

# Labour Cost Index

## June 2024



### 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: June 2024 quarter](#).

### Summary

- 1 This report summarises movements in the LCI for the June 2024 quarter ("this quarter"). Quarterly wage movements reflect increases applied between mid-February 2024 and mid-May 2024, while annual wage movements reflect increases applied between mid-May 2023 and mid-May 2024.
- 2 At the **all sectors combined** level, wages grew 1.2 percent this quarter (up from 0.9 percent from the March 2024 quarter ("last quarter")) and 4.3 percent in the year to June 2024 (up from 4.1 percent in the year to March 2024).
- 3 In the **public sector**, wage growth this quarter was 1.8 percent (up from 1.2 percent last quarter) and 6.9 percent for the year to June 2024 (up from 5.6 percent from the year to March 2024). As [reported](#) by Stats NZ, 6.9 percent annual wage growth is a record high for this sector, exceeding the previous high of 5.7 percent recorded in December 2023. The size and timing collective bargaining and pay equity outcomes have driven these results. Wage growth occurred across most of the public sector, but a key driver was health sector wage growth (3.6 percent this quarter, 10.0 percent in the year to June 2024).
- 4 In the **private sector**, quarterly wage growth was 0.9 percent (up from 0.8 percent last quarter) and 3.6 percent for the year to June 2024 (down from 3.8 percent in the year to March 2024).
- 5 In the **Public Service**, wage growth for this quarter was 1.3 percent (up from 1.2 percent last quarter) and 5.4 percent for the year to June 2024 (unchanged from the year to March 2024, and continuing at a series high for the sector).
- 6 Since 2018 public sector wages have increased 23.4 percent, compared to private sector wage growth of 19.6 percent and inflation of 25.8 percent over the same period. Public Service cumulative wage growth is 20.1 percent since 2018.
- 7 These results are in the context of annual inflation, as measured by the Consumer Price Index (CPI), continuing to fall, since a peak of 7.3 percent in June 2022. Inflation was 3.3 percent for the year to June 2024 (down from 4.0 percent in the year to March 2024, and down from 6.0 percent one year ago), while inflation was 0.4 percent this quarter (down from 0.6 percent last quarter, and down from 1.1 percent one year ago).



## Te Kawa Mataaho Public Service Commission report on Labour Cost Index movements: June 2024 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.
- 10 Wage growth is reported by sector:
  - 10.1 Unless otherwise stated wage growth refers to increases of labour costs across the economy, sometimes referred to as wage growth across “all sectors combined.” This is comprised of staff employed in both the “public sector,” and the “private sector.”
  - 10.2 The “public sector” is comprised of “central government” and “local government.”
  - 10.3 “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.
  - 10.4 “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.

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

#### Public and private sectors

- 11 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 time<sup>1</sup>. Throughout 2023, and the first half of 2024, a significant number of public sector employers, particularly in the Public Service have received increases in line with the Pay Adjustment. Remuneration outcomes that did not give effect to the Pay Adjustment were often directly impacted by its parameters, providing increases similar to, or in excess of, those delivered by the Pay Adjustment. This is particularly salient in the health and education sectors.

#### Quarterly change

- 12 Wage growth was 1.2 percent this quarter (up from 0.9 percent last quarter). In the public sector wages grew 1.8 percent this quarter (up from 1.2 percent in March 2024), while in the private sector, wages grew 0.9 percent this quarter (up from 0.8 percent in March 2024).

<sup>1</sup> 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).



Overall quarterly wage growth at 1.2 percent, and public sector quarterly wage growth at 1.8 percent are both at near-record highs.

