



Labour Cost Index Results – June 2023

Date: 11 August 2023

Security Level: UNCLASSIFIED

Report No: 2023/0220

Contact: Charlie Busby, Manager, Workforce and Employment Relations

Telephone: 9(2)(a) privacy

Actions Sought

Hon Andrew Little, Minister for the Public Service	Note the latest public sector wage movements for the June 2023 quarter	None
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Enclosure: yes, Labour Cost Index – June 2023 quarter

Minister's Office Comments

Comments:

Date returned to Te Kawa Mataaho:

Report – Labour Cost Index Results – June 2023

- 1 Each quarter we brief you on the latest wage movements from the Labour Cost Index (LCI) results released by Statistics New Zealand, with a special focus on the public sector. This provides you with the latest context in which Public Service employment relations is operating.
- 2 The latest analysis summarises LCI data from the June 2023 quarter. The survey period was mid-May 2022.
- 3 Our full analysis will be published on the website of Te Kawa Mataaho Public Service Commission and shared with key stakeholders, the New Zealand Public Service Association, and public service employment relations professionals on Thursday 17 August 2023.
- 4 Key takeaways from the latest report include:
 - 4.1 Wage growth is at 4.3 percent for the year to June 2023. This is unchanged from last quarter, which was a record high since the index began in 1992. This compares to inflation of 6.0 percent for the same period.
 - 4.2 Public sector quarterly wage growth is led by increases in the Public Service (1.4 percent for June 2023). Many collective agreements which could have settled in the second half of 2022, and some which would not have come into bargaining until later this year, have now settled or varied to implement the Public Sector Pay Adjustment (PSPA), driving wage growth in the Public Service this quarter.
 - 4.3 We continue to stress that 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*. Near record high wage growth in the health sector (7.6 percent in the year to June 2023) is largely attributable to pay corrections for nurses, and health sector administrative and support staff, rather than negotiated outcomes of collective agreement bargaining.
- 5 Key data from the latest report are summarised in Table 1:

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

Labour Cost Index results for the June 2023 quarter		
	Quarterly	Annual
All Sectors	1.1%	4.3%
Private Sector	1.1%	4.3%
Public Sector	0.6%	4.2%
Public Service	1.4%	3.5%
Health Sector	0.6%	7.6%
Education Sector	0.4%	1.9%
Other Central Govt.	0.1%	3.4%
Local Govt.	0.4%	5.1%
Inflation	1.1%	6.0%

6 Our full analysis is enclosed for your reference.

Future wage growth

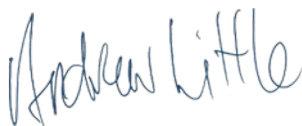
- 7 Data for the September 2023 quarter is due to be released 1 November 2023, following a survey period of mid-August 2023. You can expect our report summarising these results in mid-November.
- 8 Public Service wage growth is expected to be high in the September quarter. This is due to:
- 8.1 New settlements (covering 18,900 FTE) applying the PSPA. Settlements implemented between mid-May and mid-August were not reflected in the index this quarter but should be in September.
 - 8.2 Public Service settlements (covering 8,300 FTE) out of scope of the PSPA will likely apply increases from 1 July 2023.
- 9 We anticipate a significant increase to wage growth in the education sector in September 2023, due to recent collective agreement settlements for teachers and principals.
- 10 Pay Equity settlements are expected to continue to affect wage growth in the health sector for the rest of 2023 and are likely to do so into 2024. The impact of recent interim payments to nurses are already being seen in the index, and final settlement is expected to impact the index further later this year, if not next year. Pay corrections for Midwifery Employee Representation and Advisory Service (MERAS) midwives is also expected in coming quarters, most likely the September 2023 quarter. It will remain challenging to differentiate the components of total health sector wage growth into Pay Equity and negotiated wage increases for some time.
- 11 The second tranche of PSPA increases will occur for many public servants from 1 December 2023. This will not affect the index until the March 2024 quarter.

