

Labour Cost Index

December 2023



Purpose

Each quarter Te Kawa Mataaho Public Service Commission (the Commission) reports on the latest Labour Cost Index (LCI) results, with a special focus on the public sector. The LCI measures changes in salary and wage rates in the labour market for the same quality and quantity of labour. The Commission uses the LCI to monitor and oversee wage movements in the public sector.

This material has been prepared by the Commission for use by public sector employment relations professionals, from data provided by Statistics New Zealand (Stats NZ). You can find additional information and data relating to this quarter's index on the Stats NZ website here: [Labour market statistics: December 2023 quarter](#).

Summary

- 1 This report summarises movements in the LCI for the December 2023 quarter ("this quarter"). Wage movements occurring between mid-August 2023 and mid-November 2023 are captured.
- 2 At the **all sectors combined** level, wages grew 1.0 percent this quarter (down from 1.1 percent from the September 2023 quarter ("last quarter")) and 4.3 percent in the year to December 2023, the fourth consecutive quarter of annual wage growth at 4.3 percent.
- 3 In the **public sector**, wage growth this quarter was 1.5 percent (down from 2.2 percent last quarter) and 5.7 percent for the year to December 2023 (up from 5.4 percent from the year to September 2023). 5.7 percent is the highest rate of annual wage growth for the public sector on record. This quarter is the first since March 2021 with public sector annual wage growth above annual inflation (see 7 below).
- 4 In the **private sector**, quarterly wage growth was 1.0 percent (up from 0.9 percent last quarter) and 3.9 percent for the year to December 2023 (down from 4.1 percent in the year to September 2023).
- 5 In the **Public Service**, wage growth for this quarter was 1.1 percent (down from 1.7 percent last quarter) and 4.7 percent for the year to December 2023 (up from 4.0 percent for the year to September 2023).
- 6 Around a quarter of public servants received a pay increase this quarter (26 percent for the public sector, compared to 18 percent in the private sector). On an annual basis, 80 percent of public sector wage rates have increased, the highest result we have seen for this series.
- 7 These results are in the context of annual inflation, as measured by the Consumer Price Index (CPI), declining in recent quarters, but remaining above the long-term average. Inflation was 4.7 percent for the year to December 2023 (down from 5.6 percent in the year to September 2023, and down from 7.2 percent one year ago), while inflation was 0.5 percent this quarter (down from 1.8 percent last quarter, and down from 1.4 percent one year ago).

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Te Kawa Mataaho Public Service Commission report on Labour Cost Index movements: December 2023 quarter

- 8 Stats NZ publishes official labour market statistics quarterly, providing a picture of the New Zealand labour market. These statistics include measures of unemployment and employment, demand for labour, and changes in wages and salaries. Changes in wages and salaries are measured using the LCI.
- 9 The Commission has a role in monitoring and overseeing wage movements across the public sector. Analysis of sector and sector-subgroup wage movements using the LCI supports this role, providing regular data on the impact of remuneration decisions being made across the system, for example through collective bargaining.

Public and private sector movement in salary and wage rates

Public and private sectors

- 10 In late 2022, Cabinet agreed that work should proceed with unions on a “Public Sector Pay Adjustment” (the Pay Adjustment). While this work programme has now concluded, the effects of it will be felt in the index for some time¹. Throughout 2023 a significant number of public sector employers, particularly in the Public Service have implemented the Pay Adjustment. There have been fewer Pay Adjustment settlements in the wider public sector, including in Crown entities, the health sector, or education sector, although settlements in these sectors have been influenced by the parameters of the Pay Adjustment.

Quarterly change

- 11 Wages grew 1.5 percent in the public sector this quarter (down from 2.2 percent in September 2023), while in the private sector, wages grew 1.0 percent this quarter (up from 0.9 percent in September 2023). The increase for all sectors combined was 1.0 percent this quarter (down from 1.1 percent last quarter).
- 12 December 2023 is the seventh consecutive quarter with wage growth across all sectors combined, at or above 1.0 percent. This is unusual over the longer term. Between 2001 and 2021 there were only four instances of all sectors quarterly wage growth at or above 1.0 percent.
- 13 Quarterly wage growth for the public sector has been notably affected by wage growth in the health sector this quarter. See *public sector sub-groups* below.
- 14 Wage increases have typically exhibited seasonality effects, with higher increases for the public sector typical in September and December compared to March and June. There is less seasonality in the private sector. This seasonality has been disrupted in recent quarters, with pay equity settlements providing wage increases outside normal collective bargaining cycles, and significant delays to public sector bargaining in 2022 related to the Pay Adjustment.
- 15 Wage growth this quarter was above average for a December quarter across both public and private sectors:

¹ The Pay Adjustment delivered two increases across two years, either occurring from 1 December 2022 (year one) and 1 December 2023 (year two), or 3 April 2023 (year one) and 3 April 2024 (year two).

