



# Pay Market Report 2007

## Australia and New Zealand



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## FOREWORD

Each year, organisations and in particular HR Professionals are faced with forecasting salaries and wages for the upcoming period. This is a highly detailed process because a projection that falls short or above the actual increase, even by a small amount, can be costly to the organisation. The organisation needs to develop a method using a variety of credible sources, to forecast growth.

In order to assist with this process, CSi – The Remuneration Specialists have compiled this Pay Market Report for 2007. The report provides figures and statistics that are derived from our extensive databases and current economic and general data. Forecasts within this report are predominantly from our most recent edition of the Australian General Industry Remuneration Report, which was published in late November 2006 and is the largest remuneration survey in Australia.\* We have also included a more detailed section on New Zealand this year.

The Australian and New Zealand employment markets remain tight with low unemployment and skills shortages in various fields. A poor prediction of upcoming salaries and wages costs may hinder an organisation's ability to attract new employees and to retain current employees. The current market conditions require organisations to be extremely diligent in their decision-making.

This report provides organisations with an overview of the anticipated pay market in 2007. For further information, please contact us at [consulting@csirem.com.au](mailto:consulting@csirem.com.au).

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December 2006

*\* Based on number of contributors and employees surveyed. Correct at time of writing.*

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# Australia

## GENERAL ECONOMY

The overall Australian economy remains strong and has now expanded for 14 consecutive years. Strong growth in business investment is expected to drive economic activity, with household consumption expected to remain moderate.

Australian households are benefiting from the resources boom through higher dividend payments and increased wealth. Household wealth is further increased through the 2006-07 Budget, which delivered tax reforms in superannuation and personal and business taxes.

However, there is a large imbalance of economic growth between states that are affected by the mining boom and those that are not. Western Australia, Queensland and the Northern Territory are all benefiting from high mining prices as business investment is high; unemployment is becoming lower; and wages are increasing. In contrast, growth in Victoria and especially NSW is much slower, at about half the pace of the "boom" states. The NSW housing market is also weak in comparison to the other states, with Sydney the only state to have negative annual growth.

The June Consumer Price Index (CPI) revealed that annual inflation rose 3.9% for the 12 months to June 2006, placing it above the RBA's medium term target range (2 - 3%). The major banks are expected inflation to ease in 2007.

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Source: Reserve Bank of Australia website, [www.rba.gov.au](http://www.rba.gov.au), Accessed: 24/11/2006.

## LABOUR MARKET

In the current tight labour market with low unemployment (5.1%<sup>2</sup>) and high participation rates, the Australian labour market is very much an employee's market. This puts pressure on organisations to retain key employees but also to attract employees that will add value to the organisation. Some of the ways in which the organisation can retain employees and thus keep their staff attrition rate low are:

1. Ensuring that employees are engaged through a flexible work place and a focus on intrinsic rewards such as job content, growth and quality of life.
2. Ensuring that financial rewards are market competitive and motivate employees' loyalty and productivity such as meaningful performance based bonuses to align individual and corporate goals.
3. Ensuring a good work/life balance. It is important for organisations to recognise "family friendly" benefits like telecommuting and day care facilities.

Although the unemployment rate has been slowly rising recently, it is expected to stay relatively low throughout 2007. Skills shortages will still be experienced in certain sectors and regions.

The introduction of Work Choices legislation has dramatically increased the coverage of the federal industrial relations system. Most importantly and widely publicised, the changes have altered the bargaining positions of employers and employees. The underlying premise of the new system is that it will provide more choice and flexibility in the workplace. Organisations need to remain well informed of how these changes will affect their industrial relations and remuneration strategy.

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<sup>2</sup> [https://research.comsec.com.au/CommResearch\\_Forecasts.aspx?MenuId=9&CategoryId=10&TypeId=215](https://research.comsec.com.au/CommResearch_Forecasts.aspx?MenuId=9&CategoryId=10&TypeId=215)

## STAFF ATTRITION

### Attrition Rates for 2006

The following table displays a summary of the staff attrition rates for 2006 in terms of simple (indicates the average company specific turnover rate in the last 12 months) and weighted (indicates the proportion of the total surveyed market that has turned over in the past 12 months) averages.

