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## Labour Cost Index (LCI) Results – March 2020 quarter

**Date:** 14 May 2020  
**Report No:** SSC2020/0084  
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	Actions Sought	Due Date
<b>Hon Chris Hipkins, Minister of State Services</b>	Note the latest public sector wage movements for the December 2019 quarter	None

Enclosure: No

### Executive Summary

Each quarter we brief you on the latest wage movements from the LCI results released by Stats NZ, with a special focus on the public sector.

#### COVID-19

The economic and labour environment in New Zealand has changed significantly since we last provided an LCI report to you, due to the five-week alert level 4 lockdown imposed to stem the spread of COVID-19.

This LCI report, however, largely reflects the state of the labour market before lockdown as data was gathered in mid-February. It is expected that the impacts of COVID-19 lockdown will be felt in the June 2020 LCI quarter, released early August.

#### Summary

In our last LCI report to you [SSC2020/0005] public sector wage increases were 3.3% for the year to December 2019, which was the highest annual change since the June 2009 quarter. The latest LCI results show public sector wage increases in the year to March 2020 was 3.2%. This compares with 2.4% in the private sector, unchanged from last quarter.

March 2020 Quarterly wage rate increases were 0.8% in the Education sector, 0.7% in the Health sector, and 0.3% in the Public Service. Wage rate increases in the year to March 2020 across these sectors were 3.5% Education, 4.4% Health, and 3.1% Public Service.

Only one public sector sub-group, the Education sector, experienced higher wage growth in the March 2020 quarter than in the December 2019 quarter (0.8%, up from 0.5% last quarter). Annual wage growth in the Education sector has exceeded 3% for the

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second quarter in a row and is the highest since September 2009. Collective agreement settlements affecting over 116,000 Full Time Equivalent workers (FTE) in the Education sector since June 2019 contribute to this.

Quarterly wage growth in the Health sector is lower this quarter (0.7%, down from 1.2% last quarter), but remains higher than wage growth in most sectors. Health sector wage growth has now exceeded wage growth in the public sector for seven consecutive quarters, and cumulative wage since 2010 growth in the Health sector is now 3 percentage points higher than in the Public Service in the same period.

More public sector wages are increasing than in the private sector. In the year to March 2020, we have seen the largest proportion of Public sector salaries increasing (79%), the largest year-on-year increase (17 percentage points), and the largest public-private difference (22 percentage points), in more than ten years.

### Minister's Office Comments

<b>Comments:</b>	
<b>Date returned to SSC:</b>	

### Recommended Action

We recommend that you:

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

**Agree**/disagree.



Hon Chris Hipkins  
**Minister of State Services**

## SSC Report: Labour Cost Index (LCI) Results – December 2019 quarter

### Purpose of Report

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

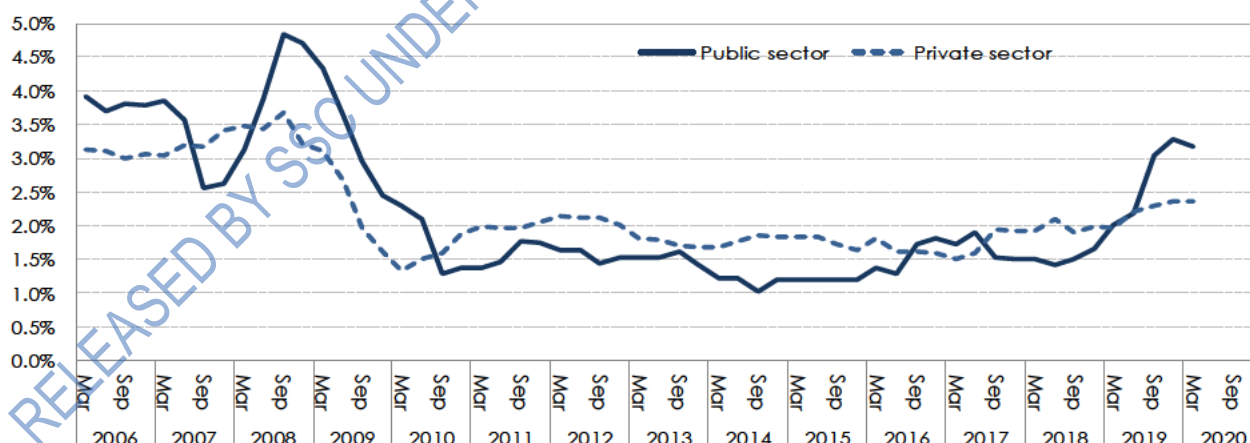
### Supplementary information – wage and salary movements

