

# Australian Markets Weekly

## Has wages growth bottomed?

- Our focus article is on tentative signs of a bottoming of wages growth in Australia, with both the NAB survey and the average salary advertised on SEEK's website having lifted in recent months. The rise has been driven by NSW and Victoria, the strongest labour markets in recent times. Meanwhile, the number of applications per job ad suggests the unemployment rate should gradually decline, though sample rotation risks for unemployment are again slightly to the upside this month (but will reverse in Sept).
- The domestic focus this week will be on the Q2 Wage Price Index on Wednesday, the July Labour Force data on Thursday and tomorrow's RBA Minutes. Offshore, we have the Fed Minutes and various Fed speeches and a significant raft of post-Brexit UK economic data for July, including retail sales.

Spare capacity in the labour market seems to have been an important part of the RBA's recent decision to lower the cash rate further. The linkage is low wages growth – which reflects this spare capacity – and which, as a key determinant of prices, impacts on the RBA's outlook for inflation. The Bank concluded that:

*"Recent data confirm that inflation remains quite low. Given very subdued growth in labour costs and very low cost pressures elsewhere in the world, this is expected to remain the case for some time."*

This week we receive a further update on the Wage Price Index as well as the July Labour Force. Because of its construction, the WPI will likely not be the first labour market measure to show the low point for wages growth (it focuses on a specific job and would miss stronger bonuses or increased wages for job switchers) – or any acceleration. NAB, in conjunction with SEEK, monitors two SEEK series, which along with trends in the official unemployment rate, should provide an early warning of emerging trends in wages, namely:

- the average salary advertised in all job ads placed on SEEK's site; and
- the number of applications for each of those advertisements, which is a leading indicator of the unemployment rate and hence should be a longer-leading indicator of wages trends.

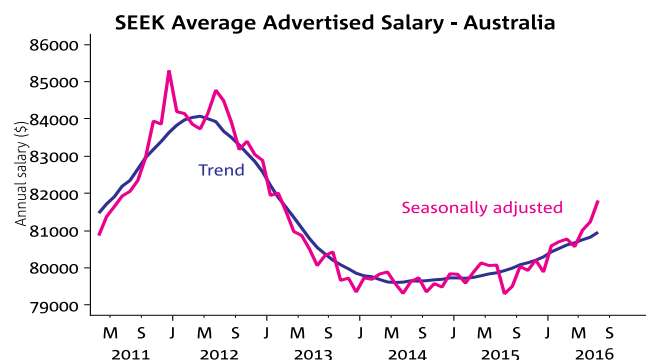
These measures complement and provide deeper detail on the trend in the employment and wages measures contained in NAB's monthly business survey. [Clients interested in seeing detailed information on wages by state and industry, or job advertising by state, industry or in 70 different regions of Australia, should email [ivan.colhoun@nab.com.au](mailto:ivan.colhoun@nab.com.au)].

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7655	0.1	RBA cash	1.50	0
AUD/CNY	5.09	0.0	3y swap	1.65	-3
AUD/JPY	77.5	-0.8	ASX 200	5,518	-0.3
AUD/EUR	0.686	-0.5	Iron ore	60.4	-0.6
AUD/NZD	1.065	-0.7	WTI oil	44.6	3.6

Source: Bloomberg

### Chart 1: Advertised wages beginning to lift



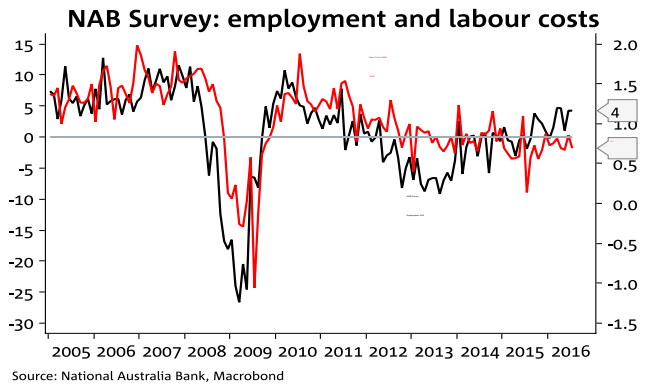
### Authors:

Ivan Colhoun, Chief Economist, Markets

David de Garis, Senior Economist, Markets

In July, the NAB survey reported employment conditions remained at the recently stronger level of 4, underpinned by continuing strength in NSW and Victoria, but with employment conditions now positive in all states except Western Australia (though even here, the employment measure has become less negative). NAB's labour cost measure has annualised around the 3% mark since the start of this year, still relatively low, but a bit higher than the 2.5% annualised rate of wages growth in evidence between March and December 2015 (Chart 2).

