



**T H E M C K E L L I N S T I T U T E**

A decade of wages lost

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## About the McKell Institute

The McKell Institute is an independent, not-for-profit research organisation dedicated to advancing practical policy solutions to contemporary issues.

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## Acknowledgement of country

This report was written on the lands of the Darug and the Eora Nations. The McKell Institute acknowledges Aboriginal and Torres Strait Islander peoples as the Traditional Owners of Country throughout Australia and their continuing connection to both their land and seas.

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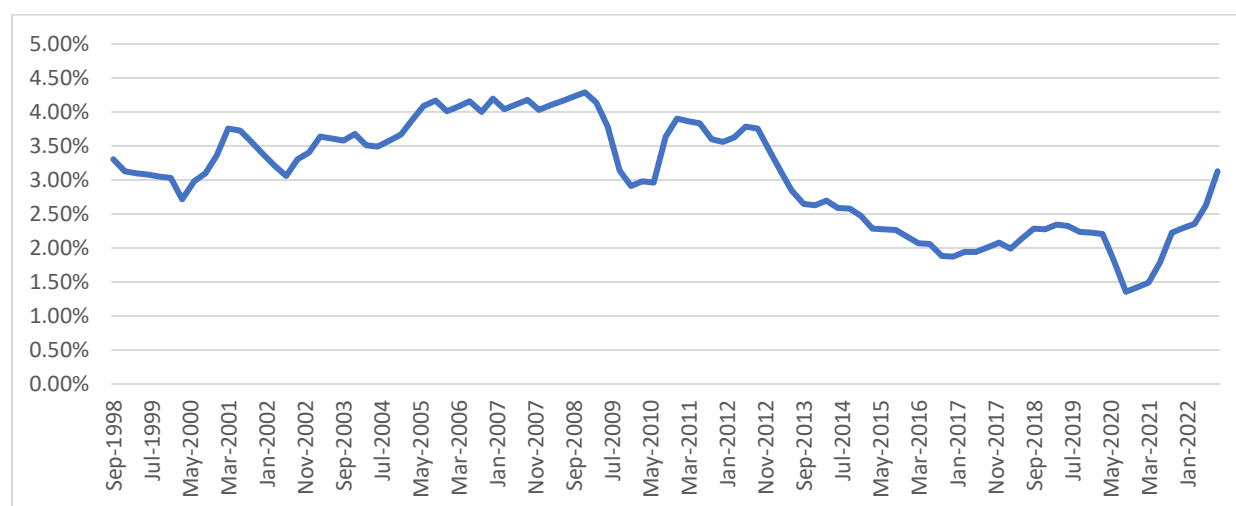
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## Slow wage growth has given way to real wage cuts

Australian wages have been in a period of low wage growth for more than a decade. Annual nominal wage growth sat at above or around 3 per cent from the inception of the Wage Price Index (WPI) in 1997 to 2013.

It took 19 years after the Wage Price Index (WPI) was established in 1997 before nominal wage growth fell below 2 per cent (in 2016). Since then, nominal wage growth has averaged just 2.3 per cent. Figure 1 below confirms the dramatic slump in wages over the last few years.

**Figure 1: Annual percentage change in Wage Price Index in Australia, 1997-2021**



Source: Australian Bureau of Statistics.

While nominal wage growth rose slightly since 2021, it has been more than offset by a dramatic rise in inflation. The result has been a real wage cut. As observed in Table 1, real wage declines have been relatively rare over the last ten years but are now pervasive.

**Table 1: Annual Real Wage Growth, 2012-2022**

Year	Annual WPI/CPI Growth
Sep-2012	1.71%
Sep-2013	0.47%
Sep-2014	0.26%
Sep-2015	0.75%

Sep-2016	0.58%
Sep-2017	0.18%
Sep-2018	0.39%
Sep-2019	0.55%
Sep-2020	0.66%
Sep-2021	-0.76%
Sep-2022	-3.86%

*Source: Author calculations, Australian Bureau of Statistics.*

Even as the WPI recovers slightly, real wages are at their lowest level in years. Due to low nominal wage growth, wage earners have been particularly vulnerable to real wage cuts resulting from high inflation. While recent real wage declines have been examined extensively, including by the McKell Institute, the impact on historic wages is less understood.

## Low wage growth is deliberate

Anaemic wage growth has been a feature of the Australian economy since at least 2012. This has been the deliberate result of Government policy architecture as outline by the McKell Institute in “Stuck in neutral: The Policy Architecture Driving Slow Wage Growth in Australia”. These policies include:

- Support for a reduction in penalty rates.
- Overseeing a surge in work visas for low-paid temporary migrant workers.
- Inaction on wage theft and underpayment.
- Opposition to increases in minimum wages.
- Public sector wage freezes.
- Changes in the composition of the Fair Work Commission (FWC).
- Allowing a sharp expansion of the gig economy without adequate regulation.

