



AHRI's Quarterly Australian Work Outlook

A forward-looking view of the
Australian labour market.

**SEPTEMBER
QUARTER
2023**

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AHRI's Quarterly Australian Work Outlook report

AHRI's Quarterly Australian Work Outlook monitors the state of the Australian labour market, offering a forward-looking view of the labour environment facing HR practitioners and business leaders.

This report is the second instalment in AHRI's Quarterly Work Outlook series and draws on responses from 600+ senior business and HR decision-makers. They represent organisations of all sizes in the private, public and not-for-profit sectors, and cover all Australian states and territories.

Like the previous quarter's Work Outlook, this report examines recruitment intentions and challenges, employee turnover, redundancy intentions and pay intentions. For this quarter's focus topic, we've gathered sentiment around productivity, training and performance in Australian workplaces.

The report provides useful data for HR professionals, executives and boards to help inform key business decisions, and will act as a helpful tool for policy development and decision-making for federal and state government departments and other agencies.

The report is being released a day ahead of the August 2023 ABS Labour Force Survey data. The insights collected indicate that the recent pattern of strong employment growth will continue in Q3 of 2023, but at a slightly slower pace.

The *AHRI Net Employment Intentions Index* (see page 8) remains firmly in positive territory (+41), but has reduced from +45 in the previous quarter's report. The modest fall is likely due to a slight softening in recruitment demand (see Figure 2).

The results suggest that the impact of recent interest rate hikes are yet to be felt when it comes to demand for labour, although it remains to be seen whether this will be sustained considering that some other economic indicators have been subdued of late.

Unsurprisingly, recruitment difficulties still remain a concern for over two-fifths (43%) of employers who are currently recruiting employees, which is four percent down from the previous quarter.

At the same time, average employee turnover for workplaces in the 12 months to the end of July 2023 was reported at 14%, two percent higher than in the previous quarter.

Despite this, the data suggests that the tight labour market is not putting strong upward pressure on wages, with earnings growth expected to ease compared with the previous report.

Employers say the mean basic pay increase in their organisation (excluding bonuses) is expected to be 2.8% in the 12 months to July 2024, down from the 3.3% projected in the previous report.

One of the potential explanations for this relatively modest wage growth is sluggish productivity, which is leaving Australia behind many of its OECD competitors.

With this in mind, this report highlights how Australian employers are deploying practices that lead to higher productivity. The good news is that employers are adopting a range of high-performance work practices, such as flexible working and performance-related pay, to positive effect.

However, the insights suggest there is room for improvement, with fewer organisations reporting that they are adopting AI/new technology or investing in leadership and management capabilities.

In addition, the provision of training is fragmented across the Australian economy. On average, HR professionals report that just a quarter of workers have received external training during the past year. At the same time, as many as 20% of employees are perceived not to be fully proficient in their jobs.

With elevated recruitment difficulties and persistent weak productivity, now is the time to invest in workforce training and the broader set of HR practices that boost organisational performance.

Overall, the labour market remains steady, with similar recruitment activity to that seen earlier in the year and the pay outlook remaining benign.

AHRI welcomes feedback on this report, and ideas and suggestions for how this quarterly series might be developed. Please reach out to Gerwyn Davies, AHRI's Research and Advocacy Specialist, with any feedback or ideas: gerwyn.davies@ahri.com.au.

Sarah McCann-Bartlett,
CEO, Australian HR Institute



Summary of key findings

Based on responses from 600+ senior business and HR decision-makers, AHRI has been able to paint a picture of the near future of the Australian labour market.

General insights

Hiring intentions remain relatively high

The *AHRI Net Employment Intentions Index*, which measures the difference between the proportion of employers expecting to increase staff levels and those expecting to decrease staff levels in the September quarter of 2023, is firmly in positive territory (+41). This is modestly lower than the June quarter (+45). We found that **44% of organisations plan to increase staff levels** in the upcoming quarter, compared with just three percent that plan to reduce the size of their workforce over the same period.

Turnover rates are slightly up

The 12-month **employee turnover rate to the end of July 2023 is currently 14%**, up from 12% in the previous quarter. Nearly a quarter (23%) of organisations report annual turnover of 20% and above, slightly higher than the 20 per cent figure reported in the 12 months to the end of April 2023.

Pay intentions

The mean basic pay increase in organisations (excluding bonuses) is expected to be 2.8% in the 12 months to July 2024. This is down from the 3.3% that was previously expected for the 12 months to April 2024.

KEY INSIGHTS

Minimum wage increases

The main responses to the most recent increases to the National Minimum Wage are to raise prices (33%), raise productivity (29%) and take lower profits/absorb the cost (23%).

Productivity insights

The most effective measures perceived to improve productivity are flexible working arrangements (46%), performance-related pay and other increments (36%) and on-the-job training (33%).

Skills challenges

According to the survey respondents, on average, around one-fifth (20%) of employees are perceived to be “not fully proficient” in their job.

Improving productivity

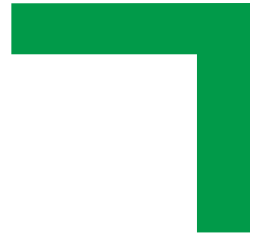
To improve productivity, respondents are most likely to focus on training and development (45%), performance management (39%) and employee engagement (38%) over the next 12 months.

Training investment

Four in ten (40%) employers say training investment will increase at their organisation over the next 12 months, compared with just over a half (52%) who report it will stay the same.

Training activity

On average, 45% of Australian employees have undertaken internal training over the past year, and just over a quarter (26%) have undertaken external training during the same period.



1. Employment outlook for the upcoming quarter

Overall, the survey responses indicate that strong employment growth looks set to continue in the third quarter of 2023.

