



Labour Cost Index (LCI) Results - December 2017 Quarter

Date: 19 February 2018
Report No: SSC2018/112
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	Action Sought	Deadline
Minister of State Services (Hon Chris Hipkins)	Note the latest public sector wage movements for the December 2017 quarter	None

Enclosure: Yes (attached)

Executive Summary

Each quarter we brief you on the latest wage movements from the LCI results released by Statistics New Zealand, with a special focus on the public sector. The State Services Commission (SSC) use the LCI to monitor and oversee wage movements, including bargaining outcomes, in the State sector.

The latest LCI results show that public sector wage inflation in the year to the December 2017 quarter was 1.5%, which is lower than for the private sector at 1.9%.

Key sector movements are summarised below:

1 Public and private sectors

- 1.1 Quarterly change - The latest LCI results indicate that all salary and wage rates (including overtime) in the public sector increased by 0.5% in the December 2017 quarter, while the private sector increased by 0.4%. The increase for all sectors combined was 0.4%.
- 1.2 Annual change - For the December 2017 year, the annual wage rate increase for the public sector was 1.5% (down from 1.8% for the December 2016 year) and 1.9% for the private sector (up from 1.6% in 2016). The overall LCI increased by 1.8% for all sectors (up from 1.6% in 2016).
- 1.3 This compares to general inflation, as measured by the Consumer Price Index (CPI), which increased by 0.1% in the December 2017 quarter, and increased by 1.6% for the year.

2 Sub-groups within the public sector

- 2.1 Quarterly change - In the December 2017 quarter, salary and wage rates increased by 0.4% in Central Government and 0.8% in Local Government. Within Central Government: the Public Service, the Education sector, the Health sector and Other Central Government group (excluding State-owned Enterprises) all increased by 0.5%. This is slightly higher than the

increase for total central government, which also includes State-owned Enterprises, most of which had no significant movements in the quarter.

- 2.2 Annual change – In the year to December 2017 wage growth in Local Government increased by 1.9% and Central Government by 1.5%. Within Central Government, sub-sector movements include the Education sector (up 2.0%), the Public Service (up 1.6%), the Health sector (up 0.9%) and the Other Central Government group (up 1.6%).

Recommended Action

We recommend that you:

- a **note** the latest wage movements in the public sector.

Agree/disagree.



Hon Chris Hipkins

Minister of State Services

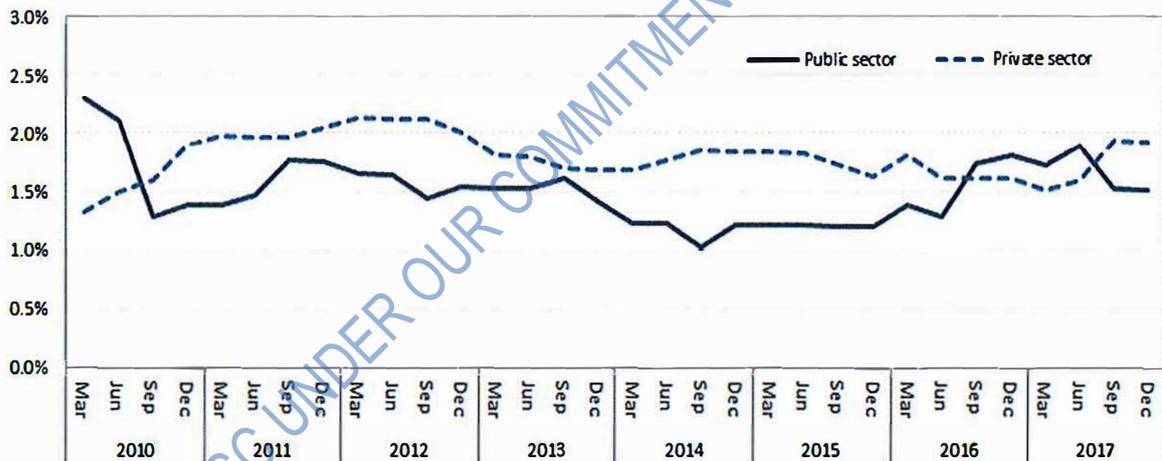
Purpose of Report

- 3 Each quarter we brief you on the latest wage movements from the LCI results, with a special focus on the public sector. SSC use the LCI to monitor and oversee wage movements, including bargaining outcomes, in the State sector.

