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Labour Cost Index (Salary and Wage Rates): December 2009 quarter

Highlights

In the December 2009 quarter, salary and wage rates (including overtime) increased 0.4 percent.

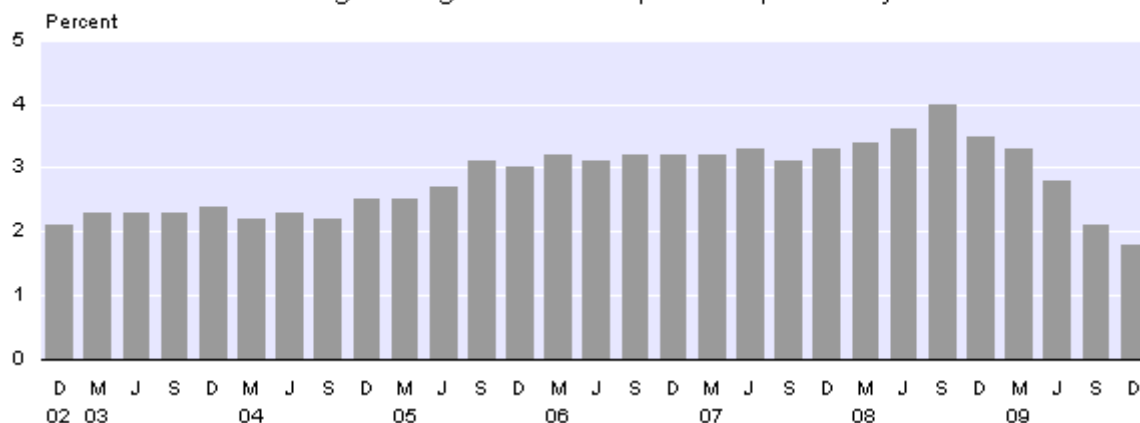
From the December 2008 quarter to the December 2009 quarter:

- Salary and wage rates (including overtime) increased 1.8 percent.
- Overtime wage rates increased 2.2 percent.
- Private sector salary and ordinary time wage rates increased 1.5 percent.

Sector	Salary and ordinary time wage rates Percentage change		All salary and wage rates (including overtime) Percentage change	
	From previous quarter	From previous year	From previous quarter	From previous year
All sectors	0.4	1.8	0.4	1.8
Public sector	0.3	2.4	0.3	2.4
Private sector	0.3	1.5	0.3	1.6

All Salary and Wage Rates

Percentage change from same quarter of previous year



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Commentary

Overview

The labour cost index (LCI) showed an increase of 1.8 percent from the December 2008 quarter to the December 2009 quarter (ie the year to the December 2009 quarter). This is a continuation of the steady decline in salary and wage rates (including overtime) increases from a peak of 4.0 percent in the year to the September 2008 quarter (the largest annual increase recorded since the series began in the December 1992 quarter). The latest annual increase of 1.8 percent is the lowest since a 1.8 percent increase in the year to the June 2001 quarter. In comparison, the Quarterly Employment Survey (QES) average hourly earnings increased 3.7 percent in the year to the December 2009 quarter.

The QES average earnings statistics reflect not only changes in pay rates, but also compositional and other changes across and within the paid workforce. In comparison, the LCI measures changes in salary and wage rates for a fixed quantity and quality of labour input. Service increments, merit promotions, and increases (or decreases) relating to the performance of individual employees are not shown in the index.

In the LCI, salary and wage rates (including overtime) increased 0.4 percent in the December 2009 quarter, following increases of 0.5 percent in the September 2009 quarter and 0.3 percent in the June 2009 quarter.

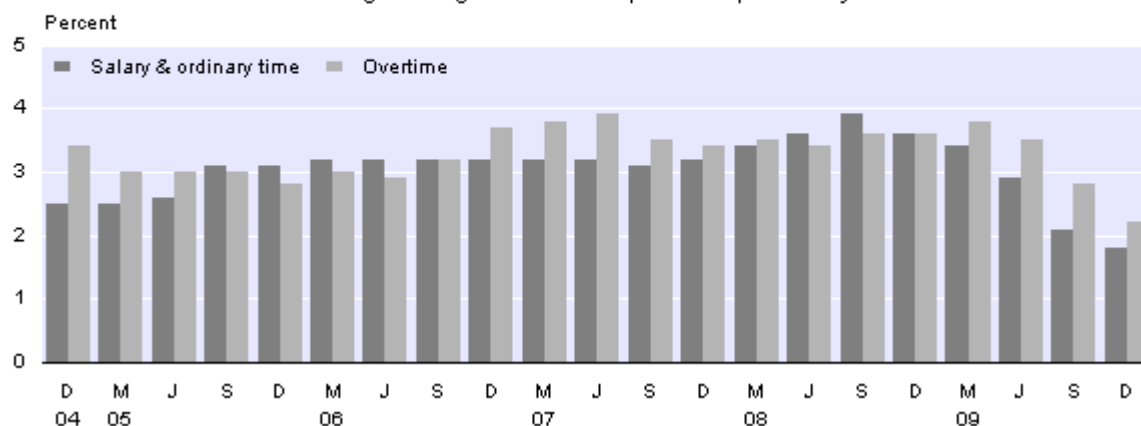
Salary and ordinary time wage rates increased 1.8 percent in the year to the December 2009 quarter, the lowest annual increase recorded in the series since a 1.8 percent rise in the year to the June 2001 quarter. The latest annual increase follows rises of 2.1 percent and 2.9 percent in the years to the September 2009 and June 2009 quarters, respectively. In the December 2009 quarter, salary and ordinary time wage rates increased 0.4 percent, down from an increase of 0.5 percent recorded in the September 2009 quarter, but up from the 0.3 percent increase in the June 2009 quarter.

Overtime wage rates increased 2.2 percent in the year to the December 2009 quarter, following a 2.8 percent increase in the year to the September 2009 quarter. This is the lowest annual increase in overtime wage rates since the year to December 2002 quarter when a 2.2 percent increase was also recorded. In the December 2009 quarter, overtime wage rates increased 0.4 percent. This follows rises of 0.5 percent in both the September 2009 and June 2009 quarters.

