



## Labour Cost Index Results – December 2020

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**Report No:** 2021/0013  
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	<b>Actions Sought</b>	<b>Due Date</b>
<b>Hon Chris Hipkins, Minister for the Public Service</b>	Note the latest public sector wage movements for the December 2020 quarter agree to release the report	None

Enclosure: No

### Minister's Office Comments

<b>Comments:</b>	
<b>Date returned to Te Kawa Mataaho:</b>	

## Executive Summary

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- 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 December 2020 quarter. The survey period took place mid-November 2020.
- 2 Guidance on pay restraint in the public sector was issued in April 2020 and remains in effect for this quarter. Remuneration increases baked into collective agreements are typically effective from 1 July and show up in the September quarter data. December quarters tend to reflect increases agreed in new settlements and increases for staff on individual agreements.
- 3 It is likely that low quarterly wage increase in the Public Service, and a low proportion of public sector staff receiving wage increases, particularly relative to previous December quarters, represent the first impacts of pay restraint on the index.
- 4 In the Public Service, wage growth fell to 0.3% this quarter (from 1.1% in the September 2020 quarter), and 1.8% for the year to December 2020 (down from 3.0% in the year to September 2020), less than half the 3.7% annual wage growth reported for December 2019.
- 5 Across all sectors, wage growth this quarter was 0.4% (down from 0.6% in September 2020) and 1.6% in the year to December 2020 (down from 1.9% in the year to September 2020). Annual wage growth across all sectors has been falling since the December 2019 quarter, and a recent peak of 2.6%.
- 6 Annual wage growth for the year to December 2020 was 2.0% in the public sector (down from 2.6% in the year to September 2020), and 1.5% in the private sector (down from 1.6% in the year to September 2020). Public sector wage growth was supported by wage growth in Primary and Secondary education.
- 7 Fewer people receive wage increases in the year to December 2020. In the public sector 15% of wage rates increased in the public sector this quarter (57% in the year to December 2020), approximately a third lower than the average December quarter. Overall, 45% of workers received a wage increase in the year to December 2020, the lowest all-sector figure since March 2010.

## Recommended Action

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We recommend that you:

- a **note** the latest wage movements in the public sector
- b **agree** that Te Kawa Mataaho Public Service Commission (the Commission) release this briefing in full once it has been considered by you. This is to meet the Commissions commitment to proactive release of official information

Agree/ disagree.



Hon Chris Hipkins  
**Minister for the Public Service**

## **Te Kawa Mataaho Report: Labour Cost Index (LCI) Results – December 2020 Quarter**

### **Purpose of Report**

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- 1 Each quarter we brief you on the latest LCI results, with a special focus on the public sector. 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<sup>1</sup>. Unless specified, data in this report is adjusted data.
- 2 Data and insights from this report are also used to ensure our advice to agencies, chief executives, unions, and Ministers is high quality, informed, and timely.

### **Public and private sector annual movement in salary and wage rates**

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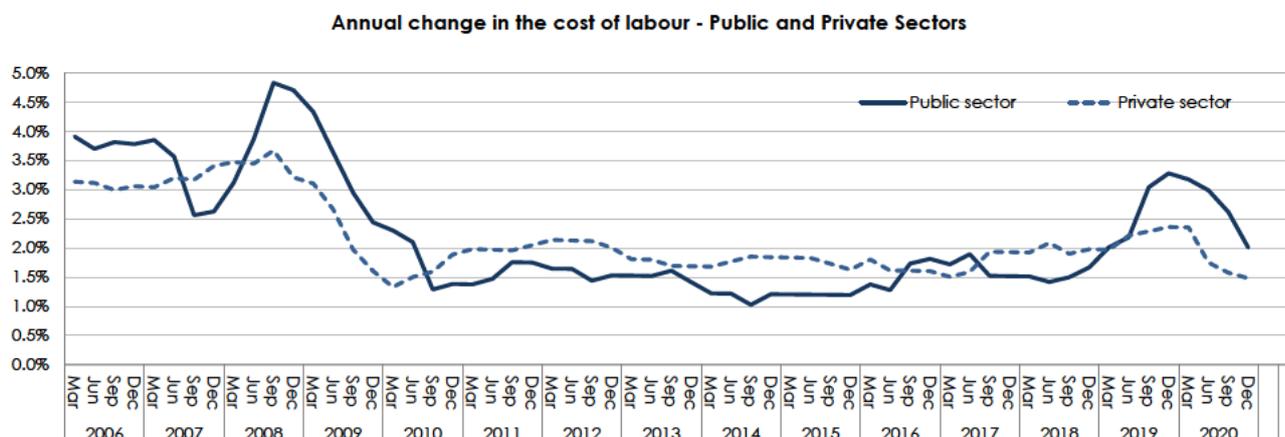
#### **Public and private sectors**

