

Labour Cost Index

September 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: September 2024 quarter](#).

Summary

- 1 This report summarises movements in the LCI for the September 2024 quarter ("this quarter"). Quarterly wage movements reflect increases applied between mid-May 2024 and mid-August 2024, while annual wage movements reflect increases applied between mid-August 2023 and mid-August 2024.
- 2 At the **all sectors combined** level, wages grew 0.6 percent this quarter (down from 1.2 percent from the June 2024 quarter ("last quarter")) and 3.8 percent in the year to September 2024 (down from 4.3 percent in the year to June 2024).
- 3 In the **public sector**, wage growth this quarter was 0.9 percent (down from 1.8 percent last quarter) and 5.6 percent for the year to September 2024 (down from 6.9 percent from the year to June 2024).
- 4 In the **private sector**, quarterly wage growth was 0.6 percent (down from 0.9 percent last quarter) and 3.3 percent for the year to September 2024 (down from 3.6 percent in the year to June 2024).
- 5 In the **Public Service**, wage growth for this quarter was 0.7 percent (down from 1.3 percent last quarter) and 4.4 percent for the year to September 2024 (down from 5.4 percent from the year to June 2024).
- 6 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 2.2 percent for the year to September 2024 (down from 3.3 percent in the year to June 2024, and down from 5.6 percent one year ago), while inflation was 0.6 percent this quarter (up from 0.4 percent last quarter, and down from 1.8 percent one year ago).
- 7 Since 2018 public sector wages have increased 24.5 percent, compared to private sector wage growth of 20.3 percent and inflation of 26.6 percent over the same period. Public Service cumulative wage growth is 21.0 percent since 2018.

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Te Kawa Mataaho Public Service Commission report on Labour Cost Index movements: September 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, as well as 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, and the first half of 2024, a significant number of public sector employers have received increases in line with the Pay Adjustment. Quarterly wage growth has been little affected by the Pay Adjustment this quarter, but annual wage growth will continue to be affected by it until mid-2025.

Quarterly change

- 12 Wage growth was 0.6 percent this quarter (down from 1.2 percent in June 2024). In the public sector wages grew 0.9 percent this quarter (down from 1.8 percent last quarter), while in the private sector, wages grew 0.6 percent this quarter (down from 0.9 percent in June 2024).

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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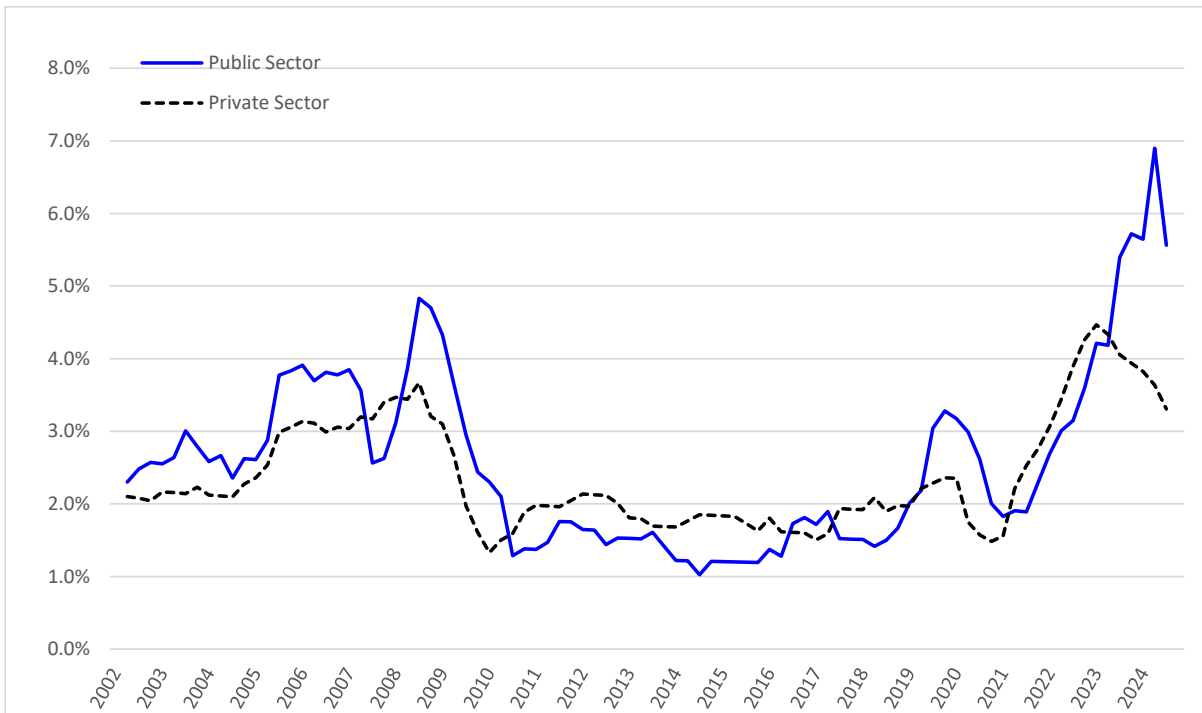
Overall quarterly wage growth at 0.6 percent is the lowest quarterly growth across all sectors combined since December 2021.