Salary & Ordinary Time and Overtime Wage Rates

All sectors combined

Percentage change from same quarter of previous year



In the year to the December 2009 quarter, the mean increase for all surveyed salary and ordinary time wage rates that rose was 4.4 percent, down from 4.8 percent in the year to the September 2009 quarter. In the December 2009 quarter, the mean increase for all surveyed salary and ordinary time wage rates that rose was 3.3 percent, down from 3.8 percent in the September 2009 quarter. Fifty-six percent of surveyed salary and ordinary time wage rates had no change in the year to the December 2009 quarter.

Sector movements

Salary and wage rates (including overtime) for the public sector increased 2.4 percent in the year to the December 2009 quarter. This is the lowest annual increase recorded for the public sector since an identical increase of 2.4 percent in the year to the September 2004 quarter. The latest increase is down from a 2.9 percent increase in the year to the September 2009 quarter and a 3.6 percent increase in the year to the June 2009 quarter. The increase in the year to the December 2009 quarter was as a result of a 2.5 percent increase in the local government sector and a 2.4 percent increase in the central government sector.

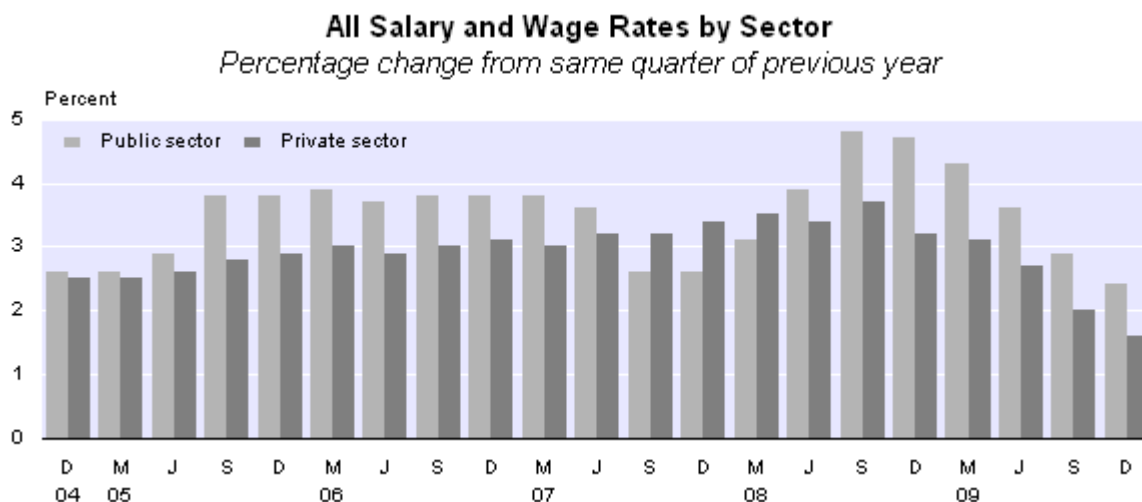
In the December 2009 quarter, salary and wage rates (including overtime) for the public sector increased 0.3 percent, the lowest quarterly increase for the public sector since the June 2007 quarter when salary and wage rates (including overtime) also rose 0.3 percent. The latest quarterly increase follows a 1.1 percent increase in the September 2009 quarter.

Private sector salary and wage rates (including overtime) rose 1.6 percent in the year to the December 2009 quarter, following a 2.0 percent increase in the year to the September 2009 quarter and a 2.7 percent rise in the year to the June 2009 quarter. The latest annual increase is the lowest recorded in the series since a 1.6 percent rise in the year to the March 2001 quarter.

In the December 2009 quarter, private sector salary and wage rates (including overtime) increased 0.3 percent, down from the 0.4 percent increase in the September 2009 quarter, and identical to the 0.3 percent rise in the June 2009 quarter. In comparison, salary and wage rates (including overtime) for the private sector, recorded increases of 0.7 percent in the December 2008 quarter, 1.1 percent in the September 2008 quarter, and 0.8 percent in the June 2008 quarter, which were all higher than the latest quarterly increase of 0.3 percent.

In the December 2009 quarter, salary and wage rates (including overtime) recorded increases of 0.3 percent for both the public and private sector, while the increase for all sectors combined was 0.4 percent. These movements were all calculated using index numbers rounded to the nearest

index point which can result in a larger movement for all sectors combined, than for the individual sectors. See the technical notes for further details.



Industry movements

In the December 2009 quarter, the highest Australian and New Zealand Standard Industrial Classification 2006 (ANZSIC06)-based industry increases in salary and wage rates (including overtime) were:

- food, beverage, and tobacco product manufacturing – up 0.8 percent
- financial and insurance services – up 0.6 percent
- arts and recreation services – up 0.6 percent.

As the ANZSIC06-based series began in the June 2009 quarter, annual movements are not available.

In the year to the December 2009 quarter, the highest ANZSIC96-based industry group increases in salary and wage rates (including overtime) were:

- education – up 3.4 percent
- health and community services – up 3.3 percent.

Salary and wage rates (including overtime) for the education industry increased 3.4 percent in the year to the December 2009 quarter. This followed rises of 3.7 percent, 4.0 percent, and 5.7 percent in the years to the September 2009, June 2009, and March 2009 quarters, respectively. The latest annual increase is the lowest for the education industry since a 3.2 percent increase in the year to the June 2008 quarter. In the December 2009 quarter, salary and wage rates (including overtime) for the education industry increased 0.1 percent, following quarterly increases of 2.4 percent in the September 2009 quarter, 0.2 percent in the June 2009 quarter, and 0.7 percent in the March 2009 quarter. The latest quarterly increase is the lowest since the series began in the June 2001 quarter.

