



Report Title:	Labour Cost Index Results – December 2023		
Report No:	2024-0024		
Date:	22 February 2024		
To:	Hon Nicola Willis, Minister for the Public Service		
Action Sought:	Note the latest wage growth results for the Public Service and public sector	Due Date	26 February 2024
Contact Person:	Charlie Busby, Manager, Workforce and Employment Relations		
Contact No:	9(2)(a) privacy		
Encl:	Yes – Labour Cost Index – December 2023 quarter	Priority:	Low
Security Level:	UNCLASSIFIED		

Executive Summary

1. The Labour Cost Index is an official measure released by Statistics New Zealand. It shows how the cost of labour is changing over time, controlling for both the quality of labour, and quantity of labour. It is an analogous measure for labour costs as the Consumer Price Index (CPI) is for price inflation for goods and services.
2. This report presents our analysis of changes in the index, with a particular focus on how wages are changing across the public sector.
3. Results show public sector wages grew at higher-than-average rates across all of the public sector in the December 2023 quarter:
 - a. Public sector wage growth was 1.5 percent this quarter, and 5.7 percent in the year to December 2023.
 - b. Public Service wage growth was 1.1 percent this quarter, and 4.7 percent in the year to December 2023.
 - c. Education sector wage growth was 0.7 percent this quarter, and 5.6 percent in the year to December 2023.
 - d. Health sector wage growth was 2.9 percent this quarter, and 7.9 percent in the year to December 2023.
4. These results are in the context of inflation declining compared to recent quarters, but remaining above the long-term average. Wage growth exceeded inflation across most of the public sector. Inflation, as measured by the CPI, was 0.5 percent this quarter and 4.7 percent in the year to December 2023.
5. Consistent with our normal practice, findings and analysis (enclosed) will be published on Te Kawa Mataaho Public Service Commission’s website.

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6. We anticipate significant wage growth in the public sector in the next two quarters, with March 2024 wage growth (available in May 2024) driven by Public Sector Pay Adjustment (Pay Adjustment) increases in the Public Service¹, and June 2024 wage (data available in August 2024) driven by further Pay Adjustment increases, and increases to both teaching and public nursing workforces due.

Recommended Action

We recommend that you:

- a **Note** the latest wage movements in the public sector.
- b **Note** that analysis of the December 2023 quarter Labour Cost Index will be published on the website of Te Kawa Mataaho Public Service Commission and will be proactively shared with both Public Service employment relations professionals and the New Zealand Public Service Association.
- c **Note** that we anticipate public sector wage growth in the next two quarters will be above average, due to increases agreed through bargaining in 2023.
- d **Agree** that Te Kawa Mataaho Public Service Commission release this briefing in full once it has been considered by you.

Agree/disagree.

Hon Nicola Willis

Minister for the Public Service

¹ In late 2022, Cabinet agreed that work should proceed with unions on implementing a “Public Sector Pay Adjustment” (Pay Adjustment). While this work programme has now concluded, the increases agreed over year one and year two will be felt in the index for some time.

Purpose of Report

7. Each quarter we brief the Minister for the Public Service and the public sector's employment relations community on the latest wage movements from the Labour Cost Index (LCI) results released by Statistics New Zealand (Stats NZ), with a special focus on the public sector.
8. The LCI is an adjusted index, controlling for both the quality and quantity of labour. For example, wage growth due to cost-of-living increases is shown in the index, while wage growth due to promotion into a new role is not.
9. Our practice since 2009, is to summarise key findings for our Minister in this quarterly report. This provides you with the latest context in which Public Service employment relations is operating. It also supports Ministers and the Public Service Commissioner to understand the impact of policy decisions, such as the Government Workforce Policy Statement, and decisions made through Budget.
10. Our full findings for the December 2023 quarter are enclosed for your reference.

