

Labour Cost Index

March 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: March 2022 quarter](#).

Summary

- 1 The survey period for the March 2022 quarter (“this quarter”) was mid-February 2022, during which time New Zealand was at “Red” in the Covid Protection Framework.
- 2 Overall wage growth this quarter was 0.8 percent (up from 0.6 percent in December 2021) and 3.0 percent in the year to March 2022 (up from 2.6 percent in the year to December 2021). 3.0 percent is the highest all-sectors annual wage growth result since March 2009.
- 3 In the public sector, wage growth this quarter was 0.7 percent (unchanged from last quarter), and 2.7 percent for the year to March 2022 (up from 2.3 percent from the year to December 2021). In the private sector, quarterly growth was 0.7 percent (the third consecutive quarter with growth at this level), and 3.1 percent for the year to March 2022 (up from 2.8 percent in the year to December 2021). This is the highest private sector annual wage growth result since March 2009.
- 4 In the Public Service, wage growth for this quarter was 0.3 percent (down from 0.5 percent for the December 2021 quarter) and 2.3 percent for the year to March 2022 (down from 2.4 percent in the year to December 2021).
- 5 Quarterly wage growth in the health sector was 2.1 percent this quarter (annual wage growth in the year to March 2022 was 4.4 percent). This is the highest quarterly wage growth result for the sector since September 2006.
- 6 Across all sectors combined, 64 percent of wage rates increased in the year to March 2022, the highest result on record (since March 2009). For comparison 46 percent of wage rates increased in the year to March 2021.



Labour Cost Index – March 2022 Quarter

Public and private sector annual movement in salary and wage rates

Public and Private Sectors

- 7 The LCI continues to reflect the effects of COVID-19 on the New Zealand economy. Labour cost data was gathered in mid-February 2022 during which time New Zealand was at “Red” in the Covid Protection Framework.
- 8 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.

Quarterly Change

- 9 Wage rates in the public sector increased 0.7 percent this quarter (unchanged from last quarter), while in the private sector, wage rates also increased 0.7 percent this quarter, the third consecutive quarter of 0.7 percent wage growth. The increase for all sectors combined was 0.8 percent this quarter (up from 0.6 percent last quarter).
- 10 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. Wage growth for both the public sector and private sector is nearly double what we would normally see for a March quarter.

Annual Change

- 11 In the year to March 2022, wage rates increased to 2.7 percent for the public sector (up from 2.3 percent in the year to December 2021) and 3.1 percent for the private sector (up from 2.8 percent for the year to December 2021). The overall rate was 3.0 percent for all sectors (up from 2.6 percent for the year to December 2021). While we have seen annual wage growth at or above 2.7 percent in the public sector in recent years (most recently in early 2020), annual wage growth results for all-sectors, and the private sector are the highest reported since March 2009.
- 12 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.

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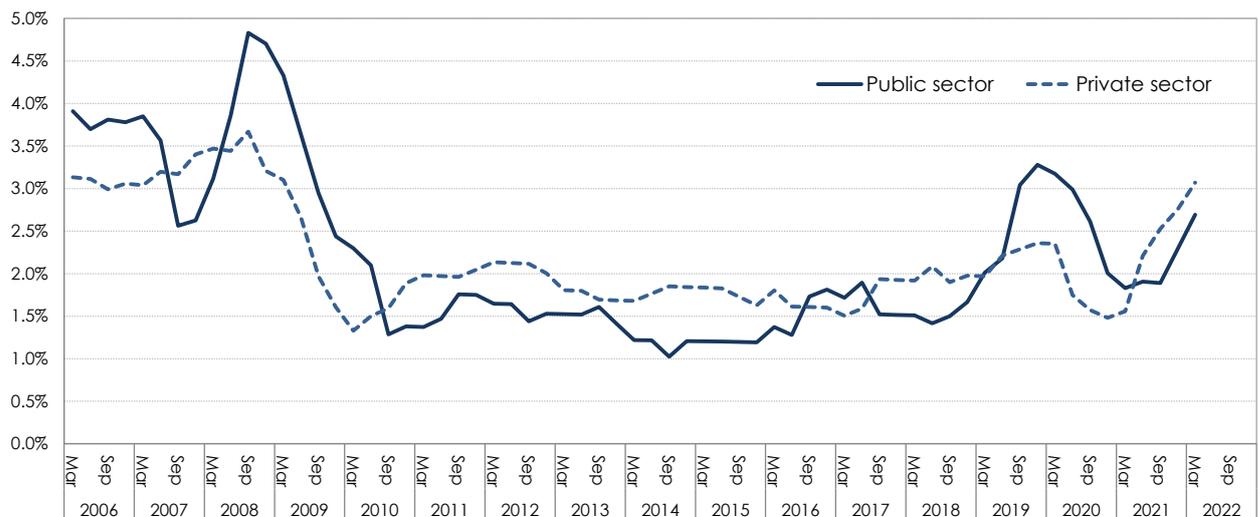
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Figure 1: Public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2006-2022

