

Australia: Wage price index supports further RBA tightening

While Australian wage growth remains moderate by international standards, the latest print is still high enough for the Reserve Bank of Australia (RBA) to justify further tightening



3.7% YoY

Wage price index

up from 3.3%

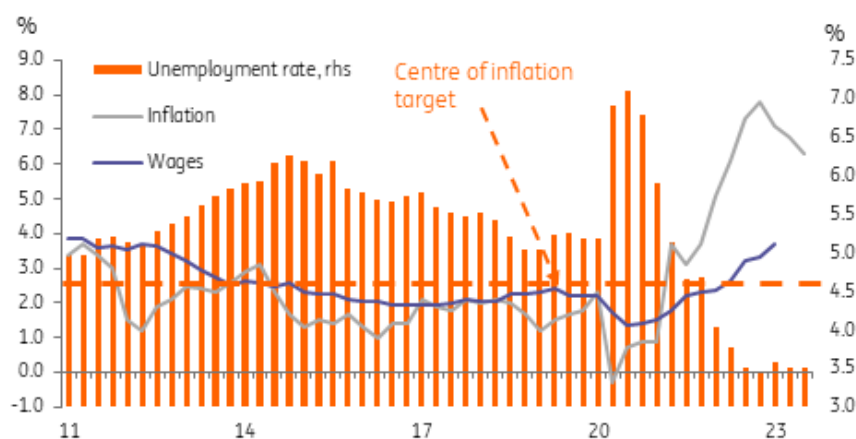
Higher than expected

Wage growth is very lagging, but the RBA think it is important

In recent comments, the Reserve Bank of Australia (RBA) Governor, Philip Lowe, has made a lot out of rising wage rates and unit labour costs. And though we do not share his view that this is alarming - to us, these are highly lagging indicators of the economy or simple residuals of slowing growth - we can't deny that such data is likely to play a key role in shaping RBA rate decisions in the coming months.

At 3.7%, wage growth in Australia is still low by international standards (in the US it is 4.4%YoY for hourly wages and in the UK it is 6.8%YoY for weekly earnings ex-bonuses) and doesn't look particularly threatening. Even the rate of quarterly increase was steady at 0.8%QoQ, with no change from the previous quarter. But on a mechanical approximation, 3.7% is too high to be consistent with the RBA meeting its 2-3% inflation target (if it doesn't moderate, which it probably will).

Australian wages, inflation and unemployment



Source: CEIC, ING

Wage arithmetic

The simple calculation runs approximately as follows. If wage growth is ultimately passed on by firms in prices to maintain steady margins, then assuming about a 1% annual productivity increase, firms should be able to bear wage growth of up to 4% to keep price increases below the top of the 3% inflation target. If we are actually targeting the centre of the target range (2.5%), then 3.5% annual wage growth is the highest rate of wage growth that should be consistent with this over the long run. So today's wage price index growth rate of 3.7%YoY takes us above this threshold and implies further tightening from the RBA.

However, there are a lot of caveats to this.

The main one is the assumption about what proportion of wage growth can be absorbed by productivity. We hear a lot from Governor Lowe about low productivity growth. But productivity feeds off economic growth, which is slowing, and also the labour market, which hasn't yet meaningfully started to soften, though almost certainly will, given time. Consequently, productivity will inevitably experience a cyclical drop at times like this, while having no inflationary consequences whatsoever.

Saying this, even before the current economic slowdown, trend productivity growth in Australia did not look particularly impressive, with OECD estimates hovering around the zero mark through the immediate pre-pandemic years. If that really is the non-cyclical trend figure we should be using, then even very modest wage growth, well below current levels might start to squeeze margins and put upward pressure on prices.

The truth is, we just don't know for certain, and neither does the RBA. Such trend rates only become apparent long after the period with which we are concerned. What we can say, is that

whatever the trend underlying productivity rate, and whatever wage growth is doing, inflation is already falling. The April figures will not fall by much, if at all, but then the following two months should see headline inflation dropping more sharply.

Further data on unemployment rates and employment growth could help shape the RBA's rate-setting decisions in the near term. The unemployment rate is still extremely low. But the RBA also appear to be mindful of the impacts of tightening they have already undertaken, and while data like today's are important, the RBA are not behaving particularly reactively on a month-on-month basis to the numbers, which makes assessing their reaction function even trickier.

Our current thinking is that a further 25bp rate hike of the cash rate target to 4.1% is likely. It could happen in June, though there is also an argument for the RBA taking their time to allow lagging data to respond to earlier tightening, and that means that the timing remains questionable.

And while some market participants favour two more hikes before the peak, we think that the resumption of the decline in inflation that will be apparent from May data onwards will limit it to one hike. But there isn't much to choose between the two alternative views.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klokk

Senior Economist, Netherlands

marcel.klokk@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com