Supplementary information – wage and salary movements

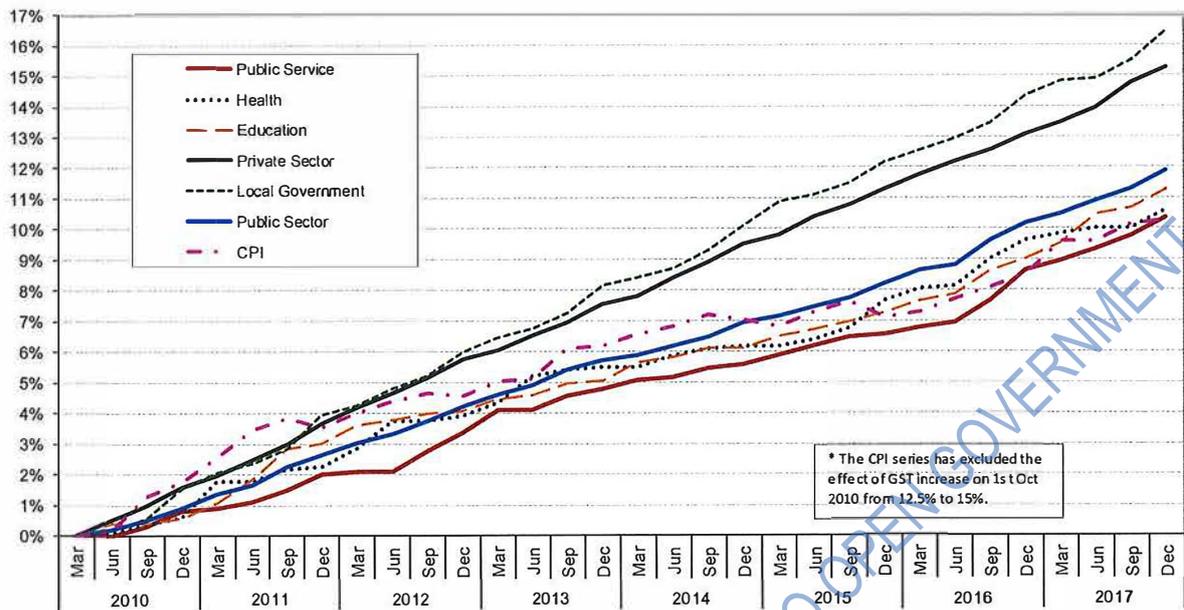
- 4 The LCI is released quarterly by Statistics New Zealand, and measures changes in salary and wage rates in the labour market.
- 5 Figure 1 compares the annual wage movements (including overtime), for the public and private sectors. The public sector movements tracked below the private sector over the six-year period, Sep-2010 to Jun-2016. In the following year to June 2017, annual wage growth in the public sector exceeded the private sector. Thereafter the result reverted to the previous pattern.

Figure 1: Public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2010-2017



- 6 Figure 2 shows the long term trend in wage movements of selected sectors since March 2010 on a cumulative basis. Wage movements in the Public Service since 2010 have been lower than those in the private sector and other government sectors; they have generally been lower than general inflation (as measured by the CPI), though the gap has narrowed in the last year. Wage movements in Local Government and the Private Sector have been above the CPI since 2011. Health and Education sectors have generally been above the CPI since December 2015.

Figure 2: Labour Cost Index - wage movements by sector and CPI (% change since March 2010)



7 Table 1 shows the wage movements of various sectors on a quarterly, six-monthly and annual basis. Some of these movements were influenced by the collective agreements outlined in paragraph 8 below. The public sector is made up of the Central Government and Local Government sectors. Central Government comprises the Public Service, the Health sector, the Education sector, State-owned Enterprises and the 'Other Central Government' group**.

Table 1: Movements in wage rates by sector - quarterly, six-monthly and annually to Dec-2017

Sectors and Sub-sectors	LCI Movement in Salary and Wage Rates		
	Quarterly	Six-Monthly	Annual
All sectors	0.4%	1.0%	1.8%
Private sector	0.4%	1.1%	1.9%
Public sector	0.5%	0.9%	1.5%
Local Government	0.8%	1.4%	1.9%
Central Government**	0.4%	0.8%	1.5%
Public Service*	0.5%	0.9%	1.6%
Health	0.5%	0.5%	0.9%
Education	0.5%	0.7%	2.0%
Other Central Government*	0.5%	1.6%	1.6%
Consumer Price Index (CPI)	0.1%	0.6%	1.6%

* Unpublished information from SSC's special cut of LCI results, provided by Statistics NZ.

** Central Government - includes Public Service (departments & ministries), Health Sector, Education Sector, State-owned Enterprises and Other Central Government (Police, Defence Force, ACC and other crown agencies).

- 8 **Collective agreements** - The annual growth rate to December 2017 in salaries and wages for the public sector was 1.5%. The December 2017 quarterly increase was 0.5%. The December 2017 quarter included the implementation of pay increases for some large workforces:
- 8.1 Public Service
 - 8.1.1 Ministry of Social Development, Service Delivery – 2%
 - 8.1.2 Ministry of Justice Staff, Team Leaders and Managers – 2.8%
 - 8.2 Education Sector
 - 8.2.1 Secondary School Teachers - 2.5%
 - 8.3 Health Sector
 - 8.3.1 Service Workers – 2%
- 9 The following collective agreement increase is expected to influence the March 2018 quarter results:
- 9.1 Health Sector
 - 9.1.1 Senior Medical Officers – 2%

Technical Notes

- 10 The LCI is an official measure of wage inflation (i.e. the change from one period to another in base salary and wage rates, including overtime). It enables wage movements in different sectors to be compared. The LCI covers fixed industry and occupation groups. It measures changes in salary and wage rates that employers pay for the same job done to the same standard. The LCI does not reflect compositional change in the workforce, service increments, merit promotions and increases (or decreases) relating to the performance of employees. The LCI is based on a sample of data collected at the mid-point of a quarter; therefore wage movements that occur during the second half of the quarter will not be reflected in the current quarter of LCI movements. They will instead be reflected in the next quarter's results.