

Real wages and the cost of living, 2023–26

NZCTU Report

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Executive summary

This report examines the National-led Government's record on the cost of living and real wage growth across a number of different metrics. It is a complement to the [Three Years of Pain](#) report on the state of the labour market, and the [What Are We Giving Up?](#) report, which detailed the findings of NZCTU's survey on the cost of living.

The “cost-of-living crisis” is usually framed as a problem of inflation – of broad-based price increases. But it should also be thought of as a problem of insufficient wage growth. Many households' wages haven't kept up with rising costs over recent years, which means their standard of living has fallen.

The National-led Government was elected on a mandate to fix the cost-of-living crisis. It has clearly failed to do so. Prices have continued to rise rapidly across many essential goods and services such as food and electricity. And in real terms, wages have barely grown for many households and have fallen steeply for lower-income ones.

In addition, as we covered in our previous report, unemployment has increased, and the social welfare system has been made more punitive and conditional, which has further intensified cost-of-living pressures for many whānau.

Depending on the measure used, real wages have either barely grown or fallen over the last three years. Lower-income households have been particularly hard hit. Over this Government's term in office, the minimum wage has fallen 4.3% when deflated by consumer inflation. If we use the more accurate household living-costs price index to calculate the change in the real minimum wage, it has fallen by between 5.5–6.7%.

To put an end to the cost-of-living crisis, we need a broad-based policy response. This includes intervention in monopolistic sectors like energy, supermarkets, and banking. It includes tax reform to redistribute wealth. It includes reforms to the welfare system to ensure a dignified standard of living for benefit recipients. Above all, though, it requires reforms that ensure higher wages. The next Government needs to substantially reform our employment relations settings to enable stronger wage growth across the economy.

The difference between inflation and the cost of living

The cost of living and inflation are related but distinct issues. Inflation is the rate of change in the general level of prices. There are different measures of inflation, but the main one is the Consumers Price Index (CPI), which tracks the rate of change in a “basket” of goods and services purchased by the typical consumer. In New Zealand, consumer inflation is supposed to be controlled by the Reserve Bank, which aims to keep it around 2% annually.

The cost of living doesn't have a fixed definition. Most commonly, the term refers to how much it costs for households to purchase the essential goods and services they need to maintain a given standard of living, and whether incomes are sufficient to cover that cost. The relationship between wages and essentials like food, rent and mortgage costs, rates, and electricity are therefore particularly important in determining the cost of living.

The cost of living can be affected by inflation, as we have seen in recent years. But the ultimate impact inflation has on households depends on whether incomes, and particularly wages, keep up with prices. If wages rise faster than inflation then the cost of living is generally going to reduce, households will have more disposable income, and people's standard of living will increase. If inflation rises faster than wages then the cost of living is generally going to increase, people will have less (or no) disposable income, and living standards will fall.

Importantly, the cost of living is experienced differently by different household types. For example, lower-income households must spend a greater proportion of their income on essentials like food and electricity. If the prices of these essentials rise quickly, then lower-income households are going to experience a faster increase in the cost of living than higher-income households. Lower-income households are also more likely to earn at or near the minimum wage. This means that changes to the minimum wage are very important determinants of the cost of living for those households.

Controlling inflation does not necessarily improve the cost of living for households, particularly in the short term. First, if the Reserve Bank decides inflation is too high it will raise the Official Cash Rate, which increases interest rates across the economy. This means mortgage holders must pay a greater share of their income towards servicing debt, meaning living costs for these households increase for a time (which can have flow-on effects for renters).

Second, higher interest rates typically mean higher unemployment. Since most households rely on wages, job loss makes it harder to cover the cost of living. Additionally, a higher rate of unemployment reduces workers' bargaining power over wages. This relationship between unemployment and bargaining power was explicitly noted by the Reserve Bank in its latest [Monetary Policy Statement](#), where it wrote that “While some workers will attempt to bargain for higher wages in response to higher inflation, bargaining power is reduced by squeezed profit margins and a weak labour market”.

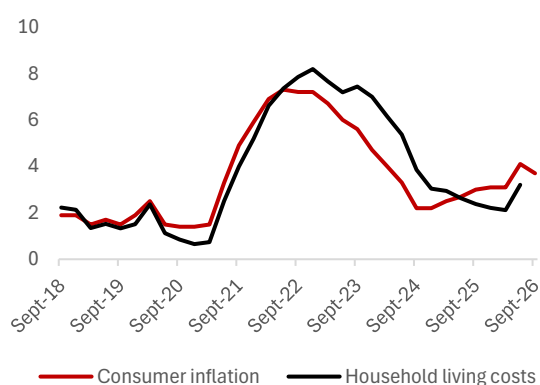
Third, controlling inflation only slows down the rate of change in prices. It does not reduce prices, and nor does it increase wages. This will have been the experience of many households

in recent years. Although overall inflation has moderated since the 2022–23 peak, the cost of goods and services remains much more expensive than previously, and many peoples' wages have not yet caught up.

