

Labour Cost Index

March 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: March 2024 quarter](#).

Summary

- 1 This report summarises movements in the LCI for the March 2024 quarter ("this quarter"). Quarterly wage movements reflect increases applied between mid-November 2023 and mid-February 2024, while annual wage movements reflect increases applied between mid-February 2023 and mid-February 2024.
- 2 At the **all sectors combined** level, wages grew 0.9 percent this quarter (down from 1.0 percent from the December 2023 quarter ("last quarter")) and 4.1 percent in the year to March 2024 (down from 4.3 percent in the year to December 2023).
- 3 In the **public sector**, wage growth this quarter was 1.2 percent (down from 1.5 percent last quarter) and 5.6 percent for the year to March 2024 (down from 5.7 percent from the year to December 2023). 5.6 percent is near the record annual wage growth for this sector, the record being 5.7 percent seen last quarter.
- 4 In the **private sector**, quarterly wage growth was 0.8 percent (down from 1.0 percent last quarter) and 3.8 percent for the year to March 2024 (down from 3.9 percent in the year to December 2023).
- 5 In the **Public Service**, wage growth for this quarter was 1.2 percent (up from 1.1 percent last quarter) and 5.4 percent for the year to March 2024 (up from 4.7 percent for the year to December 2023). Annual wage growth at 5.4 percent is the highest result on record (since 2002) for the Public Service.
- 6 Two thirds (66 percent) of all workers received a pay increase in the year to March 2024. A quarter (25 percent) of public servants received a pay increase this quarter (16 percent in the private sector). On an annual basis, 81 percent of public sector wage rates have increased (64 percent in the private sector).
- 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 4.0 percent for the year to March 2024 (down from 4.7 percent in the year to December 2023, and down from 6.7 percent one year ago), while inflation was 0.6 percent this quarter (up from 0.5 percent last quarter, and down from 1.2 percent one year ago).



Te Kawa Mataaho Public Service Commission report on Labour Cost Index movements: March 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 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

- 12 Wage growth was 0.9 percent this quarter (down from 1.0 percent last quarter). In the public sector wages grew 1.2 percent this quarter (down from 1.5 percent in December 2023), while

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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in the private sector, wages grew 0.8 percent this quarter (down from 1.0 percent in December 2023).

- 13 March 2024 is the first quarter with quarterly wage growth below 1.0 percent since March 2022. While quarterly wage growth was less than 1.0 it remains above average since 2001.
- 14 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 significant proportion of the Public Service from 1 December 2023. See *public sector sub-groups* below.
- 15 Wage growth typically exhibit 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.
- 16 Wage growth this quarter was around twice the average² for a March quarter across both public and private sectors:
 - 16.1 Quarterly wage growth for the March 2023 quarter (the same quarter last year) was 1.3 percent for the public sector, and 0.9 percent for the private sector. We note that many public sector employers were bargaining for, but had not yet delivered Pay Adjustment increases by March 2023.
 - 16.2 March tends to be a slower quarter for wage growth across most sectors.

Annual change

- 17 In the year to March 2024, wages grew 4.1 percent, down from 4.3 percent in the year to December 2023. Over the same period wages grew 5.6 percent for the public sector (down from 5.7 percent for the year to December 2023) and 3.8 percent for the private sector (down from 3.9 percent for the year to December 2023).
- 18 The decrease to 4.1 percent across all sectors combined follows four consecutive quarters of annual wage growth at 4.3 percent, which were the highest results on record in the index at the overall level. Wage growth of 4.1 percent is the second highest result on record for the index (since 2002).
- 19 Figure 1 below compares annual wage movements for the public and private sectors since the March 2002 quarter.

