

Labour Cost Index

June 2022



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 Stats NZ. You can find information relating to this quarter's index at [Labour market statistics: June 2022 quarter](#).

Summary

- 1 The survey period for the June 2022 quarter ("this quarter") was mid-May 2022, during which time New Zealand was at "Red" in the Covid Protection Framework.
- 2 Overall wage growth this quarter was 1.1 percent (up from 0.8 percent in March 2022) and 3.4 percent in the year to June 2022 (up from 3.0 percent in the year to March 2022). 3.4 percent is the highest all-sectors annual wage growth result since December 2008.
- 3 In the public sector, wage growth this quarter was 0.6 percent (down from 0.7 percent in March 2022), and 3.0 percent for the year to June 2022 (up from 2.7 percent from the year to March 2022).
- 4 In the private sector, quarterly growth was 1.3 percent (up from 0.7 percent in March 2022), and 3.4 percent for the year to June 2022 (up from 3.1 percent in the year to March 2022). This is the highest private sector annual wage growth result since September 2008.
- 5 In the Public Service, wage growth for this quarter was 0.2 percent (down from 0.3 percent for the March 2022 quarter) and 2.3 percent for the year to June 2022 (unchanged from the year to March 2022). Wage growth for the Public Service is typically lower in a June quarter compared to other quarters.
- 6 Across all monitored sectors and sub-sectors annual wage growth in the year to June 2022 is both higher than annual wage growth to March 2022, and higher than average for a June quarter.
- 7 A significant proportion of wage rates changed in the June 2022 quarter, and the year to June 2022. Across all sectors combined, 66 percent of wage rates increased in the year to June 2022, the highest result on record (since March 2009).
- 8 Inflation, as measured by the Consumer Price Index (CPI) was 1.7 percent this quarter, down from 1.8 percent last quarter. Quarterly inflation has now exceeded 1.0 percent for the last seven consecutive quarters. Annual inflation was 7.3 percent for the year to June 2022 (up from 6.9 percent for the year to March 2022), the highest annual inflation result in 32 years.



Labour Cost Index – June 2022 quarter

Public and private sector annual movement in salary and wage rates

Public and Private Sectors

- 9 In May 2021, the Public Service Commissioner issued guidance on pay restraint in the public sector. This guidance has influenced agencies decisions around remuneration and bargaining in the second half of 2021. We expect this has influenced the Index for the Public Service this quarter and will continue to do so in coming quarters.
- 10 Labour cost data for the June 2022 quarter was gathered in mid-May 2022.

Quarterly Change

- 11 Wage rates in the public sector increased 0.6 percent this quarter (down from 0.7 percent in March 2022), while in the private sector, wage rates increased 1.3 percent this quarter (up from 0.7 percent in March 2022). The increase for all sectors combined was 1.1 percent this quarter (up from 0.8 percent last quarter).
- 12 Wage increases typically exhibit seasonality effects, with higher increases for the public sector typical in September and December compared to March and June, and higher increases in the private sector in June compared to other quarters, reflecting changes to the minimum wage from April.
- 13 For the second consecutive quarter wage growth for both the public sector, private sector, and all sectors combined is approximately twice the quarterly average for that quarter (March and June respectively).

Annual Change

- 14 In the year to June 2022, wage rates increased to 3.0 percent for the public sector (up from 2.7 percent in the year to March 2022) and 3.4 percent for the private sector (up from 3.1 percent for the year to March 2022). The overall rate was 3.4 percent for all sectors (up from 3.0 percent for the year to March 2022 and compared to 2.1 percent for the year to June 2021). Annual wage growth across all sectors, and in the private sector, has not been this high since 2008. Other than during the period September 2019 - March 2020 annual wage growth has not been this high in the public sector since 2009.
- 15 Figure 1 below 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. The effect of COVID-19 on wage growth was first seen in the June 2020 quarter.