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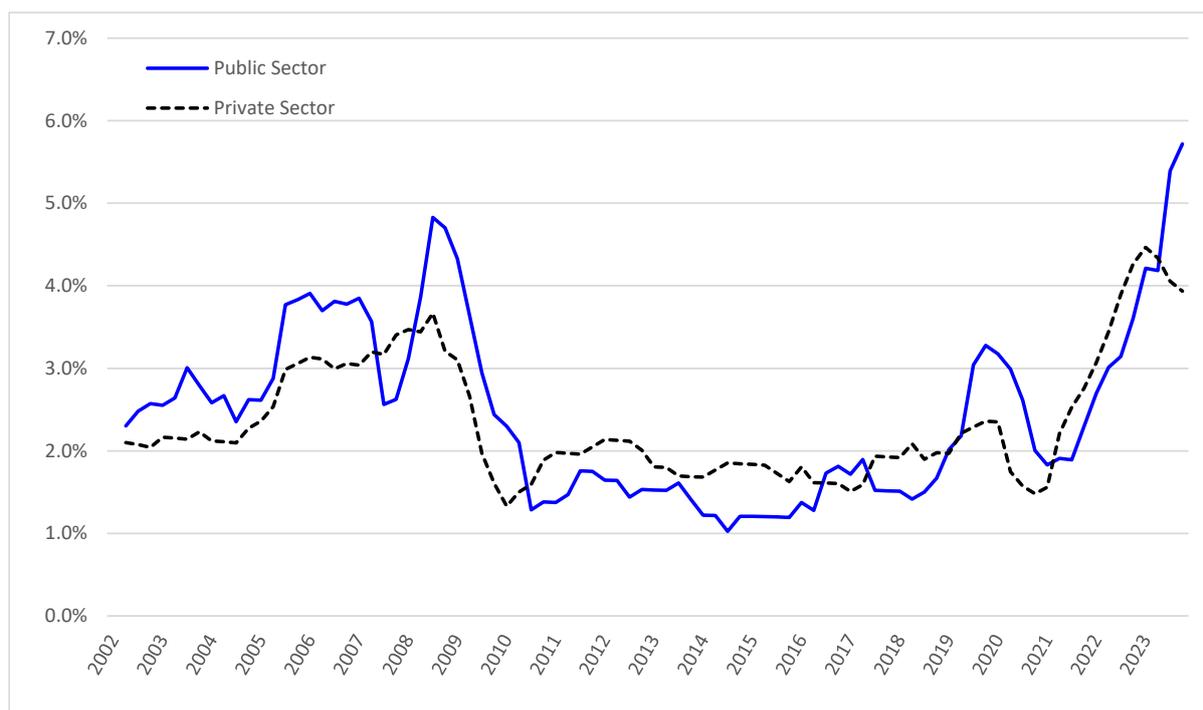


- 15.1 Quarterly wage growth for the December 2022 quarter (the same quarter last year) was 1.2 percent for the public sector, and 1.1 percent for the private sector. We note that in 2022 wage growth for much of the public sector was affected by the Government expectations and prevailing guidance on pay that applied at that time.
- 15.2 Average quarterly wage growth for a December quarter, since 2009, is 0.6 percent for both the public sector and private sector.

Annual change

- 16 In the year to December 2023, wages grew 5.7 percent for the public sector (up from 5.4 percent for the year to September 2023) and 3.9 percent for the private sector (down from 4.1 percent for the year to September 2023). The overall rate was 4.3 percent for all sectors combined (unchanged from the year to September 2023).
- 17 This is the fourth consecutive quarter with annual all-sectors wage growth at 4.3 percent, continuing a record high for annual wage growth. In March 2023, Stats NZ reported 4.3 percent was the highest result for the index since it began in 1992 (for all sectors combined). Annual wage growth across all sectors combined has rarely exceeded 3.0 percent since 2001; it did so between December 2005 and March 2009, and has done so since March 2022, but has otherwise been below 3.0 percent.
- 18 Figure 1 below compares annual wage movements for the public and private sectors since the March 2002 quarter.