² Since September 2009

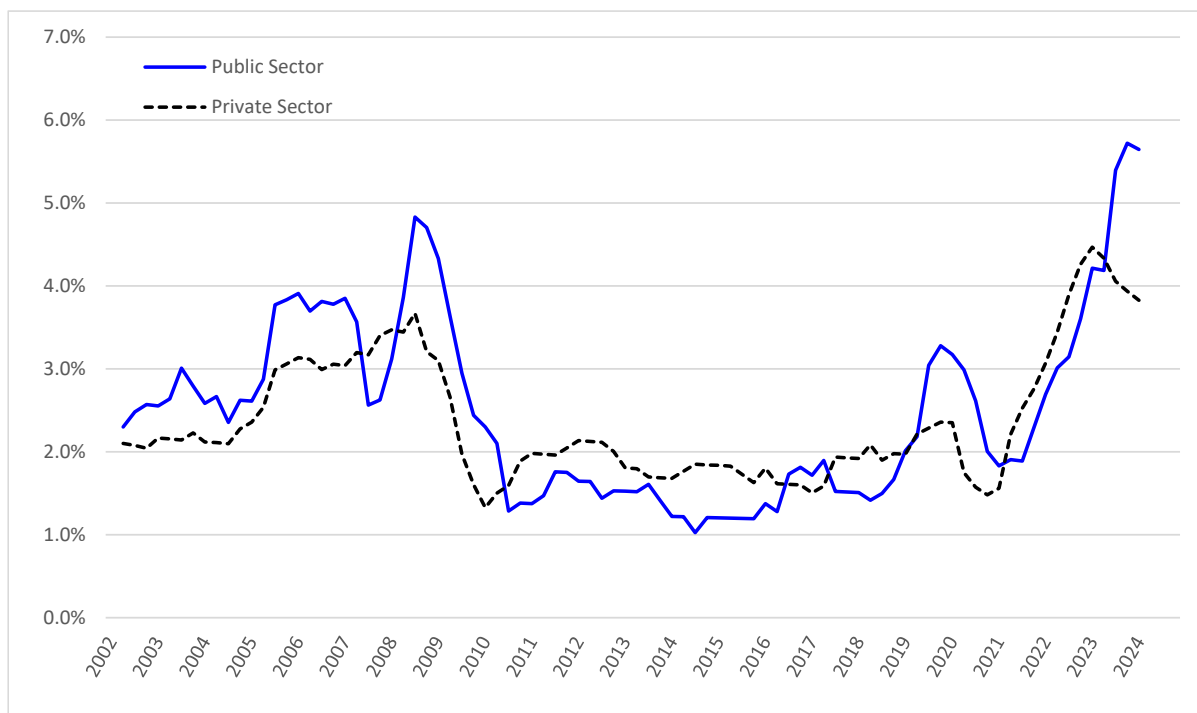
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Figure 1: public and private sector annual movement in salary and wage rates (percentage change from same quarter of previous year), 2002-2024



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 is clear.

21 Public sector wage growth at 5.6 percent is the second highest we have seen in our records (since 2002), only exceeded by the 5.7 percent annual wage growth seen in the year to December 2023. 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.

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.

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Public sector and public sector sub-groups

- 23 Recent efforts to implement the Pay Adjustment have resulted in a significant number of new public sector 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 December 2023 quarters.
- 24 There were relatively few new public sector 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 collective agreement settlements for at least 50,000 FTE across the public sector has affected the index this quarter.
- 24.1 Central government wages grew 1.3 percent this quarter (unchanged from last quarter), and 5.7 percent in the year to March 2024 (unchanged from the year to December 2023). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding state-owned enterprises). At 5.7 percent, annual wage growth remains at a record high for this index in our records (since 2001).
- 24.2 In the Public Service, wages grew 1.2 percent this quarter (up from 1.1 percent in December 2023). In the year to March 2024, Public Service wage increases were 5.4 percent (up from 4.7 percent in the year to December 2023). This is a record high annual wage growth result for the Public Service, since 2002, driven by Pay Adjustment increases occurring throughout 2023. Many public servants will have received both year one and year two Pay Adjustment increases between mid-February 2023 and mid-February 2024, both of which will have contributed to this result.
- 24.3 Education sector wages grew 1.3 percent this quarter (up from 0.7 percent last quarter), and 5.7 percent in the year to March 2024 (up from 5.6 percent in the year to December 2023). Increases to around 37,000 support staff in schools, and 4,000 kindergarten teachers have driven these increases.
- 24.4 Health sector wages grew 2.2 percent this quarter (down from 2.9 percent last quarter). In the year to March 2024, annual wage growth was 6.8 percent (down from 7.9 percent last quarter). Wage growth in the sector continues to be impacted by pay corrections for nurses, as well as collective bargaining outcomes across the sector.
- 24.5 Other central government group wages grew 0.3 percent this quarter (down from 0.5 percent last quarter), and 4.5 percent in the year to March 2024 (down from 4.7 percent in the year to December 2023). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included.