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



- 13 As we reported last quarter, it is notable that private sector annual wage growth, now 3.1 percent, has not been this high since early 2009, when private sector wages had been growing by at least 2.5 percent for more than four years (17 consecutive quarters).
- 14 In March 2020 all of New Zealand moved to Alert Level 4 as part of the Government's response to COVID-19. This corresponded to an immediate decline in private sector wage growth in the subsequent quarter. In August 2021 all of New Zealand returned to Alert Level 4, however, by contrast to June 2020, we have not seen a corresponding decline in wage growth in the following quarters. We will continue to monitor this.

Public sector and public sector sub-groups

- 15 Of the collective agreements we monitor in the public sector, most include increases to wages which take effect from 1 July, and so we do not see that having a significant affect this quarter. Newly settled collective agreements can include remuneration increases for staff in coverage upon settlement, and these will influence the index this quarter.
- 15.1 In the Public Service, collective agreements covering around 7,600 full time equivalent staff (FTE) will have applied pay increases this quarter.
- 15.2 In the health sector, we are aware that collective agreements covering around 31,000 FTE will have applied pay increases this quarter, including increases for more than 23,000 nurses covered by the collective agreement between the New Zealand Nurses Organisation (NZNO) and District Health Boards (DHBs).

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Central Government

- 16 Central government wage rates increased 0.8 percent this quarter (up from 0.6 percent last quarter), and 2.7 percent in the year to March 2022 (up from 2.2 percent in the year to December 2021). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding State-owned enterprises).
- 16.1 Education sector wage increases were 0.4 percent this quarter (down from 0.5 percent last quarter), and 2.4 percent in the year to March 2022 (down from 2.6 percent in the year to December 2021). This is the first-time annual wage growth in the sector has fallen below 2.5 percent since June 2019.
- 16.2 Health sector wage increases were 2.4 percent this quarter (up from 1.4 percent last quarter). In the year to March 2022, annual wage growth was 4.4 percent (up from 2.3 percent last quarter). Increases resulting from the recent DHB nurses' collective agreement settlement have driven the index in the March 2022 quarter. Note that the increase in the health sector index this quarter includes a partial pay correction pertaining to the NZNO nurses pay equity claim.
- 16.3 Pay guidance continues to affect Public Service wage growth. For the sector, wage increases were 0.3 percent this quarter (down from 0.5 percent in December 2021). In the year to March 2022, Public Service wages increases were 2.3 percent (down from 2.4 percent in December 2021).
- 16.4 Other central government group wage increases were 0.4 percent this quarter (up from 0.3 percent last quarter), and 1.1 percent in the year to March 2022 (up from 0.8 percent in the year to December 2021). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included. The recent collective agreement settlement at New Zealand Police for sworn officers will not influence the index until June 2022.

Local Government

- 17 Local government wage increases were 0.4 percent this quarter (down from 1.3 percent last quarter). Annual wage growth in the year to March 2022 was 3.0 percent (up from 2.8 percent in the year to December 2021).

