



## WAGE GROWTH – JUNE 2008 QUARTER

- 1 This note examines the wage growth measures for the June 2008 quarter from the Labour Cost Index (LCI) and the Quarterly Employment Survey (QES) which were released by Statistics New Zealand on 4 August 2008.

### Wage growth at a record high

- 2 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) increased to 3.5% in the June 2008 quarter. This is the highest rate recorded since the LCI began in 1992 and is up from 3.4% recorded in the March 2008 year.
- 3 The unadjusted LCI (which includes performance related pay increases) shows annual wage growth of 5.5% in the June 2008 quarter. This is up from 5.4% at March 2008 and is the highest growth rate since early 2006.
- 4 Annual wage growth in the QES (which includes performance related pay increases and is affected by the composition of employment) increased to 5.2% for the year to June 2008, up from 4.6% in the previous quarter.

#### Recent wage growth results

	Last year	Last quarter	This quarter
Wage Growth (annual % change)	June 2007	March 2008	June 2008
Adjusted LCI	3.2	3.4	3.5
Unadjusted LCI	4.6	5.4	5.5
QES	4.2	4.6	5.2

Source: Statistics New Zealand.

- 5 Strong wage growth was recorded in both the retail, hospitality and construction industries in the June 2008 year. The retail and hospitality industries in particular were most likely affected by the increase in the adult minimum wage and changes to the youth minimum wage over the quarter. Indeed, the LCI showed record high annual wage growth in historically low wage occupational groups such as service and sales workers (5.1%) and elementary occupations (3.8%).
- 6 The LCI showed annual public sector wage growth increased to 3.7% in June 2008 from 3.3% in March 2008. This was led by a large 5.1% annual increase in wages for the health and community services industry which appears to reflect collective employment agreements coming into effect in the June quarter.

### Wage growth set to remain strong

- 7 Wage growth is likely to remain high over the coming year as workers seek higher wages to keep up with rises in the cost of living. Consumers Price Index inflation increased to 4.0% in the year to June 2008 and it is possible it could rise to 5% in the near future. However, the slowdown in economic activity and the associated drop in the demand for labour will begin to dampen wage growth over the coming year. As it can take 1-2 years for changes in the labour market to affect wages due to the time lags involved in wage negotiation, strong current wage growth reflects the tight labour market conditions experienced over 2007.