



Labour Cost Index Results – June 2020

Date: 21 August 2020

Security Level: IN CONFIDENCE

Report No: 2020/0155

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	Actions Sought	Due Date
Hon Chris Hipkins, Minister of State Services	Note the latest public sector wage movements for the June 2020 quarter	None

Enclosure: No

Minister's Office Comments

Comments:

Date returned to Te Kawa Mataaho Public Service Commission:

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.
- 2 Across all sectors, wage growth in the June 2020 quarter was 0.2%, and 2.1% in the year to June 2020. Stats NZ has reported that this is the lowest quarterly increase in the LCI since December 1994. It is not clear yet how much of this result is due to the one-off impact of the lock-down, against the ongoing economic impact of COVID-19.
- 3 In our last LCI report to you [SSC2020/0084], wage increases for the year to March 2020 were 3.2% in the public sector, and 2.4% in the private sector. The latest LCI results show wage growth in the year to June 2020 are 3.0% in the public sector and 1.7% in the private sector.
- 4 No public sector sub-group experienced higher quarterly wage growth in the June 2020 quarter than in the March 2020 quarter. Quarterly wage growth was lower across both public and private sectors, and all sector sub-groups, except for the health sector which experienced wage growth of 0.7% in the June 2020 quarter, unchanged from March 2020. Wage growth was 0.3% in the Education sector, and 0.1% in the public service in the June 2020 quarter.
- 5 A greater proportion of public sector wages are increasing than in the private sector. In the year to June 2020, 77% of workers in the public sector received wage increases (63% in the year to June 2019), compared with 52% in the private sector (57% in the year to June 2019). The 25-percentage point gap is the largest we have seen since we started monitoring this in March 2009
- 6 The guidance on pay restraint in the State sector came into effect this quarter. This does not appear to have had significant impact on the index this quarter, noting that traditionally wage rate increases are the lowest in the June quarter across the public sector, and public sector sub-groups.

Recommended Action

We recommend that you:

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

Agree/ Disagree.



Hon Chris Hipkins
Minister of State Services

Te Kawa Mataaho Report: Labour Cost Index (LCI) Results – June 2020 Quarter

Purpose of Report

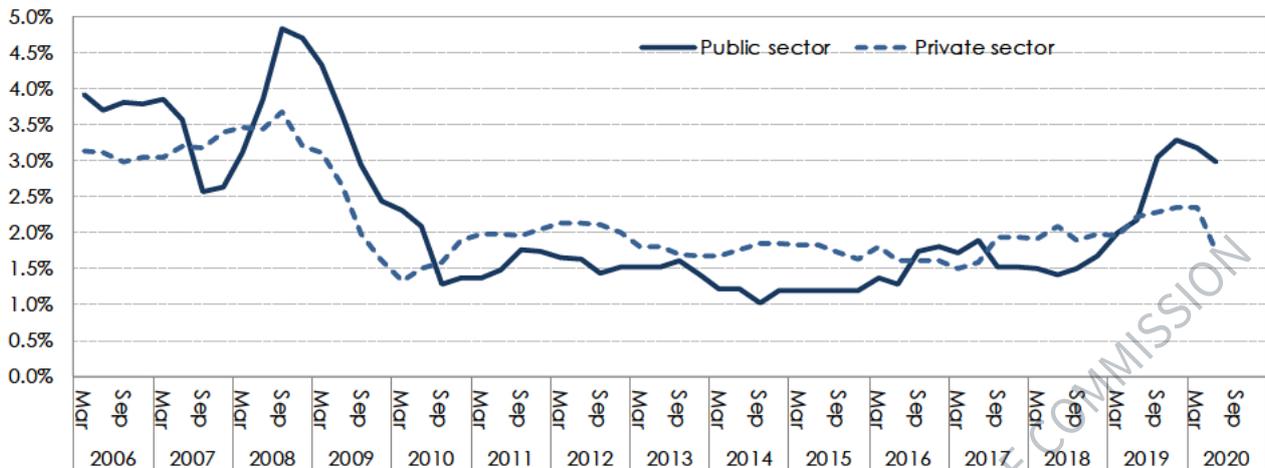
- 7 Each quarter we brief you on the latest LCI results, with a special focus on the public sector. Te Kawa Mataaho uses the LCI to monitor and oversee wage movements, including bargaining outcomes, in the State sector.
- 8 The LCI is released quarterly by Stats NZ. It measures changes in salary and 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.