- 13 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, and particularly in the health sector, wage growth is driven by the outcome of bargaining settled in 2023, including Pay Adjustment increases for a significant proportion of the Public Service from April 2024. See *public sector sub-groups* below.
- 14 Wage growth typically exhibits 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, due to the timing of wage increases delivered through pay equity corrections, and the Pay Adjustment.
- 15 Since September 2009 wage growth averages 0.6 percent in a June quarter (1.2 percent this quarter), public sector wage growth averages 0.5 percent in June (1.8 percent this quarter), and private sector wage growth averages 0.7 percent in June (0.9 percent this quarter).
- 16 Quarterly wage growth for the June 2023 quarter (the same quarter last year) was 0.6 percent for the public sector, and 1.1 percent for the private sector. We note that many public sector employers were bargaining for, but had not yet delivered, Pay Adjustment increases by mid-May 2023, and bargaining was ongoing across much of the health and education sectors. For example, in the education sector, wage growth was 0.4 percent in the June 2023 quarter, but 3.3 percent in the September 2023 quarter.

### Annual change

- 17 In the year to June 2024, wages grew 4.3 percent, up from 4.1 percent in the year to March 2024. Over the same period wages grew 6.9 percent for the public sector (up from 5.6 percent for the year to March 2024) and 3.6 percent for the private sector (down from 3.8 percent for the year to March 2024).
- 18 Annual wage growth was steady at 4.3 percent throughout 2023 and returns to this level this quarter. When first reported in March 2023, 4.3 percent was the record high for annual wage growth. In the public sector, 6.9 percent annual wage growth in the year to June 2024 is the record high for the sector, and significantly higher than the previous annual wage growth high of 5.7 percent in the year to December 2023.
- 19 Figure 1 below compares annual wage movements for the public and private sectors since the March 2002 quarter.

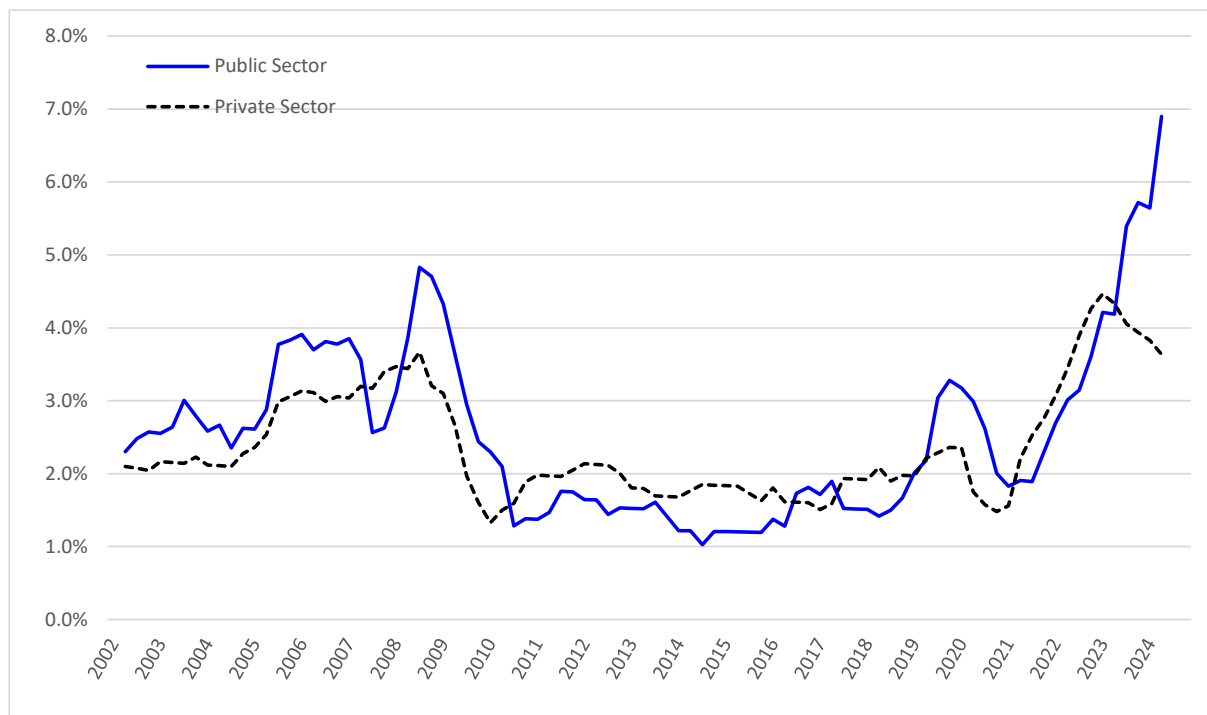
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**Figure 1: public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2002-2024**



