

Embargoed until 10:45am – 19 October 2007

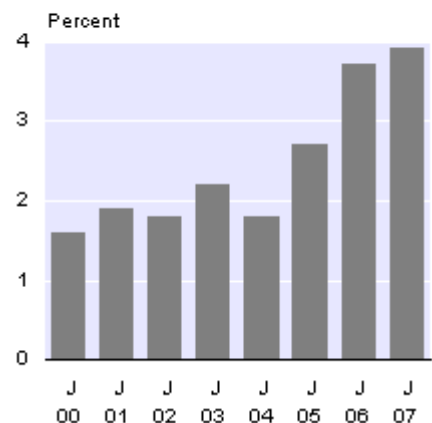
## Labour Cost Index (All Labour Costs): June 2007 quarter

### Highlights

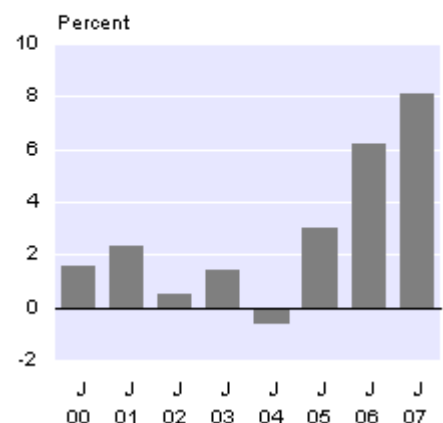
From the June 2006 to the June 2007 quarter:

- All labour costs rose 3.9 percent.
- Salary and wage rates rose 3.2 percent.
- Non-wage labour costs rose 8.1 percent.
- Annual leave and statutory holiday costs rose 9.3 percent as a result of an increase in minimum annual leave entitlement.
- Workplace accident insurance costs rose 9.3 percent.
- Superannuation costs rose 4.2 percent.
- Other non-wage labour costs (vehicles, medical insurance and low interest loans) rose 1.8 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



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**Government Statistician**

There is a companion Media Release published – *Labour Cost Index (All Labour Costs): June 2007 quarter.*

**19 October 2007**

ISSN 1178-0517

# Commentary

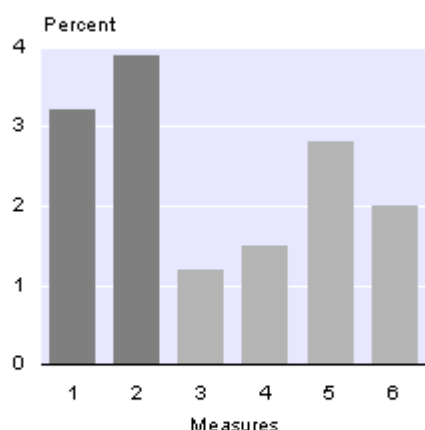
## Overall labour costs

Labour costs increased 3.9 percent in the year to the June 2007 quarter, 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 8.1 percent.

The costs of other business inputs (excluding capital costs), as measured by the Producers Price Index (PPI), rose 1.2 percent from the June 2006 quarter to the June 2007 quarter. The increases in the inputs prices were reflected in the prices charged by businesses for their outputs, which rose 1.5 percent. The Capital Goods Price Index (CGPI) increased 2.8 percent. Over the same period, the Consumers Price Index (CPI) increased 2.0 percent.

### All Labour Cost Index and Related Measures

*Percentage change from June 2006 quarter to June 2007 quarter*



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

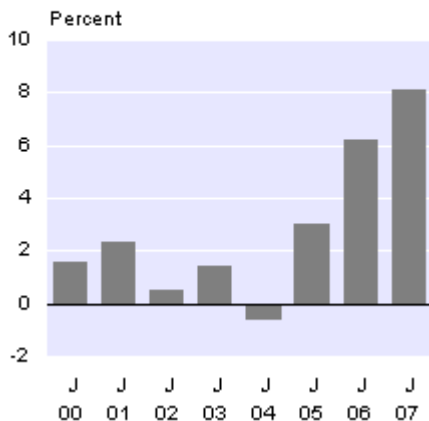
## Overall non-wage labour costs

Non-wage labour costs rose 8.1 percent between the June 2006 quarter and the June 2007 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 other non-wage labour costs (such as motor vehicles available for private use, 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