Chart 2: NAB survey: employment and wages improving

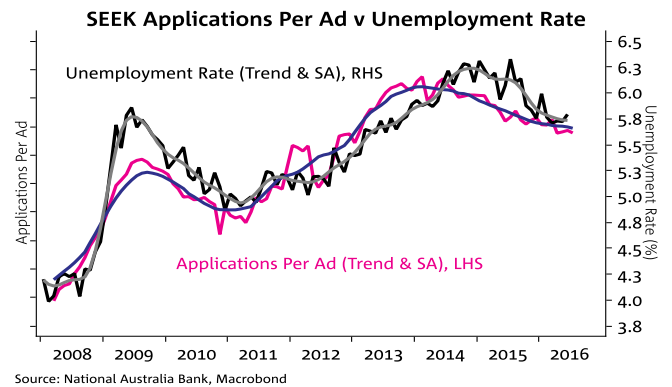


The SEEK data also provide a picture of a slowly improving labour market in Australia, underpinned by improvement in NSW and Victoria, Australia's two most populous states. The data show:

- the number of applications for each job advertised on SEEK continuing to gradually decline (Chart 3), which means there are less candidates competing for each job advertised, indicative of a tightening labour market. In turn, this is consistent with expecting a further – though at this stage relatively slow – decline in the unemployment rate in the months ahead [note, NAB's forecast of two further interest rate cuts in mid-2017 are based on an expectation that without this further stimulus, the unemployment rate, would begin to increase in 2018 as GDP growth moderates as residential construction eases]. This measure should therefore also tend to lead wages growth and might suggest that the low in wages growth may already have been reached. The tightening is most noticeable in NSW and Victoria, consistent with other indicators of the labour market. Applications per job advertisement are still rising in WA – consistent with a weak labour market in that state and remain at a high level in Queensland (weakening again slightly in recent months after previously improving mildly); and
- average advertised wages beginning to rise in Australia in recent months (Chart 1). Again, this increase is being driven predominantly by increases in advertised wages in Victoria and NSW, but interestingly, advertised wages in Qld and WA have also stopped declining and even begun to increase somewhat in recent months. We interpret this measure as something of a wages pressure index, which should begin to increase ahead of official wages data much as the Atlanta Fed Wage Tracker measure has been doing in recent months. It's also worth pointing out

that each of the big states recorded a significant jump in advertised wages in July, which likely in part reflects the 2.4% minimum wage increase granted from 1 July 2016.

Chart 3: Apps per ad suggest declining unemployment rate



Trends in SEEK job advertisements provide some further detail on recent developments in Australia's labour market. Job advertising has slowed somewhat in recent months, which as Charts 4 and 5 show, mainly reflects weaker advertising in WA over the past 12-15 months. Slower growth in advertising in QLD has also been a feature however. That said, in both of these states, the rate of decline in job advertising appears to have slowed in recent months, especially in Queensland, suggesting the drag from the mining states on job advertising may be easing. [Note, NAB Group Economics, however, has estimated that Australia is only half way through the employment decline related to the end of mining investment, so this effect may persist for a time in the employment data].

At the same time as the rate of decline in WA and Qld job ads has been showing tentative signs of stabilising, job ads trends in NSW and Victoria have softened. If this trend were to continue, it would likely be a significant development for the Australian macro-economy, as it would suggest the labour market would likely retain spare capacity for a more extended period, if employment growth in the two largest labour markets were to slow. For now, however, we attribute this slowing in job ads more to temporary impacts related first to market volatility associated with Brexit and second to uncertainty associated with the initial delay in finalising the Australian election result, rather than any general slowing in advertising in the large states.

Chart 4: After dragging, non-mining states stabilising?

