Hot Off The Press

Latest statistics from Statistics New Zealand

Embargoed until 3:00pm – 5 November 2008

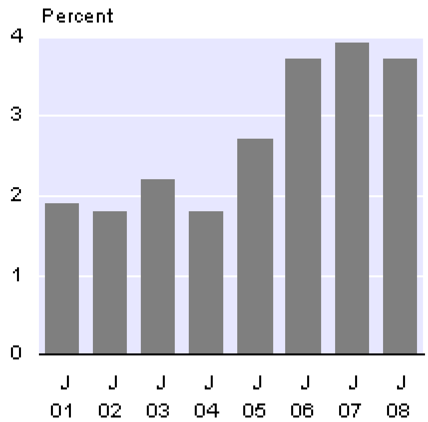
Labour Cost Index (All Labour Costs): June 2008 quarter

Highlights

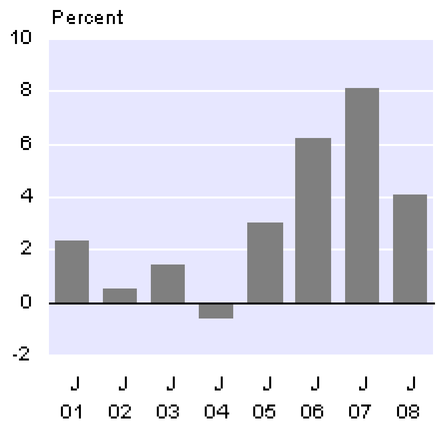
From the June 2007 quarter to the June 2008 quarter:

- All labour costs rose 3.7 percent.
- Salary and wage rates rose 3.5 percent.
- Non-wage labour costs rose 4.1 percent.
- Annual leave and statutory holiday costs rose 4.7 percent.
- Workplace accident insurance costs rose 4.7 percent.
- Superannuation costs rose 2.7 percent.
- Other non-wage labour costs (vehicles, medical insurance and low interest loans) rose 0.3 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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5 November 2008
ISSN 1178-0517

See also *Labour Cost Index (All Labour Costs): June 2008 quarter* – Media release.

Commentary

Labour costs increased 3.7 percent in the year to the June 2008 quarter, following a 3.9 percent rise in the year to the June 2007 quarter. The salary and wage rates (including overtime) component of the Labour Cost Index (LCI) rose 3.5 percent, while the non-wage labour costs rose 4.1 percent.

Non-wage labour costs rose 4.1 percent between the June 2007 and the June 2008 quarter. This is down from the record increase of 8.1 percent in the year to the June 2007 quarter. The latest annual rise in non-wage labour costs was due to rises in the costs 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).

From the June 2007 quarter to the June 2008 quarter, the cost of annual leave and statutory holidays to employers increased 4.7 percent, following the record increase of 9.3 percent in the year to the June 2007 quarter. The remaining direct effect of the 1 April 2007 increase in minimum leave entitlements (from three weeks per year to four weeks per year) is included in the latest rise.

In the year to the June 2008 quarter, employer superannuation costs increased 2.7 percent, following a 4.2 percent rise in the year to the June 2007 quarter. The latest increase was influenced by a 3.5 percent rise in salary and ordinary time wage rates and by the introduction of employer contributions to KiwiSaver schemes, after tax credits of up to $20 a week per employee were taken into account. While there was an increase in the number of employers contributing to superannuation, the tax credit partly offset the additional cost. In the four months from April 2008 to July 2008, employers reclaimed, on average, about 70 percent of their contributions to KiwiSaver schemes. In some industries, the proportion of contributions reclaimed averaged about 90 percent, and in other industries, only about half was covered by tax credits. There were also some instances where employers previously contributing to other superannuation schemes have transferred their contributions to KiwiSaver, so are now able to offset some of their superannuation costs through the tax credit. The methods that were developed to introduce KiwiSaver into the LCI will be reviewed and may be refined for next year's release.

Employers' workplace accident insurance costs increased 4.7 percent in the year to the June 2008 quarter. This follows an increase of 9.3 percent in the year to the June 2007 quarter. A 3.5 percent rise in pay rates and, to a lesser extent, changes in Accident Compensation Corporation (ACC) levy rates have combined to cause the latest increase.

