KNOW YOUR MARKET HUB

MARKET OVERVIEW – Q1 2018

The median fixed salary movement for quarter one of 2018 was 2.5%, which is higher than the inflation rate of 1.9% recorded by the Australian Bureau of Statistics (ABS) in March 2018. Additionally, the market has continued to feel optimistic about the future since the beginning of the year, and Mercer's pay increase barometer has seen a notable shift from salaries being passed on at market rates to above market rates. The ABS continues to report low wage price growth for the Australian economy as a whole, however.

TRENDS IN REMUNERATION

In the first quarter of 2018, the median fixed salary movement – which refers to the same employees, in the same jobs and at the same organisations – increased marginally to 2.5%. This movement is in line with Mercer's forecast and represents an increase of 0.1 percentage points over the previous quarter.

Movements by career stream again place executives at the forefront with 2.6%, just outpacing the general market. Professionals and para-professionals both recorded movements equal to the general market figure, while management was the only staff group not to meet the mark, with a 2.3% fixed salary movement.

A breakdown by state/territory reveals that the Australian Capital Territory once again recorded the highest annual increases, with New South Wales and Victoria following closely behind, both at 2.8%. Increases in Queensland, Northern Territory and Western Australia were equal to or just above the general market, while South Australia and Tasmania were below the overall general market figure.

Mercer's salary forecast for the next six months remains unchanged at 2.5%, reflecting the largely stable conditions the market continues to experience. To generate our forecasts, we combine data from our remuneration database (same-employee fixed salary movements) with key economic data, later checking against client remuneration sentiment data.

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THE MARKET

The market has continued to feel optimistic about the future since the beginning of the year, with the remuneration sentiment index exceeding 10.0% each month so far, indicating a positive general outlook. After a small dip in March, the index recorded a strong result in April 2018 at 18.4%, with over a third of organisations indicating that conditions within their organisation in the next six months are likely to be better than today.

Over the first quarter of 2018 the pay increase barometer has seen significant changes to overall results, with a notable shift from salaries being passed on 'at' (stable) market rates to 'above' (expansion) market rates – 32.0% and 50.0% respectively (at the time of writing). The life sciences industry contributed strongly to this change and continued to record the highest proportion of individuals receiving 'above' (expansion) market increases at 45.0%.

After steadily declining over the past six months, the new hire pay rate has risen to -1.0% in April 2018, meaning that new hires are being paid 1.0% lower, on average, than employees currently in the role. The figure indicates that new hires are being paid at a slight discount relative to the market.

The gender pay index has more or less remained steady over the first quarter of 2018, sitting at 2.8% (at the time of writing). This figure translates into the market offering female employees salaries 2.8%, on average, below male employees. Although this is a marginal improvement on the previous month, the quarterly picture demonstrates that pay inequality between males and females persists within the market.

AUSTRALIAN ECONOMY SNAPSHOT

The latest economic indicators from the Australian Bureau of Statistics (ABS) characterise the Australian economy as having modest GDP growth, low inflation, a stable unemployment rate and low wage price growth.

After hitting a four-and-a-half year low of 5.4% in October 2017, unemployment (seasonally adjusted) rose slightly to 5.6% in December, dipped by 0.1 percentage points the following month, then returned to 5.6% in February 2018, according to ABS statistics. At the same time, the participation rate – the number of people either employed or actively looking for work as a proportion of the entire labour force – tracked close to the 65.0% mark for most of 2017 and early 2018, sitting at 65.7% in December 2017. Although this is encouraging, a continuing concern is the high level of underemployment – the measure of those employed people whose labour is not fully utilised.

In terms of other key economic indicators, the Wage Price Index (WPI) and inflation (as measured by the Consumer Price Index (CPI)) continue to be low, both indicators recording no significant annual change. The all-groups CPI reported an increase of 0.4 percentage points in the March 2018 quarter, following a 0.6% increase in the December 2017 quarter, according to the ABS. The annual change from March 2017 to March 2018 remained at 1.9% – yet another slow rate and still below the Reserve Bank of Australia's (RBA) target range of 2.0%-3.0%. Low inflation continues to go hand in hand with low wage price growth reflected in the WPI, which has grown year- on-year by just 2.1% (December 2017). While being a slight increase for the third quarter in a row (June: 1.9%, September: 2.0%), it remains obstinately low. Rises in both the WPI and CPI are expected over the remainder of the year, though they are likely to be gradual in nature.

GDP increased by 0.4% (seasonally adjusted) in the December quarter, maintaining its fifth consecutive quarter of positive growth and bringing the annual GDP growth in December 2017 to 2.4%. The ABS reported an increase of 1.0% for household consumption, but conversely exports of goods and services led to a reduction of 0.4 percentage points from GDP growth.

The GDP increase in the December quarter was preceded by a 0.6 percentage point increase (seasonally adjusted) in the September quarter. We entered into 2018 following an encouraging rise in retail sales in the fourth quarter of 2017, with the strong labour market a likely booster to consumer confidence.

Economic growth is expected to pick up this year, driven by loose monetary policy and a shift towards non-mining sectors, among other factors, though challenges remain as well; notably in the form of the afore-mentioned slow wage growth coupled with high household debt.