Cumulative wage growth and inflation

- 18 Inflation, as measured by the Consumer Price Index (CPI), increased 1.8 percent in the March 2022 quarter, and 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 in June 2021, December 2021, March 2022 will continue to influence annual inflation until late 2022.
- 19 Quarterly inflation for December 2022 is higher than quarterly wage growth across all monitored sectors and public sector sub-groups for the same periods, except the health sector. Annual inflation exceeds annual wage growth for all sectors.
- 20 Figure 2 below shows the long-term trend in wage movements of selected sectors since March 2010 on a cumulative basis.

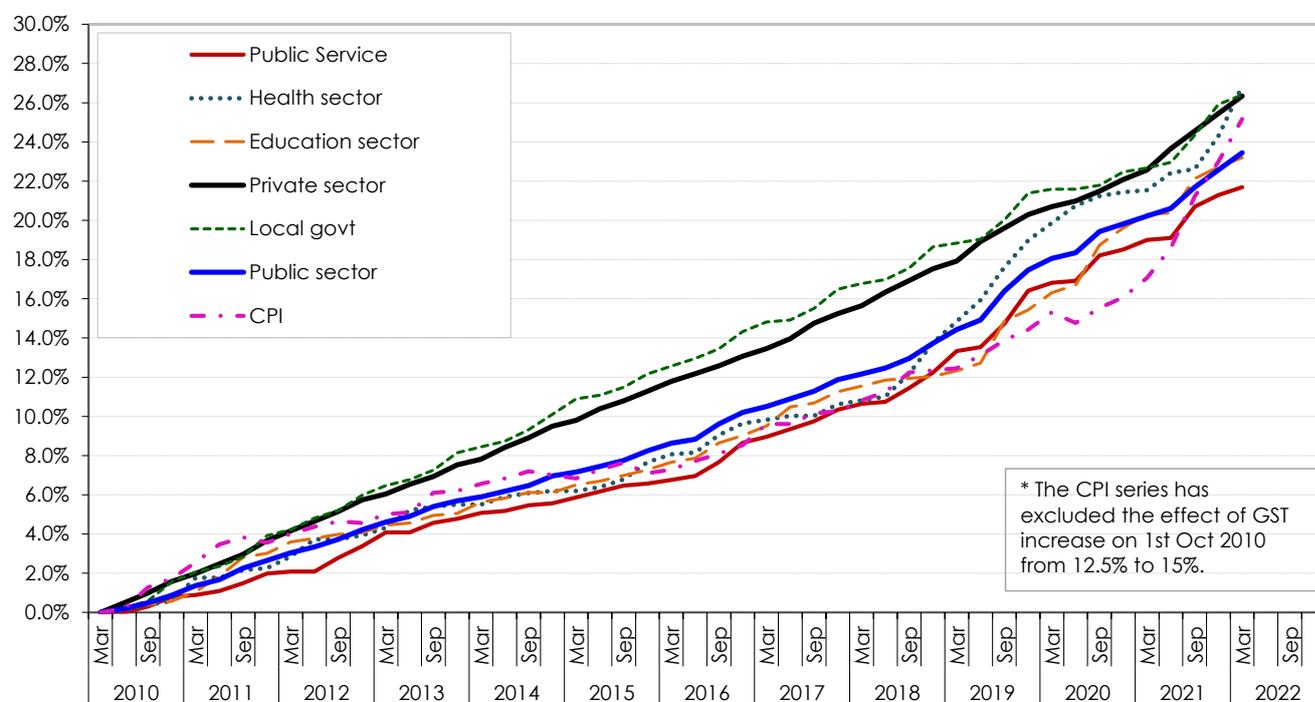
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Figure 2: Labour Cost Index – Wage Movements by sector and CPI (cumulative percentage change since March 2010)



