

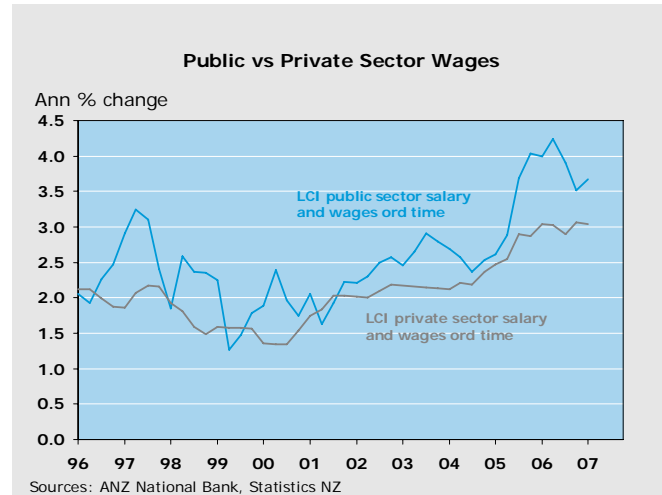
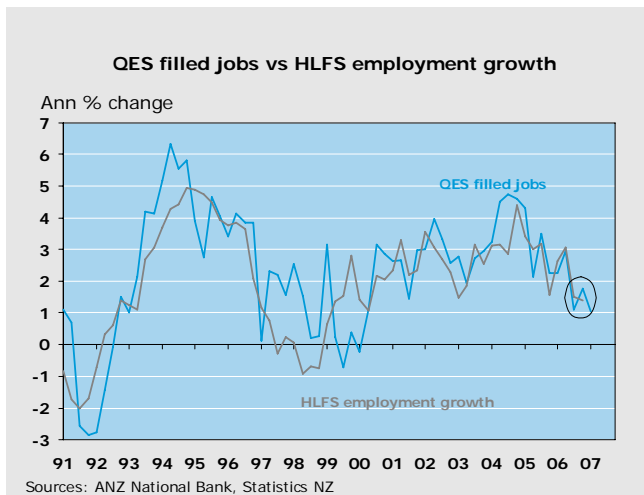
## LABOUR COST INDEX AND QUARTERLY EMPLOYMENT SURVEY – MARCH 2007

### Key points

- March quarter wage inflation came in weaker than expected. QES employment indicators also printed on the weak side.
- The slightly softer headline wage inflation measures from the LCI are encouraging, although both the quarterly change (0.7 percent) and annual change (3 percent) are still historically very elevated.
- The QES employment figure looks to have taken some of the upside risk out of Thursday's employment report. However, we note the quarterly correlation between the QES and HLFS employment figures is not strong.
- The Reserve Bank is unlikely to relax its guard based on today's data. Given that Thursday's HLFS employment report is still expected to show a tight labour market, the potential for further upward pressure on wage inflation remains.

### The headlines

	Actual	ANZ National	Market
LCI salary and wage ord time (pvte sector)	<b>0.7% q/q</b> <b>3.0% y/y</b>	0.8% q/q 3.2% y/y	0.9% q/q 3.3% y/y
QES salary and wage ord time (pvte sector)	<b>0.7% q/q</b> <b>5.5% y/y</b>	0.9% q/q 5.7% y/y	0.8% q/q 5.6% y/y



- **The Labour Cost Index (LCI) measure of private sector ordinary time earnings rose 0.7 percent in the December quarter**, taking annual wage inflation to 3 percent. The alternative measure of wage growth from the Quarterly Employment Survey (which is affected by compositional shifts) also posted a lower than expected increase of 0.7 percent to be 5.5 percent higher than a year ago. LCI public sector ordinary pay rose by 0.6 percent for the quarter and 3.7 percent for the year.
- **Finance and insurance recorded the largest annual increase in LCI wages at 5 percent.** This was followed by health and community services (4.9 percent) and mining (4.1 percent). By occupation, the largest annual movements were for health professionals (up 5.6 percent) as a result of a collective employment agreement for nursing professionals coming into effect.
- **Employment indicators from the QES were weak, reversing the strong reading from the previous quarter.** Filled jobs fell 1.4 percent, although this measure is not seasonally adjusted. Our seasonally

adjusted estimate show that filled jobs was flat in the March quarter, following a 0.3 percent rise in the December quarter. Compared to a year ago, the number of filled jobs is up 1.1 percent, with the number of full-time equivalent (FTE) employees up 1.6 percent. The annual increase in FTEs was driven by the property and business services, construction, and health and community services industries. Full-time employment growth rose 2 percent from a year ago while part-time employment fell 0.7 percent, suggesting employers are making greater use of their existing workforce by turning part-timers into full-timers.

### Assessment and implications

- **Despite wage growth coming in weaker than expected, it is too soon to call a peak in wage inflation.** There appears to be some seasonality at play, with the March quarter normally coming in slightly weaker. In any case, the 0.7 percent rise in the quarter, taking annual wage inflation to 3 percent, is still at elevated levels.
- **Further increases in wages expected over the coming quarters.** Increases in the minimum wage from 1 April and employees seeking relativity adjustments will add upward pressure to wage growth in the June quarter. In addition, the labour market remains tight and a rebound in employment intentions suggest there is still an appetite to hire. Public sector wage growth continues to outpace those in the private sector, pointing to further spillover in order to retain and attract staff.
- **The QES employment indicators suggest limited upside risk to Thursday's HLFS employment growth.** However, we note that the correlation between the QES and the HLFS is weak. Strength in the QES employment numbers in the December quarter did not translate through into strong HLFS numbers (HLFS employment growth fell). The annual percent changes between the QES and HLFS on the other hand, do tend to converge. Based on this, we remain comfortable with our pick for a 0.8 percent increase in HLFS employment growth for the March quarter, taking the annual increase to 1.1 percent.
- **Today's wage data will provide some comfort to the Reserve Bank.** But they will not relax their guard, given that the labour market remains tight and the potential for further upward pressure on wage inflation remains. With wage inflation still at elevated levels and the upside risks to medium-term inflation that currently exist, the Reserve Bank will continue to be on the lookout for any signs of wage inflation finding its way into general consumer prices.

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