Local government

- 25 Local government wages grew by 0.6 percent this quarter (down from 3.0 percent last quarter). Annual wage growth in the year to March 2024 was 5.0 percent (unchanged from the year to December 2023). Higher than average annual wage growth for the year to March 2024 is directly influenced by record high quarterly wage growth in the December 2023 quarter.

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A note on pay equity

- 26 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

- 27 Inflation, as measured by the consumer price index (CPI), was 0.6 percent in the March 2024 quarter (up from 0.5 percent last quarter). Quarterly inflation is below quarterly wage growth for both public and private sectors, and across most public sector sub-groups.
- 28 Annual inflation was 4.0 percent in the year to March 2024, down from 4.7 percent in the year to December 2023. Annual inflation exceeds private sector annual wage growth for the year to March 2024, but is below wage growth in the public sector, and across most public sector subgroups.
- 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 Across most public sector sub-groups, other than the health sector, cumulative wage growth since March 2018 has been similar, ranging from 18.6 percent in the Public Service, to 19.7 percent in the local government sector. The outlier is the health sector, with cumulative wage growth of 31.9 percent since March 2018.
- 31 Figure 2 below shows the trend in wage movements of selected sectors and sector sub-groups since March 2018, on a cumulative basis.

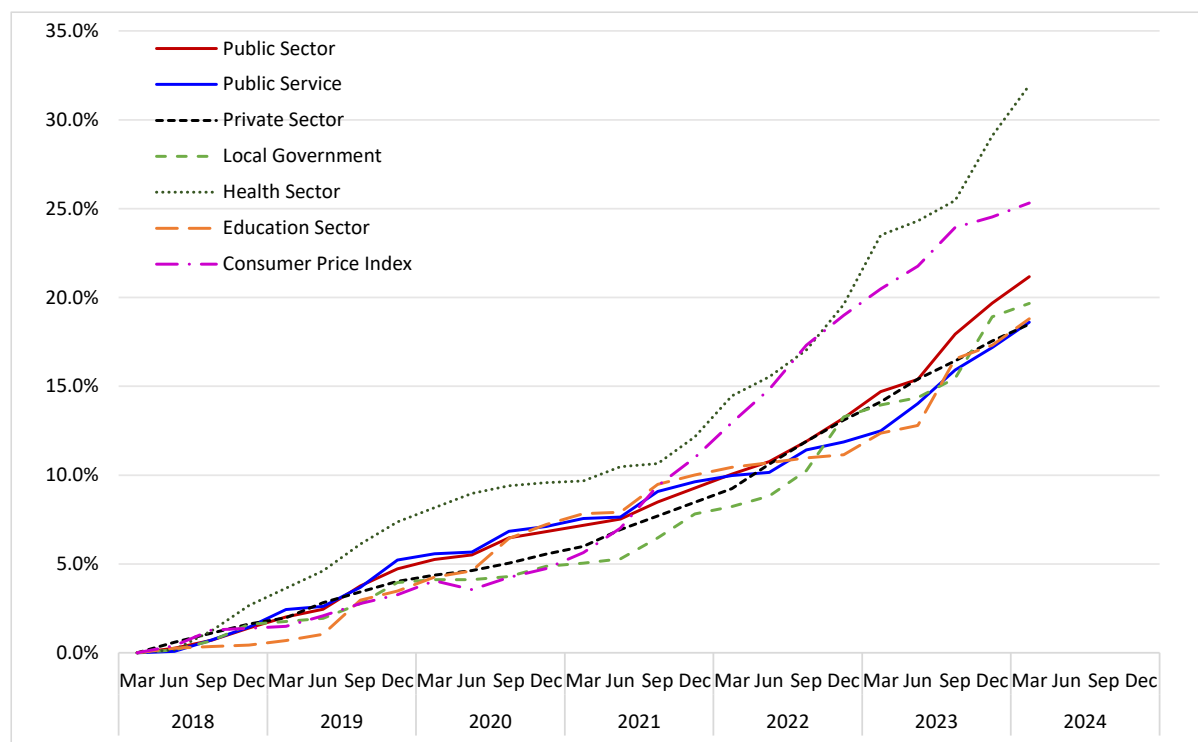
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Figure 2: Labour Cost Index – wage movements by sector and CPI (cumulative percentage change since March 2018)



- 32 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:
- 32.1 Public Service wage growth is 2.6 percentage points **below** public sector wage growth (2.5 percentage points below when measured last quarter).
 - 32.2 Health sector wage growth is 10.8 percentage points **above** public sector wage growth (9.4 percentage points above when measured last quarter).
 - 32.3 Education sector wage growth is 2.4 percentage points **below** public sector wage growth (2.4 percentage points below when measured last quarter).
 - 32.4 Private sector wage growth is 2.7 percentage points **below** public sector wage growth (2.1 percentage points below when measured last quarter).
 - 32.5 Inflation, as measured by the CPI, is 4.1 percentage points **above** public sector wage growth (4.8 percentage points above when measured last quarter).