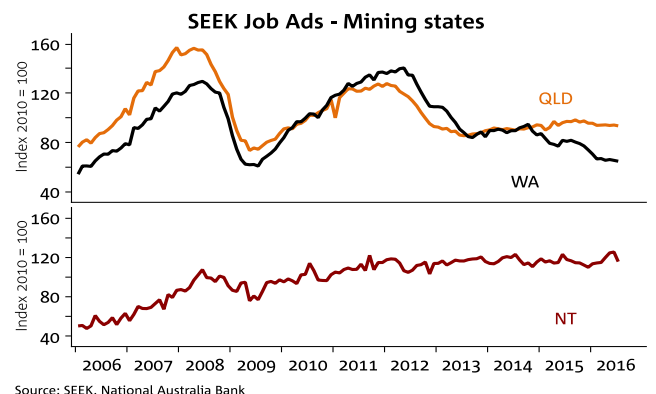
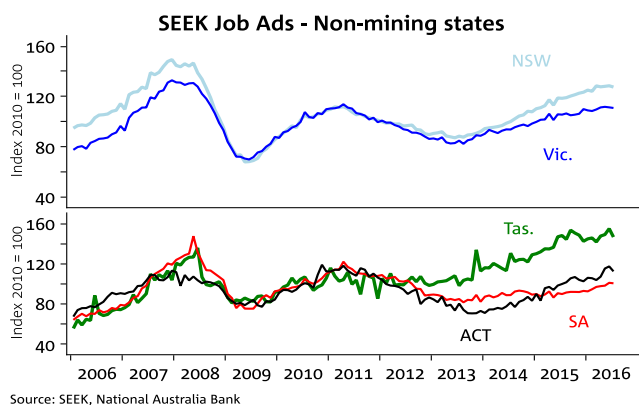


Chart 5: Non-mining states impacted by Brexit & election?



Overall, recent data suggest continuing growth in the NSW and Victorian labour markets will drive slow improvement in the national labour market in the months ahead, but be somewhat restrained by softness in the WA and Queensland labour markets (the states most exposed to the mining investment slowdown and suffering spill-over effects from weaker commodity prices).

It will be important to monitor for signs of a lessening of the drag from these weaker states, which may be tentatively beginning, or alternatively and more concerning, for signs that this drag is now impacting more on the two big states that have previously powered the overall improvement in the labour market. (Note, this slowing is not currently indicated). Note also that the latest NAB and SEEK data suggest the low point for wages growth may well have been reached, though it is too early to expect this to show up in this week's wages indicators.

We'd also caution that our previous research indicates sample rotation effects suggest modest upside risk to the market and NAB's expectation of an unchanged unemployment rate of 5.8% in July (and contributed to the 0.1 percentage increase recorded in June, but were not quite as significant as expected in the employment estimate). The effect on unemployment will reverse in the September data. Australia's circa 34,000 census workers are more likely to boost employment data in August, based on the experience of the 2011 Census (though some of these workers already have jobs).

#### Week ahead: Wages, Labour Force; Fed views; post Brexit UK economy

There will be close focus on Australia's labour market this week with Q2's Wage Price Index on Wednesday, followed by the all-important monthly Labour Force report for July on Thursday.

NAB expects the message of subdued post resource boom wages growth to still permeate this report. Growth in the March quarter had slowed to a quarterly growth rate of 0.4% and annual growth of 2.1%. NAB's forecast calls for growth in the Wage Price Index in the June quarter of 0.5% – the trend – resulting in annual growth of 2.0%, a new low in the 19-year history of this series. This is one of the two most important releases that tracks labour costs and hence a major input the outlook for non-traded inflation. The other major wage cost indicator, average earnings on a national accounts basis, is released in the June quarter GDP report on 7 September.

As for the Labour Force report for July out on Thursday, NAB looks for net monthly employment growth of 12K reflecting a positive underlying trend as suggested by the NAB business survey employment index and job advertisements pointing to the likelihood of a stronger employment outcome than was evident in June. However, again the monthly labour market report has the potential to be dogged by outsized sample rotation effects that boosted employment significantly last October and November, with the unwinding of those positive effects now impacting the monthly survey. Net measured employment growth of 12K should be broadly sufficient to keep the unemployment rate unchanged at 5.8% in July, though as noted earlier, the risk is slightly to the upside.

The RBA releases the Minutes of this month's rate cut Board meeting, though they are unlikely to reveal anything substantially new given the attention on the reasons for the rate cut from the Bank's quarterly Statement on Monetary Policy released the Friday before last and last week's speech from RBA Governor Stevens.

In the US, the focus will be reports on housing, the CPI and Fed thinking. As for Fed thinking, there is the release of the FOMC Minutes on Wednesday (early am Thursday AEST) and four Fed speakers scheduled. Markets will be looking for any step up in guidance that the Fed is getting closer to its second rate hike of the cycle, following stronger labour market data and more settled markets of late.

