

Labour Cost Index

September 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 Statistics New Zealand (Stats NZ). You can find additional information and data relating to this quarter's index on the Stats NZ website here: [Labour market statistics: September 2023 quarter](#).

Summary

- 1 This report summarises movements in the LCI for the September 2023 quarter ("this quarter"). Wage movements occurring between mid-May 2023 and mid-August 2023 are captured.
- 2 Across **all sectors combined**, wages grew 1.1 percent this quarter (unchanged from the June 2023 quarter ("last quarter")) and 4.3 percent in the year to September 2023, the third consecutive quarter of annual wage growth at 4.3 percent. We haven't seen this level of annual wage growth consistency over three quarters since 2016/2017.
- 3 In the **public sector**, wage growth this quarter was 2.2 percent (up from 0.6 percent last quarter) and 5.4 percent for the year to September 2023 (up from 4.2 percent from the year to June 2023). Wage growth at 2.2 percent quarterly and 5.4 percent annually are the highest in our records (since 2001) for the public sector.
- 4 In the **private sector**, quarterly growth was 0.9 percent (down from 1.1 percent last quarter), and 4.1 percent for the year to September 2023 (down from 4.3 percent in the year to June 2023).
- 5 In the **Public Service**, wage growth for this quarter was 1.7 percent (up from 1.4 percent last quarter) and 4.0 percent for the year to September 2023 (up from 3.5 percent for the year to June 2023). For the second consecutive quarter, Public Service quarterly wage growth has been significantly impacted by agencies implementing the Public Sector Pay Adjustment.
- 6 More than 40 percent of public servants received a pay increase this quarter (41 percent for the public sector, compared to 17 percent in the private sector). This is a significantly above the previous quarterly maximum for the public sector being 31 percent (in September 2019). This is due to a combination of Public Sector Pay Adjustment increases, pay equity outcomes, and collective agreement settlements across the Public Service, health sector, and education sector.
- 7 These results are in the context of annual inflation, as measured by the Consumer Price Index (CPI), remaining above the long-term average. Inflation was 5.6 percent for the year to September 2023 (down from 6.0 percent in the year to June 2023, and down from 7.2 percent one year ago), while inflation was 1.8 percent this quarter, up from 1.1 percent last quarter.

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Te Kawa Mataaho report on Labour Cost Index movements: September 2023 quarter

- 8 Stats NZ publishes official labour market statistics quarterly, providing a picture of the New Zealand labour market. These statistics include measures of unemployment and employment, demand for labour, and changes in wages and salaries. Changes in wages and salaries are measured using the LCI.
- 9 The Commission has a role in monitoring and overseeing wage movements across the public sector. Analysis of sector and sector-subgroup wage movements using the LCI supports this role, providing regular data on the impact of remuneration decisions being made across the system, for example through collective bargaining.

Public and private sector annual movement in salary and wage rates

Public and private sectors

- 10 In late 2022, Cabinet agreed that work should proceed with unions on a “Public Sector Pay Adjustment” (the Pay Adjustment). While this work programme has now concluded, the effects of it will be felt in the index for some time. Over the last two quarters, a significant number of public sector employers, particularly in the Public Service have implemented the Pay Adjustment. There have been fewer Pay Adjustment settlements in the wider public sector, including at Crown entities, in the health sector, or education sector, although settlements in these sectors have been influenced by the parameters of the Pay Adjustment.

Quarterly change

- 11 Wages grew 2.2 percent in the public sector this quarter (up from 0.6 percent in June 2023), while in the private sector, wages grew 0.9 percent this quarter (down from 1.1 percent in June 2023). The increase for all sectors combined was 1.1 percent this quarter (unchanged from last quarter).
- 12 September 2023 is the sixth consecutive quarter with wage growth across all sectors combined at or above 1.0 percent. This is unusual over the longer term. Between 2001 and 2021 there were only four instances of all sectors quarterly wage growth at or above 1.0 percent.
- 13 Public sector wage growth at 2.2 percent is the highest we have seen in our records (since 2001), the previous record was 1.8 percent in the September 2008, and September 2006 quarters.
- 14 Quarterly wage growth for the public sector has been notably affected by wage growth in the education sector this quarter. See *public sector sub-groups* below.
- 15 Wage increases have typically exhibited 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. This seasonality has been disrupted in recent quarters, with pay equity settlements providing wage increases outside normal collective bargaining cycles, and significant delays to Public Service bargaining related to the Pay Adjustment in late 2022.
- 16 Wage growth this quarter was higher than average for a September quarter:

