

Labour Cost Index Technical Report – March 2025



Te Kawa Mataaho
Public Service Commission

Purpose

Each quarter the 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, oversee, and report on 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), and ensures transparency of public sector wage growth for the public.

You can find additional information and data relating to this quarter's index on the Commission's Employment Relations website: [Here](#), and the Stats NZ website here: Labour market statistics: [March 2025 quarter](#).

Summary

- 1 This report summarises movements in the LCI for the March 2025 quarter ("this quarter") for public sector employment relations professionals, and other key stakeholders. Quarterly wage movements reflect increases applied between mid-November 2024 and mid-February 2025, while annual wage movements reflect increases applied between mid-February 2024 and mid-February 2025.
- 2 Across **all sectors combined**, wages grew 0.5 percent this quarter (down from 0.6 percent from the December 2024 quarter ("last quarter")) and 2.9 percent in the year to March 2025 (down from 3.3 percent in the year to December 2024).
- 3 In the **public sector**, wage growth this quarter was 0.9 percent (up from 0.5 percent last quarter) and 4.2 percent for the year to March 2025 (down from 4.5 percent from the year to December 2024).
- 4 In the **private sector**, wage growth this quarter was 0.4 percent (down from 0.6 percent from last quarter) and 2.6 percent for the year to March 2025 (down from 3.0 percent in the year to December 2024).
- 5 In the **Public Service**, wage growth for this quarter was 0.0 percent (down from 0.3 percent last quarter) and 2.4 percent for the year to March 2025 (down from 3.6 percent from the year to December 2024).
- 6 These results are in the context of annual consumer inflation, as measured by the Consumer Price Index, of 2.5 percent for the year to March 2025 (up from 2.2 percent in the year to December 2024). Quarterly inflation was 0.9 percent in March 2025 (up from 0.5 percent last quarter).
- 7 Public sector wages have increased 26.2 percent since 2018, compared to private sector wage growth of 21.6 percent and inflation of 28.5 percent over the same period. Public Service cumulative wage growth is 21.4 percent since 2018.



Public Service Commission technical report on Labour Cost Index movements: March 2025 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 Labour Cost Index (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. This is not analysis that Stats NZ produces.
- 10 Wage growth is reported by sector:
 - 10.1 Unless otherwise stated, wage growth refers to increases of labour costs across the economy, sometimes referred to as wage growth across “all sectors combined.” This is comprised of staff employed in both the “public sector,” and the “private sector.”
 - 10.2 The “public sector” is comprised of “central government” and “local government.”
 - 10.3 “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.
 - 10.4 “Other central government” includes other public sector employers not in the Public Service, health, or education. It includes most Crown agents and Crown entities, as well as New Zealand Police, and New Zealand Defence Force, but excludes state-owned enterprises.

Public and private sector movement in salary and wage rates

Public and private sectors

- 11 In late 2022, Cabinet agreed that work should proceed with unions on a “Public Sector Pay Adjustment” (the Pay Adjustment). This work programme has now concluded but its effects continue to be seen in annual wage growth results¹. It is likely that the September 2025 quarter will be the first quarter unaffected by the Pay Adjustment since March 2023.
- 12 We note that a result of the Pay Adjustment is a grouping of public sector collective agreement expiry dates in late 2024, and early 2025. Because bargaining is ongoing, or upcoming, wage increases that would be delivered through settlement of these collective agreements have not had an impact on the index. Modest wage growth in the March 2025 quarter for much of the public sector is a consequence of this grouping of collective agreement expiry dates, although we also note wage growth is typically lower in March quarters due to seasonality, and few increases typically occurring between November and February.

¹ The Pay Adjustment delivered two increases across two years, either occurring from 1 December 2022 (year one) and 1 December 2023 (year two), or 3 April 2023 (year one) and 3 April 2024 (year two).

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- 13 A Government Workforce Policy Statement on Employment Relations in the Public Sector has been influencing remuneration decisions across the public sector since mid-2024. The impact of the Policy Statement has been limited this quarter due to fewer remuneration decisions being actioned across the sector in the second half of the year, although the number of remuneration decisions being made may have been influenced by this policy statement. The impact of the expectations will become clearer in 2025. Where decisions have been made, these have generally not been accompanied with immediate uplifts in base pay rates.

