



Labour Cost Index Results – March 2021

Date: 19 May 2021

Security Level: IN CONFIDENCE

Report No: 2021/0108

Contact: Sarah Borrell, Manager, Workforce and Employment Relations

Telephone: 9(2)(a) privacy

Actions Sought

Hon Chris Hipkins, Minister for the Public Service	Note the latest public sector wage movements for the March 2021 quarter	None
---	---	-------------

Enclosure: No

Minister's Office Comments

Comments:

Date returned to Te Kawa Mataaho:

Executive Summary

- 1 Each quarter we brief you on the latest wage movements from the Labour Cost Index (LCI) results released by Stats NZ, with a special focus on the public sector. This report summarises LCI data from the March 2021 quarter. The survey period was mid-February 2021.
- 2 Guidance on pay restraint in the public sector was issued in April 2020 and was in effect for this quarter. Pay increases in the public sector are expected, such as those resulting from collective agreement settlements or work to close gender and ethnic pay gaps and are consistent with this guidance.
- 3 Across all sectors, wage growth this quarter was 0.4% (unchanged from December 2020) and 1.6% in the year to March 2021 (also unchanged from the year to December 2020). This is the first quarter without a fall in annual wage growth across all sectors since the December 2019 quarter, and is the result of contrasting wage movements in the public and private sectors.
- 4 Annual wage growth for the year to March 2021 was 1.8% in the public sector (down from 2.0% in the year to December 2020), and 1.6% in the private sector (up from 1.5% in the year to December 2020).
- 5 In the Public Service, wage growth for the March 2021 quarter was 0.4% (up from 0.3% for the December 2020 quarter) and 1.9% for the year to March 2021 (up from 1.8% in the year to December 2020).
- 6 Fewer people received wage increases in the year to March 2021. In the public sector 10% of wage rates increased this quarter, the lowest quarterly figure we have seen since June 2009. In the private sector, 15% of staff received a pay increase this quarter.
- 7 Last quarter, we reported to you that a decline in wage growth likely represented the first impacts of pay restraint on the index. Low wage growth this quarter does not necessarily represent a continuation of the effect of pay restraint, as we expect low wage growth across most sectors in a March quarter. However, the continuation of low wage growth figures strengthens our assumption that the low wage growth in December 2020 represented the impact of the 2020 restraint guidance.

Recommended Action

We recommend that you:

- a **note** that Te Kawa Mataaho Public Service Commission will release this briefing in full after 19 May 2021 to meet the Commission's commitment to proactive release of official information



Hon Chris Hipkins
Minister for the Public Service

Te Kawa Mataaho Report: Labour Cost Index Results – March 2021 Quarter

Purpose of Report

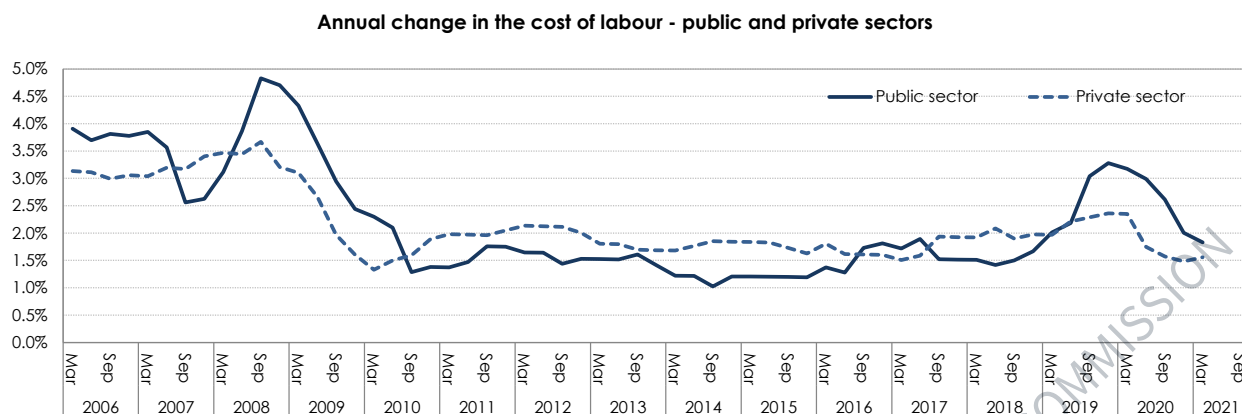
- 8 Each quarter we brief you on the latest LCI results, with a special focus on the public sector. Te Kawa Mataaho Public Service Commission (the Commission) uses the LCI to monitor and oversee wage movements, including bargaining outcomes, in the public sector. The LCI is released quarterly by Stats NZ. It measures changes in salary and wage rates in the labour market for the same quality and quantity of labour. The Index is “adjusted”, changing with changes in the price of labour, holding the volume of labour (quality and quantity) static. Unless specified, data in this report is adjusted data.
- 9 Data and insights from this report will help to inform agencies, chief executives and unions about remuneration trends in the public sector.

