



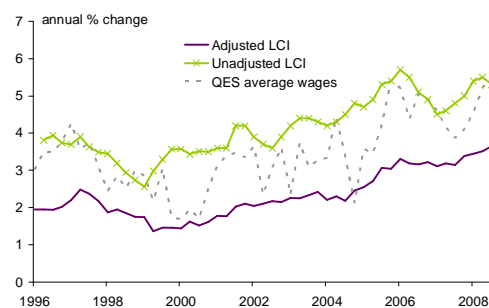
WAGE GROWTH – SEPTEMBER 2008 QUARTER

- 1 This note examines the wage growth measures for the September 2008 quarter from the Labour Cost Index (LCI) and the Quarterly Employment Survey (QES) which were released by Statistics New Zealand on 3 November 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 3.6% in the September 2008 quarter above market expectations of 3.3%. This is the highest rate recorded since the LCI began in 1992 and is up from 3.5% recorded in the June 2008 year.

Fig 1: Wage growth measures



Source: LCI, QES, Statistics New Zealand

- 3 The unadjusted LCI (which includes performance related pay increases) shows annual wage growth of 5.3% in the September 2008 quarter. This is down slightly from 5.5% at June 2008 but still remains high on a historical basis.
- 4 Annual wage growth in the QES (which includes performance related pay increases and is affected by the composition of employment) increased to 5.5% for the year to September 2008. This is up from 5.2% in the previous quarter and is the highest annual growth rate since 1990.

Recent wage growth results

	Last year Sept 2007	Last quarter June 2008	This quarter Sept 2008
Wage Growth (annual % change)			
Adjusted LCI	3.1	3.5	3.6
Unadjusted LCI	4.8	5.5	5.3
QES	3.9	5.2	5.5

Source: Statistics New Zealand.

- 5 The adjusted LCI showed annual wage growth was strongest in health & community services (5.7%) and local government administration (5.4%). By occupation, the highest growth was for personal & protective service & sales workers (5.4%) and health professionals (5.1%). The strong result for the health & community industry appears to reflect collective employment agreements coming into effect in recent quarters.
- 6 Annual private sector wage growth increased to 3.7% in September 2008 from 3.4% in June 2008. This is the largest annual increase in private sector wages since the LCI began. Public sector wages increased by 3.6% in the year to September 2008, following a 3.7% increase in the June 2008 year.



Labour demand weakens

- 7 QES filled jobs rose by 0.2% (seasonally adjusted by the Department of Labour) in the September quarter while seasonally adjusted paid hours also posted a weak result (down 0.3% over the quarter). This is the first quarterly fall in paid hours since March 2007.
- 8 The HLFS for the September quarter, which gives the official estimate of employment, is not released until 6 November. The QES suggests that official employment will be fairly steady in the September 2008 quarter although the series do not always match closely quarter to quarter. The median market expectation is for a 0.6% fall in HLFS employment.
- 9 On an annual basis, filled jobs have increased by 1.8% while full-time equivalent employment rose by 1.6%. The annual increase in filled jobs was the lowest rate since the year to March 2007. Compared to a year ago, weakness in forestry & mining, property & business services, and personal & other services was offset by strong growth in health & community services (up 4.9%) and wholesale trade (up 4.4%).

Wage growth will begin to ease over the next year

- 10 Wage growth is likely to ease over the next year from its current record high. 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 probably reflects the tight labour market conditions experienced over 2007. However, the slowdown in economic activity and the associated drop in the demand for labour will begin to dampen wage growth over 2009.
- 11 Strong current wage growth is also a result of inflation being at historically high levels. In the September 2008 quarter, Consumers Price Index inflation rose to an 18-year high of 5.1% which has acted to dampen real wage growth. However, inflation is expected to ease in future quarters as a result of the economic slowdown and an easing in world commodity prices, especially for oil.