

Embargoed until 10:45AM – 06 December 2005

Labour Cost Index: (All Labour Costs): June 2005 quarter (final)

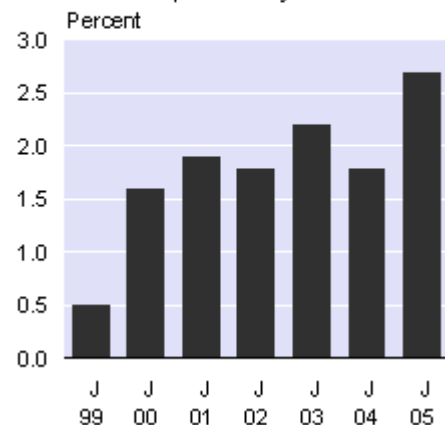
Highlights

From the June 2004 quarter to the June 2005 quarter:

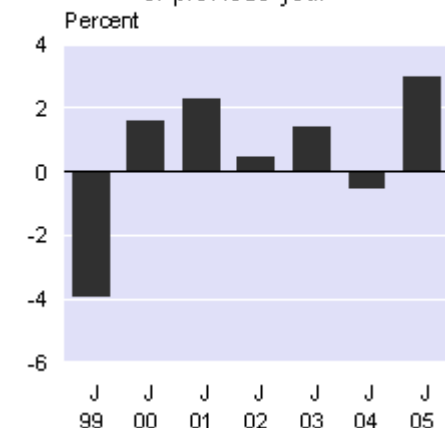
- **Surveyed labour costs rose 2.7 percent.**
- **Non-wage labour costs rose 3.0 percent.**
- **Annual leave and statutory holiday costs rose 2.9 percent.**
- **Superannuation costs rose 7.3 percent.**
- **Workplace accident insurance costs rose 7.2 percent.**
- **Other non-wage labour costs (vehicles, medical insurance and low interest loans) fell 2.8 percent.**
- **These results are final and revisions have been made to the indexes.**

Please see the Commentary for further details.

All Labour Costs
Percentage change from June quarter of previous year



All Non-wage Labour Costs
Percentage change from June quarter of previous year



Commentary

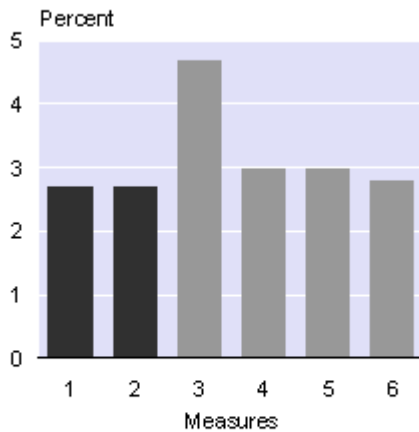
Overall labour costs

Labour costs increased 2.7 percent from the June 2004 quarter to the June 2005 quarter. The salary and wage rates (including overtime) component of the Labour Cost Index (LCI) rose 2.7 percent, while the non-wage labour costs component rose 3.0 percent.

The costs of other business inputs (excluding capital costs), as measured by the Producers Price Index, rose 4.7 percent from the June 2004 quarter to the June 2005 quarter. Capital goods prices increased 3.0 percent. The increases in the inputs prices were reflected in the prices charged by businesses for their outputs, which rose 3.0 percent. Over the same period, consumer prices increased 2.8 percent.

All Labour Cost Index and Related Measures

Percentage change from June 2004 quarter
to June 2005 quarter



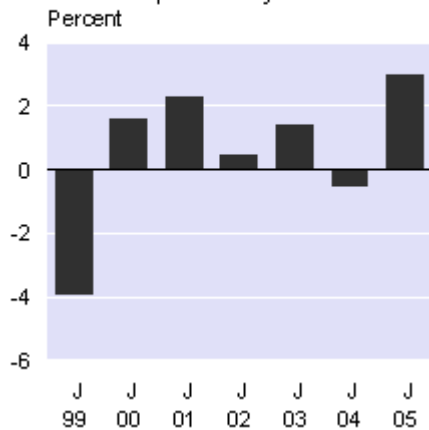
- 1 LCI - all salary & wages rates
- 2 LCI - all labour costs
- 3 PPI - inputs
- 4 PPI - outputs
- 5 CGPI - capital goods
- 6 CPI

Overall non-wage labour costs

Non-wage labour costs rose 3.0 percent between the June 2004 quarter and the June 2005 quarter. This is the largest annual increase since the June 1996 quarter, when non-wage labour costs rose 4.3 percent.

