

Newsletter November 2018



A Decade of Change in KMP Rewards

The decade since the Global Financial Crisis can be regarded as one of considerable change in relation to incumbency and reward. It has also revealed some surprises in pay relativity and the structure of senior executive reward.



Addressing the Gender Pay Gap

We note that in reports of early November, the Workplace Gender Equality Agency (WGEA), using ABS data, revealed that the national gender pay gap presently stands at 14.6%, the lowest in twenty years. The WGEA noted that the gap had hovered between 15% and 19% over the past two decades.



Governance – Increasing Complexity and Scope

The 2017 and 2018 reporting periods have seen increased shareholder activism, changes in emphasis and priorities expressed by institutional investors and proxy advisors, and a sense of urgency in addressing issues arising from the Hayne Royal Commission which are clearly observed as extending beyond the Financial Services sector



Growth in Average Weekly Earnings

The past 10 years has highlighted that movement in Average Weekly Ordinary Time Earnings (AWOTE) are almost twice that of the movement in the Consumer Price Index (CPI).

A Decade of Change in KMP Rewards

The decade since the Global Financial Crisis can be regarded as one of considerable change in relation to incumbency and reward. It has also revealed some surprises in pay relativity and the structure of senior executive reward.



In order to explore the trends and highlight some issues of significance from this decade, we have considered the ASX 200 and reflected upon growth in market value from July 2008 through to July 2018.

In parallel with this research, we have also considered the aggregate national movement in average weekly earnings, having regard to ordinary time earnings and total earnings and movement in the Consumer Price

Index.

In this context, we have observed the **Consumer Price Index has lifted by 23.36% over the decade whereas average adult ordinary time earnings have increased by 43%** from \$1,000.10 in May 2008 to \$1,433.40 in May 2018. During the same period total earnings (AWOTE) have increased from \$1,171.50 to \$1,650.60 or a 41% elevation.

In the same period, the average **movement in the market capitalisation of companies ranked in the ASX 200 has increased by 64.5% and the median value by 75.4%.**

	Average Market Cap Value		Percentage Increases
	2008	2018	
Rank 1 to 200	\$ 5,792,958,150	\$ 9,530,389,982	64.5%
Rank 1 to 50	\$18,405,071,600	\$ 29,882,305,491	62.4%
Rank 51 to 100	\$ 2,815,304,200	\$5,052,584,174	79.5%
Rank 101 to 200	\$975,728,400	\$ 1,593,335,132	63.3%

	Median Market Cap Value		Percentage Increases
	2008	2018	
Rank 1 to 200	\$1,703,365,000	\$2,988,413,485	75.4%
Rank 1 to 50	\$9,486,780,000	\$14,726,881,325	55.2%
Rank 51 to 100	\$2,633,355,000	\$ 4,633,299,840	75.9%
Rank 101 to 200	\$872,290,000	\$1,498,099,830	71.7%

In the context of these statistics, it is interesting to observe that the **fixed remuneration of Chief Executive Officers among the top 200 companies** has only increased by 6% on average, though at the median the elevation has closely paralleled the CPI, increasing by 24%.

Total remuneration for CEOs on average over the same period increased by 19% whereas at the median the increase was 30%. For the leading KMPs (the top three executives) in the ASX 200 over the same period, fixed remuneration increased by 9% on average and 22% at the median whereas their total reward increased by 33% on average and 34% at the median.

This reflects a closing of the gap between the market 25th percentile and the median.

Among the **ASX top 50**, while there have been relatively modest adjustments to the fixed remuneration of CEOs, the average movement in total reward has increased by 20% and for the KMP population, 26%. At the median, the total remuneration adjustment for a CEO has increased by 46% and 30% for KMP. This reflects pretty much a flatlining of fixed remuneration and a significant elevation in CEO incentive awards.

Among the second 50 of the ASX 200, movement has been relatively similar with CEO fixed remuneration flatlining, with KMP increasing over the period by 12% on average with total reward increasing by 23% at the level of CEO and 26% at the level of KMP. Again, movement at the median was substantially above the average with fixed remuneration for the CEO increasing by 14% and KMP by 20%, and total reward for the CEO increasing by 41% and KMP by 36%.

Among those organisations ranked in the second 100 of the ASX 200, the movement in fixed remuneration on average has been very different from the top 100, with CEOs experiencing an elevation above 21% similar to KMPs, though total reward has increased less aggressively. At the median, fixed remuneration has increased by over 33% at the level of CEO and 33% for a KMP with total reward at the level of CEO increasing by 32% and for a KMP 28%.

The market cap figures provide a perspective of the increasing scale of enterprises under the stewardship of a CEO and their most senior management. These figures reflect that their total reward uplift has not equated to the increasing scale of the enterprises under their authority.

It would be our assessment that the role of the average worker has not been significantly influenced by growth in a company's market capitalisation or its annual revenues, though the oversight of Boards and senior management has increased in complexity, regulatory stewardship, jurisdictional spread, numbers of employees, as well as regulatory and legislative impost.

The remuneration data is not an analysis of the same incumbent, it is an analysis of reward paid to the position of CEO or reward paid to those executives identified, year on year, as KMPs.