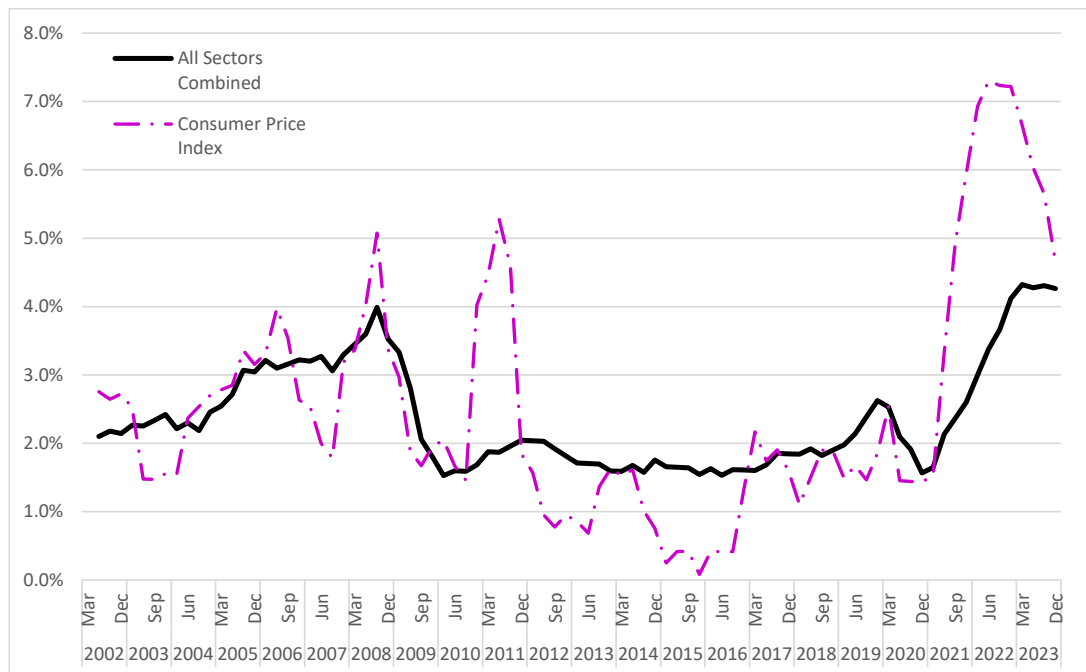
Background

11. LCI data is released on the first Wednesday of the month in February, May, August, and November, for the preceding quarter. Te Kawa Mataaho Public Service Commission (the Commission) receives a bespoke data set from Stats NZ setting out wage movements in public sector subgroups, including the Public Service, health sector, education sector, and local government.
12. Sectors are defined as follows:
 - a. "All sectors," also referred to as "all sectors combined" is comprised of staff employed in both the "public sector," and the "private sector." Headline wage growth reported by Stats NZ is all sectors' wage growth unless otherwise specified.
 - b. The "public sector" is comprised of "central government" and "local government."
 - c. "Central government" is comprised of the "Public Service" (departments and departmental agencies), the "health sector" (staff employed by Health New Zealand), "education sector" (staff employed by public primary and secondary schools), and "other central government" sector.
 - d. "Other central government" includes other public sector employers not in the Public Service, health, or education. It includes most Crown agents and Crown entities, New Zealand Police, and New Zealand Defence Force, but excludes state-owned enterprises.
13. The latest analysis summarises LCI data from the December 2023 quarter, with sample data gathered from employers during a survey period of mid-November 2023. Quarterly wage data reflects changes that occurred between mid-August and mid-November 2023, while annual wage growth reflects changes that occurred between mid-November 2022 and mid-November 2023.
14. Consistent with established practice, our findings will be published on Thursday 22 February 2024.
15. Providing this report assists agencies that are in bargaining or setting their remuneration policies to understand the context within which pay is being adjusted. This is additional to other sources of pay data or trends, such as commercial remuneration market companies that have been traditionally relied upon by a number of agencies.

Analysis

16. Wage growth in recent quarters has been relatively high, and that trend continues this quarter. December 2023 is the seventh consecutive quarter with quarterly wage growth at, or above, 1.0 percent across the “all sectors combined” level, and the eighth consecutive quarter of annual wage growth at, or above, 3.0 percent across *all sectors combined*. As shown in Figure 1, this is unusual over the longer term.

