UNDER PRESSURE

As the economy recovers, there is growing pressure from the workforce for solid pay increases. Susan Doughty provides a low-down on wages and salaries in the year ahead and how to deal with employee and union expectations.

WITH THE ECONOMY LIMPING towards recovery, there is growing pressure from waged and salaried workforces for solid pay increases. Add to this the impact of increases in GST and the CPI, the introduction of the Emissions Trading Scheme and, of course, the 2011 Rugby World Cup and we may see significant demands for pay increases by employees and unions.

Here are some of the questions we have received on wages and salaries recently.

The union is making noises that they expect negotiated increases to be aligned to the anticipated CPI incease next year of 5.9 percent. Negotiated increases have tended to follow CPI in our business, but this is completely unaffordable—what can we do to counter this argument?

The Reserve Bank Governor has issued a warning to those trying to take advantage of one-off increases in inflation later this year in respect to wages and other pricing contracts. He stated: "The coming increase in the rate of GST and other government-related price changes are likely to temporarily push annual CPI inflation above 3 percent. The Bank does not expect this price spike to have a lasting impact on inflation …"

The Governor makes the important point that, given the fragility of the economic recovery, pricing behaviour should ideally reflect low underlying inflation, not the upcoming temporary peak. He also pointed out that "the October 1 income tax reductions mean most people are already compensated for the effects of the GST increase. Given this, there is less argument for one-off CPI-indexed wage increases."

We recommend that organisations start to clearly signal that there is no appetite to link pay increases to the temporary lift in CPI and this will not be translated into significant increases. We further recommend that you undertake solid research of actual practices in your market as, in our experience, increases are nowhere near CPI of 5.9 percent.

Recently Victoria University published the median actual wage increase to June 2010 as 4.2 percent. The union has referenced this as a benchmark in negotiations. This appears considerably higher than salary movements and other indicators we have seen. Why is this?

This has to do with how these statistics are calculated. Victoria University provides a median increase based on the weighted average of coverage across collective agreements. This means, effectively, that if you have some collectives with very large memberships, they will dominate or 'swamp' the results. In this case, settlements on collectives in the health and education sectors had a significant impact on the results.

When dealing with negotiations, we recommend that you gather a range of market information to fully understand actual trends. If you have a range of well-validated information, you will soon be able to determine the 'real' picture and be able to have well-qualified discussions with unions and employees. If you are in doubt, seek help from remuneration and industrial relation experts who have a wealth of information at their disposal.

How are wage and salary forecasts generally calculated?

Very simply, the overall negotiated wage increase reported for each collective agreement and, in the case of salaries, the overall increase applied within the business is counted as one statistic. The median and average is then determined based on the sample provided. No weighting for coverage is applied. This approach therefore avoids the 'swamping' of the sample by any one organisation or collective agreement.

What are the current forecasts for wages in 2010 and how do these compare to salary forecasts?

We recently conducted a survey of wage negotiations across a wide range of organisations and industry sectors which indicates forecasts for wages and salaries are closely aligned in 2010. Forecasts suggest a median of approximately 2.5 to 3.0 percent for both salaries and wages.

What do you consider is the best way to prepare for union and/or employee negotiations in 2010?

When preparing for negotiations or any pay-related discussions, the most important thing is to do your homework and be prepared. Key elements of this preparation include:

- Understanding the current economic environment, particularly the impact of changes in taxation, GST increases, the ETS and the impact on CPI.
- Understand your negotiation 'weak' spots. As an example, are you an organisation who will experience a surge in demand during the World Cup? If so, employees and unions may leverage this and expect larger-than-usual increases or special payments during this period.
- Research and understand current settlement trends—in your region, in your industry and, if possible, your competitors for talent.
- Understand the data sources your union generally relies on. Become au fait with the calculation of statistics and the make-up of data samples and then compare these with the information you have gathered. It is important that both parties are comparing 'apples with apples'.
- Don't be afraid to share information with your union partners. Collaborative working styles, joint problem sharing and increased levels of transparency are significantly more effective than old-school adversarial practices. et

Susan Doughty is a director of DSD Consulting, specialists in remuneration and rewards management.