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December 2007

CSi – The Remuneration Specialists Pty Limited presents

Pay Market Report – Australia & New Zealand 2008

The Remuneration Specialists

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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 2008. 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 2007 and is the largest remuneration survey in Australia.*

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. In a recent study of HR professionals, staff remuneration was identified as the number one issue facing organisations throughout the next 12 months. Further, it is our strong belief that those organisations that are able to attract and retain top talent will be the ones able to put forward a unique and desirable "brand" of employment to employees. In essence, the remuneration package must be focused to highlight and reinforce the unique proposition that the organisation offers its employees. Much in the same way that an organisation focuses on what unique proposition it offers customers, so too must an effective remuneration policy. This may take the form of; a focus on work-life balance, an increasing use of variable pay as an incentive, offering a range of soft benefits, or a whole range of such initiatives.

This report provides organisations with an overview of the anticipated pay market in 2008. For further information, please contact us at consulting@csirem.com.au.

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December 2007

** 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 15 consecutive years. Over the last several reporting cycles, it has been noted that whilst the economy was expanding, it was doing so at sluggish rate. This cycle however, reveals that the Australian economy is growing at its fastest rate in more than three years. A combination of events are responsible for this, but the key factors are the resources boom, higher than ever company profits, and strong growth in business investment.

Australian households are benefiting from the strong economy in several ways. First and foremost, the resources boom has contributed both to the low unemployment rate, and the high level of business investment we are experiencing. With the appetite for resources and commodities from Asia, but particularly China, showing no signs of abating any time soon, there is real confidence in both the resources sector and Australian households. One of the other effects of the strong economy has been record company profits. The Government's coffers have been expanded significantly through increased collections of company profits tax, and this in turn has allowed the Government to implement significant changes in the 07-08 Budget to the income tax scales, meaning that households will have even more disposable income. As if this isn't enough, Rudd's Labor party won government in the recent federal election promising to implement a further $31-34 billion in tax cuts to take effect over the next 5-10 years.

With unemployment figures currently at 4.3%, (having recently been 4.2%, the lowest in 33 years) households are not only able to find employment, but are confident of their continued employability in the discernable future. This is reflected in both private sector credit and retail spending increases, and business confidence, which is at its highest level since the measure was introduced in 1997.

The imbalance of economic growth between states that are affected by the mining boom and those that are not is still noticeable. Western Australia and Queensland (11.5% and 8.2% respectively) continue to experience significantly higher rates of growth than NSW, Victoria, South Australia and Tasmania.

Not unlike state economic performance in general, Australia's housing market is characterised by some capital cities that are growing strongly, and some cities that are not. The Sydney housing market (5.2%) is still weak in comparison to the other states although the higher average prices need to be considered when analysing the figures. Perhaps surprisingly, Perth (2.8%) experienced the lowest annual change, and Brisbane the highest (18.1%).

The September Consumer Price Index (CPI) revealed that annual inflation rate was 1.9% for the 12 months to September 2007. Whilst this is actually below the RBA's headline target of 2 -3%, the board was concerned with the underlying inflation figure, which was pushing the upper limit of the RBA's target range. It was these figures that gave the RBA the justification it needed to raise the interest rate in November .25 percentage points. As touched upon earlier, with the Australian economy growing strongly, the inability of the previous 5 interest rate rises to have the desired effect of reducing inflation, and oil prices set to remain high, there seems to be little doubt that there will be further increases over the next 12 months. The only question is when and how many.

Labour Market

In the current tight labour market with low unemployment and high participation rates (65%), the Australian labour market is still very much an employee's market. In this environment, there is increasing pressure for organisations to retain the talent they currently have. As a result, many organisations are implementing a variety of measures to attract and retain individuals. Some of these include:

1. Ensuring that employees are engaged through a flexible work place (offering job sharing and part-time work) 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. Additionally, with the knowledge that there is a skills shortage, organisations are finding it increasingly beneficial to implement programmes to ensure that their older employees are encouraged to stay on (sometimes in a reduced capacity) due to the wealth of experience and knowledge these employees provide an organisation.