AHRI's Net Employment Intentions Index (see page 8) for the September 2023 quarter, remains firmly in positive territory, sitting at +41, down from +45 in the previous quarter.

In the September 2023 quarter, 44% of organisations are planning to increase staff levels compared with just three percent of organisations that plan to reduce the size of their workforce over the same period.

Employment growth shows little variation between the not-for-profit (+44), private (+41) and public sectors (+39).

The *AHRI Net Employment Intentions Index* can be used as a proxy for employers' overall projected demand for labour and provides an indicator of how the jobs market may fare in the current quarter.

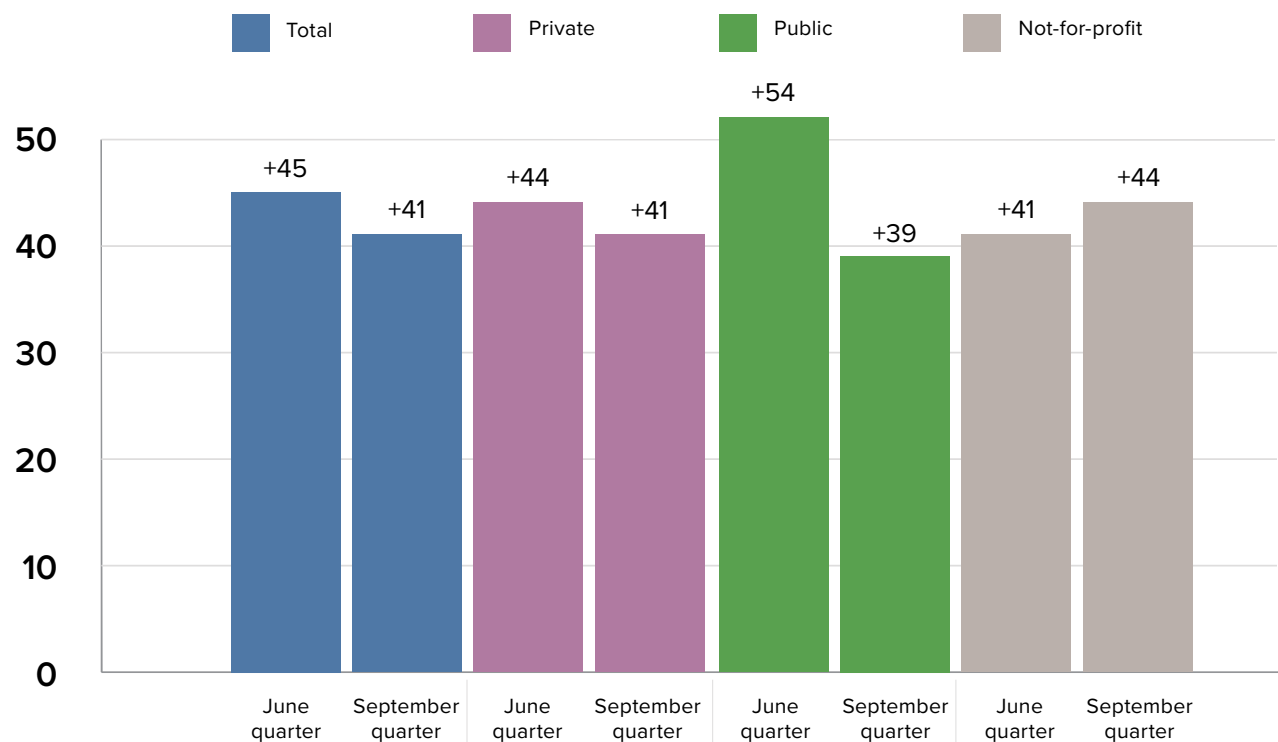
EMPLOYMENT OUTLOOK

The *AHRI Net Employment Intentions Index* is calculated by taking the percentage of employers intending to increase staffing levels and subtracting the percentage of employers intending to decrease staffing levels.

This means:

- An index of 100+ would mean that all organisations intend to increase staffing levels.
- An index of -100 would mean that all organisations intend to decrease staffing levels.
- A 0 index could mean that either all organisations expect no change in employment levels, or that 50% of employers intend to increase staffing levels while the other 50% intend to decrease staffing levels.