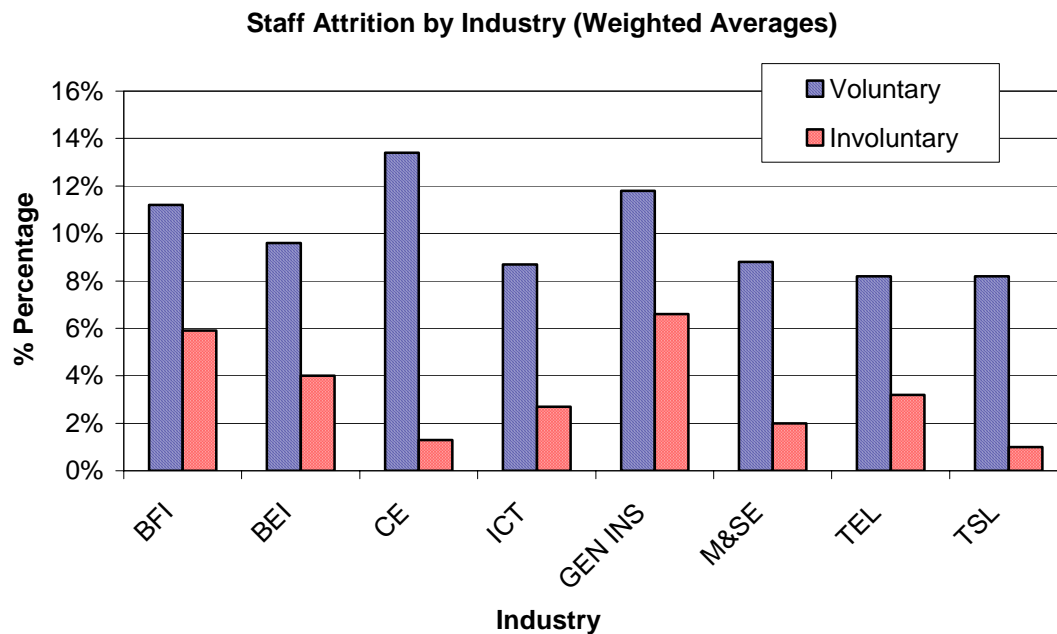
Type of Staff Attrition	Weighted Average	Simple Average	Median Response	Minimum Reported	Maximum Reported
<b>Voluntary</b>	11.2%	14.1%	14.0%	0.0%	45.0%
<b>Involuntary</b>	4.0%	3.3%	2.0%	0.0%	21.0%
<b>Total Staff Attrition</b>	15.8%	17.4%	16.5%	0.0%	45.6%

**Please note:** Total attrition may not equal the sum of Voluntary and Involuntary attrition figures as contributors were able to enter a Total Attrition only in cases where Voluntary and Involuntary Attrition figures could not be reported.

**Source:** CSI's Australian General Industry Remuneration Report November 2006.

## Staff Attrition Rates by Industry for 2006

The graph below displays voluntary (employee initiated) and involuntary (employer initiated) turnover using weighted averages across a number of industries.