4. Offering a range of innovative benefit items for employees and a rise in the use of soft benefits. Of most importance, organisations are becoming not only more creative in their attempt to provide employees with suitable rewards and benefits, but many are seeking to "individualise" their offerings so that the benefit and effect are maximised for both parties.

Although the unemployment rate has risen 0.1% recently, it is still an exceptionally low figure at 4.3%. This is expected to stay relatively low throughout 2008. Skills shortages are expected to remain in certain sectors and regions. However, as a recent CSi study on new hire rates illustrated, these shortages are not confined to specific positions within specific industries. Rather, a more complex picture has emerged, where there are many small pockets of pressure within individual industries.

With the election of the Rudd Labor government in the recent federal election, there are likely to be fundamental changes to the industrial relations system, one of the key issues which contributed to such an emphatic result for the Labor party. Whilst all existing Australian Workplace Agreements (AWA's) are legally binding until they expire, they will be phased out by 2012. For the transitional period between now and then, the government has proposed Individual Transitional Employment Agreements (ITEAs). Essentially, Labor plan to abolish AWA's, protect employees through a universal safety net of 10 National Employment Standards, and simplify the award system. Further changes include; flexible common law agreements for employees earning over $100,000, and flexibility clauses in both awards and enterprise agreements, but with a safety net to stop conditions being stripped away.

Staff Attrition

Attrition Rates for 2007

The following table displays a summary of the staff attrition rates for 2007 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.

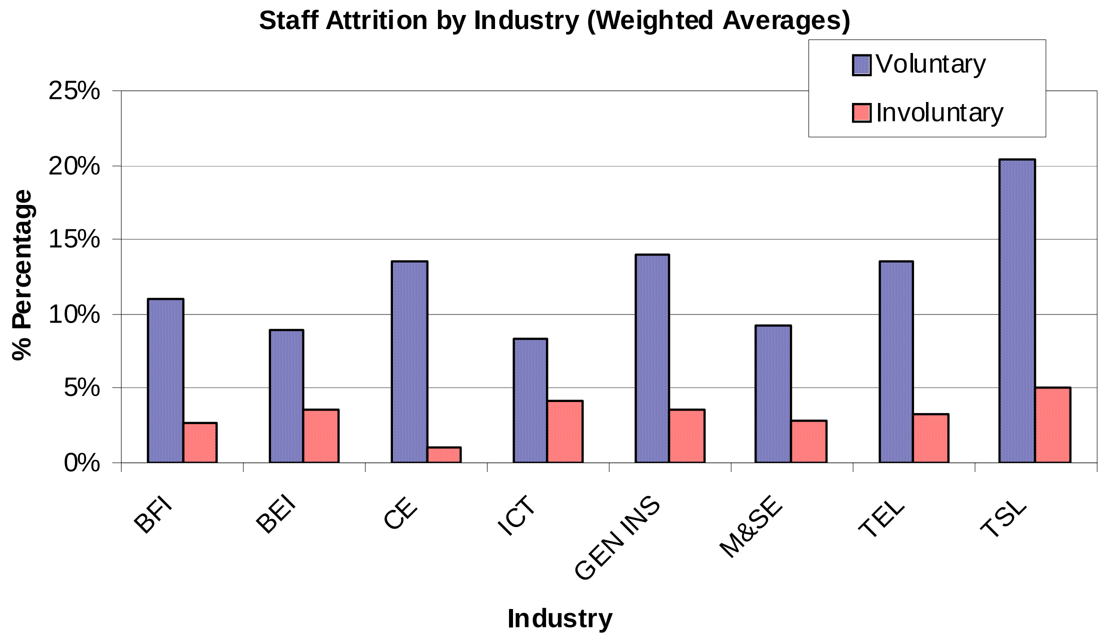
Type of Staff Attrition	Weighted Average	Simple Average	Median Response	Minimum Reported	Maximum Reported
Voluntary	13.3%	16.1%	15.9%	0.0%	41.2%
Involuntary	2.7%	3.5%	2.6%	0.0%	20.0%
Total Staff Attrition	18.9%	19.7%	18.0%	1.0%	47.0%