Figure 1: public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2002-2023



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- 19 We note that:
- 19.1 The effect of the Global Financial Crisis on wage growth was first seen in the December 2008 quarter.
 - 19.2 The effect of COVID-19 restrictions was first seen in the September 2020 quarter.
 - 19.3 Tight labour market conditions, including low unemployment and border restrictions (removed in July 2022) pressuring wage growth through 2021 and 2022.
- 20 Public sector wage growth at 5.7 percent is the highest we have seen in our records (since 2002), above the previous high recorded last quarter (5.4 percent). Annual wage growth across the public sector is expected to remain high for some time, due to the ongoing influence of recent collective bargaining settlements and pay equity outcomes.
- 21 Figure 1 illustrates that public sector wage growth is generally slower to react to market conditions than the private sector, being slower to adjust down in reaction to negative market movements or up in reaction to tight labour market conditions. One reason for this is the relative prominence of collective bargaining in the public sector, with settlements that typically include scheduled pay increases over the life of a multi-year agreement.

Public sector and public sector sub-groups

- 22 Recent efforts to implement the Pay Adjustment have resulted in a significant number of new collective agreement settlements in the first half of 2023. Pay Adjustment year one increases may have influenced wage growth this quarter somewhat but to a lesser extent than in the June 2023 and September 2023 quarters.
- 23 There were relatively few new collective agreements settled in the second half of 2023. This is, in part, due to a number of settlements varying to implement the Pay Adjustment in the first half of 2023. We approximate that pay increases resulting from new collective agreement settlements for up to 16,000 FTE across the public sector may have affected the index this quarter.
- 23.1 Central government wages grew 1.3 percent this quarter (down from 2.3 percent last quarter), and 5.7 percent in the year to December 2023 (up from 5.4 percent in the year to September 2023). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding state-owned enterprises). Annual growth at 5.7 percent is the highest result for this index in our records (since 2001).
 - 23.2 In the Public Service, wages grew 1.1 percent this quarter (down from 1.7 percent in September 2023). In the year to December 2023, Public Service wage increases were 4.7 percent (up from 4.0 percent in the year to September 2023). This is a near record high annual wage growth result for the Public Service and the highest since 2008.
 - 23.3 Education sector wages grew 0.7 percent this quarter (down from 3.3 percent last quarter), and 5.6 percent in the year to December 2023 (up from 5.0 percent in the year to September 2023). High quarterly growth last quarter, due to increases resulting from collective bargaining earlier in 2023, will continue to affect annual wage growth for the sector for the next two quarters.

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- 23.3.1 We note that wage growth in the June 2024 quarter is expected to be high as it will be influenced by increases seen in the September 2023 quarter, as well as new increases delivered from April 2024.
- 23.4 Health sector wages grew 2.9 percent this quarter (up from 0.9 percent last quarter). In the year to December 2023, annual wage growth was 7.9 percent (up from 7.2 percent last quarter). Above average wage growth in the health sector this quarter is directly influenced by implementation of the pay equity settlement for Health New Zealand-employed nurses. Quarterly growth of 2.9 percent this quarter follows quarterly growth of 3.3 percent in March 2023; the combined effect of these large increases is that annual wage growth in the health sector is the highest on record. Collective bargaining occurring in the sector will also have had some impact.
- 23.4.1 We note that wage growth in the June 2024 quarter is expected to be high as it will be influenced by increases seen this quarter, as well as new increases delivered from April 2024.
- 23.5 Other central government group wages grew 0.5 percent this quarter (down from 3.5 percent last quarter), and 4.7 percent in the year to December 2023 (down from 5.4 percent in the year to September 2023). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included.

Local government

- 24 Local government wages grew by a record 3.0 percent this quarter (up from 1.0 percent last quarter). Annual wage growth in the year to December 2023 was 5.0 percent (up from 4.7 percent in the year to September 2023). We have no direct visibility of the causes of wage growth in local government, but note that 3.0 percent this quarter is similar to wage growth this time last year (2.7 percent in December 2022, which was a record for quarterly growth at the time). It is likely that bargained outcomes which delivered increases in December 2022 have also delivered increases this quarter.