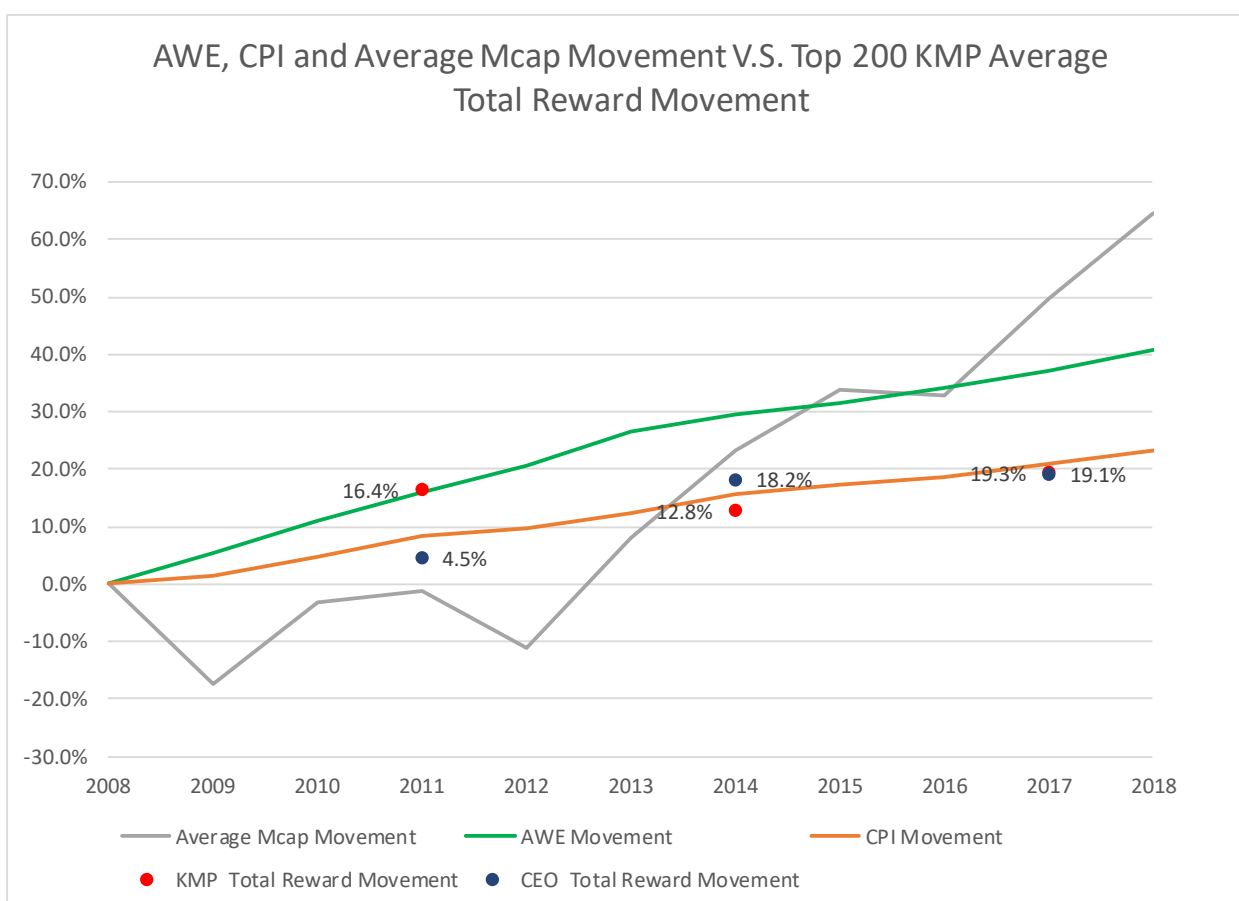
These roles will certainly not have the same incumbents throughout the decade and will not always reflect common positions, although almost universally they include the position of Chief Financial Officer. Other roles classified as a top three KMP vary from a business group or global CEO, a Chief Operating Officer (where one exists), or other key executive which span a myriad of job titles.

While the above provides an overview of the top 200 companies, the tables below provide information on movement in both CEO and KMP reward among the constituent companies ranked in the top 50, the second 50 and the second 100, highlighting movement in the median and average levels of fixed remuneration and total reward.

The purpose of our research is to highlight trends, not trace specific individuals.