Quarterly change

- 14 Wage growth was 0.5 percent this quarter (down from 0.6 percent in December 2024). In the public sector, wages grew 0.9 percent this quarter (up from 0.5 percent last quarter), while in the private sector, wages grew 0.4 percent this quarter (down from 0.6 percent last quarter). Increased wage growth in the public sector is driven by increases in the education sector, refer *public sector and public sector sub-groups*, below.
- 15 Wage growth typically exhibits 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, due to the timing of wage increases delivered through pay equity corrections, and the Pay Adjustment. Quarterly wage growth for March 2025 is average, or below average, for a March quarter across the economy, in the private sector, and for most of the public sector.
- 16 Since September 2009, wage growth averages 0.5 percent in a March quarter (0.5 percent this quarter), public sector wage growth averages 0.5 percent in March (0.9 percent this quarter), and private sector wage growth averages 0.4 percent in March (0.4 percent this quarter). We may be seeing a return to pre-Pay Adjustment seasonality patterns, and will continue to monitor this.

Annual Change

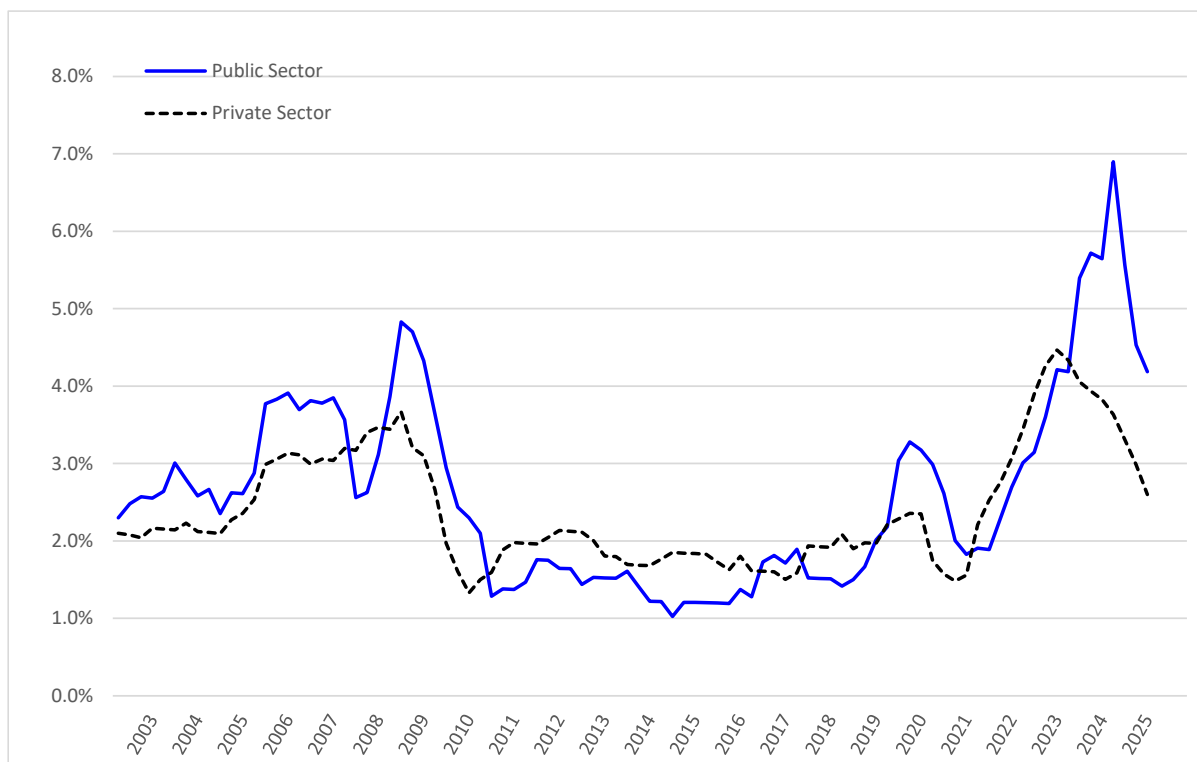
- 17 In the year to March 2025, wages grew 2.9 percent (down from 3.3 percent in the year to December 2024). Over the same period wages grew 4.2 percent for the public sector (down from 4.5 percent for the year to December 2024) and 2.6 percent for the private sector (down from 3.0 percent for the year to December 2024).
- 18 Figure 1 below compares annual wage movements for the public and private sectors since the March 2002 quarter.
- 19 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 COVID-19 restrictions, followed by the effects of tight labour market conditions, including low unemployment and border restrictions first eased, and then pressured, wage growth between 2020 and 2022.
 - 19.3 The impact of pay corrections since 2022, and the Pay Adjustment in 2023 and 2024 is seen in significant public sector wage growth over that time.