Pay equity

- 25 Although technically a wage correction (due to sex-based undervaluation), increases to wages applied as a result of pay equity settlements will affect the LCI as they are changes to rates paid for work, holding quality and quantity unchanged. Caution should be exercised when considering index movements where these have been influenced by a pay equity outcome. Wage growth caused by pay equity processes are not the same as increases delivered through traditional employment agreement negotiation, and the effect of pay equity outcomes on the index cannot be disambiguated from other causes of wage growth. This is particularly salient for health and education sectors which have been more heavily impacted by pay equity in recent years than elsewhere in the public sector.

Cumulative wage growth and inflation

- 26 Inflation, as measured by the consumer price index (CPI), was 0.5 percent in the December 2023 quarter (down from 1.8 percent last quarter). This is the first quarter since March 2021 with inflation below 1.0 percent.

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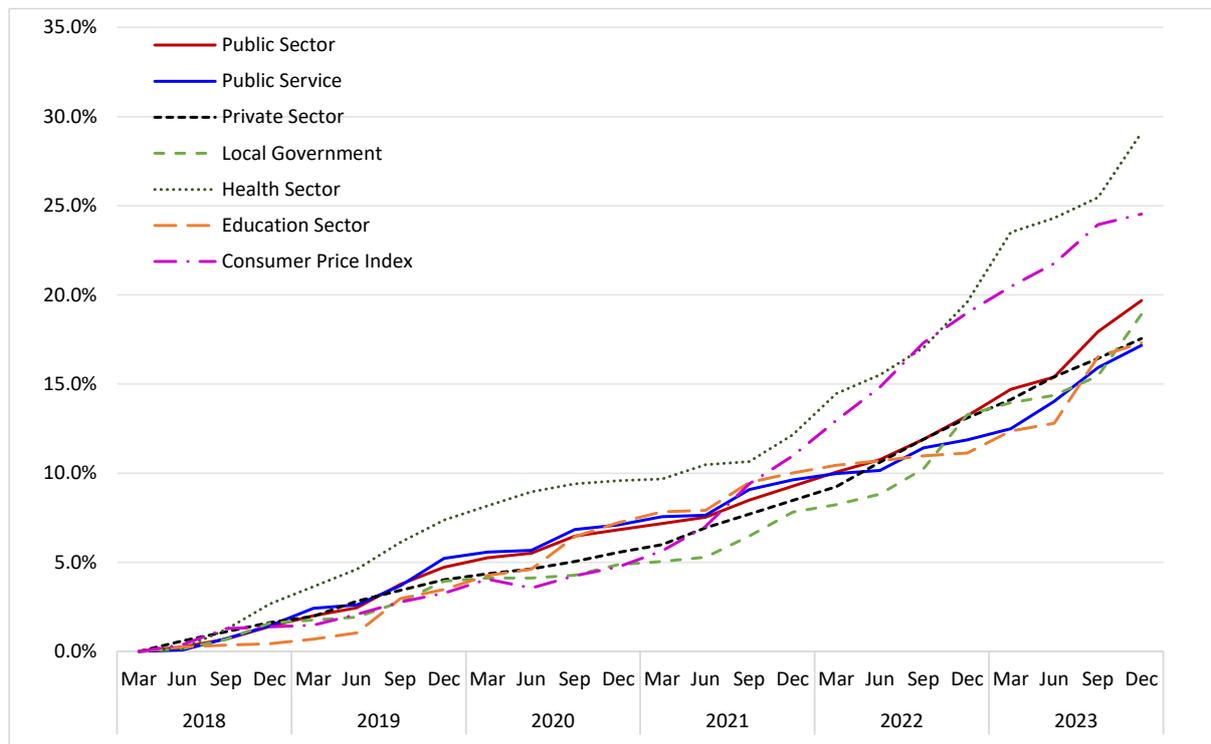
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- 27 Annual inflation was 4.7 percent in the year to December 2023, down from 5.6 percent in the year to September 2023, but remaining significantly higher than average. This is the first quarter since September 2021 with annual inflation below 5.0 percent.
- 28 In considering the below data, it is important to note that wage growth is not the same as wage rates. It is reasonable to assume sectors or sector sub-groups with a higher density of lower-paid employees may have higher wage growth over time compared to higher paid sectors. For example, changes to the minimum wage affect private sector wage growth more than Public Service wage growth.