The rise in non-wage labour costs was due to rises in the cost of annual leave and statutory holidays, superannuation, workplace accident insurance and employer-related low interest loans. These rises were partly offset by an overall fall in other non-wage labour costs: medical insurance and vehicles available for private use.

All Non-wage Labour Costs
 Percentage change from June quarter
 of previous year



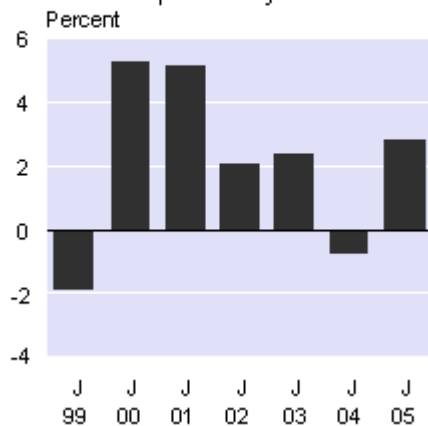
Annual leave and statutory holidays

From the June 2004 quarter to the June 2005 quarter, the cost of annual leave and statutory holidays to employers increased 2.9 percent. In the same period, salary and wage rates (including overtime) increased 2.7 percent. There were 10 paid statutory holidays in 2005, the same number as in 2004. Waitangi day did not fall on a weekday in 2005 so was not a paid holiday for most employees.

Annual leave and statutory holiday costs increased 2.8 percent for private sector employers and 3.2 percent for the public sector.

Annual Leave and Statutory Holiday Costs

Percentage change from June quarter
 of previous year



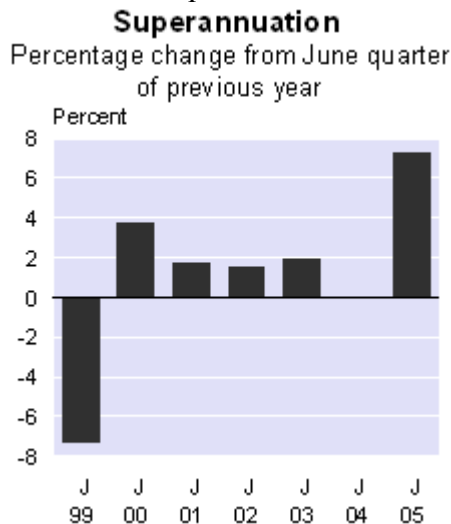
Superannuation

Employer superannuation costs increased 7.3 percent from the June 2004 quarter to the June 2005 quarter. This follows no change in the previous June year. The latest increase in superannuation costs was influenced by a 2.6 percent increase in salary and ordinary time wage rates.

In the public sector, superannuation costs rose by 15.2 percent, mainly due to the introduction of the State Sector Retirement Savings Scheme (SSRSS) and greater membership by teachers of

retirement savings' schemes. From the June 2003 quarter to the June 2004 quarter, public sector superannuation costs decreased 3.1 percent.

Superannuation costs for the private sector increased 1.3 percent from the June 2004 quarter to the June 2005 quarter. This follows an increase of 2.5 percent in the previous June year.



Workplace accident insurance costs

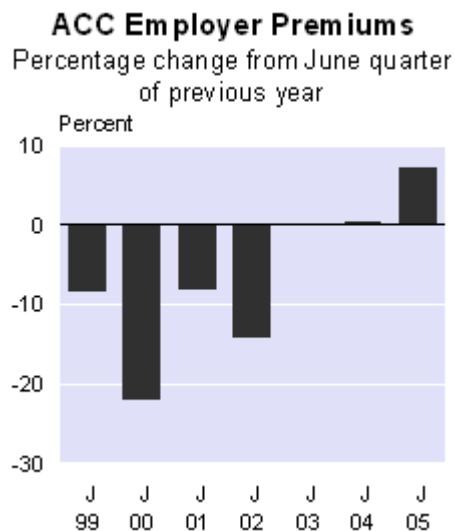
Employers' workplace accident insurance costs increased 7.2 percent from the June 2004 quarter to the June 2005 quarter. This follows a flat movement in the year to June 2004, when costs increased 0.5 percent.