Figure 1: Net employment intentions by sector, September quarter 2023



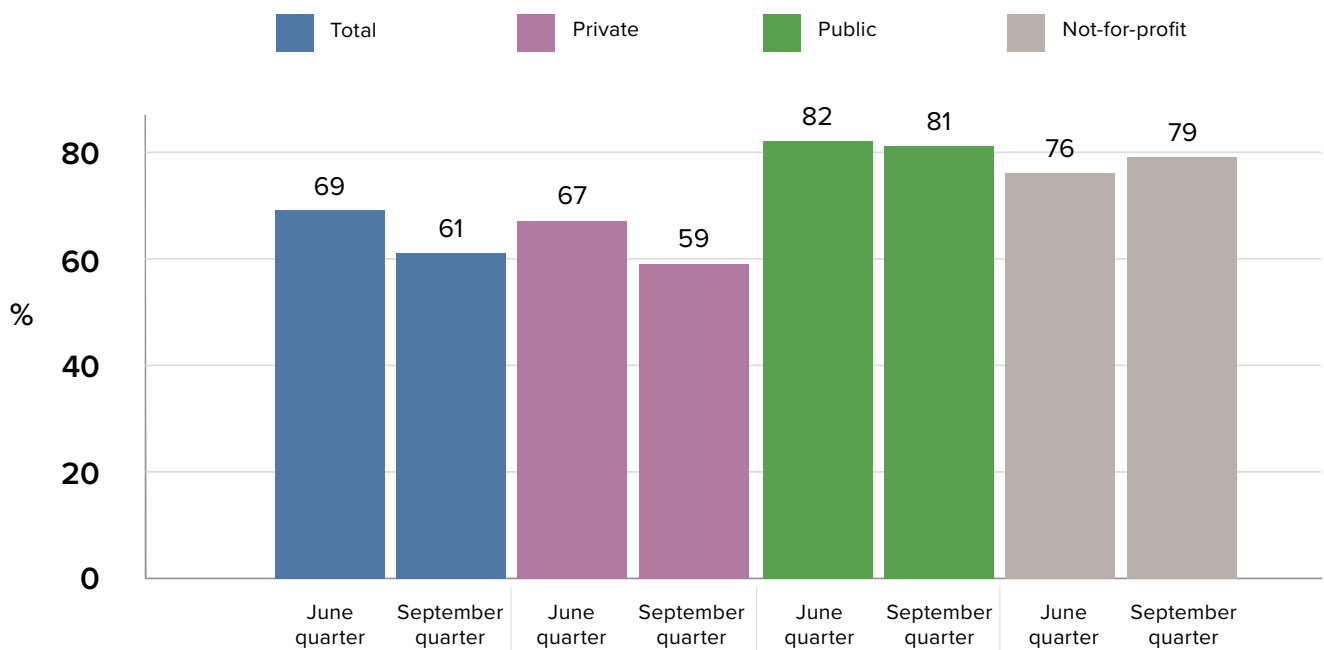
Base: September 2023, all employers (n=603; private: n=548; public: n=32; not for profit: n=23)
June 2023, all employers (n=614; private: n=506; public: n=43; not for profit n=65)

Recruitment intentions

Six in ten (61%) organisations plan to hire staff in the September quarter of 2023, down from 69% in the June quarter.

The slight fall is consistent with recent government reports, which found a slight fall in hiring intentions¹. Recruitment intentions are more positive among the public sector (81%) and not-for-profit organisations (79%) than in the private sector (59%).

Figure 2: Recruitment intentions by sector, September quarter 2023



Base: September 2023, all employers (n=603; private: n=548; public: n=32; not for profit: n=23)
June 2023, all employers (n=614; private: n=506; public: n=43; not for profit n=65)

¹. Recruitment Experiences and Outlook Survey | Jobs and Skills Australia

At a glance:

Recruitment intentions are more positive among public sector organisations (81%) and not-for-profit organisations (79%) than in the private sector (59%).



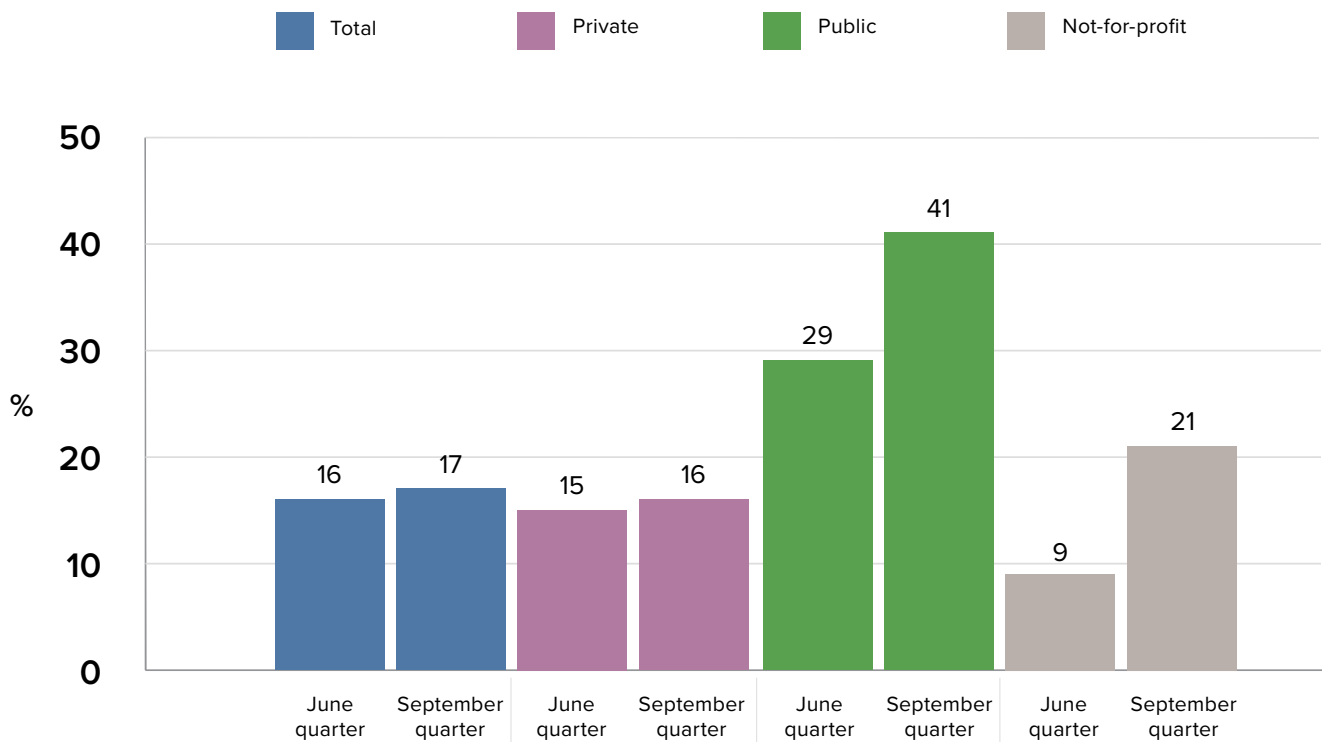
Redundancy intentions

Seventeen per cent of employers responding to the survey plan to make workers redundant in the September quarter 2023.