Finally, some groups in New Zealand society have been experiencing a cost-of-living crisis for far longer than the recent inflationary surge. Poverty and hardship have increased dramatically over the past four decades, due to a combination of higher unemployment, mediocre wage growth, insufficient welfare benefits, and the explosive increase in housing costs over this period. The period of higher inflation we have been living through recently has worsened this situation, but is not the original cause.

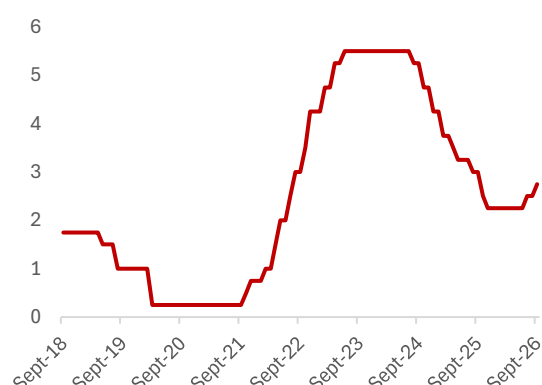
The cost-of-living crisis is therefore not a new phenomenon for many Kiwi households. It has come to the forefront of our politics because rising prices and inadequate real wage growth have become a problem for a much broader range of households in recent years. This has been driven by a combination of international and home-grown factors, which are described in our previous report [Three Years of Pain](#), which examined the state of the labour market.

Figure 1: Annual inflation rates (%), 2018-26



Source: Stats NZ; Reserve Bank.

Figure 2: Official Cash Rate (%), 2018-26



Has the National-led government reduced the cost of living?

The National-led Government was elected on the promise to “fix” the cost-of-living crisis. It is therefore fair to ask whether it has succeeded in this task.

The data provides a clear no: many essential goods and services have continued to rise steeply and, depending on the measure used, wages have either barely kept up or have fallen behind. Most Kiwi households will probably not feel any better off financially today than they did three years ago – and many will feel worse off.

Prices

As shown in Figure 1 overall consumer inflation and household living-costs inflation has come down from the highs experienced in 2022–23. This was expected no matter who was in

government and is largely the result of (a) global price pressures abating for a time and (b) the subsequent reduction in interest rates by the Reserve Bank, as shown in Figure 2.

Figure 3: Food items, price index, 2023-26

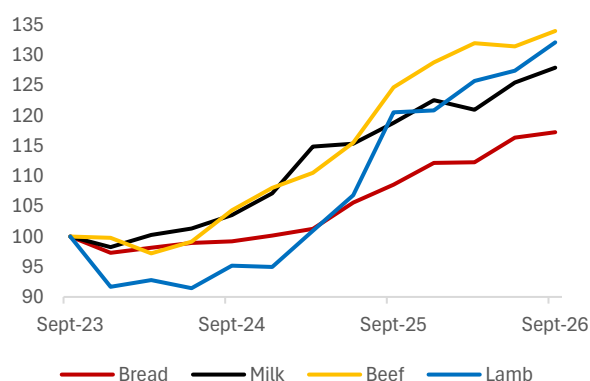
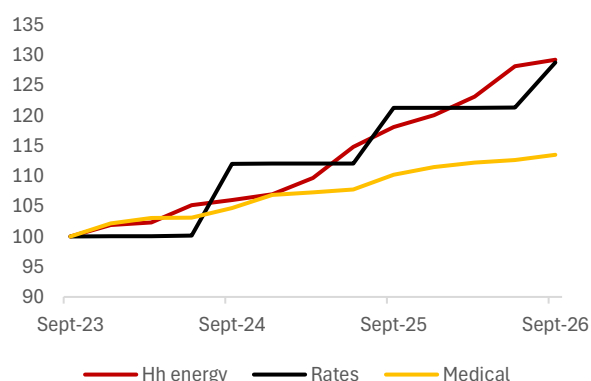


Figure 4: Essential household costs, price index, 2023-26



Source: Stats NZ. June 2023 = 100. Items in Figure 3 are bread; fresh milk; beef and veal; mutton, lamb, and hogget. Items in Figure 4 are household energy; property rates and related services; medical services.

