



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
HĪKINA WHAKATUTUKI

**WORKPLACE  
RELATIONS  
AND SAFETY  
POLICY**



# Minimum Wage Review 2022

**10 November 2022**

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## Executive Summary

1. This report supports the statutory obligation under the Minimum Wage Act 1983 (the Act) for the Minister for Workplace Relations and Safety to review the minimum wage rates by 31 December each year.
2. The Government's most recently agreed objective for the minimum wage review is '*to keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses*' (CAB Min (12) 41/5B refers).
3. The minimum wage can be an effective tool for setting a wage floor to reduce exploitation and set minimum return for labour. It is arguably less effective as a tool on its own for income support and poverty alleviation, income inequality reduction, and as a means to promote productivity growth.

### **This report recommends an increase to the minimum wage by 6 percent to \$22.50, to be implemented on 1 April 2023**

4. MBIE's recommended rate aligns with the most recent Consumer Price Index (CPI) forecasts for the year ending March 2023, which are around 6 percent<sup>1</sup>. This period covers the year since the last minimum wage increase on 1 April 2022. An increase of 6 percent in the minimum wage would retain its purchasing power over the full year period since the current minimum wage rate came into force. This achieves the objective of the minimum wage review to protect low-paid workers' real incomes. The CPI-based increase has been considered in balance with the economic uncertainties facing households and businesses, pressures on employers, and the risk of job losses for workers.
5. The most recent minimum wage rate increase was a 6.0 percent rise from \$20.00 to \$21.20, in 2022, compensated for 5.9 percent CPI inflation in the year ended December 2021.
6. Increasing the minimum wage by 6.0 percent to \$22.50 is in line with the forecast rates of CPI inflation, which is expected to have peaked at 7.3 percent over the year ended June 2022 and is forecast to moderate to around a 6 percent increase over the year to March 2023<sup>2</sup>.
7. This report recommends increasing the starting-out and training wages to \$18.00 (80 percent of the proposed adult minimum wage). A differential between the adult

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<sup>1</sup> This has been calculated using most recent Statistics NZ CPI indicators and the RBNZ's economic forecasts over the remaining quarters to the year ending March 2023, corroborated against forecasts by banks and NZIER Consensus Forecasts.

<sup>2</sup> Westpac and BNZ forecasts published since the most recent 18 October Statistics NZ CPI announcement are predicting 5.7 percent inflation over the year to March 2023. See the Westpac Economic Summary as at 21 October 2022, and the BNZ Market Outlook 25 October 2022 [https://www.bnz.co.nz/assets/markets/research/BNZMO\\_202210251.pdf?116cfccbc7c86aacfc88f0cf99a643ad233d96c0](https://www.bnz.co.nz/assets/markets/research/BNZMO_202210251.pdf?116cfccbc7c86aacfc88f0cf99a643ad233d96c0)

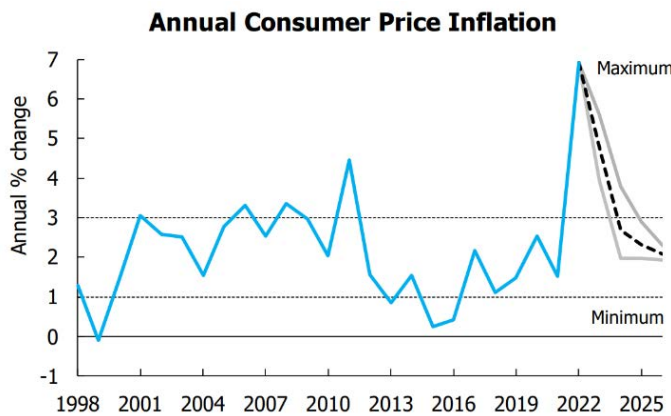
minimum wage and the training and starting-out rates may support the transition of youth into employment, and could help advance the policy objective of incentivising employers to take on and support trainees.

