

Labour Cost Index

December 2022



Purpose

Each quarter Te Kawa Mataaho | Public Service Commission (the Commission) reports on the latest Labour Cost Index (LCI) results, with a special focus on the public sector. The LCI measures changes in salary and wage rates in the labour market for the same quality and quantity of labour. The Commission uses the LCI to monitor and oversee wage movements in the public sector.

This material has been prepared by the Commission for use by public sector employment relations professionals, from data provided by Stats NZ. You can find information relating to this quarter's index at [Labour market statistics: December 2022 quarter](#).

Summary

- 1 The survey period for the December 2022 quarter ("this quarter") was mid-November 2022. This quarter's index captured increases processed between mid-August 2022 and mid-November 2022.
- 2 Overall wage growth this quarter was 1.1 percent (unchanged from 1.1 percent in September 2022) and 4.1 percent in the year to December 2022 (up from 3.7 percent in the year to September 2022). Statistics NZ reports that 4.1 percent is the highest annual wage growth result since the LCI series began in 1992.
- 3 In the public sector, wage growth this quarter was 1.2 percent (up from 1.0 percent in September 2022), and 3.6 percent for the year to December 2022 (up from 3.1 percent from the year to September 2022).
- 4 In the private sector, quarterly growth was 1.1 percent (down from 1.2 percent in September 2022), and 4.3 percent for the year to December 2022 (up from 3.9 percent in the year to September 2022). This is the highest private sector annual wage growth result in our records (since June 2002).
- 5 In the Public Service, wage growth for this quarter was 0.4 percent (down from 1.1 percent for the September 2022 quarter) and 2.1 percent for the year to December 2022 (unchanged from the year to September 2022). During the quarter discussions for a Public Sector Pay Adjustment (PSPA) were continuing between the Commission and unions. While these discussions continued, bargaining for new collective agreements in the public sector generally slowed or paused. These delays were not intended but were an outcome of uncertainty around the PSPA at the time and occurred despite efforts to progress bargaining. As a result, we are seeing lower than expected wage growth in the Public Service this quarter. We expect these delayed outcomes from bargaining to show in the June 2023 quarter.
- 6 In recent quarters a higher than usual proportion of wage rates have been changing. This trend continues this quarter. Across all sectors combined, 66 percent of wage rates increased in the year to December 2022, the highest result in our records (since March 2009).
- 7 Inflation, as measured by the Consumer Price Index (CPI) was 1.4 percent this quarter, down from 2.2 percent last quarter. Annual inflation remains above average at 7.2 percent for the year to December 2022 (unchanged from the year to September 2022).

Labour Cost Index

December 2022



Labour Cost Index – December 2022 quarter

- 8 Labour cost data for the December 2022 quarter was gathered in mid-November 2022, and reflects wage increases processed between mid-August 2022 and mid-November 2022.
- 9 Statistics NZ reports that the LCI continues to experience data collection challenges, which have resulted in response rates lower than originally designed for in December 2022. Despite this, they remain confident that the data is fit-for-purpose.

Public and private sector annual movement in salary and wage rates

Public and Private Sectors

- 10 Cabinet has agreed that work should proceed with unions on a “Public Sector Pay Adjustment” (PSPA). While no increases resulting from this process have affected the index this quarter, an indirect effect of PSPA negotiations is that bargaining in much of the sector has not concluded. In turn this means that settlements which may have otherwise occurred during the quarter did not, and as a result, wage growth in the public sector is likely lower than it otherwise would have been this quarter.
- 11 Due to the timing of the survey periods for the LCI, we do not expect to see the impact of wage increases resulting from employment agreement changes implementing the PSPA, including collective agreement settlements, until the June 2023 quarter.
- 12 In May 2021, the Public Service Commissioner issued updated guidance on remuneration decisions in the public sector. This guidance has influenced agencies decisions around remuneration and bargaining in the second half of 2021, which shows in annual rates of wage growth for the public sector, and will have affected remuneration decisions outside the PSPA which were made this quarter.

Quarterly Change

- 13 Wage rates in the public sector increased 1.2 percent this quarter (up from 1.0 percent in September 2022), while in the private sector, wage rates increased 1.1 percent this quarter (down from 1.2 percent in September 2022). The increase for all sectors combined was 1.1 percent this quarter (unchanged from 1.1 percent last quarter).
- 14 Quarterly wage growth for the public sector has been notably affected by wage increases in the health sector, and in local government, see *public sector sub-groups* below.
- 15 Wage increases typically exhibit seasonality effects, with higher increases for the public sector typical in September and December compared to March and June. There is less seasonality in the private sector. Wage growth this quarter was relatively high for a December quarter:
 - 15.1 Quarterly wage growth for the December 2021 quarter was 0.7 percent for the public sector, 0.7 percent for the private sector.
 - 15.2 Average quarterly wage growth for a December quarter, since 2010, is 0.6 percent for the public sector, and 0.6 percent for the private sector.

