

Labour Cost Index

March 2023



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: March 2023 quarter](#).

Summary

- 1 Overall wage growth for the March 2023 quarter (“this quarter”) was 1.0 percent (down from 1.1 percent in December 2022) and 4.3 percent in the year to March 2023 (up from 4.1 percent in the year to December 2022). Stats NZ reports that annual wage cost inflation is at its highest level since the series began in 1992.
- 2 In the public sector, wage growth this quarter was 1.3 percent (up from 1.2 percent in December 2022), and 4.2 percent for the year to March 2023 (up from 3.6 percent from the year to December 2022).
- 3 In the private sector, quarterly growth was 0.9 percent (down from 1.1 percent in December 2022), and 4.5 percent for the year to March 2023 (up from 4.3 percent in the year to December 2022). This is the highest private sector annual wage growth result in our records, which began in June 2002.
- 4 In the Public Service, wage growth for this quarter was 0.6 percent (up from 0.4 percent for the December 2022 quarter) and 2.3 percent for the year to March 2023 (up from 2.1 percent for the year to December 2022). As at 10 May 2023 a significant proportion of Public Service collective agreements have settled or varied to implement the Public Sector Pay Adjustment (PSPA), however, due to the timing of the survey window for the March quarter (mid-February) we are not seeing these settlements impact the index yet. We anticipate these settlements to impact Public Service wage growth next quarter.
- 5 In recent quarters a higher than usual proportion of wage rates have been changing and we can see this trend continue this quarter with 66 percent of wages (across all sectors combined) increasing in the year to March 2023. This is unchanged from last quarter, which was the highest recorded result on our records when we previously reported (our records begin March 2009).
- 6 Inflation, as measured by the Consumer Price Index (CPI) was 1.2 percent this quarter, down from 1.4 percent last quarter. Annual inflation remains above average at 6.7 percent for the year to March 2023 (down from 7.2 percent in the year to December 2022).
- 7 The survey period for this quarter was mid-February 2023. This quarter's index captured increases processed between mid-November 2022 and mid-February 2023.

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- 8 Labour cost data for the March 2023 quarter was gathered in mid-February 2023, and reflects wage increases processed between mid-November 2022 and mid-February 2023.
- 9 StatsNZ reports that the LCI continues to experience data collection challenges, which have resulted in response rates lower than originally designed for in March 2023. Despite this, they remain confident that the data is fit-for-purpose. Data collection for the LCI was not significantly impacted by the severe weather events which affected parts of the North Island in February 2023.

Public and private sector annual movement in salary and wage rates

Public and private sectors

- 10 In late 2022 Cabinet has agreed that work should proceed with unions on a “Public Sector Pay Adjustment” (PSPA). While many collective agreements, particularly in the Public Service, have now concluded bargaining and implemented the PSPA, this was not the case during the survey period. A few settlements implementing the PSPA have affected the index this quarter, however, most bargaining remained underway in mid-February. Additionally, an indirect effect of PSPA negotiations was that bargaining in much of the sector was delayed in the second half of 2022. Bargaining remained ongoing for settlements which may have otherwise occurred during the quarter, and as a result, wage growth in the public sector is likely lower than it otherwise would have been this quarter.

Quarterly change

- 11 Wage rates in the public sector increased 1.3 percent this quarter (up from 1.2 percent in December 2022), while in the private sector, wage rates increased 0.9 percent this quarter (down from 1.1 percent in December 2022). The increase for all sectors combined was 1.0 percent this quarter (down from 1.1 percent last quarter).
- 12 Quarterly wage growth for the public sector has been notably affected by wage growth in the health sector this quarter, and somewhat by wage growth in the education sector. See *public sector sub-groups* below.
- 13 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 March quarter:
 - 13.1 Quarterly wage growth for the March 2022 quarter was 0.7 percent for the public sector, 0.7 percent for the private sector.
 - 13.2 Average quarterly wage growth for a March quarter, since 2010, is 0.5 percent for the public sector, and 0.4 percent for the private sector.