Four in ten (41%) public sector employers plan to make redundancies, compared with 16% in the private sector and just over a fifth (21%) in the not-for-profit sector. Some caution should be taken to not over-interpret the public sector and not-for-profit data due to small sample sizes.

Interestingly, just six percent of small employers plan to make redundancies during the September quarter. This is compared with eight per cent in the previous quarter.

Figure 3: Redundancy intentions by sector, September quarter 2023



Base: September 2023, all employers (n=603; private: n=548; public: n=32; not for profit: n=23)
June 2023, all employers (n=614; private: n=506; public: n=43; not for profit n=65)

Recruitment difficulties

The share of employers currently experiencing recruitment difficulties has fallen from 47% to 43% during the past three months.

This is lower than recent government surveys,² which report that almost two thirds (63%) of recruiting employers were having difficulty finding suitable staff in June 2023.

Recruitment difficulties are relatively higher among public sector organisations (52%) and not-for-profit organisations (56%) than private sector firms (42%), according to respondents of this report.

Respondents that reported experiencing recruitment difficulties were asked to elaborate. The most commonly cited reasons for the difficulties were:

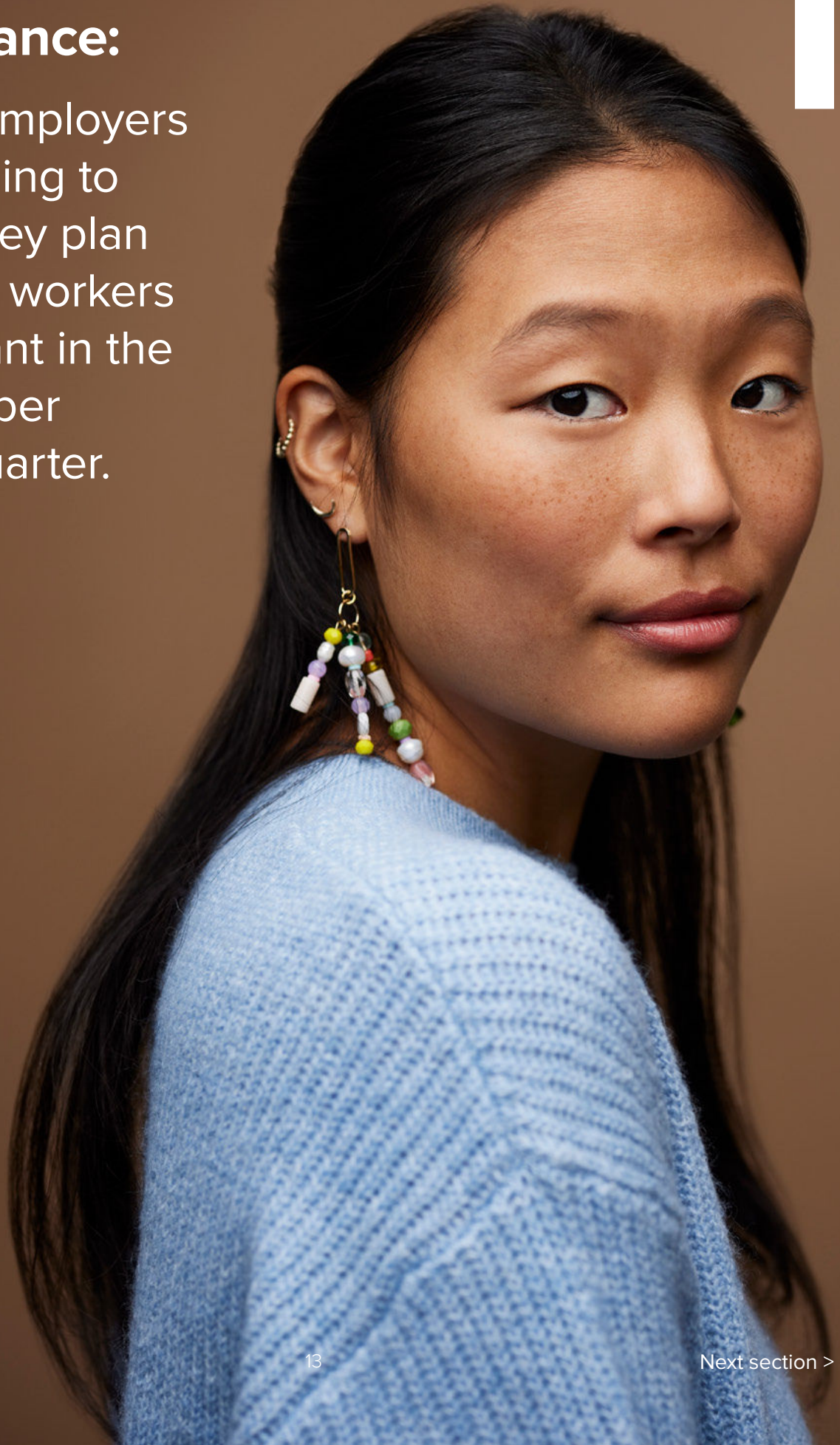
- A lack of suitable candidates (72%)
- High salary expectations (45%)
- Competition from rival organisations (37%)
- The unattractiveness of the role (29%).

This is broadly consistent with insights from the previous quarter's report.

². Recruitment Experiences and Outlook Survey | Jobs and Skills Australia

At a glance:

17% of employers responding to the survey plan to make workers redundant in the September 2023 quarter.



