

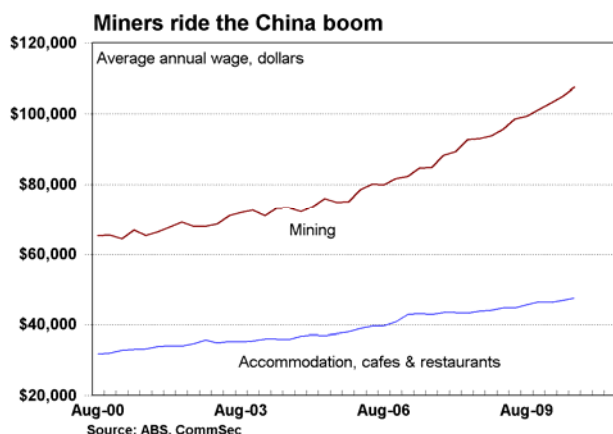
# Resource states shift into fourth gear

## Average weekly earnings; ABARE Mineral & energy major projects

- Average weekly earnings rose by 0.4 per cent in the three months to August with private sector earnings up just 0.2 per cent and public sector wages up 1.5 per cent. Wages rose by 4.5 per cent over the year.
- Over the year male wages rose by 4.3 per cent while female wages rose by 5.0 per cent. The average wage stands at \$65,457. The highest average wage can still be found in the mining sector, at \$107,510 per year.
- Wages in the ACT (\$75,936) remains well ahead of the other states and territories due its large public sector. However the clear surprise in wage growth has been the Northern Territory (\$64,745), which has now elevated itself ahead Queensland (\$64,407) and Victoria (\$63,809) in the pay stakes.
- The ABARE Mineral and energy major projects publication has confirmed that the mining sector is once again ramping up investment. In the six month to October, 72 projects were at an advanced stage of development, totalling a record capital expenditure of \$132.9 billion.

### What does it all mean?

- According to the data average weekly earnings rose by almost 4.5 per cent over the year. Unfortunately this measure tends to be quite volatile and changes in the composition of the labour force - which was especially evident during the global financial crisis - can tend to skew the result. As such the best guide to wage pressures in the economy is the wage price index with the latest figures showing that wage growth is decidedly tame.
- The data is also affected by compositional changes, such as the shift from full-time to part-time and movements across sectors. But the average weekly earnings data provides useful dollar estimates for wages.
- The latest data on wages highlights what the Reserve Bank has been stating for sometime the industrialisation of China and India will lead to major shifts in our economy. Wages in the mining sector are now more than double the earnings in food sectors like cafes and restaurants as well as across the retail sector. And the resources states of Western Australia, Northern Territory and Queensland are dominating in the pay stakes.
- The mining states are clearly the major winners over the past year, with Western Australian the undisputed leader. However coming up quickly is the Northern Territory. Wage growth in the territory has been an astounding



Savanth Sebastian – Economist (Author)  
(612) 8223 7130 (work)