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 2007.*

Staff Attrition Rates by Industry for 2007

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



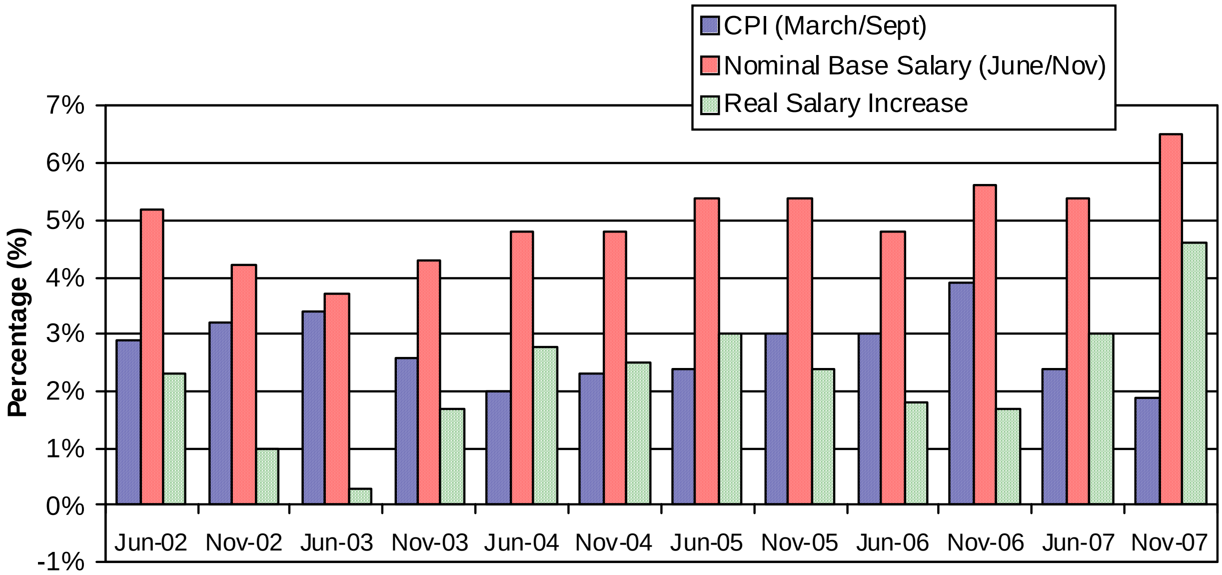
Please note: *BFI = Banking & Finance; BEI = Business Equipment; CE = Consulting Engineers; ICT = ICT Vendors; GEN INS = General Insurance; M&SE = Medical & Scientific Equipment; TEL = Telecommunications and TSL = Transport, Shipping & Logistics.*

Source: *Various industry specific salaries and benefits surveys conducted by CSi – The Remuneration Specialists in 2007.*

The majority of industries represented here are experiencing similar rates of attrition. The points of interest include the high attrition experienced in the Transport, Shipping and Logistics industry. Otherwise, in general terms, we have seen both involuntary and voluntary rates of attrition slowly reducing over the past 5 years. 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.

Involuntary attrition is relatively low across all industries in the above graph; all are under 5%, with the exception being Transport, Shipping and Logistics, which reported involuntary attrition at 5%.

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 2007 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 2008 (in comparison to 2007),

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

It is likely that inflation will continue to push the RBA to further cool down the economy by raising interest rates throughout 2008. Importantly, with an employee driven market, it will be vital for the long-term interests of Australia's economy that wage growth is linked to increases in productivity and performance.