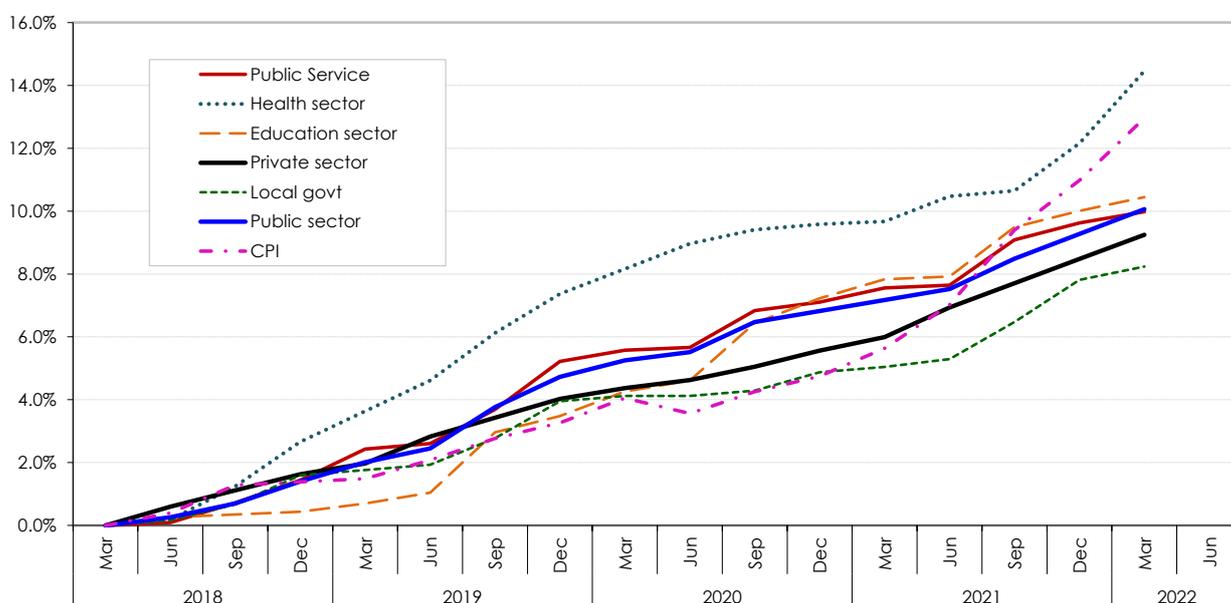
- 21 Cumulative wage growth in the Public Service lagged inflation, as measured by the CPI, for most of 2010 to 2018 and led inflation from 2019 to June 2021. The gap between cumulative inflation and cumulative Public Service wage growth has increased to 3.5 percentage points in March 2022 (up from a 1.7 percentage point gap last quarter).
- 22 Of the monitored sectors and subsectors, only the private sector, health sector, and local government, have had higher cumulative wage growth than cumulative inflation since March 2010.
- 23 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.

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



Proportion of workers receiving wage increases

- 24 Across all sectors combined, 15 percent of wage rates increased in the March 2022 quarter (down from 19 percent in the December 2021 quarter), and 64 percent of wage rates increased in the year to March 2022 (up from 62 percent in the year to December 2021). The annual result of 64 percent is the highest in our records (going back to March 2009).
- 25 In the public sector, 16 percent of wage rates increased this quarter (down from 21 percent in the December 2021 quarter), and 68 percent of public sector wage rates increased in the year to March 2022 (up from 64 percent in the year to December 2021). These results are significantly above results for March 2021 (10 percent for the quarter, 52 percent in the year to March 2021) which were, and still remain, record low results.
- 26 In the private sector, 15 percent of wage rates increased this quarter (down from 18 percent in the December 2021 quarter), and 63 percent of wage rates increased in the year to March 2022 (up from 61 percent in the year to December 2021).

Looking ahead to the June 2022 quarter

- 27 Labour Cost Index data for the June 2022 will be released in August 2022, following a survey period of mid-May 2022.
- 28 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. Wage increases for constabulary agreed in their recent settlement are expected to affect the index in June.

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- 29 Wage growth in the public sector and Public Service are typically low in a June quarter, as increases from newly settled collective agreements occurring between February and May usually apply from July and would be reflected in the September quarter index. The increase to the minimum wage which has recently come into effect is expected to influence the index for the private sector, but usually has little on the index for the public sector.
- 30 High quarterly growth in the health sector this quarter will continue to influence annual wage growth until late-2022, and similarly high quarterly inflation this quarter will continue to influence annual inflation rates for the next three quarters.
- 31 Pay equity settlements in the wider public sector are likely to influence the index later in 2022, or in 2023, but until claims are settled we are unable to forecast when the index will be affected.

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

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