Public and private sector annual movement in salary and wage rates

Public and private sectors

- 9 This LCI report begins to reflect the state of the labour market following the initial COVID lockdown. Labour cost data was gathered in mid-May during the transition from alert level 3, to alert level 2, and following the then State Services Commissioner's issuance of guidance on pay restraint in the State sector.
- 10 Quarterly change - the latest LCI results indicate that salary and wage (including overtime) rates in the public sector increased by 0.2% in the June 2020 quarter (down from 0.5 % in the March quarter), and also increased by 0.2% in the private sector (down from 0.3% in the March quarter). The increase for all sectors combined was also 0.2%. Stats NZ notes this is the lowest quarterly increase since December 1994. Quarterly inflation rate as measured by the Consumer Price Index (CPI) was down 0.5% in the June 2020 quarter.
- 11 Annual change – in the year to June 2020, the annual wage rate increase was 3.0% for the public sector and 1.7% for the private sector. The overall rate was 2.1% for all sectors. Inflation, as measured by the CPI, increased by 1.5% for the year to June 2020. In the public sector, we have now seen an annual increase at or above 3.0% for four consecutive quarters, sustained by high quarterly wage growth in the September 2019 quarter, which resulted from pay increases for Teachers, Nurses, and Police Constabulary that quarter.

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



- 12 Figure 1 compares annual wage movements (including overtime) for the public and private sectors since the March 2006 quarter.
- 13 Over the period, March 2010 to June 2020 public sector wage growth had tracked below the private sector in most quarters. Public sector wage rates grew at an average pace of 1.7% per year over this period, compared to a faster pace in the private sector of 1.9% per year. This period does not include wage rate movements during or before the Global Financial Crisis (GFC) of 2008, while the longer time-series in Figure 1 does include the effect of the GFC. While the effects of the lockdown to stem the spread of COVID-19 are not fully represented in the current report, a longer time series places the current data in the wider context.
- 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 decline in annual wage growth between the March and June 2020 quarters is greater in the private sector (-0.7 percentage points) than in the public sector (-0.2 percentage points). This is similar to what we saw in late 2008 as the impact of the GFC began. Between the September and December 2008 quarters, the wage rate increases in the private sector declined more (-0.5 percentage points) than the public sector (-0.1 percentage points). We will watch to see if the aforementioned post-GFC trend emerges over the next quarters.
- 15 Average wage growth in the private sector has fallen below the 5-year trend for the first time since the June 2017 quarter, due to the lower wage growth in the private sector this quarter.

Public sector

- 16 Of the collective agreements in the public sector which we monitor, approximately 2,500 FTE received increases due to the implementation of pay rates in new or historically settled Collective Agreements. Nearly all of these FTE are in the Health Sector. In District Health Board multi-employer collective agreements, increases of 7.5% have been paid to Lab Technicians, and increases of 6% have been paid to Service and Food Workers.
- 17 As we have previously reported, high public sector wage growth in the September 2019 quarter, caused by the outcomes of settlements in collective bargaining for Teachers, Nurses, and Police

Constabulary, has continued to influence annual growth rates. This will have likely tempered the impact of pay restraint on the June 2020 quarter results.