Recommended Action

We recommend that you:

- a **Note** the latest wage movements in the public sector.
- b **Note** that analysis of the June 2023 quarter Labour Cost Index will be published on the website of Te Kawa Mataaho and has been proactively shared with both the New Zealand Public Service Association, and Public Service employment relations professionals.
- c **Note** that a release plan has been provided to your office.

Noted



20/8/23



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: June 2023 quarter](#).

Summary

- 1 This report summarises movements in the LCI for the June 2023 quarter ("this quarter"). Wage movements occurring between mid-February 2023 and mid-May 2023 are captured.
- 2 Across **all sectors combined**, wages grew 1.1 percent this quarter (up from 1.0 percent in the March 2023 quarter ("last quarter")) and 4.3 percent in the year to June 2023 (unchanged from the year to March 2023).
- 3 In the **public sector**, wage growth this quarter was 0.6 percent (down from 1.3 percent last quarter) and 4.2 percent for the year to June 2023 (unchanged from the year to March 2023).
- 4 In the **private sector**, quarterly growth was 1.1 percent (up from 0.9 percent last quarter), and 4.3 percent for the year to June 2023 (down from 4.5 percent in the year to March 2023).
- 5 In the **Public Service**, wage growth for this quarter was 1.4 percent (up from 0.6 percent last quarter) and 3.5 percent for the year to June 2023 (up from 2.3 percent for the year to March 2023). Public Service wage growth this quarter has been significantly impacted by agencies implementing the Public Sector Pay Adjustment (PSPA). Not all PSPA settlements are reflected as some occurred after the survey period for this quarter.
- 6 In recent quarters a higher than usual proportion of wage rates have been changing and we can see this trend continue this quarter. Across all sectors, 21 percent of wages increased in the June 2023 quarter (up from 16 percent last quarter). Annually, 65 percent of wage rates increased (down from 66 percent in the year to March 2023).
- 7 Inflation, as measured by the Consumer Price Index (CPI) was 1.1 percent this quarter, down from 1.2 percent last quarter. Annual inflation remains above the long-term average at 6.0 percent for the year to June 2023 (down from 6.7 percent in the year to March 2023, and down from 7.3 percent one year ago).



Te Kawa Mataaho report on Labour Cost Index movements: June 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” (PSPA). A significant number of public sector employers, particularly in the Public Service have now implemented the PSPA, impacting the index this quarter. There have been fewer PSPA settlements in the wider public sector, including at Crown entities, in the health sector, or education sector.

Quarterly change

- 11 Wages grew 0.6 percent in the public sector this quarter (down from 1.3 percent in March 2023), while in the private sector, wages grew 1.1 percent this quarter (up from 0.9 percent in March 2023). The increase for all sectors combined was 1.1 percent this quarter (up from 1.0 percent last quarter).
- 12 Quarterly wage growth for the public sector has been notably affected by wage growth in the Public Service this quarter. 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 notably higher than average for a March quarter:
 - 13.1 Quarterly wage growth for the June 2022 quarter (the same quarter last year) was 0.6 percent for the public sector, 1.3 percent for the private sector.
 - 13.2 Average quarterly wage growth for a June quarter, since 2009, is 0.3 percent for the public sector, and 0.6 percent for the private sector.