The release of several post-Brexit reports on the UK economy will also be watched closely, including Retail Sales, out Friday. There is very little data from China this week in the wake of Friday's key July activity data showing some slowing in its main monthly growth indicators. NZ has its quarterly labour market report on Wednesday as well as another Global Dairy Auction early am NZT time Wednesday.

[ivan.colhoun@nab.com.au](mailto:ivan.colhoun@nab.com.au)

[david.deqaris@nab.com.au](mailto:david.deqaris@nab.com.au)

# Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Monday, 15 August 2016</b>								
NZ	Performance Services Index	Jul				56.7	22.30	8.30
UK	Rightmove House Prices MoM	Aug				-0.9/4.5	23.10	9.10
JN	GDP SA QoQ/QoQ saar	2Q P		0.2/0.7		0.5/1.9	23.50	9.50
JN	Industrial Production MoM/YoY	Jun F		/		1.9/-1.9	4.30	14.30
US	Empire Manufacturing	Aug		2		0.6	12.30	22.30
CA	Existing Home Sales MoM	Jul				-0.9	13.00	23.00
CA	Bloomberg Nanos Confidence	Aug 12				59.9	14.00	0.00
US	NAHB Housing Market Index	Aug		60		59.0	14.00	0.00
US	Net Long-term/Total Net TIC Flows	Jun				41.1/-11.0	20.00	6.00
<b>Tuesday, 16 August 2016</b>								
NZ	<b>RBNZ Governor Wheeler Speaks in Tauranga (Not Public)</b>							
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 14				114.7	23.30	9.30
AU	RBA Aug. Meeting Minutes						1.30	11.30
AU	New Motor Vehicle Sales MoM/YoY	Jul				3.1/2.1	1.30	11.30
NZ	Non Resident Bond Holdings	Jul				67.4	3.00	13.00
UK	CPI MoM/YoY	Jul		-0.1/0.5		0.2/0.5	8.30	18.30
UK	CPI Core YoY	Jul		1.4		1.4	8.30	18.30
UK	PPI Input NSA MoM/YoY	Jul		1/2		1.8/-0.5	8.30	18.30
UK	PPI Output Core NSA MoM/YoY	Jul		0.1/0.8		0.1/0.7	8.30	18.30
UK	House Price Index YoY	Jun				8.1	8.30	18.30
EC	Trade Balance SA	Jun		25.25		24.5	9.00	19.00
GE	ZEW Survey Current Situation/Expectations	Aug		50.2/2		49.8/-6.8	9.00	19.00
EC	ZEW Survey Expectations	Aug				-14.7	9.00	19.00
CA	Manufacturing Sales MoM	Jun		0.5		-1.0	12.30	22.30
US	Housing Starts, #/MoM	Jul		1180/-0.8		1189/4.8	12.30	22.30
US	Building Permits, #/MoM	Jul		1160/0.6		1153/1.5	12.30	22.30
US	CPI MoM/YoY	Jul		0/0.9		0.2/1.0	12.30	22.30
US	CPI Ex Food and Energy MoM	Jul		0.2/2.3		0.2/2.3	12.30	22.30
US	Real Avg Weekly Earnings YoY	Jul				1.2	12.30	22.30
US	Industrial Production MoM/Capacity use	Jul		0.3/75.6		0.6/75.4	13.15	23.15
US	Manufacturing (SIC) Production	Jul		0.2		0.4	13.15	23.15
US	Fed's Lockhart Speaks to Rotary Club of Knoxville						16.30	2.30
NZ	Global Dairy Auction, GDT-weighted price index		+5-10			6.6	early am, NZT time	
<b>Wednesday, 17 August 2016</b>								
NZ	PPI Input/Output QoQ	2Q				-1.0/-0.2	22.45	8.45
NZ	Employment Change QoQ/YoY	2Q	0.7/2.5	0.6/2.3		1.2/2.0	22.45	8.45
NZ	Unemployment/Participation Rate	2Q	5.3/68.8	5.3/68.8		5.7/69.0	22.45	8.45
NZ	Business Price Indexes, outputs/inputs	2Q	flat/-0.1			0.1/-0.9	22.45	8.45
AU	Westpac Leading Index MoM	Jul				-0.2	0.30	10.30
AU	Wage Price Index QoQ/YoY	2Q	0.5/2.0	0.5/2.0		0.4/2.1	1.30	11.30
UK	Jobless Claims Change/Claimant Count Rate	Jul		9/2.2		0.4/2.2	8.30	18.30