Long-term cumulative wage growth

- 33 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.
- 34 Figure 3 below shows the long-term trend (since March 2001) in cumulative wage movements of selected sectors and sector sub-groups.

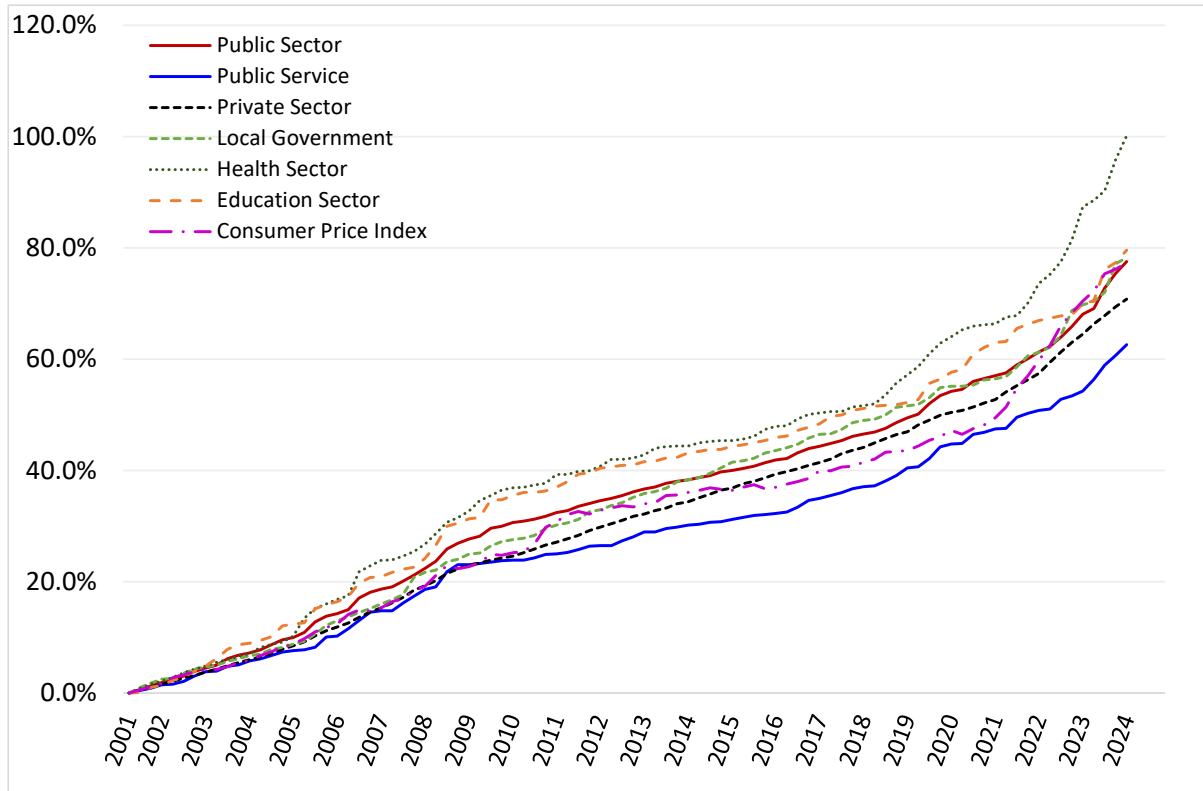
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Figure 3: Labour Cost Index – wage movements by sector and CPI (cumulative percentage change since March 2001)



- 35 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 education sector, and the public sector overall. Cumulative wage growth in the health sector also leads cumulative inflation over the period.
- 36 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.
- 37 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

- 38 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.
- 39 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

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receiving progression or a promotion, this would only be reflected in the unadjusted LCI and not the headline series.