### The economic and labour market context

8. In developing this advice, MBIE considered the context of the national labour market and global economic climate. This year’s review takes place in an uncertain global economic climate, marked by rising inflationary pressures. The Covid-19 pandemic has receded as a dominant influence on the economy, although supply chain issues have continued in a context of international geopolitical turbulence. Inflation has risen sharply around the world, reaching multi-decade highs in many economies including New Zealand, with similar patterns across inflation subcomponents like food, transport, and housing, as well as regional factors such as local economic conditions and the effect of war in Ukraine (RBNZ<sup>3</sup>).

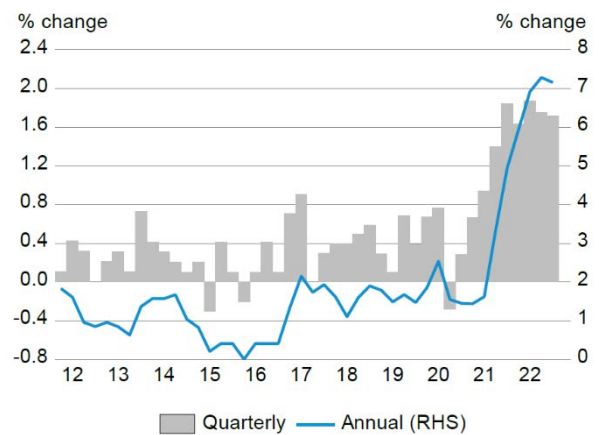
#### Consumer price inflation has risen...

9. As shown in the graphs below, commercial banks, economists and the RBNZ suggest that inflationary pressure (on wages and prices) will subside in 2023, and continue to ease slowly in response to interest rate rises and reductions in supply chain pressures<sup>4</sup>.



Source: NZIER Consensus Forecasts Sept 2022

Figure 1: Consumers Price Index



Source: Treasury Economic Brief, October 2022

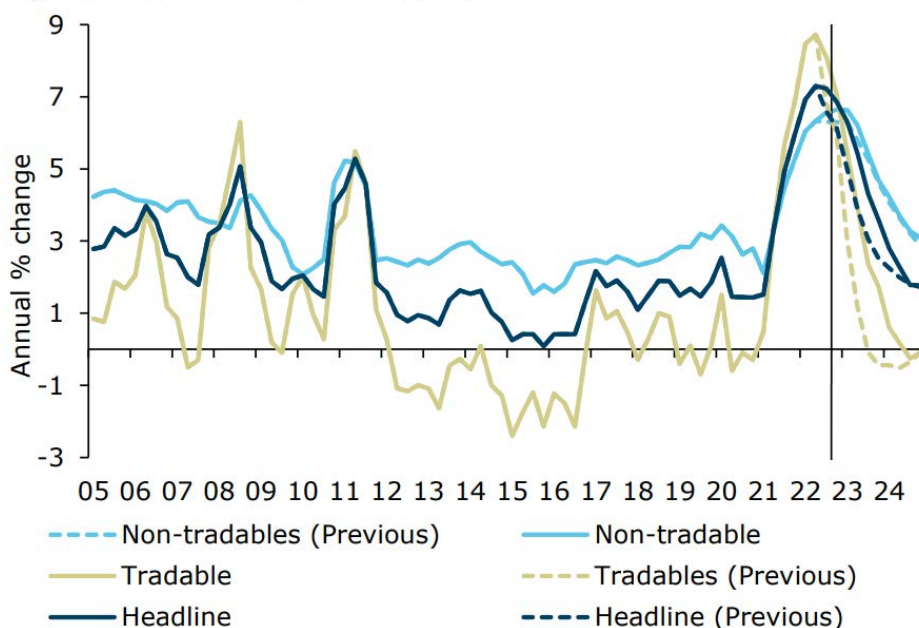
<sup>3</sup> Reserve Bank of New Zealand Te Putea Matua. *08/2022 Monetary Policy Statement*. August 2022. <https://www.rbnz.govt.nz/-/media/2e7d3800e1b5463bb1f4dcaace23c3d7.ashx>

<sup>4</sup> NZIER consensus forecast, 12 September 2022.