Short-term cumulative wage growth

- 29 Across most public sector sub-groups, other than the health sector, cumulative wage growth since March 2018 has been similar, ranging from 17.2 percent in the Public Service, to 18.9 percent in the local government sector. The outlier is the health sector, with cumulative wage growth of 29.1 percent since March 2018.
- 30 Figure 2 below shows the trend in wage movements of selected sectors and sector sub-groups since March 2018, on a cumulative basis.

Figure 2: Labour Cost Index – wage movements by sector and CPI (cumulative percentage change since March 2018)



- 31 Noting that public sector wage growth has been impacted by significant pay equity outcomes in the health sector, gaps in cumulative wage growth since March 2018 include:
 - 31.1 Public Service wage growth is 2.5 percentage points below public sector wage growth (2.0 percentage points below when measured last quarter).

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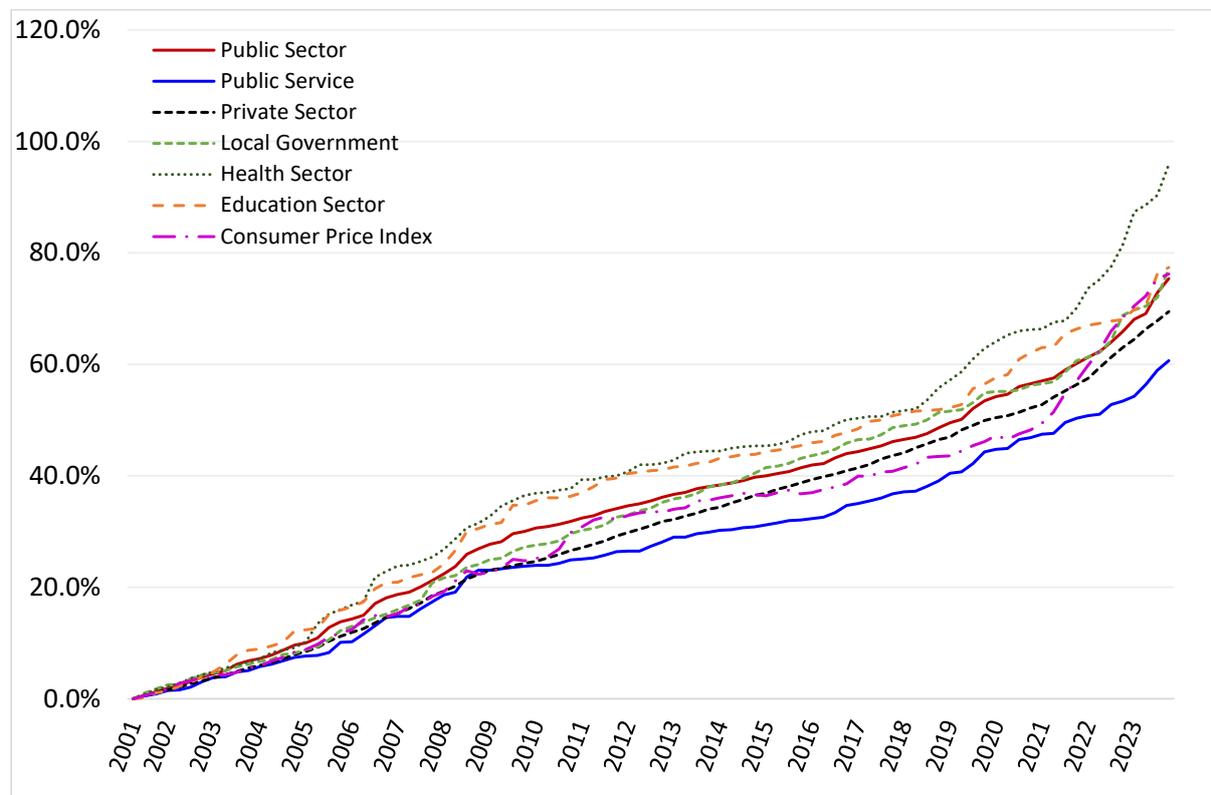
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- 31.2 Health sector wage growth is 9.4 percentage points above public sector wage growth (7.5 percentage points above when measured last quarter).
- 31.3 Education sector wage growth is 2.4 percentage points below public sector wage growth (1.4 percentage points below when measured last quarter).
- 31.4 Private sector wage growth is 2.1 percentage points below public sector wage growth (1.5 percentage points below when measured last quarter).
- 31.5 Inflation, as measured by the CPI, is 4.8 percentage points above public sector wage growth (6.0 percentage points above when measured last quarter).

