

Labour Cost Index

September 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: September 2022 quarter](#).

Summary

- 1 The survey period for the September 2022 quarter ("this quarter") was mid-August 2022, during which time New Zealand was at "Orange" in the Covid Protection Framework. The Framework was subsequently ended in mid-September 2022.
- 2 Overall wage growth this quarter was 1.1 percent (unchanged from 1.1 percent in June 2022) and 3.7 percent in the year to September 2022 (up from 3.4 percent in the year to June 2022). Statistics NZ reports that 3.7 percent is the second highest annual wage growth result on record, since measurement began in 1993.
- 3 In the public sector, wage growth this quarter was 1.0 percent (up from 0.6 percent in June 2022), and 3.1 percent for the year to September 2022 (up from 3.0 percent from the year to June 2022).
- 4 In the private sector, quarterly growth was 1.2 percent (down from 1.3 percent in June 2022), and 3.9 percent for the year to September 2022 (up from 3.4 percent in the year to June 2022). This is the highest private sector annual wage growth result in our records (since June 2002).
- 5 In the Public Service, wage growth for this quarter was 1.1 percent (up from 0.2 percent for the June 2022 quarter) and 2.1 percent for the year to September 2022 (down from 2.3 percent in the year to June 2022).
- 6 A high proportion of wage rates changed this quarter and the year to September 2022. Across all sectors combined, 65 percent of wage rates increased in the year to September 2022, the second highest result in our records (since March 2009).
- 7 Inflation, as measured by the Consumer Price Index (CPI) was 2.2 percent this quarter, up from 1.7 percent last quarter. Annual inflation was 7.2 percent for the year to September 2022 (slightly down from 7.3 percent for the year to June 2022), remaining significantly above average for the last 30 years).

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Public and private sector annual movement in salary and wage rates

Public and Private Sectors

- 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.
- 9 Cabinet has agreed that work should proceed with unions on a “Public Service Pay Adjustment” (PSPA). This work has not affected wage growth this quarter but is expected to have an effect in coming quarters.
- 10 Labour cost data for the September 2022 quarter was gathered in mid-August 2022.

Quarterly Change

- 11 Wage rates in the public sector increased 1.0 percent this quarter (up from 0.6 percent in June 2022), while in the private sector, wage rates increased 1.2 percent this quarter (down from 1.3 percent in June 2022). The increase for all sectors combined was 1.1 percent this quarter (unchanged from 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 Wage growth remains significantly above the quarterly average, which for a September quarter are 0.6 percent (public sector), 0.5 percent (private sector), and 0.6 percent (all sectors combined).

Annual Change

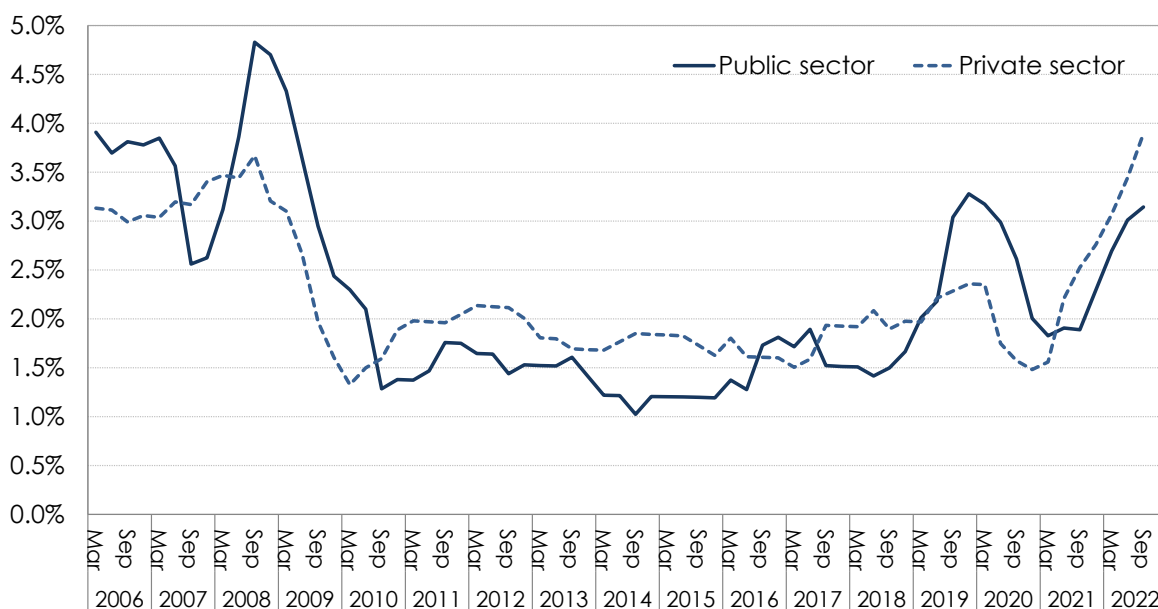
- 14 In the year to September 2022, wage rates increased to 3.1 percent for the public sector (up from 3.0 percent in the year to June 2022) and 3.9 percent for the private sector (up from 3.4 percent for the year to June 2022). 3.9 percent for the private sector is the highest annual wage growth for the private sector in our records (since June 2002).
- 15 The overall rate was 3.7 percent for all sectors (up from 3.4 percent for the year to June 2022 and compared to 2.4 percent for the year to September 2021).
- 16 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. We note that:
 - 16.1 The effect of the GFC on wage growth was first seen in the December 2008 quarter.
 - 16.2 The effect of COVID-19 restrictions was first seen in the June 2020 quarter.
 - 16.3 Tight labour market conditions, including low unemployment and border restrictions, have pressured wage increases since mid-2021.