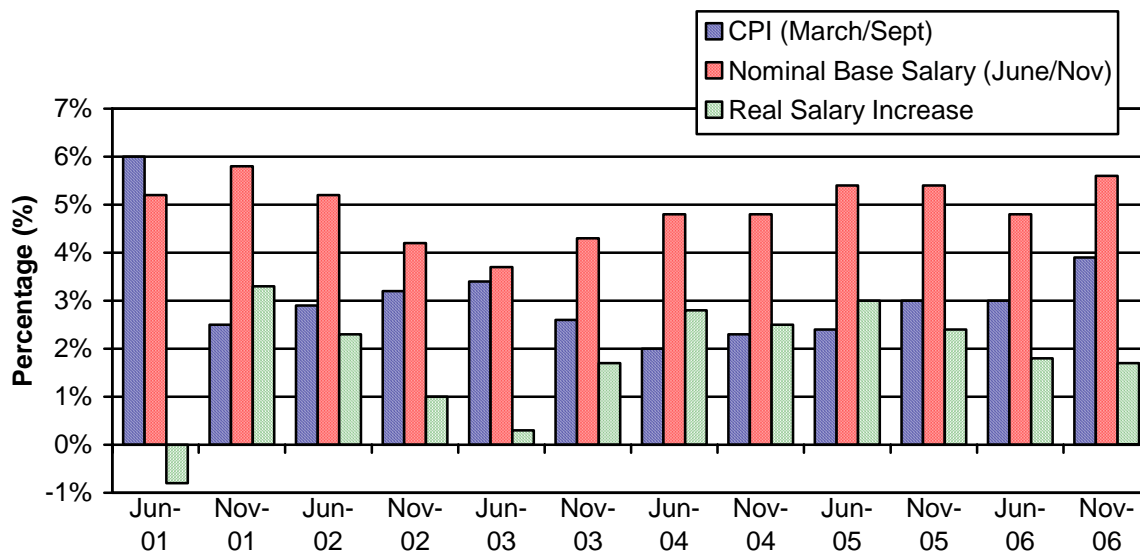
**Please note:** BFI = Banking & Finance; BEI = Business Equipment; CE = Consulting Engineers; ICT = ICT Vendors; GEN INS = General Insurance; M&SE = Medical & Scientific Equipment; TEL = Telecommunications and TSL = Transport, Shipping & Logistics.

**Source:** Various industry specific salaries and benefits surveys conducted by CSi – The Remuneration Specialists in 2006.

Apart from consulting engineering, general insurance, and banking and finance industries, rates are relatively low across all sectors. The general thinking amongst HR theorists is that voluntary attrition of 5-10% is considered manageable as it allows for the inflow of new employees with new ideas without causing major disruptions to the entire organisation. In times of skills shortages, however, even a turnover of this rate may cause problems for organisations. Engineers are currently in high demand due in part to large infrastructure projects that are taking place across the nation.

Involuntary attrition is relatively low across all industries in the above graph; the highest at 6.5% is the general insurance industry. This is a result of merger/acquisition and restructuring activities in this industry, which has also caused the high voluntary attrition of almost 12%.

## PAST PAY MOVEMENTS



**Please note:** CPI figures in June are from the March quarter and in November are from the September quarter.

The above graph displays real salary increases for employees over the past 5 years. From 2002, we have seen growth in real salary increases.

Real salary increases are defined here as the difference between the CPI and annual average salary increases. Annual average increases are the same incumbent movements at nominal base salary as reported in the November 2006 Australian General Industry Remuneration Report each year. The same incumbent movement assumes the same individual in the same role at the same organisation year on year.

In order for a further real salary increase in 2007 (in comparison to 2006),

- salary increase must grow and inflation remain steady;
- salary increase remain steady and inflation decrease; or
- salary increase grow and inflation decrease simultaneously.

In 2007 it is likely that inflation will remain steady due to RBA monitoring, so an increase in average nominal base salary of more than 5.4% will see greater real salary increases relative to 2006.

## ANTICIPATED PAY MOVEMENTS

### Anticipated Salary Increases for this Financial Year

CSi anticipates that overall salary budgets will increase at around 4% this year with greater increases in industries with particular skills shortages.

The table below summarises contributor expectations for the 2006/07 financial year across a range of **CSi** surveys.

