



WAGE GROWTH – MARCH 2009 QUARTER

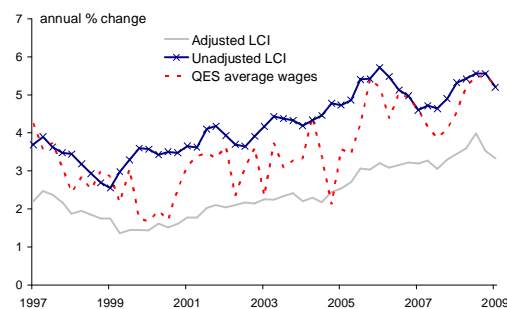
This note examines the wage growth measures for the March 2009 quarter from the Quarterly Employment Survey (QES) and the Labour Cost Index (LCI) which were released by Statistics New Zealand on the 4th and 6th of May 2009 respectively.

Wage growth continues to ease

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 March 2009 quarter. This is down from 3.5% in the year to December 2008 and a record high of 4.0% in the year to September 2008. On a quarterly basis, the adjusted LCI rose by 0.6%.

Private sector wages increased by 3.1% in the year to March 2009, down from 3.2% in the December 2008 year. This is the lowest annual increase for private sector wages since March 2007. Annual public sector wage growth eased to 4.3% in March 2009 from 4.7% in December 2008.

Fig 1: Wage growth measures



Source: LCI, QES, Statistics New Zealand

The adjusted LCI showed annual wage growth was strongest in education (5.7%) and health & community services (4.4%), while the agriculture, forestry & fishing industry recorded a record high increase of 4.0%. By occupation, the highest growth was for teaching professionals (5.9%) and health professionals (5.1%). The strong result for both education and health appears to reflect collective employment agreements coming into effect in recent quarters.

Recent wage growth results

	Last year Mar 2008	Last quarter Dec 2008	This quarter Mar 2009
Wage Growth (annual % change)			
Adjusted LCI	3.4	3.5	3.3
Unadjusted LCI	5.3	5.6	5.2
QES	4.6	5.5	5.3

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 5.2% in the March 2009 quarter, down from 5.6% at December 2008.



Annual wage growth in the QES, which also includes performance related pay increases, was 5.3% for the year to March 2009. This is down from 5.5% in the year to December 2008, which was the equal highest growth in average hourly earnings since 1990. It is somewhat surprising to see wage growth remaining high with the demand for labour easing significantly over recent months. However, the QES is affected by compositional changes and the rise in average wages in the March 2009 quarter is likely to have been boosted by a fall in filled jobs for lower-paid workers.

Labour demand weakens

QES filled jobs (seasonally adjusted by the Department of Labour) fell by 0.5% in the March 2009 quarter while seasonally adjusted paid hours fell by 0.4%. This follows large falls in both these series in the previous quarter.

On an annual basis, filled jobs fell by 1.1% and full-time equivalent employment fell by 1.7%. These are the largest falls for the two series since the 1991/92 recession. Compared to the March 2008 quarter, 7 out of the 15 industries surveyed recorded a fall in filled jobs. There was particular weakness in forestry & mining (down 11%), manufacturing and construction (both down 7%) and hospitality (down 6%). These were partially offset by strong growth in education (up 6%), government administration & defence (up 4%) and health & community services (up 3%).

The Household Labour Force Survey (HLFS) for the March 2009 quarter is released on May 7 and the QES suggests that the HLFS results will be weak with official employment likely to fall by around half a percent over the quarter. However, the two series do not always match closely quarter to quarter. For example, in the December 2008 quarter the QES suggested HLFS employment would fall by about 1% but it rose by 0.9%. The median expectation is for employment to fall by 1.1% over the quarter.

Wage growth expected to ease

The LCI and QES show wage growth remains relatively strong despite an easing economy and labour market. However, wages are typically one of the last indicators to turn in a recession due to the time lags involved in wage negotiation. With unemployment rising, labour much easier to find and falling consumer price inflation, wage growth is expected to weaken over the coming 18 months.