- 40 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.
- 40.1 Unadjusted wage growth for the March 2024 quarter was 1.0 percent (1.3 percent in the public sector, and 0.9 percent in the private sector) compared to quarterly inflation of 0.6 percent. Public Service unadjusted wage growth was 1.4 percent for the quarter.
- 40.1.1 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.
- 40.2 Unadjusted wage growth for the year to March 2024 was 5.4 percent across all sectors (6.6 percent in the public sector, and 5.2 percent in the private sector) compared to annual inflation of 4.0 percent. In the Public Service annual unadjusted wage growth was 7.8 percent.
- 41 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.
- 41.1 Cumulative unadjusted wage growth is higher than adjusted wage growth for all sectors, including 28.0 percent in the public sector (21.2 percent adjusted), 29.3 percent in the private sector (18.5 percent adjusted) and 30.6 percent in the Public Service (18.6 percent adjusted).
- 41.2 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 than for any other public sector sub-group, and about 40 percent lower than in the health sector.
- 41.3 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.

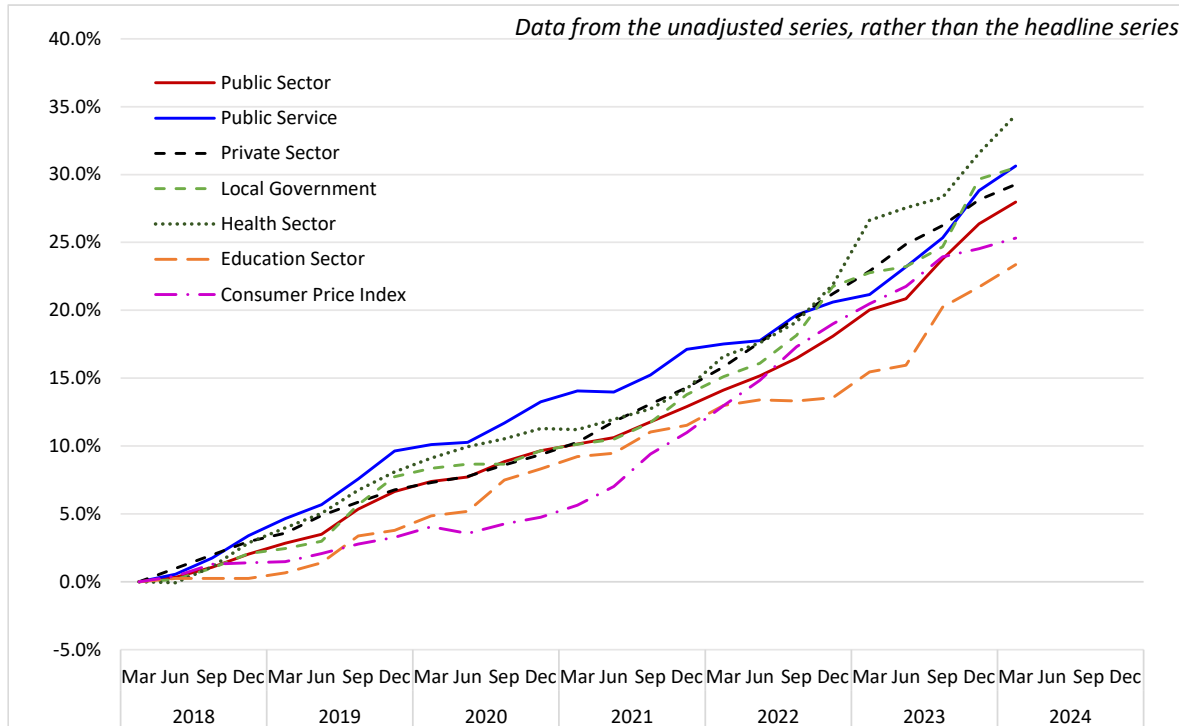
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Figure 4: Labour Cost Index – wage movements by sector and CPI (cumulative unadjusted percentage change since March 2018)



Proportion of employees receiving wage increases

- 42 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. As with rates of wage growth, this seasonality has, in recent quarters, been disrupted by pay corrections delivered through pay equity processes, and the Pay Adjustment.
- 43 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 December 2023 for the public sector, and the result for the year to March 2024 is higher still.
- 43.1 Sixteen percent of all wage rates increased in the March 2024 quarter (down from 20 percent last quarter), and 66 percent of wage rates increased in the year to March 2024 (up from 65 percent for the year to December 2023).
- 43.2 In the public sector, 25 percent of wage rates increased this quarter (down from 26 percent last quarter) and record high 81 percent of public sector wage rates increased in the year to March 2024 (up from 80 percent in the year to December 2023).
- 43.3 In the private sector, 15 percent of wage rates increased this quarter (down from 18 percent in the December 2023 quarter), and 64 percent of wage rates increased in the year to March 2024 (up from 63 percent in the year to December 2023).

