MARKET OVERVIEW – Q2 2018

The median fixed salary movement for the second 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 significant shift from salaries being passed at above-market rates to below-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 overall pay rates for newly hired talent have outpaced packages for existing employees over the past quarter.

TRENDS IN REMUNERATION

In the second 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 June were between 1.0% and 3.99%, but around one fifth fell into other pay increase levels, with one in 10 incumbents receiving zero increases.

Movements by career stream place para-professionals at the forefront this quarter at 2.7%, replacing executives as the front-runner. Professionals likewise outpaced the general market, with a movement of 2.6%, while executives matched the general market movement of 2.5%. The only career stream to fall behind was management, recording a movement of 2.3%.

A breakdown by state/territory reveals that the Australian Capital Territory once again recorded the highest annual increases at 3.0%. South Australia jumped up to second place, while increases in New South Wales remained on par with Victoria at 2.8% and flat on the previous quarter. Queensland also remained stable at 2.6%, while Tasmania, Northern Territory (NT) and Western Australia (WA) each recorded lower increases at 2.0%.

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.

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% in five out of six months, indicating a positive general outlook. The index recorded a strong result in July 2018 at 25.0%, with the majority of respondents (60.0%) expecting the situation to be the same in the next six months and the remainder (40.0%) anticipating it will be better. No survey participants, on the other hand, reported expecting the situation to be worse in the next six months.

In the first quarter of 2018, Mercer's pay increase barometer experienced a notable shift from salaries being passed on at (stable) market rates to above (expansion) market rates. In the second quarter, however, there has been a different shift – from above-market rates to below-market rates, currently standing at 35.0% and 28.0% respectively. At-market (stable) increases are the predominant level of salary increase, received by 37.0% of the individuals in the sample this month.

The new hire pay rate is currently 1.0%, up by one percentage point since the previous quarter. After six months of negative new hire pay rates (meaning that the market was hiring at salaries below those already in the role), the pay rate has now recorded a positive figure for the third month in a row.

The gender pay index has decreased marginally this month to 2.6%. This means that overall the market is offering female employees salaries 2.6%, on average, below male employees. While the recent downwards trend is encouraging, 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 steady unemployment rate and low wage price growth.

In June 2018, the seasonally adjusted national unemployment figure was 5.4%, remaining steady compared to the May figure [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 66.0% mark since the start of the year, rising by 0.2 percentage points to 65.7% in June 2018. This is the highest participation rate since February 2018. Although 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. 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 Reserve Bank of Australia's (RBA) 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% (March 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 1.0% (seasonally adjusted) in the March quarter, bringing the annual GDP growth in March 2018 to 3.1%. A rebound in exports, particularly of mining commodities, contributed strongly to the growth, as did household consumption.

The GDP increase in the March quarter was preceded by a 0.4 percentage point increase (seasonally adjusted) in the December 2017 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. Though challenges remain – in the form of high household debt, for example – economic growth is expected to continue to be strong for the latter half of the year.

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