

Embargoed until 10:45am – 22 October 2009

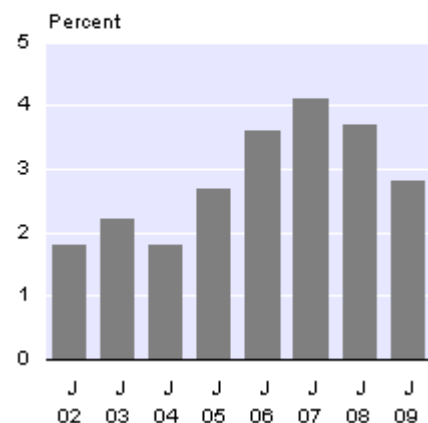
Labour Cost Index: (All Labour Costs): June 2009 quarter

Highlights

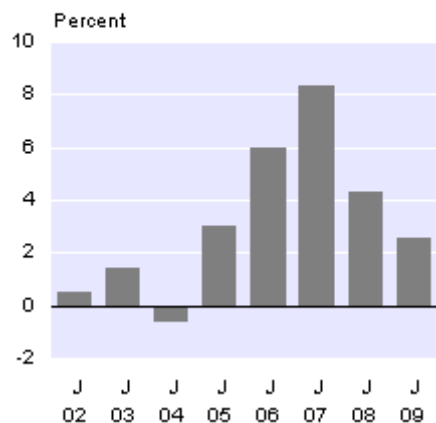
From the June 2008 quarter to the June 2009 quarter:

- Surveyed labour costs rose 2.8 percent.
- Non-wage labour costs rose 2.6 percent.
- Annual leave and statutory holiday costs rose 0.3 percent.
- Superannuation costs rose 30.8 percent.
- Workplace accident insurance costs fell 2.5 percent.
- Other non-wage labour costs (vehicles, medical insurance, and low interest loans) rose 1.7 percent.
- The LCI (all labour costs) indexes have been reweighted. For more information see the commentary section of this release.

All Labour Costs
Percentage change from
June quarter of previous year



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



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Commentary

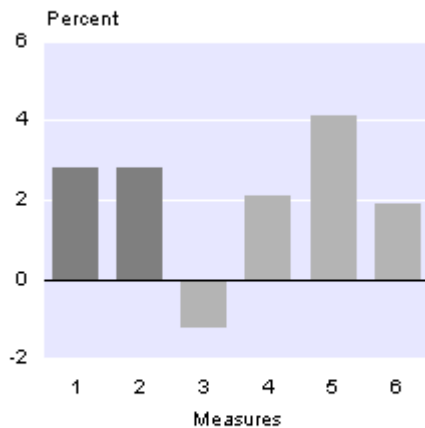
Overall labour costs

Labour costs increased 2.8 percent from the June 2008 quarter to the June 2009 quarter. The salary and wage rates (including overtime) component of the labour cost index (LCI) rose 2.8 percent, while the non-wage labour costs component rose 2.6 percent.

The costs of other business inputs (excluding capital costs), as measured by the producers price index, fell 1.2 percent from the June 2008 quarter to the June 2009 quarter, while capital goods prices increased 4.1 percent. Over the same period, the prices charged by businesses for their outputs rose 2.1 percent, while consumer prices increased 1.9 percent.

All Labour Cost Index and Related Measures

*Percentage change from June 2008 quarter
to June 2009 quarter*



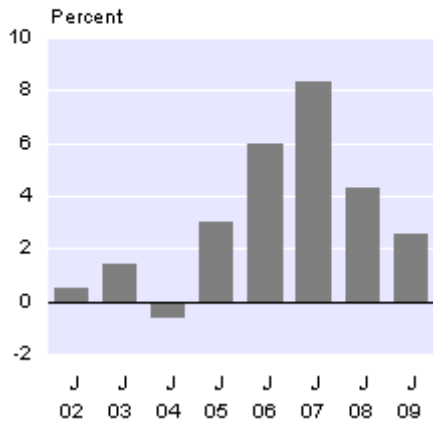
- 1 LCI – all salary & wages rates
- 2 LCI – all labour costs
- 3 PPI – inputs
- 4 PPI – outputs
- 5 CGPI – capital goods
- 6 CPI

Overall non-wage labour costs

Non-wage labour costs rose 2.6 percent between the June 2008 quarter and the June 2009 quarter.