- 13 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. Wage growth this quarter has returned to average levels for a September quarter, after an extended period of above average wage growth across the sector due to implementation of the Pay Adjustment.
- 14 Since September 2009, wage growth averages 0.6 percent in a September quarter (0.6 percent this quarter), public sector wage growth averages 0.8 percent in September (0.9 percent this quarter), and private sector wage growth averages 0.6 percent in September (0.6 percent this quarter).

Annual Change

- 15 In the year to September 2024, wages grew 3.8 percent (down from 4.3 percent in the year to June 2024). Over the same period wages grew 5.6 percent for the public sector (down from 6.9 percent for the year to June 2024) and 3.3 percent for the private sector (down from 3.6 percent for the year to June 2024).
- 16 Figure 1 below compares annual wage movements for the public and private sectors since the March 2002 quarter.

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



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- 17 We note that:
- 17.1 The effect of the Global Financial Crisis on wage growth was first seen in the December 2008 quarter.
 - 17.2 COVID-19 restrictions, followed by the effects of tight labour market conditions, including low unemployment and border restrictions first eased, and then pressured, wage growth between 2020 and 2022.
 - 17.3 The impact of pay corrections since 2022, and the Pay Adjustment in 2023 and 2024 is clear.
- 18 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.
- 18.1 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 3.3 percent, while public sector annual wage growth has trended up from 4.2 percent, and peaking at 6.9 percent last quarter. The reduction in annual wage growth starting this quarter is the result of initial Pay Adjustment pay increases, delivered in early 2023, no longer affecting annual growth calculations. This trend will continue in subsequent quarters.

Public sector and public sector sub-groups

- 19 Wage increases delivered through collective bargaining in 2023 has driven pay increases this quarter. We estimate that around 18,500 public servants at departments, departmental agencies, and New Zealand Police, received an increase this quarter; this does not include staff who may have received wage increases due to contractually required progression. Progression is adjusted out of the LCI, but is reflected in the unadjusted LCI index (refer below).
- 19.1 Central government wages grew 0.9 percent this quarter (down from 2.0 percent from last quarter), and 5.7 percent in the year to September 2024 (down from 7.1 percent in the year to June 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.
 - 19.2 In the Public Service, wages grew 0.7 percent this quarter (down from 1.3 percent in June 2024). In the year to September 2024, Public Service wage increases were 4.4 percent (down from a record high 5.4 percent in the year to June 2024).
 - 19.3 Education sector wages grew 0.4 percent this quarter (down from 2.1 percent last quarter), and 4.4 percent in the year to September 2024 (down from 7.5 percent in the year to June 2024). The decrease in annual wage growth this quarter is largely

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attributable to record high quarterly wage growth of 3.3 percent in the September 2023 quarter no longer affecting annual wage growth.

- 19.4 Health sector wages grew 0.6 percent this quarter (down from 3.6 percent last quarter). In the year to September 2024, annual wage growth was 9.7 percent (down from 10.0 percent last quarter). Annual 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.
- 19.5 Other central government group wages grew 3.0 percent this quarter (up from 0.2 percent last quarter), and 4.2 percent in the year to September 2024 (down from 4.6 percent in the year to June 2024). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included. This has been significantly impacted by payment of the outcome of collective agreement bargaining for over 10,000 constabulary staff at New Zealand Police this quarter.