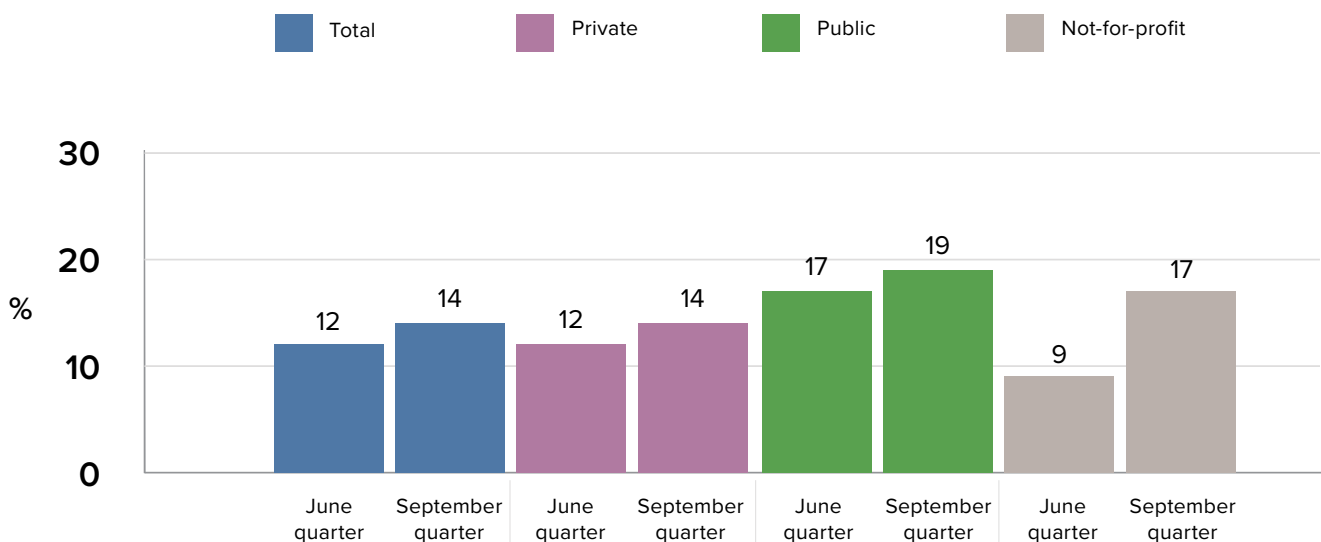
Employee turnover

Respondents were also asked to report their employee turnover for the 12 months to July 2023.

Overall, the average employee turnover in Australian workplaces for the 12 months to the end of July 2023 was estimated to be 14%, up from 12% in the previous quarter (Figure 4).

However, there is considerable variation across organisations. On one end of the spectrum, a quarter (23%) of organisations report annual employee turnover is 20% or more, compared with three in ten (31%) employers that say that their annual employee turnover is less than five percent. Additionally, average annual employee turnover was reported as higher in the public sector (19%) than in the not-for-profit (17%) and private sectors (14%).

Figure 4: Annual employee turnover to July 2023



Base: September 2023, all employers (n=603; private: n=548; public: n=32; not for profit: n=23)
 June 2023, all employers (n=614; private: n=506; public: n=43; not for profit n=65)



2. Wages outlook for the 12 months to July 2024

The survey asked employers how they expect wages to change in the 12 months to July 2024 and how they have changed over the past year.

The data tells us that:

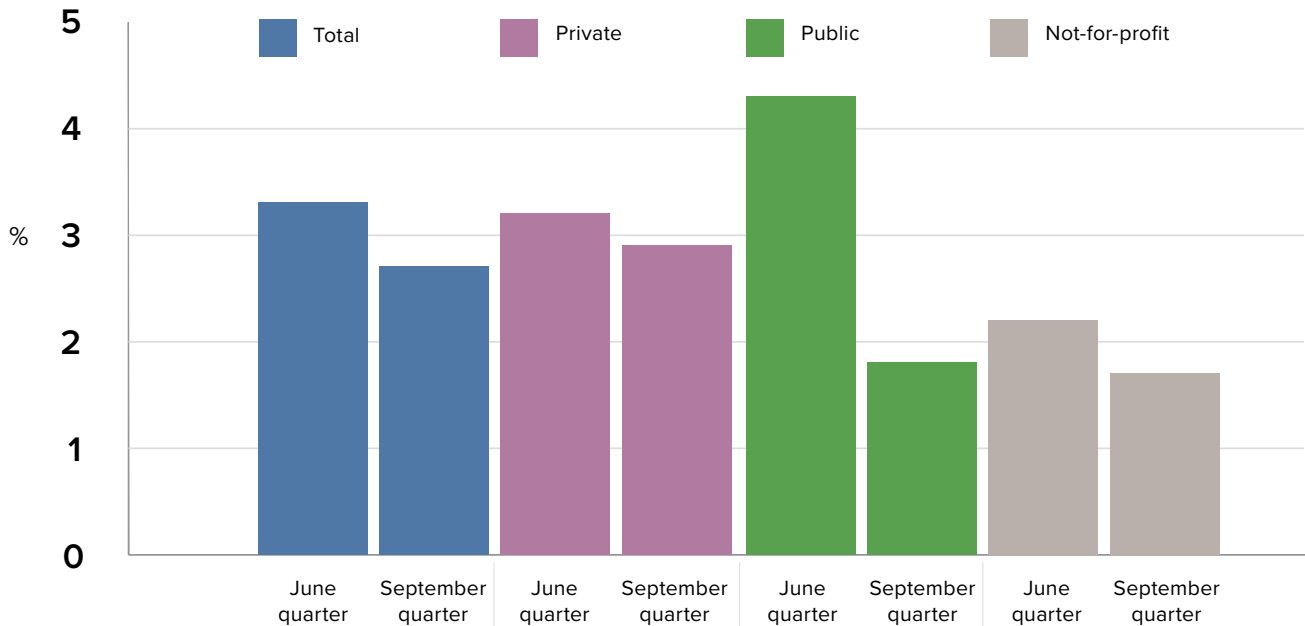
- The mean basic pay increase in organisations (excluding bonuses) was expected to be 2.8% in the 12 months to July 2024, down from 3.3% in the 12 months to April 2024 (see figure 5).
- Private sector employers' pay expectations are higher (2.9%) than in the public (1.8%) and the not-for-profit (1.7%) sectors.
- One in five (20%) employers reported they are planning to implement a pay freeze, compared with 19% three months ago.