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

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

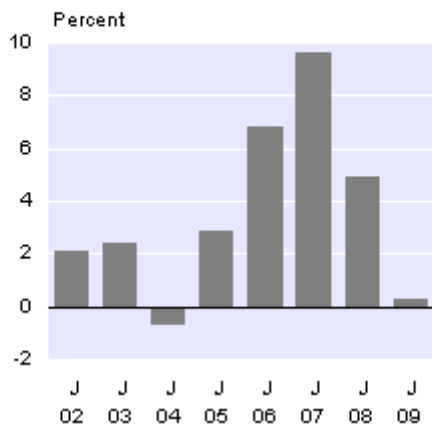


Annual leave and statutory holidays

From the June 2008 quarter to the June 2009 quarter, the cost of annual leave and statutory holidays to employers increased 0.3 percent. In the same period, salary and wage rates (including overtime) increased 2.8 percent. There were 10 paid statutory holidays in 2009, down from 11 in 2008. ANZAC Day did not fall on a weekday in 2009, and so was not a paid holiday for most employees. The fall in the number of paid statutory holidays had a downward impact on the cost of annual leave and statutory holidays to employers. Partly offsetting this fall were reported instances of increases in annual leave entitlements for employees with longer length of service. These entitlements were above the four-week or 8 percent minimum entitlement and caused a rise in the cost of providing annual leave for these employers.

Annual leave and statutory holiday costs fell 0.2 percent for private sector employers and increased 1.5 percent for the public sector.

Annual Leave and Statutory Holiday Costs
*Percentage change from
 June quarter of previous year*



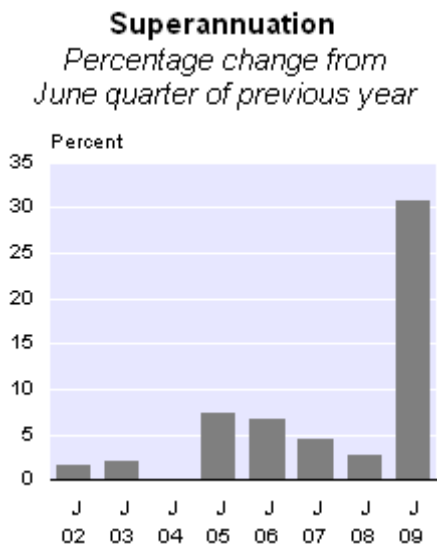
Superannuation

Employer superannuation costs increased 30.8 percent from the June 2008 quarter to the June 2009 quarter. This follows a revised increase of 2.8 percent in the June 2008 year.

The main reason for the large increase in employer superannuation costs was the changes to employer contributions to employees' KiwiSaver schemes which took effect on 1 April 2009. Part of these changes involved an increase from 1 percent to 2 percent in employer compulsory minimum contributions to their employees' KiwiSaver schemes. Employers were previously able to receive a tax credit of up to \$20 per week per employee, to assist in offsetting the cost of making compulsory employer contributions. This tax credit was removed from 1 April 2009, so employers no longer receive rebates on their contributions. On average, employers were previously able to reclaim about 70 percent of their contributions to KiwiSaver schemes. With the tax credit being removed, employers are now covering the entire cost of contributing to their employees' KiwiSaver schemes. This, along with the increase in minimum contribution, has caused a large increase in employer superannuation costs.

The latest increase in superannuation costs was also influenced by a 2.9 percent increase in salary and ordinary time wage rates.

In the public sector, superannuation costs rose by 14.2 percent. Superannuation costs for the private sector increased 40.0 percent from the June 2008 quarter to the June 2009 quarter.



Workplace accident insurance costs

Employers' workplace accident insurance costs fell 2.5 percent from the June 2008 quarter to the June 2009 quarter. This follows a revised increase of 4.8 percent in the year to the June 2008 quarter.