Public and private sector annual movement in salary and wage rates

Public and private sectors

- 10 This LCI report continues to reflect the state of the labour market following the COVID lockdown of March and April 2020. Labour cost data was gathered in mid-February 2021 during which time all of New Zealand was at alert level 1 and followed the then State Services Commissioner’s issuance of guidance on pay restraint in the public sector in April 2020.
- 11 Quarterly change – wage rates in the public sector increased 0.3% this quarter, while in the private sector, wage rates increased 0.4% this quarter. The increase for all sectors combined was 0.4%. Quarterly wage growth was unchanged in the public sector, and across all sectors combined compared to last quarter, and fell slightly in the private sector (down 0.1 percentage point from 0.5% last quarter). Quarterly inflation rate as measured by the Consumer Price Index (CPI) increased 0.8% in the March 2021 quarter.
- 12 Annual change – in the year to March 2021, wage rates increased 1.8% for the public sector (down from 2.0% for the year to December 2020) and 1.6% for the private sector (up from 1.5% for the year to December 2020). The overall rate was 1.6% for all sectors, unchanged from last quarter. Inflation, as measured by the CPI, was 1.5% for the year to March 2021 (up from 1.4% for the year to December 2020).
- 13 Annual wage growth in the public sector has now led wage rate increases in the private sector for the last seven quarters and has not been lower than private sector annual wage growth since December 2018. The gap has reduced in recent quarters.
- 14 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. The effect of the GFC on wage growth was first seen in the December 2008 quarter.

Figure 1: Public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2006-2021



- 15 Following the GFC in 2007-2008, there was a sustained decline in wage growth rates in the public sector, and a shorter, steeper, decline followed by a period of more moderate rises in the private sector. Wage growth has trended similarly following the emergence of COVID-19 in New Zealand as it did, following the GFC a decade ago.
- 16 The increase in private sector annual wage growth this quarter follows four consecutive quarters without an increase in annual wage growth. This contrasts with compared with six quarters of declining private sector annual wage growth following the GFC.

Public sector and public sector sub-groups

- 17 Contributing to wage increases this quarter are increases agreed via collective bargaining, including 3% increases for approximately 40,000 school caretakers, cleaners, and support staff in the Education sector, and varied increases for 2,000 staff in the Public Service and Health sectors.
- 18 Central Government wage rates increased 0.3% in this quarter, and 2.0% in the year to March 2021. This includes increases in the Health sector, Education sector, Public Service, and the other Central Government group (excluding State-owned enterprises).

18.1 Education sector wage increases were higher this quarter than any other public sector sub-sector at 0.6%. Annual wage growth to March 2021 was 3.4%. Annual wage growth has now remained at or above 3.0% since the December 2019 quarter. In the year to March 2021, no other monitored sector or sub-sector had annual wage growth higher than 2.0%.

18.1.1 The tertiary education subsector, which contributes to wage growth for the Education sector, experienced relatively high quarterly wage growth at 1.2%, up from 0.1% in the December 2020 quarter.

18.2 Health sector wage increases have remained low this quarter, increasing 0.1% for the quarter, and 1.4% in the year to March 2021. This is the lowest annual wage growth in the Health sector since June 2018. We note that the collective agreement for DHB nurses expired in June 2020 and that workforce remains in bargaining.

18.3 Public Service wage increases were 0.4% this quarter, and 1.9% in the year to March 2021. This is comparable to quarterly wage growth of 0.3% in last quarter, 0.3% for the March 2020 quarter. Wage growth at normal levels this quarter suggests that low wage growth last quarter was not

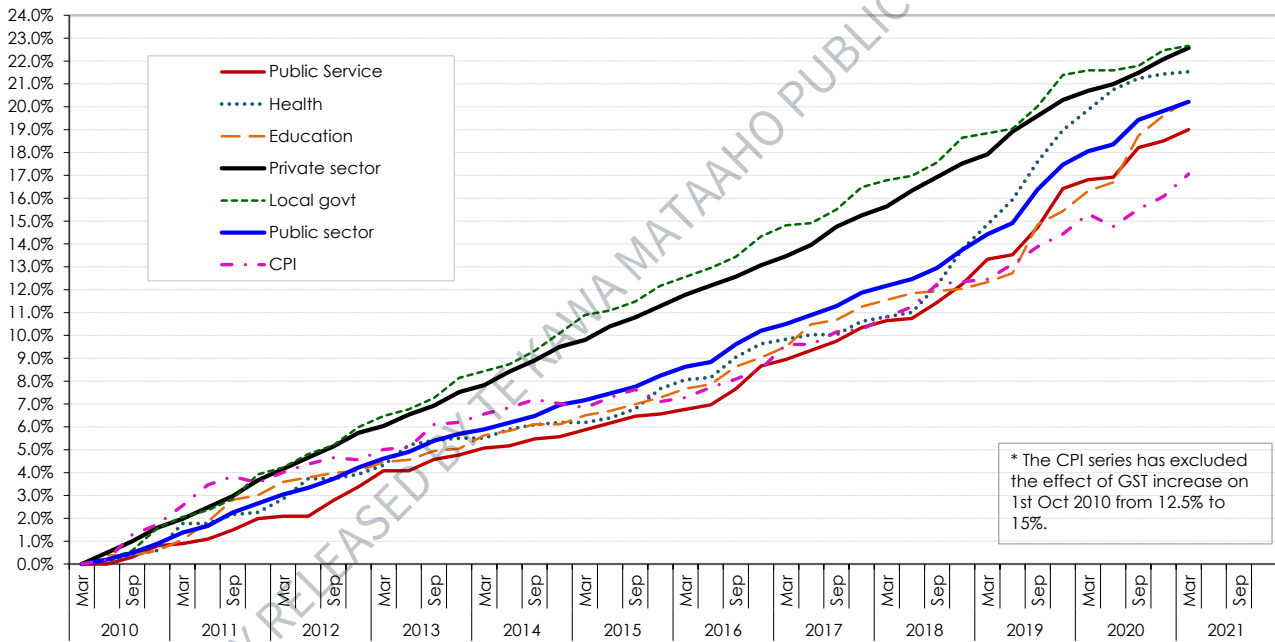
the result of wage increases being pushed into subsequent quarters. This strengthens our assumption that low wage growth in December 2020 reflected a real effect of pay restraint.

