a greater degree than for men.

Wage growth will remain weak …



This chart is a version of the 'Philips curve'. Using 20 years of data, it shows that higher under-utilisation of labour is related to lower (annual) growth in private-sector WPI (the 3 latest quarters are the red dots). While 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 to 3) ABS, *Wage Price Index,* December; (4) ABS, *Average Weekly Earnings*, November; (5) ABS, *Wage Price Index,* December and ABS, *Labour Force Survey*, December; (6) ABS, *National Accounts*, September.