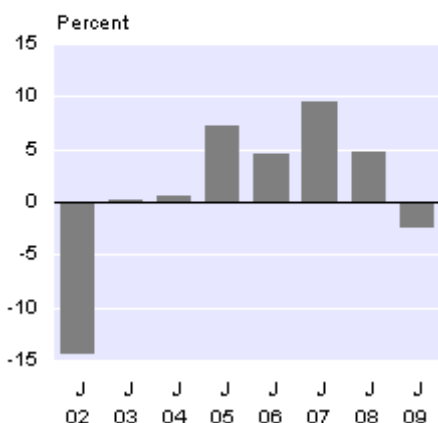
Employers pay residual claims levies (to fund historical injuries) and they also pay base Accident Compensation Corporation (ACC) WorkPlace Cover levies to cover the costs of ongoing injuries. There are two optional programmes offered by ACC: a workplace safety management practices programme, and a partnership 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 2009 quarter index, residual claims levy rates (applicable to earnings for the year to March 2009 and collected in arrears), at the disaggregated industry level, were added to ACC WorkPlace Cover levy rates (applicable to earnings for the year to March 2009 and collected during the period), which were discounted to reflect actual eligibility for safety management discounts for the period to 31 March 2009.

The 2009 decrease in the ACC employer premiums index reflects decreases in ACC levy rates and a 2.8 percent rise in pay rates.

ACC Employer Premiums

Percentage change from June quarter of previous year



Other non-wage labour costs

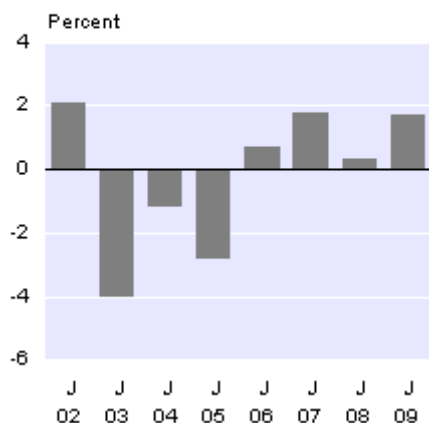
Other non-wage labour costs rose 1.7 percent from the June 2008 quarter to the June 2009 quarter. This compares with a rise of 0.3 percent from the June 2007 quarter to the June 2008 quarter. The other non-wage labour costs component of the labour cost index includes medical insurance, motor vehicles available for private use, and employment-related low interest loans.

The cost of providing motor vehicles for private use was flat from the June 2008 quarter to the June 2009 quarter, while the cost of providing employer-related low interest loans fell. The prescribed interest rate that is used to calculate the fringe benefit value of low interest loans decreased from 10.57 percent to 8.05 percent, which had a downward influence on the costs. The cost of providing medical insurance cover rose from the June 2008 quarter to the June 2009 quarter.

Fringe benefit tax (FBT) rates derived from FBT data for the year to March 2009 were used to calculate the June 2009 quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans. Employers have the choice of either using a flat FBT rate or using multi-level FBT rules, by which rates are based on the actual remuneration levels of employees receiving the benefits.

Other Non-wage Labour Costs

*Percentage change from
June quarter of previous year*



Sectors and industries

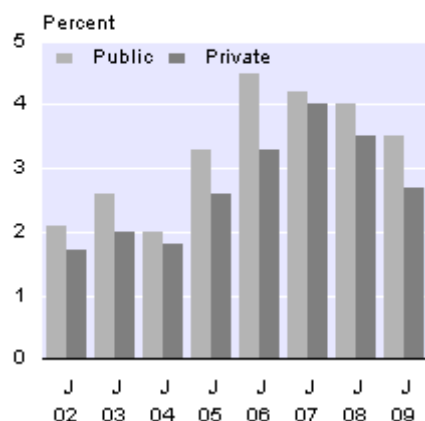
Increases for individual industry groups' labour costs ranged from 1.1 percent (for printing, publishing, and recorded media) to 4.4 percent (for health and community services) in the year to the June 2009 quarter. The rise for health and community services was driven by increases in salary and wage rates (including overtime), annual leave and statutory holidays, superannuation, and workplace accident insurance. This increase was partly offset by a decrease in other non-wage labour costs.