Long-term cumulative wage growth

- 32 Where the short-term wage growth trend is one of relatively consistent wage growth across much of the public sector and the private sector, the longer-term wage growth trend (since 2001) shows more variability.
- 33 Figure 3 below shows the long-term trend (since March 2001) in cumulative wage movements of selected sectors and sector sub-groups.

Figure 3: Labour Cost Index – wage movements by sector and CPI (cumulative percentage change since March 2001)



- 34 Over this longer period, cumulative inflation exceeds wage growth across all sectors combined, and notably leads wage growth in the Public Service and private sector. Cumulative wage growth is within two percentage points of cumulative inflation (over the same period) in the public sector, education sector, and local government.

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- 35 Cumulative wage growth for the health and education sectors trended together for much of the last two decades. The recent deviation shows the significant impact of pay equity settlements on wage growth in the health sector.
- 36 Public Service cumulative wage growth is relatively low compared to other sectors. This may be due to higher average wages in the Public Service or the prevalence of progression and other increases which are adjusted out of the LCI.

Unadjusted wage growth

- 37 The LCI is an adjusted index, showing changes in the cost of labour controlling for the quality and quantity of labour. The headline series is adjusted data. A secondary index, the unadjusted LCI, is also available and affected by other reasons for labour cost increases.
- 38 The unadjusted LCI tends to increase at a higher rate than wage cost inflation, since it also includes factors like employees' individual performance or service. For example, if an employee received a pay rate increase due to a rise in the cost of living, this would be reflected in both the LCI's headline measure of wage cost inflation (adjusted LCI) and the unadjusted LCI. However, if an employee received a pay rate increase for quality reasons, such as receiving progression or a promotion, this would only be reflected in the unadjusted LCI and not the headline series.
- 39 In recent quarters, annual inflation has been closer to unadjusted wage growth than it has to adjusted wage growth. However, with inflation falling relative to wage growth over successive quarters this is no longer the case. Wage growth is higher than inflation this quarter.
- 39.1 Unadjusted wage growth for the December 2023 quarter was 1.5 percent across all sectors (2.1 percent in the public sector, and 1.5 percent in the private sector) compared to quarterly inflation of 0.5 percent. Public Service unadjusted wage growth was 2.8 percent for the quarter (1.7 percentage points above adjusted quarterly wage growth). We note that quarterly unadjusted wage growth can be quite variable, as it can change significantly due to quality of work changes such as staffing changes.
- 39.2 Unadjusted wage growth for the year to December 2023 was 5.9 percent across all sectors (7.0 percent in the public sector, and 5.7 percent in the private sector) compared to annual inflation of 4.7 percent. In the Public Service annual unadjusted wage growth was 6.8 percent (2.1 percentage points above adjusted annual wage growth).
- 40 Figure 4 shows cumulative unadjusted wage growth for the public sector, private sector, and select public sector sub-groups against inflation since 2018. As this is measured over the same period results can be compared with cumulative wage growth shown in Figure 2.
- 40.1 Cumulative unadjusted wage growth is significantly higher than adjusted wage growth for all sectors, including 26.4 percent in the public sector (19.7 percent adjusted), 28.1 percent in the private sector (17.6 percent adjusted) and 28.8 percent in the Public Service (17.2 percent adjusted).
- 40.2 Relativities between adjusted and unadjusted wage growth across the sectors are different. We note that, for example, cumulative unadjusted wage growth in the Public Service is above that for the public sector, and about 10 percent lower than in the health sector. By comparison, cumulative adjusted wage growth for the Public Service is lower