20 We note that:

20.1 The effect of the Global Financial Crisis on wage growth was first seen in the December 2008 quarter.

20.2 The effect of COVID-19 restrictions were first seen in the September 2020 quarter.

20.3 Tight labour market conditions, including low unemployment and border restrictions (removed in July 2022) pressured wage growth through 2021 and 2022.

20.4 The impact of pay corrections since 2022, and the Pay Adjustment in 2023 and now 2024 is clear.

21 Public sector wage growth at 6.9 percent is the highest on record, only exceeded by the 5.7 percent annual wage growth seen in the year to December 2023.

22 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.

22.1 We note that private sector wage growth peaked at 4.5 percent in March 2023, representing wage increases applied during the year mid-February 2022 to mid-February 2023. By contrast, almost all of the public sector collective agreements which settled or varied to give effect to the Pay Adjustment did so after mid-February 2023. Since then, private sector annual wage growth has trended down from 4.5 percent to



3.6 percent, while public sector annual wage growth has trended up from 4.2 percent to 6.9 percent.

### **Public sector and public sector sub-groups**

- 23 Wage increases delivered through collective bargaining in 2023 has driven pay increases this quarter. We estimate that as many as 100,000 public servants, including staff employed in departments and departmental agencies, as well as Health New Zealand-employed nurses, and primary school and secondary school teachers, received an increase this quarter. This has resulted in near record quarterly growth across much of the sector, and, in conjunction with other wage growth in recent quarters, record high annual wage growth in the public sector.
- 23.1 Central government wages grew 2.0 percent this quarter (up from 1.3 percent from last quarter), and 7.1 percent in the year to June 2024 (up from 5.7 percent in the year to March 2024). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding state-owned enterprises), but not Local Government. Annual wage growth at 7.1 percent is at a record high for this index, and quarterly wage growth at 2.0 percent is a near record high, only second to quarterly wage growth of 2.3 percent in September 2023.
- 23.2 In the Public Service, wages grew 1.3 percent this quarter (up from 1.2 percent in March 2024). In the year to June 2024, Public Service wage increases were 5.4 percent (unchanged from the year to March 2024). This is the fifth consecutive quarter of quarterly wage growth above 1.0 percent for this index, and the second quarter in a row with annual wage growth at a record high 5.4 percent.
- 23.3 Education sector wages grew 2.1 percent this quarter (up from 1.3 percent last quarter), and 7.5 percent in the year to June 2024 (up from 5.7 percent in the year to March 2024). Annual wage growth at 7.5 percent is a record high for this index, and reflects primary school and secondary school teachers receiving two increases during the annual survey period. The previous increases for these workforces drove quarterly wage growth of 3.3 percent in September 2023.
- 23.4 Health sector wages grew 3.6 percent this quarter (up from 2.2 percent last quarter, and 2.9 percent in the December 2023 quarter). In the year to June 2024, annual wage growth was 10.0 percent (up from 6.8 percent last quarter). Wage growth in the sector continues to be impacted by wage corrections for nurses and allied technical staff (refer a note on pay equity, below), as well as collective bargaining outcomes across the sector including Health New Zealand-employed nurses.
- 23.4.1 This is the first instance of any monitored sector or sub-sector recording annual wage growth at or above 10.0 percent.
- 23.5 Other central government group wages grew 0.2 percent this quarter (down from 0.3 percent last quarter), and 4.6 percent in the year to June 2024 (up from 4.5 percent in the year to March 2024). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included. We note that the recent outcome from NZ Police Constabulary bargaining has not impacted the index this quarter and may not do so until the December 2024 quarter.