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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



Public sector and public sector sub-groups

- 17 Of the collective agreements we monitor in the public sector, most include increases to wages which take effect from 1 July. These will affect the index this quarter.
- 17.1 In the Public Service, collective agreements covering around 31,000 full time equivalent staff (FTE) will have applied pay increases this quarter.
- 17.2 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

- 18 Central government wage rates increased 1.0 percent this quarter (up from 0.6 percent last quarter), and 3.1 percent in the year to September 2022 (up from 3.0 percent in the year to June 2022). This includes increases in the health sector, education sector, Public Service, and the other central government group (excluding State-Owned Enterprises). Recent delays in concluding bargaining in the public sector may have had a small suppressing effect on wage growth this quarter.
- 18.1 Education sector wage increases were 0.2 percent this quarter (unchanged from 0.2 percent last quarter), and 1.4 percent in the year to September 2022 (down from 2.6 percent in the year to June 2022).
- 18.2 Health sector wage increases were 1.3 percent this quarter (up from 0.9 percent last quarter). In the year to September 2022, annual wage growth was 5.8 percent (up from 4.6 percent last quarter). Some of this wage growth reflects increases resulting from the pay equity settlement for Admin/Clerical staff at District Health Boards (DHBs), refer 21.1 below.

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- 18.3 In the Public Service wage increases were 1.1 percent this quarter (up from 0.2 percent in June 2022). In the year to September 2022, Public Service wage increases were 2.1 percent (down from 2.3 percent in the year to June 2022). These increases continue to reflect efforts by agencies to give effect to public sector pay guidance in settlements in the last two years. For comparison, annual wage growth in September 2020, which was largely unaffected by pay guidance, was 3.0 percent, while annual wage growth to September 2021 was 2.1 percent.
- 18.4 Other central government group wage increases were 1.5 percent this quarter (up from 1.3 percent last quarter), and 3.5 percent in the year to September 2022 (up from 2.1 percent in the year to June 2022). This group includes the New Zealand Police, New Zealand Defence Force, Accident Compensation Corporation, and other Crown agents not elsewhere included. Higher than average annual growth this quarter, and last quarter, reflects increases in the collective agreement for sworn (constabulary) employees at NZ Police which settled early 2022.
- 19 Quarterly wage growth and annual wage growth across almost all monitored central government sub-sectors is higher than average for a September quarter (since March 2010). Lower increases in the education sector this quarter reflect ongoing bargaining for collective agreements for teachers and principals.

Local Government

- 20 Local government wage increases were 1.3 percent this quarter (up from 0.5 percent last quarter). Annual wage growth in the year to September 2022 was 3.6 percent (up from 3.4 percent in the year to June 2022).

