

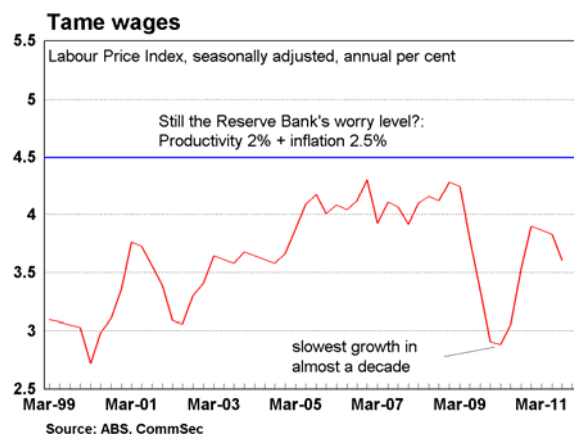
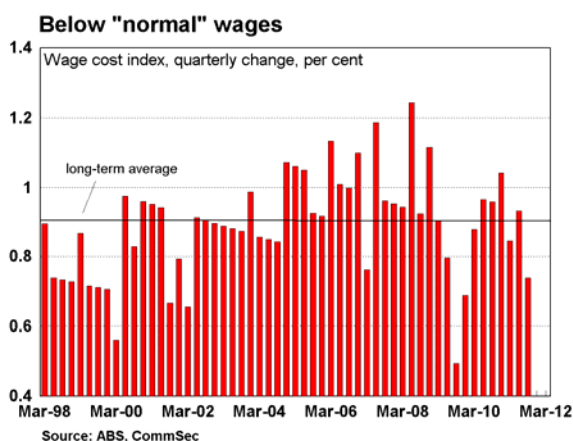
# Tame wages; More people in bigger homes

## Labour Price Index

- **Wages** rose by 0.7 per cent in the September quarter – the smallest rise in 21 months and lower than market expectations centred on growth of 0.9 per cent. Annual growth of wages eased from 3.8 per cent to 3.6 per cent – the lowest result since September quarter 2010.
- **Private sector wages** rose by 0.9 per cent in the quarter but public sector wages rose by 0.5 per cent. Annual growth of private sector wages eased from 3.9 per cent to 3.7 per cent while public sector wage growth eased from lifted from 3.7 per cent to 3.3 per cent.
- **New figures from the Bureau of Statistics confirm that Aussies are making greater use of their big homes with the number of people per dwelling lifting marginally. The number of people per household rose from 2006 to 2008 for the first time since European settlement and rose further in the latest period. The number of bedrooms per home stands at a record high of 3.11.**

### What does it all mean?

- Wage growth isn't high up on the list of Reserve Bank "hot button" issues at present. And with good reason. Inflationary pressures are under control and the job market has softened. The latest data on wages certainly accords with the Reserve Bank's latest views: *"Business surveys and the Bank's liaison suggest a decline in momentum in labour costs growth in the September quarter."*
- It is very much a "Goldilocks" situation – wage growth is not too hot, not too cold, rather it is about right. Wages are still rising at a faster pace than underlying inflation. So the modest real wage gains are serving to support spending. And the combination of continued economic growth and a flattening of the job market suggest that productivity may have picked up in recent months
- The tame growth of wages keeps the door open for another rate cut. Most likely this would occur at the February Board meeting, but if the European situation was to deteriorate markedly in the next few weeks, a rate cut in December couldn't be ruled out.
- Aussies are become efficient in all manner of ways. And one of those ways is to make more efficient use of our big homes. For the first time since European settlement, the number of people per household is rising. That's one



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reason why we aren't building more homes – Gen Y and grandparents are staying with us, rather than on their own.

## What do the figures show?

### Wage price index

- The wage price index rose by 0.7 per cent in the September quarter after rising by 0.9 per cent in the June quarter. It was the lowest wage growth in 21 months (since December quarter 2009). Annual wage growth eased from 3.8 per cent to 3.6 per cent in September quarter.
- Private sector wages rose by 0.9 per cent in the quarter but public sector wages rose by 0.5 per cent – the smallest gain in 11 years (June quarter 2000). Annual growth of private sector wages eased from 3.9 per cent to 3.7 per cent while public sector wage growth eased from lifted from 3.7 per cent to 3.3 per cent.
- Including bonuses, wages rose by 1.5 per cent in original terms in the September quarter after a 0.4 per cent rise in the June quarter. Annual growth of ordinary time hourly rates was steady at 3.6 per cent. At total hourly wage rates, annual growth of wages including bonuses eased from 3.7 per cent to 3.6 per cent.
- Industries with fastest annual wage growth: Other services (up 4.5 per cent); Wholesale trade (up 4.4 per cent); Mining (up 4.2 per cent); and Professional, scientific and technical services (up 4.1 per cent).
- Industries with slowest annual wage growth: Public administration and safety (up 2.8 per cent); Retail trade (up 3.0 per cent); and Accommodation and food services and Administrative and support services (both up 3.1 per cent)
- Annual wage growth across States & Territories: NSW, 3.5 per cent; Victoria, 3.5 per cent; Queensland, 3.7 per cent; South Australia, 3.3 per cent; Western Australia, 4.0 per cent; Tasmania, 3.9 per cent; Northern Territory, 3.8 per cent; and ACT, 2.9 per cent.

### Housing occupancy and costs

- The number of people per household hit a record low of 2.51 persons in 2005/06 but then rose to 2.56 persons in 2007/08 and rose to 2.57 persons in 2009/10. The average number of bedrooms per dwelling rose from 3.07 to a record high of 3.11 bedrooms in 2009/10.
- In 2009/10 the median value of a home was \$440,000 with the median mortgage outstanding being \$180,000. Over the last 15 years the value of home has lifted by \$231,000 in constant prices while the average mortgage has lifted by \$96,000.

## What is the importance of the economic data?

- The Labour Price Index has been compiled since September quarter 1997 and measures quarterly changes in wage and salary costs for employees. The index is based on a representative sample of employees, and includes measures of non-wage costs including superannuation, payroll tax, public holiday and workers compensation. The Labour Price Index is useful in measuring wage pressures in the economy. While strong growth in wages would boost domestic spending, it could also serve to lift employer costs and prices and add to economy-wide inflationary pressures. The labour price index is a measure of hourly pay rates (excluding bonuses).

## What are the implications for interest rates and investors?

- Companies are closely managing their costs in the current environment. Consumers are cautious about spending, so businesses need to keep a tight rein on costs. As a result firms are less keen to hire staff and prefer instead to get existing staff to work longer hours. Wage increases are being granted – provided of course that there are productivity offsets. These are the rules that the majority of employees and employers are playing by and more strike-prone unions and employees would do well to follow the example.
- The tame reading for wages keeps the door open to another rate cut. Companies are discounting heavily, financial conditions remain tight, the non-mining economy is largely only chugging along at present and global risks remain significant.

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