

Embargoed until 10:45AM – 03 October 2006

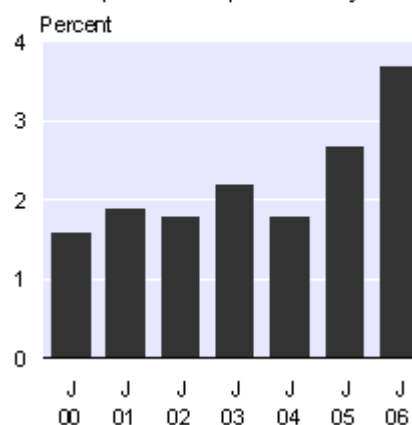
Labour Cost Index: (All Labour Costs): June 2006 quarter

Highlights

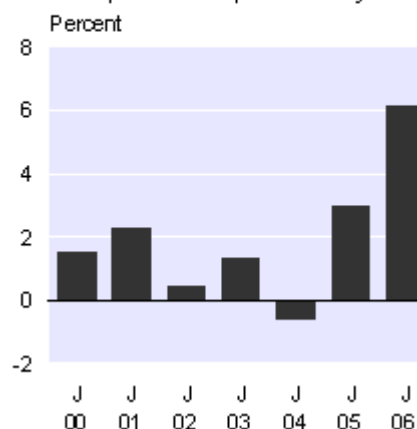
From the June 2005 to the June 2006 quarter:

- **Surveyed labour costs rose 3.7 percent.**
- **Non-wage labour costs rose 6.2 percent.**
- **Annual leave and statutory holiday costs rose 7.1 percent.**
- **Superannuation costs rose 6.6 percent.**
- **Workplace accident insurance costs rose 4.8 percent.**
- **Other non-wage labour costs (vehicles, medical insurance and low interest loans) rose 0.7 percent.**

All Labour Costs
Percentage change from
June quarter of previous year



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



Brian Pink
Government Statistician

3 October 2006
Cat 63.904 Set 06/07 – 050

Commentary

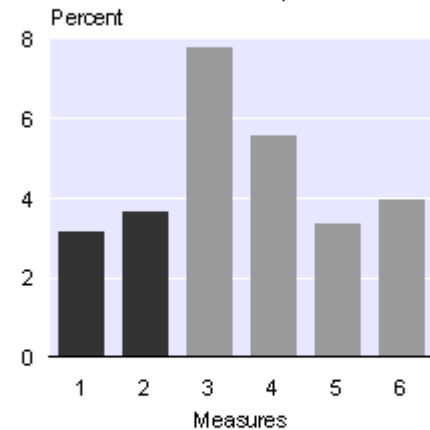
Overall labour costs

Labour costs increased 3.7 percent in the year to the June 2006 quarter. This is the largest annual increase since the series began in the December 1992 quarter. The salary and wage rates (including overtime) component of the Labour Cost Index (LCI) rose 3.2 percent, while the non-wage labour costs component rose 6.2 percent.

The costs of other business inputs (excluding capital costs), as measured by the Producers Price Index (PPI), rose 7.8 percent from the June 2005 quarter to the June 2006 quarter. The increases in the inputs prices were reflected in the prices charged by businesses for their outputs, which rose 5.6 percent. The Capital Goods Price Index (CGPI) increased 3.4 percent. Over the same period, the Consumers Price Index (CPI) increased 4.0 percent.

All Labour Cost Index and Related Measures

Percentage change from June 2005 quarter to June 2006 quarter



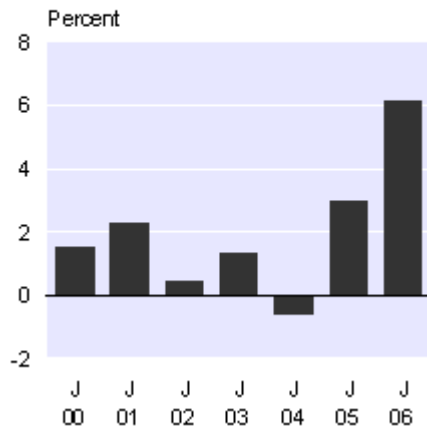
- 1 LCI - all salary & wages rates
- 2 LCI - all labour costs
- 3 PPI - inputs
- 4 PPI - outputs
- 5 CGPI - capital goods
- 6 CPI

Overall non-wage labour costs

Non-wage labour costs rose 6.2 percent between the June 2005 quarter and the June 2006 quarter. This is the largest annual increase since the series began in the December 1992 quarter.