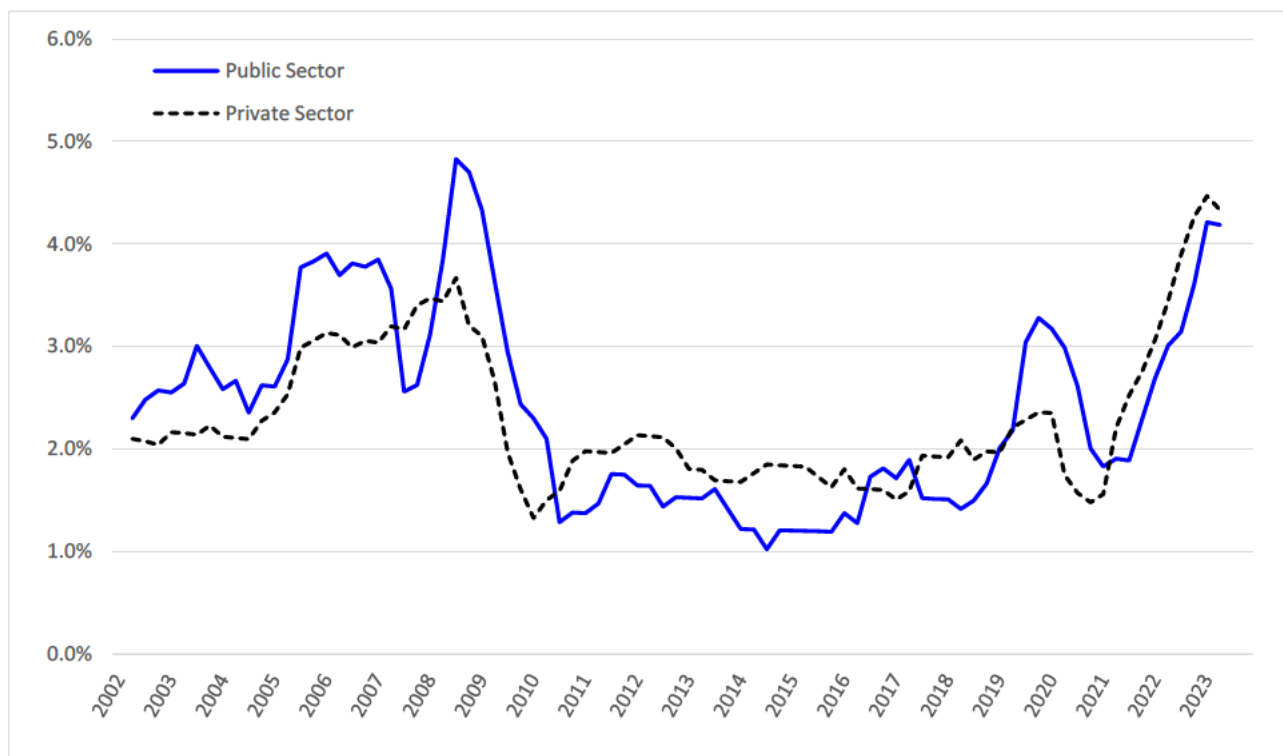
Annual change

- 14 In the year to June 2023, wages grew 4.2 percent for the public sector (unchanged from the year to March 2023) and 4.3 percent for the private sector (down from 4.5 percent for the year to March 2023). The overall rate was 4.3 percent for all sectors (unchanged from the year to March 2023).



- 15 These results are at, or close to, record highs for annual wage growth in these sectors. Last quarter, Stats NZ reported 4.3 percent was 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 2002 quarter. We note that:
- 16.1 The effect of the Global Financial Crisis 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 (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.

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



Public sector and public sector sub-groups

- 17 Recent efforts to implement the PSPA have resulted in a significant number of new collective agreement settlements in the first half of 2023. PSPA increases have had a particularly strong influence on Public Service wage growth this quarter. We expect PSPA settlements for the Public Service to further influence the index in September.
- 18 We approximate that pay increases for around 16,600 FTE in the Public Service, education sector, and at Crown entities, resulting from new collective agreement settlements, will have had an effect on the index in June 2023.

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June 2023



- 19 Collective agreement bargaining continued throughout the quarter for a number of large workforces in the health and education sectors, so we do not see a similar PSPA-related increase in wage growth in those sectors. For example, recent settlement of the Primary School Teachers' Collective Agreement was not implemented in time to affect the index this quarter.
- 20 Other than the Public Service, public sector sub-group wage growth was typical this quarter, compared to historical June quarters.
- 21 Annual wage growth reported this quarter is higher than the historical average across many public sector sub-groups. In particular, annual wage growth for the health sector is more than three times the historical average for a year to June. Public Service wage growth and local government wage growth are more than twice the historical average in a year to June.