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- 16.1 Quarterly wage growth for the September 2022 quarter (the same quarter last year) was 1.0 percent for the public sector, and 1.2 percent for the private sector. We note that in 2022 wage growth for much of the public sector was affected by the Government Expectations and prevailing guidance on pay that applied at that time.
- 16.2 Average quarterly wage growth for a September quarter, since 2009, is 0.7 percent for the public sector, and 0.6 percent for the private sector.

Annual change

- 17 In the year to September 2023, wages grew 5.4 percent for the public sector (up from 4.2 percent for the year to June 2023) and 4.1 percent for the private sector (down from 4.3 percent for the year to June 2023). The overall rate was 4.3 percent for all sectors (unchanged from the year to June 2023)
- 18 This is the third consecutive quarter with annual all-sectors wage growth at 4.3 percent, and continue at a record high for annual wage growth. In March 2023, Stats NZ reported 4.3 percent was the highest result for the index since it began in 1992. Annual wage growth across all sectors combined has rarely exceeded 3.0 percent since 2001; it did so between September 2005 and March 2009, and has done so since March 2022, but has otherwise been below 3.0 percent.
- 19 Figure 1 below compares annual wage movements for the public and private sectors since the March 2002 quarter. We note that:
 - 19.1 The effect of the Global Financial Crisis 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 (removed in July 2022), have pressured wage increases since mid-2021, and continue to do so this quarter. We may be starting to see an easing of these pressures in the index and will continue to monitor this in coming quarters.

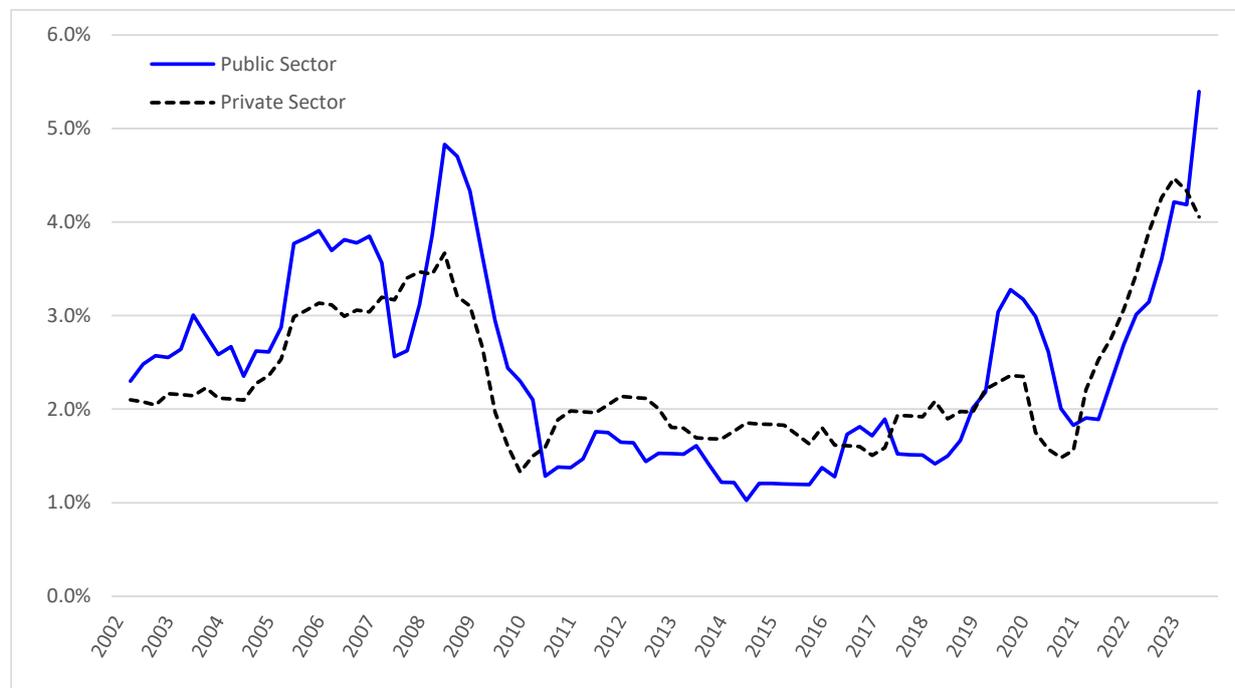
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Figure 1: public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2002-2023



