



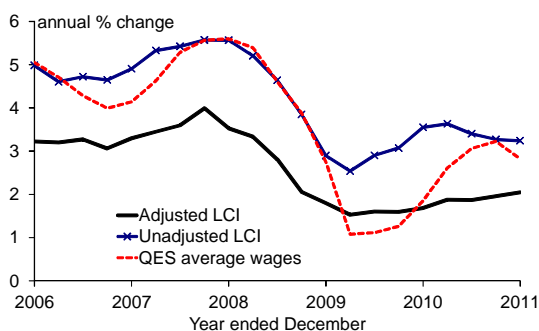
WAGE GROWTH – DECEMBER 2011 QUARTER

This note examines the wage growth measures from the Labour Cost Index (LCI) and the Quarterly Employment Survey (QES).

Wage growth is gradually recovering...

The December 2011 quarter data confirms that wage growth is gradually recovering (Figure 1). The adjusted LCI (which measures changes in pay rates for a fixed set of jobs and excludes performance-related pay increases) rose by 0.6% over the December 2011 quarter, contributing to annual wage growth of 2.0%. This level of annual wage growth is unchanged from the year to September 2011, but is up from 1.7% a year ago.

Fig 1: Wage growth measures



Source: Statistics New Zealand

Table 1: Annual wage growth

	Last year	Last quarter	This quarter
Wage Growth (annual % change)	Dec-10	Sep-11	Dec-11
Adjusted LCI	1.7	2.0	2.0
Unadjusted LCI	3.6	3.3	3.2
QES	1.9	3.2	2.8

Source: Statistics New Zealand

Annual wage growth stands at 1.8% for the public sector and 2.0% for the private sector. Both levels are unchanged from the year to September 2011.

By industry, annual wage growth was strongest in financial and insurance services, as well as in forestry and fishing (up by 2.8%). By occupation, annual wage growth was strongest for construction trades workers and for mobile plant operators (up by 2.5%).

The unadjusted LCI (which includes pay increases due to such factors as changes in performance, experience and increased qualifications) was 3.2% for the year to December 2011, down slightly from 3.3% for the year to September 2011. The adjusted LCI is the best measure of the cost of living component of wage increases. However, the unadjusted LCI is a better measure of the level of pay increases that people actually received.

Annual wage growth in the QES¹ was 2.8% for the year to December 2011, down from 3.2% for the year to September 2011 but up from 1.9% a year ago (Table 1).

... and is expected to recover further over the next two years

The latest results confirm that wage growth has been gradually recovering, albeit from a low level. This is consistent with the emerging signs of skilled labour shortage. However, as unemployment remains elevated and inflation pressures remain contained, wage growth is likely to be modest in the short-term. Wage growth is forecast to pick up over the next two years, particularly once the Canterbury rebuild gathers momentum.

For further information please visit <http://dol.govt.nz/research> or email research@dol.govt.nz.

¹ The QES can be volatile given it is affected by compositional changes.