Central government

- 22 Central government wages grew 0.6 percent this quarter (down from 1.4 percent last quarter), and 4.0 percent in the year to June 2023 (down from 4.1 percent in the year to March 2023). 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, wages grew 1.4 percent this quarter (up from 0.6 percent in March 2023). In the year to June 2023, Public Service wage increases were 3.5 percent (up from 2.3 percent in the year to March 2023). These are the highest quarterly and annual wage growth results for the Public Service since the December 2019 quarter.
 - 22.2 Education sector wages grew 0.4 percent this quarter (down from 1.1 percent last quarter), and 1.9 percent in the year to June 2023 (up from 1.7 percent in the year to March 2023). Recent collective agreement settlements in the education sector do not yet appear in the index.
 - 22.3 Health sector wages grew 0.6 percent this quarter (down from 3.3 percent last quarter). In the year to June 2023, annual wage growth was 7.6 percent (down from 7.9 percent last quarter). Quarterly wage growth for the health sector was average (for June) this quarter, while annual wage growth remains unusually high due to the impacts of recent pay equity settlements. Refer *Pay Equity* below.
 - 22.4 Other central government group wages grew 0.1 percent this quarter (down from 0.6 percent last quarter), and 3.4 percent in the year to June 2023 (down from 4.6 percent in the year to March 2023). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included.

Local government

- 23 Local government wages grew 0.4 percent this quarter (down from 0.6 percent last quarter). Annual wage growth in the year to June 2023 was 5.1 percent (down from 5.3 percent in the year to March 2023). Annual growth this quarter remains heavily influenced by unusually high quarterly growth in December 2022.

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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 influenced by a pay equity outcome; pay equity settlements result in pay corrections, not pay increases. This is particularly salient for health and education sectors.
- 25 We have not seen any impact from new pay equity settlements affecting the index this quarter, although annual wage growth rates continue to be affected by pay corrections for the following workforces:
- 25.1 In the health sector:
- 25.1.1 Health New Zealand-employed administrative and clerical staff, ratified May 2022.
- 25.1.2 Health New Zealand-employed nurses, who received an interim pay correction in late 2021, and a second interim pay correction in early 2023. Additional corrections relating to this claim are expected in coming quarters.
- 25.2 In the education sector, pay corrections for school-board-employed administrative and clerical staff.

Cumulative wage growth and inflation

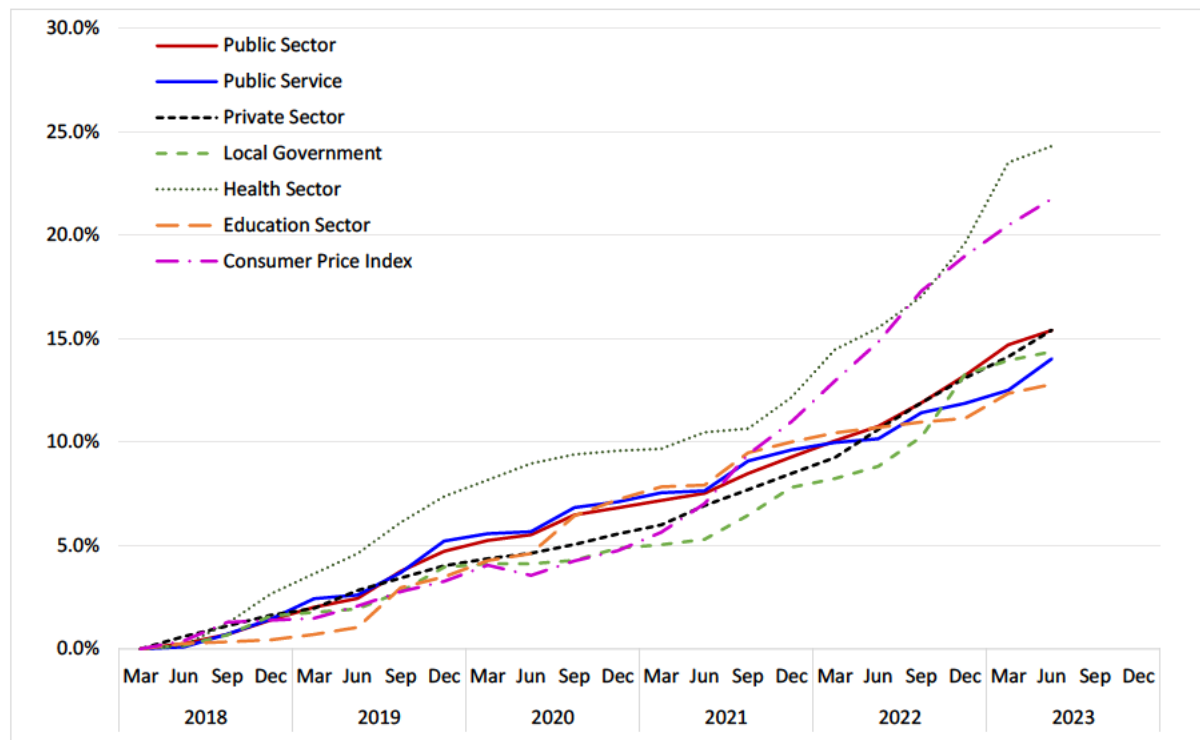
- 26 Inflation, as measured by the CPI, increased 1.1 percent in the June 2023 quarter (down from 1.2 percent last quarter). This is the ninth consecutive quarter of quarterly inflation above 1.0 percent.
- 27 Annual inflation increased 6.0 percent in the year to June 2023, down from 6.7 percent in the year to March 2023, but remaining significantly higher than average. This is the seventh consecutive quarter of annual inflation above 5.0 percent.
- 28 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