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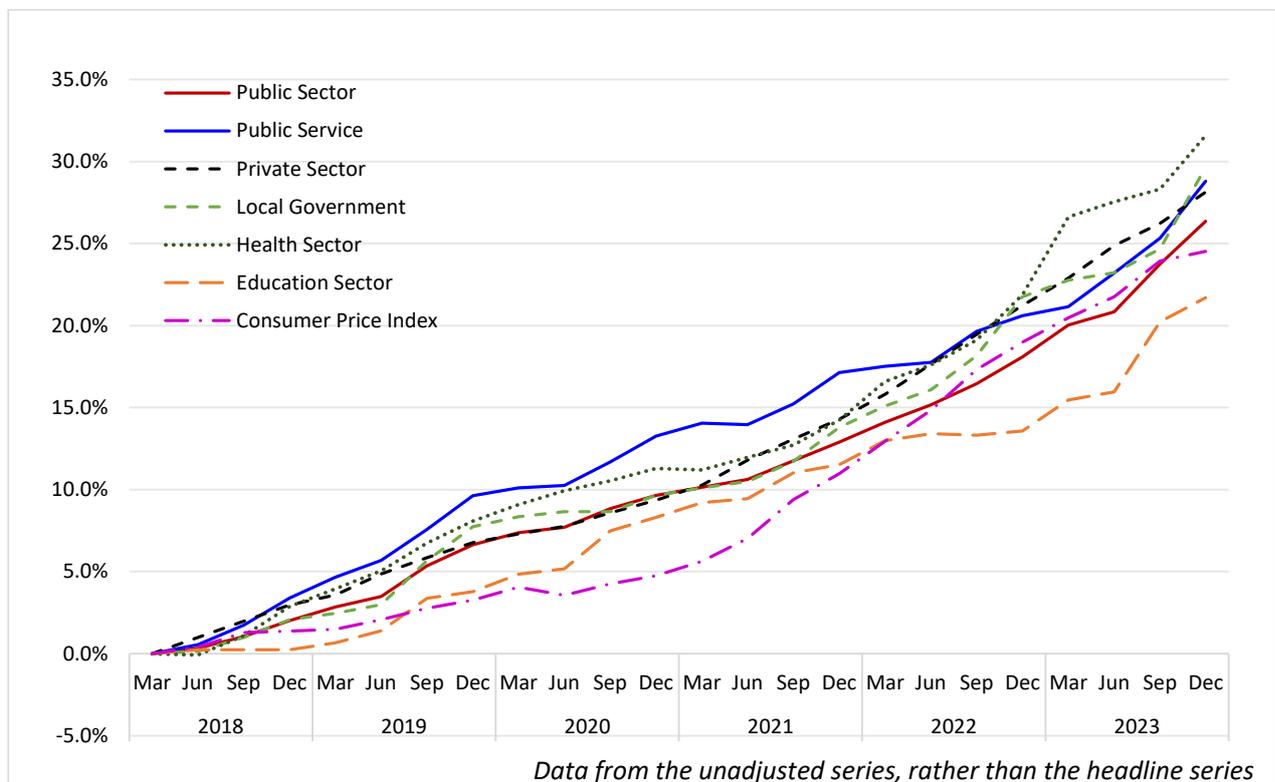


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than for any other public sector sub-group, and about 40 percent lower than in the health sector.

- 40.3 We also note that cumulative unadjusted wage growth for the private sector (since March 2018) exceeds the equivalent measure for the public sector, and has tended to lead the public sector over the period, whereas the opposite is true when we look at cumulative adjusted wage growth over the same period.

Figure 4: Labour Cost Index – wage movements by sector and CPI (cumulative unadjusted percentage change since March 2018)



Proportion of employees receiving wage increases

- 41 The proportion of wages changing in any one quarter exhibits seasonality, much like average rates of wage growth. Generally, in the public sector more wages change in the September and December quarters than in March or June. In the private sector more wages change in the June quarter than any other due to the influence of minimum wage changes.
- 42 The proportion of wages changes is slightly above average this quarter, in both public and private sectors. In the public sector, an above average proportion of changing this quarter follows a significantly above average proportion of wages changing last quarter, and has led to a record high proportion of wages changing in the year to December 2023.
- 42.1 Across all sectors combined, 20 percent of wage rates increased in the December 2023 quarter (down from 21 percent last quarter), and 65 percent of wage rates increased in the year to December 2023 (up from 64 percent for the year to September 2023).