Figure 1: annual wage growth for all sectors combined, and inflation (as measured by the Consumer Price Index) since June 2002



- a. Between 2001 and 2021 there were only four instances of *all sectors combined* quarterly wage growth at or above 1.0 percent.
- b. There was a period from December 2005 to March 2009 with annual wage growth above 3.0 percent, peaking at 4.0 percent in December 2008, but between June 2009 and December 2021 annual wage growth was consistently below 3.0 percent across *all sectors combined*.
17. Key data from the latest report are summarised in Table 1, and is in the context of inflation remaining above the long-term average for the last two years:

Table 1: quarterly and annual wage growth for all sectors combined, private and public sectors, and select public sector sub-sectors, for the December 2023 quarter

Labour Cost Index results for the December 2023 quarter		
	Quarterly	Annual
All Sectors	1.0%	4.3%
Private Sector	1.0%	3.9%
Public Sector	1.5%	5.7%
Public Service	1.1%	4.7%
Health Sector	2.9%	7.9%
Education Sector	0.7%	5.6%
Other Central Govt.	0.5%	4.7%
Local Govt.	3.0%	5.0%
Inflation	0.5%	4.7%

18. Key points from the latest data include:
- a. Annual wage growth across all sectors has remained constant at 4.3 percent throughout 2023, continuing a record high since the index began in 1992. With annual inflation reducing over the same period, the gap between wage growth and inflation is also reducing, although inflation still exceeds wage growth. Annual inflation, as measured by the CPI, has fallen from 6.7 percent in March 2023 to 4.7 percent in December 2023, while annual wage is unchanged at 4.3 percent over the period.
 - b. Public sector wage growth this quarter is driven by increases in the health sector, and local government. Note that the Commission does not have visibility of the underlying causes of wage increases in local government, but this is likely related to collective bargaining settled in 2022.
 - c. December 2023 is the first quarter since March 2021 with public sector annual wage growth above annual inflation.
 - d. Annual public sector wage growth has been greater than that in the private sector since the September 2023 quarter. It had been below private sector wage growth for the preceding two years. Refer figure 1 in enclosure.
 - e. Public Service wage growth this quarter is above average (for the Public Service, since 2002), and most likely driven by agencies annual remuneration reviews from 1 July 2023, and from new settlements during the survey period, mid-August to mid-November. This wage growth is not directly attributable to the Pay Adjustment, except where implementation bargained outcomes had been delayed².
 - f. Health sector wage growth, at 2.9 percent this quarter, has been driven by implementation of the recent pay equity correction for nurses, which settled in July 2023.

² The Pay Adjustment provided for a wage increase of \$4000 in year one, and the higher of \$2000 or three percent wage increase in year two (with the percentage increases capped at \$180,000 meaning those on salaries over \$180,000 receive the same increase as those on \$180,000).

19. We note that movements in the index require careful consideration when these have been partially influenced by a pay equity outcome (technically a wage correction due to sex-based undervaluation), such as in the health sector in recent years. Record high annual wage growth in the health sector (7.9 percent in the year to December 2023) is largely attributable to pay equity increases (corrections for sex-based undervaluation) for Health New Zealand-employed nurses made throughout 2023, rather than negotiated outcomes of collective bargaining.

Future Wage Growth

20. Data for the March 2024 quarter is due to be released 1 May 2024, following a survey period of mid-February 2024. You can expect our report summarising these results in mid-May 2024.
21. Public Service wage growth is expected to be relatively high in the March 2024 quarter, driven by the second year of Pay Adjustment increases. These will be delivered to more than 22,000 Public Service FTE, at 14 agencies, as a result of collective bargaining outcomes reached in 2023.
22. We anticipate little new wage growth related to pay equity outcomes in the March quarter. However, recent increases related to pay equity, for example, for nurses, will continue to affect annual wage growth throughout 2024.
23. Looking further ahead, we anticipate above average wage growth across most of the public sector in the June 2024 quarter. In the Public Service, the second year of Pay Adjustment increases for more than 17,000 public servants will apply from 3 April 2024. Elsewhere in the sector, increases agreed through bargaining for nurses, primary school teachers, and secondary school teachers will also apply in April 2024. Collectively this represents a significant proportion of the public sector and central government.