Australia Watch

Apr labour markets; 1Q wages: Still hot, but past the peak

18 May 2023

Economics
Australasia

Devika Shivadekar
Economist
Merrill Lynch (Australia)
+61 2 9226 5156
devika.shivadekar@bofa.com

Izumi Devalier
Japan and Asia Economist
BofAS Japan
+81 3 6225 6257
izumi.devalier@bofa.com

Takayasu Kudo
Japan and Asia Economist
BofAS Japan
takayasu.kudo@bofa.com

Ting Him Ho, CFA
Asia Economist
Merrill Lynch (Hong Kong)
tinghim.ho@bofa.com

1Q WPI: No signs of a price-wage spiral

Australia's headline wage price index (total hourly pay ex bonuses) rose 3.7%yoy in 1Q23, marking the fastest pace since September 2012. In sequential terms, wages growth remained unchanged at 0.8% from previously. The result was slightly softer than consensus expectations and the Reserve Bank of Australia's (RBA's) implied projection of 0.9% per the May Statement on Monetary Policy (SMP).

Labor markets: Still tight, but early signs of cooling

Australia's unemployment rate inched higher to 3.7% in April (vs 3.5% in Mar) surprising the consensus. Employment dropped by 4k while number of unemployed people increased by 18k. The weakness in headline employment (particularly full-time) should be seen in the context of the strong gains over the previous two months. We also think seasonal distortions from the Easter holiday period may have affected the data.

Having said this, forward-looking looking jobs ad data show that demand for labour has been moderating since peaking last year. With labour supply also improving on the back of strong net migration, we expect the demand-supply imbalance in Australia's labour markets to ease over the coming year. This should help keep a lid on wage growth and add to upside pressures on the unemployment rate as the Australian economy continues to slow.

No change to our 3.85% RBA terminal rate call

Both the 1Q wage data and Apr employment data came in slightly softer than the RBA's implied forecasts. With interest rates now in restrictive territory, we think that the RBA will continue to tread lightly from here, and that the Board will likely need to see stronger-than-expected signs of spending and inflation to continue hiking rates, especially in the near-term (the RBA Board next meets 6 June).

For now, we think 3.85% will mark the peak in the RBA's tightening cycle. However, the risk remains tilted to the upside, and we also expect the RBA to retain its tightening bias until at least the August Board meeting, when it can confirm the 2Q CPI data (out 26 July).

Refer to important disclosures on page 5 to 6.

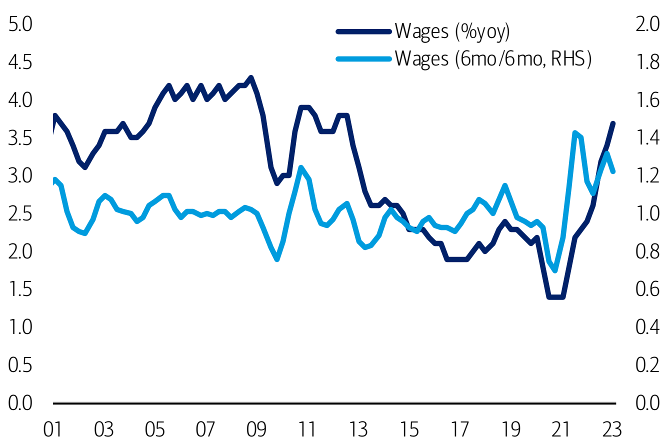
1Q23 WPI: Wages rise, but comfortably so

Australia's headline wage price index rose 3.7%yoy in 1Q23, marking the fastest pace of growth in a decade (Exhibit 1). In sequential terms, wages growth remained unchanged at 0.8% from previously. The result was slightly softer than consensus expectations and the RBA's implied projection of 0.9% per the May Statement on Monetary Policy (SMP).

The private sector accounts for a larger share of the Australian economy than the public sector and therefore was the primary driver of overall wages growth (Exhibit 2). Private sector wages increased 0.8% over the quarter which lifted the annual growth rate to 3.8% (vs 3.6% prev). This is the highest yearly growth recorded since the June quarter of 2012. The Australian Bureau of Statistics (ABS) notes that several private sector industries recorded annual wages growth above 4% with the remainder recording annual wage growth rate upwards of 3%.

