



## Labour Cost Index Results – September 2020

**Date:** 19 November 2020      **Security Level:** IN CONFIDENCE  
**Report No:** 2020/0196  
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	Actions Sought	Due Date
Hon Chris Hipkins, Minister for the Public Service	Note the latest public sector wage movements for the June 2020 quarter	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 September 2020 quarter. The survey period was mid-August 2020.
- 2 Guidance on pay restraint in the public sector was issued in April 2020 and was in effect for this quarter. We do not see the effect of this guidance in the index this quarter due to the size and number of committed salary increases in settled collective agreements. Public service wage growth is typically highest in the September quarter.
- 3 Across all sectors, wage growth this quarter was 0.6% (up from 0.2% in June 2020) and 1.9% in the year to September 2020 (down from 2.1% in the year to June 2020). This is the third consecutive quarter that annual wage growth across all sectors has fallen, from a high of 2.6% in December 2019.
- 4 Annual wage growth for the year to September 2020 was 2.6% in the public sector (down from 3.0% in the year to June 2020), and 1.6% in the private sector (down from 1.7% in the year to June 2020).
- 5 The Public Service wage growth was 1.1% this quarter (up from 0.1% in the June 2020 quarter), and 3.0% for the year to September 2020 (unchanged from the year to June 2020).
- 6 This quarter, salary increases in settled agreements have affected approximately 100,000 full-time equivalent (FTE) including approximately 74,000 in the Education sector, 11,000 Police Constabulary, and over 11,500 FTE in the Public Service.
- 7 There were 68% of workers in the public sector who received wage increases in the year to September 2020 compared with 45% in the private sector. A low proportion of private sector salaries increasing was also seen in late 2008 and early 2009, after the Global Financial Crisis (GFC).

## 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 – September 2020 Quarter

### Purpose of Report

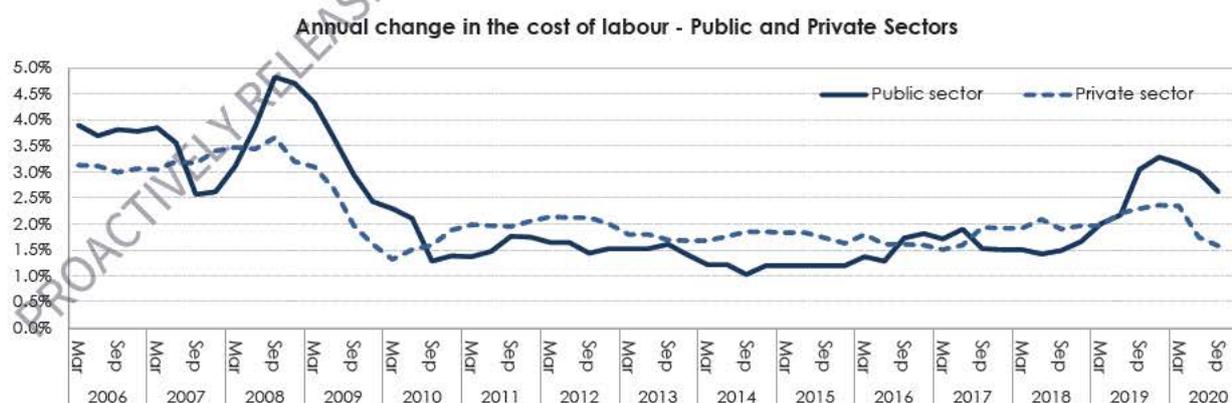
- 8 Each quarter we brief you on the latest LCI results, with a special focus on the public sector. The Commission uses the LCI to monitor and oversee wage movements, including bargaining outcomes, in the Public sector<sup>1</sup>. Data and insights from this report are also used to ensure our advice to agencies, chief executives, unions, and Ministers is high quality, informed, and timely.

