Australian Chamber of Commerce and Industry

TRANSCRIPT

Event: Andrew McKellar interview with Chris Kenny, The Kenny Report Sky News.

Speakers: Andrew McKellar, chief executive Australian Chamber of Commerce and Industry; Chris Kenny, host The Kenny Report Sky News.

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E&OE

Chris Kenny, host The Kenny Report Sky News: Joining me now is the Australian Chamber of Commerce CEO, Andrew McKellar. Thanks for joining us, Andrew. You must have been really pleased to see unemployment remains static at four per cent today? Although you didn't get to that number with a three in front of it, a lot of people were expecting.

Andrew McKellar, chief executive Australian Chamber of Commerce and Industry: Great to be with you, Chris. I think they were very positive numbers today. It shows the strength of the labour market. I think it's only a matter of time now until we do see the unemployment rate with a three in front of it, but it shows we are in one of the toughest labour markets we've been in terms of business being able to get access to the skills and labour that they desperately want to have.

Chris: I keep hearing about businesses struggling to get staff, competing to get staff, businesses big and small. Is this already translating to pay increases in your experience?

Andrew: I do think that the official wage price index that Adam Bandt has got us Googling probably understates what's happening in terms of wages. That's at 2.6 per cent on the latest figures. I expect that will go up in the coming months. But if you look at what we're seeing out there in the marketplace, we are seeing a lot of churn, we are seeing people changing jobs I think more than they have done historically. And as they're doing it, they're doing it because they get an advantage. In many cases they're getting a good pay raise or they're getting better conditions or they're getting more flexible conditions. So the evidence that we're seeing is that there's significant turnover occurring, and on other measures, there is a sign that labour costs are pushing up much higher than that 2.6 per cent headline number.

Chris: Look, it's a difficult situation, isn't it? Everybody wants to pay raise. There's been a low wages growth in recent years, but there's been low inflation and low interest rates, record low interest rates too. So it hasn't really hurt the standard of living. And the risk is if there's too much in wages increases, that'll drive inflation up and that'll drive interest rates up and workers' living costs will suffer, right?

Andrew: Well, that is exactly the danger that we've got to be wary of. What we don't want to get into is a situation where we do see wages pushing up more than the level of inflation if that's not supported by productivity. And at the moment, productivity is chronically low. We've got to build that up. But if we see that situation emerging, then the risk is it could start to feed back into inflation. That's the situation we want to avoid. We don't want to go back to a scenario as we saw after the oil shock in the mid 1970s, where wages and inflation started chasing each other. Yes, we saw higher interest rates. We saw decades of stagflation. That is definitely not the economic prescription that we want to risk for this country or anywhere else in the world.

Chris: Does that mean that you'd like to see a small interest rate increase soon?

Andrew: I think it's inevitable. I mean, the Reserve Bank is signalling that rates will go up at some point. They are at historically low levels. At the short end of the market, the official cash rate target is not 0.1 per cent at the moment. That can't be sustained. Inflation's pushing up. Inflation is up above their target range of two to three per cent. So look, we will see interest rates go up at some point. The trick here is to ensure that it's managed, that it's gradual, that we don't to a situation where inflation and wages are running away from each other. And then that's the real risk that we would see much higher interest rates.

Chris: Indeed. Thanks for joining us, Andrew.

Andrew: Thank you, Chris.

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