Survey	Average Increase	Median Increase
Banking & Finance Industries (Oct 06)	4.3%	4.0%
Business Equipment (Sept 06)	3.9%	4.0%
Computer/IT Specialists (Nov 06)	4.1%	4.0%
Consulting Engineers (April 06)	5.2%	5.0%
Defence Systems Engineers (Nov 06)	4.2%	4.1%
ICT Vendors (Aug 06)	4.1%	4.0%
Life Insurance & Superannuation (Sept 06)	3.8%	4.0%
Medical & Scientific Equipment (Oct 06)	4.2%	4.0%
Telecommunications Industry (Aug 06)	4.1%	4.0%
Transport, Shipping & Logistics (Aug 06)	4.2%	4.0%
Australian General Industry (Nov 06)	4.3%	4.0%

Many organisations are under pressure to increase salaries due to the tight labour market; however, they are somewhat unwilling to increase salaries on an organisation-wide basis as doing so may affect the organisation's profitability. Despite the importance of employees in forming a corporation, organisations are also aware of satisfying all stakeholders and as such, profit and revenue figures are of high importance.

## PRESSURE POINTS

We expect salary increases in 2007 to be fairly consistent at 4%. However, there will be areas in which greater pressure will push salary increases higher than this. The following is a list of “hot spot” activities:

- Specialist or Subject Matter Expert (SME) roles that deliver high value direction for organisations should continue to demand greater increases - CEO's, HR strategic partners, selected marketing roles, etc;
- There continues to be a shortage in the accounting and finance professional practice market, which is likely to continue for at least the next 12 – 24 months. Demand will be focused on candidates with two to five years experience in tax, business services and audit;
- With the mining boom in Western Australia and Queensland, we will expect to see a major increase in salaries in that region as a way of attracting talent. We have already seen evidence of this through very competitive salary data from Western Australia;
- Consulting engineers have enjoyed salary increases far above the general market which can be attributed largely to the combination of an across the board shortage of engineers in Australia and the growth in the engineering sector, driven by the resources boom and increased spending on infrastructure. However this growth is being threatened, with firms unable to find the engineers needed for projects, and some roles reportedly remaining vacant for up to six months;
- The pressure on back office roles should continue to decrease as offshoring increases - Helpdesk, Shared Service (Accounts Payables/Receivables, etc) and some "low level" HR and administrative roles are likely to be outsourced and offshored.

## SENIOR EXECUTIVES

There have been a couple of changes in Senior Executive remuneration practices over the past year. Firstly, there has been a significant shift in focus in many organisations when determining salary increases. While company and individual performance remain the most critical factors in determining salary increases, individual performance is now considered *more* important than company performance, not the other way around as reported in previous year<sup>3</sup>.

Secondly, the interest in Long Term Incentives for Senior Executives is on the rise, with an increasing number of organisations offering share plan options, despite the increasing regulations surrounding these schemes.

It is also interesting to note that in terms of Senior Executive remuneration, priorities are consistent with previous years, with the top 2 being a continued focus performance management and aligning pay with the market,

Pay at the senior executive level will remain “hot” in 2007. There are a number of reasons for the continued higher rate of increase in reward at the senior executive level:

1. Good trading conditions – the Australian economy continues to grow and the outlook is also positive. In these circumstances executive pay, particularly the STI or variable “at risk” component will continue to rise at higher levels.
2. Global pressures – the CEO and senior executive pay market is “hot” in most of Australia’s trading partners.
3. Different market – CEO and Senior Executive reward is treated differently from that of staff at other levels. Rates are determined in individual contracts often negotiated with the aid of specialists and dealt with by remuneration committees in listed companies. Individual and company performance targets and bonuses leveraged on those targets are typically the issues considered in determining potential reward packages for senior executives rather than compliance with general pay trends.

We predict therefore that guaranteed fixed remuneration for senior executives will again rise by 4.5% to 6% (depending on organisational size) but that total reward which includes variable pay, may reach 10%.

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<sup>3</sup> CSi Top Executive Remuneration “Climate Survey” 2006

# New Zealand

## GENERAL ECONOMY & LABOUR MARKET

The New Zealand economy continued to grow at a slow pace throughout 2006 as the supply side of the economy is constricted by resource capacity. Growth is expected to be around 2% for 2007.

Inflation continues to remain high and peaked in June 2006 to 4%, the highest it has been in 11 years. The major contributing factor to this was petrol prices, which increased by 32% over the year. If petrol had not increased, inflation would have risen 2.9%, which is still quite high. The Reserve Bank is expected to ease the Official Cash Rate (OCR) throughout 2007.