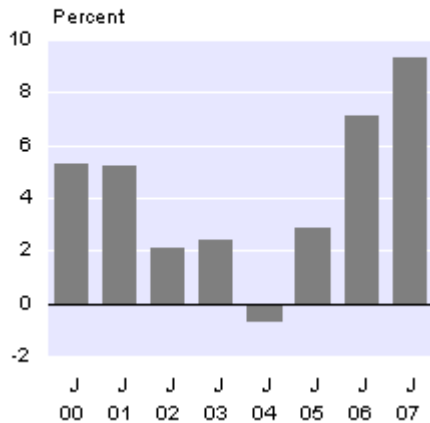
From the June 2006 quarter to the June 2007 quarter, the cost of annual leave and statutory holidays to employers increased 9.3 percent. This follows an increase of 7.1 percent in the year to the June 2006 quarter and is the largest annual increase recorded since the series began in the December 1992 quarter.

The main reason for the increase was the change in minimum annual leave entitlements from three weeks per year to four weeks per year which took effect on 1 April 2007. Within the sample, the unweighted proportion of employees entitled to four weeks or more annual leave has increased from less than 2 in 3 employees in the June 2006 quarter, to about 9 in 10 employees in the June 2007 quarter. Some respondents reported that those employees who were receiving less than four weeks annual leave will move to the increased minimum entitlement on their next anniversary date. In 2007, there were 11 paid statutory holidays, the same number as in 2006. Therefore statutory holidays did not have an impact on the latest results.

Annual leave and statutory holiday costs increased 6.3 percent for public sector employees, down from the record 7.8 percent increase in the year to the June 2006 quarter. For the private sector, annual leave and statutory holiday costs rose 10.6 percent, the largest increase recorded for the private sector since the series began in the December 1992 quarter. One reason for the private sector increase being greater than the public sector increase was that fewer employees in the private sector were previously entitled to four weeks or more annual leave than in the public sector.

## Annual Leave and Statutory Holiday Costs

*Percentage change from  
June quarter of previous year*



## Superannuation

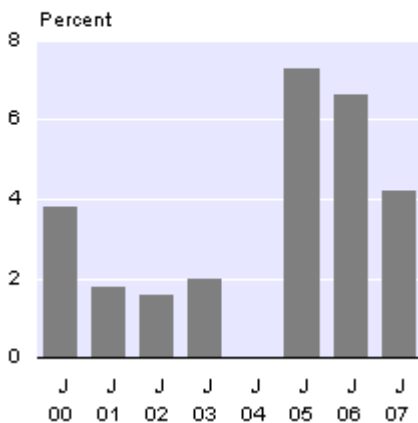
In the year to the June 2007 quarter, employer superannuation costs increased 4.2 percent following a 6.6 percent rise in the year to the June 2006 quarter. The latest increase was influenced by a 3.1 percent increase in salary and ordinary wage rates.

Employer superannuation costs in the private sector increased 5.2 percent in the year to the June 2007 quarter. This is the largest annual increase recorded in the index since the series began in the December 1992 quarter and follows a rise of 1.7 percent in the year to the June 2006 quarter.

For the public sector, superannuation costs rose 3.2 percent in the year to the June 2007 quarter following rises of 12.3 percent and 15.2 percent in the years to the June 2006 and June 2005 quarters, respectively.