Labour Cost Index

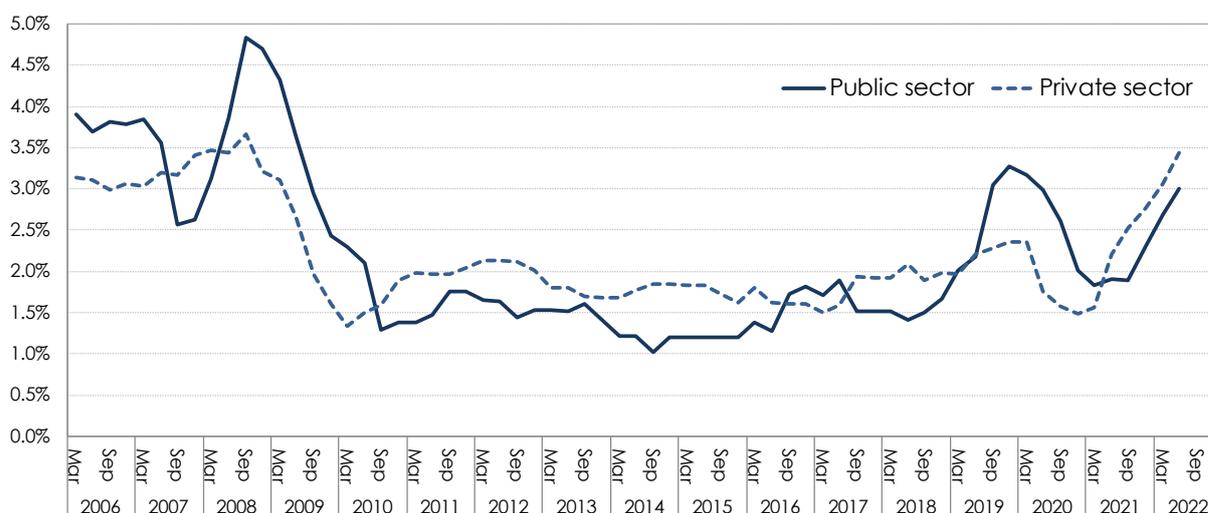
June 2022



Te Kawa Mataaho
Public Service Commission

Figure 1: Public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2006-2022

Annual change in the cost of labour - public and private sectors



- 16 Although not observable in Figure 1, annual wage growth in the private sector has only exceeded the June 2022 result four times since our records began (June 2002), the period March 2008 to December 2008.
- 17 Statistics NZ notes that over the year, a steadily increasing number of wages have been raised to better match market rates, as well as attracting or retaining staff. This may have been driven by factors including low unemployment and border restrictions affecting immigration.

Public sector and public sector sub-groups

- 18 Of the collective agreements we monitor in the public sector, most include increases to wages which take effect from 1 July, which will not affect the index this quarter. However, newly settled collective agreements can include remuneration increases for staff in coverage upon settlement, and these will have an influence.
- 18.1 In the Public Service, collective agreements covering around 5,000 full time equivalent staff (FTE) will have applied pay increases this quarter.
- 18.2 In the wider public sector, we are aware that increases for around 11,000 sworn officers at New Zealand Police will have applied this quarter.

Central Government

- 19 Central government wage rates increased 0.6 percent this quarter (down from 0.8 percent last quarter), and 3.0 percent in the year to June 2022 (up from 2.7 percent in the year to March 2022). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding State-Owned Enterprises).

Labour Cost Index

June 2022



- 19.1 Education sector wage increases were 0.2 percent this quarter (down from 0.4 percent last quarter), and 2.6 percent in the year to June 2022 (up from 2.4 percent in the year to March 2022).
 - 19.2 Health sector wage increases were 0.9 percent this quarter (down from 2.4 percent last quarter). In the year to June 2022, annual wage growth was 4.6 percent (up from 4.4 percent last quarter).
 - 19.3 Pay guidance continues to affect Public Service wage growth. For the sector, wage increases were 0.2 percent this quarter (down from 0.3 percent in March 2022). In the year to June 2022, Public Service wage increases were 2.3 percent (unchanged from the year to March 2022).
 - 19.4 Other central government group wage increases were 1.3 percent this quarter (up from 0.4 percent last quarter), and 2.1 percent in the year to June 2022 (up from 1.1 percent in the year to March 2022). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included. Wage increases resulting from the collective agreement settlement at New Zealand Police for sworn officers earlier this year has influenced the index this quarter.
- 20 Annual wage growth across all monitored central government sub-sectors is higher than average for a June quarter (since March 2010). Similarly, quarterly wage growth is also above average for most groups, with only the education sector experiencing approximately average wage growth for a June quarter.

Local Government

- 21 Local government wage increases were 0.5 percent this quarter (up from 0.4 percent last quarter). Annual wage growth in the year to June 2022 was 3.4 percent (up from 3.0 percent in the year to March 2022).