UK	Average Weekly Earnings/Earnings ex bonus 3M/YoY	Jun		2.4/2.3		2.3/2.2	8.30	18.30
UK	Employment Change/ILO Unemployment rate 3M/3M	Jun		153/4.9		176.0/4.9	8.30	18.30
US	Fed's Lockhart Speaks to Rotary Club of Knoxville						16.30	2.30
US	Fed's Bullard Speaks in St. Louis						17.00	3.00
US	U.S. Fed Releases Minutes from July 26-27 FOMC Meeting						18.00	4.00
<b>Thursday, 18 August 2016</b>								
NZ	ANZ Job Advertisements MoM	Jul				0.5	22.00	8.00
JN	Trade Balance Adjusted	Jul		142.2		335.0	23.50	9.50
JN	Exports/Imports YoY	Jul		-13.8		-7.4/-18.8	23.50	9.50
NZ	ANZ Consumer Confidence Index/MoM	Aug				118.2/-0.6	1.00	11.00
CH	Property Prices	Jul						
AU	Employment Change/Unemployment rate	Jul	12/5.8	10/5.8		7.9/5.8	1.30	11.30
AU	Participation Rate	Jul	64.9	64.9		64.9	1.30	11.30
AU	RBA FX Transactions Market	Jul				1720	1.30	11.30
AU	RBA's Hancock in Panel Participation in Sydney							
JN	Machine Tool Orders YoY	Jul F				-19.6	6.00	16.00
EC	ECB Current Account SA	Jun				30.8	8.00	18.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Jul		0.3/3.8		-0.9/3.9	8.30	18.30
EC	Construction Output MoM/YoY	Jun		/		-0.5/-0.8	9.00	19.00
EC	CPI MoM/YoY	Jul		-0.5/0.2		0.2/0.1	9.00	19.00
EC	CPI Core YoY	Jul F		0.9		0.9	9.00	19.00
EC	ECB account of the monetary policy meeting						11.30	21.30
CA	Int'l Securities Transactions	Jun				14.7	12.30	22.30
US	Initial Jobless Claims	Aug 13		265		266.0	12.30	22.30
US	Philadelphia Fed Business Outlook	Aug		2		-2.9	12.30	22.30
US	Fed's Dudley answers questions at press briefing in New York						14.00	0.00
US	Leading Index	Jul		0.3		0.3	14.00	0.00
US	Fed's Williams Speaks in Anchorage						20.00	6.00
<b>Friday, 19 August 2016</b>								
NZ	Net Migration SA	Jul				5670.0	22.45	8.45
NZ	Credit Card Spending MoM/YoY	Jul				-0.8/4.1	3.00	13.00
JN	All Industry Activity Index MoM	Jun		0.9		-1.0	4.30	14.30
UK	Public Finances (PSNCR)/Central Government NCR	Jul		/		14.9/20.0	8.30	18.30
CA	Retail Sales/Ex autos MoM	Jun		0.5/0.3		0.2/0.9	12.30	22.30
CA	CPI NSA MoM/YoY	Jul		0/1.3		0.2/1.5	12.30	22.30
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Canada, BoC		7-Sep				0.50%		
Australia, RBA		6-Sep	1.50%			1.50%		
Europe ECB		8-Sep				0.00%		
UK BOE		15-Sep				0.25%		
Japan, BoJ		21-Sep				-0.1% to +0.1%		
US Federal Reserve		22-Sep				0.25-0.50%		
New Zealand, RBNZ		22-Sep	1.75%	2.00%		2.00%		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time



## Contact Details

### Market Economics

Ivan Colhoun  
Chief Economist, Markets  
+61 2 9237 1836  
ivan.colhoun@nab.com.au

David de Garis  
Senior Economist  
+61 3 8641 3045  
david.degaris@nab.com.au

Tapas Strickland  
Economist  
+61 2 9237 1980  
tapas.strickland@nab.com.au

### Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406  
peter.jolly@nab.com.au

### Group Economics

Alan Oster  
Chief Economist  
+61 3 8634 2927  
alan\_oster@national.com.au

Riki Polygenis  
Head of Australian Economics  
+61 3 8697 9534  
riki.polygenis@nab.com.au

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