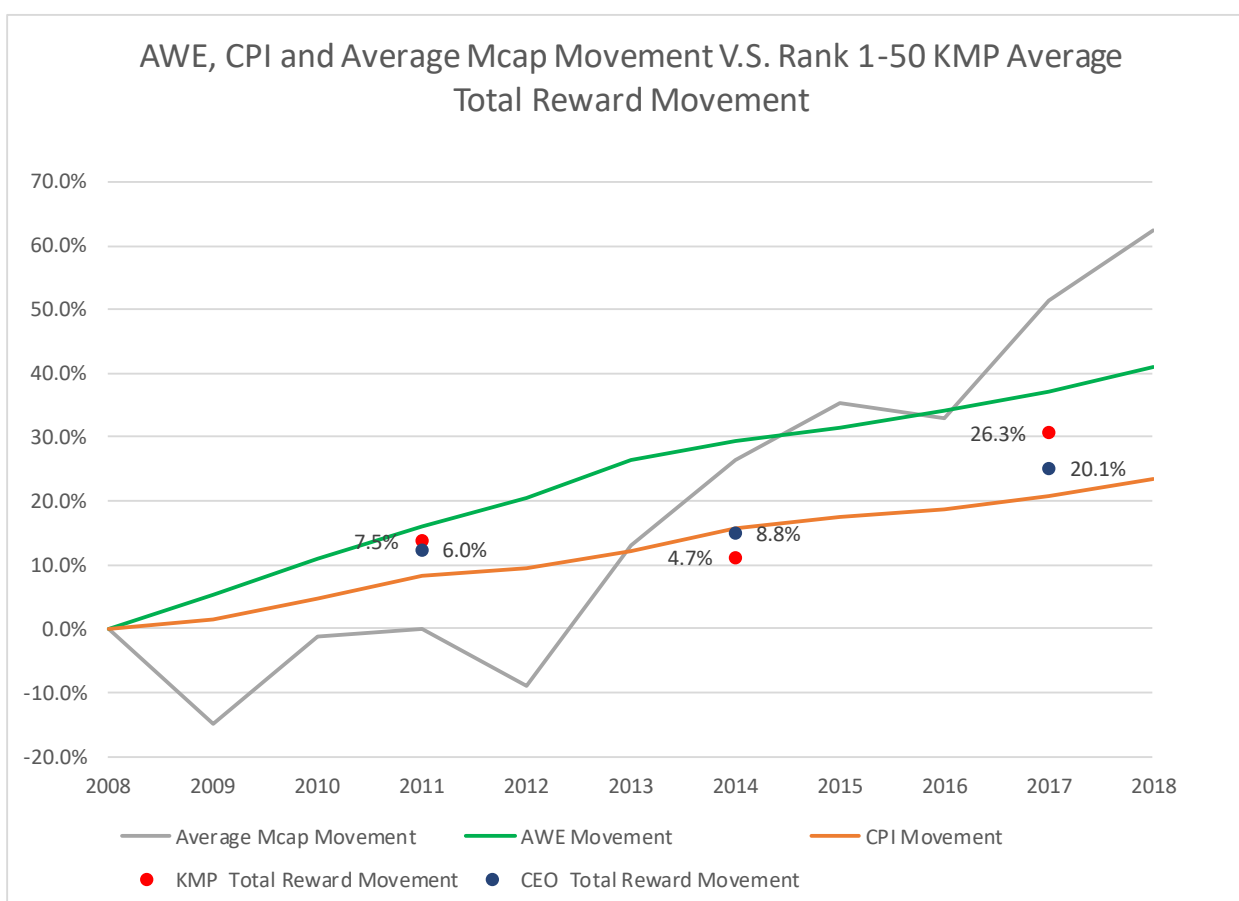
CEO Positions, Market Cap Rank 1-200 All Sectors.					2008-2017
CEO	2008	2011	2014	2017	increase
Average					
Fixed Remuneration	\$1,303,183	\$1,330,142	\$1,429,041	\$1,377,815	6%
Total Reward	\$2,612,707	\$2,730,790	\$3,089,388	\$3,110,960	19%
Median					
Fixed Remuneration	\$1,002,795	\$1,100,000	\$1,320,063	\$1,246,950	24%
Total Reward	\$1,881,265	\$2,017,381	\$2,409,211	\$2,447,088	30%

KMP Positions (top 1-3), Market Cap Rank 1-200 All Sectors.					2008-2017
KMP	2008	2011	2014	2017	increase
Average					
Fixed Remuneration	\$748,947	\$843,808	\$779,329	\$817,818	9%
Total Reward	\$1,189,577	\$1,384,274	\$1,341,496	\$1,419,021	19%
Median					
Fixed Remuneration	\$562,452	\$588,983	\$638,081	\$685,133	22%
Total Reward	\$800,675	\$926,717	\$1,022,186	\$1,065,126	33%



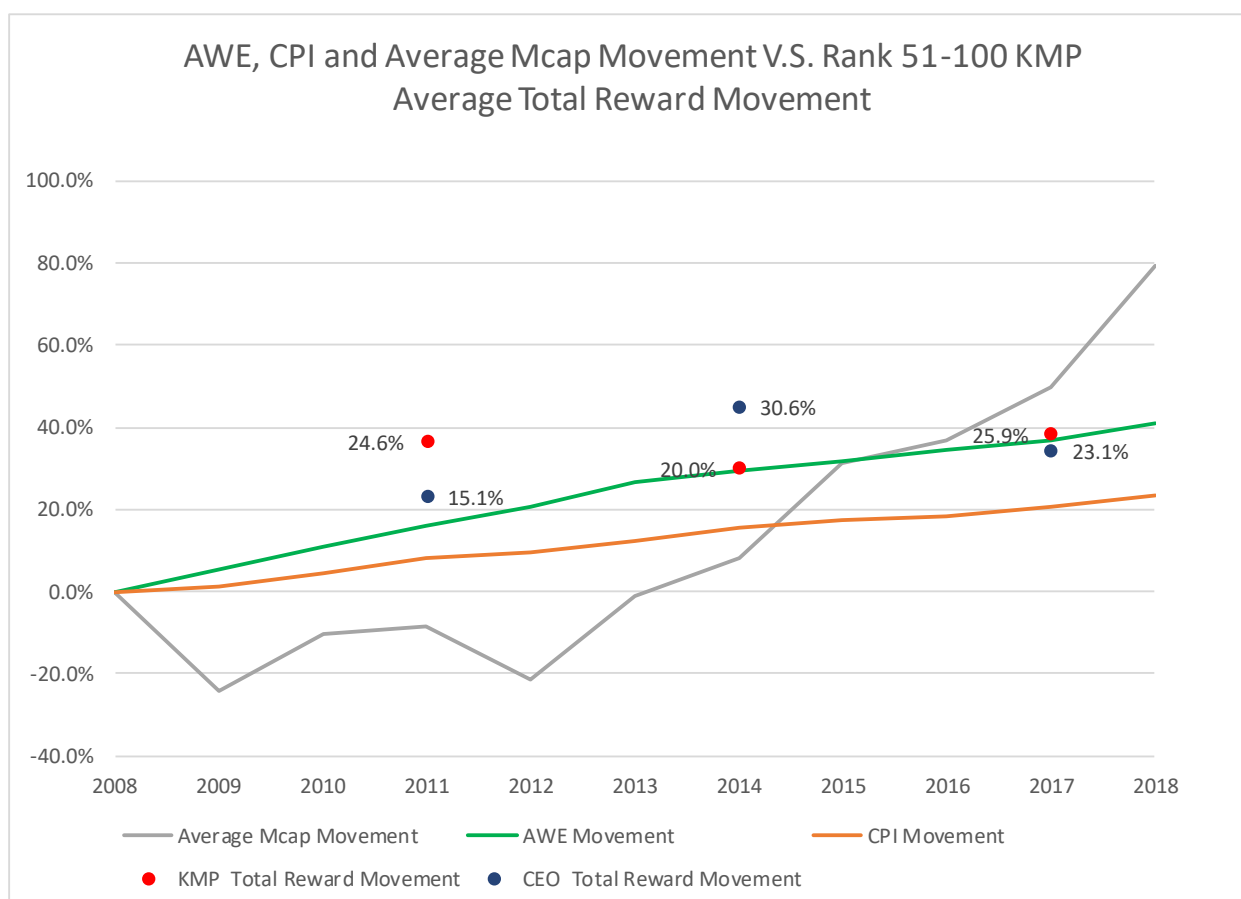
CEO Positions, Market Cap Rank 1-50 All Sectors.					2008-2017
CEO	2008	2011	2014	2017	increase
Average					
Fixed Remuneration	\$2,148,743	\$2,071,280	\$2,079,954	\$2,086,325	-3%
Total Reward	\$4,695,038	\$4,978,930	\$5,109,457	\$5,641,030	20%
Median					
Fixed Remuneration	\$1,876,390	\$2,102,828	\$2,150,000	\$2,127,498	13%
Total Reward	\$3,472,170	\$4,944,432	\$4,730,209	\$5,068,865	46%