Annual change

- 14 In the year to March 2023, wage rates increased to 4.2 percent for the public sector (up from 3.6 percent in the year to December 2022) and 4.5 percent for the private sector (up from 4.3 percent for the year to December 2022). The 4.2 percent result for the public sector is the highest annual growth rate for the public sector since December 2008. The 4.5 percent for the

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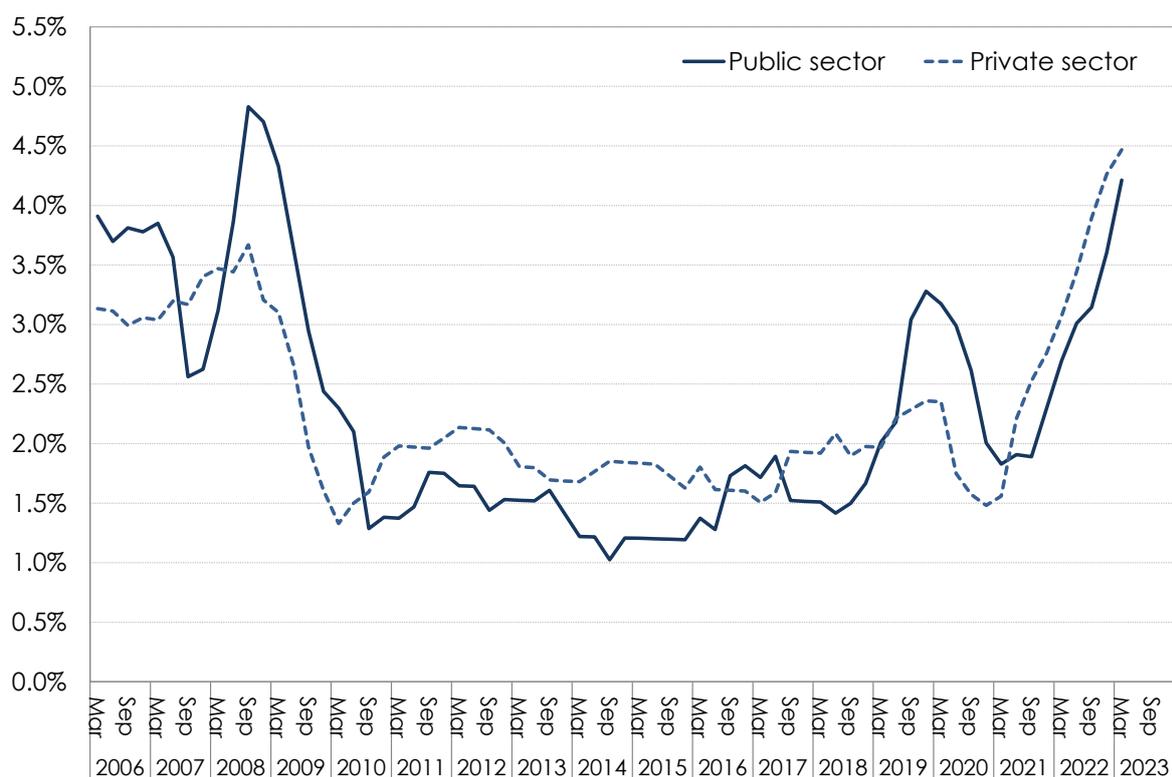


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private sector is the highest annual wage growth for the private sector in our records (since June 2002).

- 15 The overall rate was 4.3 percent for all sectors (up from 4.1 percent for the year to December 2022 and compared to 3.0 percent for the year to March 2022). Stats NZ reports that this is the highest result for the index since it began in 1992.
- 16 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:
 - 16.1 The effect of the GFC on wage growth was first seen in the December 2008 quarter.
 - 16.2 The effect of COVID-19 restrictions was first seen in the June 2020 quarter.
 - 16.3 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), 2006-2023



Public sector and public sector sub-groups

- 17 Despite efforts to progress settlements, bargaining across the public sector remained slow, and in many cases, paused, in the second half of 2022. This was as an unintended outcome of the uncertainty surrounding PSPA discussions which were ongoing at the time. While bargaining has largely resumed in recent months and bargaining for collective agreements

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expiring in 2023 has commenced, only a few of these ratified early enough to be implemented before mid-February and therefore counted in this quarter.