Pay Equity

- 22 Increases to wages applied as a result of pay equity settlements will affect the Labour Cost Index. Caution should be exercised when considering index movements when these have been partially influenced by a pay equity outcome; pay equity settlements result in pay *corrections*, not pay *increases*.
- 22.1 No new pay equity settlements affect the Index in the June 2022 quarter.
 - 22.2 Increases to DHB-employed Nurses made in late 2021 continue to influence annual wage growth for the health sector. While this was the outcome of collective bargaining, a portion of these wage changes relate to an ongoing pay equity process.
 - 22.3 We anticipate increases to Health NZ-employed administrative and clerical staff resulting from their pay equity settlement, [ratified May 2022](#), will influence the index in September 2022.

Labour Cost Index

June 2022

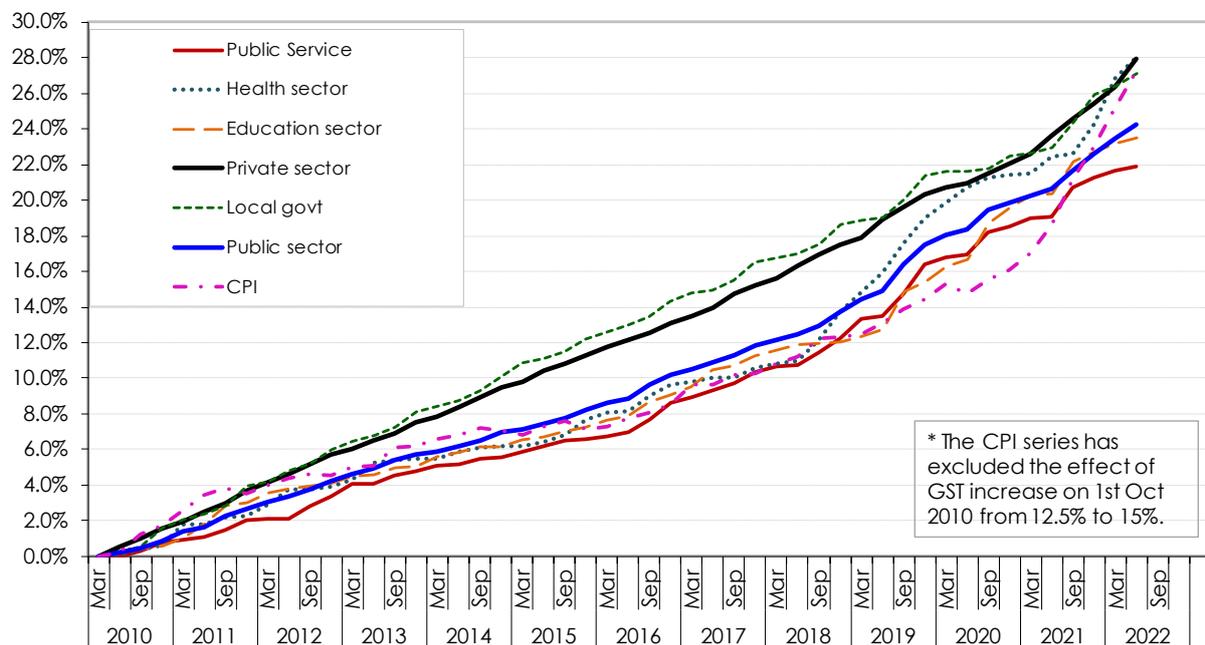


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Public Service Commission

Cumulative wage growth and inflation

- 23 Inflation, as measured by the CPI, increased 1.7 percent in the June 2022 quarter (down from 1.8 percent last quarter). This is the fifth consecutive quarter of quarterly inflation above 1.0 percent.
- 24 Annual inflation increased 7.3 percent in the year to June 2022 (up from 6.9 percent in the year to March 2022). This is the highest annual result for the CPI since June of 1990. High quarterly inflation since September 2021 will continue to influence annual inflation next quarter.
- 25 Quarterly inflation has now led quarterly wage growth across all monitored sectors and subsectors for six consecutive quarters, since March 2021.
- 25.1 The one exception to this is quarterly wage growth for the health sector in March 2022 (2.1 percent wage growth for the health sector, compared to 1.8 percent CPI growth). Health sector growth last quarter was influenced by collective bargaining and a partial pay equity outcome for Nurses.
- 26 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 percentage change since March 2010)



- 27 Figure 3 shows the short-term trend in cumulative wage movements since March 2018 for select sectors. Cumulative inflation has led wage growth in all monitored sectors and subsectors over this period, except for the health sector.