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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), 2002-2025



20 Figure 1 illustrates that public sector wage growth is generally slower to react to market conditions than the private sector, being slower to adjust down in reaction to negative market movements or up in reaction to tight labour market conditions. One reason for this is the relative prominence of collective bargaining in the public sector, with settlements that typically include scheduled pay increases over the life of a multi-year agreement. We can see this clearly in recent years:

- 20.1 Tight labour market conditions and increasing inflation throughout 2021 and 2022 pressured wage growth across the economy. Private sector responded quickly, with wage growth increasing throughout 2021 and 2022. Public sector responded more slowly, with wage growth not increasing until late 2021 and into 2022.
- 20.2 Economic conditions, including high consumer inflation, tight labour market conditions, and private sector wage growth, collectively played some part in 2022 decisions to implement a public sector pay adjustment. This was implemented from early 2023. However, just as this was beginning to be implemented, economic conditions changed.
- 20.3 Inflation, which had remained relatively steady at around 7.2 percent for much of 2022, began to fall in 2023, and private sector wage growth which had increased steadily in the previous two years also began to decline. Conversely, public sector employers had only just begun to implement the pay adjustment in March 2023, locking in two years of wage increases, mostly through collective agreements expiring in December 2024 or

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April 2025. The Pay Adjustment is still affecting wage growth in March 2025, two years after private sector wage growth peaked.

Public sector and public sector sub-groups

- 21 Bargaining for new collective agreements has not driven wage growth this quarter, however, increases in previously settled agreements delivered significantly affected wage growth in the education sector. We estimate over 70,000 teachers and principals received increases this quarter. This does not include staff who may have received wage increases due to contractually required progression. Progression is adjusted out of the LCI, but is reflected in the unadjusted LCI index (refer *unadjusted wage growth* below).
 - 21.1 Central government wages grew 1.1 percent this quarter (up from 0.4 percent from last quarter), and 4.3 percent in the year to March 2025 (down from 4.6 percent in the year to December 2024). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding state-owned enterprises), and excludes Local Government.
 - 21.2 In the Public Service, wage growth was flat this quarter, changing 0.0 percent (down from 0.3 percent in December 2024). In the year to March 2025, Public Service wage increases were 2.4 percent (down from 3.6 percent in the year to December 2024, and sector-high 5.4 percent annual wage growth in the year to June 2024). This is the sixth instance on record of nil quarterly wage growth in the Public Service².
 - 21.3 Education sector wages grew 2.4 percent this quarter (up from 0.1 percent last quarter), and 5.1 percent in the year to March 2025 (up from 3.9 percent in the year to December 2024). Quarterly wage growth of 2.4 percent is the third highest result for this sector on record.
 - 21.4 Health sector wages grew 0.4 percent this quarter (down from 0.5 percent last quarter). In the year to March 2025, annual wage growth was 5.2 percent (down from 7.1 percent last quarter). While health sector wage growth continues to fall, since the peak of 10.0 percent in June 2024, it remains above average, and still leads annual wage growth across the public sector.
 - 21.5 Other central government group wages grew 0.4 percent this quarter (down from 0.5 percent last quarter), and 4.2 percent in the year to March 2025 (up from 4.1 percent in the year to December 2024). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included.