Employers pay residual claims levies (to fund historical injuries) and they also pay base Accident Compensation Corporation (ACC) WorkPlace Cover levies to cover the costs of ongoing injuries. There are two optional programmes offered by ACC: a workplace safety management practices programme, and a partnership programme. Under the partnership programme, employers are able to share risk in return for reductions in base premium rates. Under both programmes, employers passing safety audits at one of three levels are eligible for safety management practice discounts of 10, 15 or 20 percent off the standard base premium rates.

For the June 2005 quarter index, residual claims levy rates (applicable to earnings for the year to March 2005 and collected in arrears) were, at the disaggregated industry level, added to ACC WorkPlace Cover levy rates (applicable to earnings for the year to March 2005 and collected during the period) which were discounted to reflect actual eligibility for safety management discounts for the period to 31 March 2005.

The 2005 increase in the ACC Employer Premiums Index reflects rises in pay rates and increases in ACC levy rates. Workplace accident insurance costs in the June 2005 quarter were higher than in the June 2004 quarter for 23 of the 27 industry groups.

Workplace accident insurance costs rose 6.5 percent for the private sector, and 9.8 percent for the public sector.

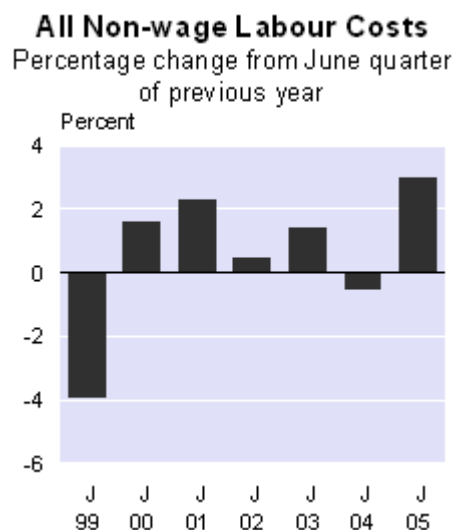


Other non-wage labour costs

Other non-wage labour costs fell 2.8 percent from the June 2004 quarter to the June 2005 quarter. This compares with a fall of 1.2 percent from the June 2003 quarter to the June 2004 quarter. The other non-wage labour costs component of the Labour Cost Index includes medical insurance, motor vehicles available for private use, and employment-related low interest loans.

The cost of providing motor vehicles for private use fell from the June 2004 quarter to the June 2005 quarter, while the cost of providing employer-related low interest loans rose. The prescribed interest rate that is used to calculate the fringe benefit value of low interest loans increased from 7.30 percent to 8.76 percent and this would have had an upward influence on the costs. The cost of providing medical insurance cover fell from the June 2004 quarter to the June 2005 quarter.

Fringe benefit tax (FBT) rates derived from FBT data for the year to March 2005 were used to calculate the June 2005 quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans. Employers have the choice of either using a flat 64 percent FBT rate or using multi-level FBT rules, whereby rates are based on the actual remuneration levels of employees receiving the benefits. Employers providing about 74 percent of fringe benefits by value chose the latter option for the year to March 2005. In the year to March 2004, this figure was about 75 percent, and about 74 percent in the year to March 2003.



Sectors and industries

Increases for individual industry groups' labour costs ranged from 1.1 percent (for communication services) to 3.9 percent (for education and health and community services) in the year to the June 2005 quarter. The increase for health and community services was driven by increases in salary and wage rates (including overtime), annual leave and statutory holidays, workplace accident insurance, superannuation and other non-wage labour costs.

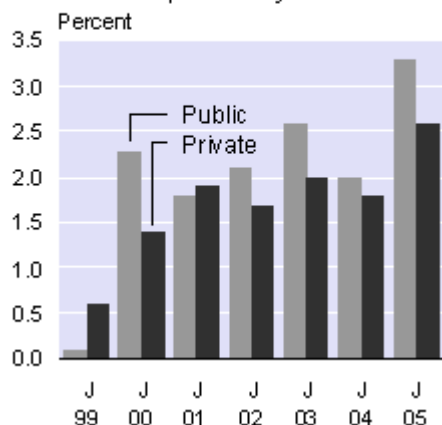
Education labour costs rose 3.9 percent, more than the 3.0 percent annual increase for wage and salary rates (including overtime). This was driven by increases in the cost of wage and salary rates (including overtime), annual leave and statutory holidays, superannuation, workplace accident insurance and other non-wage costs.