Annual Change

- 16 In the year to December 2022, wage rates increased to 3.6 percent for the public sector (up from 3.1 percent in the year to September 2022) and 4.3 percent for the private sector (up

Labour Cost Index

December 2022

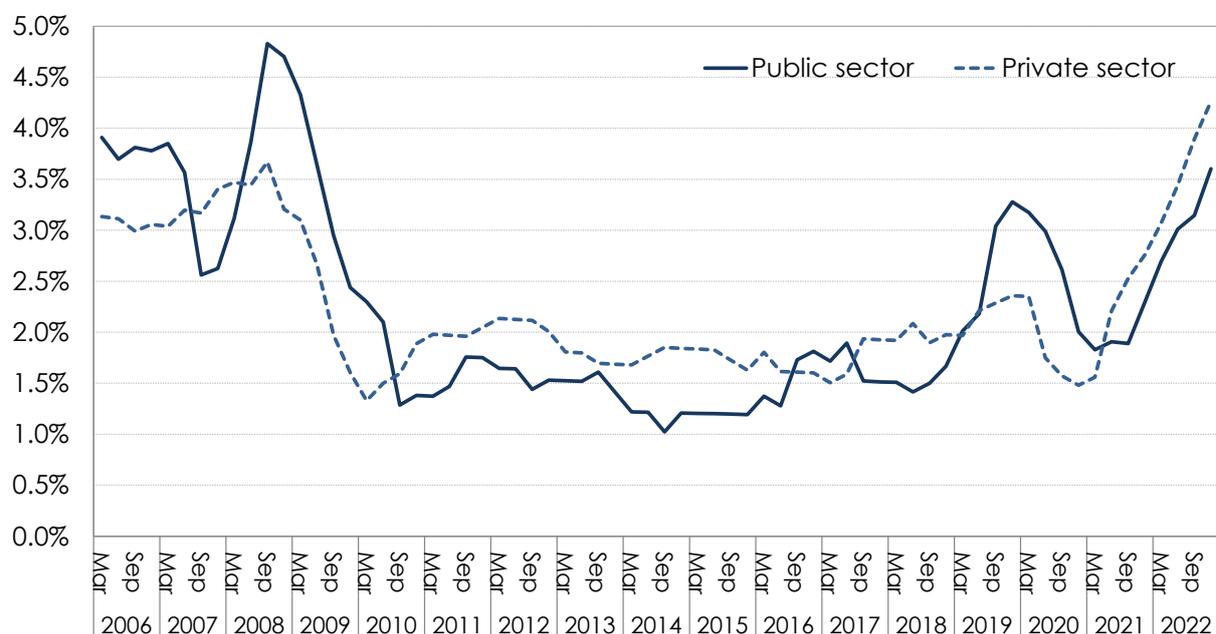


Te Kawa Mataaho
Public Service Commission

from 3.9 percent for the year to September 2022). 4.3 percent for the private sector is the highest annual wage growth for the private sector in our records (since June 2002).

- 17 The overall rate was 4.1 percent for all sectors (up from 3.7 percent for the year to September 2022 and compared to 2.6 percent for the year to December 2021). Statistics NZ reports that this is the highest result for the index since it began in 1992.
- 18 Wage growth in the year to December 2022 is higher than for the preceding 12 months. Annual wage growth to December 2021 was 2.3 percent for the public sector, 2.8 percent for the private sector.
- 19 Figure 1 below compares annual wage movements (including overtime) for the public and private sectors since the March 2006 quarter, and shows wage movements before, during, and after the Global Financial Crisis (GFC) of 2008. We note that:
 - 19.1 The effect of the GFC on wage growth was first seen in the December 2008 quarter.
 - 19.2 The effect of COVID-19 restrictions was first seen in the June 2020 quarter.
 - 19.3 Tight labour market conditions, including low unemployment and border restrictions, have pressured wage increases since mid-2021, and continue to do so this quarter.