### Superannuation

*Percentage change from  
June quarter of previous year*



## Workplace accident insurance costs

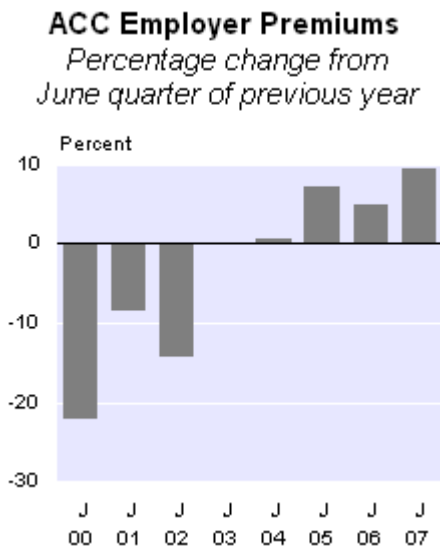
Employers' workplace accident insurance costs increased 9.3 percent from the June 2006 quarter to the June 2007 quarter. This follows a rise of 4.8 percent in the year to the June 2006 quarter.

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 2007 quarter index, residual claims levy rates (applicable to earnings for the year to March 2007 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 2007 and collected during the period), which were discounted to reflect actual eligibility for safety management discounts for the period to 31 March 2007.

The 2007 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 2007 quarter were higher than in the June 2006 quarter for all of the 27 industry groups.

Workplace accident insurance costs rose 11.2 percent for the public sector and 8.7 percent for the private sector in the year to the June 2007 quarter. This follows increases of 10.3 percent for the public sector and 3.0 percent for the private sector in the year to the June 2006 quarter.



## Other non-wage labour costs

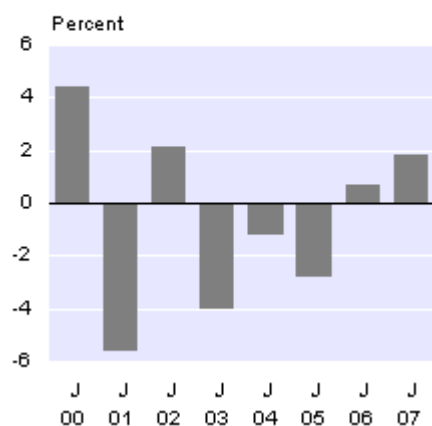
Other non-wage labour costs rose 1.8 percent in the year to the June 2007 quarter. This is the largest annual increase from a 2.1 percent rise recorded in the year to the June 2002 quarter. The other non-wage labour costs component of the LCI includes medical insurance, motor vehicles available for private use and employment-related low interest loans.

From the June 2006 quarter to the June 2007 quarter, the cost of providing motor vehicles for private use and medical insurance rose, 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 remained at 9.55 percent, the same as in the June 2006 quarter.

Fringe benefit tax (FBT) rates derived from FBT data for the year to March 2007 were used to calculate the June 2007 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.

### 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 1.3 percent (for accommodation, cafes and restaurants) to 5.8 percent (for health and community services). The increase for health and community services was driven by increases in salary and wage rates (including overtime), annual leave and statutory holidays, workplace accident insurance and other non-wage labour costs. The increase was partly offset by a decrease in superannuation.

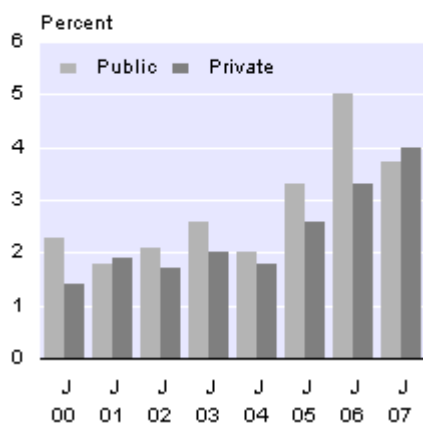
Finance and insurance labour costs increased 5.5 percent in the year to the June 2007 quarter. This was driven by increases in salary and wage rates (including overtime), annual leave and statutory holidays, workplace accident insurance and superannuation and was partly offset by decreases in other non-wage labour costs.

Labour costs in the private sector rose 4.0 percent in the year to the June 2007 quarter, the largest annual increase since the series began in the December 1992 quarter. This follows rises of 3.3 percent and 2.6 percent in the years to the June 2006 and June 2005 quarters, respectively.