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

#### Public and private sectors

- 9 This LCI report continues to reflect the state of the labour market following the initial COVID lockdown. Labour cost data was gathered in mid-August during which time Auckland moved to alert level 3, and the rest of New Zealand moved to alert level 2. This also followed the then State Services Commissioner's issuance of guidance on pay restraint in the Public Sector.
- 10 Quarterly change – wage rates in the public sector increased by 0.9% this quarter, while in the private sector, wage rates increased by 0.4% this quarter. The increase for all sectors combined was also 0.6%. Wage rates grew 0.2% in the public and private sectors, and across all sectors in the June 2020 quarter. Quarterly inflation rate as measured by the Consumer Price Index (CPI) increased 0.7% in the September 2020 quarter.
- 11 Annual change – in the year to September 2020, the annual wage rate increase was 2.6% for the public sector and 1.6% for the private sector. The overall rate was 1.9% for all sectors. Inflation, as measured by the CPI, increased by 1.4% for the year to September 2020.
- 12 Annual wage growth in the public sector, private sector, and across all sectors combined are all lower in the year to September 2020 than they were in the year to September 2019.

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



<sup>1</sup> 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 changes with changes in the price of labour, holding the volume of labour (quality and quantity) static. Stats NZ notes 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

- 13 Figure 1 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.
- 14 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. The index for the June and September 2020 quarters have trended similarly to the December 2008 and March 2009 quarters. A continuation of this trend would see further reduction in annual wage growth in the December 2020 quarter, particularly in the public sector, and we will continue to monitor for this.

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

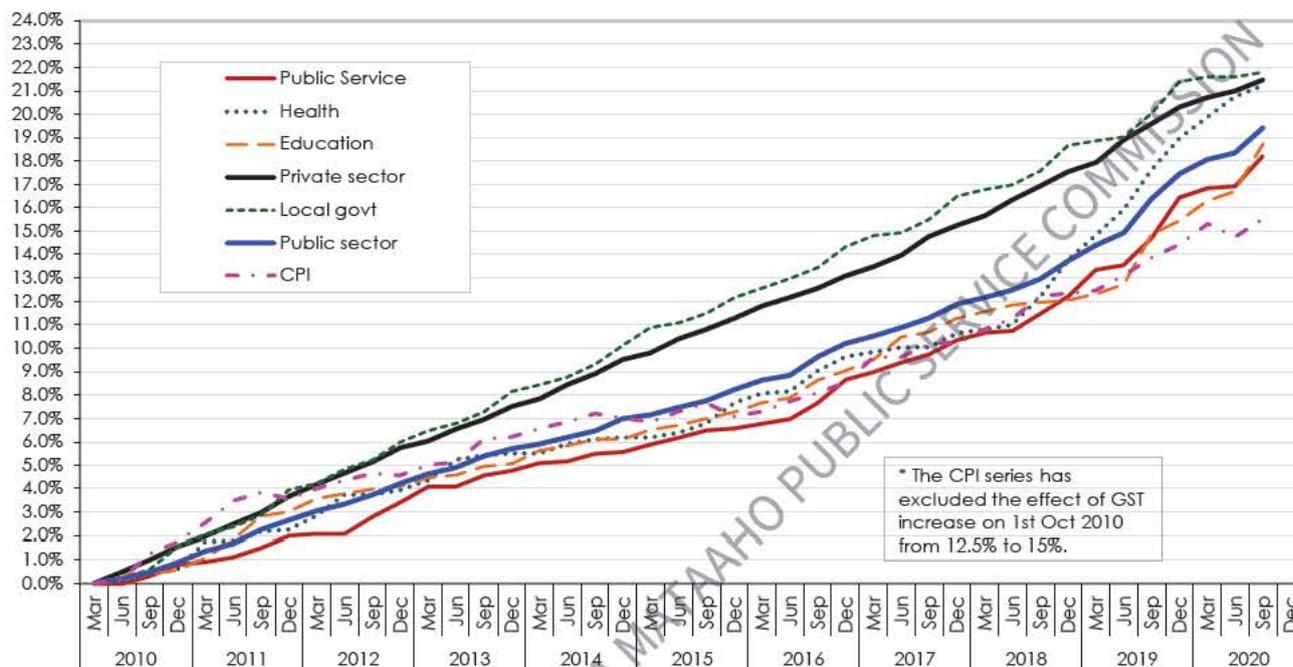
- 15 From monitored public sector collective agreements, approximately 100,000 FTE received increases due to the implementation of pay rates in historically settled collective agreements. These increases include 74,000 FTE in the Education sector, 11,000 at NZ Police, and 11,500 FTE in public service agencies.
- 16 Central government wage rates increased 1.0% in the quarter to September 2020, and 2.8% in the year to September 2020. This includes increases in the Health sector, Education sector, public service, and the Other Central Government group (excluding State-owned enterprises).
- 16.1 Education sector wage increases were 1.7% this quarter, and 3.4% in the year to September 2020. Increases agreed in collective agreements for secondary and primary school teachers contribute to this.
- 16.2 Health sector wage increases were 0.4% this quarter, and 3.1% in the year to September 2020. This is the lowest quarterly increase in the Health sector since June 2018, and reflective of the expiry of the Nurses collective agreement on 30 July 2020.
- 16.3 Public service wage increases were 1.1% this quarter, and 3.0% in the year to September 2020. This is similar to quarterly wage growth in, and annual wage growth to, the September 2019 quarter.
- 17 Other Central Government group wage increases were 0.9% this quarter, and 1.7% in the year to September 2020. This group includes NZ Police, NZ Defence, ACC, and other crown agents. This is the lowest annual wage growth rate in 6 quarters, largely because high quarterly growth in September 2019 (1.5% in that quarter) is now excluded from annual wage growth calculations. The 5-year trend in annual wage growth is 1.82%.
- 18 Local Government wage increases were 0.2% this quarter and increased 1.5% the year to September 2020. This is the lowest increase in annual wage in Local Government since the March 2016 quarter.