Local government

- 22 Local government wages grew by 0.1 percent this quarter (down from 1.8 percent last quarter). Annual wage growth in the year to March 2025 was 3.2 percent (down from 3.7 percent in the year to December 2024). Local government tends to have highly seasonal wage growth relative to other sectors with quarterly wage growth averaging 1.2 percent since 2009 in a December quarter, while wage growth in other quarters average between 0.3 and 0.7 percent over the same period.

² The previous five instances were June 2007, March 2009, June 2010, June 2012, and June 2013.

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A note on pay equity

- 23 Wage growth delivered as a result of pay equity outcomes show in the LCI. This wage growth affects pay and workforce costs, but should be considered as a pay correction (due to sex-based undervaluation) rather than a negotiated pay increase.
- 24 Normally, employers may look to the LCI to compare how wages are growing elsewhere in the economy and this may influence their own remuneration decisions. However, where pay corrections have influenced the index, particularly the health and education sectors, caution should be exercised. Delivering a negotiated pay increase to “keep up” with a pay growth in another sector risks undermining pay corrections that have influenced that sector’s wage growth. This could result in new sex-based undervaluation emerging, and in turn could have cost for the employer, and government.

Cumulative wage growth and inflation

- 25 Consumer inflation, as measured by the Consumer Price Index, was 0.9 percent in the March 2025 quarter (up from 0.5 percent last quarter). Annual inflation was 2.5 percent in the year to March 2025, up from 2.2 percent in the year to December 2024. Annual inflation continues to lag annual wage growth across all monitored sectors and sector sub-groups.
- 26 Data above reflects short term changes in wage growth, changes over the last quarter, year, or two years. Medium- and long-term wage growth is better measured through cumulative change.
- 27 In considering the below data, it is important to note that wage growth is not the same as wage rates. Different sectors will face different labour market conditions and pressures, each of which may influence wage growth in that sector differently. For example, changes to the minimum wage affect private sector wage growth more than Public Service wage growth.

Medium-term cumulative wage growth

- 28 Cumulatively, wages have grown 22.4 percent since March 2018, growing 26.2 percent across the public sector, and 21.6 percent across the private sector in that time. For comparison, cumulative inflation was 28.5 percent since 2018.
- 29 Within the public sector, cumulative wage growth varies between 21.4 percent for the Public Service and 38.9 percent for the health sector, although the health sector is an outlier in this regard, refer figure 2 below.
- 30 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:
 - 30.1 Public Service wage growth is 4.8 percentage points **below** public sector wage growth (3.7 percentage points below when measured last quarter).
 - 30.2 Health sector wage growth is 12.6 percentage points **above** public sector wage growth (13.2 percentage points above when measured last quarter).
 - 30.3 Education sector wage growth is 1.4 percentage points **below** public sector wage growth (3.3 percentage points below when measured last quarter).
 - 30.4 Private sector wage growth is 4.7 percentage points **below** public sector wage growth (4.0 percentage points below when measured last quarter).