- 29 Across most public sector sub-groups, other than the health sector, cumulative wage growth since March 2018 has been similar, ranging from 12.8 percent for the education sector, to 14.4 percent for local government.
- 30 Figure 2 below shows the trend in wage movements of selected sectors and sector sub-groups since March 2018, on a cumulative basis.



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



31 Noting that public sector wage growth has been impacted by significant pay corrections in the health sector, gaps in cumulative wage growth since March 2018 include:

31.1 Public Service wage growth is 1.4 percentage points below public sector wage growth.

31.2 Health sector wage growth is 8.9 percentage points above public sector wage growth.

31.3 Education sector wage growth is 2.6 percentage points below public sector wage growth.

31.4 Private sector wage growth has been the same as public sector wage growth.

Long-term cumulative wage growth

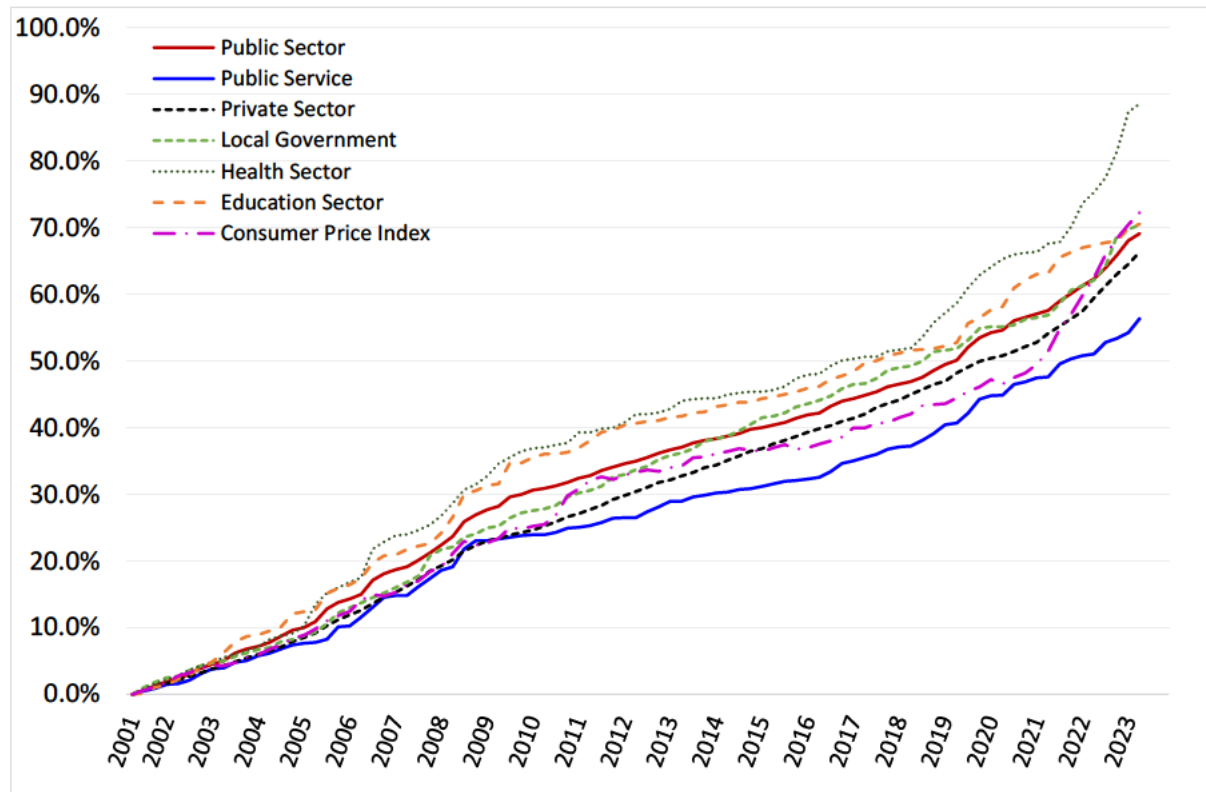
32 Where the short-term wage growth trend is one of relatively consistent wage growth across much of the public sector and the private sector, the longer-term wage growth trend shows more variation since 2001.