<https://www.nzier.org.nz/hubfs/Public%20Publications/Consensus%20Forecasts/Consensus%20Forecasts%20Sep%202022.pdf>



Figure 2. CPI inflation forecast



Source: Stats NZ, ANZ Research

Source: ANZ weekly data wrap, 21 October 2022<sup>5</sup>

10. Annual CPI inflation rose to 7.3 percent in the year ended in the June 2022 quarter<sup>6</sup>, and has remained unexpectedly high with a 7.2 percent annual increase in the year to September 2022, driven by housing construction and food costs. The consensus forecasts above had previously considered June’s inflation figure to be a peak, but latest indicators suggest that inflation may persist at higher levels and decline more gradually than expected. The Treasury’s most recent analysis observed that annual inflation surpassed market expectations to remain elevated at 7.2 percent in the September 2022 quarter as increases in construction and food prices continue to dominate, but it is still expected that inflation will decline into 2023<sup>7</sup>.
11. MBIE considers the most relevant comparator when setting the minimum wage in line with CPI inflation is the year between the current and new minimum wage rates being introduced – the year to March 2023, when CPI is expected to moderate to around a 6 percent annual increase<sup>8</sup>. This will avoid embedding the peak inflation rate seen in

<sup>5</sup> ANZ. ANZ Weekly data wrap. 21 October 2022: [Updating our inflation outlook \(PDF 644KB\)](https://www.anz.co.nz/about-us/economic-markets-research/data-wrap/). October 2022. <https://www.anz.co.nz/about-us/economic-markets-research/data-wrap/>

<sup>6</sup> Parliamentary Service. *Monthly Economic Review: October 2022*. <https://www.parliament.nz/en/pb/library-research-papers/monthly-economic-review/monthly-economic-review-october-2022>

<sup>7</sup> The Treasury. *Consumers Price Index Review – September 2022 quarter*. Economic Brief: 18 October 2022.

<sup>8</sup> Following the September 2022 inflation figures, BNZ and Westpac have released updated forecasts of 5.7 percent CPI increase in the year to March 2023, while ANZ has forecast 6.3 percent.

**IN CONFIDENCE**

June and September 2022, given that inflation is still expected to ease over the next six months. MBIE’s recommended 2023 6 percent rate increase accounts for recent indicators and forecast inflation in 2022 and 2023.

12. **Table 1: Actual and forecast CPI changes**

| Quarter        | Quarterly CPI change |                       | Year to Dec 2021                    | Year to June 2022     | Year to Sep 2022      | Year to Dec 2022   | Year to March 2023  |
|----------------|----------------------|-----------------------|-------------------------------------|-----------------------|-----------------------|--------------------|---------------------|
|                | Actual               | Forecast <sup>9</sup> |                                     |                       |                       |                    |                     |
| September 2021 | 2.2%                 |                       | Dec 21<br>FY:<br>5.9% <sup>10</sup> | Jun 22<br>FY:<br>7.3% | Sep 22<br>FY:<br>7.2% | Dec 22<br>FY: 6.5% | Mar 23<br>FY: ~6.0% |
| December 2021  | 1.4%                 |                       |                                     |                       |                       |                    |                     |
| March 2022     | 1.8%                 |                       |                                     |                       |                       |                    |                     |
| June 2022      | 1.7%                 |                       |                                     |                       |                       |                    |                     |
| September 2022 | 2.2%                 |                       |                                     |                       |                       |                    |                     |
| December 2022  | 0.8%                 |                       |                                     |                       |                       |                    |                     |
| March 2023     | 1.3%                 |                       |                                     |                       |                       |                    |                     |

13. MBIE’s 2021 minimum wage rate recommendation in November 2021 and the minimum wage rate chosen in February 2022 reflected recent actual movements in inflation. However, these relied on statistics available late in the year and were not conducive to a timely announcement on the minimum wage that afforded certainty for employers and workers ahead of a rate increase (which was raised as an issue in several employer submissions this year). MBIE’s 2022 recommendation is for a forecast-based figure which enables a more timely announcement, and best reflects