- 18 We approximate that pay increases for around 10,000 FTE in the education sector and Public Service, resulting from new collective agreement settlements, will have had an effect on the index in March 2023.
- 19 Annual wage growth reported this quarter is higher than the historic average across many public sector sub-groups. Last quarter, the health, other central government, and local government sub-groups exhibited the highest annual wage growth since our records began (June 2002). Annual wage growth in all three sector sub-groups is higher this quarter than last quarter.

Central government

- 20 Central government wage rates increased 1.4 percent this quarter (up from 1.0 percent last quarter), and 4.1 percent in the year to March 2023 (up from 3.5 percent in the year to December 2022). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding state-owned enterprises).
 - 20.1 In the Public Service wage growth was 0.6 percent this quarter (up from 0.4 percent in December 2022). In the year to March 2023 Public Service wage increases were 2.3 percent (up from 2.1 percent in the year to December 2022). While quarterly wage growth is higher than average for a March quarter, annual wage growth for the Public Service remains lower than we might have expected due to paused or delayed bargaining for many agreements in 2022.
 - 20.2 Education sector wage growth was 1.1 percent this quarter (up from 0.2 percent last quarter), and 1.7 percent in the year to March 2023 (up from 1.0 percent in the year to December 2022). The education sector is an outlier among public sector subgroups with lower-than-average annual wage growth this quarter. While quarterly wage growth is relatively high this quarter, low annual wage growth is the result of modest wage growth in the sector in recent quarters.
 - 20.3 Health sector wage growth was 3.3 percent this quarter (up from 2.2 percent last quarter). In the year to March 2023, annual wage growth was 7.9 percent (up from 6.6 percent last quarter). While this is unusually high, we should not compare these values to results elsewhere in the public sector. This wage growth includes increases resulting from the pay equity payments for Te Whatu Ora Health New Zealand (Te Whatu Ora) employed administration and clerical staff and Te Whatu Ora employed nurses which have had a significant impact. Refer *Pay Equity* below.
 - 20.4 Other central government group wage growth was 0.6 percent this quarter (down from 1.2 percent last quarter), and 4.6 percent in the year to March 2023 (up from 4.4 percent in the year to December 2022). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included.

Local government

- 21 Local government wage growth was 0.6 percent this quarter (down from 2.7 percent last quarter). Annual wage growth in the year to March 2023 was 5.3 percent (up from 5.1 percent

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in the year to December 2022). Annual growth this quarter remains heavily influenced by unusually high quarterly growth in December 2022.

Pay Equity

- 22 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 influenced by a pay equity outcome; pay equity settlements result in pay corrections, not pay increases. This is particularly salient in the current data for health and education sectors.
- 22.1 In the health sector, pay corrections influencing annual and quarterly wage growth rates this quarter include pay equity payments for:
- 22.1.1 Te Whatu Ora employed administrative and clerical staff, ratified May 2022.
- 22.1.2 Te Whatu Ora employed nurses, who received an interim pay correction in late 2021, and a second interim pay correction in early 2023. Wage rate increases for the health sector are expected to be influenced by this for some time and are expected to increase further when final settlement is reached.
- 22.2 In the education sector, pay corrections for school-board-employed administrative and clerical staff are influencing annual and quarterly wage growth rates this quarter.

