



Report Title:	Labour Cost Index Results – March 2024		
Report No:	2024-0132		
Date:	27 May 2024		
To:	Hon Nicola Willis, Minister for the Public Service		
Action Sought:	Note the latest wage growth results for the Public Service and public sector	Due Date	5 June 2024
Contact Person:	Charlie Busby, Manager, Workforce and Employment Relations		
Contact No:	9(2)(a) privacy		
Encl:	Yes – Labour Cost Index – March 2024 and Communications material	Priority:	Low
Security Level:	UNCLASSIFIED		

Executive Summary

1. The Labour Cost Index is an official measure released by Statistics New Zealand. It shows how the cost of labour is changing over time, controlling for both the quality of labour, and quantity of labour. It is an analogous measure for labour costs as the Consumer Price Index (CPI) is for price inflation for goods and services.
2. This report presents our analysis of changes in the index, with a particular focus on how wages are changing across the public sector.
3. Results show public sector wages grew at higher-than-average rates across all of the public sector in the March 2024 quarter, largely the result of the size and timing of increases delivered through the Public Sector Pay Adjustment (Pay Adjustment). Unlike in previous years where increases had tended to be delivered on a regular annual cycle, the timing of increases delivered through the Pay Adjustment process has resulted in some staff receiving multiple increases within a 12-month period. For example, a Pay Adjustment settlement which delivered an initial increase in March 2023 and then a second increase in December 2023 will have a double impact on annual wage growth this quarter compared to if those increases had been delivered 12 months apart.
4. Key wage growth results this quarter are:
 - a. Public sector wage growth was 1.2 percent this quarter, and 5.6 percent in the year to March 2024.
 - b. Public Service wage growth was 1.2 percent this quarter, and 5.4 percent in the year to March 2024.
 - c. Education sector wage growth was 1.3 percent this quarter, and 5.7 percent in the year to March 2024.

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- d. Health sector wage growth was 2.2 percent this quarter, and 6.8 percent in the year to March 2024.
 - e. Private sector wage growth was 0.8 percent this quarter, and 3.8 percent in the year to March 2024.
5. These results are in the context of inflation declining compared to recent quarters but remaining above the long-term average. Wage growth this quarter exceeded inflation across most of the public sector. Inflation, as measured by the CPI, was 0.6 percent this quarter and 4.0 percent in the year to March 2024.
 6. The slowing of private sector wage growth, while public sector remains high, is an example of the wage growth lag we have seen between the public and private sectors for some time. This is largely attributable to the slowness with which public sector wages can respond to shifting economic conditions compared to the private sector. Figure 1 in the enclosure illustrates this.
 7. Consistent with our normal practice, findings and analysis (enclosed) will be published on Te Kawa Mataaho Public Service Commission's (the Commission) website.
 8. We anticipate high wage growth in the public sector next quarter, with June 2024 wage growth driven by Pay Adjustment increases for many Public Service staff, and as well as increases to both teaching and public nursing workforces. These increases are the result of agreements reached in early 2023.
 9. Data for the June 2024 quarter will be available in August 2024.
 10. Current and proposed change processes will have no direct impact on the LCI; while these may affect the size of employers' wage bills, they do not affect the wage rates for individuals holding quality and quantity constant.

Purpose of Report

11. Each quarter we brief the Minister for the Public Service and the public sector's employment relations community on the latest wage movements from the Labour Cost Index (LCI) results released by Statistics New Zealand (Stats NZ), with a special focus on the public sector.
12. The LCI is an adjusted index, controlling for both the quality and quantity of labour. For example, wage growth due to cost-of-living increases is shown in the index, while wage growth due to promotion into a new role is not.
13. Our practice, since 2009, is to summarise key findings for our Minister in this quarterly report. This provides you with the latest context in which Public Service employment relations is operating. It also supports Ministers and the Public Service Commissioner to understand the impact of policy decisions, such as the Government Workforce Policy Statement, and decisions made through Budget.
14. Our full findings for the March 2024 quarter are enclosed for your reference.