### Local government

- 24 Local government wages grew by 0.1 percent this quarter (down from 0.6 percent last quarter). Annual wage growth in the year to June 2024 was 4.8 percent (down from 5.0 percent in the year to March 2024). Higher than average annual wage growth for the year to June 2024 is directly influenced by record high quarterly wage growth in the December 2023 quarter.

### A note on pay equity

- 25 Although technically a wage correction (due to sex-based undervaluation), increases to wages applied because 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 corrections* are not the same as *pay 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.
- 26 Recent pay equity outcomes which are affecting quarterly or annual wage growth this quarter include Health New Zealand-employed Nurses, Allied Technical staff, and Midwives.

### Cumulative wage growth and inflation

- 27 Inflation, as measured by the consumer price index (CPI), was 0.4 percent in the June 2024 quarter (down from 0.6 percent last quarter). This is the lowest quarterly change recorded in the CPI since a change of -0.5 percent in the June 2020 quarter.
- 28 Annual inflation was 3.3 percent in the year to June 2024, down from 4.0 percent in the year to March 2024. Annual inflation now lags annual wage growth across all monitored sectors and sector sub-groups.
- 29 In considering the below data, it is important to note that wage growth is not the same as wage rates. Different sectors will face different labour market conditions and pressures, each of which may influence wage growth in that sector differently. For example, changes to the minimum wage affect private sector wage growth more than Public Service wage growth.

### Short-term cumulative wage growth

- 30 Cumulatively, wages have grown 20.3 percent since March 2018, growing 23.4 percent across the public sector, and 19.6 percent across the private sector in that time. For comparison, cumulative inflation was 25.8 percent since 2018.
- 31 Cumulative wage growth across the sector sub-groups, other than the health sector, has ranged from 16.9 percent in other central government, to 21.2 percent in the education sector. The outlier is the health sector, with cumulative wage growth of 36.7 percent since 2018.
- 32 Figure 2 below shows the trend in wage movements of selected sectors and sector sub-groups since 2018, on a cumulative basis.

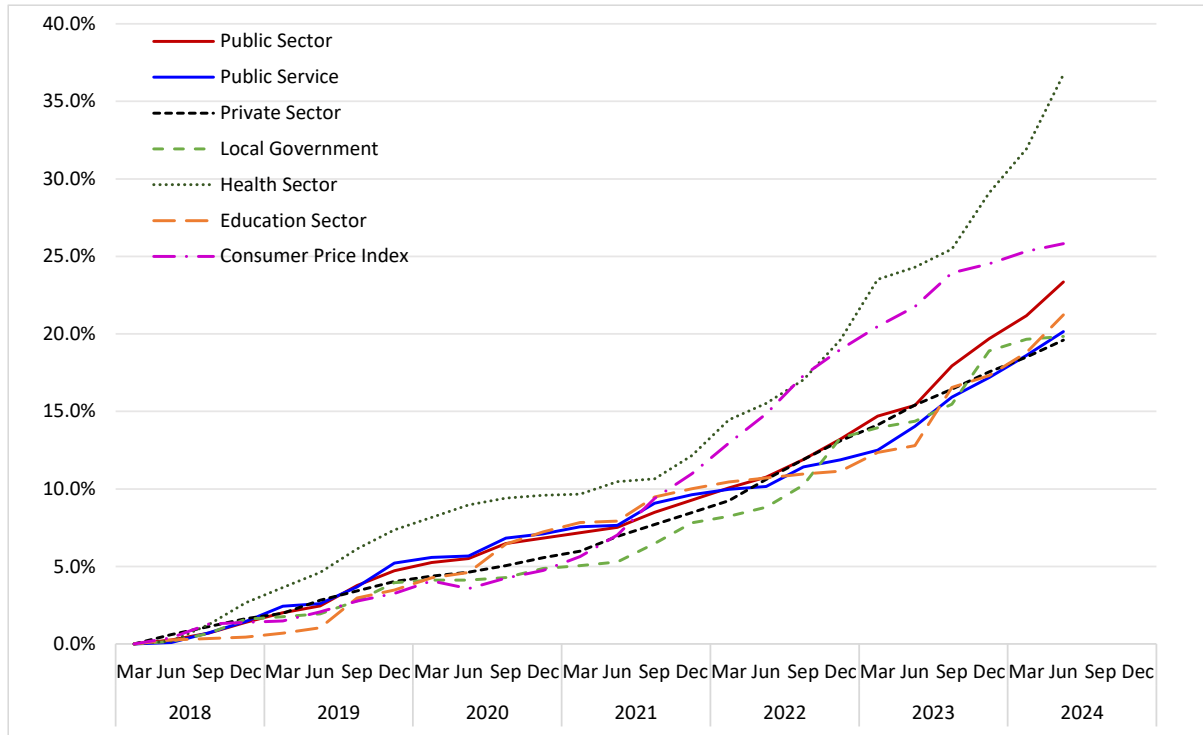
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**Figure 2: Labour Cost Index – wage movements by sector and CPI (cumulative percentage change since March 2018)**