- 20 Public sector wage growth at 5.4 percent is the highest we have seen in our records (since 2002), the previous record was 4.8 percent in the year to September 2008. We anticipate high rates of annual wage growth across the public sector for some time, due to the ongoing influence of recent settlements and pay equity outcomes.

Public sector and public sector sub-groups

- 21 Recent efforts to implement the Pay Adjustment have resulted in a significant number of new collective agreement settlements in the first half of 2023. Pay Adjustment increases have had a particularly strong influence on Public Service wage growth this quarter.
- 22 We approximate that pay increases resulting from new collective agreement settlements for around 20,000 FTE in the Public Service, and at Crown entities, as well as for more than 70,000 primary and secondary teachers and principals, will have had an effect on the index this quarter.
- 23 Quarterly wage growth this quarter is higher than the historical average across many public sector sub-groups. Education sector and “other central government” wage growth is more than three times the average for a September quarter, while Public Service and health sector wage growth is approximately twice the normal rate.

Central government

- 24 Central government wages grew 2.3 percent this quarter (up from 0.6 percent last quarter), and 5.4 percent in the year to September 2023 (up from 4.0 percent in the year to June 2023). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding state-owned enterprises). These are the highest results for central government in our records (since 2001).

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- 24.1 In the Public Service, wages grew 1.7 percent this quarter (up from 1.4 percent in June 2023). In the year to September 2023, Public Service wage increases were 4.0 percent (up from 3.5 percent in the year to June 2023). These are near record high quarterly and annual wage growth results for the Public Service and highest since 2008.
- 24.2 Education sector wages grew 3.3 percent this quarter (up from 0.4 percent last quarter), and 5.0 percent in the year to September 2023 (up from 1.9 percent in the year to June 2023). This reflects significant increases to almost all of the education sector, specifically, more than 70,000 teachers and principals in primary and secondary schools. Quarterly growth of 3.3 percent is a record high for the education sector, 0.6 percentage points higher than the previous record (2.7 percent in the September 2008 quarter) and 5.0 percent annual wage growth is the highest for the education sector since March 2009 (which continued to reflect high quarterly growth in September 2008).
- 24.3 Health sector wages grew 0.9 percent this quarter (up from 0.6 percent last quarter). In the year to September 2023, annual wage growth was 7.2 percent (down from 7.6 percent last quarter). Quarterly wage growth for the health sector is above average for a September quarter, likely reflecting partial implementation of the pay equity settlement for nurses before the survey period for the quarter. Annual wage growth in the sector remains significantly above average. Refer *Pay Equity* below.
- 24.4 Other central government group wages grew 3.5 percent this quarter (up from 0.1 percent last quarter), and 5.4 percent in the year to September 2023 (up from 3.4 percent in the year to June 2023). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included. Quarterly wage growth of 3.5 percent is a record high for this sector, 0.3 percentage points higher than the previous record (3.2 percent in the September 2005 quarter). Annual wage growth of 5.4 percent is a record high for this sector, leading the recent record, of 4.6 percent in the March 2023 quarter. We have less visibility of the cause for increases in this sector, but expect that recent increases to staff employed by the New Zealand Defence Force will have had an impact.

Local government

- 25 Local government wages grew 1.0 percent this quarter (up from 0.4 percent last quarter). Annual wage growth in the year to September 2023 was 4.7 percent (down from 5.1 percent in the year to June 2023). Annual growth this quarter remains heavily influenced by unusually high quarterly growth in December 2022.

Pay equity

- 26 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 where these have been influenced by a pay equity outcome; wage growth caused by pay equity processes are not the same as increases delivered through negotiations. This is particularly salient for health and education sectors.
- 27 We have seen limited impact new pay equity settlements affecting the index this quarter. However previous pay equity adjustments continue to drive annual wage growth rates for the following workforces:

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27.1 In the health sector:

27.1.1 Health New Zealand-employed nurses received a pay equity increase in late 2021, and a second pay equity increase in early 2023, and then final settlement in mid-2023. The full extent of this final settlement has not been seen in the index yet, as many staff will not have received their pay increases before the survey period for this quarter.