While its share of employment is smaller, the public sector saw wages pick-up faster in 1Q23 at 0.9% (3.0% on an annual basis, vs. 2.5% previously). In addition to scheduled yearly first quarter increases, enterprise bargains, state wage negotiation outcomes, led to the highest proportion of public sector jobs receiving a wage rise in over four years.

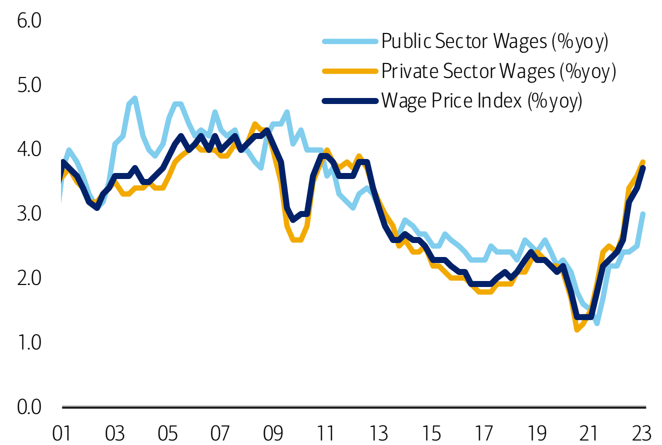
Exhibit 1: Headline WPI (Hourly rates of pay excl. bonuses)
1Q wage growth was in line with expectations



Source: ABS

BofA GLOBAL RESEARCH

Exhibit 2: WPI: Public sector vs private sector
Broad-based increases in both sectors



Source: ABS

BofA GLOBAL RESEARCH

Continued lift in share of jobs receiving increases

The share of jobs receiving larger wage increments has been on a steady rise. The ABS noted that over 1Q23, 24.5% jobs saw pay rises between 4%-6%, which is the highest share since 2009. In contrast, the share of jobs with a pay increase of less than 2% fell sharply to less than 20% from levels of more than 50% seen in 2021. This quarter also saw 60% of jobs record a higher wage rise versus the year before which is the highest proportion recorded since 2003.

Education sector leads the charge

The education sector recorded the highest quarterly index growth at 1.5% on the back of increases in state primary education. Wholesale trade and other services industries recorded the highest annual growth of 4.4%. In contrast, the accommodation and food services industry recorded the lowest quarterly growth (0.1%) while the public administration and safety industry recorded the lowest annual growth (2.9%).

Apr labour report: a mixed bag

Meanwhile, the April labour report released today showed Australia's unemployment rate inching higher to 3.7% (vs 3.5% in Mar), surprising the consensus. In April, employment dropped by 4k (vs. bbg: +25K) while number of unemployed people increased by 18k (Exhibit 3). Looking under the hood, full-time employment decreased by 27.1K, while part-time employment increased by 22.8K. Meanwhile the participation rate fell to 66.7%.

The weakness in headline employment (particularly full-time) should be seen in the context of the strong gains over the previous two months: following a net decline of 4K over Dec 22-Jan 23, employment grew by 113K in Feb-Mar 23. Growth in full-time employment had been running even hotter in Feb-Mar. Considering the historical volatility in the employment data, the weakness in April should not be entirely surprising.

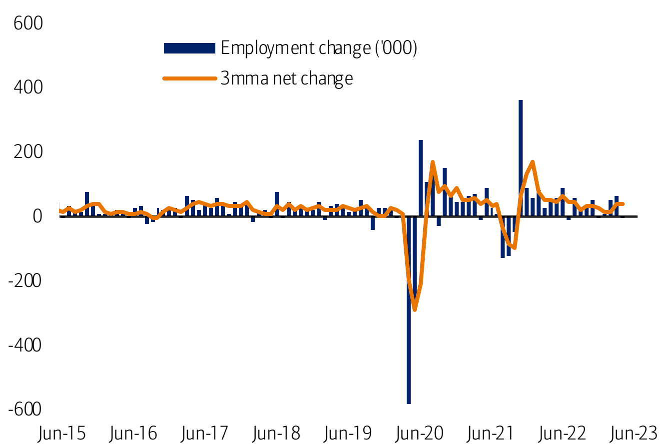
Potential distortions from Easter holidays

There are other factors that make the latest labour report hard to interpret, and therefore make us cautious about concluding that a material downturn in labor markets is occurring.

