Briefing Note:

New GDP Data Confirm Structural Shift in Australian Income Distribution

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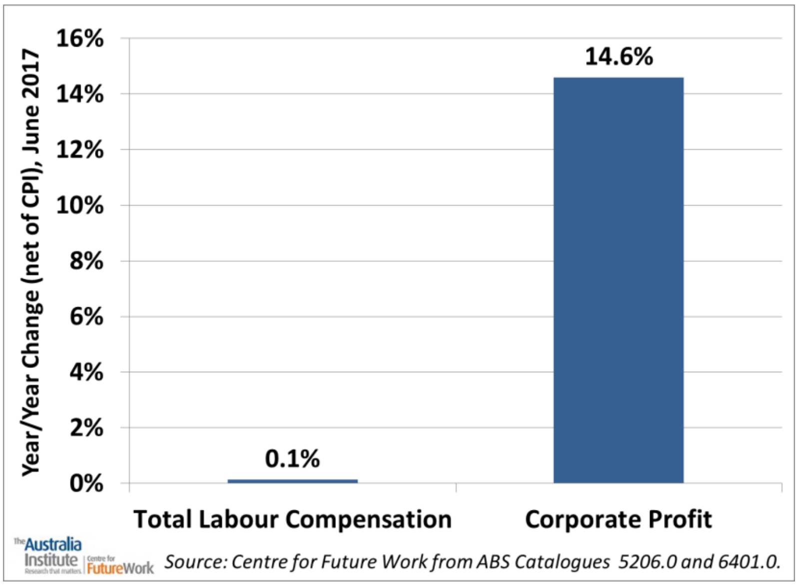
In previous research, the Centre for Future Work has documented the long-run erosion of workers' share of the total income generated in Australia's economy. Our analysis of national accounts data for the March quarter showed that total labour compensation (including wages, salaries, and superannuation contributions) reached its lowest share of total GDP (46.2 percent) since the ABS began collecting this data in the 1950s. This week the ABS released new GDP data, covering the June quarter, which confirm the continuing structural shift away labour toward capital in the distribution of income.

Corporate profits in the June quarter fell slightly (by 2.6 percent on a seasonally adjusted basis), due to a decline in global prices for some Australian-produced minerals. Nevertheless, profits were up strongly on a year-over-year basis: by almost 17 percent. After inflation, that translates into a real gain of almost 15 percent (see Figure 1).

Figure 1
Growth in Real Compensation

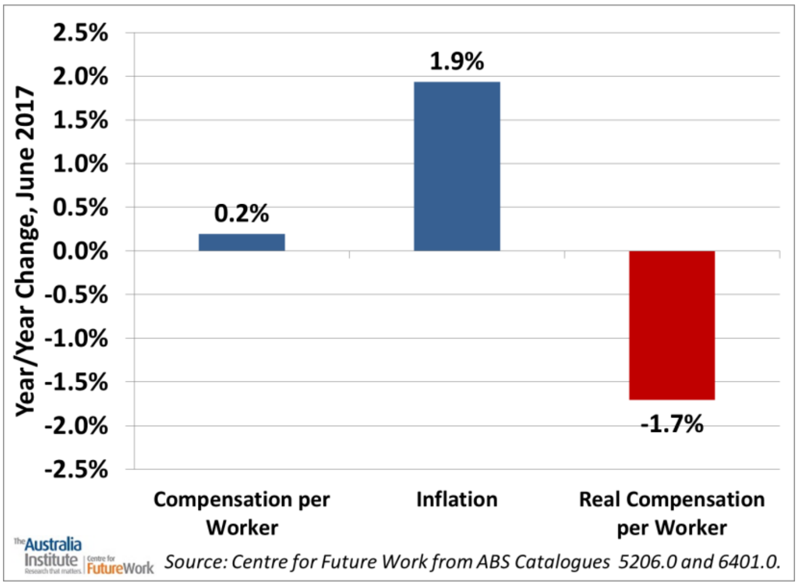


But wages, in contrast, continue to be unusually sluggish. Total nominal labour incomes grew 0.7 percent in the June quarter (seasonally adjusted), and just 2.1 percent over the previous year. That barely keeps pace with the ongoing increase in consumer prices. Adjusted for consumer inflation, therefore, there was virtually no growth in the aggregate real compensation received by Australian workers over the last twelve months.

That is a stunning result for an economy that continues to grow at a steady if modest clip. Economic growth should translate into rising labour income – both through new jobs, and through higher wages. That is not happening in Australia's economy today.

The weakness in wages is all the more evident when we consider that total employment increased over the past year: by 1 percent in the June quarter, and 1.9 percent year over year (seasonally adjusted).

Figure 2
Labour Compensation per Worker



This means that nominal compensation per worker (a good measure of the incomes of average Australians) actually fell in the June quarter, by 0.3 percent. Over the last year as a whole, there was virtually no change in nominal compensation per worker: up just 0.2 percent from June 2016 through June 2017 (Figure 2). After inflation, real compensation received per worker fell by 1.7 percent. The new GDP data confirm, therefore, that after inflation, workers' real incomes are falling. The strong improvements in profitability recorded by Australian firms in the past year are definitely not trickling down into workers' pay packets.

Stepping back from quarter-to-quarter fluctuations, and looking at the ABS's longer-run trend data, it is clear that the playing field of Australia's economy has been tilted firmly in favour of employers. Both the labour share of total income, and real unit labour costs, have declined to their lowest trend levels in recorded history.

Workers simply do not have the bargaining power to demand and win wage increases that reflect steady productivity growth. This reflects the erosion of the structures and regulations that once supported wages (including minimum wages, awards, and collective bargaining). Those who advise workers to simply be patient, wage gains will come as a result of normal supply-and-demand forces, are ignoring this fundamental structural change in Australia's economy.