It is important to remember that a lower rate of inflation does not mean lower prices. More correctly, a lower rate of inflation means that prices (on average) are still increasing, but are doing so at a slower rate. This means that cost of living pressures – in the absence of much larger increases in wages – are unlikely to have eased.

Furthermore, inflation rates for many essential goods and services have been very high under the National-led Government. Particularly steep increases have happened in certain grocery staples. For example, compared to three years ago, the cost of milk is up 27.9%, bread 17.3%, and beef and lamb both more than 30% (see Figure 3). Household energy costs, property rates and related services (such as waste disposal), and medical services have all risen steeply in price as well (see Figure 4).

Table 1 below breaks down price increases across a range of essential items for the three years to September 2026, which is the latest available data.

Table 1: Increase in cost of essential goods and services

	Sep 2025 – Sep 2026	Sep 2023 – Sep 2026
Food	2.1%	7.6%
Rentals for housing	0.2%	7.4%
Property rates and related services	6.2%	28.8%
Household energy	9.4%	29.2%
Medical services	3.0%	13.5%
Petrol	19.1%	7.9%

Source: Stats NZ

As noted above, price increases are felt differently across different household types. Crucially, the essential items listed in Table 1 make up a much larger proportion of lower-income households' consumption "baskets" compared to higher-income households (see Appendix). This means that lower-income households have experienced a much faster increase in living costs over this term of Government than people in higher-income households.

All up, then, the cost of many essential items has continued to increase at a rapid rate under the National-led Government, indicating a failure to get on top of the cost of living.

Real wages

There are a range of measures of wage movements, each with their own advantages and disadvantages. We use four different measures (for more detailed definitions of each measure, and a brief discussion of their strengths and weaknesses, please see the Appendix):

- *Labour Cost Index (LCI)*: this is a price index that measures the change in what employers pay for the same job and same hours of work from one period to the next.
- *LCI unadjusted*: a version of the LCI that incorporates pay changes from a broader range of factors such as promotions, service increments, and staff turnover. It provides a better indication of change in actual wages received by workers.
- *Average hourly earnings*: this is a price level, which divides total ordinary time pay by total hours in a reference week. This provides an indication of the average hourly rate paid across the workforce.
- *The minimum wage*: this is adjusted by Government annually and affects the wages of [approximately 190,000](#) minimum wage workers but also the wages of many more workers who earn close to the minimum wage.

To calculate real wages, we need to adjust (“deflate”, in economist jargon) the increase in the index or wage level for the increase in inflation. We use three deflators:

- *Consumers Price Index (CPI) all groups*: the most commonly used measure.
- *Household Living-costs Price Index (HLPI) all groups*: a more accurate measure of living-costs inflation experienced by households as it includes the cost of interest payments.
- *HLPI low-income group*: this is households with incomes in the lowest fifth of all households. It is arguably the most accurate deflator to use for minimum wage workers, as many will live in households in this income quintile.

Looking at the collection of these measures over the past three years – from June 2023 to June 2026 (the latest available data) – provides some sobering numbers, as summarised in Table 2.

Table 2: Percentage change in wages from June 2023 – June 2026

	Nominal	Real wages		
		CPI	HLPI	HLPI low income
LCI	8.8%	-1.4%	-2.5%	-3.8%
LCI unadjusted	12.5%	2.0%	0.8%	-0.5%
Ave hourly earnings	12.9%	2.3%	1.1%	-0.2%
Minimum wage	5.5%	-4.3%	-5.5%	-6.7%

Source: Stats NZ.

The LCI has increased by 8.8% in total over the past 3 years. However, over that same period, all three inflation measures have increased faster, meaning that the purchasing power of the wage packet has declined by between 1.4–3.8%, depending on which deflator is used. Historically, the norm for this measure is that it closely tracks inflation.

As noted above, the LCI unadjusted provides a more comprehensive picture of the actual income received by workers. As expected, this measure has seen stronger nominal wage growth, of 12.5% over three years. However, when adjusted for consumer inflation it has only increased 2% in total. When adjusted by the HLPI measure it has only increased 0.8%, and when adjusted by the HLPI low-income measure it has actually fallen 0.5%.

Average hourly earnings have grown 12.9% nominally since June 2023. In real terms, this has meant an increase of 2.3% on the CPI measure and 1.1% on the HLPI measure. However, when adjusted by the HLPI low-income measure average hourly earnings have fallen 0.2%.