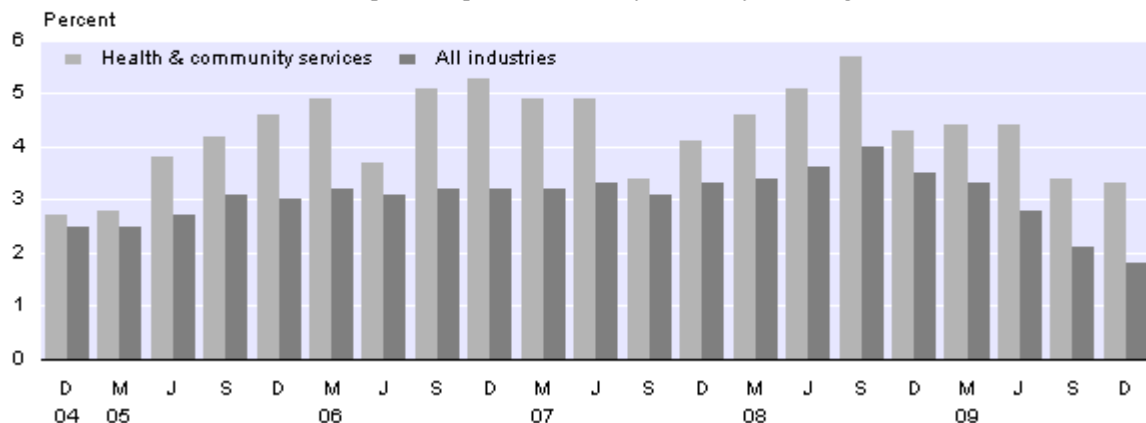
In the year to the December 2009 quarter, salary and wage rates (including overtime) for the health and community services industry increased 3.3 percent, following increases of 3.4 percent in the year to September 2009 quarter, and 4.4 percent in the years to both the June 2009 and March 2009 quarters. The latest annual increase is the lowest for the health and community services industry since a 2.8 percent increase in the year to the March 2005 quarter. In the December 2009 quarter, salary and wage rates (including overtime) for the health and

community services industry rose 0.4 percent. This followed increases of 0.7 percent in the September 2009 quarter, and 1.1 percent in both the June 2009 and March 2009 quarters. The latest quarterly increase is the lowest since a 0.4 percent increase in the June 2002 quarter. Collective employment agreements coming into effect was the main reason provided by respondents for the latest quarterly increase.

All Salary and Wage Rates for Health & Community Services and All Industries

All sectors combined

Percentage change from same quarter of previous year



Occupation movements

In the December 2009 quarter, the highest Australian and New Zealand Standard Classification of Occupations (ANZSCO)-based occupation series increases in salary and wage rates (including overtime) were:

- factory process workers – up 1.0 percent
- mobile plant operators – up 0.6 percent
- automotive and engineering trades workers – up 0.6 percent.

As the ANZSCO-based series began in the June 2009 quarter, annual movements are not available.

In the year to the December 2009 quarter, overall annual increases in salary and wage rates (including overtime) for the three broad New Zealand Standard Classification of Occupations 1999 (NZSCO99)-based occupation groups were:

- managers, professionals, and technicians – up 2.0 percent
- clerks, service, and sales workers – up 1.5 percent
- other occupations – up 2.1 percent.

Across all NZSCO99-based occupation groups, annual increases ranged from 1.0 percent (for legislators, administrators, and managers) to 4.1 percent (for health professionals) in the year to the December 2009 quarter. Teaching professionals showed an increase of 3.6 percent in the year to the December 2009 quarter.

Salary and wage rates (including overtime) increased 4.1 percent in the year to the December 2009 quarter for the health professionals occupation group. This followed an increase of 4.3 percent in the year to the September 2009 quarter, and 5.1 percent increases in both the year to

the June 2009 quarter and the year to the March 2009 quarter. In the December 2009 quarter, salary and wage rates (including overtime) increased 0.4 percent for health professionals, a lower quarterly movement than the 0.9 percent increase recorded in the September 2009 quarter. The main reason respondents gave for the latest quarterly rise was as a result of collective employment agreements coming into effect.

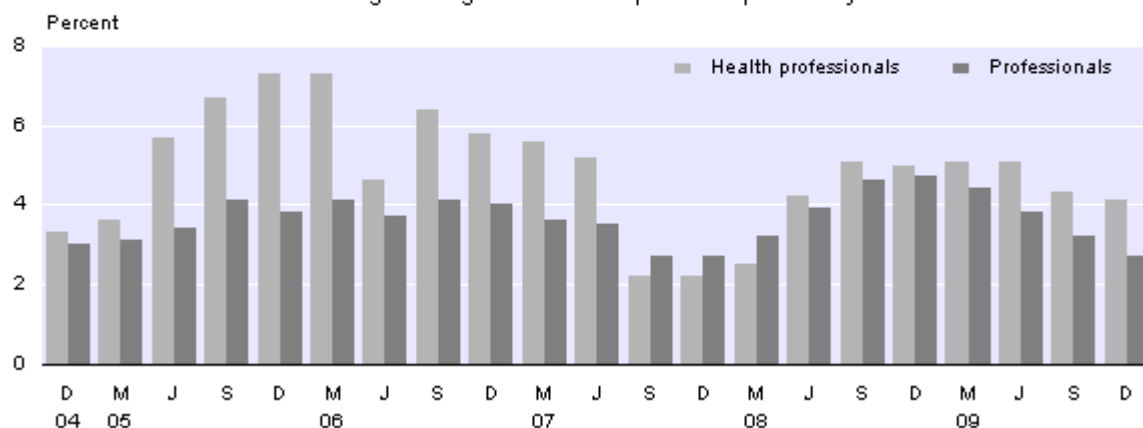
Teaching professionals' salary and wage rates (including overtime) increased 3.6 percent in the year to the December 2009 quarter. This is down from a 3.9 percent increase in the year to the September 2009 quarter. In the December 2009 quarter, salary and wage rates (including overtime) for teaching professionals recorded a flat movement. This follows an increase of 2.9 percent in the September 2009 quarter, and increases of 0.2 percent and 0.5 percent in the June 2009 and March 2009 quarters, respectively. The latest quarter is the first time that teaching professionals have recorded no increase in salary and wage rates (including overtime) since the June 2001 quarter, when no change was also recorded.