Cumulative wage growth and inflation

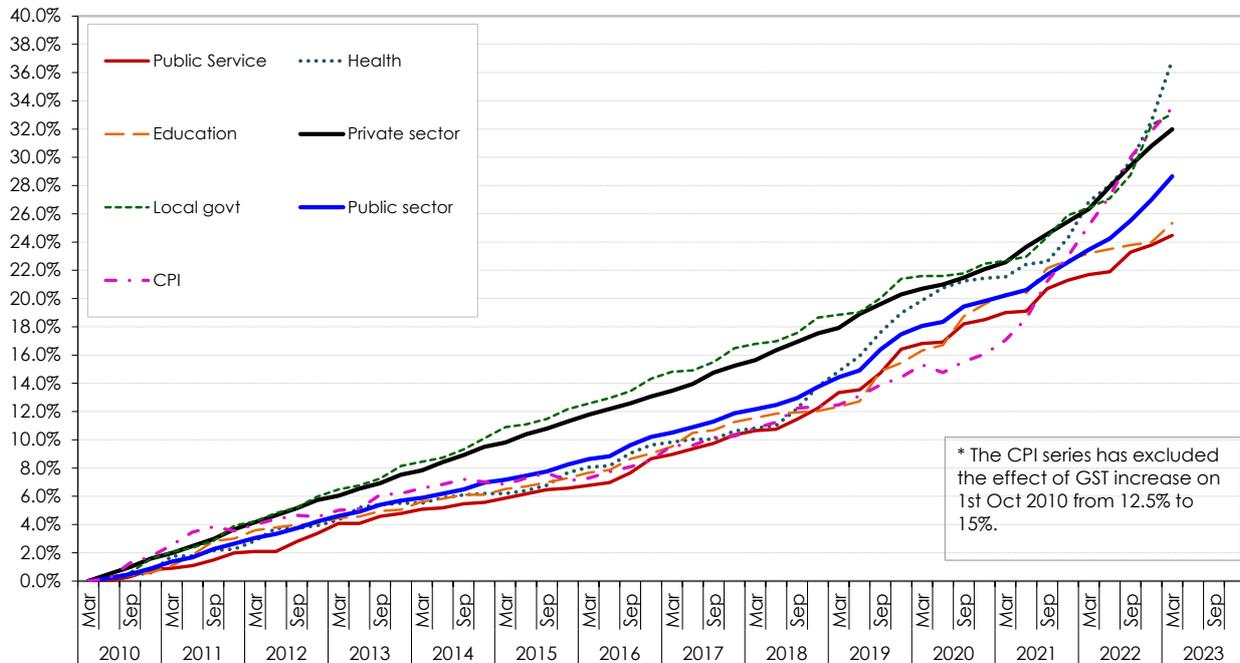
- 23 Inflation, as measured by the CPI, increased 1.2 percent in the March 2023 quarter (down from 1.4 percent last quarter). This is the eighth consecutive quarter of quarterly inflation above 1.0 percent.
- 24 Annual inflation increased 6.7 percent in the year to March 2023, down from 7.2 percent in the year to December 2022, but remaining significantly higher than average. This is the sixth consecutive quarter of annual inflation above 5.0 percent.
- 25 Figure 2 below shows the long-term trend in wage movements of selected sectors since March 2010 on a cumulative basis.
- 26 Noting that this is affected by pay equity pay corrections in recent years, gaps in cumulative wage growth since March 2010 include:
- 26.1 Public sector wage growth is 4.2 percentage points above Public Service wage growth.
- 26.2 Health sector wage growth is 8.2 percentage points above public sector wage growth.
- 26.3 Public sector wage growth is 3.3 percentage points above education sector wage growth.
- 26.4 Private sector wage growth is 3.3 percentage points above public sector wage growth.