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 vehicles available for private use. These rises were partly offset by an overall fall in other non-wage labour costs, such as medical insurance and employer-related low interest loans.

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



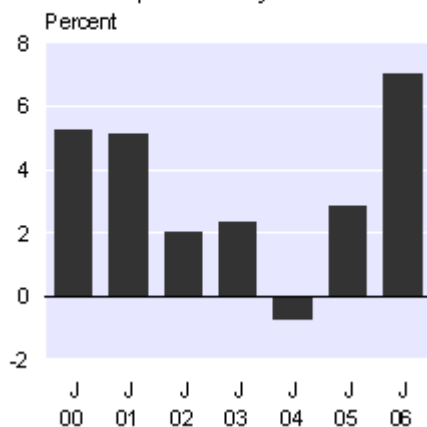
Annual leave and statutory holidays

In the year to the June 2006 quarter, the cost of annual leave and statutory holidays to employers increased 7.1 percent. This is the largest annual increase since the series began in the December 1992 quarter.

One of the main reasons for the increase was employers increasing their employees' annual leave entitlement in anticipation of changes to the Holiday Act taking effect in April 2007. Another contributor to the increase was a rise in the number of statutory holidays. There were 11 paid statutory holidays in 2006, compared with 2005 when there were 10, due to Waitangi Day falling on a weekday rather than a weekend as in 2005.

Annual leave and statutory holiday costs increased 6.8 percent for private sector employers, and 7.8 percent for the public sector. These annual increases are the largest since the series began in the December 1992 quarter.

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

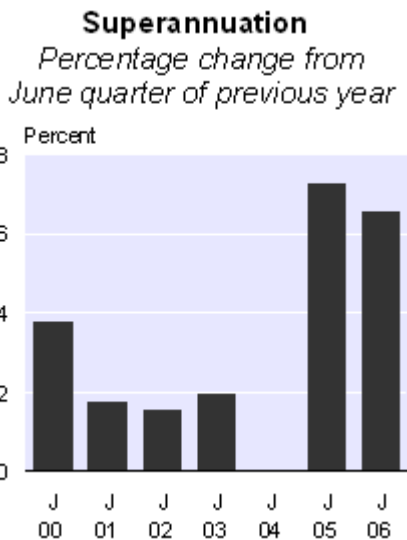


Superannuation

Employer superannuation costs increased 6.6 percent from the June 2005 quarter to the June 2006 quarter. This follows an increase of 7.3 percent in the previous June year. The latest increase in superannuation costs was influenced by a 3.3 percent increase in salary and ordinary time wage rates.

In the public sector, superannuation costs rose 12.3 percent, mainly due to the increase in the employer contribution rate of the State Sector Retirement Savings Scheme (SSRSS), which took effect from 1 July 2005. From the June 2004 quarter to the June 2005 quarter, public sector superannuation costs increased 15.2 percent, mainly reflecting the SSRSS, which was introduced from 1 July 2004.

Superannuation costs for the private sector increased 1.7 percent from the June 2005 quarter to the June 2006 quarter.



Workplace accident insurance costs

Employers' workplace accident insurance costs increased 4.8 percent from the June 2005 quarter to the June 2006 quarter. This follows an increase of 7.2 percent in the year to the June 2005 quarter.