Education labour costs increased 4.0 percent from the June 2008 quarter to the June 2009 quarter. This was driven by increases in salary and wage rates (including overtime), annual leave and statutory holidays, superannuation, workplace accident insurance, and other non-wage labour costs.

Labour costs in the private sector rose 2.7 percent from the June 2008 quarter to the June 2009 quarter, and 3.5 percent in the public sector. Within the public sector, central government sector labour costs rose by 3.7 percent, and local government costs by 2.6 percent.

All Labour Costs by Sector

Percentage change from
June quarter of previous year



Education revisions

Improved historical information on changes to central government primary and secondary school education pay rates back to the September 2005 quarter was incorporated into the March 2009 quarter labour cost index (all salary and wage rates) release. This resulted in revisions to some previously published figures. These changes to pay rates have also impacted on the ACC, annual leave and superannuation indexes, and the all non-wage labour costs and all labour costs indexes.

The historical time series affected are those for the central government sector, public sector, and all sectors combined. The private sector series are not affected.

Revised index numbers are flagged with the symbol 'R' in the tables attached to this release.

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LCI non-wage weights updated

The LCI all labour costs indexes have been reweighted to reflect changes in the industry and occupation structures of the labour market. The data sources used for the reweight were:

- 2006 Census of Population and Dwellings information on the relative importance of occupations within each sector by industry group in terms of jobs, and, in some cases, wages

- Quarterly Employment Survey (QES) figures for the year to June 2008 on the relationship between full- and part-time paid employees, and figures for the June 2008 quarter on average earnings per job
- Business Frame (BF) 2008 information on the relative importance of industry groups within each sector of ownership
- pay rates surveyed for the June 2008 quarter, converted to weekly pay rates, gave the price information needed for wage and non-wage calculations
- surveyed non-wage information for the June 2008 quarter was used to derive costs per employee per week, and administrative information (fringe benefit tax data and ACC levy rates) gave the price information needed for the non-wage weight calculations.

The industry breakdown of the reweighted index is based on the Australian and New Zealand Standard Industrial Classification 1996 (ANZSIC96). The occupation breakdown is based on the New Zealand Standard Classification of Occupations 1999 (NZSCO99). The LCI has not been re-expressed and is still based on the June 2001 quarter (=1000). The LCI was last reweighted using information from the 2001 Census of Population and Dwellings.

The changes in the LCI non-wage expenditure weights reflect real changes in the labour market, and to some extent, changes to the data sources and methods used to calculate the weights. Real changes are the result of relative changes in quantity and price levels. For example, if an industry has experienced higher growth in paid employees and higher increases in pay rates and non-wage labour costs than average over the seven years between the reweights, then that industry will experience an increase in its percentage weight. Industries with decreases or below average increases will have lower 2008 percentage weights compared with those for 2001.

From 2001 to 2008, the BF and other information showed a 35 percent increase in full-time equivalent (FTE) jobs for all sectors and industries (and occupations) combined. Salary and wage rates (including overtime) also increased 20.9 percent over the same period. The overall level of expenditure on wages and salaries (which the wage weights are based on) increased 65 percent over the seven-year period. The non-wage labour cost index increased 24.7 percent overall from 2001 to 2008, and the overall level of expenditure (which the non-wage weights are based on) increased 66 percent.

The overall weight for non-wage costs increased slightly from 16.31 percent in 2001 to 16.36 percent in 2008. To improve the accuracy of the new LCI weights, they were compared with a number of other sources. Wage index weights were compared at a sector of ownership by industry group level with QES gross ordinary time and gross overtime earnings figures for the year to June 2008. Similar adjustments were made for pay rates feeding into the weight calculations for annual leave and statutory holidays, ACC employer premiums, and superannuation. Superannuation tax data and other sources were used to compare the new superannuation weights calculated from Labour Cost Survey data.