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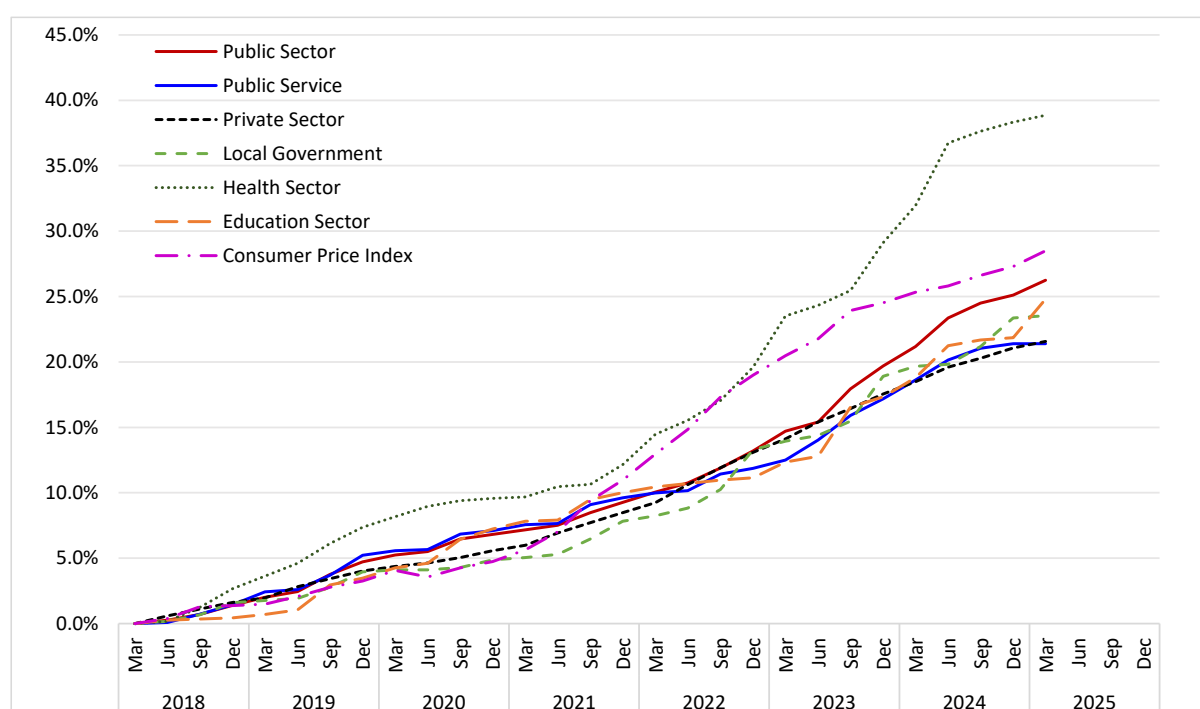


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30.5 Inflation, as measured by the Consumer Price Index, is 2.2 percentage points **above** public sector wage growth (2.2 percentage points above when measured last quarter).

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

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



Long-term cumulative wage growth

32 Where the medium-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 June 2001) shows more variability.

33 Cumulatively, wages have grown 76.9 percent since 2001, growing 85.0 percent across the public sector, and 