Professionals' (which is the broad occupation group that includes both teaching professionals and health professionals) salary and wage rates (including overtime) increased 2.7 percent in the year to the December 2009 quarter. This followed increases of 3.2 percent and 3.8 percent in the years to the September 2009 quarter and the June 2009 quarter, respectively. In the December 2009 quarter, professionals' salary and wage rates (including overtime) increased 0.2 percent. This is the lowest quarterly movement for this occupation group since an identical increase of 0.2 percent was recorded in the December 1994 quarter. The latest quarterly increase is down from a 1.2 percent increase in the September 2009 quarter and a 0.5 percent increase in the June 2009 quarter. The main reason respondents gave for the latest quarterly increase was as a result of collective employment agreements coming into effect.

All Salary & Wage Rates for Health Professionals and Professionals

All sectors combined

Percentage change from same quarter of previous year



Distribution of pay rates

In the year to the December 2009 quarter, 44 percent of salary and ordinary time wage rates in the surveyed sample increased, down from 47 percent in the year to the September 2009 quarter. The latest annual proportion that increased is the lowest since an identical proportion in the year to the June 2000 quarter. In the December 2009 quarter, 12 percent of salary and ordinary time wage rates in the surveyed sample rose, down from 15 percent in the September 2009 quarter, and down from 15 percent in the December 2008 quarter.

Annually, 15 percent of salary and ordinary time wage rates increased by no more than 3 percent, 19 percent by more than 3 percent but not more than 5 percent, and 10 percent increased by more than 5 percent in the year to the December 2009 quarter.

One percent of salary and ordinary time wage rates in the surveyed sample decreased in the year to the December 2009 quarter, following the same proportion of 1 percent that decreased in the year to the September 2009 quarter. There were some instances where respondents recorded drops in pay rates as a result of the economic downturn, specifically in the ANZSIC06-based manufacturing; agriculture, forestry, and fishing; and construction industries.

Fifty-one percent of overtime wage rates increased in the year to the December 2009 quarter, while 49 percent were unchanged.

Surveyed respondents were asked to give reasons for each movement in pay rates. In the year to the December 2009 quarter, 41 percent of increases in salary and ordinary time wage rates were, at least in part, due to collective employment agreements coming into effect; 39 percent were to reflect the cost of living; 22 percent were to match market rates; 8 percent were to retain staff; and 1 percent were to attract staff.

Median and mean increases

The median (ie middle) increase for all surveyed salary and ordinary time wage rates that rose in the year to the December 2009 quarter was 3.7 percent, down from the 4.0 percent median increase in both the years to the September 2009 and June 2009 quarters. The median increase in the year to the December 2009 quarter is the lowest since a 3.2 percent median increase in the year to the June 2005 quarter.

The median increase for the December 2009 quarter was 2.9 percent, down from the 3.7 percent median increase in the September 2009 quarter. This is the lowest median increase since a 2.8 percent median increase in the March 2001 quarter.

The mean increase for all surveyed salary and ordinary time wage rates that rose in the year to the December 2009 quarter was 4.4 percent, down from 4.8 percent in the year to the September 2009 quarter. The mean increase in the year to the December 2009 quarter is the lowest since an identical mean increase in the year to the March 2005 quarter.

In the December 2009 quarter, the mean increase was 3.3 percent, the lowest since the September 2000 quarter, when the mean increase was 3.0.

Median and mean increases for salary and ordinary time wage rates by sector <i>December 2009 quarter</i>				
Sector	Percentage change from previous quarter		Percentage change from same quarter of previous year	
	Median increase*	Mean increase*	Median increase*	Mean increase*
Local government	3.0	3.4	3.7	4.6
Central government	3.2	3.6	4.0	4.6
Public sector	3.2	3.5	4.0	4.6
Private sector	2.9	3.3	3.5	4.4
All sectors	2.9	3.3	3.7	4.4

* Does not include decreases or rates that remained unchanged.

Analytical unadjusted series

The analytical unadjusted series is an additional measure that is intended to complement the official LCI and QES indicators. Like the LCI, the unadjusted series measures changes in salary and wage rates for a fixed quantity of labour, but reflects quality change in addition to price change.

Unadjusted salary and ordinary time wage rates increased 2.9 percent in the year to the December 2009 quarter. This is down from the 3.8 percent increase in the year to the September 2009 quarter. The latest annual increase is the lowest increase since the June 1999 quarter, when the annual increase was also 2.9 percent. In the December 2009 quarter, unadjusted salary and ordinary time wage rates rose 0.5 percent, down from the 0.9 percent increase in the September 2009 quarter.

Private sector unadjusted salary and ordinary time wage rates increased 2.7 percent in the year to the December 2009 quarter, following a 3.7 percent increase in the year to the September 2009 quarter. The latest annual increase is the lowest for the private sector since the series began in the September 1998 quarter. Unadjusted salary and ordinary time wage rates in the private sector rose 0.4 percent in the December 2009 quarter, down from a 0.8 percent rise in the September 2009 quarter.

In the December 2009 quarter, both the private sector and all sectors combined unadjusted salary and ordinary time wage rates recorded quarterly increases that are only 0.1 of a percentage point higher than the movements recorded for the adjusted salary and ordinary time wage rates. The analytical unadjusted series shows any change in pay rates when new employees replace incumbents in surveyed positions. In the December 2009 quarter, the impact of new employees replacing incumbents on the all sectors combined unadjusted series was negative, due to pay rates for new employees being lower on average than the pay rates of the incumbents they replaced. This resulted in a lower quarterly movement for unadjusted salary and ordinary time wage rates, and therefore a smaller gap between the adjusted and unadjusted movements. In both the September 2009 and June 2009 quarters, the net impact of new employees replacing incumbents was positive (ie pay rates for new employees were higher on average), which contributed to a larger gap between quarterly movements for the adjusted and unadjusted series in both quarters.