Sources: BNZ Markets Outlook: Market Gallops Past RBNZ’s OCR Peak (25 October 2022) [https://www.bnz.co.nz/assets/markets/research/BNZMO\\_202210251.pdf?116cfccb7c86aacfc88f0cf99a643ad233d96c0](https://www.bnz.co.nz/assets/markets/research/BNZMO_202210251.pdf?116cfccb7c86aacfc88f0cf99a643ad233d96c0)

Westpac Weekly economic commentary: OCR Now Expected to Peak at 5%. 25 October 2022. [https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2022/Weekly/Weekly-Commentary\\_Economic\\_report\\_25Oct22.pdf](https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2022/Weekly/Weekly-Commentary_Economic_report_25Oct22.pdf)

ANZ Weekly data wrap. 21 October 2022: Updating our inflation outlook. 21 October 2022. <https://www.anz.co.nz/about-us/economic-markets-research/data-wrap/>

<sup>9</sup> Reserve Bank of New Zealand Te Pūtea Matua. 08/2022 Monetary Policy Statement. August 2022. <https://www.rbnz.govt.nz/-/media/2e7d3800e1b5463bb1f4dcaace23c3d7.ashx>

Also see Westpac Economics Forecast Summary Spreadsheet, as at 13 October 2022, <https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/Forecasts/Westpac-NZ-Economic-Forecasts.xlsx>

<sup>10</sup> Used to set 2022 minimum wage rate – 6% increase from 2021 rate of \$20.00

expected inflationary movements over the period most relevant to the time a new rate would be enacted.

14. Inflation is having a strong effect on household consumption. In March 2022, the ANZ-Roy Morgan Consumer Confidence index fell to the lowest level in its 18-year history since data began in 2004. Respondents were wary of buying major household items, pessimistic about the economic outlook, and expecting high inflation in the year ahead. This drop in confidence reflected the impact of high inflation raising all households' living costs, while also reflecting the rise in interest rates to combat inflation. Higher interest rates reduce indebted households' disposable income and put downward pressure on house prices, impacting homeowners' equity. Meanwhile, in the high inflationary environment, renters are also affected by increases in living costs. All households have been impacted by core inflation – annual food price inflation hit 8.3 percent in both August and September 2022, the highest since 2009. Consumer Confidence surveys to September 2022 have remained pessimistic, reflecting expectations that interest rates and inflation will continue to rise in the near term<sup>11</sup>. These factors point to a subdued near-term outlook for real private consumption, slowing GDP growth.
15. The Treasury has forecast in its 2022 Budget, Economic and Fiscal Update (BEFU) that, from 2023, as inflation falls back towards the Reserve Bank's target at the same time as nominal wage growth rises, a recovery in real wages will restore the purchasing power of households. This is forecast to drive a pick-up in private consumption and GDP growth from 2024. However The Treasury cautions that *“if inflation pressures prove more persistent and monetary policy is tightened more aggressively in response, the slowdown in household spending and subsequent rise in unemployment would likely be more severe. This is a key risk to the economic outlook both in New Zealand and abroad”*.

**...and wage growth has followed in a tight labour market, but not met CPI increases**

16. Wages in New Zealand are growing as the labour market remains tight, with a near-historic low unemployment rate of 3.3 percent (96,000 people), an employment rate of 68.5 percent, and labour force participation rate of 70.8 percent. Inward migration is increasing slowly as pandemic response restrictions were lifted gradually, but net migration has not yet returned to 2019 levels, contributing to constraints on availability of labour.
17. All indicators of wage growth are at or near long-term highs. The annual New Zealand Income Survey reported that median hourly earnings for wage and salary earners rose by 6.8 percent to \$29.66 in the year to June 2022. This is the largest annual increase since the series began in 1998. New Zealand's current minimum wage rate is now

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<sup>11</sup> ANZ Roy Morgan. *Consumer Confidence: September 2022: Steady as she goes.*  
<https://www.anz.co.nz/content/dam/anzconz/documents/economics-and-market-research/2022/ANZ-ConsumerConfidence-20220930.pdf>

71.48 percent of the median wage and 57.3 percent of the average wage. This ratio is relatively high in comparison to most other OECD countries – for instance the UK has set a target rate of 66 percent of the median wage for its minimum wage<sup>12</sup>. An EU directive recently approved by the EU parliament sets a threshold for “adequate” minimum wage at 60 percent of the gross median wage and 50 percent of the gross average wage<sup>13</sup>.