Local government

- 20 Local government wages grew by 1.1 percent this quarter (up from 0.1 percent last quarter). Annual wage growth in the year to September 2024 was 4.9 percent (up from 4.8 percent in the year to June 2024).

A note on pay equity

- 21 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.
- 22 Recent pay equity outcomes which are affecting annual wage growth this quarter include Health New Zealand-employed Nurses, Allied Technical staff, and Midwives.

Cumulative wage growth and inflation

- 23 Inflation, as measured by the consumer price index (CPI), was 0.6 percent in the September 2024 quarter (up from 0.4 percent last quarter). Annual inflation was 2.2 percent in the year to September 2024, down from 3.3 percent in the year to June 2024. Annual inflation continues to lag annual wage growth across all monitored sectors and sector sub-groups.
- 24 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.

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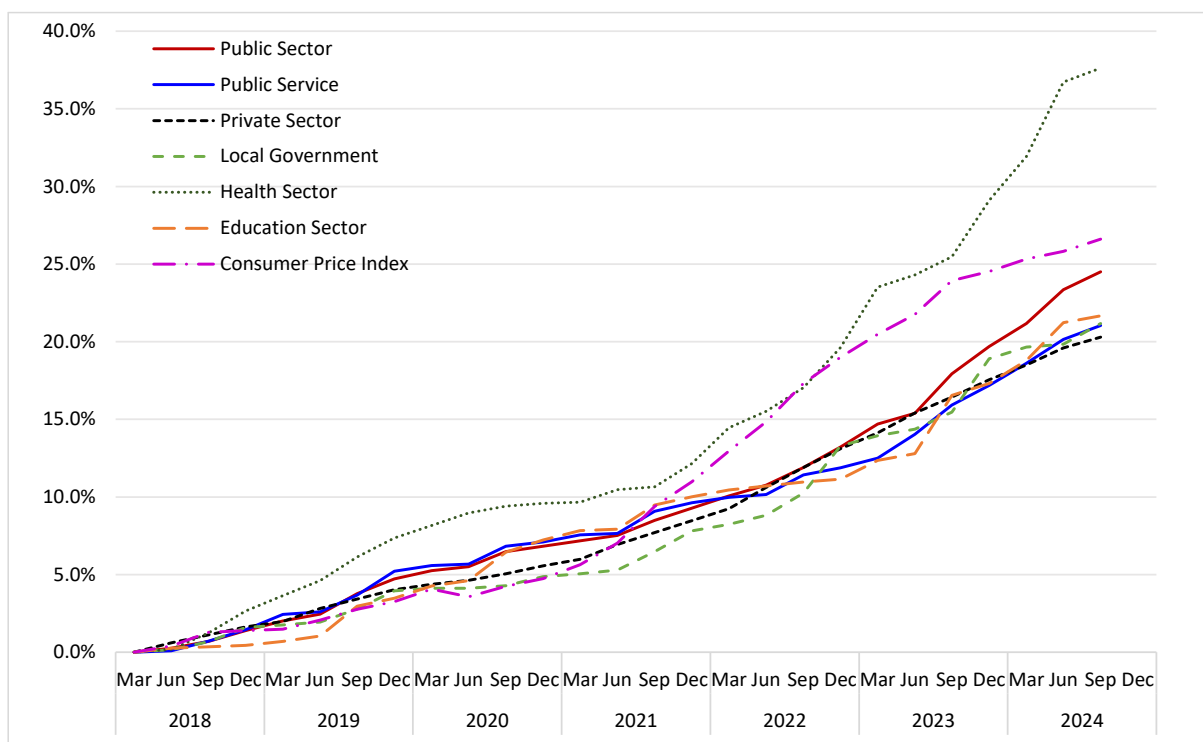


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Short-term cumulative wage growth

- 25 Cumulatively, wages have grown 21.1 percent since March 2018, growing 24.5 percent across the public sector, and 20.3 percent across the private sector in that time. For comparison, cumulative inflation was 26.6 percent since 2018.
- 26 Cumulative wage growth across the sector sub-groups, other than the health sector, has ranged from 20.5 percent in other central government, to 21.7 percent in the education sector. The outlier is the health sector, with cumulative wage growth of 37.6 percent since 2018.
- 27 Figure 2 below shows the trend in wage movements of selected sectors and sector sub-groups since 2018, on a cumulative basis.