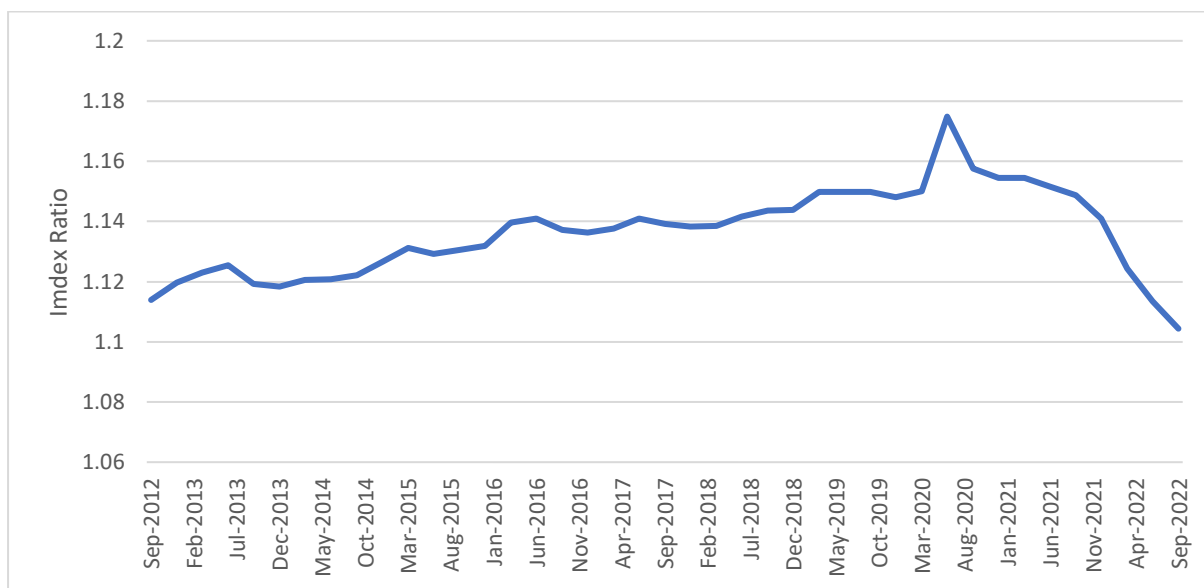
The deliberate policies that put downward pressure on wages prevented workers from accumulating larger wages even through a period of steady economic growth. Instead, it left workers exposed to the onset of inflation, with little to no buffer, to prevent declining real wages and living standards.

## Inflation has eliminated more than a decade of wage growth

The average real wage in Australia is lower today than at any point since September 2011.

The annual real wage declines over the last 18 months have left wages in the September quarter of 2022 lower than they were 10 years prior. Figure 3 below shows the extent of this decline.

**Figure 3: Wage Price Index/Consumer Price Index, 2012-2022**



*Source: Author calculations, Australian Bureau of Statistics.*

What is surprising about the recent decline in real wages is its scale. Rarely do real wage declines wipe off more than a few months of wage growth. They are usually followed by periods of recovery.

The wage growth fought for over the last decade has disappeared. It will take years to recover the lost purchasing power. The scale of real wage decline has been so severe that wage earners today have a lower standard of living than they did in September 2012 and will be worse off for years to come.

### State breakdown

Queensland has suffered the greatest real wage decline of any Australian State (2.5 per cent). Tasmania and NSW also suffered declines of 1.7 per cent and 0.9 per cent respectively. Only Victoria and South Australia recorded marginal gains of 0.2 per cent and 0.4 per cent respectively.