In addition to the usual volatility around the employment data, the April survey period coincided with the Easter holidays, potentially contributing to further data distortions and problems with seasonal adjustment.

Related to this, there was a notable, 2.6% MoM SA pick-up in hours worked in April. The ABS attributed this to fewer people than usual working reducing hours over the Easter period. However, it is difficult to conclude whether this is reflective of 1) labor market tightness (i.e. workers working longer hours due to staffing shortages), 2) calendar distortions due to workers taking their leave earlier or later than usual, or 3) pressure on workers to scale up their incomes in light of on-going cost-of-living pressures.

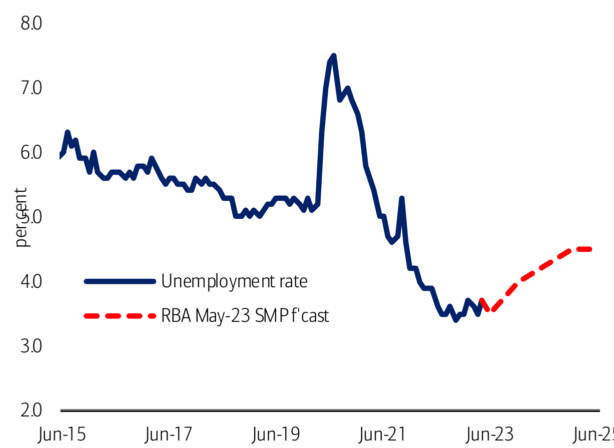
Exhibit 3: Change in employment
Fall in employment following solid gains earlier in the year



Source: ABS

BofA GLOBAL RESEARCH

Exhibit 4: Unemployment path and forecasts
RBA's latest unemployment rate forecast until 2025



Source: ABS

BofA GLOBAL RESEARCH

But tentative signs of cooling labour demand

With the unemployment rate still at record lows, it's safe to say that Australian labor markets are still tight. But elsewhere, there are emerging signs that, following blistering gains in hiring seen earlier this year, labor demand is finally cooling.

In the minutes of the May RBA meeting, it was noted that timely indicators are suggesting that demand for labour is moderating. Indeed, forward-looking labour market indicators, such as the SEEK job ads data has fallen an average of 1% over the last three months (Exhibit 5).

Meanwhile, labour supply is improving: although still below pre-pandemic average, skilled migration has picked up strongly over the past year (Exhibit 6). As policies to increase migration gain further traction, we expect the demand-supply imbalance in labor markets to ease. This should help keep a lid on wage growth and add to upside pressures on the unemployment rate as the Australian economy continues to slow.

RBA implications: No change to our 3.85% terminal call

In the minutes of the May policy meeting as well as the May SMP, the RBA highlighted that wages growth is expected to reach a peak of 4% in 2H23 before starting to trend down. RBA continues to see wages growth in the 3.5%-4% range as consistent with its inflation target, contingent on productivity growth picking up.

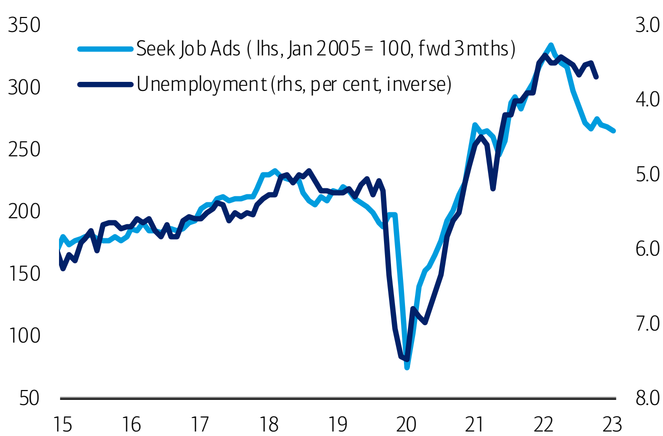
On the employment front, the central bank noted that labour market constraints are becoming less binding on the back of the recent pick-up in overseas migration. As more skilled migrants start entering the jobs market, the demand supply imbalance in the labour force will be corrected.