Analytical unadjusted and adjusted salary and ordinary time wage rates				
<i>Private sector and all sectors combined</i>				
December 2009 quarter				
Sector	Percentage change from previous quarter		Percentage change from same quarter of previous year	
	Adjusted salary and ordinary time wage rates	Unadjusted salary and ordinary time wage rates	Adjusted salary and ordinary time wage rates	Unadjusted salary and ordinary time wage rates
Private sector	0.3	0.4	1.5	2.7
All sectors	0.4	0.5	1.8	2.9

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Implementation of new classifications

The 2006 version of the Australian and New Zealand Standard Industrial Classification (ANZSIC06) and the Australian and New Zealand Standard Classification of Occupations (ANZSCO) were implemented into the LCI (salary and wage rates) in the September 2009 quarter.

The LCI was re-expressed on a base of the June 2009 quarter (=1000). The sample of surveyed job descriptions was refreshed to better reflect the structure of the ANZSIC06 classification. New positions representing about 3 percent of the expenditure weight were added to the survey in ANZSIC06 industries that were under-represented in the old sample.

Official industry and occupation movements for the LCI (salary and wage rates) are those of the ANZSIC06 and ANZSCO series from the September 2009 quarter (that is, for the September 2009 quarter compared with the June 2009 quarter) onwards, and of the ANZSIC96-based and NZSCO-based series up to the June 2009 quarter inclusive.

As there is a high level of discontinuity between the old and new occupation and industry breakdowns, the new series were not linked to the old series. The indexes of all industries/occupations combined were linked to the existing series and re-expressed on a base of the June 2009 quarter (=1000).

The ANZSIC06-based industry and ANZSCO-based occupation indexes were not backcast further than the June 2009 quarter. However, the LCI (salary and wage rates) series on the old classifications will continue to be published until the June 2010 quarter, providing a year-long overlap. These results appear in tables 10.1, 10.2, 10.3, 11.1, 11.2, 11.3, 12.1, 12.2, 12.3, 13.1, 13.2, 13.3, 14.1, and 14.2 (previously numbered 2.1, 2.2, 2.3, 3.1, 3.2, 3.3, 4.1, 4.2, 4.3, 5.1, 5.2, 5.3, 9.1, and 9.2, respectively).

The new base expenditure weights by sector, cost, and occupation appear in table 9.1, and those by industry appear in table 9.2.

The next LCI (all labour costs) release, for the June 2010 quarter, will be published under both industry classifications, ANZSIC06 and ANZSIC96. From the June 2011 quarter onwards, only the new ANZSIC06 classification will be released.

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Next release ...

Labour Cost Index (Salary and Wage Rates): March 2010 quarter will be released on 4 May 2010.

Technical notes

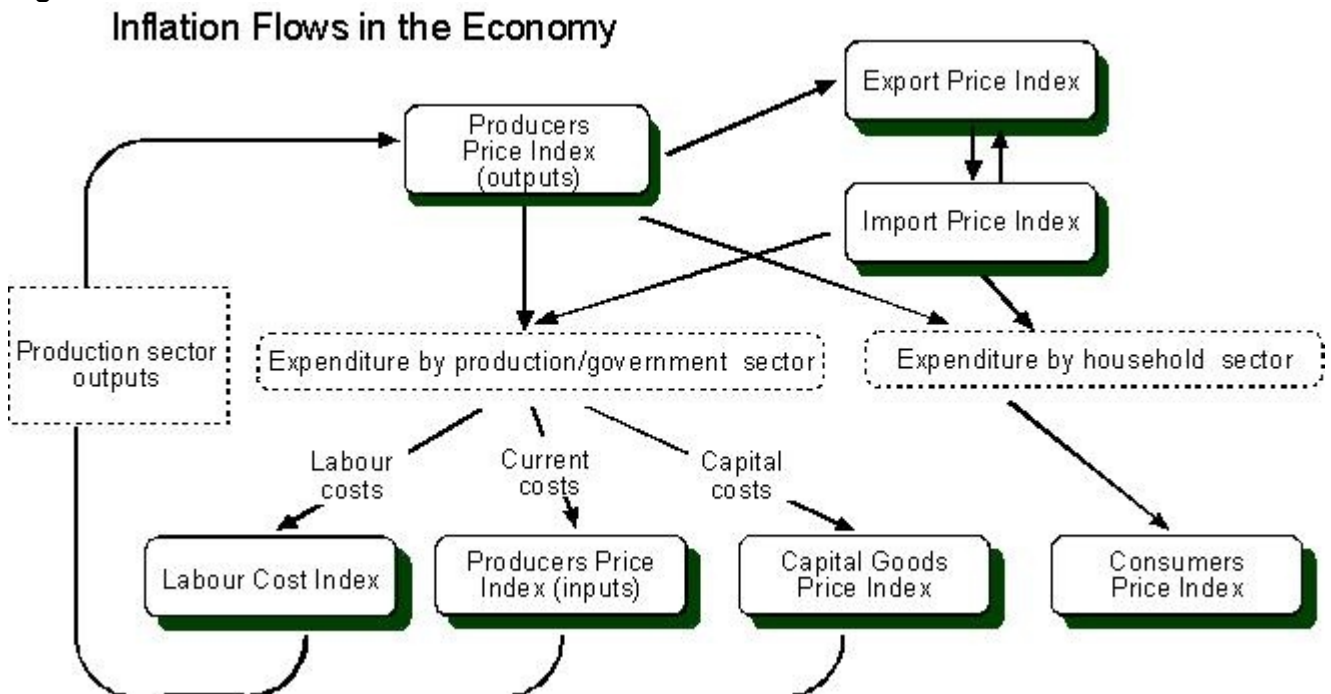
What the index measures

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
- 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 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 16 percent of employers' total expenditure (including depreciation).

Figure 1



The LCI has fixed industry and occupation weights, and measures changes in salary and wage rates for a fixed quantity and quality of labour input. Service increments, merit promotions and increases (and decreases) relating to the performance of employees are not shown in the index (see the section on quality control for more details). By comparison, the average earnings measures from the Quarterly Employment Survey (QES) reflect not only changes in pay rates, but also compositional change (ie changes in the mix of labour from period to period).