Figure 1: Public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2006-2022



Public sector and public sector sub-groups

- 20 Despite efforts to progress settlements, bargaining across the public sector was slow, and in many cases, paused, during the quarter. This was as an unintended outcome of the uncertainty surrounding PSPA discussions which were ongoing at the time. As a result, there

Labour Cost Index

December 2022



are no new collective agreements in the Public Service, health or education sectors, which have had a material effect on the index this quarter.

- 21 Annual wage growth reported this quarter is higher than average across many public sector sub-groups. In particular, the health, other central government, and local government sub-groups have had the highest annual wage growth in the year to December 2022 since our records began, June 2002.

Central Government

- 22 Central government wage rates increased 1.0 percent this quarter (unchanged from last quarter), and 3.5 percent in the year to December 2022 (up from 3.1 percent in the year to September 2022). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding State-Owned Enterprises).
- 22.1 In the Public Service wage increases were 0.4 percent this quarter (down from 1.1 percent in September 2022). In the year to December 2022 Public Service wage increases were 2.1 percent (unchanged from the year to September 2022).
- 22.2 Education sector wage increases were 0.2 percent this quarter (unchanged from 0.2 percent last quarter), and 1.0 percent in the year to December 2022 (down from 1.4 percent in the year to September 2022).
- 22.3 Health sector wage increases were 2.2 percent this quarter (up from 1.3 percent last quarter). In the year to December 2022, annual wage growth was 6.6 percent (up from 5.8 percent last quarter). This wage growth includes increases resulting from the pay equity settlement for Admin/Clerical staff at District Health Boards (DHBs), refer *Pay Equity* below.
- 22.4 Other central government group wage increases were 1.2 percent this quarter (down from 1.5 percent last quarter), and 4.4 percent in the year to December 2022 (up from 3.5 percent in the year to September 2022). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included. We do not have full visibility into the remuneration decisions which occur for this group; it is likely that this growth is driven by increases in the wider public sector.

Local Government

- 23 Local government wage increases were 2.7 percent this quarter (up from 1.3 percent last quarter). Annual wage growth in the year to December 2022 was 5.1 percent (up from 3.6 percent in the year to September 2022). This may be the result of new collective agreement settlements coming into effect.

Pay Equity

- 24 Increases to wages applied as a result of pay equity settlements will affect the LCI as they are changes to rates paid for work, holding quality and quantity unchanged. Caution should be exercised when considering index movements when these have been partially influenced by a pay equity outcome; pay equity settlements result in pay corrections, not pay increases.
- 24.1 Pay corrections for Health NZ-employed administrative and clerical staff resulting from their pay equity settlement, ratified May 2022, affected the index last quarter, and

Labour Cost Index

December 2022



continue to do so this quarter as a result of the timing of when these pay corrections were processed relative to the survey window.

- 24.2 Increases to DHB-employed nurses made in late 2021 will influence annual wage growth for the health sector until the March 2023 quarter. While this was the outcome of collective bargaining, a portion of these wage changes relate to an ongoing pay equity process. Any subsequent wage increases resulting from this claim will affect the index in the quarter in which the corrections are paid.
- 24.3 We had anticipated that increases to school-board-employed administrative and clerical staff resulting from their pay equity settlement, ratified July 2022, would influence the index this quarter. As these increases did not appear in the index we anticipate that these will show in March 2023, and we will monitor for this.

Cumulative wage growth and inflation

- 25 Inflation, as measured by the Consumer Price Index (CPI), increased 1.4 percent in the December 2022 quarter (down from 2.2 percent last quarter). This is the seventh consecutive quarter of quarterly inflation above 1.0 percent.
- 26 Annual inflation increased 7.2 percent in the year to December 2022. While unchanged from annual inflation to September 2022, this remains significantly higher than average, and close to the three-decade high of 7.3 percent as reported in June 2022. This is the fifth consecutive quarter of annual inflation above 5.0 percent.
- 27 Quarterly inflation has now led quarterly wage growth across most monitored sectors and subsectors since March 2021, except for select outlying results in the health sector and local government:
- 27.1 Health sector quarterly wage growth exceeded quarterly inflation in March 2022, and has again in December 2022. This is driven by pay corrections from pay equity settlements in the sector.
- 27.2 Local Government quarterly wage growth exceeded quarterly inflation this quarter. Quarterly wage growth for local government has only rarely exceeded 1.0 percent in the last decade but has now exceeded 1.0 percent four times in the last six quarters.
- 28 Figure 2 below shows the long-term trend in wage movements of selected sectors since March 2010 on a cumulative basis.