KMP Positions (top 1-3), Market Cap Rank 1-50 All Sectors.					2008-2017
KMP	2008	2011	2014	2017	increase
Average					
Fixed Remuneration	\$1,208,458	\$1,152,005	\$1,126,807	\$1,270,699	5%
Total Reward	\$2,100,127	\$2,257,239	\$2,199,078	\$2,652,641	26%
Median					
Fixed Remuneration	\$1,009,549	\$999,400	\$990,081	\$1,070,590	6%
Total Reward	\$1,694,538	\$1,847,042	\$1,842,065	\$2,199,012	30%



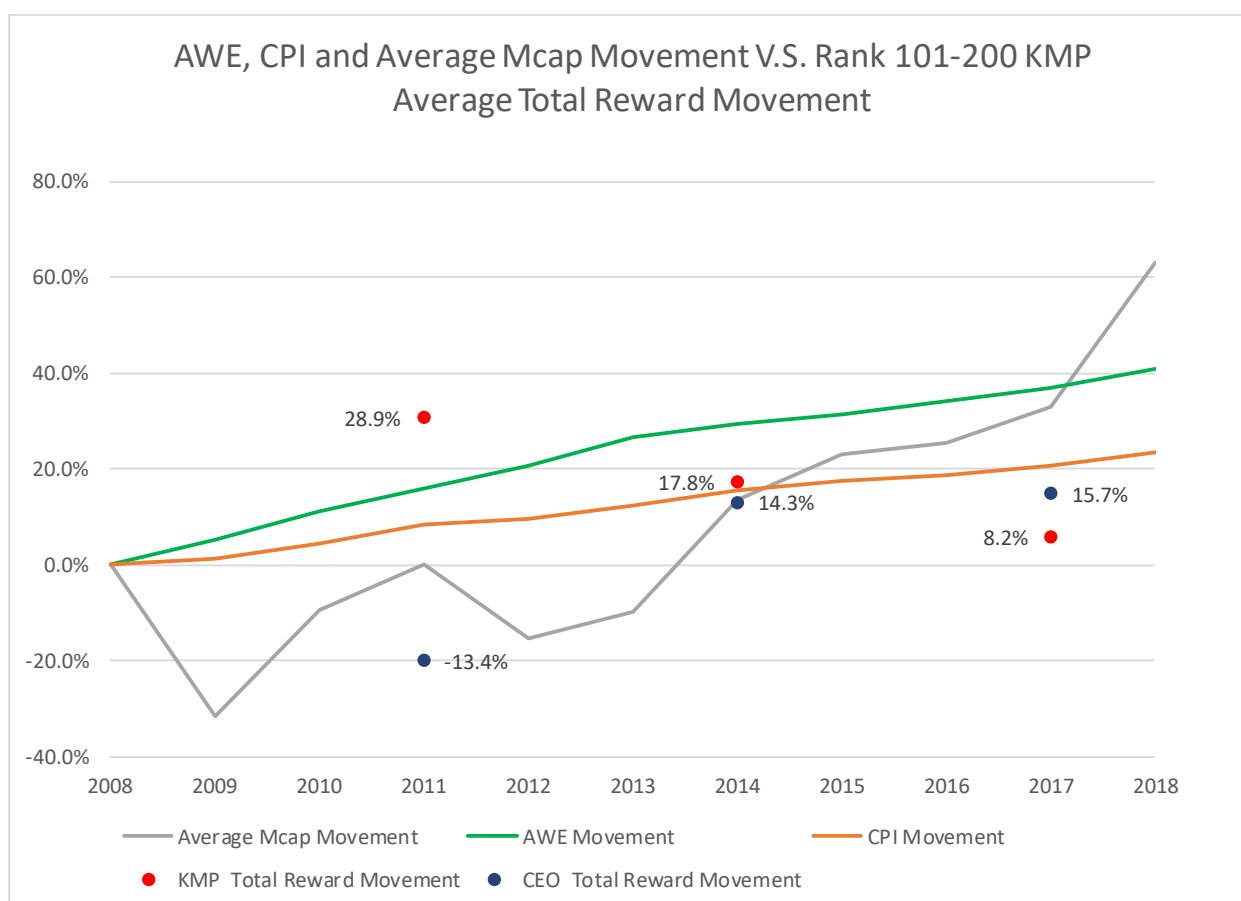
CEO Positions, Market Cap Rank 51-100 All Sectors.					2008-2017
CEO	2008	2011	2014	2017	increase
Average					
Fixed Remuneration	\$1,369,231	\$1,306,901	\$1,420,095	\$1,413,526	3%
Total Reward	\$2,373,831	\$2,732,710	\$3,100,667	\$2,921,920	23%
Median					
Fixed Remuneration	\$1,177,633	\$1,215,587	\$1,422,325	\$1,341,993	14%
Total Reward	\$2,032,770	\$2,469,646	\$2,581,296	\$2,875,884	41%