- 33 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:
- 33.1 Public Service wage growth is 3.2 percentage points **below** public sector wage growth (2.6 percentage points below when measured last quarter).
  - 33.2 Health sector wage growth is 13.4 percentage points **above** public sector wage growth (10.8 percentage points above when measured last quarter).
  - 33.3 Education sector wage growth is 2.1 percentage points **below** public sector wage growth (2.4 percentage points below when measured last quarter).
  - 33.4 Private sector wage growth is 3.8 percentage points **below** public sector wage growth (2.7 percentage points below when measured last quarter).
  - 33.5 Inflation, as measured by the CPI, is 2.5 percentage points **above** public sector wage growth (4.1 percentage points above when measured last quarter).

### Long-term cumulative wage growth

- 34 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 June 2001) shows more variability.
- 35 Cumulatively, wages have grown 73.9 percent since 2001, growing 80.8 percent across the public sector, and 72.4 percent across the private sector in that time. For comparison, cumulative inflation was 78.0 percent since 2001.

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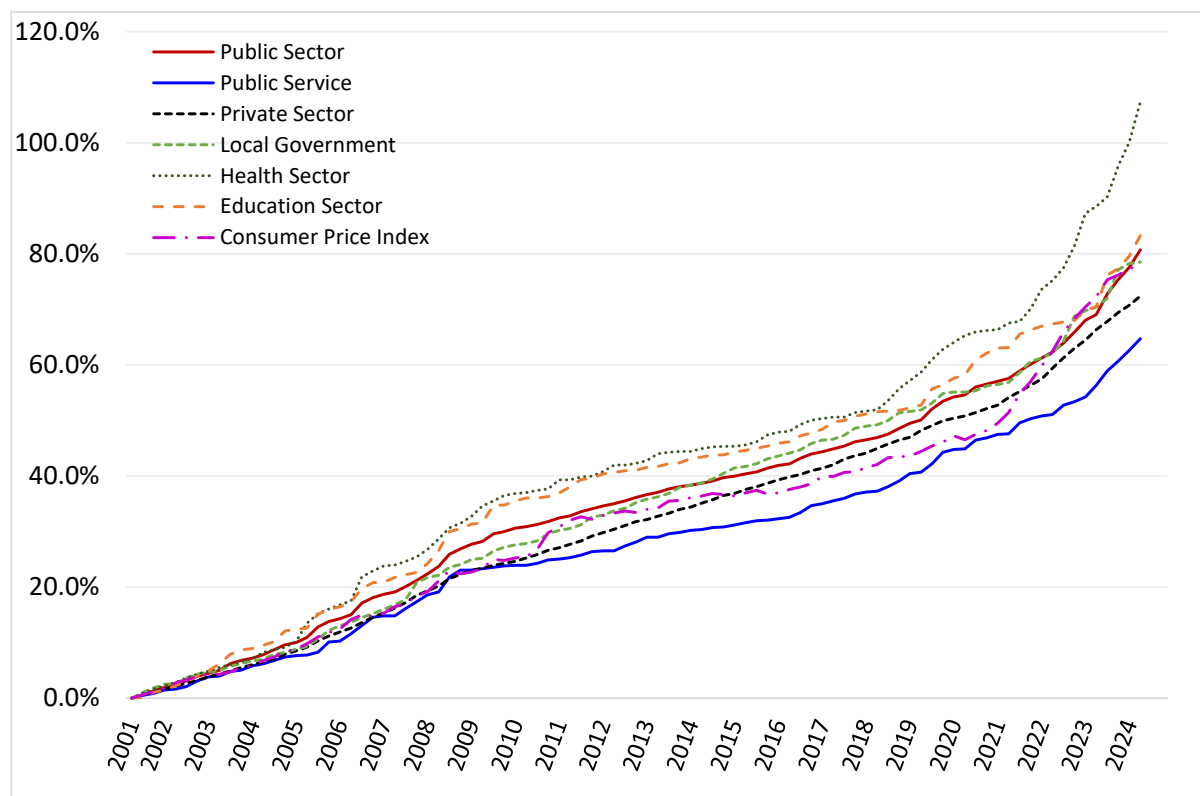
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36 Figure 3 below shows the long-term trend (since 2001) in cumulative wage movements of selected sectors and sector sub-groups.