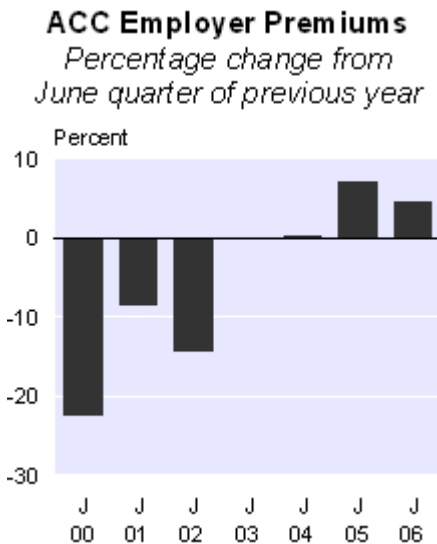
Employers pay residual claims levies (to fund historical injuries) and they also pay base Accident Compensation Corporation (ACC) Workplace Cover levies to cover the costs of ongoing injuries. There are two optional programmes offered by ACC: a workplace safety management practices programme and a partnership 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 2006 quarter index, residual claims levy rates (applicable to earnings for the year to March 2006 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 2006 and collected

during the period), which were discounted to reflect actual eligibility for safety management discounts for the period to 31 March 2006.

The 2006 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 2006 quarter were higher than in the June 2005 quarter for 21 of the 27 industry groups.

Workplace accident insurance costs rose 3.0 percent for the private sector, and 10.3 percent for the public sector.



Other non-wage labour costs

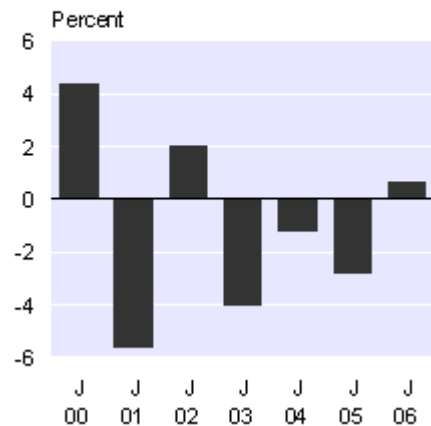
Other non-wage labour costs rose 0.7 percent from the June 2005 quarter to the June 2006 quarter. This compares with a fall of 2.8 percent from the June 2004 quarter to the June 2005 quarter. The other non-wage labour costs component of the LCI includes medical insurance, motor vehicles available for private use, and employment-related low interest loans.

The cost of providing a motor vehicle for private use rose from the June 2005 quarter to the June 2006 quarter, while the cost of providing medical insurance and employer-related low interest loans fell. The prescribed interest rate that is used to calculate the fringe benefit value of low interest loans increased from 8.76 percent to 9.55 percent, and this would have had a slight upwards influence on the costs.

Fringe benefit tax (FBT) rates derived from FBT data for the year to March 2006 were used to calculate the June 2006 quarter indexes for medical insurance, motor vehicles available for private use, and low interest loans. Employers have the choice of using either a flat 64 percent FBT rate or multi-level FBT rules, whereby rates are based on the actual remuneration levels of employees receiving the benefits. Employers providing about 75 percent of fringe benefits by value chose the latter option for the year to March 2006. In the year to March 2005, this figure was about 74 percent, and about 75 percent in the year to March 2004.

Other Non-wage Labour Costs

*Percentage change from
June quarter of previous year*



Sectors and industries

Labour costs in the private sector rose 3.3 percent from the June 2005 quarter to the June 2006 quarter, and 5.0 percent in the public sector. Within the public sector, central government sector labour costs rose 5.1 percent, and local government costs rose 4.4 percent.

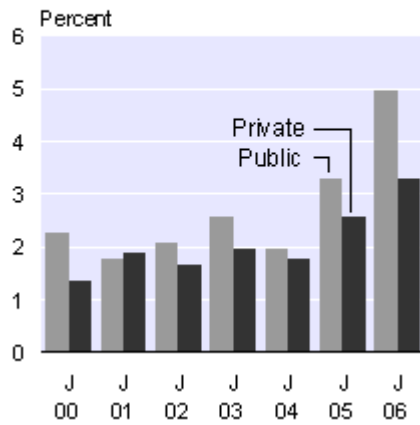
Increases for individual industry groups' labour costs ranged from 1.1 percent (for forestry and logging) to 5.9 percent (for education) in the year to the June 2006 quarter. The increases for education were driven by increases in salary and wage rates (including overtime), annual leave and statutory holidays, superannuation and workplace accident insurance, and were partly offset by decreases in other non-wage costs.

Central government administration and defence costs increased 5.0 percent. This was driven by increases in the cost of salary and wage rates (including overtime), annual leave and statutory holidays, superannuation, and workplace accident insurance. These increases were partly offset by decreases in other non-wage costs.

