

FactCheck: is wage growth at record lows?

Written by Janine Dixon, Economist at Centre of Policy Studies, Victoria University

People are hurting, people are doing it tough. Wages growth at record lows. – Shadow treasurer Chris Bowen, [interview](#), October 9, 2016.

In October 2016, the Australian economy hit a new milestone – [25 years](#) of uninterrupted economic growth. At the same time, shadow treasurer Chris Bowen said Australian wage growth had fallen to record lows.

Is that right?

Checking the source

When asked for a source to support his statement, a spokesperson for Chris Bowen pointed The Conversation to the Australian Bureau of Statistics (ABS) [Wage Price Index for June 2016](#). (You can read the full response from Bowen’s office [here](#).)

The ABS [Wage Price Index](#) tracks hourly rates of pay, excluding bonuses, for all private and public industries in Australia. The chart below illustrates the ABS data referred to by Chris Bowen’s office.

Is wage growth at record lows?

Wage growth is certainly low, and people are doing it tough, but to label the current situation a “record low” is a step too far.

Bowen is correct according to the data set he provided to support his statement (the ABS’ wage price index). But I don’t think it’s the most suitable data on which to base this claim. The first problem with it is that it only goes back to 1998. That’s a fairly small window of time on which to base a claim about “record lows”.

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The second problem is that, according to the [ABS Glossary](#),

changes in the price of wages and salaries resulting from changes in the composition of the labour market are also excluded from index movements.

In other words, the wage price index accounts for changes in the wages of many types of jobs, but not the changes in the wages taken home by individual people.

If people upskill, enabling them to move from a lower paid job to a higher paid job, it won't make any difference to the wage price index. Yet this sort of wage growth is fundamental in Australian society.

In an attempt to verify whether wage growth really is at "record lows", I looked instead at data on ["Compensation of employees"](#); that is, the aggregate wage bill for the whole economy.

Adjusted for hours worked and CPI growth, this confirms that wages are indeed currently falling. It also reveals that there have been at least two other periods when annual real wage growth dipped lower than it is now – the wage reforms era of the 1980s and the mid 1990s, as this chart shows:

The 1980s was a period of major reform, with wage demands significantly reduced in exchange for an improved social safety net over a series of [Accords](#). The decline in wages over that period is not comparable to today's decline, which has taken place without significant government intervention. I think it's fair to exclude this period when establishing whether the current situation constitutes a "record".

As for the 1990s dip? In the aftermath of the early 1990s recession, [unemployment](#) was stuck above 10% from October 1991 until April 1994.

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Wage growth eventually fell away, allowing unemployment to fall to about 8.5% (still high by today's standards) by mid-1995. For a short time, wage growth was lower than it is now. Compared against this period, Bowen's assertion that "wages growth at record lows" is inaccurate.

It is true, though, that wage growth is now at a 20-year low.

Why have wages stopped growing?

Since recovering from the unemployment hangover of our last recession 25 years ago, positive wage growth has been the norm. Australia has seen average annual wage growth of 1.7% over the last 20 years, reaching a high of nearly 5% during the mining boom. Thanks to the mining boom and the strength of the Australian dollar, wage growth was particularly strong between 2004 and 2012, broken only briefly in 2009 by the global financial crisis.

With wages falling since 2013, workers are now doing it tough. However, it could have been worse. Unemployment is hovering at around 6%, [middle-of-the-range](#) by international standards. Moderate wage expectations have been an important factor in this relatively smooth [adjustment to the biggest fall in the terms of trade](#) in over half a century. And on the upside, wage growth is heading in a positive direction, indicating that recovery may be beckoning.

Verdict

Chris Bowen's claim that "wages growth at record lows" is somewhat overcooked.

Wage growth is now at a 20-year low. So it's not unreasonable to say "people are hurting, people are doing it tough".

But is it "record" low growth? No: there have been two other recent periods – in the 1980s and the 1990s – when annual growth in real wages dipped lower than it is now. (Though I'd argue we can disregard the 1980s, for reasons explained above.) – **Janine Dixon**

Review

I think this FactCheck is done really nicely. It is correct to argue that looking at the data source sent by Bowen's office is a limited way to judge his statement, and the FactCheck then does a good job of looking at the alternative data source.

So in the substance of its analysis, I would give it full marks.

The only point I would take issue with is whether the analysis of wage growth contradicts Bowen's statement. Bowen said "at record lows" – he didn't say "lowest ever". Perhaps this is just my interpretation, but I take "at record lows" to mean being comparable to the lowest levels observed.

Hence I'd be slightly less tough on Bowen than this author has been. Given the data reported in the FactCheck, I would say that his statement is reasonable. – **Jeff Borland**.

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Jeff Borland receives ARC grants to work on research on the Australian labour market.

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Authors: Janine Dixon, Economist at Centre of Policy Studies, Victoria University

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