Implementation of new classifications

The September 2009 quarter release was the first using the updated 2006 version of the Australian and New Zealand Standard Industrial Classification (ANZSIC06) and the Australian and New Zealand Standard Classification of Occupations (ANZSCO).

ANZSIC06 and ANZSCO have been jointly developed by Statistics NZ and the Australian Bureau of Statistics to ensure that the classifications remain current and relevant, reflecting the changes that have occurred in the structure and composition of industry and occupation.

New industry-based classification ANZSIC06

ANZSIC06 has been developed to provide a more contemporary industrial classification system. Changes in the economy, user requirements, and comparability with international standards were taken into account. The new industry breakdown for the LCI consists of 29 published industry groups, compared with the 27 previously published under the 1996 version of the ANZSIC (ANZSIC96).

The significant changes are:

- ANZSIC06 has 19 divisions, compared with 17 in ANZSIC96.
- Information media and telecommunications (J) is a new division under ANZSIC06. It incorporates units from a number of different ANZSIC96 divisions, including publishing (formerly within division C), communication services (formerly division J), and motion picture, radio, and television services (formerly within division P). This new division was implemented to reflect this rapidly growing sector.
- Property and business services, division L under ANZSIC96, and parts of other services (Q) have been split into three new divisions under ANZSIC06: rental, hiring, and real estate services (L), professional, scientific, and technical services (M), and administrative and support services (N).
- The production function concept was applied, which is a key principle under ANZSIC06. Units whose sole activity is the actual delivery of government programmes, are included in the division that records the type of service they are delivering, and not in public administration and safety (O).
- Manufacturers who sold their products directly to end consumers were in some cases (eg bakeries) classified under ANZSIC96 to retail trade (G). Under ANZSIC06 those units that undertake both the manufacture and sale of their products are classified under manufacturing (C).

A concordance of ANZSIC06 and ANZSIC96, based on enterprises, can be found on the Statistics NZ website in the [New Zealand Business Demography Statistics: At February 2008](#) as a supplementary table. This gives an indication of the relationship between the ANZSIC06 and ANZSIC96 divisions.

New occupation-based classification ANZSCO

The occupation-based Australian and New Zealand Standard Classification of Occupations (ANZSCO) is also implemented in this September 2009 quarter release and replaces the New Zealand Standard Classification of Occupations (NZSCO99). The new classification criteria for ANZSCO are similar to those used for NZSCO99, but ANZSCO provides a greater definition of skill level. One of the major changes under ANZSCO is the introduction of eight major groups, instead of nine under NZSCO99. These major groups are:

1. managers
2. professionals
3. technicians and trades workers
4. community and personal service workers
5. clerical and administrative workers
6. sales workers
7. machinery operators and drivers
8. labourers.

Further significant changes are:

- The NZSCO99 major group, agriculture and fishery workers has ceased and under ANZSCO spread across 1 – managers, 3 – technicians and trades workers, and 8 – labourers.
- Under ANZSCO, the NZSCO99 major group, service and sales workers has split into two major groups: 4 – community and personal service workers and 6 – sales workers.
- ANZSCO has more information and communication technology (ICT) unit groups and occupations compared with NZSCO99.

Some of the published sub-major groups have changed.

The eight groups under ANZSCO are grouped together for the LCI into three new broad occupation groups:

- managers, professionals, technicians and trades workers – ANZSCO major groups 1, 2, and 3
- service, clerical, and sales workers – ANZSCO major groups 4, 5, and 6
- machinery operators and drivers, and labourers – ANZSCO major groups 7 and 8.

Skill level

ANZSCO assigns each occupation to one of five skill levels. A skill level is based on the range and complexity of tasks performed in a particular occupation. The greater the range and complexity of the tasks, the higher the skill level of an occupation.

In general a skill level is measured by:

- the level or amount of formal education and training
- the amount of previous experience in a related occupation
- the amount of on-the-job training.

Under ANZSCO, skill level is not a measure of an individual working in a particular job. Rather, it is seen as a measure of those skills that are typically required to competently perform the tasks of a particular occupation. It is irrelevant whether a particular individual working in a job has a certain amount of training or a particular level of competence or not.

The definitions of the five skill levels are:

Skill level 1

A bachelor's degree or higher qualification is required for this skill level. It may be possible to replace the formal qualification with at least five years of relevant work experience. In some instances, relevant work experience and/or on-the-job training may be needed in addition to the

formal qualification. These occupations are typically drawn from major groups 1 – managers and 2 – professionals.

Skill level 2

For this skill level, either a New Zealand Register diploma or at least three years of relevant work experience is required. In some instances, relevant experience and/or on-the-job training may be required in addition to the formal qualification. These occupations are typically drawn from major groups 1 – managers, 3 – technicians and trade workers, 4 – community and personal service workers, 5 – clerical and administrative workers, and 6 – sales workers.

Skill level 3

The requirement for skill level 3 is a New Zealand Register level 4 qualification, or at least three years of relevant experience. For some occupations relevant experience and/or on-the-job training may be required in addition to the formal qualification. These occupations are typically drawn from major groups 3 – technicians and trade workers, 4 – community and personal service workers, 5 – clerical and administrative workers, and 6 – sales workers.

Skill level 4

For this skill level a New Zealand Register level 2 or 3 qualification is required to perform the work. It may also be possible to replace the formal qualification with at least one year of relevant work experience and, in some instances, relevant experience and/or on-the-job training may be required in addition to the formal qualification. These occupations are typically drawn from major groups 4 – community and personal service workers, 5 – clerical and administrative workers, 6 – sales workers, 7– Machinery operators and drivers, and 8 – labourers.

Skill level 5

The requirement for skill level 5 is a New Zealand Register level 1 qualification. In some instances these occupations may require a short period of on-the-job training in addition to or instead of the formal qualification. Other occupations require no formal qualification or on-the-job training. These occupations are typically drawn from major groups 4 – community and personal service workers, 5 – clerical and administrative workers, 6 – sales workers, and 8 – labourers.