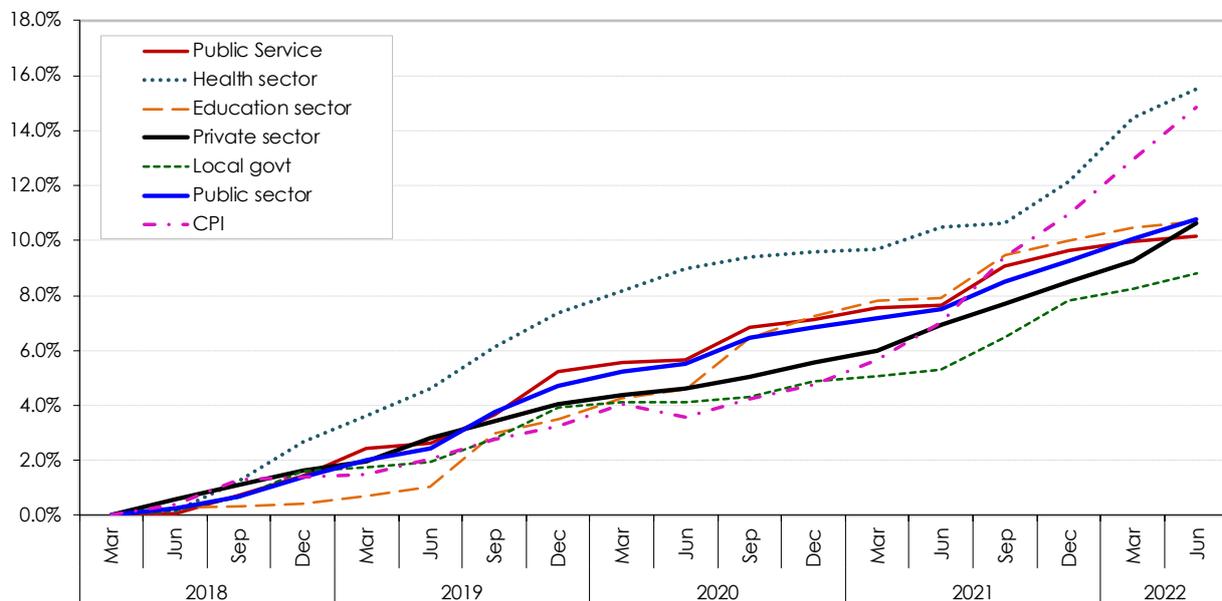
Labour Cost Index

June 2022



Te Kawa Mataaho
Public Service Commission

Figure 3: Labour Cost Index – Wage Movements by sector and CPI (cumulative percentage change since March 2018)



Proportion of workers receiving wage increases

- 28 Across public, private, and all sectors combined, a record, or near record, proportion of wages increased in the June 2022 quarter and year to June 2022.
- 28.1 Across all sectors combined, 25 percent of wage rates increased in the June 2022 quarter (up from 15 percent in the March 2022 quarter), and 66 percent of wage rates increased in the year to June 2022 (up from 64 percent in the year to March 2022, which was a record high annual result at the time).
- 28.2 In the public sector, 17 percent of wage rates increased this quarter (up from 16 percent in the March 2022 quarter), and 70 percent of public sector wage rates increased in the year to June 2022 (up from 68 percent in the year to March 2022).
- 28.3 In the private sector, 26 percent of wage rates increased this quarter (up from 15 percent in the March 2022 quarter), and 65 percent of wage rates increased in the year to June 2022 (up from 63 percent in the year to March 2022). Increases to the minimum wage from April 2022 influence wage rates in the private sector to a greater extent than in the public sector.
- 29 For both the private sector, and all sectors combined, both the quarterly and annual results are record highs (since our records begin, March 2009). For the public sector, it is not uncommon to see more than 17 percent of wages growing in a single quarter, but we've only seen more wages grow in a 12-month period three times (from December 2019 to June 2020).

Labour Cost Index

June 2022



Te Kawa Mataaho
Public Service Commission

Looking ahead to the September 2022 quarter

- 30 Labour Cost Index data for the September 2022 will be released in November 2022, following a survey period of mid-August 2022.
- 31 Pay guidance issued in early May 2021 will continue to influence annual remuneration decisions and collective bargaining, however, we also expect prevailing economic and labour market conditions to have an effect.
- 32 Few new collective agreement settlements will influence the index this September, however, increases committed in settled collective agreements, applying from 1 July 2022 will have a sizeable impact in the Public Service, other central government, and health sectors.
- 33 High quarterly growth in the health sector from March 2022 will continue to influence annual wage growth until late-2022. We also anticipate that effects of the pay equity claim for DHB-employed clerical and administrative staff, ratified in May 2022, will influence the index significantly in September.

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

Date: 16 August 2022