In the year to the June 2007 quarter, labour costs in the public sector increased 3.7 percent, following a 5.0 percent rise in the year to the June 2006 quarter. Within the public sector, central government sector labour costs rose 3.6 percent, and local government costs rose 3.7 percent.

## All Labour Costs by Sector

*Percentage change from  
June quarter of previous year*



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## Technical notes

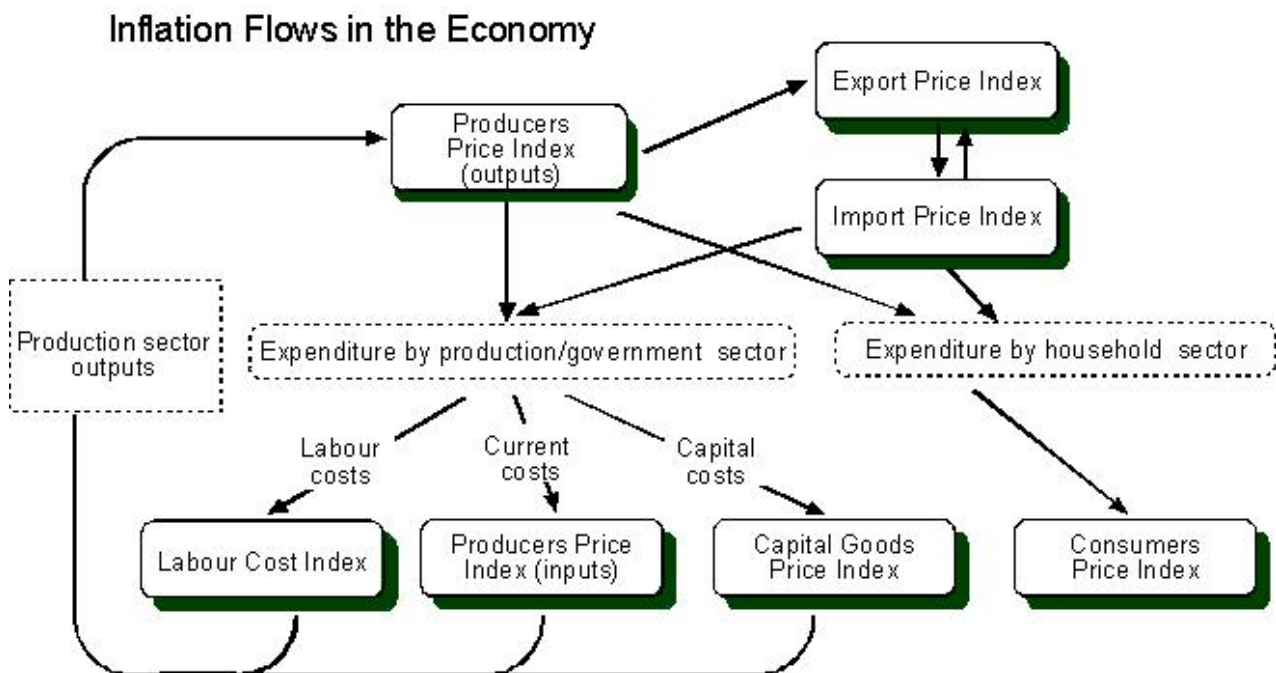
### What the index measures

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).

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 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 2007, 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 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 2007, 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:

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

## More information

For more information, follow the [link](#) from the technical notes of this release on the Statistics New Zealand website.

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### Next release ...

*Labour Cost Index (Salary and Wage Rates): September 2007 quarter will be released on 5 November 2007.*

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## Tables

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

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- 3 Public sector, all labour costs by industry
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- 4.2 Private sector, all labour costs by industry, percentage change from same quarter of previous year
- 5.1 All sectors combined, all labour costs by industry
- 5.2 All sectors combined, all labour costs by industry, percentage change from same quarter of previous year
- 6 Labour cost index, base expenditure weights by sector and cost