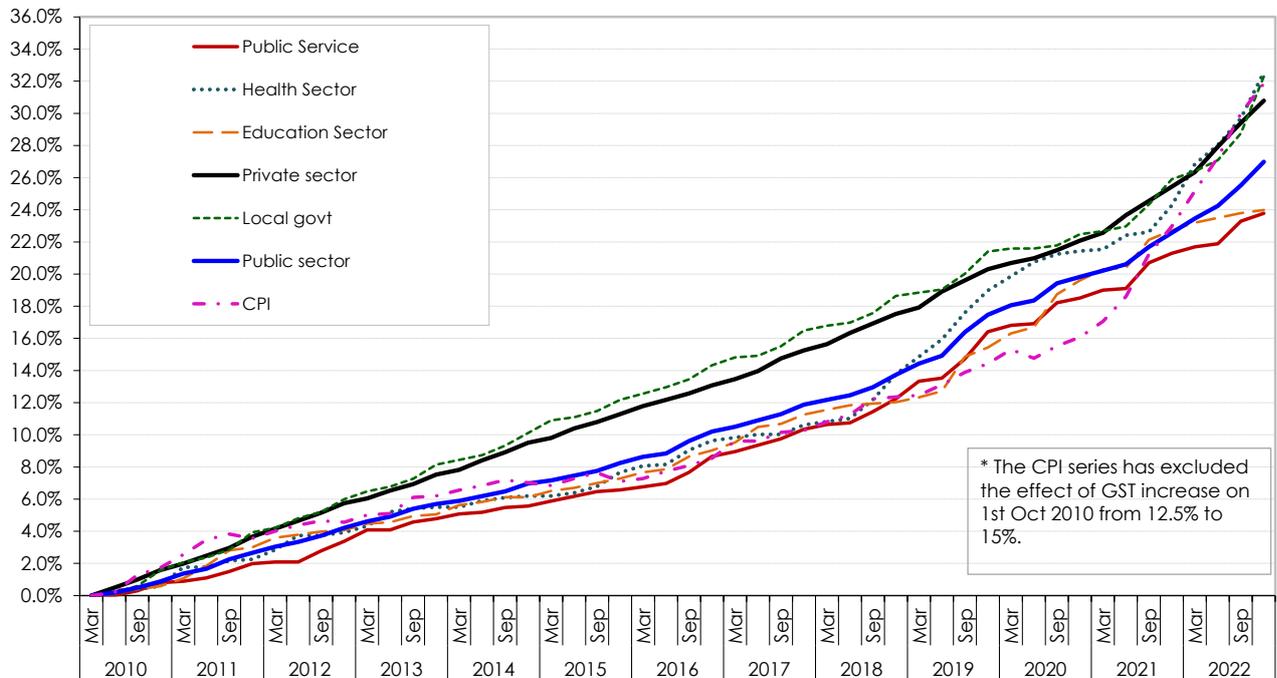
Labour Cost Index

December 2022



Te Kawa Mataaho
Public Service Commission

Figure 2: Labour Cost Index – Wage Movements by sector and CPI (cumulative percentage change since March 2010)



29 Gaps in cumulative wage growth since March 2010 include:

- 29.1 Public sector wage growth is 3.2 percent above Public Service wage growth.
- 29.2 Health sector wage growth is 5.6 percent above public sector wage growth.
- 29.3 Public sector wage growth is 3.0 percent above education sector wage growth.
- 29.4 Private sector wage growth is 3.8 percent above public sector wage growth.

30 Local government and health sector wage growth are approximately equivalent over the period, and similar to cumulative inflation over the period.

31 Figure 3 shows the short-term trend in cumulative wage movements since March 2018 for monitored sectors. Cumulative inflation now exceeds wage growth for the monitored public sector sub-groups, except for the health sector, which has been significantly influenced by pay corrections during this period.

32 Cumulative wage growth since March 2018 has been similar for the public sector, private sectors and the monitored public sector sub-groups, being between 11.1 percent for the education sector, to 13.3 percent for local government. The exception to this is wage growth in the health sector which is influenced by pay equity corrections, and is higher at 19.6 percent since March 2018.