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



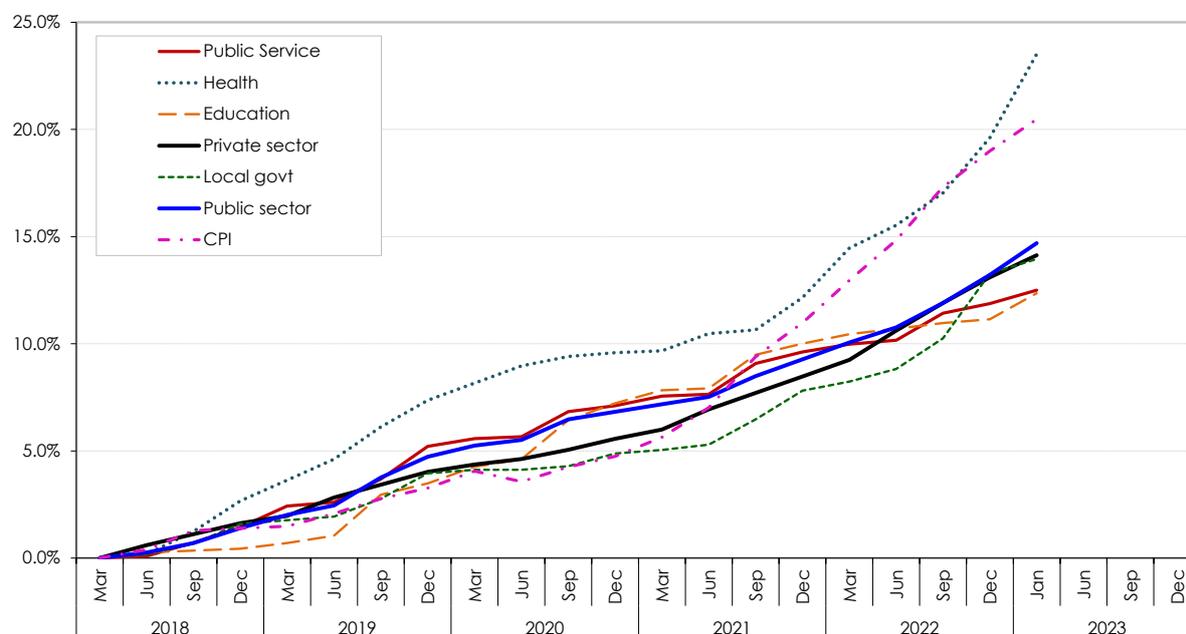
- 27 Figure 3 shows the short-term trend in cumulative wage movements since March 2018 for monitored sectors. Cumulative inflation now exceeds wage growth for the monitored public sector sub-groups, except for the health sector, which has been significantly influenced by pay corrections in recent quarters, as previously noted.
- 28 Across the private sector, public sector, and most public sector sub-groups, other than the health sector, cumulative wage growth since March 2018 has been roughly similar, ranging from 12.4 percent for education, and 14.1 percent for the public sector.

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



Proportion of workers receiving wage increases

- 29 More wage rates than usual have been changing in recent quarters, and that trend continues this quarter. Across public, private, and all sectors combined, a record, or near record, proportion of wages increased in the March 2023 quarter and year to March 2023.
- 29.1 Across all sectors combined, 16 percent of wage rates increased in the March 2023 quarter (down from 20 percent in the December 2022 quarter), and 66 percent of wage rates increased in the year to March 2023 (unchanged from the year to December 2022).
- 29.2 In the public sector, 23 percent of wage rates increased this quarter (unchanged from last quarter), and 70 percent of public sector wage rates increased in the year to March 2023 (up from 65 percent in the year to December 2022).
- 29.3 In the private sector, 15 percent of wage rates increased this quarter (down from 19 percent in the December 2022 quarter), and 65 percent of wage rates increased in the year to March 2023 (down from 66 percent in the year to December 2022).
- 30 The proportion of wages changing in any one quarter exhibits seasonality, much like average rates of wage growth. Generally, 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.
- 31 The proportion of wages changing in the public sector this quarter is significantly higher than average for a March quarter (since March 2009).
- 32 The proportion of wages changing this quarter in the private sector, and all sectors combined, have fallen from recent quarterly highs, but are at record highs for a March quarter. Annually,

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65 percent for the private sector and 66 percent for all sectors combined remains at or close to the record high (since March 2009).

Looking ahead to the June 2023 quarter

- 33 LCI data for the June 2023 quarter will be released on 2 August 2023, following a survey period of mid-May 2023.
- 34 Typically, public sector wage growth for a June quarter is low, due to a low number of collective agreements applying increases to remuneration systems between February and May; average quarterly wage growth for a June quarter is 0.5 percent across all sectors, 0.3 percent in the public sector, and 0.1 percent in the Public Service (since 2010).
- 35 Minimum wage increases, effective from April annually affect wage growth in a June quarter, particularly in the private sector. We should anticipate some effect of this again in June 2023 following the increase to the Minimum Wage from 1 April 2023.
- 36 A number of collective agreements have been settled between the February 2023 and May 2023 period, as bargaining for the PSPA continues apace. In the Public Service settlements covering around 11,000 FTE have settled in the period; we anticipate Public Service quarterly wage growth above the June average.
- 37 Wage growth driven by pay corrections will continue to have an impact next quarter. Pay corrections for nurses are expected to have a significant impact and will influence health annual sector wage growth for the rest of 2023. Pay Equity settlements in the education sector, including for administrative/clerical staff, science technicians, and librarians are likely to influence the index in June, and will affect rates of annual wage growth for some time.

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

Date: 12 May 2023