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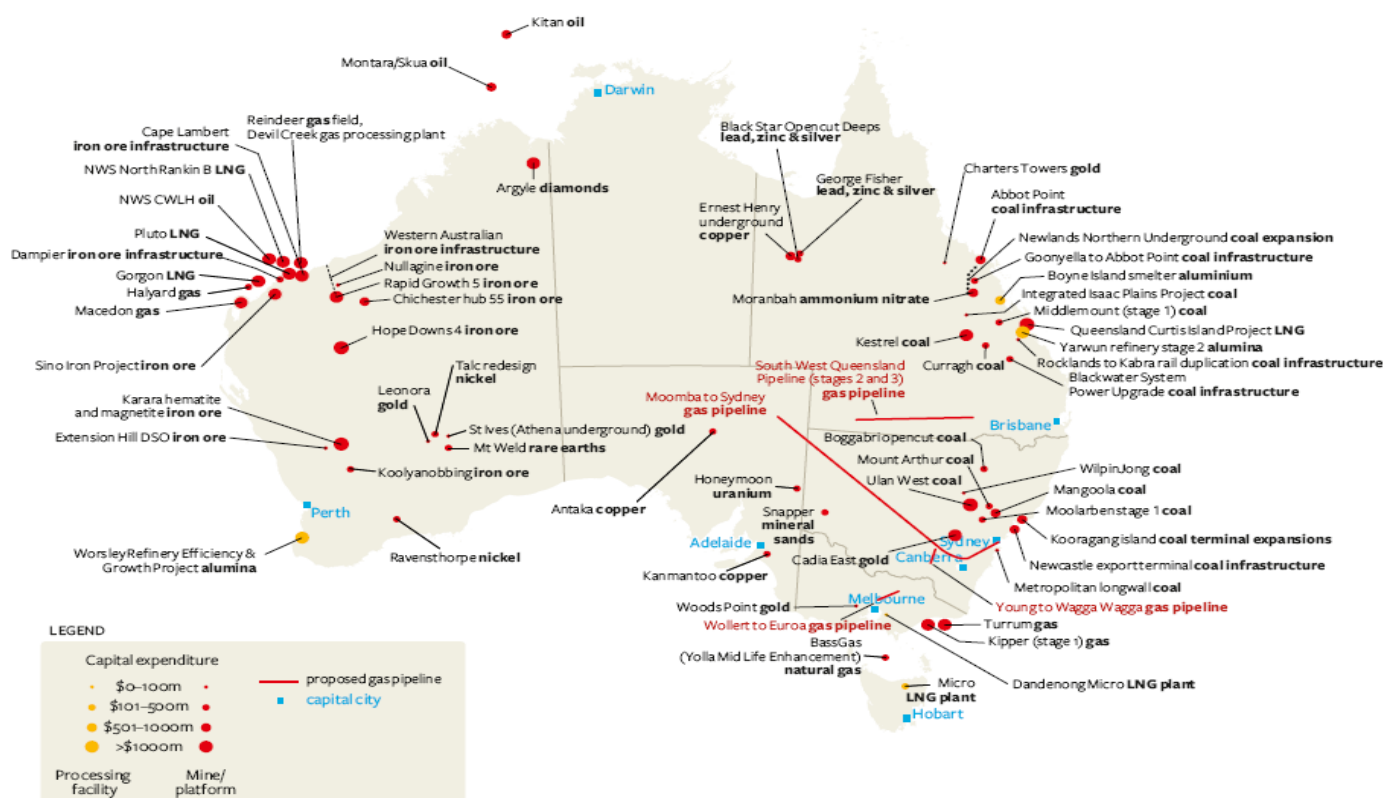
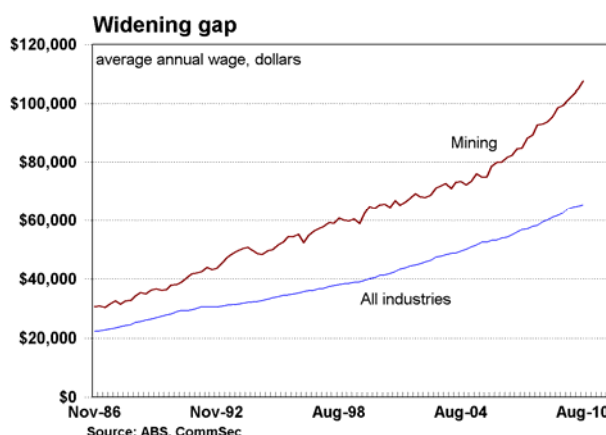
8 per cent over the past year - well ahead of its counterparts.

- Go back five years ago and if anyone suggested that the Northern Territory wages would surpass Victoria and Queensland they would have been laughed off. However the industrialisation of China and in turn India are paying dividends, and domestically the reallocation of resources in terms of labour to the mining states will only gain in traction over coming year.
  - The Reserve Bank deserves credit for its longer term vision and forecasts. As the global recovery gains traction and the second leg of the commodity boom picks up pace the demand for skilled workers will be even more paramount. Excessive wage pressure is exactly what the Reserve Bank is attempting to curtail and the recent rate hike will certainly help to slow activity to a modest extent.
  - The latest ABARE release on mineral and energy projects provides further evidence of the mining sector led recovery that is taking place. As at the end of October there were 72 mineral and energy projects that were at an advanced stage of development, with a record capital expenditure of \$132.9 billion – a 21 per cent increase on six months ago. After cutting back capital expenditure through the global financial crisis, mining firms are once again ramping up investment to take advantage of the higher commodity prices on offer.
  - If all the advanced and less advanced projects were to proceed ABARE estimates that a further 141,393 workers would be employed both in the construction and operational phases of these projects – the equivalent of seven “normal” months of employment. This effectively highlights the importance of the potential new visas to tackle skills shortages that has been mooted today.
  - CommSec expects the resources states to continue posting healthy growth in wages and stay firmly in the driver’s seat in terms of growth over the coming year. The one caveat on the sustained improvement in the mining states comes from the uncertainty surrounding the Mining Resources Rent Tax.
  - The lack of certainty on the resource rent tax has the potential to stifling investment across the mining sector. Especially given that major mining companies may find it difficult to cost projects due to the lack of clarity around the tax and the final mining tax proposal is unlikely to be confirmed until late 2011.
- Widening gap**