With the second lowest unemployment rate in the OECD, wages pressure is expected to remain strong, especially with the high inflation rate. Households are stretched with higher loan repayments and inflation, which is dampening consumer spending. This further slows economic growth, with approximately 70% of the economy being domestic and spending dominant.

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Source: Reserve Bank of New Zealand website, [www.rbnz.govt.nz](http://www.rbnz.govt.nz), Accessed: 24/11/2006.

## STAFF ATTRITION

### Attrition Rates for 2006

The following tables display a summary of the Staff Attrition rates for 2006 in terms of simple (indicates the average company specific turnover rate in the last 12 months) and weighted (indicates the proportion of the total surveyed market that has turned over in the past 12 months) averages.

Type of Staff Attrition	Weighted Average	Simple Average	Median Response	Minimum Reported	Maximum Reported
<b>Voluntary</b>	15.1%	13.0%	13.1%	0.0%	30.0%
<b>Involuntary</b>	2.2%	1.3%	0.0%	0.0%	10.6%
<b>Total Staff Attrition</b>	19.0%	14.3%	13.9%	0.0%	36.2%

*Source: CSi New Zealand Computer/IT Specialists Salaries & Benefits Survey September 2006*

Type of Staff Attrition	Weighted Average	Simple Average	Median Response	Minimum Reported	Maximum Reported
<b>Voluntary</b>	17.7%	14.8%	14.3%	0.0%	31.0%
<b>Involuntary</b>	4.5%	4.5%	3.4%	0.0%	25.0%
<b>Total Staff Attrition</b>	22.2%	19.1%	18.0%	2.0%	46.0%

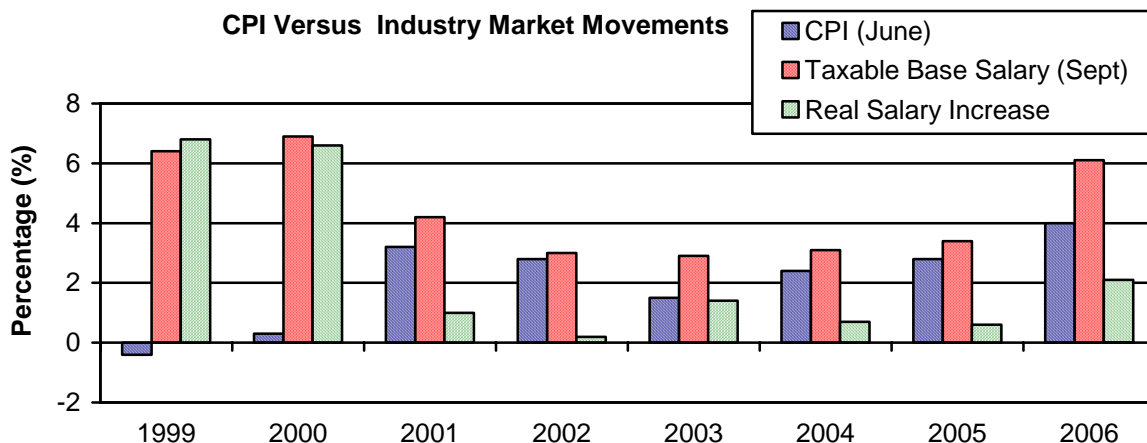
*Source: CSi New Zealand IT & Telecommunications Industries Salaries & Benefits Survey August 2006*

Voluntary attrition of between 5 and 10% is a level that is unlikely to cause a major disruption to the organisation. High attrition in New Zealand is expected due to skills shortages and low unemployment that allows employees who are in high demand to move around and find the employer who is offering the "best deal".