27.1.2 Health New Zealand-employed administrative and clerical staff, ratified May 2022 may continue to have an effect, depending when staff received these payments.

27.2 In the education sector, pay equity increases for school-board-employed administrative and clerical staff may continue to affect annual growth rates.

Cumulative wage growth and inflation

28 Inflation, as measured by the consumer price index (CPI), was 1.8 percent in the September 2023 quarter (up from 1.1 percent last quarter). This is the tenth consecutive quarter of quarterly inflation above 1.0 percent.

29 Annual inflation was 5.6 percent in the year to September 2023, down from 6.0 percent in the year to June 2023, but remaining significantly higher than average. This is the eighth consecutive quarter of annual inflation above 5.0 percent.

30 In considering the below data, it is important to note that wage growth is not the same as wage rates. It is reasonable to assume sectors or sector sub-groups with a higher density of lower paid workers may have higher wage growth over time compared to higher paid sectors. For example, changes to the minimum wage affect private sector wage growth more than Public Service wage growth.

Short term cumulative wage growth

31 Across most public sector sub-groups, other than the health sector, cumulative wage growth since March 2018 has been similar, ranging from 15.5 percent in local government sector, to 16.5 percent in the education sector. The outlier is the health sector, with cumulative wage growth of 25.5 percent since March 2018.

32 Figure 2 below shows the trend in wage movements of selected sectors and sector sub-groups since March 2018, on a cumulative basis.

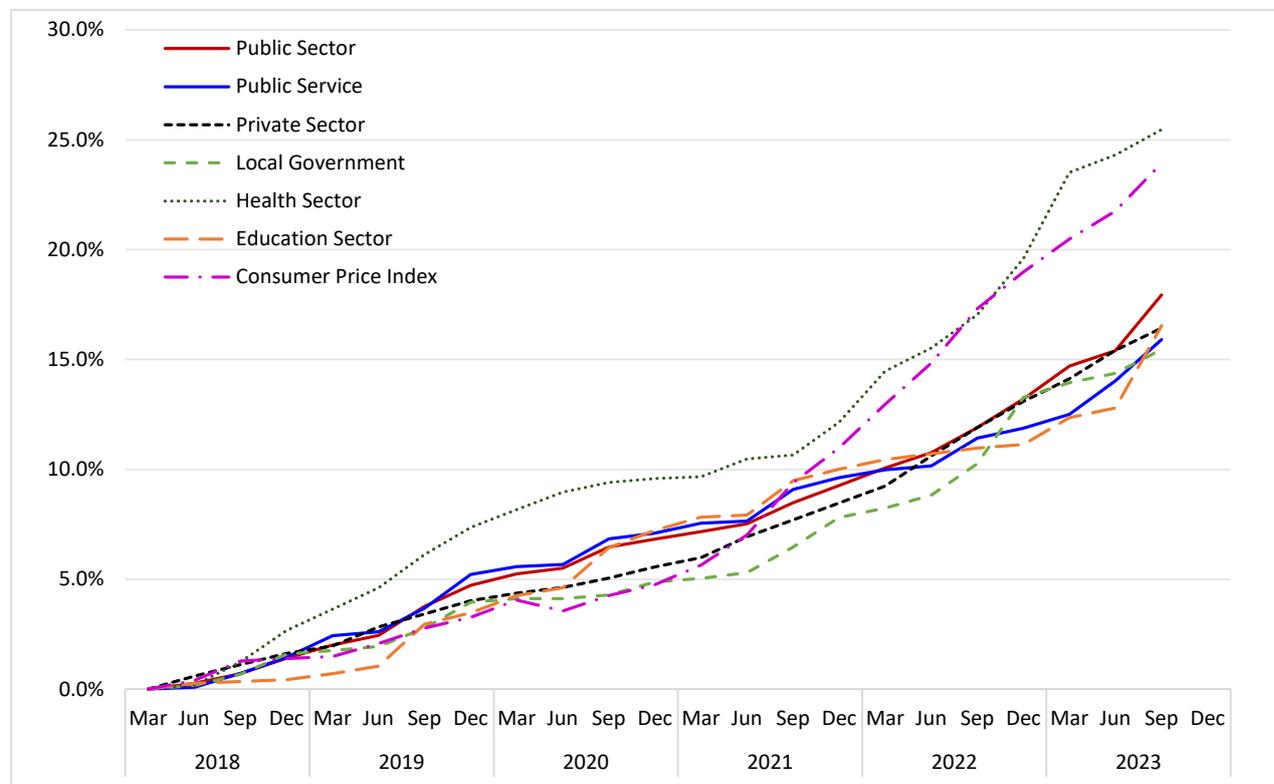
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Figure 2: Labour Cost Index – wage movements by sector and CPI (cumulative percentage change since March 2018)



