

Australia Economic Watch

Positive real wage growth to end 2023

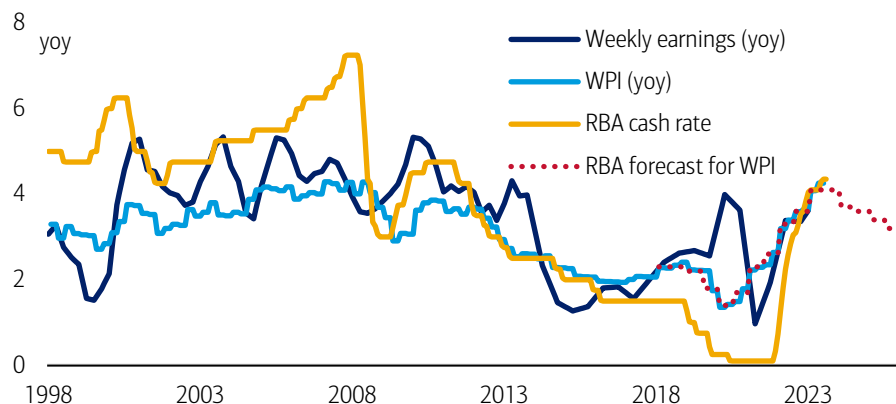
Wages price index rises to 4.2%yoy in 4Q from 4.1%

In line with our expectations, wages growth rose by 0.9%qoq in 4Q. This pushed annual growth in wages to 4.2%yoy, the highest since March 2009. As widely anticipated, for both the public and private sector, wages growth was driven by organisation-wide annual wage and salary reviews. Wage growth for December quarter 2023 saw a higher contribution from jobs covered by enterprise agreements than is typically recorded 4Q.

Notably, private sector wages growth eased slightly to 4.2% from 4.3% while the public sector recorded the highest wages growth since 1Q 2010 at 4.3%. These outcomes are modestly above the RBA's 4.1%yoy assumption though consistent with their view that wages growth remains robust, but with some evidence of a slowdown in some sectors. We and the RBA expect wages growth to moderate in 2024.

Exhibit 1: Wages seem to have peaked in 4Q

The RBA forecasts wages pressures to ease from here



Source: RBA, ABS, Macrobond

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Rates: H4L exhausted - close 5y5y cross-market trade:

Divergent economic data releases in the US and Australia have pushed 10y ACGBs 11bps through USTs, more than 20bps tighter than when we entered a long 5y5y IRS position vs US in the Global Rates Year Ahead 2024. The cross-market compression trade is starting to look stretched, especially given today's WPI print – the first positive real wages print since March 2021 – underscores that rates are likely to remain stable for at least the next few months, if not the next few quarters.

Our US economists see softer data on the horizon justifying FOMC cuts from June and the higher-for-longer trade is starting to look stretched. Given a string of divergent economic releases has pushed rate differentials in the long end tighter, we see AU duration underperforming any near-term rallies in USTs. We exit the 5y5y cross-market trade recommendation at 99bps (entry 109bps, target 30bps, stop 148bps).

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For a list of open and closed trades after the past 12 months, see the most recent Global Rates Weekly.

USTs = US Treasuries

ACGBs = Australian Commonwealth Government Bonds

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Wage pressures should ease from here

Following strong outcomes in 2H 2023, wages growth pressure seems to have peaked. The RBA's liaison program suggests wages growth is likely to decline a little, with average wage expectations around 3.5% for the year ahead. Based on the RBA's Statement on Monetary Policy, "firms that expect a decline in wages growth have noted declining inflation, an improvement in labour availability and an increased focus on cost control as reasons for this".

Meanwhile, leading indicators for wages growth provide mixed signals. Weak productivity growth for longer than expected is the main upside risk to wages, in our view. Overall, we remain of the view that the RBA will be on hold in 2024, risk is for earlier easing if the labour market deteriorates faster than expected. With a Budget due in May and a Federal Election early next year, focus will shift to fiscal policy (see: [Australia Economic Viewpoint: Fiscal policy set to take the front seat 20 February 2024](#))

Exhibit 2: Weak productivity growth places upside pressure on wages

The RBA expects an improvement in productivity growth ahead

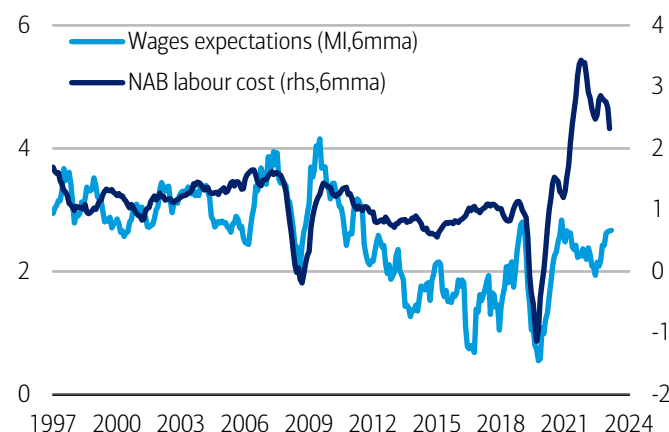


Source: ABS, Macrobond

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Exhibit 3: Leading indicators for wages growth are mixed

Employment growth will be key for the outlook



Source: NAB, Melbourne Institute, Macrobond

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Some uncertainty around the outlook

While the annual growth in wages was one tenth higher than the RBA expected, underlying details suggests wages pressures are easing.

However, with wages growth at the highest since 2009 and inflation well above target, the RBA will continue to focus on leading indicators for productivity growth (Exhibit 2) and wages to determine the outlook for the cash rate. We think high rates for longer will continue to constrain demand and ease pressures in the labour market. However, leading indicators paint a mixed picture (Exhibit 3). Following the increase in unemployment to a two-year high of 4.1%, labour market data for February due on the 21st of March will be in focus. By then, the RBA will also have an updated GDP and monthly CPI report.

Key highlights from the 4Q data

- In the December quarter 2023, 38% of public sector jobs saw a wage rise, considerably higher than the 29% from the same quarter in the previous year.
- The average hourly wage change for public sector jobs has lifted to 4.3% from 2.8% and is the highest since September 2008. The industries with the largest contribution to quarterly wage growth were Health care and social assistance (1.3%) and Education and training (1.7%).

- Overall, quarterly wage growth across the industries was highest in the Education and training industry (1.7%), and **the lowest in the Accommodation and food services industry (0.3%)**.
- The public sector rose 4.3% over the 12 months to the December quarter 2023, tracking slightly above the private sector (4.2%) for the first time since December quarter 2020.
- The public sector usually contributes between 10% and 25% to overall wage growth, however, this quarter saw a significantly higher contribution to growth from the public sector (34%).

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