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



- 28 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:
- 28.1 Public Service wage growth is 3.5 percentage points **below** public sector wage growth (3.2 percentage points below when measured last quarter).
- 28.2 Health sector wage growth is 13.1 percentage points **above** public sector wage growth (13.4 percentage points above when measured last quarter).
- 28.3 Education sector wage growth is 2.8 percentage points **below** public sector wage growth (2.1 percentage points below when measured last quarter).

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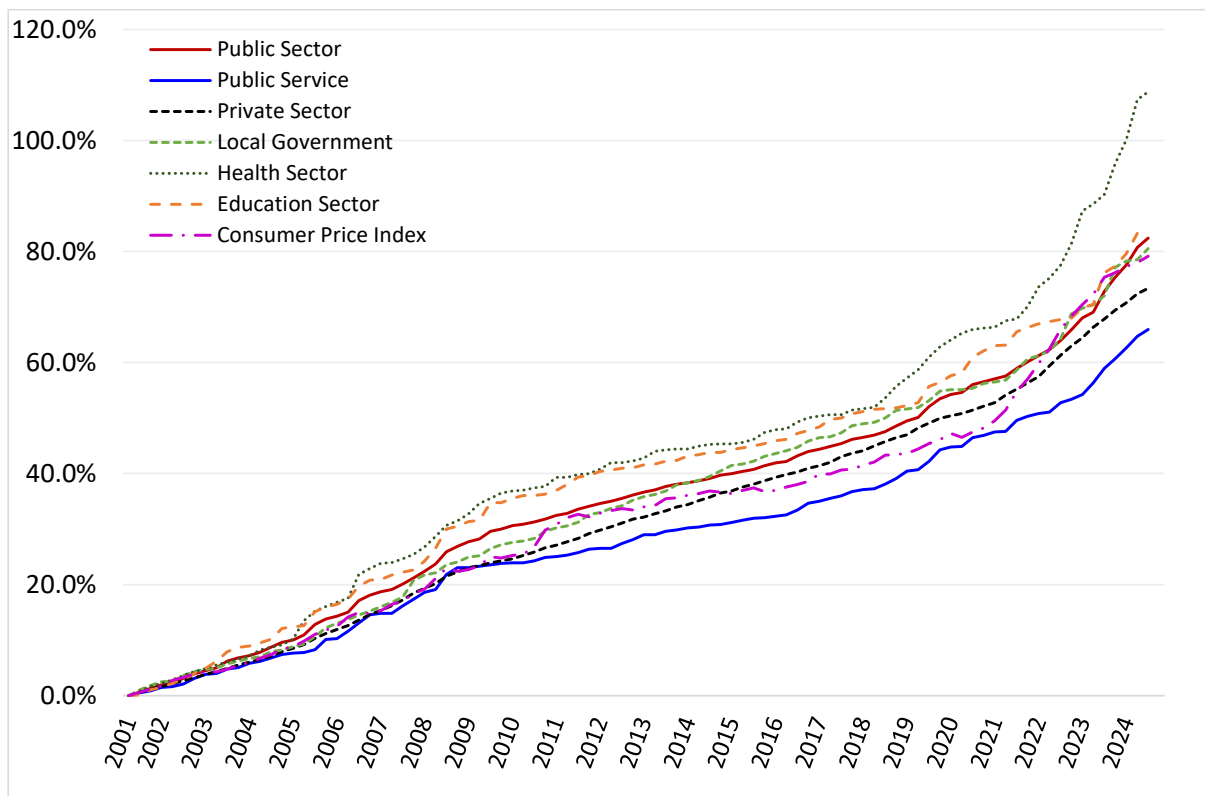


- 28.4 Private sector wage growth is 4.2 percentage points **below** public sector wage growth (3.8 percentage points below when measured last quarter).
- 28.5 Inflation, as measured by the CPI, is 2.1 percentage points **above** public sector wage growth (2.5 percentage points above when measured last quarter).

Long-term cumulative wage growth

- 29 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.
- 30 Cumulatively, wages have grown 75.0 percent since 2001, growing 82.4 percent across the public sector, and 73.4 percent across the private sector in that time. For comparison, cumulative inflation was 79.1 percent since 2001.
- 31 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)



- 32 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.

