KNOW YOUR MARKET HUB

MARKET OVERVIEW – JANUARY 2018

TRENDS IN REMUNERATION

The median fixed salary movement overall (measured by the change in fixed pay for employees in the same jobs at the same organisations year on year) is slightly down from figures recorded throughout 2017, and sits at 2.4% in January 2018. Fixed pay movements for executives (2.6%) are above other staff categories, which have mostly remained at or slightly below the general market movement.

When looked at by location, ACT (3.0%) once again recorded the highest annual increases. NSW (2.7%), Victoria (2.5%) and Queensland (2.5%) were all above the market movement, while other states were slightly below. Only NSW has recorded a positive change since October/November, while Northern Territory, Tasmania and Western Australia all saw small decreases.

The 2017/2018 salary forecast remains unchanged at 2.5%, reflecting the largely stable market conditions. Despite no upwards revision to the forecast, the market interestingly continues to be optimistic: 100% of clients polled in the January sentiment index survey expect remuneration budgets and hiring conditions to remain the same or better over the next six months.

THE MARKET

Over the last quarter the market has again remained largely unchanged. The remuneration sentiment index is trending highly again and recorded another strong result this month at 23.0%, with over three-quarters of respondents reporting no change in conditions today compared to six months ago, both within their organisation and the overall remuneration market.

The pay increase barometer this cycle remained largely the same. The largest sector change was an increase from 20.0% to 25.0% of employees receiving 'at' (stable) market increases within the Fast-Moving Consumer Goods (FMCG) sector. There were, however, no particularly significant variations for any of the sectors. Overall, 29.0% of employees in the sample are receiving 'at' (stable) market increases.

.../2

New hire pay rates have continued to decline, though at -0.9% they are nevertheless close to parity with existing incumbents. The figure indicates that new hires are being paid at a slight discount relative to the market.

The gender pay index is currently sitting at 2.8%, a one percentage point increase from the October/November figure of 2.7%. This translates into the market offering female employees salaries 2.8%, on average, below male employees.

AUSTRALIAN ECONOMY SNAPSHOT

The latest economic indicators from the Australian Bureau of Statistics (ABS) paint a fairly unexciting picture: relatively modest GDP growth, low inflation, a steady unemployment rate, and low wage price growth. A closer look at various indicators, however, reveals some interesting movements and areas of promise.

After hitting a four-and-a-half year low of 5.4% in October 2017, unemployment (seasonally adjusted) rose slightly to 5.5% in December. 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, standing at 65.7% in December. This is encouraging, but offset by high levels of underemployment – the measure of those employed people whose labour is not fully utilised.

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. GDP increased by 0.6% (seasonally adjusted) in the September quarter, bringing the annual GDP growth in September 2017 to a relatively modest 2.8%. But less-than-riveting growth has been offset by an achievement in durability – the Australian economy has now not seen a recession since 1991. With 104 quarters of consecutive growth now reached, Australia was able to take the crown for longest economic expansion on record from the Netherlands.

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 slow wage growth and high household debt.

Inflation, which remained below the Reserve Bank of Australia's (RBA's) target rate of 2.0%-3.0%, rose year on year by 1.9% in the December quarter (compared to a 1.8% rise in the September quarter), while the Wage Price Index (WPI) is growing year on year by just 2.0%. This is frustratingly low, but positive job vacancy figures for the last quarter of 2017 shine a beacon of hope and may point towards better wages this year. The job vacancy rate measures job vacancies as a percentage of the overall labour force – both employed and unemployed. The fewer people per job vacancy, the more challenging it is for employers to find the talent they require to fill available positions, which in turn should result in higher wages. However, given the variety of factors that come into play in the jobs market, it remains to be seen how this will pan out.

.../3

OVERALL

The market is stable, with a slight softening reflected by organisations passing on modest salary increases compared with figures recorded throughout 2017. Median fixed salary movements dipped slightly from figures recorded throughout the majority of 2017 and are sitting at 2.4% in January 2018. The overall projection for salary increases to 2018 sits at 2.5%, just higher than January's recorded movement.

The Australian economy has likewise remained stable for the most part, with the Consumer Price Index (CPI) and WPI experiencing just very slight rises. The unemployment rate rose by 0.1% in December to 5.5%, but remains lower than the three-year moving average of 5.7%, which is encouraging.

While responses to Mercer's latest sentiment index survey were yet again overwhelmingly positive, we can see from the declining remuneration trends that HR decision-makers continue to demonstrate caution in their pay decisions. It will be interesting to see how the situation develops as we move through 2018, including whether positive job vacancy numbers will eventually translate into higher wages.