- 3 This LCI report continues to reflect the state of the labour market following the initial COVID lockdown. Labour cost data was gathered in mid-November during which time all of NZ 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.
- 4 Quarterly change – wage rates in the public sector increased 0.3% this quarter, while in the private sector, wage rates increased 0.5% this quarter. The increase for all sectors combined was 0.4%. By comparison wage rates grew 0.9% in the public sector, 0.4% in the private sector, and 0.6% across all sectors in the September 2020 quarter. Quarterly inflation rate as measured by the Consumer Price Index (CPI) increased 0.5% in the December 2020 quarter.
- 5 Annual change – in the year to December 2020, the annual wage rate increase was 2.0% for the public sector and 1.5% for the private sector. The overall rate was 1.6% for all sectors. Inflation, as measured by the CPI, remained at 1.4% for the year to December 2020.
- 6 Annual wage growth rates are lower in the public sector, private sector, and across all sectors combined are all lower in the year to December 2020 than they were in the year to December 2019.
- 7 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.

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<sup>1</sup> Stats NZ has previously reported that pay rate changes due to, for example, a reduction in hours worked due to COVID-19, would be excluded from the Index as this represents a change in the volume, not price, of labour

**Figure 1: Public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2006-2020**



8 It is of interest that there was a sustained decline in wage growth rates following the GFC in the public sector, and a shorter, steeper, decline followed by a period of more moderate rises in the private sector. Wage growth has been trending similarly following the emergence of COVID-19 in New Zealand as it did following the GFC a decade ago. A continuation of this trend would result in both public and private sector wage growth rates fall in March 2021, although we note that wage growth in the private sector is already close to minimum wage growth levels following the GFC.

**Public sector and public sector sub-groups**

9 Contributing to wage increases this quarter are increases agreed via collective bargaining. This quarter, increases for approximately 2,300 school principals have taken effect, as well as increases for up to 10,000 Public Service staff from collective agreements settled in 2020.

10 Central government wage rates increased 0.3% in this quarter, and 2.3% in the year to December 2020. This includes increases in the health sector, education sector, Public Service, and the Other Central Government group (excluding State-owned enterprises).

10.1 Education sector wage increases were 0.7% this quarter, and 3.6% in the year to December 2020. The education sector is the only monitored public sector sub-sector to report an increase in annual wage growth this quarter. This was supported by payments to teacher aides to settle their pay equity claim. Area, secondary, and primary school principals also received increases from their settled collective agreements. Annual wage growth has now remained at or above 3.0% since the December 2019 quarter.

10.2 Health sector wage increases were 0.2% this quarter, and 2.1% in the year to December 2020, down from 0.4% last quarter, and 3.1% in the year to September 2020. This is the lowest quarterly increase in the Health sector since June 2018. We note that the collective agreement for DHB nurses expired in June 2020 and remains in bargaining.

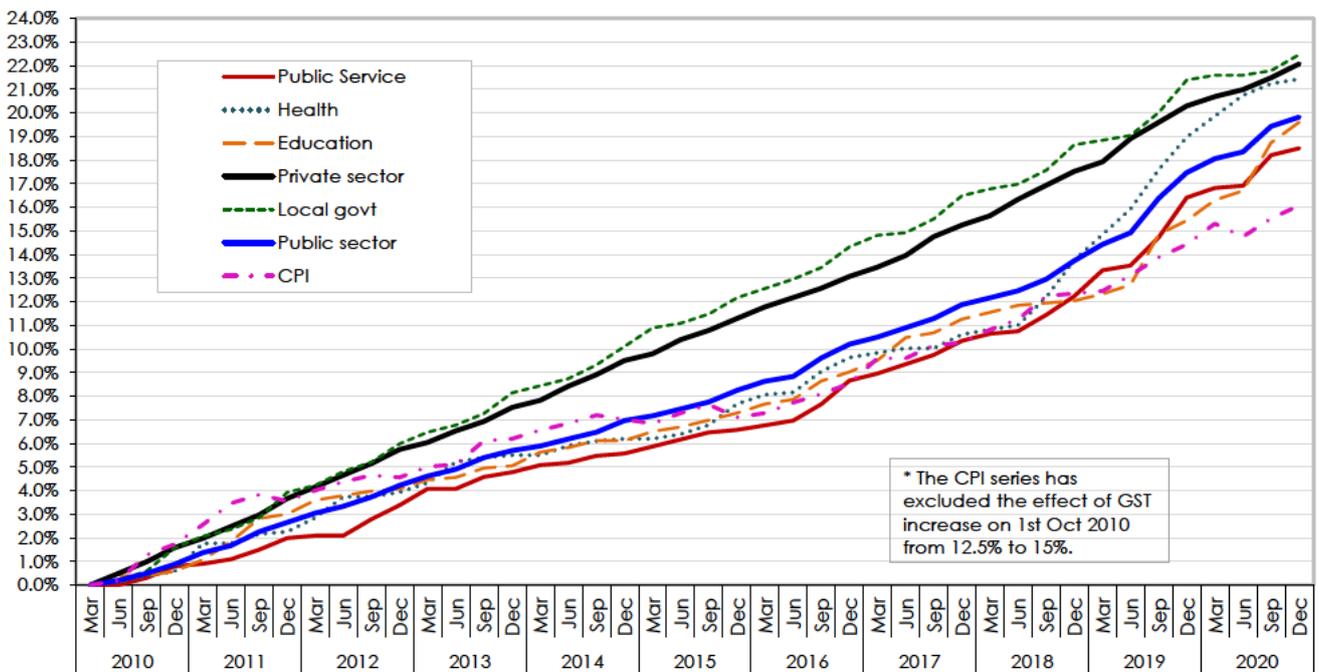
10.3 Public Service wage increases were 0.3% this quarter, and 1.8% in the year to December 2020. This contrasts with quarterly wage growth of 1.1% last quarter and 3.0% in the year to September 2020, and 1.5% quarterly Public Service wage growth in December 2019. This may reflect the impact of pay restraint guidance, and we will continue to monitor for evidence of restraint.

