

***Briefing Note:***

**Private Sector Wage Growth Still in Doldrums**

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New data on private-sector business conditions confirm that wage increases paid in the private sector of Australia's economy continue to plumb record lows.

The ABS's quarterly *Business Indicators* report, released yesterday, indicates total wages and salaries paid out by private businesses grew 4.3 percent in the September quarter, compared to year-earlier levels. This only slightly exceeded the increase in total private sector employment during the same period. As a result, wages and salaries paid per employed worker grew very slowly – by just 0.43 percent over the year. In other words, given significant recorded increases in private sector employment (which ABS data indicate grew 3.8 percent in the year), total wage and salary payments should have been growing significantly faster.

**Figure 1**

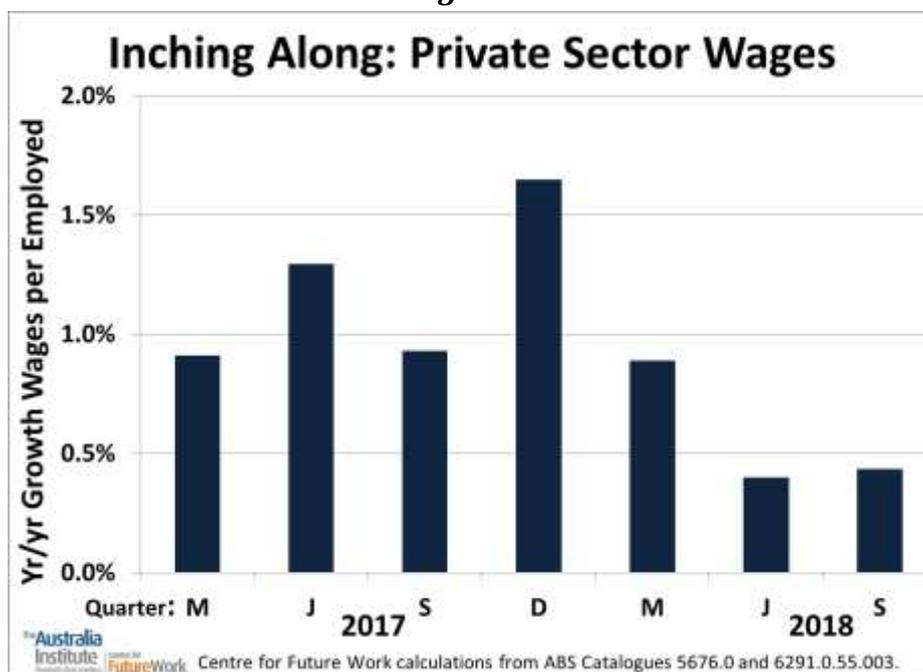
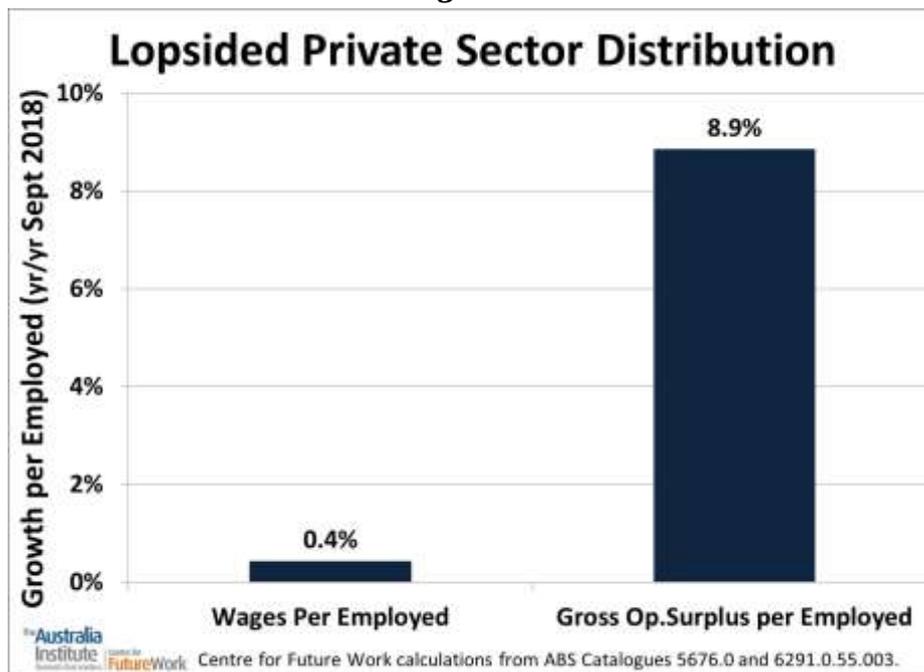


Figure 1 illustrates the year-over-year growth in total wage and salary payouts by private business (as reported in Table 17 of ABS Catalogue 5676.0) per employed person in the private sector (as reported in the ABS’s detailed quarterly labour force statistics, and available from Table 26a of ABS Catalogue 6291.0.55.003). On a per employed worker basis, the 0.43 percent increase in wages and salaried reported in the September quarter was only a marginal improvement from the 0.40 percent year-over-year lift recorded in June. Compared to the 1.9 percent rise in the consumer price index,<sup>1</sup> this implies a decline in real average wages of about 1.5 percent in the last year.