- 33 Noting that public sector wage growth has been impacted by significant pay equity outcomes in the health sector, gaps in cumulative wage growth since March 2018 include:
- 33.1 Public Service wage growth is 2.0 percentage points below public sector wage growth (1.4 percentage points below when measured last quarter).
 - 33.2 Health sector wage growth is 7.5 percentage points above public sector wage growth (8.9 percentage points above when measured last quarter).
 - 33.3 Education sector wage growth is 1.4 percentage points below public sector wage growth (2.6 percentage points below when measured last quarter).
 - 33.4 Private sector wage growth is 1.5 percentage points below public sector wage growth (neither above nor below when measured last quarter).

Long-term cumulative wage growth

- 34 Where the short-term wage growth trend is one of relatively consistent wage growth across much of the public sector and the private sector, the longer-term wage growth trend (since 2001) shows more variability.
- 35 Figure 3 below shows the long-term trend (since March 2001) in cumulative wage movements of selected sectors and sector sub-groups.
- 36 Over this longer period, cumulative inflation exceeds wage growth for the public and private sectors, and Public Service. Cumulative wage growth for the health sector has led cumulative

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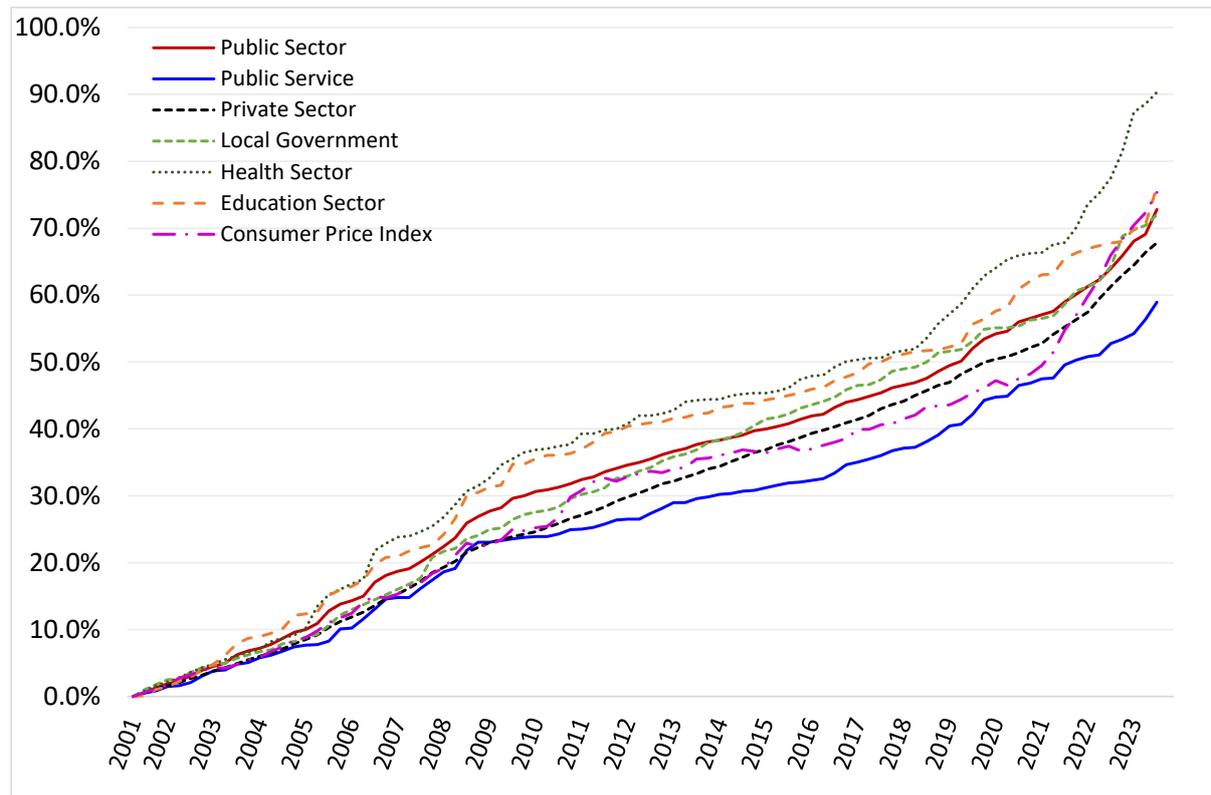
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inflation over the period, while in the education sector high quarterly growth this quarter means it now leads inflation again after lagging inflation from December 2022 to June 2023.