Anticipated Pay Movements

Anticipated Salary Increases for this Financial Year

CSi anticipates that overall salary budgets will increase at around 4%, and in some cases, a touch higher this year, with greater increases in industries with particular skills shortages.

The table below summarises contributor expectations for the 2007/08 financial year across a range of CSi surveys.

Survey	Average Increase	Median Increase
Banking & Finance Industries (Oct 07)	4.6%	4.5%
Business Equipment (Sept 07)	4.0%	4.0%
Computer/IT Specialists (Nov 07)	4.6%	4.0%
Consulting Engineers (April 07)	5.6%	5.0%
Defence Systems Engineers (Nov 07)	4.7%	4.5%
ICT Vendors (Aug 07)	4.8%	4.0%
Life Insurance & Superannuation (Sept 07)	4.3%	4.0%
Medical & Scientific Equipment (Oct 07)	4.8%	4.0%
Telecommunications Industry (Aug 07)	4.3%	4.0%
Transport, Shipping & Logistics (Aug 07)	4.0%	4.0%
Australian General Industry (Nov 07)	4.4%	4.0%

There is no doubt that across many areas, organisations are experiencing trouble attracting top talent. The response from many organisations has been to hire at slightly lower skill and experience than they otherwise would. 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.

It has also been observed that whilst on the whole, salary increases have remained conservative (around the 4% mark) there has been an increase in the amount of a small proportion of individuals who are receiving a significantly higher annual salary increase. In this respect, it can be argued that organisations are identifying high performers and rewarding them aggressively, whilst average performers are receiving average increases. The concept that pay increases would be uniform across a job family, or even an individual position, is becoming increasingly hard to justify. In essence, we believe organisations are becoming more sophisticated in rewarding and retaining high performers.

Pressure Points

We expect salary increases in 2008 to be fairly consistent around 4% and slightly above. 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:

- In the most recent New Hire Rates Survey, the sales job family was identified as feeling the most pressure. With just under half (43%) of reporting organisations experiencing acute pressure, and a further 44% experiencing moderate pressure.

- We will continue to see pressure for Specialist or Subject Matter Expert (SME) roles that deliver high value direction for organisations - CEO's, HR strategic partners, selected marketing roles, etc.

- Whilst there still continues to be a shortage of accounting and finance professionals, there has also been a surge in demand for IT professionals with specific skill sets; namely IT Outsourcing, Relationship Management, Enterprise Architecture & Strategy and SAP, J2EE/Java & .NET applications development.

- With the mining boom in Western Australia and Queensland continuing to push demand for talent, we expect to continue to see aggressive increases in salaries in these regions as a way of attracting talent. We have seen the concept of a “sign on bonus” become much more popular as a way of attracting employees.

- 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.

- 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

The Senior Executive job family always attracts a great deal of media and public interest, and this year was no different. In general, the market has continued to follow the recent trend of an increased focus on performance based incentives. At the big end of town, there has been significant public and shareholder reaction to some very high profile companies senior executive remuneration packages. This has been characterised by a general perception that some organisations are being too generous in the performance hurdles being set both too low, and with periods so short that they don't reinforce the long term view that many investors may have of the stock. However, we have continued to see an increase in the number of, and extent to which, organisations are rewarding their executives with equity in the business. This, and the strong performance of the ASX (particularly since 2003), has contributed to some senior executives receiving staggering total remuneration packages.

Inherent within the framework of any discussion about senior executive performance, it is important to reflect on the differing expectations of the relevant parties. A recent Watson Wyatt study illustrated this when Boards of Directors and Institutional Investors were both asked to nominate what constituted the best measure of performance for senior executives. The three most regularly nominated metrics from various Boards were sales growth, Return on Equity (ROE) and Cash Flow Return on Investment (CFROI). This was in some contrast to the Institutional Investors, who overwhelmingly nominated Total Returns to Shareholders (TRS) as the ideal performance metric.