Some care should be taken not to over-interpret the data because almost a third (33%) of employers reported not yet knowing the extent of wage increases in their organisation for the 12 months to July 2024.

Wage expectations vary across the different pay methods used by employers to set pay for non-managerial roles. Pay intentions are higher for organisations that use collective agreements (4.1%) than among those using individual agreements (3.8%) and awards (3.1%).

WAGES OUTLOOK

Figure 5: Employers' mean total fixed remuneration expectations for the 12 months to July 2024



Base: September quarter 2023, all employers who are clear about the extent of wage increases over the next 12 months (n=410; private: n=370; public: n=20; not-for-profit: n=20)

Wages over the past 12 months to July 2023.

We asked respondents how much total fixed remuneration had changed in their organisation over the past year. The average increase (excluding bonuses) in the 12 months to July 2023 was 2.8%.

In terms of sector, the average total fixed remuneration increase for private sector employees was 2.8% compared with a 5.4% increase for public sector organisations and a 3.0% increase for not-for-profit employees.

At a glance:

One in five employers plan to implement a pay freeze.



WAGE OUTLOOK

Employer responses to increased wages

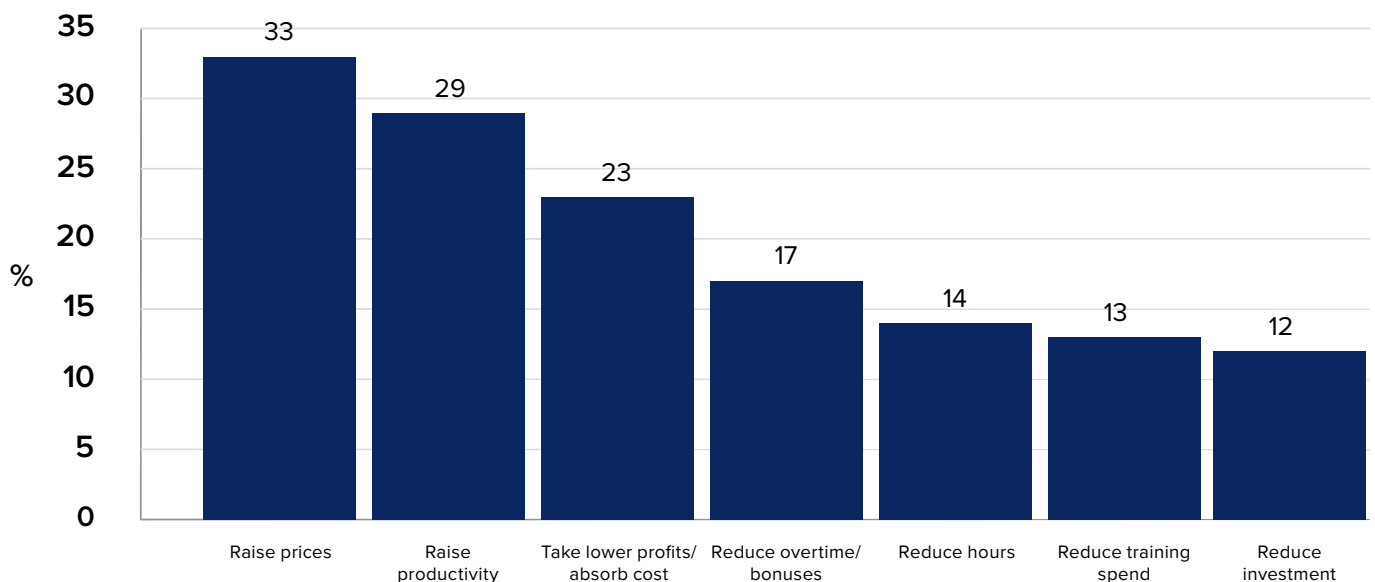
We also asked respondents how they plan to manage the recent National Minimum Wage and minimum award increases.

When presented with a list of potential responses, the most popular option was to pass the cost of the increases on to the consumer or customer (33%).

Following this, they said they would improve productivity (29%) and take lower profits/absorb the cost (23%).

Only one in ten (10%) employers say the increases would reduce headcount at their organisation.

Figure 6: Employer responses to the recent National Minimum Wage and Minimum Award increases

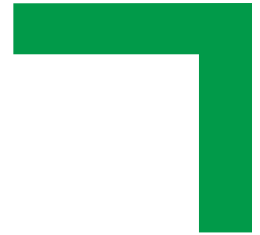


Base: September 2023, all employers (n=603; private: n=548; public: n=32; not for profit: n=23)

At a glance:

To manage increases to the minimum wage, 33% of respondents will pass cost increases on to consumers.