33 Figure 3 below shows the long-term trend (since March 2001) in cumulative wage movements of selected sectors and sector sub-groups.

34 Over this longer period, cumulative inflation 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. This is a relatively recent trend, with cumulative inflation lagging cumulative wage growth for most of the public sector, except the Public Service, until late 2022.



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



35 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.

36 Public Service cumulative wage growth is relatively low compared to other sectors. This may be due to the prevalence of progression and other increases which are adjusted out of the LCI, or higher average wages in the Public Service.

Unadjusted wage growth

37 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.

38 The unadjusted LCI tends to increase at a higher rate than wage cost inflation, since it includes market costs as well as 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.

39 Current unadjusted wage growth is closer to inflation than adjusted wage growth.

39.1 Unadjusted wage growth for the June 2023 quarter was 1.5 percent across all sectors (0.7 percent in the public sector, and 1.6 percent in the private sector) compared to



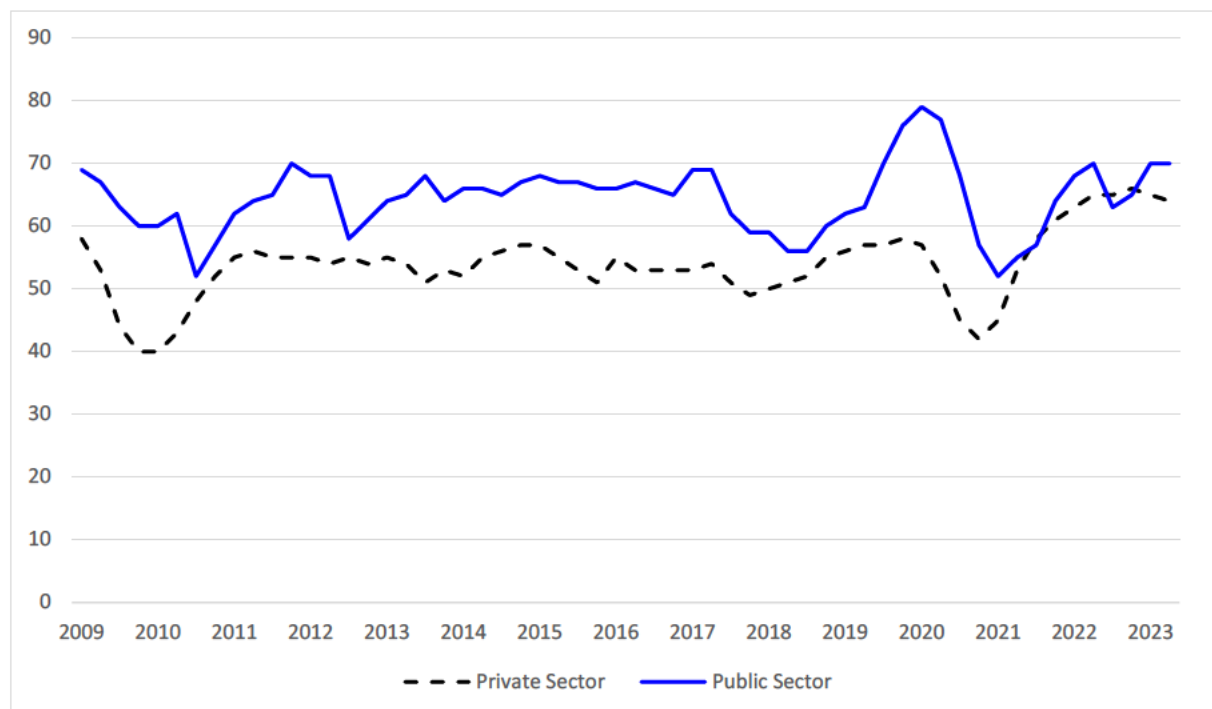
quarterly inflation of 1.1 percent. In the Public Service, quarterly unadjusted wage growth was 1.7 percent; this is the highest quarterly result across the sectors and sector sub-groups we monitor.