KMP Positions (top 1-3), Market Cap Rank 51-100 All Sectors.					2008-2017
KMP	2008	2011	2014	2017	increase
Average					
Fixed Remuneration	\$691,388	\$735,142	\$757,778	\$775,143	12%
Total Reward	\$1,029,957	\$1,283,669	\$1,235,502	\$1,296,500	26%
Median					
Fixed Remuneration	\$569,371	\$574,302	\$661,125	\$685,133	20%
Total Reward	\$853,484	\$1,036,651	\$1,052,393	\$1,163,402	36%



CEO Positions, Market Cap Rank 101-200 All Sectors.					2008-2017
CEO	2008	2011	2014	2017	increase
Average					
Fixed Remuneration	\$816,113	\$908,493	\$1,041,642	\$989,526	21%
Total Reward	\$1,632,715	\$1,413,799	\$1,866,093	\$1,889,553	16%
Median					
Fixed Remuneration	\$684,885	\$805,706	\$850,000	\$908,098	33%
Total Reward	\$1,266,410	\$1,306,943	\$1,541,339	\$1,669,261	32%

KMP Positions (top 1-3), Market Cap Rank 101-200 All Sectors.					2008-2017
KMP	2008	2011	2014	2017	increase
Average					
Fixed Remuneration	\$503,979	\$726,942	\$572,474	\$585,824	16%
Total Reward	\$730,492	\$941,350	\$860,632	\$790,494	8%
Median					
Fixed Remuneration	\$398,681	\$463,500	\$492,852	\$529,437	33%
Total Reward	\$552,571	\$621,500	\$714,792	\$709,386	28%



Our **remuneration analysis** does not incorporate the actual benefits flowing to executives in that **we used statutory accounts including statutory LTI disclosures**. The reward reflects the actual fixed remuneration and the actual incentive paid under the annual incentive plan. In this context, we incorporated in total reward the cash component and the value of the deferred component of an STI. Where deferral was in equity, we did not incorporate the movement in reward over the period of deferral.

In this context, our analysis reflects the statutory value of actual awards under equity-based LTI plans, not the realised value which has varied from 0 to multiples of the disclosed award value. Where a CEO or KMP has served less than six months during a Financial Year, and we do not have the benefit of an ASX disclosure in relation to their annual remuneration, we have not incorporated that company's data.

Over the past decade we have seen statutory disclosures substantially undervaluing the potential value of an LTI where they have been adjusted for the risk of forfeiture and the risk of failure in meeting both the performance and service conditions.

It has also been an era, certainly in the first half dozen years, where a meaningful proportion of awards under LTI plans, particularly in relation to performance or share rights, have been issued at a discounted value by applying fair value accounting principles.

Notwithstanding, we also acknowledge that around 30% of participants under LTI plans do not benefit due to failure to meet either service or performance conditions and a significant number of participants under LTI plans only receive a proportion of the award given that the company has not met the stretch hurdles or the 75th percentile relative total shareholder return compared to a general index or a peer group, be it Australian-centric or international.

In the above context, while the information is imperfect it provides trend guidance.

We have also observed over the decade that many Boards have approved significantly more aggressive annual and long-term incentive plans.

In all the analysis, we have removed termination benefits for CEOs and other KMPs which would distort the results.

If you require further information about this data, please call John Egan or Zoe Lockyer on (02) 9225 3225.

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Addressing the Gender Pay Gap

We note that in reports of early November, the Workplace Gender Equality Agency (WGEA), using ABS data, revealed that the national gender pay gap presently stands at 14.6%, the lowest in twenty years. The WGEA noted that the gap had hovered between 15% and 19% over the past two decades.

The WGEA measures the national pay gap as the difference between women and men's average weekly full-time base salary earnings expressed as a percentage of men's earnings. In this context, it is a measure of women's overall pay positioning in the workforce. Across the entire workforce, as we understand the WGEA's research release, the gender pay gap across the entire market stands at 21.3%. We note from the WGEA's research that the variability in gender pay changes across industries and appears most pronounced in the financial services sector and construction, followed by real estate services, professional scientific and technical services, with information, media and telecommunications not far behind. Recent research is available on WGEA's website.



In reviewing these emerging issues, Egan Associates determined there would be merit in exploring the gender pay gap as reflected in the nation's most comprehensive wages data collection produced by the Australian Bureau of Statistics (ABS) on both ordinary time earnings and total earnings.