Infoshare series references

The new LCI (salary and wage rates) series references hold index times series expressed on a base of the June 2009 quarter (=1000). The series reference for the occupation indexes changes from LCIQ.SF to LCIQ.SH (eg LCIQ.SF51Z9 to LCIQ.SH51Z9). For industries, the series references change from LCIQ.SE to LCIQ.SG (eg LCIQ.SE53Z9 to LCIQ.SG53Z9). The skill level index has the series reference LCIQ.SI.

The new series references begin with indexes for the June 2009 quarter. As there is a high level of discontinuity between the old and new occupation and industry breakdowns, the new series have not been linked to the old series.

The indexes of all industries/occupations combined have been linked to the existing series and re-expressed on a base of the June 2009 quarter (=1000).

The new industry and occupation series have not been backcast prior to the June 2009 quarter. However, the LCI (salary and wage rates) series on the old classifications will continue to be published until the June 2010 quarter, providing a year-long overlap.

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 2009 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, and pay rates surveyed in the June 2009 quarter.

The following tables shows the new occupation group weights for all salary and wage rates and for the skill levels under ANZSCO.

Occupation group	Weight (Percent)
Managers	21.7
Professionals	25.9
Technicians and trades workers	12.4
Managers, professionals, technicians, and trades workers	60.1
Community and personal service workers	6.1
Clerical and administrative workers	13.2
Sales workers	6.5
Service, clerical, and sales workers	25.8
Machinery operators and drivers	5.8
Labourers	8.3
Machinery operators, drivers, and labourers	14.1
All occupations combined	100.0
Note: Percentages may not sum to totals due to rounding.	

Skill level	Weight (Percent)
Skill level 1	45.1
Skill level 2	8.6

Skill level 3	12.8
Skill level 4	21.2
Skill level 5	12.3
All skill levels combined	100.0

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.

Quality control

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. This is achieved in practice by asking respondents to provide reasons for movements in salary and wage rates. If a movement is due to more than one reason, the respondent is also asked to indicate how much of the movement is due to each reason. To further assist the measurement of movements in pay rates for a fixed level of labour input, job descriptions are specified in detail. Surveyed job descriptions typically specify the duties involved, qualifications required, years of service and number of hours worked.

In theory, these job descriptions should remain fixed between index revisions. In practice, many descriptions change over time, usually as a result of changes to contractual arrangements or because specific employees are being tracked through time. If a newly negotiated contract involves an increase in the number of ordinary time hours worked per week, then the description is amended and an adjustment is made to ensure that the pay rate movement used in the index relates to the same quantity of work as specified in the new contract.

Similarly, rates being paid for job descriptions in the survey may change partly or wholly because employees undertaking these jobs have become more experienced, more (or less) proficient or productive, better qualified, have taken on additional responsibilities or have been promoted. Components of salary and wage rate movements that are due to changes of this type in the quality of work are not reflected in index movements. The policy of excluding increases due to service increments and merit promotions is consistent with this approach.

One-off payments in lieu of pay rises are also excluded, as they do not result in changes to pay rates, as such. There have been several employment contract settlements in recent years of this type, particularly in the central government sector.

Regular fixed allowances and regular fixed bonuses are included in surveyed pay rates. Where included, these are specified in job descriptions. Payments such as commissions and irregular bonuses are excluded, however, as these payments are usually performance related.

In instances where allowances, penal rates and other payments (eg commissions), which have not previously been included in surveyed rates, are incorporated into base rates, only the overall effect of such changes is reflected in the index.

Index number rounding

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

For example, the all sectors combined increase for salary and ordinary wage rates of 0.4 percent from the September 2009 quarter to the December 2009 quarter is larger than the 0.3 percent increases for both the public sector and the private sector. The lower figure for the private sector was mainly caused by the index number for the September 2009 quarter being rounded up to the nearest index point and the index number for the December 2009 quarter being rounded down to the nearest index point.

Median and mean increases

The latest quarterly and annual results for the median and mean increases are discussed in the commentary. The mean tends to be higher than the median because the distribution changes in pay rates are skewed to the right, with a bulge at the low end and a tail at the high end. The relatively few large increases boost the mean increase but have little effect on the median increase.

The median and mean increases are calculated using the percentage change in recorded salary and ordinary time wage rates. This differs from the quarterly and annual index movements, which measure the percentage change between calculated index numbers.

Analytical unadjusted series

An analytical unadjusted index series, based on ordinary time pay rates collected in the LCI sample, is available in the tables of this release. These tables are available on the Statistics NZ website (www.stats.govt.nz).

The analytical unadjusted series is an additional measure that is intended to complement the official LCI and QES indicators and provide users with a fuller picture on the wages front. The analytical unadjusted series is not affected by relative employment shifts between industries and between occupations, but, in addition to price change, it does reflect quality change within occupations.

In simple terms, the approaches taken in compiling the published and analytical unadjusted series could be summarised as follows:

Published index:

- often tracks employees, but does not show performance-related increases or service increments
- commonly links in new employees (without showing change)

Analytical unadjusted index:

- often tracks employees, and shows performance-related increases and service increments
- shows any change when new employees replace incumbents.

The LCI is a price index that measures change in pay rates for a fixed quality and quantity of labour input. Price-related change in rates reported by respondents, such as those to reflect the cost of living, to match market rates, to retain staff and to attract staff, are shown in the index. Changes in reported rates that are the result of service increments, merit promotions, increases (and decreases) relating to the performance of individual employees, and change in hours worked are not shown in the index, as they are considered to represent quality or quantity change.

The analytical unadjusted index retains fixed weights for occupations within industries within sectors of ownership, but is based on a matched sample of reported rates for the previous and current quarters prior to quality control. In addition to price change, it reflects quality change within occupations, such as change in the performance of individual employees, change in the 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.

Rates for which the pay periods reported by respondents (eg per annum, per week, per hour) differ from those for the previous period, and rates where change is wholly or partly due to change in hours worked, are excluded from the matched sample. Typically, between 1 and 2 percent of surveyed rates are excluded from the unadjusted index each quarter for these reasons.