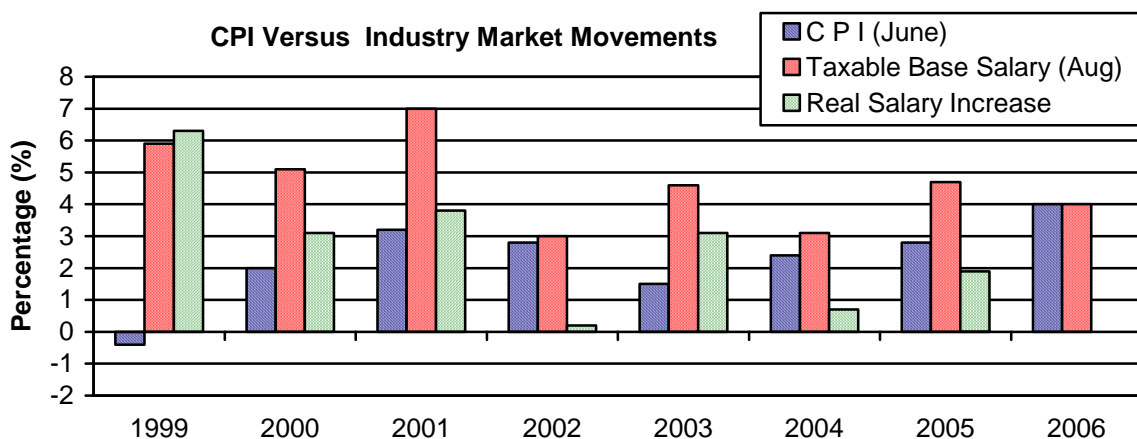
For some ideas on the ways in which organisations can retain employees and thus keep their staff attrition rate low, please refer to page 6 of this report.

## PAST PAY MOVEMENTS

The graphs below display real salary increases for employees over the past 7 years. Real salary increases are defined here as the difference between the CPI and annual average salary increases (based on same incumbent movements at Nominal Base Salary as reported in the September 2006 CSi New Zealand Computer/IT Specialists Salaries & Benefits Survey and the August 2006 New Zealand IT & Telecommunications Industries Salaries & Benefits Survey for each year). The same incumbent movement assumes the same individual in the same role at the same organisation year on year.



**Source:** CSi New Zealand Computer/IT Specialists Salaries & Benefits Survey September 2006.



**Source:** CSi New Zealand IT & Telecommunications Industries Salaries & Benefits Survey August 2006.

It can be seen in the graphs that real salary increases have quite low and inconsistent over the past few years. In order for a significant real salary increase in 2007:

- salary increase must grow and inflation remain steady;
- salary increase remain steady and inflation decrease; or
- salary increase grow and inflation decrease simultaneously.

## ANTICIPATED PAY MOVEMENTS

### Future Pay Trends/Moves

Forecast salary increase budget figures are presented in the table below.

Survey	Average Increase	Median Increase
Computer/IT Specialists (Sept 06)	4.3%	4.0%
IT & Telecommunications (Aug 06)	3.9%	4.0%

Like Australia, New Zealand organisations are also anticipating a salary increase of 4% in 2007. This may be conservative but also a strategy by organisations to protect their profit margins.

Furthermore, when compared to other developed nations, Australia and New Zealand are highly competitive (please refer to page 18 of this report).

