

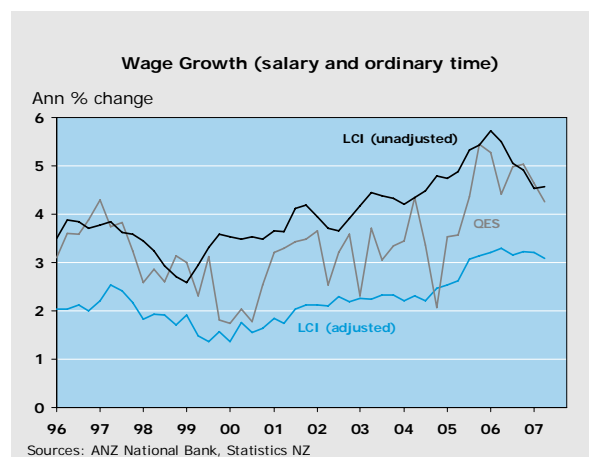
## LABOUR COST INDEX AND QUARTERLY EMPLOYMENT SURVEY – JUNE 2007

Key points

- June quarter wage inflation data came in broadly in line with expectations, while QES employment indicators printed strongly.
- Although not accelerating further, wage inflation remains elevated and is likely to stay at these levels for some time.
- The strength in QES employment indicators poses upside risks to HLFS employment growth, although we note the correlation between the two is weak.
- Today's wage inflation data reinforces the vigilance still required by the Reserve Bank.

The headlines

	LCI private sector ordinary time		Unadjusted LCI all sectors		QES private sector ordinary time	
	q/q	y/y	q/q	y/y	q/q	y/y
Jun-05	0.6	2.5	1.2	4.9	1.9	2.2
Sep-05	0.9	2.9	1.9	5.3	1.4	3.8
Dec-05	0.7	2.9	1.4	5.4	0.5	5.1
Mar-06	0.7	3.0	1.1	5.7	0.7	4.6
Jun-06	0.6	3.0	1.0	5.5	2.3	4.9
Sep-06	0.8	2.9	1.4	5.1	1.9	5.4
Dec-06	0.9	3.1	1.3	4.9	0.6	5.5
Mar-07	0.7	3.0	0.8	4.5	0.7	5.5
<b>Jun-07</b>	<b>0.7</b>	<b>3.1</b>	<b>1.0</b>	<b>4.6</b>	<b>1.0</b>	<b>4.2</b>
<b>ANZ</b>	<b>0.9</b>	<b>3.3</b>	-	-	<b>2.2</b>	<b>5.4</b>
Market	0.7	3.0	-	-	2.0	5.2



- **The Labour Cost Index (LCI) measure of private sector ordinary time earnings rose 0.7 percent in the June quarter**, taking annual wage inflation to 3.1 percent. The alternative measure of wage growth from the Quarterly Employment Survey (which is affected by compositional shifts) rose 1.0 percent to be 4.2 percent higher than a year ago.<sup>1</sup> LCI public sector ordinary pay rose by 0.3 percent for the quarter and 2.9 percent for the year – the first time since 2001 that annual private sector wage growth has outpaced its public sector counterpart. Finance and insurance once again recorded the largest annual increase in LCI wages at 5.2 percent. This was followed by health and community services (4.9 percent) and mining (4.4 percent).
- **Gross earnings still solid.** Gross earnings rose 7.0 percent in the year to June 2007. Although down on the peak of close to 9 percent annual growth at the end of 2006, it is still elevated and was up slightly from the 6.7 percent growth recorded in the March quarter.
- **Employment indicators from the QES were strong, reversing the previous quarter's weakness.** Filled jobs rose 2.0 percent in the June quarter, although this measure is not seasonally adjusted. Our seasonally adjusted estimate show that filled jobs rose 1.1 percent after the 0.1 percent increase in the March quarter. Compared to a year ago, the number of filled jobs is up 2.1 percent, with the number of full-time equivalent (FTE) employees up 2.3 percent. The annual increase in FTEs was mainly driven by construction, property and business services, and wholesale trade industries. The strength in employment was also across both full and part-time workers, with both recording annual growth of 2.3 percent for the year to June 2007.