Pay at the senior executive level will remain "hot" in 2008. 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 on the whole, positive. Company profits have never been higher, and with strong domestic demand and increasing demand from growing economies such as China and India, executive pay, particularly the STI or variable "at risk" component will continue to rise to higher levels, at higher rates.

2. Global pressures – the CEO and senior executive pay market is "hot" in most of Australia's trading partners, and there has been an increase in foreigners holding CEO positions in several high profile Australian companies.

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%.

NEW ZEALAND

General Economy & Labour Market

The New Zealand economy is expected to grow, albeit at a restrained rate, at around 2 – 2.5% in 2008. The previous 12 months, like the forecast for the next 12 months, were affected by the fact that the New Zealand economy is limited by resource capacity. In simple terms, New Zealand has reached top gear, and there seems to be little reason to think that this will change over the next 12 months.

Inflation has slowly subsided after a peak in June 2006 of 4%, the highest it had been in 11 years. CPI for the year ending September 07 was reported as 1.8%, which is within the Reserve Bank's predicted medium term target range of between 1 – 3%. The Reserve Bank has further indicated that the Official Cash Rate, which is currently at 8.25%, is consistent with these CPI figures.

New Zealand is experiencing close to full capitalisation, and this is reflected in both the exceptionally low unemployment figure of 3.5%, and an equally impressive participation rate of 68.3%. This will continue to place upwards pressure on wages, as organisations compete to attract and retain top talent.

Staff Attrition

Attrition Rates for 2007

The following tables display a summary of the Staff Attrition rates for 2007 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
Voluntary	21.3%	22.9%	19.8%	9.0%	50.0%
Involuntary	8.6%	4.1%	1.2%	0.0%	24.0%
Total Staff Attrition	29.9%	27.0%	27.3%	9.0%	50.0%

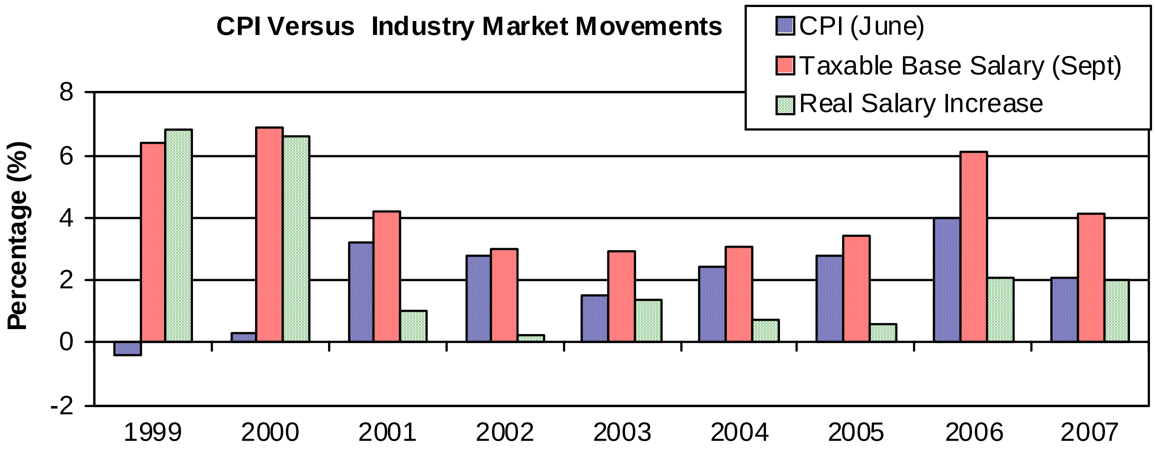
Source: *CSi New Zealand General Industry Remuneration Report October, 2007*

Voluntary attrition of between 5 and 10% is a level that is unlikely to cause a major disruption to the organisation. In this respect, there should be a strong emphasis on attrition, and particularly retention throughout New Zealand organisations, as the figure above is significantly higher than that. High attrition rates have increased throughout New Zealand over the last reporting period, and are likely to continue creeping higher, as skills shortages and low unemployment allows employees who are in high demand to move around and find the employer who is offering the “best deal”.