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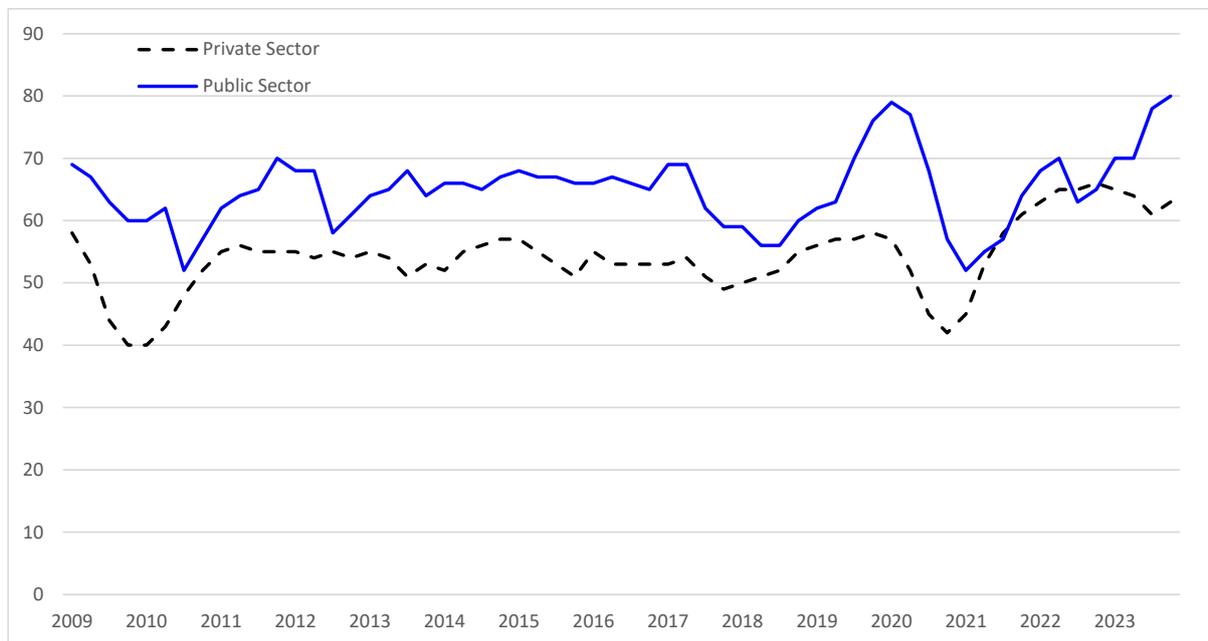


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- 42.2 In the public sector, 26 percent of wage rates increased this quarter (down from 41 percent last quarter) and record high 80 percent of public sector wage rates increased in the year to December 2023 (up from 78 percent in the year to September 2023).
- 42.3 In the private sector, 18 percent of wage rates increased this quarter (up from 17 percent in the September 2023 quarter), and 63 percent of wage rates increased in the year to December 2023 (up from 61 percent in the year to September 2023).

43 Figure 5 below shows the proportion of wages changing annually for the public and private sectors.

Figure 5: proportion of wage rates changing for the public sector and private sector (annually), since March 2009



Looking ahead to the March 2024 quarter

- 44 LCI data for the March 2024 quarter will be released on 1 May 2024, following a survey period of mid-February 2024.
- 45 Public sector wage growth is typically low in March, with few new increases being delivered across the sector between November and February (the relevant survey period). Average quarterly wage growth for a March quarter in the last four years (with average since 2009 shown in brackets) is:
- 45.1 All sectors combined: 0.6 percent (0.4 percent).
- 45.2 Public sector: 0.7 percent (0.5 percent).
- 45.3 Public Service: 0.4 percent (0.3 percent).
- 46 Despite these averages, we anticipate significant wage growth in the Public Service in the March 2024 quarter, driven by year two Pay Adjustment increases to more than 22,000 FTE in December 2023.

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- 47 Looking further ahead, increases in settled collective agreements will drive wage growth across the public sector in June 2024, with year two Pay Adjustment increases applying to many in the Public Service from April 2024. Increases will also be delivered to many Health New Zealand-employed nurses, and both primary and secondary teachers applying from April 2024. Collectively, this represents a significant proportion of the total public sector workforce that will receive an increase in the June quarter.

Please direct any enquiries to EmploymentRelations@publicservice.govt.nz

Date: 22 February 2024