Egan Associates decided that in addition to reviewing changes in the level and rate of reward adjustments since the Global Financial Crisis (GFC), there would be merit in exploring the gender pay gap as reflected in the nation's most comprehensive wages data collection produced by the ABS.

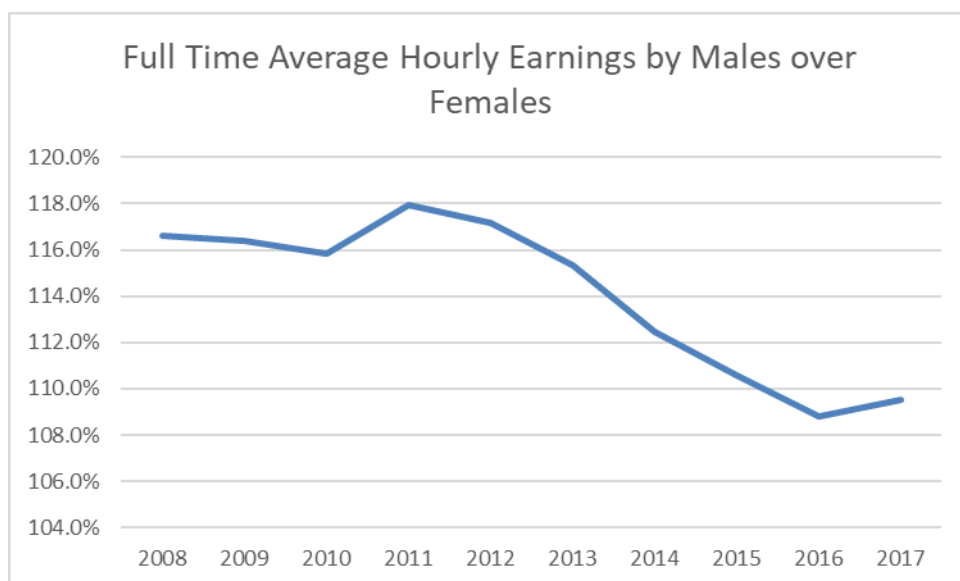
State	Ordinary Time Earnings - \$					
	Males 2008	Males 2018	Females 2008	Females 2018	% Increase Males	% Increase Females
NSW	1,201.90	1,698.70	1,023.70	1,466.00	41%	43%
VIC	1,158.30	1,612.30	1,000.30	1,422.60	39%	42%
QLD	1,156.30	1,650.10	974.00	1,369.80	43%	41%
SA	1,100.10	1,499.60	952.30	1,352.60	36%	42%
WA	1,316.30	1,884.00	971.60	1,462.20	43%	50%
TAS	982.40	1,427.40	876.90	1,288.00	45%	47%
ACT	1,375.70	1,924.20	1,189.50	1,670.80	40%	40%
NT	1,194.50	1,846.70	993.80	1,461.20	55%	47%

National hourly earnings data over the past decade reveals a narrowing of the pay gap for time worked. On the basis of our research and with the knowledge that male total weekly earnings presently amount to \$1,769.80, and assuming for calculation purposes an hourly rate of \$39.05, it appears that males are working 45.3 hours per week. In addition, female

total weekly earnings presently standing at \$1,453.10 and assuming \$35.60 an hour, females are working 40.76 hours per week.

Average Hourly Earnings of Female and Male Employees			
Year	Female Wages	Male Wages	Percentage Differential
2008	24.65	28.74	16.6%
2009	25.42	29.59	16.4%
2010	26.75	30.99	15.9%
2011	27.73	32.71	18.0%
2012	28.84	33.79	17.2%
2013	29.5	34.03	15.4%
2014	32.63	36.7	12.5%
2015	33.46	37	10.6%
2016	33.96	36.95	8.8%
2017	35.65	39.05	9.5%

*Data sourced from data.gov.au, <https://goo.gl/8RXEPT>



* Data sourced from data.gov.com, <https://data.gov.au/dataset/average-hourly-earnings-of-female-and-male-employees>

* Adult, Hourly earnings by male employees are higher than female employees.

While the above data and tables below provide insight into the gender pay gap, it is not exhaustive and does not consider other factors which are critical in wage determination. These factors would include work value, that is the comparability of position accountability, hours of work, location of work and conditions of work, as well as the incumbent's performance.

These are matters which, in our judgement, are important in forming any view as to the fairness and appropriateness of remuneration outcome.

Egan Associates have developed tools to facilitate the determination of work value and the establishment of a grading structure for males and females and a pay analytics tool to enable companies to monitor differentials between male and female, having regard to a number of criteria which might include:

- Work value,
- Performance,
- Age,
- Length of service.

And other factors which might be considered relevant.

The most recent data pertaining to national ordinary time earnings and total earnings of males and females across all industries set out in the tables below highlight the variability between sectors which will also be influenced by gender dominance and the different role bias between the genders.