75.2 percent across the private sector in that time. For comparison, cumulative inflation was 81.8 percent since 2001.

34 Cumulative wage growth for the health and education sectors generally trended together between 2001 and 2020. The recent deviation shows the differences in the timing of collective bargaining around 2018 and 2019, and the impacts of subsequent settlements in the sector.

35 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. Refer to *unadjusted wage growth* below for further context.

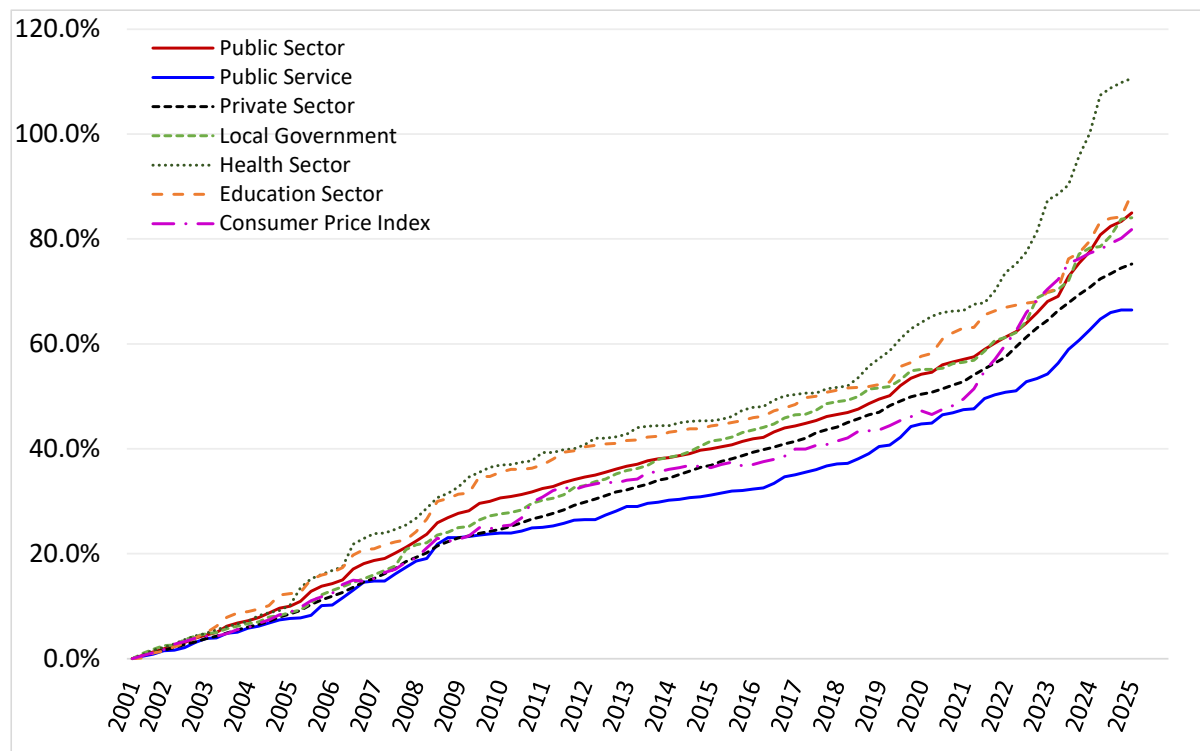
36 Figure 3 below shows the long-term trend (since 2001) in cumulative wage movements of selected sectors and sector sub-groups.

