KNOW YOUR MARKET HUB

MARKET OVERVIEW – Q3 2018

The median fixed salary movement for the third quarter of 2018 was again 2.5%, which is higher than the inflation rate of 2.1% recorded by the Australian Bureau of Statistics (ABS) in June 2018.

Mercer's pay increase barometer has seen a shift from salaries being passed at above-market rates to at-market rates. Despite both this and ongoing low wage price growth (as recorded by the ABS), the market has continued to feel optimistic about the future.

Another notable development is that the overall unemployment rate has now reached the Reserve Bank of Australia's (RBA) non-accelerating-inflation rate of unemployment (NAIRU), their definition of 'full employment', at 5.0% in seasonally adjusted terms. Some commentators have noted this could mark the tipping point in regards to a return to stronger wages growth.

TRENDS IN REMUNERATION

In the third quarter of 2018, the median fixed pay movement – which refers to the same employees, in the same jobs and at the same organisations – remained stable at 2.5%, in line with Mercer's forecast.

Whilst the overall median fixed pay movement remained flat on the previous quarter, there has been a broader range of increases passed on by organisations in our database. The majority of same-incumbent movements recorded in the three months to the end of September were between 2.0% and 3.99%, but over one-third fell into other pay increase levels, with one in 10 incumbents receiving zero increases.

Movements by career stream place para-professionals and executives at the forefront this quarter at 2.7%. Professionals likewise outpaced the general market, with a movement of 2.6%, while both heads of organisation and management level employees matched the general market movement of 2.5%.

A breakdown by state/territory reveals that the Australian Capital Territory once again recorded the highest annual increases at 3.0%. South Australia, New South Wales, and Queensland all fall into equal second place, with increases of 2.6%. Victoria has reported an increase equal to the general market movement of 2.5%, while Western Australia, Tasmania, and the Northern Territory have reported increases of 2.2%, 2.0%, and 2.0% respectively.

Mercer's salary forecast for the calendar year is that the movement will increase to 2.6%, reflecting the low unemployment rate and expected rise in inflation. To generate our forecasts, we combine data from our remuneration database (same-employee fixed salary movements) with key economic indicators, and our understanding of market sentiment from our conversations with clients.

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% in seven out of nine months, indicating a positive general outlook. The index recorded a result in October 2018 at 6.7%, with the majority of respondents (73.0%) expecting the situation to be the same in the next six months and the remainder (20.0%) anticipating it will be better. The remaining 7.0% expect that it will be worse than the last six months.

Mercer's pay increase barometer has seen a slight shift from above (expansion) market increases to at (stable) market increases when compared to last quarter. In Q3 2018, the above-market rates fell to 32.0%, while the at-market increases have risen to 40.0%, maintaining its position as the predominant level of salary increase. In contrast, the below (contraction) market increase figure has fallen to 28.0%.

The new hire pay rate is currently 0%, down by just over one percentage point since the previous quarter. This is the lowest reported figure in six months. It indicates that the market is hiring at salaries similar to those already in the role and no longer willing to pay a premium for new hires.

The gender pay index has increased slightly this quarter rising to 2.6%. This means that overall the market is offering female employees' salaries 2.6%, on average, below male employees. Overall, the gender pay index has been fairly consistent over the past year, oscillating largely between 2.7% and 2.9%, which does not bode well for achieving gender pay equality in the near future.

AUSTRALIAN ECONOMY SNAPSHOT

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

In September 2018, the seasonally adjusted national unemployment figure was 5.0% *[ABS catalogue 6202.0]*, this figure now meets the RBA's definition of 'full employment'. The participation rate – the number of people either employed or actively looking for work as a proportion of the entire labour force – has tracked just under the 66.0% mark since the start of the year, decreasing by 0.3 percentage points to 65.4% in September 2018. Although the low employment rate 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 there has been little change since our last quarterly update, the Wage Price Index (WPI) and inflation (as measured by the Consumer Price Index (CPI)) continue to be low. The all-groups CPI reported an increase of 0.4 percentage points in the June 2018 quarter following a 0.4 percentage point increase in the March 2018 quarter *[ABS catalogue 6401.0]*. The annual change from June 2017 to June 2018 rose to 2.1% – now within the RBA's target range of 2.0%-3.0%. Relatively 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% (June 2018). Rises in both the WPI and CPI are expected over the remainder of the year, though they are likely to be gradual in nature.

Exceeding expectations, GDP increased by 0.9% (seasonally adjusted) in the June quarter, bringing the annual GDP growth in June 2018 to 3.4%. The consumption of household commodities was the largest contributor to the growth.