Fringe benefits are represented in the index by motor vehicles available for private use, low interest loans, and medical insurance. FBT data for the year to March 2008 was

used to benchmark the weights at a sector of ownership by industry group level. The weights for the three surveyed fringe benefits were then rated up so that their combined weight represents all fringe benefits, not just those surveyed. FBT data broken down into categories including private use of motor vehicles and low interest loans was available for the 2001 reweight. No such breakdown was available for the 2008 reweight, resulting in less certainty about the true importance of the three surveyed fringe benefits relative to each other.

Annual leave and statutory holiday costs have a higher weight in the reweighted index (up from 11.49 percent in 2001 to 12.33 percent in 2008), largely due to an increase in the minimum leave entitlement from three weeks to four weeks per year.

The weight of superannuation rose from 1.37 percent to 1.41 percent. The introduction of KiwiSaver and the compulsory employer contribution from 1 April 2008 had an impact on the weight for superannuation (based on prices in the June 2008 quarter), but the effect was relatively small due to the employer tax credit available at the time. The LCI for the June 2009 quarter showed the impact of the removal of the employer tax credit and the increase from 1 percent to 2 percent in the minimum employer contribution from 1 April 2009. These changes mean that the relative importance of superannuation costs in the LCI for the June 2009 quarter was above the level suggested by the June 2008 quarter weights.

The combined weight of fringe benefits decreased from 1.83 percent to 1.34 percent, mainly due to a reduction in the relative importance of motor vehicles for private use. Low interest loans decreased, and medical insurance increased.

In calculating the weight for ACC employer premiums (1.28 percent), residual claims levy rates and ACC WorkPlace Cover levy rates (discounted to reflect eligibility for safety management discounts) were used. For employers in the ACC Partnership Programme, standard WorkPlace Cover levy rates less safety management discounts were used in the weights calculations to represent workplace accident insurance costs.

The new expenditure weights for the June 2008 quarter appear in table 6.

For technical information on the updated expenditure weights contact:

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Next release ...

Labour Cost Index (Salary and Wage Rates): September 2009 quarter will be released on 3 November 2009.