Pay Equity

- 21 Increases to wages applied as a result of pay equity settlements will affect the Labour Cost Index as they are changes to rates paid for work holding quality and quantity unchanged. 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.
- 21.1 Pay corrections for Health NZ-employed administrative and clerical staff resulting from their pay equity settlement, [ratified May 2022](#), has affected the Index in the September 2022 quarter. We anticipate this settlement will further impact the index next quarter as a result of the timing of when these pay corrections were processed relative to the survey window.
- 21.2 Increases to DHB-employed nurses made in late 2021 will continue to influence annual wage growth for the health sector until the December 2022 quarter. While this was the outcome of collective bargaining, a portion of these wage changes relate to an ongoing pay equity process.
- 21.3 We anticipate increases to school-board-employed administrative and clerical staff resulting from their pay equity settlement, [ratified July 2022](#), will influence the index in December 2022.

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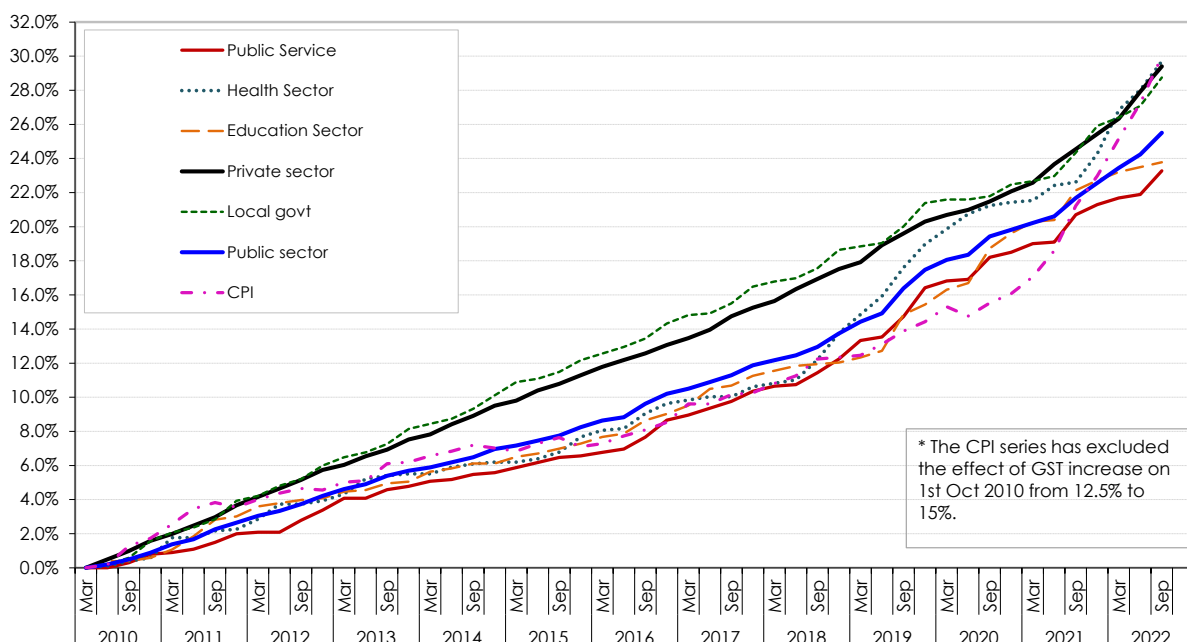


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Cumulative wage growth and inflation

- 22 Inflation, as measured by the CPI, increased 2.2 percent in the September 2022 quarter (up from 1.7 percent last quarter). This is the sixth consecutive quarter of quarterly inflation above 1.0 percent.
- 23 Annual inflation increased 7.2 percent in the year to September 2022. This remains significantly higher than average, and close to the three-decade high of 7.3 percent as reported last quarter.
- 24 Quarterly inflation has now led quarterly wage growth across all monitored sectors and subsectors for seven consecutive quarters, since March 2021.
- 24.1 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).
- 25 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)



- 26 Gaps in cumulative wage growth since March 2010 include:
- 26.1 Public sector wage growth is 2.2 percent above Public Service wage growth.
- 26.2 Health sector wage growth is 4.2 percent above public sector wage growth.
- 26.3 Private sector wage growth is 3.9 percent about public sector wage growth.
- 26.4 Private sector and health sector wage growth are approximately equivalent, and similar to cumulative inflation over the period.