Background

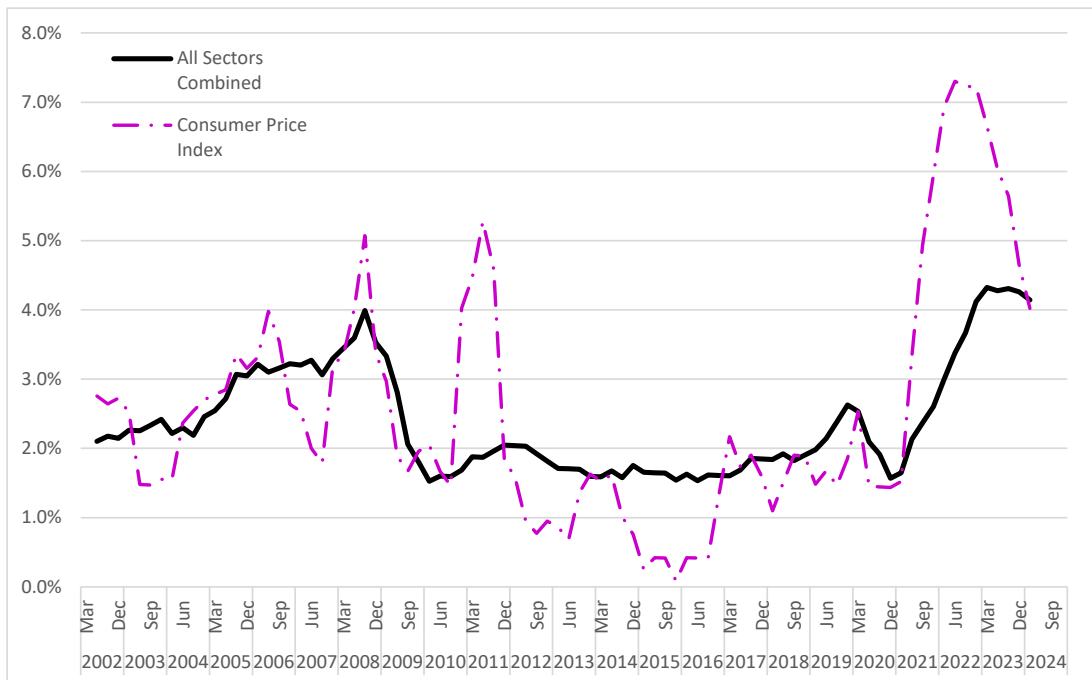
15. LCI data is released on the first Wednesday of the month in February, May, August, and November, for the preceding quarter. The Commission receives a custom data set from Stats NZ setting out wage movements in public sector subgroups, including the Public Service, health sector, education sector, and local government.

16. Sectors are defined as follows:
 - a. “All sectors”, or “All sectors combined”, is comprised of staff employed in both the “public sector,” and the “private sector.” Headline wage growth reported by Stats NZ is “all sectors” wage growth unless otherwise specified.
 - b. The “public sector” is comprised of “central government” and “local government.”
 - c. “Central government” is comprised of the “Public Service” (departments and departmental agencies), the “health sector” (staff employed by Health New Zealand), “education sector” (staff employed by public primary and secondary schools), and “other central government” sector.
 - d. “Other central government” includes other public sector employers not in the Public Service, health, or education. It includes most Crown agents and Crown entities, New Zealand Police, and New Zealand Defence Force, but excludes state-owned enterprises.
17. The latest analysis summarises LCI data from the March 2024 quarter, with sample data gathered from employers during a survey period of mid-February 2024. Quarterly wage data reflects changes that occurred between mid-November 2023 and mid-February 2024, while annual wage growth reflects changes that occurred between mid-February 2023 and mid-February 2024.
18. Consistent with established practice, our findings will be published on Thursday 6 June.
19. Providing this report assists agencies that are in bargaining or setting their remuneration policies to understand the context within which pay is being adjusted. This is additional to other sources of pay data or trends, such as commercial remuneration market companies that have been traditionally relied upon by a number of agencies.

Analysis

20. Wage growth in recent quarters has been relatively high, and that trend continues this quarter. March 2024 is the first quarter since March 2022 with quarterly wage growth below 1.0 percent, although at 0.9 percent wage growth remains higher than average. This is the ninth consecutive quarter of annual wage growth at, or above, 3.0 percent across the economy. As shown in Figure 1, this is unusual over the longer term.