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



Unadjusted wage growth

- 37 The LCI's headline series are adjusted to remove the effect of any changes to the quality or quantity of labour. A secondary index, the unadjusted LCI, is also available which allows labour cost increases resulting from changes to the quality of labour.
- 38 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 headline measure of wage cost inflation (adjusted LCI) and the unadjusted LCI. However, if an employee received a pay rate increase for quality reasons, such as receiving progression or a promotion, this would only be reflected in the unadjusted LCI and not the headline series.
- 39 While consumer inflation and unadjusted wage growth are not directly comparable measures, it is useful to compare the two as unadjusted wage growth presents a more complete picture of how wages for individuals are changing. Quarterly unadjusted wage growth across the public sector and most of the public sector sub-groups we monitor is higher than inflation this quarter.
- 39.1 Unadjusted wage growth for the March 2025 quarter was 0.9 percent (1.2 percent in the public sector, and 0.7 percent in the private sector) compared to quarterly inflation of 0.9 percent. Public Service unadjusted wage growth was 0.1 percent for the quarter. We note that quarterly unadjusted wage growth can be quite variable, as it can change significantly due to quality of work changes, including staffing changes including both the number of staff in an agency, and changes to the individuals performing the work.

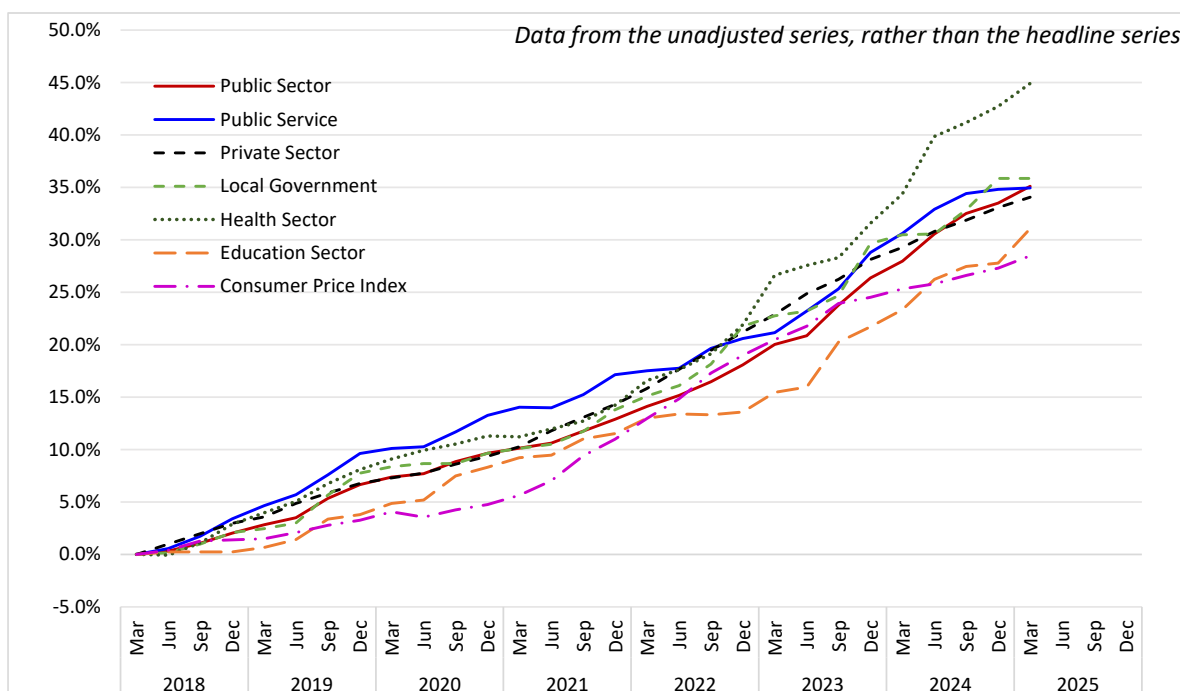
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- 39.2 Unadjusted wage growth for the year to March 2025 was 4.1 percent across all sectors (5.6 percent in the public sector, and 3.7 percent in the private sector) compared to annual inflation of 2.5 percent. In the Public Service annual unadjusted wage growth was 3.3 percent.
- 40 Figure 4 shows cumulative unadjusted wage growth for the public sector, private sector, and select public sector sub-groups against inflation since 2018. As this is measured over the same period results can be compared with cumulative wage growth shown in figure 2.
- 40.1 Over this period, cumulative inflation leads cumulative adjusted wage growth across all monitored sectors, except the health sector, but lags cumulative unadjusted wage growth across all sectors.
- 40.2 Relativities between adjusted and unadjusted wage growth across the sectors are different. For example, since 2018, cumulative adjusted wage growth in the Public Service is 18.5 percent lower than cumulative adjusted wage growth in the public sector overall, but cumulative unadjusted wage growth for the Public Service is almost the same (0.4 percent lower) as cumulative unadjusted wage growth in the public sector overall.

Figure 4: Labour Cost Index – wage movements by sector and inflation (cumulative unadjusted percentage change since March 2018)



- 41 Gaps between adjusted (figure 2) and unadjusted (figure 4) wage growth point at how wage growth is delivered in different sectors. A sector with a high gap between cumulative adjusted and unadjusted wage growth, such as the Public Service, delivers a larger amount of wage growth for “adjusted out” reasons, including progression and promotion, compared to sectors with a smaller gap, such as the health sector.
- 42 Cumulative unadjusted wage growth since 2018 is higher than adjusted wage growth across each sector we monitor, including leading by 8.9 percentage points in the public sector, 12.5