The minimum wage numbers are particularly stark. Adjusted by CPI, the minimum wage has fallen 4.5% over three years. On the HLPI measure it has fallen 5.5%; and on the HLPI low-income measure, which is arguably the most accurate price deflator for this group, it has fallen 6.7%. This means minimum-wage workers' pay packets have declined between 4.5–6.7% since 2023, leaving them several thousand dollars worse off each year.

Figure 5: Real min wage % increase, CPI deflated

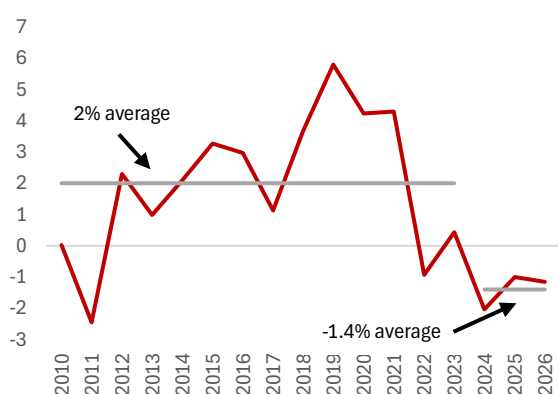
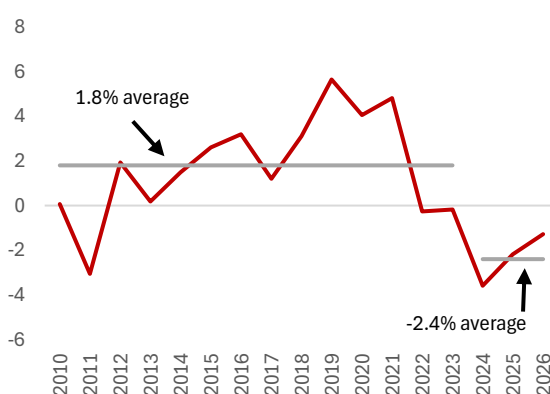


Figure 6: Real min wage % increase, HLPI low-income deflated



Source: Stats NZ.

The true impact of this real wage decline for minimum wage workers can be better understood in the context of the average increase in the real minimum wage prior to the National-led Government. From 2010 to 2023, the minimum wage grew on average by 2% in real terms (CPI and HLPI adjusted), or 1.8% on the HLPI low-income adjusted measure. By contrast, the minimum wage has declined between 1.4–2.4% on average over the past three years. These differences are shown in Figures 5 and 6.

Women, Māori, Pasifika, young workers, and disabled workers are all far more likely to be earning at or near the minimum wage than other groups, and so the impact of these steep declines in the real minimum wage will have been felt particularly heavily by these groups.

While the pros and cons of these different measures can be debated (see our [July-August 2026 Economic Bulletin](#) for more detail), it is clear the purchasing power of the wage packet has at best barely improved over the past three years. It is equally clear that, for low-income workers, real wages have fallen steeply over this term of Government. This has been compounded by job losses and uncertainty as to future job opportunities, which negatively affect people's earning power, as discussed above.

Policies to address the cost of living

To tackle cost of living pressures, conventional policies highlight two options.

- Measures to limit inflation.
- Measures to increase incomes.

Clearly, both are warranted and welcome. But it is important to recognise that neither on their own are sufficient. First, recall that limiting inflation does not reduce prices, it just means prices increase at a slower rate. In addition, relying on the Reserve Bank as the sole means of reducing inflation involves significant trade-offs, including higher unemployment.

Second, lifting incomes does not necessarily increase workers' wages – for example, it is often achieved through changes to tax credits and welfare benefits. Further, even doing both of these things together does not necessarily directly tackle the cost-of-living pressures that many workers and their whānau in Aotearoa are facing.

The missing elements in the policy discussion are:

- Reducing the prices of some essential items.
- Increasing workers' wages.

Reducing prices of essential items

During this election campaign there have been some proposals to improve competition settings and market structure – especially in the supermarket and energy sectors. These are designed to reduce the prices of some essential items. There have also been policies targeting the costs of specific services – for example, Labour's pledge of three free GP visits per year.

These kinds of policies are steps in the right direction. They recognise that an appropriate response to the cost-of-living crisis needs to go well beyond the inflation control mechanism of raising interest rates.

Increasing workers' wages

We have seen comparatively less discussion during the election campaign about policies to increase workers' wages.