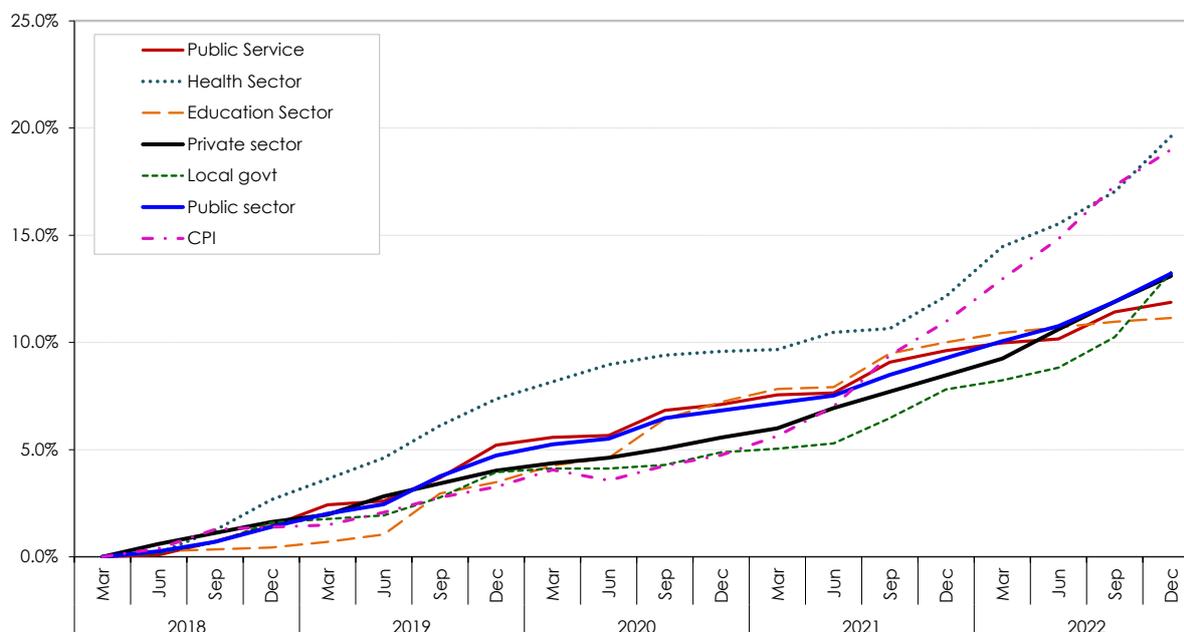
Labour Cost Index

December 2022



Te Kawa Mataaho
Public Service Commission

Figure 3: Labour Cost Index – Wage Movements by sector and CPI (cumulative percentage change since March 2018)



Proportion of workers receiving wage increases

- 33 Across public, private, and all sectors combined, a record, or near record, proportion of wages increased in the December 2022 quarter and year to December 2022.
- 33.1 Across all sectors combined, 20 percent of wage rates increased in the December 2022 quarter (down from 21 percent in the September 2022 quarter), and 66 percent of wage rates increased in the year to December 2022 (up from 65 percent in the year to September 2022).
- 33.2 In the public sector, 23 percent of wage rates increased this quarter (down from 24 percent in the September 2022 quarter), and 65 percent of public sector wage rates increased in the year to December 2022 (up from 63 percent in the year to September 2022).
- 33.3 In the private sector, 19 percent of wage rates increased this quarter (down from 20 percent in the September 2022 quarter), and 66 percent of wage rates increased in the year to December 2022 (up from 65 percent in the year to September 2022).
- 34 The proportion of wages changing in any one quarter exhibits seasonality, much like average rates of wage growth. In the public sector more wages change in the September and December quarters than in March or June. In the private sector more wages change in the June quarter than any other.
- 35 The proportion of wages changing in the public sector (both this quarter, and for the year to September 2022) is average for a December quarter (since March 2009).

Labour Cost Index

December 2022



- 36 The proportion of wages changing this quarter in the private sector, and all sectors combined, are the highest results on record for a December quarter, while the proportion of wages changing in the year to December 2022 in the private sector and all sectors combined are the highest annual results on record for any quarter on record (since March 2009).

Looking ahead to the March 2023 quarter

- 37 LCI data for the March 2023 quarter will be released on 3 May 2023, following a survey period of mid-February 2023.
- 38 Typically, wage growth for a March quarter is low, due to a low number of collective agreements applying increases to remuneration systems between November and February; average quarterly wage growth for a March quarter is 0.4 percent across all sectors.
- 39 Few collective agreements have been settled during the November 2022 to February 2023 period. We expect this means wage growth across much of the public sector will be low for the March 2023 quarter.
- 40 The exception to this is where wage growth is driven by pay corrections in pay equity settlements. We expect pay equity settlements in the health and education sectors will continue to have a significant effect on wage growth next quarter.

Please direct any enquiries to EmploymentRelations@publicservice.govt.nz

Date: 27 February 2023