2. The LCI is released quarterly by Stats NZ. It measures changes in salary and wage rates in the labour market.

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

3. Public and private sectors
  - 3.1 Quarterly change - the latest LCI results indicate that all salary and wage (including overtime) rates in the public sector increased by 0.5% in the March 2020 quarter (down from 0.9 % in the December quarter), compared with a 0.3% increase in the private sector. The increase for all sectors combined was 0.3%.
  - 3.2 Annual change – in the year to March 2020, the annual wage rate increase was 3.2 % for the public sector and 2.4% for the private sector. The overall rate was 2.5% for all sectors. This compares to general inflation, as measured by the Consumer Price Index (CPI), which increased by 0.8% in the March 2020 quarter, an increase of 2.5% for the year.

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



4. Figure 1 compares annual wage movements (including overtime) for the public and private sectors. Over the ten-year period, Jun-2010 to Mar-2020 public sector wage growth had tracked below the private sector in most quarters. Public sector wage rates grew at an average pace of 1.6% per year over this period, compared to a faster pace in the private sector of 1.9% per year.

5. This ten-year period does not include wage rate movements during or before the Global Financial Crisis (GFC) of 2008. 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 represented in the current report, a longer time series places the current data in the wider context.
6. 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.
7. This quarter, the impact of pay increases due to new collective agreement settlements and implemented pay increases from historical settlements is primarily felt in the Education sector, including the settlement for the large Support Staff in Schools Collective Agreement.
8. In total, over 36,000 FTE received increases between 1.5% and 3% in the March 2020 quarter, comprised of the Public Service (1,000), Health sector (700 FTE), NZ Police (525 FTE) and Education sector (33,900 FTE).
9. Scheduled pay equity payments averaging 10% were made to more than 1,400 FTE at Oranga Tamariki this quarter. These are reflected in the current quarter LCI data. These were part of a 2018 pay equity settlement with phased implementation.

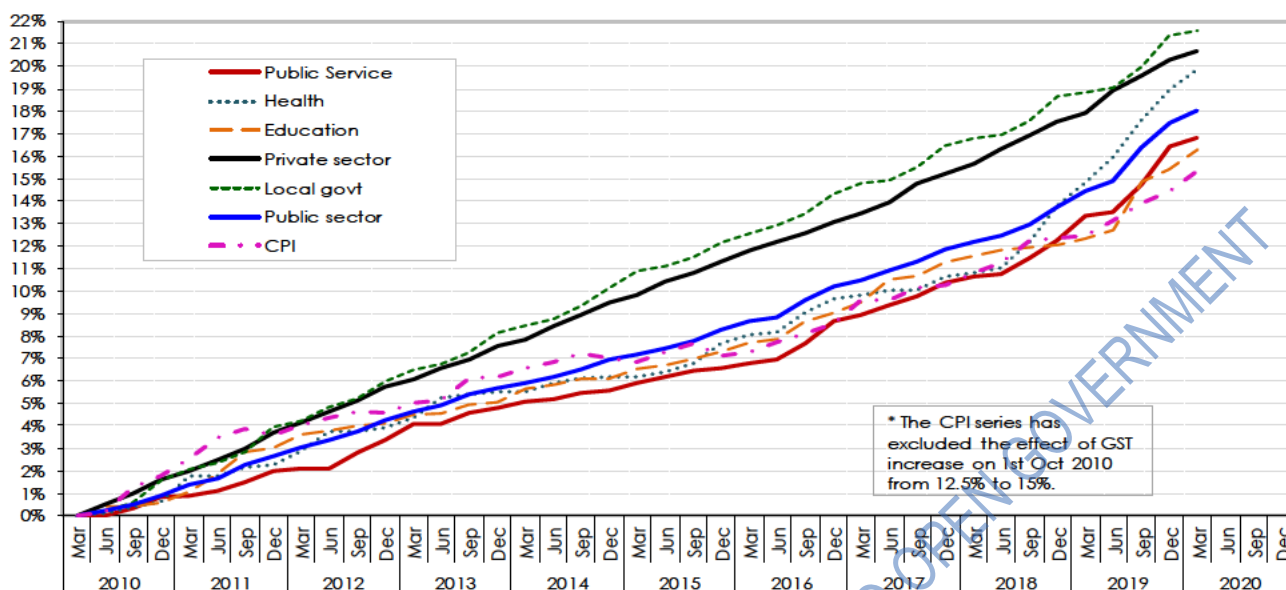
#### **Sub-groups within the public sector**