NZCTU wants to see wage policy front and centre for the next Government. In the immediate term, NZCTU would like to see the following policies implemented to lift the purchasing power of workers' wages:

- *Introduce sector-wide bargaining through fair pay agreements.* This will lift wages and working conditions across low-wage industries such as supermarkets, bus transport, hospitality, and many others.
- *Reestablish an effective pay equity system and deliver a stand-alone care and support settlement.* These actions will enable historically undervalued female-dominated occupations to achieve significant wage increases.
- *Set the minimum wage at the level of the Living Wage.* The Living Wage is calculated as the level necessary to provide workers with the necessities and enable them to actively participate in society. Setting the minimum wage at the Living Wage would go a long way to raising living standards for low-income workers.
- *Repeal the Employment Leave Act.* This Act, passed by the National-led Government, will mean many workers get less leave and are paid at lower rates while on leave. This will disproportionately disadvantage women, Māori, Pasifika, young people, and migrant workers. By repealing the Employment Leave Act and reinstating the Holidays Act (with some minor improvements), workers' holiday pay will be protected, which will support real wages.

NZCTU's [*Briefing for the Incoming Government*](#) covers these policy issues in more detail and includes other important policy changes that are needed to support wage growth and good work. In addition, the employment policies outlined in our previous report, [*Three Years of Pain*](#), will support real wage growth by delivering a stronger labour market and lower levels of unemployment.

It is critical that the next Government moves to address the cost-of-living crisis and does so by both addressing the cost of essentials and supporting stronger real wage growth.

Appendix: Real wage measures

Labour Cost Index

The LCI is a price index that tracks change in the cost of a [“fixed quantity and quality of labour input”](#). This means it tracks what employers need to pay to employ a person in the exact same job from period to period. The LCI measures the change in pay rates for the same job due to variables like the cost of living, attracting and maintaining staff, and collective agreements. It strips out changes in pay rates that are due to quantity – such as more hours worked – or quality – such as improved productivity or changes in the nature of the job.

Labour Cost Index unadjusted

The LCI unadjusted measure includes quality changes within jobs. As [Stats NZ explains](#), this means it captures pay rate changes due to factors like “the performance of the individual employee, change in qualifications, responsibility or experience of employees filling surveyed positions, and the effect of different employees replacing incumbent employees in surveyed positions at lower or higher rates”. The LCI unadjusted also incorporates pay changes due to service increments, which are common in collective agreements. Because it incorporates quality changes, the LCI unadjusted increases at a faster rate than the LCI and is a more accurate measure of changes in the actual wages received by workers.

Average ordinary time hourly earnings

This measure is a wage level, rather than an index. It is published as part of the Quarterly Employment Survey. The measure is produced by calculating total ordinary time pay for a reference week and dividing this by the total paid hours recorded for that week. It provides the average dollar rate that is paid across the New Zealand workforce at a point in time. This was \$44.62 in June 2026. Like the LCI unadjusted, this measure is better than the LCI at providing a sense of the actual wages received by workers. However, because it incorporates compositional change in the workforce, it also has important limitations. For example, during a recession, in which unemployment increases in low-wage industries, the average wage might increase more rapidly. This wouldn't be because lots of people were receiving strong pay rises; it would be because there were fewer low-wage jobs in the economy.

Minimum wage

The minimum wage rate tells us about a subset of the workforce. However, because many people are paid close to the minimum wage in certain industries and occupations (for example, cleaning, supermarket and grocery, and hospitality), increases in the minimum wage effectively set the basis for those peoples' pay. This means that changes to the real minimum wage give us an important insight into whether the living standards of some of the lowest paid workers in the country are rising or falling.

Consumers Price Index all groups

The CPI measures price changes from quarter to quarter for a “basket” of goods and services that the average consumer would purchase. This provides a useful broad measure of the inflation experienced by consumers.

Household Living-costs Price Index, all groups

The HLPI is similar to the CPI but provides a fuller picture of changes in the cost of living as it includes interest payment costs, such as on mortgages. It also provides breakdowns for living-costs inflation experienced by different household types.

Household Living-costs Price Index, lowest-income quintile

This index captures living-costs inflation experienced by households in the lowest fifth of the income distribution. Essential goods and services make up a much higher proportion of the average expenditure basket of lower-income households, as shown in Table 3.

Table 3: Expenditure weights for selected essential goods and services

	Lowest-income quintile	Highest-income quintile
Food	21.2%	17.9%
Rentals for housing	13.3%	7.5%
Property rates and related services	7.3%	4.1%
Household energy	5.7%	3.0%
Health	3.5%	2.9%
Petrol	3.6%	2.9%
Total	54.6%	38.3%

Source: Stats NZ.