

**SENATE EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
LEGISLATION COMMITTEE**

**2006-2007 BUDGET SENATE ESTIMATES HEARING
29TH AND 30TH MAY 2006
EMPLOYMENT AND WORKPLACE RELATIONS PORTFOLIO**

QUESTIONS ON NOTICE

Outcome 2: Higher productivity, higher pay workplace

Output Group 2.1: Workplace relations policy and analysis

Output 2.1.1: Workplace Relations Policy Advice

Question Number: W162-07

Question:

Senator Wong asked in writing:

Regional employment and wages growth *In a response to an enquiry, DEWR's Labour Economics Office recently recommended using the Labour Cost Index or Average Weekly Earnings, deflated by the National Accounts deflator for Consumer Goods to calculate real wage growth. a) Would this not allow real wage growth calculations to exclude executive salaries? b) Please provide the calculations requested in the previous question for real wage growth using the Labour Cost Index and Average Weekly Earnings. c) Please provide calculations both with and without executive salaries included. d) What is the 'implicit price deflator'? How is this calculated? e) Why are only non-farm average earnings used? Why not use all earnings?*

Answer:

a) No, the *Labour Price Index* (Cat. No. 6345.0) and *Average Weekly Earnings* (Cat. No. 6302.0) publications do not differentiate between executive and non-executive salaries.

b) Real wage growth calculation using the Labour Price Index

The *Labour Price Index* (LPI) cannot be used to calculate real wage growth. Only series that provide 'dollar figures' for average earnings or wages can be used to calculate real wages. The LPI is presented as an index and cannot be deflated by other price indices.

Real wage growth calculation using the Average Weekly Earnings series

Senator Wong refers to the “National Accounts deflator for Consumer Goods” in the question above. This series does not exist. The Department assumes that Senator Wong is referring to the ‘implicit price deflator for final consumption expenditure – households’ from the ABS *Australian National Accounts* publication (Cat. No. 5206.0).

Deflating the average weekly earnings series¹ for full-time adult persons by the implicit price deflator for final consumption expenditure – households² series shows that ‘real wages’ increased by 25.4 per cent (seasonally adjusted) between the February quarter 1996 and the February quarter 2006.

c) See answer to question (a).

d) The following definition of an ‘implicit price deflator’ is provided by the ABS in its *Australian National Accounts* publication:

*“[An implicit price deflator is] obtained by dividing a current price value by its real counterpart (the chain volume measure). When calculated from the major national accounting aggregates, such as gross domestic product, implicit price deflators relate to a broader range of goods and services in the economy than that represented by any of the individual price indexes that are published by the ABS. Whereas the chain price indexes are chain Laspeyres indexes, the annual implicit price deflators are chain Paasche price indexes, i.e. each year-to-year movement is calculated using the current price value shares of the second of the two years to weight together the elemental price indexes”.*³

e) The ABS states that the non-farm estimate is the “key series...because employee earnings in the agricultural sector can fluctuate due to seasonal effects”.⁴

¹ ABS, AusStats (Cat. No. 6302.0, table 2).

² ABS, AusStats (Cat. No. 5206.0, table 12).

³ ABS *National Income, Expenditure and Product, Australian National Accounts* (Cat. No. 5206.0), March 2006, page 76.

⁴ ABS feature article ‘Comparison of ABS Measures of Employee Remuneration’, page 2. This article was published in the October 2005 issue of the ABS *Australian Labour Market Statistics* publication (Cat. No. 6105.0).