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- 33 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

- 34 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.
- 35 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.
- 36 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.
- 36.1 Unadjusted wage growth for the September 2024 quarter was 0.9 percent (1.5 percent in the public sector, and 0.8 percent in the private sector) compared to quarterly inflation of 0.6 percent. Public Service unadjusted wage growth was 1.1 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, including staffing changes.
- 36.2 Unadjusted wage growth for the year to September 2024 was 4.9 percent across all sectors (7.1 percent in the public sector, and 4.5 percent in the private sector) compared to annual inflation of 2.2 percent. In the Public Service annual unadjusted wage growth was 7.2 percent.
- 37 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.
- 37.1 Cumulative unadjusted wage growth is higher than adjusted wage growth for all sectors, including leading by 8.0 percentage points in the public sector, 11.6 percent in the private sector, and 13.4 percentage points in the Public Service. We note that the gap between adjusted and unadjusted wage growth is generally lower in the health sector, and is 3.6 percentage points to September 2024.
- 37.2 Relativities between adjusted and unadjusted wage growth across the sectors are different. For example, cumulative adjusted wage growth in the Public Service is 14.1 percent lower than cumulative adjusted wage growth in the public sector overall, but cumulative unadjusted wage growth for the Public Service is 5.8 percent above cumulative unadjusted wage growth in the public sector overall.

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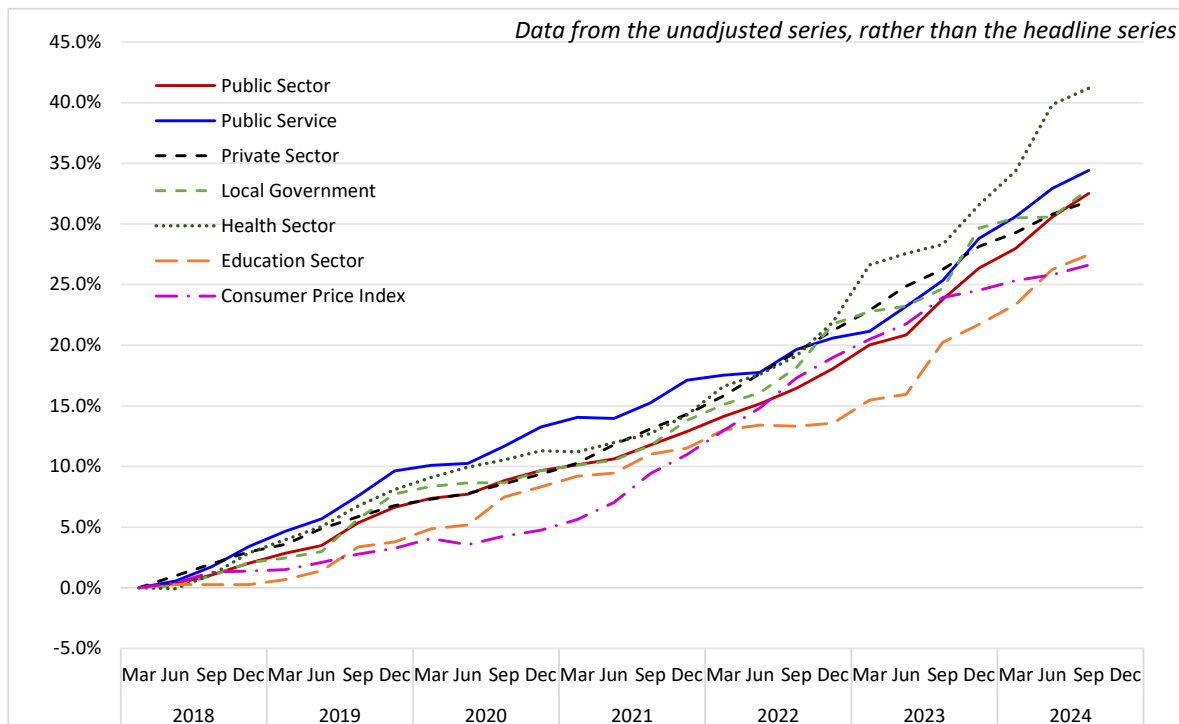
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- 37.3 Cumulative inflation since 2018 now lags cumulative unadjusted wage growth across all monitored sectors, except the Other Central Government sector, for the first time since June 2021.