10. Central government wage rates increased 0.6% in the quarter to March 2020, and 3.3% in the year to March 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 0.8% in the latest quarter, and 3.5% in the year to March 2020, the largest annual increase since September 2009.
  - 10.2 Health sector wage increases were 0.7% in the latest quarter, and 4.4% in the year to March 2020.
  - 10.3 Public Service wage increases were 0.3% in the latest quarter, and 3.1% in the year to March 2020. The unexpectedly high increase in the December 2019 quarter, 1.5% in the Public Service, has not persisted, and was likely the result of delayed reporting of increases from the September 2019 quarter.
  - 10.4 Other Central Government group wage increases were 0.2% in the latest quarter, and 2.4% in the year to March 2020.
11. Local Government wage increases were 0.2% in the latest quarter, and 2.3% in the year to March 2020.

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

12. 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)**



13. Cumulative increases to wage movements in the Health sector have accelerated since the September 2018 quarter, and have exceeded cumulative wage increases in the public sector since December 2018, a trend continued in the March 2020 quarter.
14. The Health Sector now leads the Public Service in cumulative wage growth by 3.1 percentage points since 2010.
15. Cumulative wage movements across all sectors (public and private combined) since 2010 have exceeded cumulative Consumer Price Index (CPI) increases over the same period. This is also the case in the March 2020 quarter; however, this quarter is also the first since September 2018 where CPI growth has exceeded wage growth in both public and private sectors, and all monitored sub-groups.
16. The December 2019 quarter saw unexplained and high wage increases in the Public Service, following high increases in the September 2019 quarter. This trend has not persisted. The high increase in December 2019 can be attributed to increases in the September quarter being reported after the fact.
17. 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 March 2020**

Sectors and Sub-sectors	LCI Movement in Salary and Wage Rates		
	Quarterly	Six-Monthly	Annual
All sectors	0.3%	1.1%	2.5%
Private sector	0.3%	0.9%	2.4%
Public sector	0.5%	1.4%	3.2%
Local Government	0.2%	1.3%	2.3%
Central Government**	0.6%	1.4%	3.3%
Public Service*	0.3%	1.8%	3.1%
Health	0.7%	1.9%	4.4%
Education	0.8%	1.3%	3.5%
Other Central Government*	0.2%	0.8%	2.4%
<b>Consumer Price Index (CPI)</b>	0.8%	1.3%	2.5%

\* 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

18. In the year to March 2020, 79% of public sector wage rates increased (57% in the private sector), compared with 62% in the public sector year to March 2019 quarter (56% in the private sector).
19. Sixteen percent of public sector wage rates increased in the March 2020 quarter (11% in the private sector), similar to the March and June 2019 quarters (14% and 15% respectively), and down from 30% in the December 2019 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.
20. It is common for a higher proportion of salaries to increase in the public sector than in the Private sector. The gap between the sectors has increased to 22 percentage points this quarter, the largest gap in over a decade. This results from a not unusual 57% of private sector salaries increasing in the year to March 2020, while a higher than usual 79% of public sector salaries increased in the same period.

### Looking ahead to the June 2020 Quarter

21. The June 2020 LCI quarter is expected to be affected significantly by the five-week level 4 lockdown, imposed to stem the spread of COVID-19. The collection period for the June 2020 quarter is mid-May.
22. On 28 April, the 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, and we would expect this to be a factor in the rate of wage increases in the State sector from the next quarter, although it might be the September 2020 quarter before we start to see the results.

23. As previously reported, high public sector wage growth in the September 2019 quarter will continue to influence annual growth rates until June 2020. This will temper the impact of pay restraint on the June 2020 quarter results.
24. Current collective agreement obligations must be completed when they require an increase to pay. However, there should be little impact in the June 2020 quarter from the implementation of pay increases due to current obligations. We expect pay increases for approximately 2,500 FTE to be implemented, ranging from 2% to 7.5% in the Public Service and Health sectors.
25. Workers in both Health and Education sectors may also benefit from Pay Equity settlements in the near future.

### **Technical Notes**

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26. 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.

### **Risks**

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27. None, most of the LCI information has already been released by Stats NZ.

### **Next Steps**

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28. Upon your agreement SSC will release this briefing document on the SSC website.