Construction labour costs increased 3.8 percent from the June 2004 quarter to the June 2005 quarter. Increases in wage and salary wage rates (including overtime), annual leave and statutory holidays, superannuation and workplace accident insurance were partly offset by decreases in other non-wage costs.

Labour costs in the private sector rose 2.6 percent from the June 2004 quarter to the June 2005 quarter and 3.3 percent in the public sector. Within the public sector, central government sector

labour costs rose by 3.5 percent, and local government costs by 2.1 percent.

All Labour Costs
Percentage change from June quarter
of previous year



Revisions

With the release of Labour Costs Index (All Labour Costs): June 2005 quarter (final) data, Statistics New Zealand has introduced an improvement in the quality of the indexes. This has resulted in revisions to some of the series for non-wage and all labour costs. The wage indexes are not affected. To resolve an issue of under-reporting, an exploratory questionnaire was sent to all respondents in the sample, to identify cases where respondents had begun to offer certain non-wage benefits that were not offered at the time the respondent was enrolled into the Labour Cost Survey. The introduction into the index of the newly offered benefits identified by this process has had a material impact on a number of the final published series.

The under-reporting issue arose from the methodology used to measure change in the non-wage benefit components of superannuation, vehicles, medical insurance, and loans. When respondents were originally selected to participate in the survey, they were questioned on which types of non-wage benefits they provided to employees. The respondents were then surveyed for these costs on an ongoing basis; they were not however surveyed on whether they had begun providing these benefits at a later date. To rectify this issue, an exploratory questionnaire was sent prior to this year's survey to identify cases where superannuation, vehicles, medical insurance, and loans were now being offered by existing respondents. This year's exploratory questionnaire built on one sent to some respondents prior to the 2004 survey.

The additional costs incurred by firms have been introduced into the index, the impact on the series quantified, and a determination made on how to show the impact in the index series.

The exploratory questionnaire asked respondents to record the year the employer began offering the non-wage benefit. The decision was made to operate on the assumption that if the introduction happened after 1992, when the series began, the impact of the additional costs identified by this process was introduced incrementally over the entire history of the series. This has resulted in revisions to a number of previously published index numbers.

Final data

Provisional results of the Labour Cost Index (All Labour Costs): June 2005 quarter were released on 4 October 2005.

The final data in this release differs from the provisional data in the following ways:

- the final data includes additional benefits, described above, that were not included in the provisional data
- the final data incorporate more up-to-date information regarding employers' superannuation costs, in particular the State Sector Retirement Scheme (SSRSS)
- the data includes updated information regarding FBT rates.

The impact of the inclusion of this information in the final data, and the subsequent differences between the provisional and final data, can be seen in Table 6 of this release.

The table below displays, for affected indexes at the sector level:

- the June 2005 quarter provisional data before the additional benefits were included
- the June 2005 quarter final data after the additional benefits were included.

The data gives a good indication of the impact of the additional benefits. They range from virtually no impact on All Labour Costs, to moderate impact on All Non-wage Costs, through to significant impact for series such as Public Sector Superannuation Costs.

Benefit	Sector	June 2005 quarter Percentage change from June quarter of previous year	
		Provisional data	Final data
Superannuation	Private	1.1	1.3
	Public*	10.6	15.2
	All Sectors*	5.2	7.3
Other Non-wage Labour Costs	Private	-3.1	-2.6
	Public	-7.7	-6.9
	All Sectors	-3.3	-2.8
All Non-wage Labour Costs	Private	2.1	2.2

	Public	4.5	5.3
	All Sectors	2.8	3.0
All Labour Costs	Private	2.6	2.6
	Public	3.2	3.3
	All Sectors	2.7	2.7

* Final data for the Public Sector and All Sectors Superannuation series' incorporate more up-to-date information regarding employer's superannuation costs, in particular the State Sector Retirement Scheme (SSRSS).