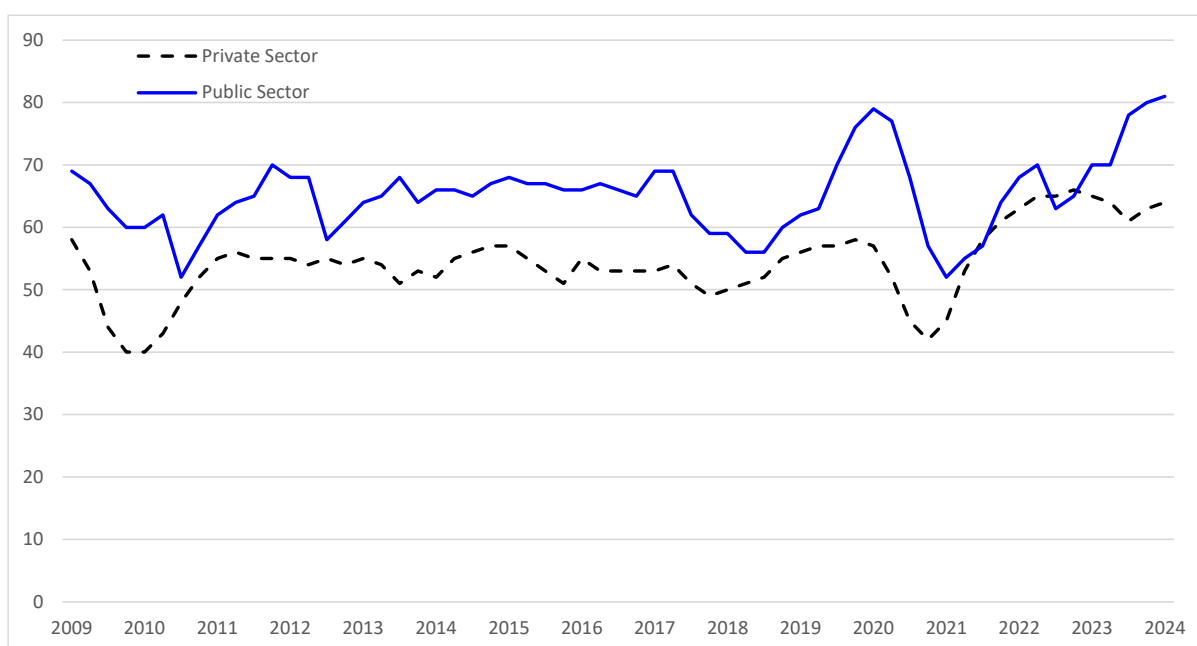
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- 44 These results are not driven by staff receiving multiple increases in a single year. One employee receiving multiple increases across a period is only counted once when calculating the proportion of wages changing in that period.
- 45 Figure 5 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 June 2024 quarter

- 46 LCI data for the June 2024 quarter will be released on 7 August 2024, following a survey period of mid-May 2024.
- 47 Public sector wage growth is typically low in June, with few new increases being delivered across the sector between February and May (the relevant survey period). 2023 was unusual in this regard, with significant increases delivered across the public sector in June 2023 due to the Pay Adjustment. Table 1 shows quarterly wage growth for June 2023, and recent quarterly averages for all sectors combined, the public sector, and the Public Service.

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

Wage growth trends for a June quarter			
	June 2023	June Average 2020 - 2023	June Average 2009 - 2023
All Sectors Combined	1.1%	0.8%	0.5%
Private Sector	1.1%	0.9%	0.6%
Public Sector	0.6%	0.5%	0.3%
Public Service	1.4%	0.4%	0.2%

- 48 Despite these averages, we anticipate high wage growth in the public sector in the June 2024 quarter, driven by year two Pay Adjustment increases applying to over 17,000 staff in the Public Service from April 2024. Increases will also be delivered to 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: 6 June 2024