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



37 Over this longer period, cumulative inflation exceeds cumulative wage growth in the Public Service, and the private sector, and is similar to cumulative wage growth in local government and the public sector overall. Cumulative wage growth in the health sector leads cumulative inflation over the period by 29.4 percent, while cumulative wage growth in the education sector leads inflation by 5.3 percent over the period.

38 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, and the differences in the timing of collective bargaining around 2018 and 2019.

39 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

40 The LCI's headline series are adjusted to remove the effect of any changes to the quality or quantity of labour. A secondary index, the unadjusted LCI, is also available which allows labour cost increases resulting from changes to the quality of labour.

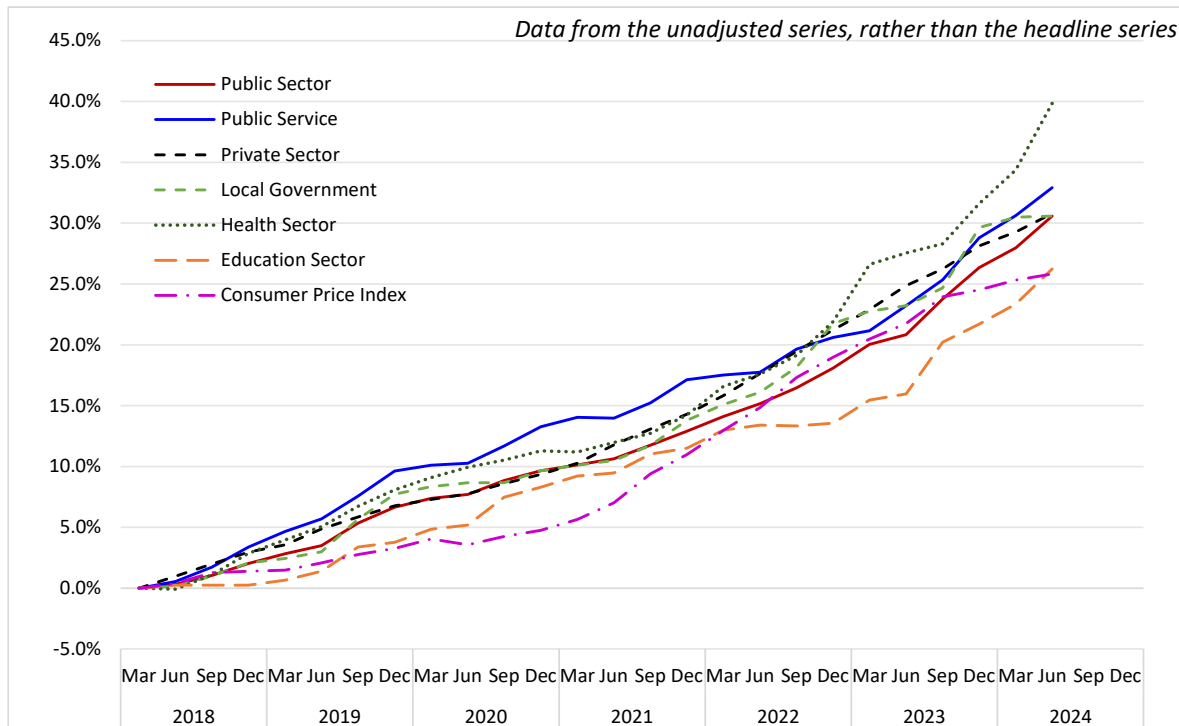




- 41 The unadjusted LCI tends to increase at a higher rate than wage cost inflation, since it also includes factors like employees' individual performance or service. For example, if an employee received a pay rate increase due to a rise in the cost of living, this would be reflected in both the LCI's 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.
- 42 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. Unadjusted wage growth across the public sector and private sector, and most of the public sector sub-groups we monitor is higher than inflation this quarter.
- 42.1 Unadjusted wage growth for the June 2024 quarter was 1.4 percent (2.0 percent in the public sector, and 1.2 percent in the private sector) compared to quarterly inflation of 0.4 percent. Public Service unadjusted wage growth was 1.8 percent for the quarter. 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.
- 42.2 Unadjusted wage growth for the year to June 2024 was 5.4 percent across all sectors (8.1 percent in the public sector, and 4.8 percent in the private sector) compared to annual inflation of 3.3 percent. In the Public Service annual unadjusted wage growth was 7.9 percent.