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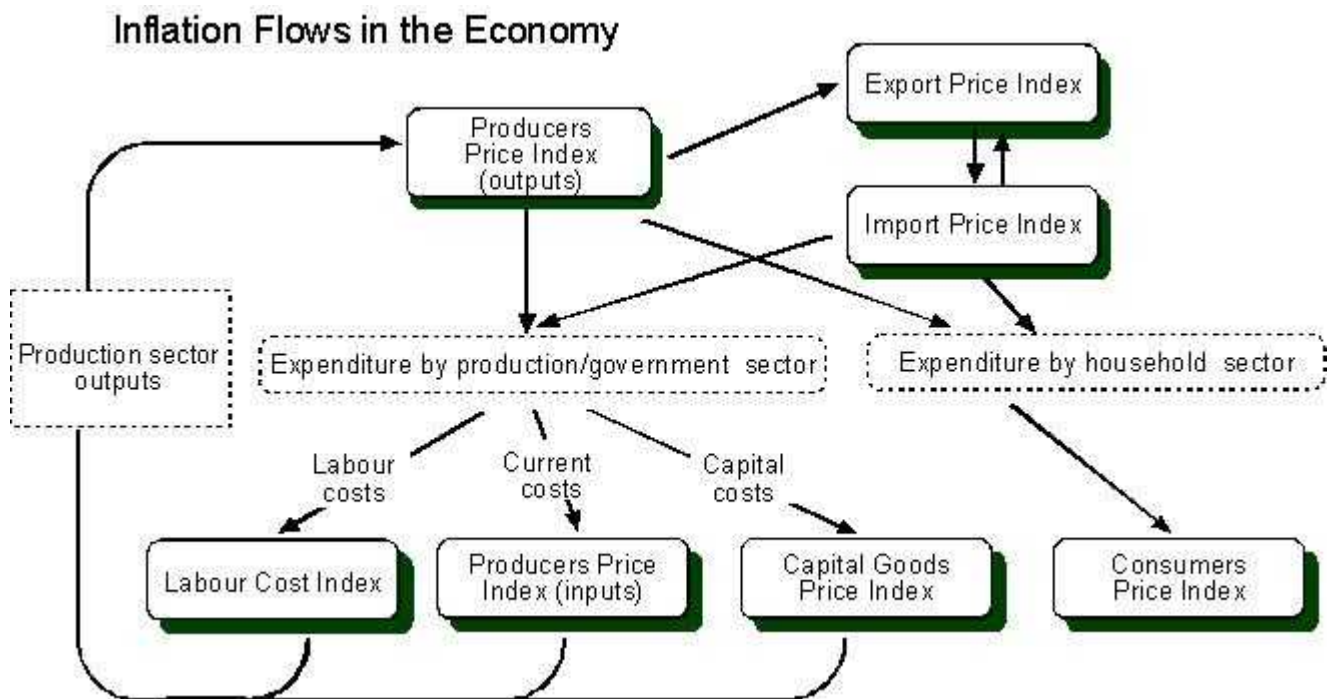
Technical notes

What the index measures

The Labour Cost Index (LCI) measures movements in base salary and ordinary time wage rates, overtime wage rates, and the following non-wage labour-related costs:

- Annual leave and statutory holidays
- Superannuation
- ACC employer premiums
- Medical insurance
- Motor vehicles available for private use
- Low interest loans.

The Labour Cost Index sits alongside the Producers Price Index (Inputs) (which measures changes in businesses' current costs of production, excluding labour and capital costs, as defined by the New Zealand System of National Accounts concepts of intermediate consumption) and the Capital Goods Price Index (which measures changes in businesses' capital costs). This is shown diagrammatically in Figure 1, below. These three indexes provide measures of the extent to which changes in businesses' input costs put pressure on the output prices they charge for goods and services. Information from the Annual Enterprise Survey indicates that labour costs account for about 17 percent of employers' total expenditure (including depreciation).



Index calculation and base

The index is calculated using the price-relatives form of the base-weighted Laspeyres formula, and is expressed on a base of the June 2001 quarter (=1000). The index's calculation base is periodically updated to reflect changes in the sector of ownership of organisations.

Coverage

The index covers jobs filled by paid employees in all occupations and in all industries except private households employing staff. Coverage was extended to include jobs filled by paid employees under 15 years of age when the index was reweighted and re-expressed on a base of the June 2001 quarter (=1000).

Weights

Each job description used in calculating the index was assigned a weight that reflected the relative importance of the job description within its sector of ownership, industry and occupation group. Weights were calculated using 2001 Census of Population and Dwellings information on the relative importance of occupations within each sector by industry group; Business Frame (BF) information on the relative importance of industry groups within each sector; pay rates surveyed in the June 2001 quarter; non-wage information surveyed in the June 2001 quarter (used to derive costs per employee per week); and administrative information (that is, fringe benefit tax data, ACC levy rates and workplace safety management discount information).