Figure 3: Labour Cost Index – wage movements by sector and CPI (cumulative percentage change since March 2001)



- 37 Cumulative wage growth for the health and education sectors trended together for much of the last two decades. The recent deviation shows the significant impact of pay equity settlements on wage growth in the health sector.
- 38 Public Service cumulative wage growth is relatively low compared to other sectors. This may be due to higher average wages in the Public Service or the prevalence of progression and other increases which are adjusted out of the LCI.

Unadjusted wage growth

- 39 The LCI is an adjusted index, showing changes in the cost of labour controlling for the quality and quantity of labour. A secondary index, the unadjusted LCI, is also available and includes other reasons for labour cost increases.
- 40 The unadjusted LCI tends to increase at a higher rate than wage cost inflation, since it also includes factors like employees' individual performance or service. For example, if an employee received a pay rate increase due to a rise in the cost of living, this would be reflected in both the LCI's primary measure of wage cost inflation (adjusted LCI) and the unadjusted LCI. However, if an employee gets a pay rate increase for quality reasons, such as progression or promotion, this would only be reflected in the unadjusted LCI.
- 41 Current unadjusted wage growth is closer to inflation than adjusted wage growth.

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- 41.1 Unadjusted wage growth for the September 2023 quarter was 1.4 percent across all sectors (1.1 percent in the public sector, and 2.4 percent in the private sector) compared to quarterly inflation of 1.8 percent. Public Service unadjusted wage growth was 1.7 percent for the quarter, the same as adjusted wage growth. We note that quarterly unadjusted wage growth can be quite variable, as it can change significantly due to quality of work changes such as staffing changes.
- 41.2 Unadjusted wage growth for the year to September 2023 was 5.8 percent across all sectors (6.3 percent in the public sector, and 5.7 percent in the private sector) compared to annual inflation of 5.6 percent. In the Public Service annual unadjusted wage growth was 4.7 percent.

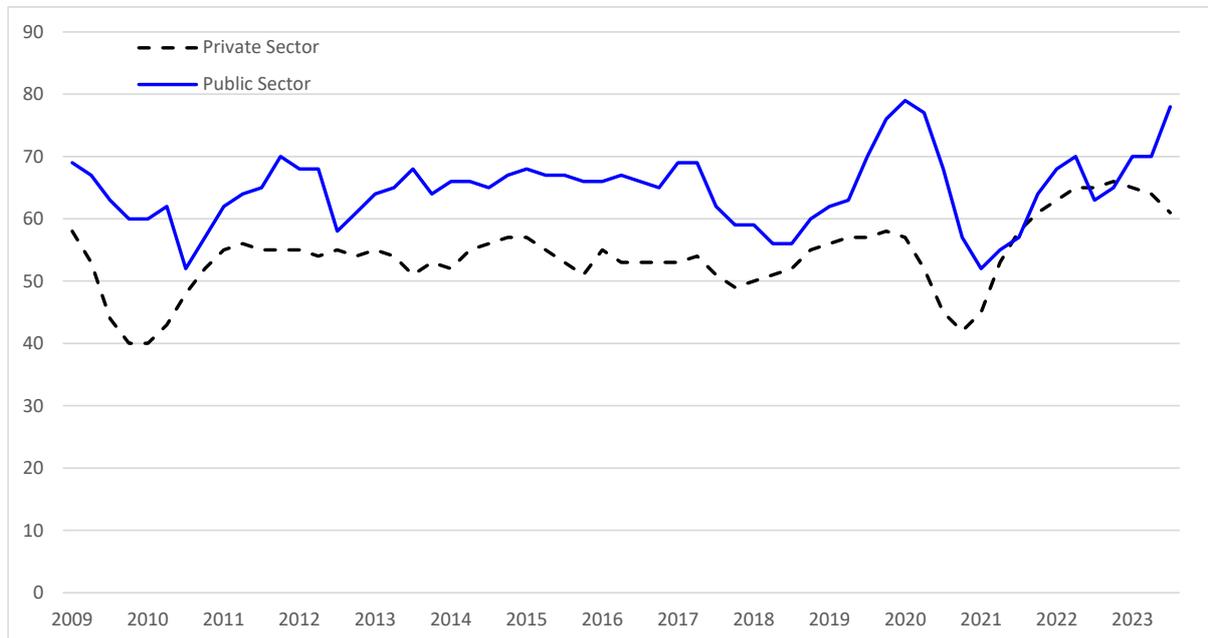
Proportion of workers receiving wage increases

