



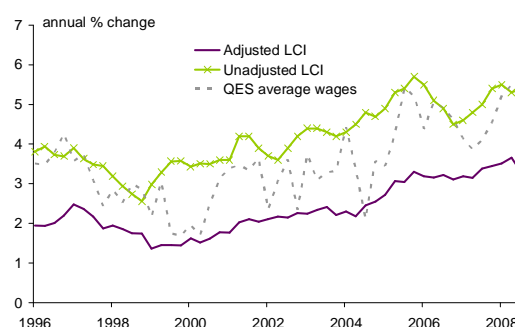
## WAGE GROWTH – DECEMBER 2008 QUARTER

- This note examines the wage growth measures for the December 2008 quarter from the Labour Cost Index (LCI) and the Quarterly Employment Survey (QES) which were released by Statistics New Zealand on 2 February 2009.

### Wage growth eases from record high

- Annual wage growth in the adjusted LCI (which measures changes in pay rates for a fixed set of jobs and excludes performance related pay increases) eased to 3.3% in the December 2008 quarter, broadly in line with market expectations of 3.4%. This is down from a record high of 3.6% in the year to September 2008. On a quarterly basis, the adjusted LCI rose by 0.7%.

Fig 1: Wage growth measures



Source: LCI, QES, Statistics New Zealand

- The overall easing in wage growth was largely due to annual private sector wage growth falling to 3.2% in December 2008 from a record high 3.7% in September 2008. Public sector wages increased by 3.5% in the year to December 2008, following a 3.6% increase in the September 2008 year.
- The adjusted LCI showed annual wage growth was strongest in mining (4.8%), central government administration & defence (4.3%), health & community services (4.3%) and construction (3.9%). By occupation, the highest growth was for health professionals (5.0%). The strong result for health appears to reflect collective employment agreements coming into effect in recent quarters.

### Recent wage growth results

	Last year Dec 2007	Last quarter Sep 2008	This quarter Dec 2008
<b>Wage Growth (annual % change)</b>			
Adjusted LCI	3.4	3.6	<b>3.3</b>
Unadjusted LCI	5.0	5.3	<b>5.4</b>
QES	4.1	5.5	<b>5.5</b>

Source: Statistics New Zealand.

- Although the adjusted LCI is a more robust wage growth measure, the unadjusted LCI can be useful as it includes performance related pay increases. The unadjusted LCI shows annual wage growth of 5.4% in the December 2008 quarter, similar to 5.3% at September and 5.5% at June.
- Annual wage growth in the QES, which also includes performance related pay increases, was 5.5% for the year to December 2008. This is the same growth rate as recorded in the September 2008 quarter and is the equal highest since 1990. However, the rise in average wages in the December 2008 quarter is likely to have been boosted by a fall in filled jobs for lower-paid workers.



### **Labour demand weakens**

- 7 QES filled jobs fell by 1.1% (seasonally adjusted by the Department of Labour) in the December quarter while seasonally adjusted paid hours also posted a weak result, decreasing by 1.4% over the quarter. This is the largest quarterly fall in paid hours since the March 1998 quarter.
- 8 The HLFS for the December 2008 quarter, which gives the official estimate of employment, is not released until 5 February. Although the series do not always match closely quarter to quarter, the QES suggests that the HLFS results will be weak with official employment likely to fall by around 1% in the December 2008 quarter. The median market expectation is for a 0.7% fall in HLFS employment.
- 9 On an annual basis, both filled jobs and full-time equivalent employment fell by 0.8%. These are the largest falls for the two series since the 1991/92 recession. Compared to the December 2007 quarter, 9 out of the 15 industries surveyed recorded a fall in filled jobs. There was particular weakness in forestry & mining, manufacturing, hospitality, retail trade and finance & insurance. These were partially offset by strong growth in health & community services and government administration & defence (both up 3.7%).

### **Wage growth expected to ease**

- 10 Wages are typically one of the last indicators to turn in a recession due to the time lags involved in wage negotiation so current wage growth remains strong despite an easing economy and labour market. However, unemployment has risen, skill shortages have fallen sharply, and consumer price inflation is easing in response to the downturn. With these trends expected to continue and given the lags associated with wages, wage growth is expected to weaken over the coming 18 months.