- 19 Other Central Government group wage increases remained low, at 0.2% this quarter, and 1.2% in the year to March 2021. This group includes NZ Police, NZ Defence, ACC, and other Crown agents.
- 20 Local Government wage increases were 0.2% this quarter (down from 0.6% last quarter). Annual wage growth in the year to March 2021 remains at the lowest we have seen on record (since 2002) at 0.9%, unchanged compared to wage growth in the year to December 2020.

Labour Cost Index - wage movements by sector and Consumer Price Index

- 21 Inflation, as measured by the CPI, increased 0.8% in the March 2021 quarter, higher than all monitored sectors and subsectors, except for tertiary education.
- 22 Figure 2 below shows the long-term trend in wage movements of selected sectors since March 2010 on a cumulative basis.

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



- 23 Cumulative increases of wage movements in the Health sector which had accelerated since the September 2018 quarter have remained low this quarter. The cumulative wage growth gap (since 2010) between the Health sector and the Public Service has fallen to 2.5 percentage points this quarter, from a high of 3.8 percentage points three quarters ago. Compared with collective agreements in the Public Service, relatively few collective agreements in the Health sector have had scheduled increases over the last year. This is one reason the Health sector/Public Service cumulative wage growth gap is narrowing.
- 24 Relative wage growth in the Education sector has increased in the last year and continues to do so this quarter. Cumulative wage growth (since 2010) in the Education sector now leads cumulative wage growth in the public sector, for the first time since 2012.

- 25 In the local government subsector, low annual increases over the last two quarters follows a trend of above average wage increases in that subsector since 2010. Cumulative wage growth since 2010 for this subsector remains higher than that in any other monitored sector or subsector.

Proportion of workers receiving wage increases

- 26 In the public sector, 10% of wage rates increased this quarter (down from 15% in the December 2020 quarter). While it is not unusual, in the public sector, for fewer wage rates to move in the March and June quarters than in the September and December quarters, 10% is particularly low. Nearly 15% of public sector staff receive an increase in an average March quarter. June 2009 was the last quarter in which 10% of public sector staff, or fewer, received an increase.
- 27 In the private sector, 14% of wage rates increased this quarter (down from 15% in the December 2020 quarter). In contrast to the result for the public sector, 14% is not unusual for a March quarter in the private sector.
- 28 In the year to March 2021, 52% of wage rates increased in the public sector (45% in the private sector) compared with 79% in the public sector in the year to March 2020 (57% in the private sector).
- 29 In the year to March 2021, 46% of wage rates increased across all sectors combined (compared with 61% in the year to March 2020). This is near the 10-year low of 45% we reported to you last quarter.

Looking ahead to the June 2021 quarter

- 30 Wage growth in the public sector and Public Service are typically lowest in the June quarter, while the private sector usually sees modest wage growth. Increases effective from 1 April annually, such as increases to the minimum wage, are expected to show in the June quarter data.
- 31 High wage growth in the Education sector is expected to continue in June and will remain in annual wage growth data until 2022. Few settlements have new salary changes falling in the June reporting period (between February and May), but 6% increases to Service and Food Workers in the Health sector will be paid.
- 32 As a result of initial agreement resulting from pay equity bargaining, wage increases of up to \$2,500 for up to 8,700 administrative and clerical staff in the Health sector are due in the Q1 of 2021. These payments may influence the June 2021 LCI index.
- 33 New guidance on pay restraint issued in early May 2021 is unlikely to directly affect wage increases for June as agencies will not have had the chance to give effect to it before the relevant survey period for June. We are looking to the September 2021 quarter as the next quarter likely to show the effects of pay restraint.

Next Steps

- 34 The Commission will release this report proactively after it has been delivered to you.