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MARKET OVERVIEW – AUGUST/SEPTEMBER 2017

AUSTRALIAN ECONOMY SNAPSHOT

The Australian economy has remained stable for the most part, with GDP growth currently sitting at 1.8% and delivering another positive quarter, its third in a row now since the unexpected negative outcome towards the end of 2016.

Inflation remains low with a growth of 1.9% in the year to June 2017, and fell slightly compared to the previous quarter. One of the draw backs of low inflation is soft wage increases, reflected in the June Wage Price Index (WPI). WPI remains at a historic low, moving year-on-year by just 1.9%, though if there is perhaps some optimism here it is that the results we are seeing have been remarkably stable. It is unlikely we will see any major change for the remainder of the year.

At 5.6% in August, the unemployment rate remained steady compared to last month and still well above the historic lows of 4.0% seen prior to the GFC in 2008. Signs are encouraging, with the headline unemployment rate trending down from almost 6.0% in March and April. Many economists expect the rate to remain relatively steady for the final third of 2017, however, a holistic look at labour force figures shows that while the headline unemployment has remained below the 6.0% mark for some time, other factors need to be watched fairly closely to get an overall view of the current labour conditions.

The participation rate has tracked close to the 65.0% mark for most of 2017 which is fairly encouraging. Job growth has been dominated by part-time job creation, which has been favourable to those wanting more flexible working arrangements, but has also left a significant number of individuals wanting to work more hours feeling 'under employed'. Australia now has one of the highest levels of part-time work in the OECD, indicating that the underlying cause is perhaps structural rather than cyclical, with employers creating more jobs with part-time hours. Underemployment, the measure of those employed people whose labour is not fully utilised, decreased 0.2 pts to 8.6%. The underutilisation rate also decreased 0.2 pts to 14.1% in August.

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'THE MARKET'

Over the past quarter the market has remained largely unchanged except for new hire pay rates which have moved into positive territory for the first time in a year, recording a figure of 0.7%. This indicates new hires are being paid at a slight premium relative to the market. Results for the pay increase barometer this month have fragmented slightly, with less stable increases compared to the previous month. With 28% of all individuals in the sample receiving 'at' (stable) market increases, this is down 7.0% compared to last month's figure. The remuneration sentiment index recorded another high score this month at 24.1%, suggesting that the market remains bullish about labour conditions in 2017 despite the soft wage price increases we are currently seeing.

The gender pay index results are again disappointing, showing a gender pay gap still exists across all career levels and in most industries. The overall gender pay index sits at 2.7%, indicating female employees are being remunerated, on average, 2.7% less than their male counterparts within the same role.

TRENDS IN REMUNERATION

The median general market employment cost same-incumbent movement is down from figures recorded throughout 2016 and sits at 2.8% in August/September. Employment cost movements for executives (2.9%) are leading the way above other staff categories, while all other career levels have fallen slightly below the general market.

ACT (3.0%), New South Wales (2.8%) and Victoria (2.8%) recorded the highest annual increases. All other states were slightly below the national movements, with South Australia lagging slightly behind the national rate.

The 2017 salary forecast has been revised down slightly to 2.8% due to some market softening over the past quarter. However the market is still expecting minimal change, a view shared by 75.0% of clients polled in the August/September sentiment index survey, who expect remuneration budgets and hiring conditions to remain the same for the next six months.

OVERALL

While results over the past 12 months have shown strong signs of stability, some caution has started to impact HR decision making. This is not surprising considering the subdued economic indices we have been seeing throughout 2017. While the overwhelmingly positive responses to recent Mercer sentiment indexes provide some optimism, the market appears to be in a period of transition which is expected to continue for the remainder of 2017. It will be interesting to see whether this softening continues for the remainder of the year, and will mean economic indices will have to be watched closely in the coming months.

The Australian economy has continued to remain steady over this quarter, particularly the labour market where unemployment and WPI have tracked mostly level. However the indications are we are finally starting to see the market slowly playing catch up with economic expectations. Whether we will experience any significant growth for the remainder of the year remains to be seen and is unlikely to be felt until the early part of 2018.