- 42 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 due to the influence of minimum wage changes.
- 43 Between remuneration review and collective bargaining outcomes, Pay Adjustment increases and pay equity increases, we have seen a record proportion of public servants receiving pay increases; 41 percent of staff in the public sector received a pay increase this quarter. This is a full 10 percentage points (or approximately 32 percent more) than previous record in our records (31 percent in September 2019).
- 44 Figure 4 below shows the proportion of wages changing annually for the public and private sectors.

Figure 4: proportion of wage rates changing for the public sector and private sector (annually), since March 2009

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- 45 More wage rates than usual have been changing in recent quarters, and that trend continues this quarter, particularly in the public sector.
- 45.1 Across all sectors combined, 21 percent of wage rates increased in the September 2023 quarter (unchanged from last quarter), and 64 percent of wage rates increased in the year to September 2023 (down from 65 percent for the year to June 2023).
- 45.2 In the public sector, 41 percent of wage rates increased this quarter (up from 13 percent last quarter), and 78 percent of public sector wage rates increased in the year to September 2023 (up from 70 percent in the year to June 2023). Forty-one percent is nearly twice the average proportion of wages changing in a September quarter.
- 45.3 In the private sector, 17 percent of wage rates increased this quarter (down from 22 percent in the June 2023 quarter), and 61 percent of wage rates increased in the year to September 2023 (down from 64 percent in the year to June 2023). Seventeen percent is average for a September quarter in the private sector.

Looking ahead to the December 2023 quarter

- 46 LCI data for the December 2023 quarter will be released on 7 February 2024, following a survey period of mid-November 2023.
- 47 Average quarterly wage growth for a December quarter in the last four years (with average since 2009 shown in brackets) is:
- 47.1 All sectors combined: 0.5 percent (0.7 percent).
- 47.2 Public sector: 0.5 percent (0.8 percent).
- 47.3 Public Service: 0.5 percent (0.7 percent).
- 48 We anticipate low to moderate wage growth in the Public Service in the December 2023 quarter. Few new collective agreements have settled and implemented wage increases between August and November 2023. Additionally, while many staff will receive Pay

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Adjustment increases this year, this will not occur until 1 December 2023, and so will not be implemented in time to be captured in the December quarter survey window. We will expect these increases to show in the March 2024 quarter (data available in May 2024).

- 49 Wage growth driven by recent pay equity settlements will continue to have an impact on annual wage growth rates next quarter.
 - 49.1 Recent wage growth due to early part-payments in the Health New Zealand-employed nurses pay equity settlement will continue to affect annual wage growth in the health annual sector for the rest of 2023.
 - 49.2 Wage growth in the education sector is likely to be affected for some time by pay equity settlements for administrative/clerical staff, science technicians, and librarians.
- 50 Health New Zealand-employed nurses are expected to receive additional pay equity increases in coming months due to final settlement of that claim. We may have likely begun to see the first impact of these increases this quarter, but should see further impact in December 2023.

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

Date: 16 November 2023