Base period expenditure weights by sector of ownership and cost appear in Table 10.

Details of the reweighting and rebasing of the index can be found in the Technical Notes of the Labour Cost Index (All Labour Costs): June 2002 quarter Hot Off The Press.

How information is obtained

Salary and ordinary time and overtime wage rates for a fixed set of job descriptions are obtained by a quarterly postal survey of employers. Each quarter, salary and wage rates are surveyed for the pay period in which the 15th of the middle month of the quarter falls.

Information on superannuation costs and annual leave entitlements is collected in mid-May of each year. Information on ACC employer premiums is also collected in the June quarter.

Questionnaires relating to medical insurance costs, motor vehicles available for private use, and low interest loans are posted out about two weeks after the end of each June quarter, as the information collected relates to the June quarter as a whole.

Frequency

The salary and wage rates indexes are released quarterly.

From 2000 onwards, the indexes of non-wage labour costs and all labour costs are available for only the June quarter of each year. Up until the June 1999 quarter, these indexes were released quarterly.

Quality control

The salary and wage rates component of the index is a quality-controlled measure. Only changes in salary and wage rates for the same quality and quantity of work are reflected in the index. Therefore, bonus and other irregular payments are excluded, as are increases due to service increments and merit promotions. One-off payments in lieu of pay rises are also excluded, as they do not result in changes to pay rates, as such.

Workplace accident insurance costs

The movement in the ACC Employer Premiums Index from the June 1999 quarter to the June 2000 quarter reflected the year-long deregulation of the provision of workplace accident insurance. In the lead-up to deregulation on 1 July 1999, employer premium rates were split into two parts: an ongoing 'residual claims levy' to fund historical injuries and a 'base premium' relating to the 15-month period which ended 30 June 1999. The residual claims levies and base premiums were added together at the disaggregated industry (ie five-digit ACC 'classification unit') level for use in calculating the index for the June 1999 quarter.

For the June 2000 quarter index, residual claims levies applicable to earnings for the year to March 2000 and payable by 31 May 2000 were, at the five-digit industry level, added to average premium rates (adjusted for risk sharing) for workplace accident insurance contracts in force at 31 March 2000. The average premium rates for workplace accident insurance contracts were derived from information obtained from the Department of Labour's Accident Insurance Regulator. For a small number of workplace accident insurance contracts taken out by big employers, downward adjustments to risk sharing amounts were made following consultation.

From 1 July 2000, the provision of workplace accident insurance was renationalised, with ACC again becoming the sole provider. Under the renationalised scheme, employers continue to pay

residual claims levies, and they also pay base ACC WorkPlace Cover premiums to cover the costs of ongoing injuries.

There are two optional programmes now offered by ACC: the ACC Workplace Safety Management Practices Programme and the ACC Partnership Programme. Under the latter programme's two options, the Partnership Discount Plan and the Full Self Cover Plan, employers are able to share various levels of risk in return for reductions in base premium rates.

Under both the safety management practices programme and the partnership programme, employers passing safety audits at one of three levels (primary, secondary and tertiary) are eligible for safety management practices discounts of 10, 15 or 20 percent off standard WorkPlace Cover premium rates.

For the June 2001 quarter index, residual claims levy rates (applicable to earnings for the year to March 2001) were, at the disaggregated industry level, added to ACC base premium rates (applicable to earnings for the nine months to March 2001) which were discounted to reflect actual eligibility (at the disaggregated industry level) for safety management discounts for the period to 31 March 2001. For employers in the ACC Partnership Programme sharing various levels of risk in return for reductions in base premium rates, standard WorkPlace Cover premium rates, less safety management discounts, were used in the index to represent changes in costs.

For the June 2002 quarter index, residual claims levy rates (applicable to earnings for the year to March 2002 and collected in arrears) were, at the disaggregated industry level, added to ACC WorkPlace Cover levy rates (applicable to earnings for the year to March 2002 and collected during the period) which were discounted to reflect actual eligibility (at the disaggregated industry level) for safety management discounts for the period to 31 March 2002. For employers in the ACC Partnership Programme sharing various levels of risk in return for reductions in base premium rates, standard WorkPlace Cover levy rates, less safety management discounts, were used in the index to represent changes in costs.