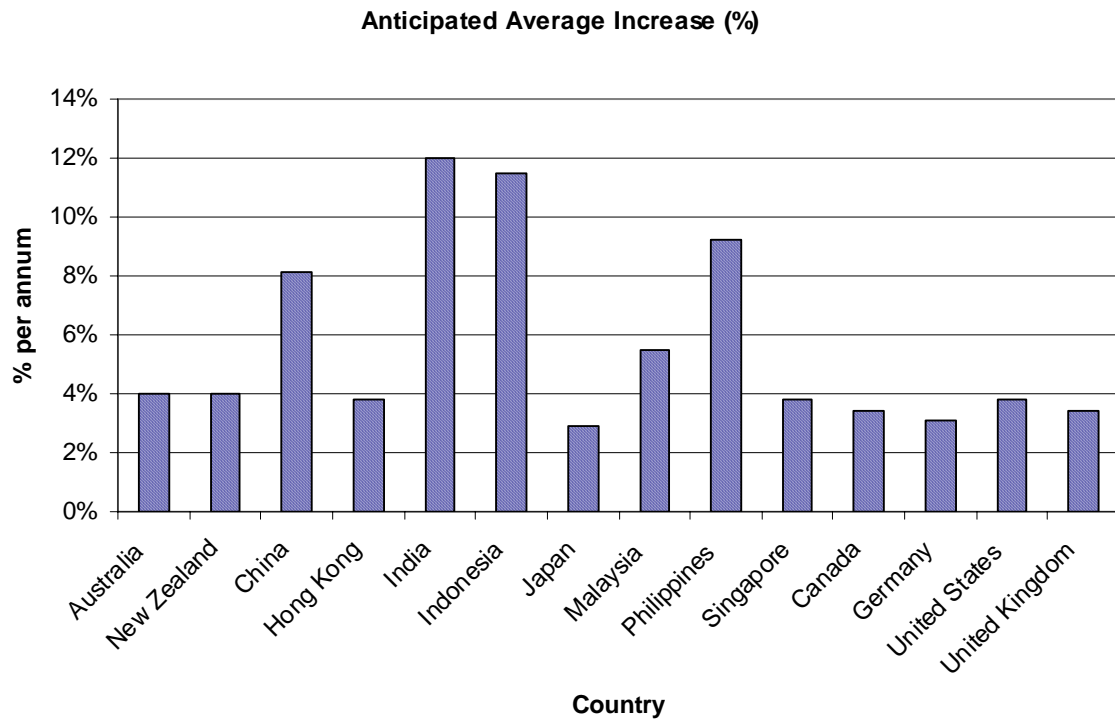
## PRESSURE POINTS

We expect salary increases in 2007 to be 4% across the board. However, there will be areas in which greater pressure will push salary increases higher than this. The following is a list of “hot spot” activities:

- Newly qualified accountants will continue to be in high demand in Auckland. Further, these candidates are increasingly aware of their market worth and will often change roles once qualified, so expect increasing vacancy activity in this area;
- Professional practice demand remains extremely high, particularly for Senior Accountants, Senior Auditors, Audit Managers and Business Services Managers. Qualified and experienced candidates with business advisory, corporate finance and management consulting experience are in high demand;
- In construction and property, overall recruitment conditions remaining tight as the demand for skills continues;
- Health and safety professionals are sought across all industries for strategic and project positions. With demand existing for staff at all levels the shortage of these skills will remain a constant concern.

## ANTICIPATED PAY MOVEMENTS – A GLOBAL PERSPECTIVE

The following graph shows Australia's and New Zealand's expected salary increases for 2007 in comparison to other countries. The graph shows that amongst other developed nations, Australia and New Zealand are highly competitive. Other nations in the Asia Pacific region (excluding Japan) show a much greater increase and this is due to their rapid development.



**Source:** Watson Wyatt Global 50 2006/07.

## CONCLUSION

The strength of the Australian economy is favourable for employees. Low unemployment and high participation rates have seen substantial salary increases in 2006. These tight labour conditions in both regions are expected to continue in 2007, but to a lesser degree.

Similarly in New Zealand, with the second lowest unemployment rate in the OECD, wages pressure is expected to remain strong, especially with the high inflation rate.

In conjunction with ensuring remuneration rates are market competitive and remuneration structures are equitable and defensible, employers are now focusing more on variable pay and non-financial benefits that are meaningful to employees and support work/life balance. Organisations must formulate a customised package that will assist in attracting and retaining employees that add value to the organisation. This requires identification of both the organisation and employees' needs and designing HR/remuneration policies to address these.

CSi has the tools to provide organisations with information concerning competitive remuneration. CSi's online Data Centre allows survey contributors to view their employees' compa-ratios and determine whether they are market competitive. Our consulting services provide comprehensive information tailored to organisations' individual needs. A good remuneration system is essential for organisations to engage employees and remain competitive.

Jairus Ashworth  
Managing Director  
CSi – The Remuneration Specialists