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



Proportion of employees receiving wage increases

- 38 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.
- 39 The proportion of wages changing annually remains above the long-term trend in both public and private sectors. The proportion of wages changing in the quarter is average, or slightly below average, for a September quarter across both sectors.
- 39.1 Sixteen percent of all wage rates increased in the September 2024 quarter (down from 22 percent last quarter), and 63 percent of wage rates increased in the year to September 2024 (down from 65 percent for the year to June 2024).
- 39.2 In the public sector, 23 percent of wage rates increased this quarter (down from 29 percent last quarter) and 78 percent of public sector wage rates increased in the year to September 2024 (down from 83 percent in the year to June 2024, the previous record high).

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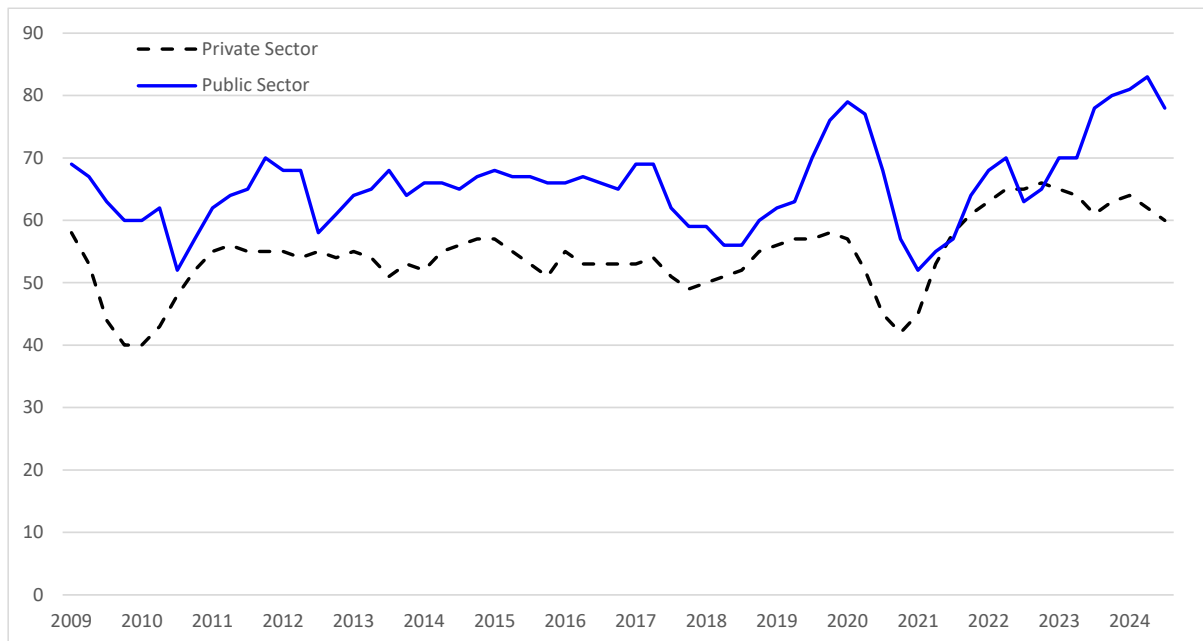


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39.3 In the private sector, 15 percent of wage rates increased this quarter (down from 20 percent in the June 2024 quarter), and 60 percent of wage rates increased in the year to September 2024 (down from 62 percent in the year to June 2024).

40 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 December 2024 quarter

41 LCI data for the December 2024 quarter will be released on 5 February 2025, following a survey period of mid-November 2024.

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

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

Quarterly wage growth trends for a December quarter			
	December 2023	Dec Average 2020 - 2023	Dec Average 2009 - 2023
All Sectors Combined	1.0%	0.8%	0.6%
Private Sector	1.0%	0.8%	0.6%
Public Sector	1.5%	1.1%	0.6%
Public Service	1.1%	0.6%	0.5%

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- 43 As shown in Table 1, public sector wage growth is typically moderate in a December quarter, usually driven by wage increases delivered to staff in the new financial year, but not processed before the September quarter survey period. December quarter increases have been higher in recent years than over a longer term.
- 44 There have been relatively few bargained outcomes being reached in recent months. Unusually high wage growth in the December 2023 quarter in the public sector and Public Service was attributable to bargained outcomes earlier in 2023. These factors will not repeat in the December 2024 quarter. You can find our full report on December 2023 quarterly wage growth on the Public Service Commission website.

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

Date: 21 November 2024