Ordinary Time Earnings – May 2018

Industry	Ordinary Time Earnings		
	Male \$	Female \$	% Differential
Mining	2,649.30	2,200.80	20.14%
Manufacturing	1,433.70	1,272.40	12.7%
Electricity, Gas, Water and Waste	1,870.00	1,670.70	11.9%
Construction	1,560.20	1,325.10	17.7%
Wholesale Trade	1,611.00	1,378.20	16.9%
Retail Trade	1,191.40	1,115.90	6.8%
Accommodation and Food Services	1,181.00	1,073.50	10.0%
Transport, Postal and Warehousing	1,688.50	1,387.70	21.7%
Information, Media and Telecommunications	2,069.50	1,687.40	22.6%
Financial and Insurance Services	2,161.10	1,585.20	36.3%
Rental, Hiring and Real Estate Services	1,615.40	1,225.50	31.8%
Professional, Scientific and Technical Services	1,988.70	1,545.10	28.7%
Administrative and Support Services	1,540.60	1,286.10	19.8%
Public Administration and Safety	1,693.90	1,595.10	6.2%
Education and Training	1,878.80	1,663.00	13.0%
Health Care and Social Assistance	1,855.00	1,391.90	33.3%
Arts and Recreation Services	1,658.50	1,338.80	23.9%
Other Services	1,275.70	1,165.10	9.5%

Total Earnings – May 2018

Industry	Total Earnings		
	Male \$	Female \$	% Differential
Mining	2,781.00	2,231.10	24.6%
Manufacturing	1,536.70	1,319.80	16.4%
Electricity, Gas, Water and Waste	2,078.90	1,703.30	22.1%
Construction	1,761.10	1,358.50	29.6%
Wholesale Trade	1,672.50	1,389.00	20.4%
Retail trade	1,215.80	1,123.40	8.2%
Accommodation and Food Services	1,189.30	1,080.70	10.0%
Transport, Postal and Warehousing	1,878.00	1,425.60	31.7%
Information, Media and Telecommunications	2,101.10	1,699.10	23.7%
Financial and Insurance Services	2,174.30	1,594.70	36.3%
Rental, Hiring and Real Estate Services	1,685.50	1,229.40	37.1%
Professional, Scientific and Technical Services	2,047.10	1,550.60	32.0%
Administrative and Support Services	1,630.20	1,303.70	25.0%
Public Administration and Safety	1,768.00	1,622.60	9.0%
Education and Training	1,884.60	1,665.80	13.1%
Health Care and Social Assistance	1,950.60	1,430.40	36.4%
Arts and Recreation Services	1,685.20	1,354.40	24.4%
Other Services	1,342.30	1,184.10	13.4%

While the above data has provided guidance in relation to movement over the period since the GFC, in ordinary time earnings for males and females and by industry and State, the differential between the private sector and the public sector on a national basis is set out in the table below.

	Ordinary Time Earnings - \$					
	Males 2008	Males 2018	Females 2008	Females 2018	% Increase Males	% Increase Females
Private	1,172.80	1,646.00	953.10	1,343.30	40%	41%
Public	1,266.90	1,839.90	1,118.90	1,649.80	45%	47%

Over the ten-year period of May 2008 to 2018, the increase in average ordinary time earnings for males has been 41%, in respect of total earnings the increase has been 40%. Ordinary time earnings have increased from \$1,188.40 per week to \$1,677.10 per week and total earnings from \$1,261.20 to \$1,769.80.

For female employees, both ordinary time earnings and fulltime earnings over the same period have increased by 43%. Ordinary time earnings have increased from \$1,010 to \$1,433.40 and total earnings from \$1,015.60 to \$1,453.10.

The gap between ordinary time earnings and total earnings is likely to reveal that males are working longer hours. The gap across all industries will also reflect the differential participation across various sectors of males and females. The rate of realignment over the period is modest given the starting position where ordinary time earnings for males in 2008 stood at \$1,188.40 compared to females at \$1,000.10.

If you require further information about this data, please call Zoe Lockyer on (02) 9225 3225.

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Governance- Increasing Complexity and Scope

The 2017 and 2018 reporting periods have seen increased shareholder activism, changes in emphasis and priorities expressed by institutional investors and proxy advisors, and a sense of urgency in addressing issues arising from the Hayne Royal Commission which are clearly observed as extending beyond the Financial Services Sector.



Recent activity including comment by Chairmen in addressing shareholders and by proxy advisors commenting on research, together with certain activist initiatives, have revealed the need for Boards in many industries across enterprises of varying scale to involve themselves in a diversity of issues previously considered the primary, if not sole, accountability of management.

Recent revelations have indicated that senior management have delegated substantial authority in relation to the interaction of their staff with customers in the supply of products and services, both domestically and international.

The findings of the Hayne Royal Commission note the occurrence of widespread breaches of codes of conduct which all employees are required to operate, however have received little or no management oversight. The fallout from the Commission has led a number of financial institutions to compensate customers through payments of millions of dollars, due to breaches by staff in the conduct of their relationship with customers.

Revelations from the Commission have also highlighted that many Boards need to have a direct involvement in the specification and execution of internal audits. This has also led to internal auditors raising questions as to their scope of work and the level of depth of their investigations in meeting their statutory and service obligations.

While not directly, and certainly not universally, revealing their limited engagement to protect management's interest, they have revealed that Board awareness of staff conduct across all levels and the application of bonus or related commission payments have not been aligned with Corporate Policy or in contractual arrangements.

These initiatives have brought reputation and organisation culture to a position of pre-eminence. Though also potentially revealed that the management and measurement of culture has fallen short of providing information of increasing relevance to Boards and indeed senior management.

It also highlighted in many organisations the need for increased training of management and supervisors with oversight of staff and internal communications. Such training would reinforce the criticality and adherence to an organisation's values, ethics and core corporate policies, which are fundamental in developing and maintaining an organisation's reputation.

The emergence of this focus on culture referencing the knowledge and behaviour of employees and adherence to policy, and prior reporting by companies of exemplary employee engagement and high net promoter scores, may bring into question the utility

of these measures as currently constructed. Recent revelations might similarly bring into question whether positive improvement in these scores should lead to the payment of an incentive, or if these measures should act as gateways or modifiers under incentive programs.