- 11 Other Central Government group wage increases were 0.1% this quarter, and 1.2% in the year to December 2020. This group includes NZ Police, NZ Defence Force, Accident Compensation Corporation, and other crown agents. This is the lowest annual wage growth rate in seven quarters.
- 12 Local Government wage increases were 0.6% this quarter (up from 0.2% last quarter) and increased 0.9% the year to September 2020 (down from 1.5% in the year to September 2020). We typically see larger wage increases in Local Government in the December quarter, however, annual wage growth of 0.9% represents the lowest increase in annual wage for Local Government since at least June 2002, the start of our records, and follows the third consecutive quarter of quarterly wage growth under 1.0%.

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

- 13 Inflation, as measured by the CPI, increased 0.5% in the December 2020 quarter, higher than all monitored sectors and subsector groups, except the education sector and local government.
- 14 Cumulative increases of wage movements in the health sector which had accelerated since the September 2018 quarter have continued to slow this quarter. The cumulative wage growth gap (since 2010) between the health sector and the Public Service has fallen to 2.9 percentage points this quarter, from a high of 3.8 percentage points two quarters ago.
- 15 Education sector wage growth has accelerated in the last year and continues to do so this quarter. Cumulative wage growth (since 2010) in the public sector is now just 0.2 percentage points above cumulative wage growth in the education sector, the smallest such gap since early 2013.
- 16 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)**



## **Proportion of workers receiving wage increases**

- 17 In the public sector, 15% of wage rates increased this quarter (23% in the September 2020 quarter). It is not unusual, in the public sector, for more wage rates to move in the September and December quarters than in the March and June quarters, and 15% is an outlier in this regard. A quarterly figure of 15% represents the smallest proportion of public sector wages increasing in a December quarter since 2009, and eight percentage points (approximately a third) lower than an average December quarter.
- 18 In the private sector, 15% of wage rates increased this quarter (up from 10% in the September 2020 quarter). In contrast to the result for the public sector, 15% is not unusual for a December quarter in the private sector.
- 19 In the year to December 2020, 57% of wage rates increased in the public sector (42% in the private sector), compared with 76% in the public sector year to December 2019 quarter (58% in the private sector). Across all sectors combined, 45% of wage rates increased, the lowest annual figure since March 2010.

## **Looking ahead to the March 2021 quarter**

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- 20 Wage growth across all sectors combined is typically lowest in the March quarter each year, and the same is true of the private Sector.
- 21 High wage growth in the education sector is expected to continue in March and will remain in annual wage growth data until 2022. From the collective agreements we monitor, we expect at least 40,000 FTE to receive increases in the education sector, including 3% increases cleaners and caretakers, and support staff in schools.
- 22 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 should influence either the March 2021 or June 2021 LCI data.
- 23 We note that while annual wage growth in the Public Service dropped from 3.6% to 1.8% this quarter, we do not expect similarly large changes in the March 2021 and June 2021 quarters. We are looking to the September 2021 quarter as the next quarter likely to show the effects of pay restraint.

## **Next Steps**

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- 24 Upon your agreement, the Commission will release this briefing document on its website to inform public sector employment relations practitioners.