This continues a lasting trend: over the last three years, wages and salary payouts per employed private sector worker have grown at an average annual rate of less than 1 percent, consistently slower than consumer price inflation (thus driving reductions in real purchasing power for the average private sector worker). Private sector real wages (which have declined) have clearly become delinked from real labour productivity (which has continued to improve by around 1 percent per year).

In contrast to flat average wages, gross operating surpluses reported by Australian businesses (equivalent to their profits before depreciation and taxes) have grown more robustly, continuing a multi-year trend of profit growth outstripping labour compensation. Total business profits grew by just over 13 percent in the year ending in the September quarter;<sup>2</sup> that is about three times faster than the growth in total wage and salary payments.

**Figure 2**



<sup>1</sup> ABS Catalogue 6401.0.

<sup>2</sup> Business operating surplus statistics are reported in Table 15 of ABS Catalogue 5676.0.

But on a per worker basis, the imbalance between wage and profit growth is even more dramatic. Business gross operating surplus per worker grew by almost 9 percent in the year ending in the September quarter (as illustrated in Figure 2). That is 20 times faster than the growth in wages per worker over the same period.

Business gross operating surplus equaled \$9630 per employed private sector worker in the September quarter, compared to average wage and salary payments of \$12,733 per employed private sector worker in the same period. Gross business profits represented 75.6 cents for each dollar paid out in wages and salaries. That is the second highest ratio of gross profits to wages since 2001 (when the ABS began collecting this private sector wage data as part of its *Business Indicators* publication).<sup>3</sup>

With profit growth continuing to outstrip wage growth, this implies a continuing decline in the total share of GDP paid to workers (in wages, salaries, and superannuation contributions). Private sector activity accounts for about 85 percent of Australia's GDP. Depending on trends in other GDP components (including public sector compensation, mixed income to farmers and small business, indirect taxes, and others), the preceding analysis suggests that the labour share of GDP is likely to fall further in coming statistics.<sup>4</sup> Previous research from the Centre for Future Work already showed that the labour compensation share of total GDP declined in 2017 to the lowest annual point (47.1 percent) since the ABS began reporting quarterly GDP statistics in the late 1950s.<sup>5</sup>

The new data reinforce other findings that the private sector has been the primary drag on overall wage trends in Australia in recent years. Average annual private sector wage growth as measured by the ABS's Wage Price Index has languished under 2 percent during the past three years (compared to average annual growth of 2.4 percent in the public sector over the same time). The private sector WPI indicator picked up incrementally to 2.1 percent in the year ending September 2018,<sup>6</sup> driven in large part by a 3.5 percent increase in the national minimum wage effective July 1.

However, the WPI data are adjusted to strip out the effects of changes in the composition and quality of work, in order to generate an estimate of "pure" wage inflation across a given sample of jobs. But part of the weakness in labour incomes in recent years has resulted precisely from the deterioration in average job quality: including the growth of part-time, casual, and insecure work. By controlling for job quality, the WPI data miss this important effect. In contrast, the analysis above is based

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<sup>3</sup> The highest quarterly profit/wage ratio (77.3 percent) was recorded in September 2008, at the peak of the global mineral price upswing – and just before the onset of the Global Financial Crisis. The average profit/wage ratio over the 15 years from 2001 (when this private sector wage series commences) and 2016 was 63.3 percent.

<sup>4</sup> The next quarterly GDP report will be released by the ABS on 5 December.

<sup>5</sup> See Jim Stanford, "The Declining Labour Share in Australia: Definition, Measurement, and International Comparisons," in *Journal of Australian Political Economy* 81, 2018, pp. 11-32.

<sup>6</sup> Author's calculations from ABS Catalogue 6345.0, Table 1.

on comparing total compensation with total employment levels; it therefore captures the impact of changes in the make-up of private sector employment. The fact that average compensation per employed private sector worker has grown much more slowly than the WPI for private sector wages confirms that declining job quality has indeed been an important factor holding back compensation in the private sector.

Other factors which may help to explain the very slow pace of average private sector wages include a significant erosion of collective bargaining coverage in the sector; growth in private-sector self-employment;<sup>7</sup> and a potential overstatement in the ABS data of the pace of private sector employment growth.<sup>8</sup>

In any event, the preceding analysis indicates that the unprecedented slowdown in average wage growth experienced in Australia since 2012 has yet to turn around, especially in the private sector. Even with relatively low official unemployment rates and seemingly strong job-creation, wage increases for typical private sector workers remain at near-record lows. This suggests the necessity of pro-active policy measures to support stronger wage increases, in order to overcome the current stagnation in labour incomes.

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<sup>7</sup> Some income for self-employed workers consists of wages and salaries paid to them by their businesses, and some consists of profit income. Hence a higher share of self-employment, other things equal, would tend to reduce the average wages paid out per employed worker.

<sup>8</sup> The quarterly ABS employment data referenced above indicate a year-over-year increase in total employment of 2.5 percent to the September quarter, consistent with data from the monthly labour force survey (Catalogue 6202.0). However, the quarterly series reports a surprisingly large decline in year-over-year employment in the public sector (down over 5 percent in the year), implying an even larger increase in private sector employment. It is possible that the data has misclassified some public sector jobs as private sector, or overestimated total private sector employment for other reasons.