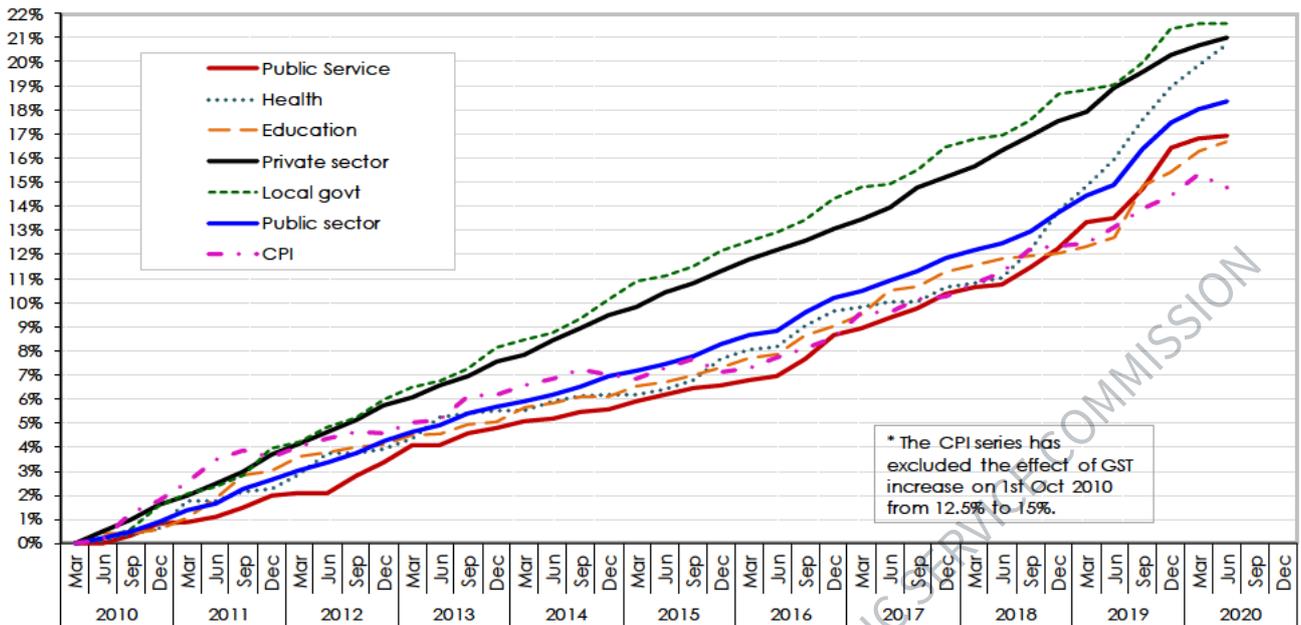
Sub-groups within the public sector

- 18 Central government wage rates increased 0.3% in the quarter to June 2020, and 3.2% in the year to June 2020. 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 0.3% in the latest quarter, and 3.5% in the year to June 2020.
- 18.2 Health sector wage increases were 0.7% in the latest quarter, and 4.2% in the year to June 2020.
- 18.3 Public service wage increases were 0.1% in the latest quarter, and 3.0% in the year to June 2020.
- 18.4 Other Central Government group wages did not change (a movement of 0.0%) in the latest quarter, and 2.3% in the year to June 2020.
- 19 Local Government wages did not change (a movement of 0.0%) in the latest quarter, and increased 2.1% in the year to June 2020.
- 20 Wage rate increases are typically lower in the June quarter. Since 2010, June quarter increases average 0.15% in the Other Central Government group (Police, Defence Force, ACC, and other Crown Entities) and 0.25% in Local Government. Quarters with 0.0% wage rate movements in these sector sub-groups are not unprecedented. No public sector sub-group experienced higher quarterly wage growth in the June 2020 quarter than in the March 2020 quarter.

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

- 21 Figure 2 shows the long-term trend in wage movements of selected sectors since March 2010 on a cumulative basis. Successive quarters in which wage movements in the private sector have exceeded those in the public sector have led to the gap in their cumulative wage movements becoming wider over time. This trend has been reversing since late 2018.

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



- 22 Cumulative increases to wage movements in the Health sector have accelerated since the September 2018 quarter, and now trails cumulative wage growth in the private sector by 0.3 percentage points since March 2010. The cumulative wage growth gap (since 2010) between the health sector and the public service has expanded from 3.1 percentage points last quarter, to 3.8 percentage points this quarter.
- 23 Wage growth in the Public and Private sectors, and all monitored public sector sub-groups outstripped CPI growth in the June 2020 quarter. While wage growth is lower in the June 2020 quarter compared to the March 2020 quarter, it remained positive, while the CPI fell 0.5% in the June 2020 quarter. The fall in the CPI was driven by the impact of COVID-19 on petrol and hotel and motel prices.
- 24 Table 1 shows the wage movements of various sectors on a quarterly, six-monthly and annual basis.

Table 1: Movements in wage rates by sector - quarterly, six-monthly and annually to June 2020

Sectors and Sub-sectors	LCI Movement in Salary and Wage Rates		
	Quarterly	Six-Monthly	Annual
All sectors	0.2%	0.6%	2.1%
Private sector	0.2%	0.6%	1.7%
Public sector	0.2%	0.8%	3.0%
Local Government	0.0%	0.2%	2.1%
Central Government**	0.3%	0.9%	3.2%
Public Service*	0.1%	0.4%	3.0%
Health	0.7%	1.5%	4.2%
Education	0.3%	1.1%	3.5%
Other Central Government*	0.0%	0.2%	2.3%
Consumer Price Index (CPI)	-0.5%	0.3%	1.5%

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

Proportion of workers receiving wage increases

- 25 Minimum wage earners received an increase this quarter due to the increase to statutory minimum wage on 1 April 2020. This change has minimal direct impact on pay rates in the public service.
- 26 Twelve percent of public sector wage rates increased in the June 2020 quarter (14% in the private sector) 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.
- 27 In the year to June 2020, 77% of public sector wage rates increased (52% in the private sector), compared with 63% in the public sector year to June 2019 quarter (57% in the private sector). The 25-percentage points gap in the June 2020 quarter is the largest gap we have seen since we began monitoring this in March 2009 and is driven by the high proportion of staff receiving increases in the public sector.

Looking ahead to the September 2020 quarter

- 28 On 28 April 2020, the then State Services Commissioner sent a letter to chief executives in the State sector to outline expectations for pay restraint in their agencies. Collective agreement settlements and individual remuneration increases will be affected by this. The impact of public service departments implementing pay restraint for individual remuneration should be felt in the September and December quarters, as most individual remuneration increases have, historically, been applied from 1 July yearly.
- 29 Current collective agreement obligations must be met when they require an increase to pay. A result of this will see 3% increases paid to each of Police Constabulary, Primary Teachers, and Secondary Teachers from 1 July 2020 (approximately 77,000 FTE combined).
- 30 From the collective agreements we monitor, we expect a further approximately 19,000 FTE to receive increases of between 1% and 3% in the public service, education, and health sectors as a result of existing commitments.

- 31 High quarterly wage rate increases in the public sector in the September 2019 quarter will no longer influence annual rates for the September 2020 quarter. High wage rate increases in the December 2019 quarter for the public service will continue to affect annual rates for this sector sub-group in the September 2020 quarter.
- 32 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

- 33 Upon your agreement, Te Kawa Mataaho will release this briefing document on their website.

PROACTIVELY RELEASED BY TE KAWA MATAAHO PUBLIC SERVICE COMMISSION