In parallel with this increasing focus and demand on Board engagement in the stewardship of compliance with corporate policy, there is increasing noise in the market place which may lead to ESG becoming another core ingredient ([*ESG Shaping Future of Governance Model*](#)). Reflecting the effectiveness of governance, and new demands on Boards and management to develop appropriate policies and assessment protocols to monitor their environmental, social and governance stewardship across what is becoming an increasingly complex set of shareholder, society and Government expectations.

Within the parameters of ESG there will be an increasing focus on climate policy and conflicts of perspectives which will need to be addressed in relation to the Paris Accord, the policies and compliance of other developed countries and the increasing engagement of corporates and Governments in addressing climate financial risk. While not representing new issues in relation to the conduct of a corporation, the above reflects a changing perspective of society, shareholders and Government which is likely to lead to policy transformation, increased transparency in reporting, and questioning of many traditional approaches where financial metrics represent either a significant dominance or a single criterion in the determination of executive pay at risk.

While employees who are paid to conduct themselves in accordance with corporate policy, the incidence of non-conformance could become a significant modifier in the way in which management are rewarded rather than being a foundation for additional reward.

The demands upon management and the engagement of Boards in determining an organisation's priorities to ensure their short-term prosperity and long-term sustainability is changing significantly. Boundaries are extending well beyond revenue and profit growth, return on investment and innovation to include the application of technology, the organisation's engagement in social media, cyber security, quality assurance and multi-jurisdictional compliance embracing a much broader footprint of key strategic and operational activities. Mutual trust between the Board, management, the organisation, its customers, and the organisation and its shareholders will be critical.

Recent research, undertaken by King & Wood Malletsons, offers more detailed insight into these issues - [*Directions 2018 - The Rise of Intangibles & a new Recipe for Trust*](#).

If you require further information on this topic, please call John Egan on (02) 9225 3225.

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Growth in Average Weekly Earnings

The past 10 years has highlighted that movement in Average Weekly Ordinary Time Earnings (AWOTE) are almost twice that of the movement in the Consumer Price Index (CPI). Today, adult ordinary time original average weekly earnings stand at \$1,585.30 (May 2018), total earnings amount to \$1,650.60.

The table below sets out a decade of movement in AWOTE and the percentage growth as well as movement in the CPI over the same period. CPI data is based on July to June figures.

Over the same period, average weekly earnings on a national basis have increased by 41.6%.



Average Original Ordinary Time Earnings, Adults, 2008 - 2018			CPI*
Yearly	All Industries - \$	Growth Rate	Growth Rate*
May-2008	1,119.60	-	-
May-2009	1,187.80	6.1%	1.4%
May-2010	1,250.10	5.2%	3.1%
May-2011	1,304.70	4.4%	3.5%
May-2012	1,349.20	3.4%	1.2%
May-2013	1,420.90	5.3%	2.4%
May-2014	1,454.10	2.3%	3.0%
May-2015	1,483.10	2.0%	1.5%
May-2016	1,516.00	2.2%	1.0%
May-2017	1,543.20	1.8%	1.9%
May-2018	1,585.30	2.7%	2.1%
Change of Average Weekly Ordinary Time Earnings between 2008-2018		41.6%	23.36%

The Wages Price Index released in mid-November 2018 reveals a wage increase in the September quarter of 0.6% and 2.3% for the year. According to ABS' Chief Economist, Bruce Hockman, "There was a higher rate of wage growth recorded across the majority of industries in comparison to this time last year reflecting the influence of improved labour market conditions." He continues to state, "annual wage growth at the Australia level was 2.3%, the highest growth since the September quarter 2015."

The ABS revealed that the annual growth in the September quarter 2018 ranged from 1.8% for the mining and retail trade sectors to 2.8% for the health care and social assistance industry. Western Australia recorded the lowest increase through the year with wage

growth at 1.8% while Tasmania recorded the highest at 2.6%. The table below reveals wages growth by sector and state.



Source: ABS

Also released in mid-November are further details on the unemployment rate which remains steady at 5% in October. In this context the ABS revealed that 42,300 full time positions were added during the month.

In the [Statement of Monetary Policy of November 2018](#), The Reserve Bank, it reflects a bullish outcome for full time employment which has revealed continuing growth, although in the Statement it acknowledged that average hours worked have not risen.

The Reserve Bank's *Statement* also notes that most of the employment growth over the past twelve months has been in manufacturing, construction, professional, scientific and technical industries. While acknowledging that unemployment has continued to decline, the Bank also notes that spare capacity remains and while the unemployment rate fell to 5% in September, they acknowledge that labour force data can be volatile from month to month.

The Bank also acknowledges that wages growth remains low, although it has picked up slightly over the past two years. They have also revealed that wages growth has been persistently lower than the usual relationship between inflation and employment would suggest.

Further, the *Statement* asserts that there have been only modest differences in wages growth across industries, indicating also that their field research continues to point to a

modest increase in private sector wages growth in the near term in line with the tightening of the labour market.

In parallel, and reflective of an indicator of wages growth, the Bank's inflation expectations are around 2%, a factor which is unlikely to sponsor any breakout in wages.

Critical to wages growth will be a progressive decline in the unemployment rate, an increase in hours worked and evidence of improved labour productivity which will improve the bargaining power of the workforce.

Notwithstanding these broad national parameters, in those industries where skilled and current workforces are critical to their continued prosperity, renegotiation of Enterprise Agreements may well offer some signs of wage adjustment above 2%. These factors will remain outside movements to the minimum wage decisions by the Fair Work Commission.

If you require further information on this data, please call Gigi Wang or Matthew Rheinberger on (02) 9225 3225.

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Our Services include:

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