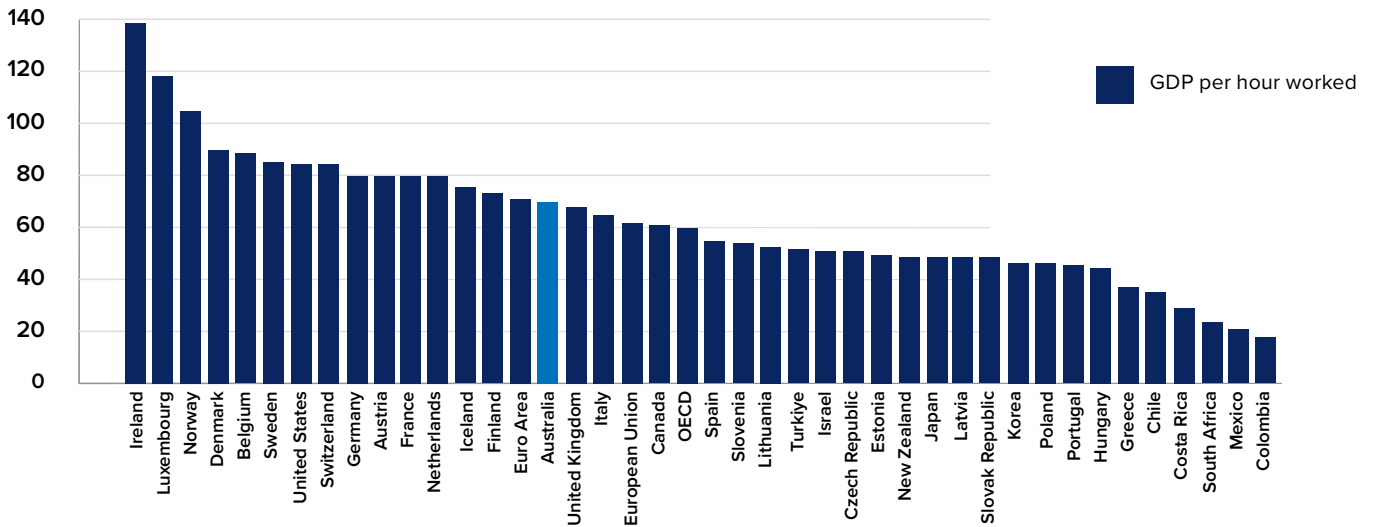


3. Policy focus – productivity and performance

The policy focus of this quarter’s report is productivity and performance. Productivity is one of the key indicators determining economic and organisational performance.

Official data shows that Australian productivity levels lag behind many of our international competitors (Figure 7).

Figure 7: Labour productivity in 2021



Source: OECD Compendium of Productivity Indicators (2023)

With this in mind, this quarter’s report seeks to investigate how organisations measure productivity and how effective various employment practices are in improving productivity.

POLICY OUTLOOK

How do employers measure productivity?

An overwhelming majority (92%) of organisations say they measure productivity and use a variety of means to measure productivity and performance. Among the options presented, the most frequently cited were:

- Customer satisfaction levels/feedback (35%)
- Revenue/sales per employee/team (33%)
- Employee engagement (32%)
- Process, project or task completion rates (32%)
- Profitability/margin per employee/ team (32%)
- Monitoring of hours worked/ timesheets (30%)

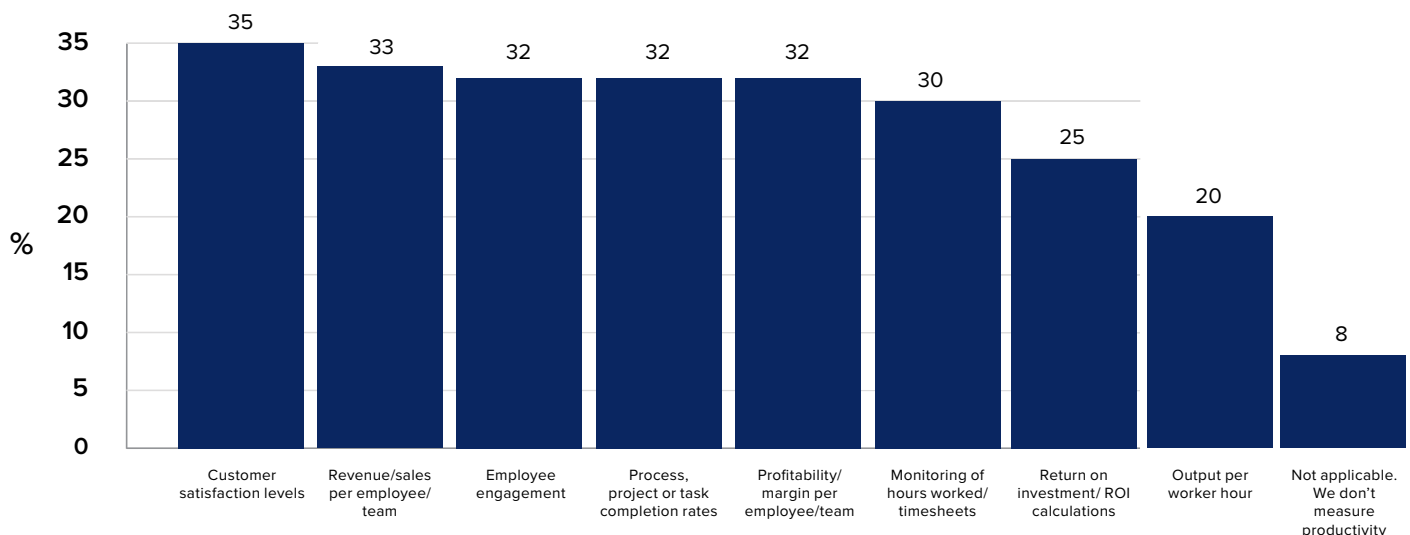
Figure 8:

How do employers measure productivity and performance?

Base: September 2023, all employers (n=603; private: n=548; public: n=32; not-for-profit: n=23). Totals may exceed 100 as respondents had the option to give multiple responses.

Therefore, it seems that many organisations that say they measure ‘productivity’ are likely to be measuring business performance in a more general sense.