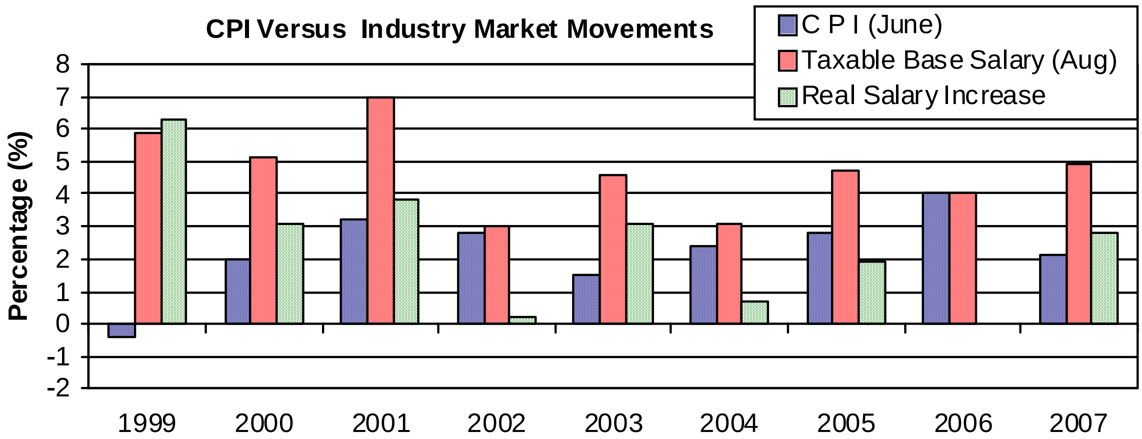
For some ideas on the ways in which organisations can retain employees and thus keep their staff attrition rate low, please refer to page **7** of this report.

Past Pay Movements

The graphs below display real salary increases for employees over the past 8 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 2007 CSi New Zealand Computer/IT Specialists Survey and the August 2007 New Zealand IT & Telecommunications Industries Survey. The New Zealand General Industry Remuneration Report was introduced this year, and as such, has no previous data to compare). 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 2007.*



Source: *CSi New Zealand IT & Telecommunications Industries Salaries & Benefits Survey August 2007.*

It can be seen in the graphs that real salary increases have been quite low and inconsistent over the past few years, although over the past 2 years, there has been more encouraging real salary increases. In order for a significant real salary increase in 2008:

- 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 07)	4.1%	4.0%
IT & Telecommunications (Aug 07)	4.0%	4.0%
Call Centre (Jan 07)	4.1%	4.0%
General (Oct 07)	4.3%	4.1%
Industry Training Organisation (Sept 07)	5.0%	4.4%
Top Executive (May 07)	4.1%	4.0%

Like Australia, New Zealand organisations are also anticipating a salary increase of 4% in 2008. 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 20 of this report).

Pressure Points

We expect salary increases in 2008 to be 4%, or slightly over, 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:

- There are a number of IT Specialist roles that are experiencing high demand. Particularly so for Test Managers, and testing roles in general. Additionally, there is pressure in some other IT related roles; including Systems Programming Managers, and IT Security Managers.

- 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;