The analytical unadjusted index is calculated using a matched sample of reported rates for the previous and current quarters. Expenditure weights are used to weight movements in reported rates from the previous quarter to the current quarter. To derive the expenditure weights, the price changes (after quality control) of job positions in the sample (from the base period to the previous quarter) are used to scale base-period expenditure weights (which are then assigned to job positions in the sample).

It should be noted that the LCI is designed to measure change in pay rates for a fixed quality and quantity of labour input. The sample of surveyed pay rates is not particularly suitable for preparing a measure that includes quality change. This is due in part to the fact that some positions in the survey follow individual employees (with corresponding pay rates subject to both quality and price change) and some positions specify particular points on pay scales (which are usually subject only to price change). In general, individual employees are tracked for positions surveyed in the private sector, and for positions surveyed in the public sector there is a mix of points on pay scales and individual employees being tracked.

The analytical unadjusted index reflects quality change within occupations. How well this is measured partly depends on how well the sample represents entrances and exits of employees, and on whether the sample replacement practice is unbiased in this regard (eg in some cases, replacement employees are incumbent employees filling other positions rather than new employees filling the existing positions – this can happen when there is a delay filling vacancies in surveyed positions). In addition, the analytical unadjusted index tends to reflect the effect of turnover in, and the cessation of, existing positions, but not the price and/or quality effect associated with employees being hired to fill new positions. An unadjusted measure designed from scratch might make use of the average pay rate within each surveyed firm of all employees filling jobs in each surveyed occupation.

The published LCI is a fixed-weight price index that measures changes in pay rates for a fixed quality and quantity of labour input. The index is not affected by relative shifts in the occupational and industrial composition of the pool of paid employees. It is useful in the context of the extent to which changes in businesses' input labour costs might put pressure on the output prices they charge for goods and services.

The analytical unadjusted LCI series has fixed weights for occupations within industries within sectors of ownership, so is not affected by relative employment shifts between industries and occupations. However, it does reflect quality shifts within occupations. The index uses weights based on the mix of employment in occupations and industries evident in 2006, so will not take account of the effect of any long-term structural shifts that have occurred since then, on the relative importance of occupations within industries within sectors of ownership. In addition, it will not reflect:

- the effect of very new or emerging occupations and industries
- the effect of employers mitigating the effect of skill shortages by substituting away from occupations showing high relative price change to occupations showing lower relative price change (eg from carpenter to builder's labourer, or from registered nurse to nurse aide).

In addition to changes in pay rates, change in the QES measures of total and average gross earnings fully reflect compositional change, such as change from period to period in the proportions of employees and paid hours in different industries and different occupations. The measures reflect relative employment shifts both between and within industries and occupations. These measures are useful in the context of the potential effect that change in gross and average income earned by paid employees might have on the demand for goods and services purchased by the household sector.

An example of how a specific position would be treated in the published LCI and in the analytical unadjusted index follows:

Year	Salary scale				
	Step 1	Step 2	Step 3	Step 4	Step 5
1	\$30,000	\$40,000	\$50,000	\$60,000	\$70,000
2	\$30,900	\$41,200	\$51,500	\$61,800	\$72,100
3	\$31,827	\$42,436	\$53,045	\$63,654	\$74,263
4	\$32,782	\$43,709	\$54,636	\$65,564	\$76,491
5	\$33,765	\$45,020	\$56,275	\$67,531	\$78,786

Year/quarter	Reported pay rate (per annum)	Reason for change	Treatment	Published LCI	Analytical unadjusted index
Y1Q1	\$40,000			1000	1000
Y1Q2	\$40,000			1000	1000
Y1Q3	\$40,000			1000	1000
Y1Q4	\$40,000			1000	1000
Y2Q1	\$41,200	Price adjustment to step 2 of scale to match market rates and reflect the cost of living.	Price change; shown in the published and unadjusted indexes.	1030	1030

Year/quarter	Reported pay rate (per annum)	Reason for change	Treatment	Published LCI	Analytical unadjusted index
Y2Q2	\$51,500	Service increment from step 2 to step 3.	Quality change; shown only in the unadjusted index.	1030	1288
Y2Q3	\$51,500			1030	1288
Y2Q4	\$51,500			1030	1288
Y3Q1	\$53,045	Price adjustment to step 3 of scale to match market	Price change; shown in the published and	1061	1326

		rates and reflect the cost of living.	unadjusted indexes.		
Y3Q2	\$42,436	New, less experienced employee placed on step 2 replaces the incumbent.	Quality change; shown only in the unadjusted index.	1061	1061
Y3Q3	\$42,436			1061	1061
Y3Q4	\$42,436			1061	1061
Y4Q1	\$43,709	Price adjustment to step 2 of scale to match market rates and reflect the cost of living.	Price change; shown in the published and unadjusted indexes.	1093	1093
Y4Q2	\$54,636	Service increment from step 2 to step 3.	Quality change; shown only in the unadjusted index.	1093	1366
Y4Q3	\$54,636			1093	1366
Y4Q4	\$54,636			1093	1366
Y5Q1	\$56,275	Price adjustment to step 3 of scale to match market rates and reflect the cost of living.	Price change; shown in the published and unadjusted indexes.	1126	1407
Y5Q2	\$45,020	New, less experienced employee placed on step 2 replaces the incumbent.	Quality change; shown only in the unadjusted index.	1126	1126
Y5Q3	\$45,020			1126	1126
Y5Q4	\$45,020			1126	1126

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 New Zealand 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.

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14.1 Labour cost index, base expenditure weights by sector, cost, and occupation (NZSCO99)

14.2 Labour cost index, base expenditure weights by industry (ANZSIC96)

Supplementary tables

The following tables can be downloaded from the Statistics New Zealand 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.

1.1 Distribution of annual increases, reason: cost of living

1.2 Distribution of annual increases, reason: match market rates

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1.4 Distribution of annual increases, reason: attract staff

1.5 Distribution of annual increases, reason: match market rates and/or retain/attract staff

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