Other non-wage labour costs rose 0.3 percent in the year to the June 2008 quarter, following a 1.8 percent increase in the year to the June 2007 quarter. From the June 2007 quarter to the June 2008 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 increased to 10.57 percent, up from 9.55 percent in the June 2007 quarter.

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Next release ...

Labour Cost Index (Salary and Wage Rates): December 2008 quarter will be released on 2 February 2009.

Technical notes

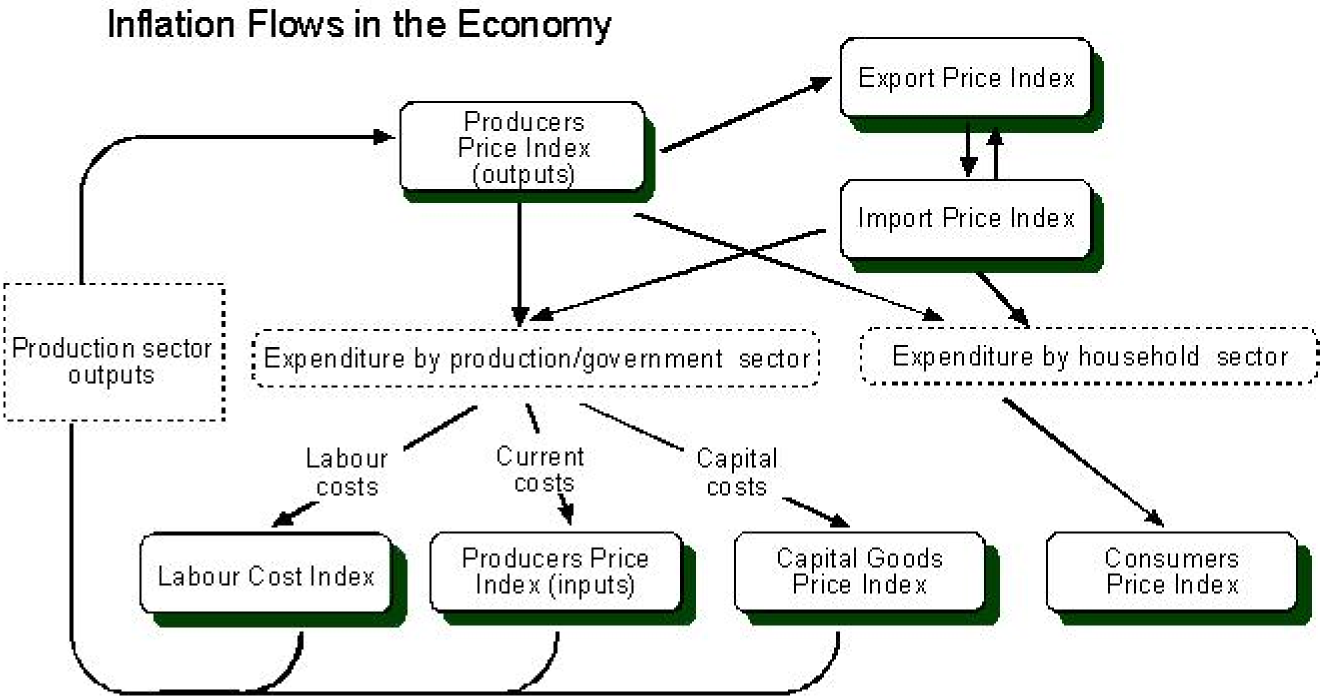
What the index measures

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

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

The LCI sits alongside the Producers Price Inputs Index (which measures changes in businesses' current costs of production, excluding labour and capital costs, as defined by the New Zealand System of National Accounts' concept of intermediate consumption) and the Capital Goods Price Index (which measures changes in businesses' capital costs). This is shown diagrammatically in figure 1 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 2008, 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 2008, 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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Timing

Timed statistical releases are delivered using postal and electronic services provided by third parties. Delivery of these releases may be delayed by circumstances outside the control of Statistics NZ. Statistics NZ accepts no responsibility for any such delays.

Tables

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

1. Labour costs by sector, all industries/occupations combined
2. Non-wage labour costs by sector, all industries/occupations combined
3. All labour costs for public sector, by industry

4.1 All labour costs for private sector, by industry
4.2 All labour costs for private sector, by industry, percentage change from same quarter of previous year
5.1 All labour costs for all sectors combined, by industry
5.2 All labour costs for all sectors combined, by industry, percentage change from same quarter of previous year

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