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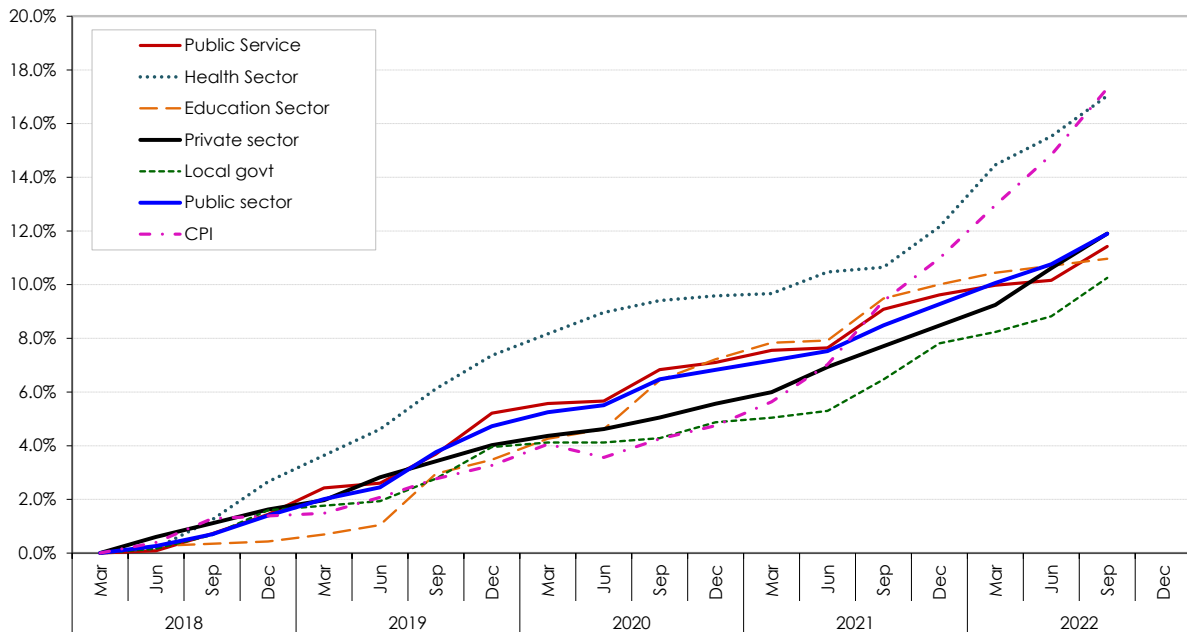
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- 27 Figure 3 shows the short-term trend in cumulative wage movements since March 2018 for monitored sectors. Cumulative inflation now exceeds wage growth for the monitored public sector sub-groups and is approximately the same as wage growth for the health sector over the same period.

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 September 2022 quarter and year to September 2022.
- 28.1 Across all sectors combined, 21 percent of wage rates increased in the September 2022 quarter (down from 25 percent in the June 2022 quarter), and 65 percent of wage rates increased in the year to September 2022 (slightly down from 66 percent in the year to June 2022, which was a record high annual result at the time).
- 28.2 In the public sector, 24 percent of wage rates increased this quarter (up from 17 percent in the June 2022 quarter), and 63 percent of public sector wage rates increased in the year to September 2022 (down from 70 percent in the year to June 2022).
- 28.3 In the private sector, 20 percent of wage rates increased this quarter (down from 26 percent in the June 2022 quarter), and 65 percent of wage rates increased in the year to September 2022 (unchanged from the year to June 2022).
- 29 The proportion of wages changing in any one quarter exhibits seasonality, much like average rates of wage growth. 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.

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- 30 The proportion of wages changing in the public sector (both this quarter, and for the year to September 2022) is slightly above average for a September quarter (since March 2009).
- 31 The proportion of wages changing in the private sector, and all sectors combined (both this quarter, and for the year to September 2022) are highest results on record for a September quarter and are near the highest results on record for any quarter (since March 2009).

Looking ahead to the December 2022 quarter

- 32 Labour Cost Index data for the December 2022 quarter will be released on 1 February 2023, following a survey period of mid-November 2022.
- 33 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.
- 34 Typically, wage growth for a December quarter will be influenced by collective agreements settling around July-October of that year. This year, due to ongoing conversations relating to the Public Service Pay Adjustment, there have been few newly settled collective agreements in that period. The wage growth we would have anticipated to occur in December 2022 will be delayed until either the March 2023 quarter, or June 2023 quarter, depending on when bargaining concludes for those collective agreements.
- 35 While public sector wage growth will not be significantly affected by new collective agreement settlements in December 2022, pay equity settlements in the health sector and education sector are likely to have a significant effect.

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

Date: 10 November 2022