- 43 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.
- 43.1 Cumulative unadjusted wage growth is higher than adjusted wage growth for all sectors, including 30.6 percent in the public sector (23.4 percent adjusted), 30.8 percent in the private sector (19.6 percent adjusted) and 32.9 percent in the Public Service (20.1 percent adjusted).
- 43.2 Relativities between adjusted and unadjusted wage growth across the sectors are different. For example, cumulative unadjusted wage growth in the Public Service is above that for the public sector, and about 17 percent lower than cumulative unadjusted wage growth in the health sector. By comparison, cumulative adjusted wage growth for the Public Service is about 45 percent lower than cumulative adjusted wage growth in the health sector.
- 43.3 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

- 44 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, which usually change annually in April. As with rates of wage growth, this seasonality has, in recent quarters, been disrupted.
- 45 The proportion of wages changing annually remains above the long-term trend in both public and private sectors. Last quarter we reported a record high proportion of wages changing in the year to March 2024 for the public sector, and the result for the year to June 2024 is higher still<sup>2</sup>.
- 45.1 Twenty-two percent of all wage rates increased in the June 2024 quarter (up from 16 percent last quarter), and 65 percent of wage rates increased in the year to June 2024 (down from 66 percent for the year to March 2024).
- 45.2 In the public sector, 29 percent of wage rates increased this quarter (up from 25 percent last quarter) and record high 83 percent of public sector wage rates increased in the

<sup>2</sup> These results are not driven by staff receiving multiple increases in a single year. One employee receiving multiple increases across a period is only counted once when calculating the proportion of wages changing in that period.