Figure 1: annual wage growth for all sectors combined, and inflation (as measured by the CPI) since June 2002



- a. Between 2001 and 2021 there were only four instances of wage growth at or above 1.0 percent.
 - b. There was a period from December 2005 to March 2009 with annual wage growth above 3.0 percent, peaking at 4.0 percent in December 2008, but between June 2009 and December 2021 annual wage growth was consistently below 3.0 percent.
21. Annual wage growth at 4.1 percent, is above annual inflation for the same period, at 4.0 percent. This is the first time annual wage growth has exceeded annual inflation since March 2021.
 22. Key data from the latest report are summarised in Table 1, and is in the context of inflation remaining above the long-term average for the last two years:

Table 1: quarterly and annual wage growth for all sectors combined, private and public sectors, and select public sector sub-sectors, for the March 2024 quarter

Labour Cost Index results for the March 2024 quarter		
	Quarterly	Annual
All Sectors Combined	0.9%	4.1%
Private Sector	0.8%	3.8%
Public Sector	1.2%	5.6%
Public Service	1.2%	5.4%
Health Sector	2.2%	6.8%
Education Sector	1.3%	5.7%
Other Central Govt.	0.3%	4.5%
Local Govt.	0.6%	5.0%
Inflation	0.6%	4.0%

23. Key points from the latest data include:
- a. Annual wage growth has fallen to 4.1 percent this quarter but remains close to the record high 4.3 percent wage growth seen in this index throughout 2023.
 - b. Public sector wage growth this quarter is driven by increases across the sector; only the Other Central Government sub-group is not above average this quarter. Elsewhere in the sector, wage growth is driven by the outcome of bargaining settled in 2023, including Pay Adjustment increases for a high proportion of the Public Service from 1 December 2023.
 - c. Annual public sector wage growth has been greater than that in the private sector since the September 2023 quarter. It had been below private sector wage growth for the preceding two years. Refer figure 1 in enclosure.
 - d. Public Service annual wage growth for the year to March 2024 is at a record high (for the Public Service, since 2002). This is driven by a high volume of collective bargaining outcomes in the first half of 2023 which delivered increases to staff at ratification, and then subsequent increases later in 2023¹.
 - e. Health sector wage growth continues to exceed wage growth elsewhere in the sector. Quarterly wage growth of 2.2 percent is driven by implementation of the recent pay equity correction for nurses, which settled in July 2023, and collective bargaining outcomes from the second half of 2023.
 - f. Education sector wage growth reflects increases made to around 37,000 support staff in schools as part of their current collective agreement.
24. We note that movements in the index require careful consideration when these have been partially influenced by a pay equity outcome (technically a wage correction due to sex-based undervaluation), such as in the health sector in recent years. Record high annual wage growth in the health sector (6.8 percent in the year to March 2024) is largely

¹ The Pay Adjustment provided for a wage increase of \$4000 in year one (from either 1 December 2022 or 3 April 2023), and the higher of \$2000 or three percent wage increase in year two (with the percentage increases capped at \$180,000 meaning those on salaries over \$180,000 receive the same increase as those on \$180,000, from 1 December 2023 or 3 April 2024).

attributable to pay equity increases (corrections for sex-based undervaluation) for Health New Zealand-employed nurses made throughout 2023, rather than negotiated outcomes of collective bargaining.

Future Wage Growth

25. Data for the June 2024 quarter is due to be released 7 August 2024, following a survey period of mid-May 2024. You can expect our report summarising these results in August 2024.
26. We expect above average wage growth across most of the public sector in the June 2024 quarter. In the Public Service, the second year of Pay Adjustment increases for more than 17,000 public servants will apply from 3 April 2024. Elsewhere in the sector, increases agreed through bargaining for nurses, primary school teachers, and secondary school teachers will also apply in April 2024. Collectively this represents a significant proportion of the public sector and central government.
27. We anticipate little new wage growth related to pay equity outcomes in the March quarter. However, recent increases related to pay equity, for example, for nurses, will continue to affect annual wage growth throughout 2024.
28. Looking further ahead, Public Service wage growth in September 2024 (data available in November) is likely to be below average for a September quarter, with most staff who would have normally received an increase in July, having received that increase earlier in April 24, or in December 2023, due to the Pay Adjustment.

Recommended Action

We recommend that you:

- a **Note** the latest wage movements in the public sector.
- b **Note** that analysis of the March 2024 quarter Labour Cost Index will be published on the website of the Commission and will be proactively shared with both Public Service employment relations professionals and the New Zealand Public Service Association.
- c **Note** that we anticipate public sector wage growth next quarter will be above average, due to increases agreed through bargaining in 2023.
- d **Agree** that the Commission release this briefing in full once it has been considered by you.
Agree/disagree.

Hon Nicola Willis
Minister for the Public Service

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