Only a fifth (20%) of organisations measure productivity via output per worker hour, which is often considered the main or official productivity measure. Unsurprisingly, private sector employers appear to be more likely to measure revenue/sales per employee (35%). Meanwhile, the public sector is more likely to mention employee engagement (57%) and process, project or task completion rates (63%).



POLICY OUTLOOK

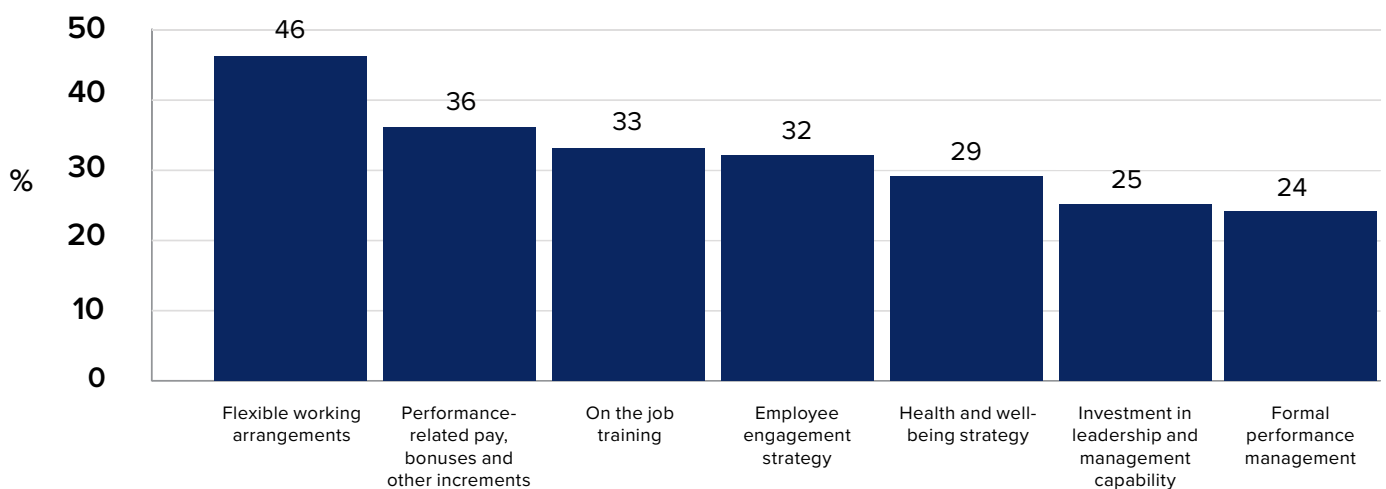
How effective are the following measures in improving productivity?

Encouragingly, Australian employers say they are adopting many of the measures identified as key components of a high-performance working organisation, which include effective reward and learning practices.

Nearly half (46%) of respondents cite flexible working arrangements in their top three most effective measures to improve productivity. Other measures deemed successful include performance-related pay, bonuses and other increments (36%), on-the-job training (33%), an employee engagement strategy (32%) and a health and wellbeing strategy (29%).

However, it's surprising to see fewer organisations cite the effectiveness of investments in line management capability (25%), AI/technology (20%) and capital machinery (18%) given their potential to improve productivity. The perception that investing in line management capability is less effective is concerning given the role line managers play in supporting employee skills' uplift.

Figure 9:
Effectiveness of measures in improving productivity



Base: September 2023, all employers (n=603; private: n=548; public: n=32; not for profit: n=23)

POLICY OUTLOOK

Looking ahead to the next twelve months, HR professionals are most likely to focus on training and development (45%), performance management (39%) and employee engagement (38%) to improve productivity.

Other popular tactics expected to be adopted by employers include improving leadership and management capability (37%), improving employee health and wellbeing (34%), reward management (27%) and adopting technology and AI (26%).

Perhaps reflecting these efforts, six in ten (60%) employers report that they expect productivity to increase at their organisation.



Skills gaps and training provision

One fifth of employees are perceived to be not “fully proficient” in their role.

One factor driving these skill gaps could be inadequate training. While ninety per cent of employers in Australia report that they have provided some training over the past 12 months, on average, just over a quarter (26%) of employees undertook external training and 45% undertook internal training over the same period.

Of those employees who have undertaken training, on average, they received approximately 5.5 external training days and six internal training days over the past 12 months.

In addition, 80% of large organisations say that tax relief via a 20% tax deduction for the cost of external training by providers registered in Australia would encourage skills investment in their organisation.

Looking ahead, four in ten (40%) employers say that training investment will increase at their organisation over the next 12 months compared with just over a half (52%) who report that it will stay the same. Just five per cent of organisations say that training expenditure will decrease.

At a glance:

One fifth of employees are perceived to be not “fully proficient” in their role.





Research methodology

All data, unless otherwise stated, are from YouGov Plc.

The total sample size for this survey was 603 senior business decision-makers, including HR, from organisations with at least two employees.

Fieldwork was undertaken online between 3- 6 July 2023.

The figures have been weighted by employee size, state, and industry to reflect the latest ABS Industry Employment estimates.

AHRI welcomes feedback on this report, and ideas and suggestions for how the quarterly series might be developed. These should be sent to: gerwyn.davies@ahri.com.au

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Respondent profile

Breakdown of the sample, by number of employees per organisation

Employer size band	2-19	20-119	200+	Total
Count	229	152	222	603

Breakdown of the sample, by sector

Sector	Private	Public	Not-for-profit	Total
Count	548	32	23	603



Celebrating
80
Years

This report represents the responses of survey respondents. Although AHRI has exercised due care and skill in its preparation, it does not warrant its accuracy, completeness, currency or suitability for any purpose. AHRI expressly disclaims any and all liability for any loss or damage arising from reliance upon any information contained in this report.