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

- 19 Cumulative increases of wage movements in the Health sector have accelerated since the September 2018 quarter but have slowed this quarter. The cumulative wage growth gap (since 2010) between the Health sector and the Public Service has fallen from 3.8 percentage points last quarter, to 3.0 percentage points this quarter.

- 20 Inflation, as measured by the CPI, increased 0.7% in the September 2020 quarter. This was higher than quarterly wage growth in Local Government, the Health Sector, the Private Sector, and all sectors combined.
- 21 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

- 22 In the public sector, 23% of wage rates increased this quarter (12% in the June 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.
- 23 In the private sector, 10% of wage rates increased this quarter (14% in the June 2020 quarter). This is the smallest proportion of wage rates increasing on record, shared only with June 2009, March 2010, and March 2015. A lower proportion of private sector staff receiving increases is a trend we also saw immediately following the GFC.
- 24 In the year to September 2020, 68% of wage rates increased in the public sector (45% in the private sector), compared with 70% in the public sector year to September 2019 quarter (57% in the private sector). While it is common for a greater proportion of public sector employees to receive increases in any one quarter, the 23-percentage point gap between public and private sectors is nearly twice the average since March 2009, and the third consecutive quarter with a gap in excess of 20 percentage points. We will continue to monitor this.

### Looking ahead to the September 2020 quarter

- 25 We typically see high wage increases in the December quarter each year, particularly in the Private Sector and Local Government. High wage growth in the December quarter is also common in the public

service as annual increases effective from 1 July may not be processed before the survey period for the September quarter. We will be better able to report on the effect of the Commissioner's guidance on pay restraint once we see how wages increase in the December 2020 quarter.

- 26 From the collective agreements we monitor, we expect at least 3000 FTE to receive increases in the Public Service, Education, and Health sectors as a result of existing commitments. This includes 3% increases to state and integrated school principals paid in late August 2020.
- 27 Payment to Teacher Aides from their Pay Equity settlement is to be made by November 2020. The first impact of this on the index will be present in either the December 2020, or March 2021, quarter.

### **Next Steps**

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- 28 Upon your agreement, the Commission will release this briefing document on its website.

PROACTIVELY RELEASED BY TE KAWA MATAAHO PUBLIC SERVICE COMMISSION