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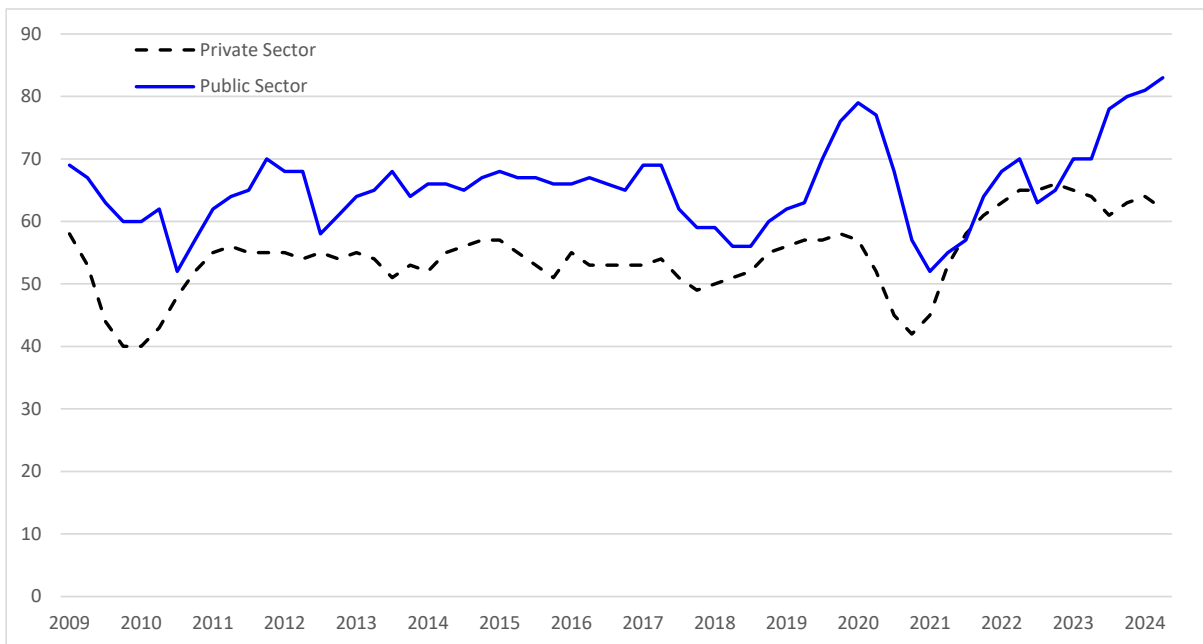


year to June 2024 (up from 81 percent in the year to March 2024, the previous record high).

45.3 In the private sector, 20 percent of wage rates increased this quarter (up from 15 percent in the March 2024 quarter), and 62 percent of wage rates increased in the year to June 2024 (down from 64 percent in the year to March 2024).

46 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 September 2024 quarter

47 LCI data for the September 2024 quarter will be released on 6 November 2024, following a survey period of mid-August 2024.

48 Table 1 shows quarterly wage growth for September 2023, and recent quarterly averages for all sectors combined, the public sector, and the Public Service.

**Table 1: Wage growth trends in a September quarter, select sectors**

Quarterly wage growth trends for a September quarter			
	September 2023	Sept Average 2020 - 2023	Sept Average 2009 - 2023
<b>All Sectors Combined</b>	1.1%	0.9%	0.6%
<b>Private Sector</b>	0.9%	0.8%	0.6%
<b>Public Sector</b>	2.2%	1.3%	0.7%
<b>Public Service</b>	1.7%	1.3%	0.7%

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- 49 As shown in Table 1, public sector wage growth is typically moderate to high in September, driven by increases to wage rates agreed in previous years bargaining occurring from 1 July annually.
- 49.1 Unusually high wage growth in the September 2023 quarter in the public sector and Public Service was attributable to bargained outcomes earlier in 2023. You can find our full report on September 2023 quarterly wage growth on the Public Service Commission [website](#).
- 49.2 September quarter growth has been higher in recent years than across the longer term, with increases which apply from 1 July annually affecting wage growth in September.
- 49.3 However, with relatively few bargained outcomes being reached in recent months, and many increases which may otherwise have occurred from July 2024 occurring instead in April 2024, we anticipate below average wage growth across most of the public sector in the September 2024 quarter.

Please direct any enquiries to [EmploymentRelations@publicservice.govt.nz](mailto:EmploymentRelations@publicservice.govt.nz)

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