average annual wage, dollars

Date	Mining (\$)	All industries (\$)
Nov-86	~30,000	~20,000
Nov-92	~45,000	~30,000
Aug-98	~60,000	~40,000
Aug-04	~80,000	~50,000
Aug-10	~110,000	~65,000

Source: ABS, CommSec



## What do the figures show?

### Average weekly earnings

- **Average weekly earnings** rose by 0.4 per cent in the three months to August with private sector earnings up 0.2 per cent and public sector wages up 1.5 per cent. Wages rose by 4.5 per cent over the year.
- Wages rose most over the year in Transport and Storage (up 11.5 per cent), Electricity, gas, water & waste services (up 10.7 per cent), Public administration and Safety (up 8.5 per cent) and Mining (up 8.2 per cent). Wages were weakest over the past year in Rental Hiring and Real Estate Services (down 3.7 per cent), followed by Health care and social assistance (down 0.1 per cent), and Manufacturing (up 2.2 per cent).
- Across states & territories, we have calculated average annual wages as follows: NSW \$66,248 (up 4.4 per cent over the year), Victoria \$63,809 (up 4.8 per cent), Queensland \$64,407 (up 4.5 per cent), South Australia \$59,535 (up 2.1 per cent), Western Australia \$71,706 (up 5.7 per cent), Tasmania \$57,127 (up 5.4 per cent), Northern Territory \$64,745 (up 8.0 per cent) and ACT \$75,937 (up 7.1 per cent).
- The highest average wage can still be found in the mining sector, at \$107,510 per year. Next highest is scientific & technical services (\$79,612), finance & insurance services (\$78,933), and information media & telecommunications (\$77,110). The lowest average wage is obtained by workers in the accommodation and food services sector (\$47,518), followed by retail trade (\$48,422) and "other services" (\$53,352).

### ABARE Mineral and energy major projects

- In the six month to October, 72 projects were at an advanced stage of development, totalling a record capital expenditure of \$132.9 billion.
- The coal sector (17 projects) made up the bulk of the 38 major projects added to the list, followed by gold (5). Iron ore, base metals and petroleum all featured 4 new projects.
- In 2009-10 exploration expenditure in the mineral and energy sector was \$5.7 billion – a decrease of 5 per cent on 2008-09, but still the third highest mineral exploration expenditure on record.
- If all the advanced and less advanced projects were to proceed ABARE estimates that a further 141,393 workers would be employed both in the construction and operational phases of these projects – the equivalent of seven "normal" months of employment.

## What is the importance of the economic data?

- The ABS publishes the **Average Weekly Earnings (AWE)** series on a quarterly basis. While the Wage Cost Index allows analysis of wage movements from quarter-to-quarter, the AWE series is best seen as a measure of actual dollar figures for wages. But average weekly earnings figures can be distorted by changes such as the relative growth of high-paid to low-paid jobs and the cashing out of bonuses in ordinary earnings.

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

- Over the coming year the industrialisation of China and India will lead to major shifts in our economy. The mining workers are so far key winners as is Western Australia and the Northern territory more broadly.
- The Reserve Bank is likely to keep a close watch on the limited spare capacity in the labour market. Excessive wage growth will result in further rate hikes down the track.
- The gap between male and female earnings has narrowed over the past year. Though on average men are earning \$11,700 more per year than women. One key reason for the disparity is the rising demand for labour in male dominated sectors, such as mining and construction.

*Savanth Sebastian, Economist, CommSec*

*Work: (612) 8223 7130*