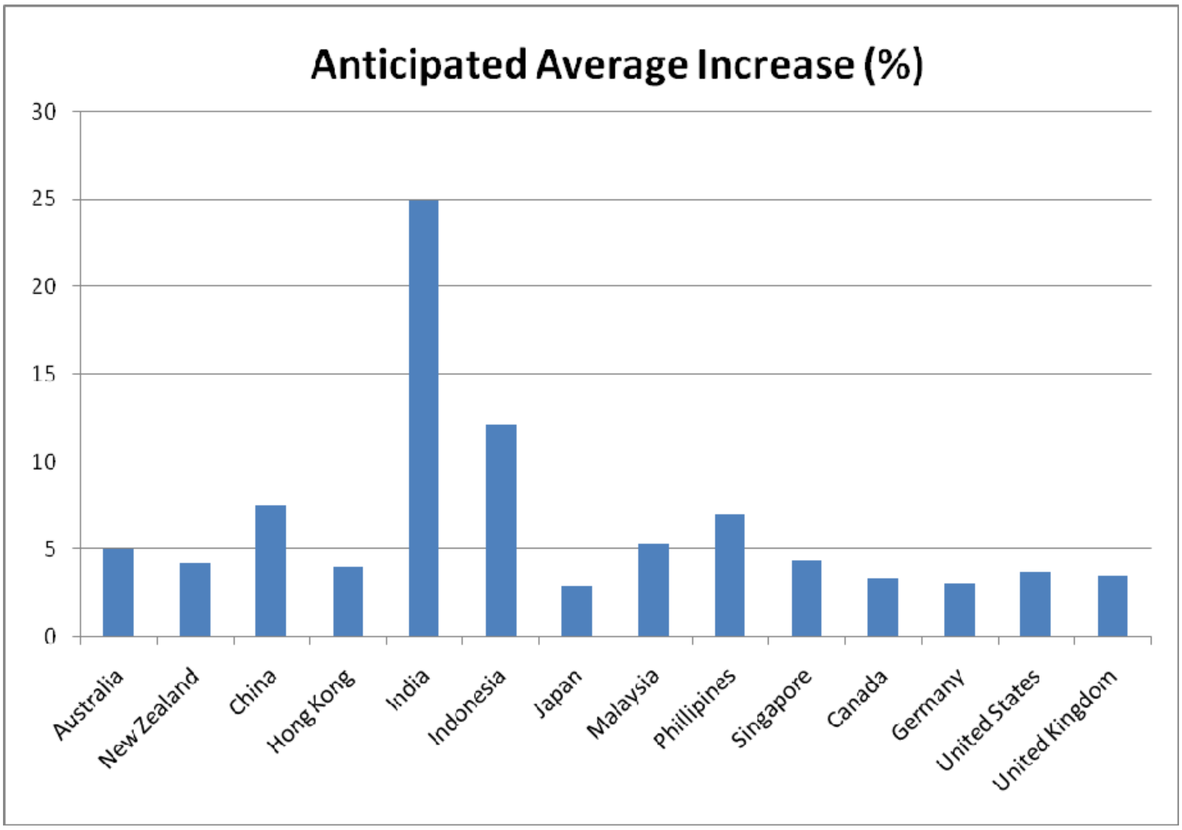
- Professional practice demand remains extremely high, particularly for Senior Accountants, Senior Auditors, Audit Managers and Business Services Managers. Qualified and experienced candidates with business advisory, corporate finance and management consulting experience are in high demand;

- 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 leading the pack. Some other nations in the Asia Pacific region show greater increases, and for the most part, this is due to their rapid development.



Sources: *Watson Wyatt Global 50 2007/08, CSi Australian General Industry Remuneration Report, November 2007, and CSi New Zealand General Industry Remuneration Report, October 2007.*

CONCLUSION

The strength of the Australian economy continues to be favourable for employees. Low unemployment and high participation rates have seen substantial salary increases in 2007. These tight labour conditions are expected to continue in 2008, and there has never been a better opportunity for HR professionals to make a significant difference to the bottom line of their organisation.

The constraints in capacity that New Zealand is experiencing will continue to exert pressure on both wages and attrition rates.

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. Importantly, those organisations that are able to position themselves to prospective employees as a unique and quality “brand” will be the most successful. Success in the current employee-driven market will be measured not only by attraction of top talent, but careful analysis of the ability of the organisation to retain top performers. Organisations must formulate a customised package that will differentiate the organisation from others in the market place. This 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, ensuring that the broad organisation objectives that underpin the organisation translate clearly through the total package that is presented to a prospective employee.

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
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