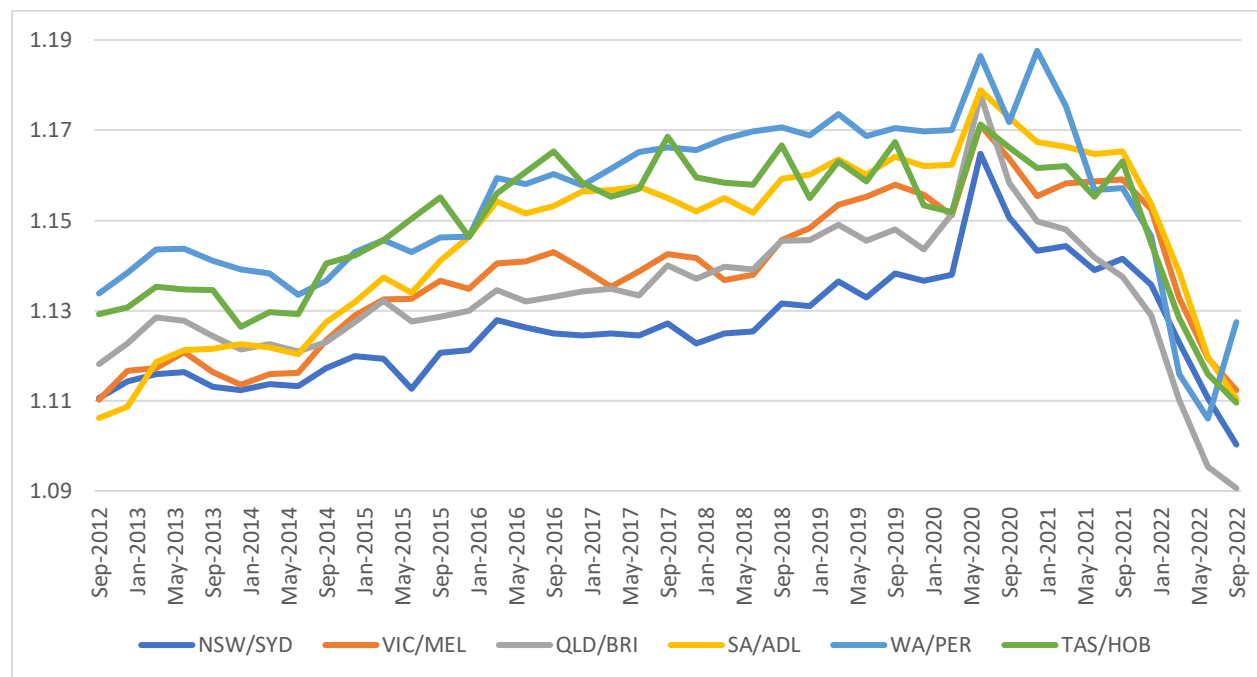
**Table 2: Real wage decline, 2012-2022 by State**

State	NSW/SYD	VIC/MEL	QLD/BRI	SA/ADL	WA/PER	TAS/HOB
Real wage Decline (%) *	-0.9%	0.2%	-2.5%	0.4%	-0.6%	-1.7%

Source: Author calculations, Australian Bureau of Statistics

While Australia’s two largest states (NSW and Victoria) had approximately equal real wages in 2012, NSW has since fallen to the lowest of any State, except Queensland. Victoria has the highest real wages of any state except Western Australia.

**Figure 3: Wage Price Index/Consumer Price Index by State, 2012-2022**



Low wage growth has affected every Australian jurisdiction. The recent declines have also been universal, although WA has shown some recent positive signs because of lower inflation. What is most significant is the deterioration since 2012 in most states, with particularly worrying declines across the large States of NSW and Queensland.

## Real wage declines have real world consequences

It is often difficult to quantify the real-world effect of wage declines given a dynamic labour market and a constantly changing economy. However, many public sector professions offer comparable occupations and wages over time.

A first-year nurse working for NSW Health in 2022 earned an annual wage of \$76,403.60. When adjusted to 2022 dollars, that same first-year nurse working in 2012 earned \$79,184.68. A nurse is \$2,825.33 worse off today than they were in 2012. The experience is not limited to nursing.

**Figure 4: Real Wage Declines for select occupations in NSW, 2012-2022**

Occupation	2022 annual wage (\$)	2012 annual wage (adjusted to 2022 \$)	Real wage change
Paramedic (Year 2)	77,503.40	79,408.86	-1905.46
Registered Nurse (Year 4)	76,403.60	79,382.69	-2979.09
Teacher (Band 2.1/Step 11)	96,531.00	95,951.71	579.29
Correctional Officer (Year 2)	68,246.00	70,907.42	-2661.42
Qualified Firefighter	86,980.40	87,968.74	-988.34

*Source: Author calculations*

Of the five occupations examined, only teachers report a slight increase in real wages. The increase for teachers is just 0.6 per cent over ten years since 2012.

For the other four occupations, if wages had kept up with inflation, they would now earn \$988.34 to \$2,979.09 more per year.

Inflation has wiped out a decade of wage growth. Yet it is only possible because nominal wage growth over that decade was so low.



Policymakers should be cautious about downward pressure on wages in times of steady economic growth because it will leave the population exposed to declines. Each generation of Australians makes a promise to leave the next better off than the last. Workers today are worse off, and they will not accept declines in living standards for long.

Reducing inflation will no doubt be an immediate priority for the Australian Government. The Treasurer Jim Chalmers has recently announced positive signs that this is the case. Over the next few years, the priority will be to ensure that workers are able to recover the decade of lost wages. If policymakers fail to do so, they will condemn a generation of Australians to declining living standards.