



## WAGE GROWTH – SEPTEMBER 2009 QUARTER

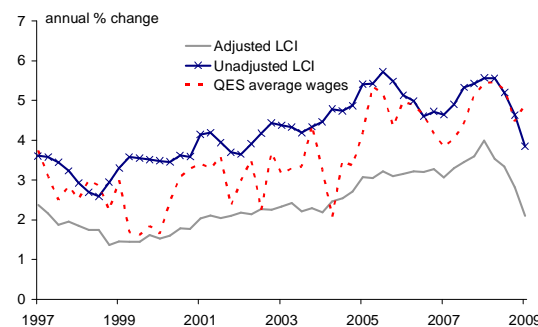
This note examines the wage growth measures for the September 2009 quarter from the Quarterly Employment Survey (QES) and the Labour Cost Index (LCI) which were released by Statistics New Zealand on 3 November 2009.

### Wage growth eases further as labour market continues to soften

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) was 2.1% in the September 2009 quarter, the smallest growth rate since 2002. With the labour market softening, wage growth is continuing to decrease. Annual wage growth in September 2009 was down from 2.8% in the year to June 2009 and 4.0% a year ago. The adjusted LCI rose by 0.5% in the September 2009 quarter.

Slowing wage growth is being seen in both the public and private sectors. Private sector wages increased by 2.0% in the year to September 2009, down from 2.7% in the June 2009 year. This is the lowest annual increase for private sector wages since December 2002. Annual public sector wage growth was 2.9% in September 2009, down from 3.6% in June 2009.

Fig 1: Wage growth measures



Source: LCI, QES, Statistics New Zealand

The adjusted LCI showed annual wage growth was the strongest in the education industry (up 3.7%) driven by strong growth in this sector over the September 2009 quarter. Primary and secondary teachers, and principals received increases in pay rates of around 4% effective from 1 July 2009, and this contributed to the increase for the education industry in the September 2009 quarter. Annual wage growth was also strong in health & community services, rising by 3.4% over the past year. This was largely as a result of collective employment agreements coming into effect.

### Recent wage growth results

	Last year Sep 2008	Last quarter Jun 2009	This quarter Sep 2009
<b>Wage Growth (annual % change)</b>			
Adjusted LCI	4.0	2.8	<b>2.1</b>
Unadjusted LCI	5.6	4.6	<b>3.8</b>
QES	5.4	4.5	<b>4.9</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 3.8% in the September 2009 quarter, down from 4.6% at June 2009 and 5.6% a year ago. The 3.8% annual rise in the unadjusted LCI is the smallest annual increase since 2002.

Annual wage growth in the QES, which also includes performance related pay increases, was 4.9% for the year to September 2009. This is up from 4.5% in the year to June 2009. It may seem counterintuitive that wage growth has risen given the weakness in the labour market. However, it should be noted that the QES is affected by compositional changes. Therefore the rise in average wages is likely to have been boosted by a fall in filled jobs for lower-paid workers such as those in manufacturing, retail trade, construction and hospitality. Due to the compositional effects present in the QES wage data, the LCI is generally the preferred measure of wage growth.

### **Labour demand continues to weaken**

QES filled jobs (seasonally adjusted by the Department of Labour) fell by 0.3% in the September 2009 quarter while seasonally adjusted paid hours rose by 0.2%.

On an annual basis, filled jobs fell by 2.6% and full-time equivalent employment fell by 3.5%. This is the fourth consecutive fall for these two series and has led to the largest declines seen since the early 1990s. Compared to the September 2008 quarter, 9 out of the 15 industries surveyed recorded a fall in filled jobs. There was particular weakness in manufacturing (down 12%), hospitality and wholesale trade (both down 8%), retail trade (down 6%) and construction (down 5%). These were partially offset by growth in the professional, scientific, technical, administrative, & support services industry which grew by 10% as well as increases in healthcare & social assistance (up 2%) and education & training (up 1%).

The Household Labour Force Survey (HLFS) for the September 2009 quarter is released on November 5 and the QES leads us to expect weak results from the HLFS. While the two series do not always match closely from quarter to quarter, the QES results suggest that the official measure of employment is likely to fall slightly. The median expectation is for employment to fall by 0.3% in the quarter. Similar to the QES, the HLFS is expected to show that employment in manufacturing has been hit hard as has hospitality, and retail & wholesale trade. The Department expects the HLFS will show that the unemployment rate has risen from 6.0% to 6.5% over the September 2009 quarter.

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

Wage growth is expected to continue to slow over 2009 and 2010 as the labour market continues to soften. Wages typically lag changes in economic and labour market conditions by 1-2 years due to the infrequent nature of wage negotiations. With the unemployment rate expected to continue rising towards 7% in mid-2010 there will be increased competition for jobs which should cause wage growth to continue to slow. The recent fall in annual consumer price inflation to a five year low will also contribute to weaker wage growth over the short-term.