KNOW YOUR MARKET HUB

MARKET OVERVIEW – Q1 2019

The median fixed salary movement for the first quarter of 2019 at 2.6%, remains higher than the inflation rate of 1.3% recorded by the Australian Bureau of Statistics (ABS) for the year to March 2019.

Over the quarter, Mercer's pay increase barometer has seen a shift back to salary increases being passed on at at-market rates rather than at below-market rates. However, in April, Mercer recorded its lowest remuneration sentiment index since 2016 at 1.3%, which indicates there is very little positivity or optimism in the market.

TRENDS IN REMUNERATION

In the first quarter of 2019, the median fixed pay movement – which refers to the same employees, in the same jobs and at the same organisations – remained at 2.6%, in line with Mercer's forecast.

Whilst the overall median fixed pay movement remained stable on the previous quarter, there has been a broader range of increases passed on by organisations in our database. Just over half (52%) of same-incumbent movements recorded in the three months to the end of March were above 2%. Some 30% of increases were between 2% and 2.99% however, 27% of incumbents received no increase in salary.

Movements by career stream place professionals at the forefront this quarter at 2.8%. Executives also received increases slightly ahead of the overall general market, with a movement of 2.7%, while heads of organisation, para-professional and management level employees recorded lower than the general market movement at 2.5%.

A breakdown by state/territory reveals that the Australian Capital Territory continues to record the highest annual increases at 3.5%. South Australia received the second highest movement at 2.9%. Both Victoria and New South Wales reported above the general market at 2.8% and 2.7% respectively. Queensland recorded movements equal to the general market at 2.6%. While, Tasmania, Western Australia, and the Northern Territory have reported increases of 2.5%, 2.2%, and 2% respectively.

Mercer's salary forecast for the financial year is that the movement will remain at 2.6%. 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 is less optimistic about the future in the beginning of 2019, with the remuneration sentiment index for both March and April reporting below 2%. Whilst the figures are still positive, they are the lowest reported numbers since 2016. The index recorded a result in April 2019 at 1.3%, with the majority of respondents (68%) expecting the situation to be the same in the next six months, while 16% expect the outlook to be worse.

Mercer's pay increase barometer has seen a shift back to at-market (stable) increases when compared to last quarter, rising to 37%. Above-market increases (expansion) and below-market increases (contraction) are reporting 34% and 29% respectively.

The new hire pay rate is currently -1.3%, slightly increasing on the previous quarter. It indicates that the market is continuing to hire at salaries less than those already in the role and is less willing to pay a premium for new hires.

Mercer's measure of the gender pay index has remained stable at 2.8% this quarter. This means that overall, the market is 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) characterise the Australian economy as having strong GDP growth, low inflation, a low unemployment rate and low wage price growth.

In March 2019, the seasonally adjusted national unemployment figure was 5% *[ABS catalogue 6202.0]*. 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% mark since the start of the year, reporting to 65.7% in March 2019. Although the low employment rate is encouraging, an increasing proportion of part-time workers has helped to maintain the low figure. The Reserve Bank of Australia (RBA) is forecasting the unemployment rate to be 5.3% by the end of the financial year.

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 no change in the March 2019 quarter following a 0.5 percentage point increase in the December 2018 quarter *[ABS catalogue 6401.0]*. The annual change from March 2018 to March 2019 is 1.3% – well outside of the RBA's target range of 2%-3%. 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 2.3% (December 2018). Rises in both the WPI and CPI are expected over the coming year, although economic uncertainty is likely to have an impact. A change in Government could also see an increase in wages over the longer term.

Economic growth, as measured by Gross Domestic Product (GDP) increased by 0.2% (seasonally adjusted) in the December quarter, bringing annual growth to December 2018 to 2.3%. The reported figure was much lower than expected as a result of a slowdown in the construction sector and softer household consumption.