Technical notes

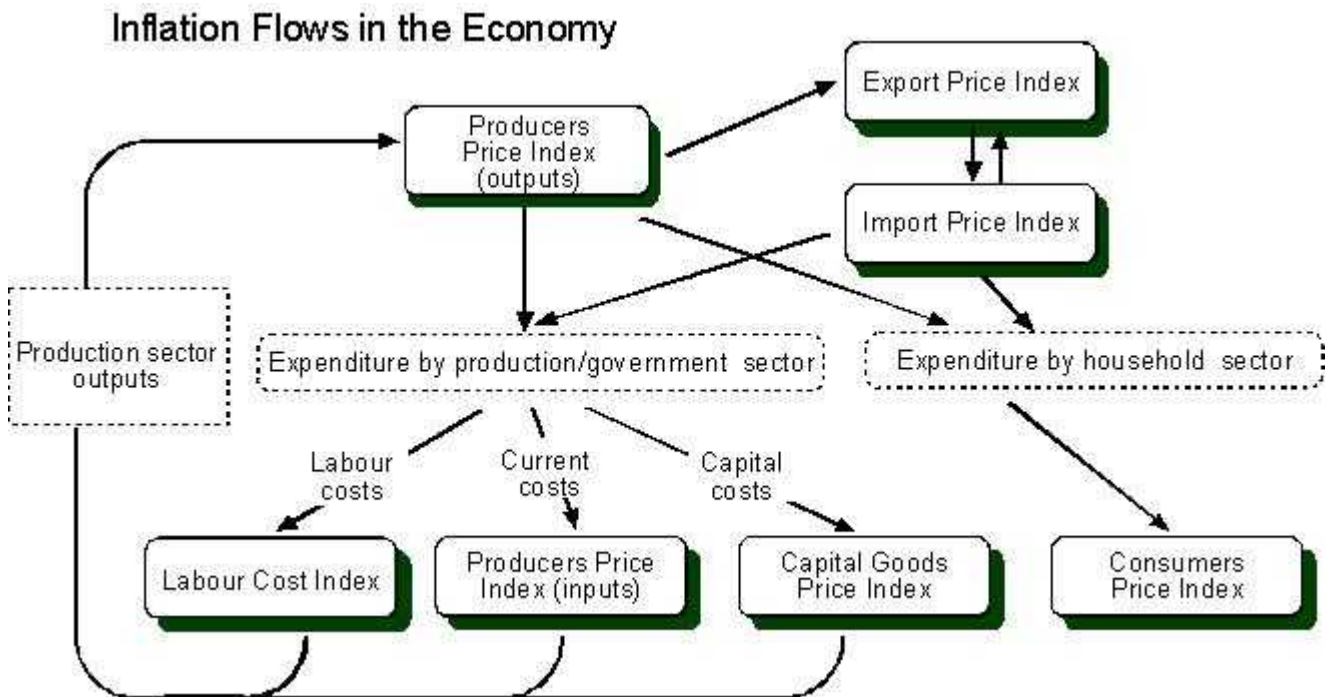
What the index measures

The salary and wage rates component of the labour cost index (LCI) measures movements in base salary and ordinary time wage rates, and overtime wage rates. The non-wage component measures changes in the following costs:

- annual leave and statutory holidays
- superannuation
- Accident Compensation Corporation (ACC) employer premiums
- medical insurance
- motor vehicles available for private use
- low interest loans.

The LCI sits alongside the producers price inputs index (which measures changes in businesses' current costs of production, excluding labour and capital costs, as defined by the New Zealand System of National Accounts' concept of intermediate consumption) and the capital goods price index (which measures changes in businesses' capital costs). This is shown diagrammatically in figure 1. 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 2004 Annual Enterprise Survey indicates that labour costs account for about 17 percent of employers' total expenditure (including depreciation).

Figure 1



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 2006 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, non-wage information surveyed in the June 2008 quarter (used to derive costs per employee per week), and administrative information (ie fringe benefit tax (FBT) data, ACC levy rates, and workplace safety management discount

information).

Base period expenditure weights by sector of ownership and cost appear in table 6 of this release.

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 on 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 ACC Workplace Safety Management Practices Programme and the ACC 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 years 2002 to 2009, the following statement can be applied:

"For the June quarter index, residual claims levy rates (applicable to earnings for the year to March 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 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. 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 1.34 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.

For the years 2002 to 2009, FBT rates derived at the industry group level from FBT data for the year to March, and taxable values for the June quarter, were used to calculate the June quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans.

Proportion of FBT value for employers that chose the multi-rate option is given in the following table:

Proportion of FBT Value for Employers Using Multi-rate FBT Rules	
Year	Percent
March 2001–02	70
March 2002–03	74
March 2003–04	75
March 2004–05	74
March 2005–06	75

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.

Contract indexation

Parties that engage in commercial contracts use a range of price indexes produced by Statistics NZ in their indexation clauses (also known as contract escalation clauses). An indexation clause provides both parties to a contract with an agreed procedure for adjusting an originally contracted price, to reflect changes in costs or prices during the life of the contract. [Contract indexation: A Guide for Businesses](#) provides information on the price indexes produced by Statistics NZ and issues relating to their use in indexation clauses. The guide also outlines some points to consider when preparing an indexation clause, and includes an example of the mechanics of a simple indexation formula.

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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Tables

The following tables are printed with this Hot Off The Press and can also be downloaded from the Statistics NZ website in Excel format. If you do not have access to Excel, you may use the [Excel file viewer](#) to view, print and export the contents of the file.

1. Labour costs by sector, all industries/occupations combined
2. Non-wage labour costs by sector, all industries/occupations combined
3. All labour costs for public sector, by industry
- 4.1 All labour costs for private sector, by industry
- 4.2 All labour costs for private sector, by industry, percentage change from same quarter of previous year
- 5.1 All labour costs for all sectors combined, by industry
- 5.2 All labour costs for all sectors combined, by industry, percentage change from same quarter of previous year
6. Labour cost index, base expenditure weights by sector and cost

Additional table

The following table gives the originally published and revised index numbers and annual percentage changes from the June 2006 quarter to the June 2008 quarter. This table can be downloaded from the Statistics NZ website in Excel format. If you do not have access to Excel, you may use the [Excel file viewer](#) to view, print and export the contents of the file.

1. Labour cost index (all labour costs), revised series