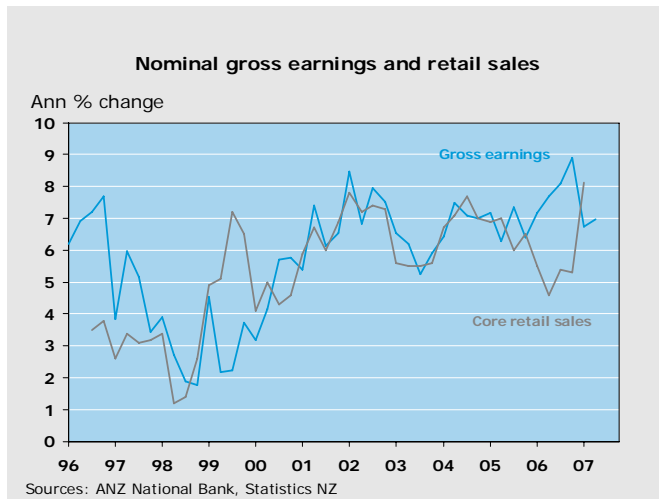
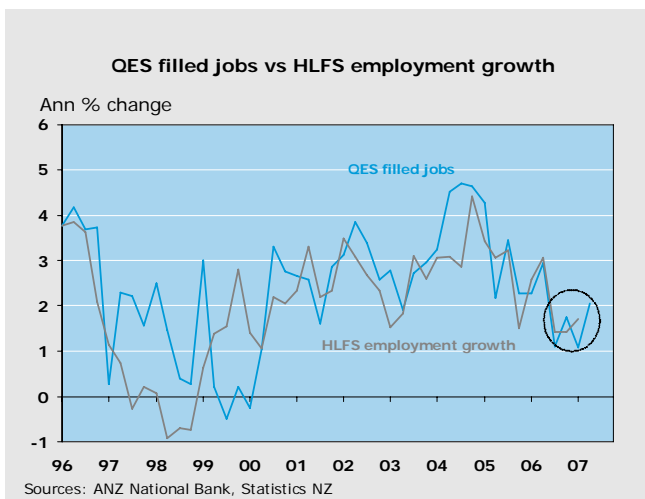
<sup>1</sup> The LCI measures changes in salary and wage rates for a fixed quantity and quality of labour input, while QES average earnings statistics reflect not only changes in pay rates, but also compositional and other changes across and within the paid workforce. A more comparable measure between the two series, the unadjusted LCI, rose 1.0 percent in the quarter and 4.6 percent in annual terms.

**Assessment and implications**

**Wage growth appears to have stabilised, but at an elevated level.** Some mild encouragement can be taken from the fact that wage inflation has not accelerated further in the June quarter, particularly as statutory minimum wage changes – in the order of 10 percent – came into force from April this year. However, wage growth remains elevated at 3.1 percent – near record highs. Wage inflation is likely to remain at these levels for some time. The labour market remains extremely tight, with firms continuing to report difficulty in finding both skilled and unskilled workers.

**The QES employment indicators pose upside risks to Thursday’s HLFS employment growth.** The strength in QES employment indicators was across the board suggesting HLFS employment growth could print stronger than current market (and our) expectations of 0.3 percent quarterly growth. However, the correlation between the two series is weak and therefore we are sticking by our estimate at this stage. There have been periods of significant divergence in the two series in the past.

**Today’s data reinforces the vigilance still required by the Reserve Bank.** The labour market clearly remains a source of inflationary risk through the insulation it is providing households. Solid increases in total gross earnings will continue to support consumer spending and the housing market – two key areas the Reserve Bank want to see moderate. In this environment, it illustrates the bias for interest rates remains skewed to the upside and any easing in monetary policy is still a long way off.



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