For the June 2003 quarter index, residual claims levy rates (applicable to earnings for the year to March 2003 and collected in arrears) were, at the disaggregated industry level, added to ACC WorkPlace Cover levy rates (applicable to earnings for the year to March 2003 and collected during the period) which were discounted to reflect actual eligibility (at the disaggregated industry level) for safety management discounts for the period to 31 March 2003. For employers in the ACC Partnership Programme sharing various levels of risk in return for reductions in base premium rates, standard WorkPlace Cover levy rates, less safety management discounts, were used in the index to represent changes in costs.

Fringe benefit tax changes

The non-wage component of the LCI includes three costs that are subject to fringe benefit tax (FBT). These are:

- Medical insurance
- Motor vehicles available for private use
- Low interest loans.

The three costs have a combined base weight of 1.83 percent of the overall index.

For each of these costs, the taxable value of the benefit and the number of employees are collected in the survey. The taxable value plus FBT and excluding GST is averaged over all employees or specific occupations to give the average cost per employee per week of providing the benefit.

FBT had in the past been calculated as 49 percent of the taxable value. When the top personal tax rate was increased from 33 percent to 39 percent, the FBT rate was increased from 49 percent to 64 percent for fringe benefits provided on or after 1 April 2000. This was enacted in December 1999.

An FBT rate of 64 percent was used to calculate the June 2000 quarter LCI indexes of medical insurance, motor vehicles available for private use, and low interest loans. This was the rate employers were required to pay, and were liable for, under legislation in force at the time. This had an upward impact of about 11 percentage points on the movement in other non-wage costs from the June 2000 quarter to the June 2001 quarter.

Under legislation enacted in late September 2000, employers were given the choice of either:

1. Continuing to use the flat 64 percent FBT rate; or
2. Opting to use new multi-rate FBT rules.

The multi-rate FBT regime allows fringe benefits attributed to individual employees to be subject to FBT rates based on the remuneration levels of employees receiving the benefits, thereby reducing the effect of the increase in the FBT rate to 64 percent.

For employers that elected to undertake the multi-rate end-of-year (ie March quarter) 'square-up' for the year to March 2001, benefits attributed to individual employees during the year were subject to FBT rates based on employees' remuneration levels. Employers providing about two-thirds of fringe benefits by value chose the multi-rate option for the year to March 2001. Collectively, these employers significantly reduced their FBT liability.

FBT rates derived at the industry group level from FBT data for the year to March 2001, and taxable values for the June 2001 quarter, were used to calculate the June 2001 quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans.

FBT rates derived at the industry group level from FBT data for the year to March 2002, and taxable values for the June 2002 quarter, were used to calculate the June 2002 quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans. Employers providing about 70 percent of fringe benefits by value chose the multi-rate option for the year to March 2002.

FBT rates derived at the industry group level from FBT data for the year to March 2003, and taxable values for the June 2003 quarter, were used to calculate the June 2003 quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans. Employers providing about 74 percent of fringe benefits by value chose the multi-rate option for the year to March 2003.

FBT rates derived at the industry group level from FBT data for the year to March 2004, and taxable values for the June 2004 quarter, were used to calculate the June 2004 quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans. Employers

providing about 75 percent of fringe benefits by value chose the multi-rate option for the year to March 2004.

FBT rates derived at the industry group level from FBT data for the year to March 2005, and taxable values for the June 2005 quarter, were used to calculate the June 2005 quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans. Employers providing about 74 percent of fringe benefits by value chose the multi-rate option for the year to March 2005.

Index number rounding

Index number rounding (using standard Statistics New Zealand rounding procedures) can occasionally result in percentage movements for a particular cost being slightly higher or lower than would be expected, given movements recorded for component costs.

More information

For more information, follow the link from the Technical notes of this release on the Statistics New Zealand website.

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Next release ...

Labour Cost Index (Salary and Wage Rates): December 2005 quarter will be released on 8 February 2006.

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Tables

The following tables can be downloaded from the Statistics New Zealand website in Excel 97 format. If you do not have access to Excel 97 or higher, you may use the [*Excel file viewer*](#) to view, print and export the contents of the file.

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6. Labour cost index, inclusion of updated information
7. Labour cost index, base expenditure weights by sector and cost