Local government administration costs increased 4.7 percent from the June 2005 quarter to the June 2006 quarter. Increases in salary and wage rates (including overtime), annual leave and statutory holidays, and other non-wage costs were partly offset by decreases in superannuation and workplace accident insurance.

All Labour Costs by Sector

Percentage change from
June quarter of previous year



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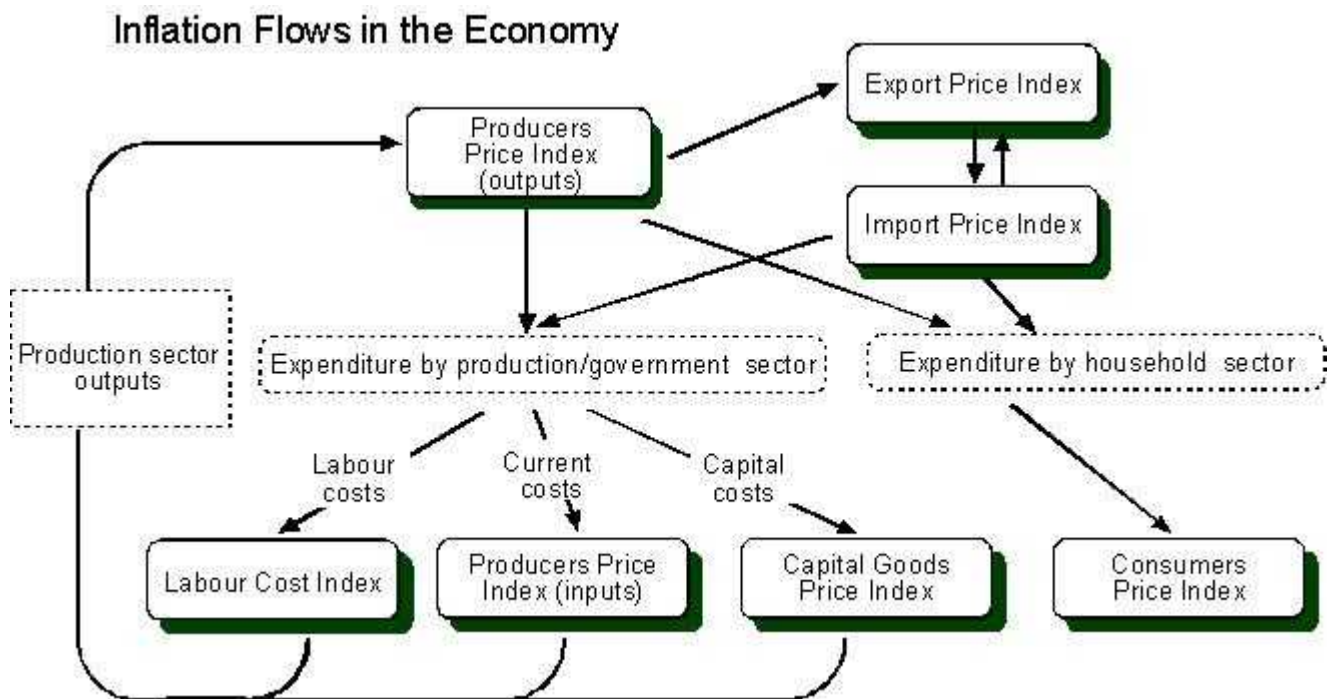
Technical notes

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 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 2004 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, non-wage information surveyed in the June 2001 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.

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 from 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 2006, 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 1.83 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. In December 1999, 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.

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:

- continuing to use the flat 64 percent FBT rate; or
- 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 2006, 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 2001–2002	70
March 2002–2003	74
March 2003–2004	75
March 2004–2005	74
March 2005–2006	75

Index number rounding

Index number rounding (using standard Statistics NZ 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 NZ website.

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Next release ...

Labour Cost Index (Salary and Wage Rates): September 2006 quarter will be released on 6 November 2006.

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.

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Table 5.2 All sectors combined, all labour costs by industry, percentage change from same quarter of previous year

Table 6 Labour cost index, base expenditure weights by sector and cost