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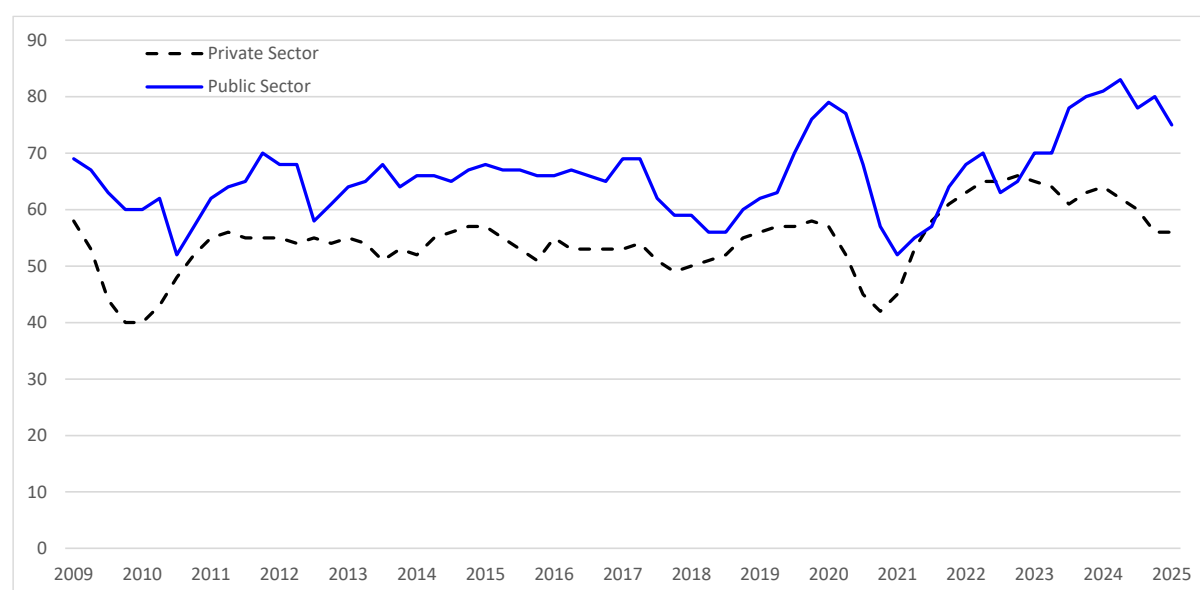
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percentage points in the private sector, and 13.6 percentage points in the Public Service. The smallest gap we see is in the health sector, where unadjusted wage growth leads adjusted wage growth by 6.0 percentage points.

Proportion of employees receiving wage increases

- 43 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, which usually change annually in April. As with rates of wage growth, this seasonality has, in recent quarters, been disrupted.
- 44 Figure 5 below shows the proportion of wages changing annually for the public and private sectors.

Figure 5: proportion of wage rates changing for the public sector and private sector (annually), since March 2009



- 45 The proportion of wages changing annually remains above the long-term trend in both public and private sectors. The proportion of wages changing in the quarter is slightly below the March average in the private sector, and slightly above the March average in the public sector.
- 45.1 Thirteen percent of all wage rates increased in the March 2025 quarter (down from 16 percent last quarter), and 59 percent of wage rates increased in the year to March 2025 (down from 60 percent for the year to December 2024).
- 45.2 In the public sector, 20 percent of wage rates increased this quarter (down from 21 percent last quarter) and 75 percent of public sector wage rates increased in the year to March 2025 (down from 80 percent in the year to December 2024).
- 45.3 In the private sector, 11 percent of wage rates increased this quarter (down from 15 percent last quarter), and 56 percent of wage rates increased in the year to March 2025 (unchanged from the year to December 2024).

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Looking ahead to the June 2025 quarter

- 46 LCI data for the June 2025 quarter will be released on 6 August 2025, following a survey period of mid-May 2025.
- 47 Table 1 shows quarterly wage growth for the June 2024 quarter, and recent quarterly averages for all sectors combined, the public sector, and the Public Service.

Table 1: Wage growth trends in a June quarter, select sectors

Quarterly wage growth trends for a June quarter			
	June 2024	June Average 2021 - 2024	June Average 2009 - 2024
All Sectors Combined	4.3%	3.5%	2.3%
Private Sector	3.6%	3.4%	2.3%
Public Sector	6.9%	4.0%	2.4%
Public Service	5.4%	3.3%	2.1%

- 48 We anticipate low to average wage growth across the public sector in June 2025, and a continued reduction to annual wage growth. Significant annual changes may be seen in the June 2025 quarter, as wage growth from June 2024 no longer influences annual growth rates. The following quarterly wage growth from June 2024 will no longer be influencing annual growth rates when we report next quarter:
- 48.1 Across all sectors, quarterly wage growth was 1.2 percent, second highest result on record.
- 48.2 Public sector quarterly wage growth was 1.8 percent, third highest result on record.
- 48.3 Public Service quarterly wage growth was 1.3 percent.
- 48.4 Health sector quarterly wage growth was 3.6 percent, the second highest quarterly result for the sector.
- 48.5 Education sector quarterly wage growth was 2.1 percent.
- 49 You can find our full report on June 2024 quarterly wage growth on the Commission's Employment Relations [website](#).

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

Date: 27 May 2025