The recent cooling in labor demand and relatively restrained pick-up in wage growth suggest that the tightening in monetary policy since last year is gaining traction, albeit gradually.

With interest rates now in restrictive territory and the RBA prioritizing a soft landing, we think the central bank will tread lightly from here, and that the Board would need to see stronger-than-expected signs of spending and inflation to continue hiking rates, especially in the near-term (the RBA Board next meets 6 June). For now, we think 3.85% will mark the peak in the RBA's tightening cycle.

However, the risk remains tilted to the upside, and we also expect the RBA to retain its tightening bias until at least the August Board meeting, when it can confirm the 2Q CPI data (out 26 July).

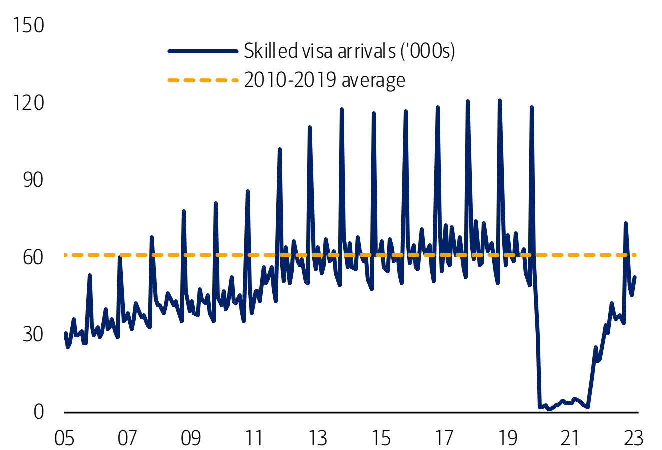
Exhibit 5: Job ads and unemployment rate
Indicators showing easing labour demand



Source: SEEK, ABS

BofA GLOBAL RESEARCH

Exhibit 6: Skilled migrant arrivals
Below pre-pandemic average but improving



Source: ABS

BofA GLOBAL RESEARCH

Disclosures

Important Disclosures

BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

Other Important Disclosures

Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.
The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.
Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.
Individuals identified as economists do not function as research analysts under U.S. law and reports prepared by them are not research reports under applicable U.S. rules and regulations. Macroeconomic analysis is considered investment research for purposes of distribution in the U.K. under the rules of the Financial Conduct Authority.
Refer to BofA Global Research policies relating to conflicts of interest.
"BofA Securities" includes BofA Securities, Inc. ("BofAS") and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. "BofA Securities" is a global brand for BofA Global Research.
Information relating to Non-US affiliates of BofA Securities and Distribution of Affiliate Research Reports:
BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no. 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at www.bofaml.com/BofASEdisclaimer; BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSFC); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Investment Industry Regulatory Organization of Canada; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.
This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSFC; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the Electronic Communications Disclaimers for further information.
This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.
General Investment Related Disclosures:
Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities.
This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute,

investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

Materials prepared by BofA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Securities, including investment banking personnel. BofA Securities has established information barriers between BofA Global Research and certain business groups. As a result, BofA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BofA Global Research personnel's knowledge of legal proceedings in which any BofA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BofAS any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BofA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BofA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices also are subject to change without notice. BofA Securities is under no obligation to update this information and BofA Securities ability to publish information on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BofA Securities will not update any fact, circumstance or opinion contained herein.

Certain outstanding reports or investment opinions relating to securities, financial instruments and/or issuers may no longer be current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BofAS or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Securities nor any officer or employee of BofA Securities accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this information.