- 39.2 Unadjusted wage growth for the year to June 2023 was 5.9 percent across all sectors (4.9 percent in the public sector, and 6.1 percent in the private sector) compared to annual inflation of 6.0 percent. In the Public Service annual unadjusted wage growth was 4.6 percent.

Proportion of workers receiving wage increases

- 40 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.
- 41 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



- 42 More wage rates than usual have been changing in recent quarters, and that trend continues this quarter, particularly in the private sector.
- 42.1 Across all sectors combined, 21 percent of wage rates increased in the June 2023 quarter (up from 16 percent in the March 2023 quarter), and 65 percent of wage rates increased in the year to June 2023 (down from 66 percent for the year to March 2023).

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- 42.2 In the public sector, 13 percent of wage rates increased this quarter (down from 23 percent last quarter), and 70 percent of public sector wage rates increased in the year to June 2023 (unchanged from the year to March 2023).
- 42.3 In the private sector, 22 percent of wage rates increased this quarter (up from 15 percent in the March 2023 quarter), and 64 percent of wage rates increased in the year to June 2023 (down from 65 percent in the year to March 2023).

Looking ahead to the September 2023 quarter

- 43 LCI data for the September 2023 quarter will be released on 1 November 2023, following a survey period of mid-August 2023..
- 44 Average quarterly wage growth for a September quarter in the last four years (with average since 2009 shown in brackets) is:
 - 44.1 all sectors combined: 0.8 percent (0.6 percent)
 - 44.2 public sector: 1.0 percent (0.6 percent)
 - 44.3 Public Service: 1.2 percent (0.6 percent)
- 45 We anticipate high wage growth in the Public Service in September. This is a combination of two factors:
 - 45.1 Public Service collective agreements covering approximately 18,900 FTE have settled between mid-May and mid-August.
 - 45.2 Increases applying from 1 July in settled collective agreements covering approximately 8,300 FTE. These are staff covered by collective agreements which were out of scope of the PSPA.
- 46 Education sector wage growth is expected to be high in September due to recent settlements of collective agreements in the sector, and the collective agreement for primary teachers in particular.
- 47 Wage growth driven by recent pay corrections will continue to have an impact on annual wage growth rates next quarter.
 - 47.1 Pay corrections for Health New Zealand-employed nurses are expected to have a significant impact and will influence health annual sector wage growth for the rest of 2023.
 - 47.2 Pay corrections in the education sector including for administrative/clerical staff, science technicians, and librarians will affect rates of annual wage growth for some time, likely into 2024.
- 48 Health New Zealand-employed nurses are expected to receive additional pay corrections in coming months due to final settlement of that claim. It is unclear if these corrections will affect the index in September 2023 or December 2023.

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

Date: 17 August 2023