18. Similar strength was seen in the Quarterly Employment Survey (QES) and Labour Cost Index (LCI), which reported the strongest wage increases since 2008. Adjusted LCI rose 3.4 percent and QES average hourly earnings were up 6.4 percent over the year to June 2022 to \$36.97. The current minimum wage rate of \$21.20 is 57.34 percent of average hourly earnings.
19. Overall employment indicators are strong, with private sector wages (average ordinary hours) increasing by 7.0 percent in the year to June 2022, almost meeting the CPI increase of 7.3 percent<sup>14</sup> (See *Figure 4: wage growth* in the ANZ tables from **Figure 1** below).

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<sup>12</sup> Low Pay Commission. <https://www.gov.uk/government/consultations/low-pay-commission-consultation-2022>

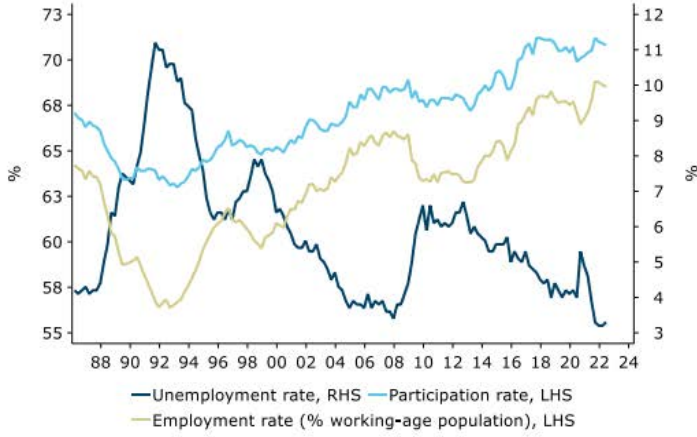
<sup>13</sup> European Parliament. *Parliament adopts new rules on adequate minimum wages for all workers in the EU*. 14 September 2022. <https://www.europarl.europa.eu/news/en/press-room/20220909IPR40138/parliament-adopts-new-rules-on-adequate-minimum-wages-for-all-workers-in-the-eu>

<sup>14</sup> ANZ. ANZ Labour Market Review August 2022.

<https://www.anz.co.nz/content/dam/anzconz/documents/economics-and-market-research/2022/ANZ-Labour-Market-Review-2022Q2.pdf>

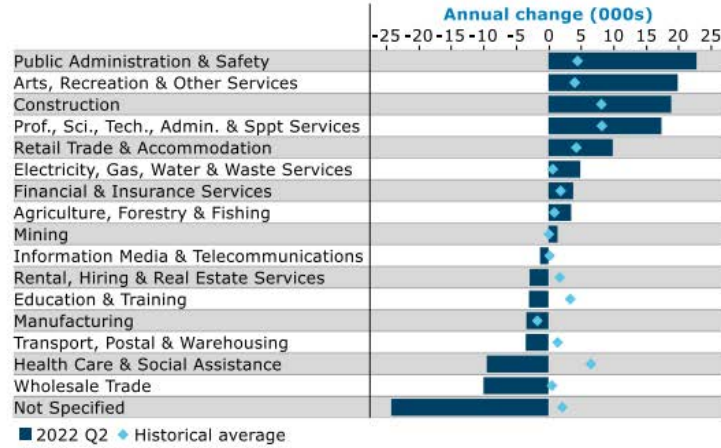
Figure 1: employment indicator charts from ANZ Labour Market Review August 2022

Figure 1. Unemployment, employment, and participation rates



Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Employment by industry



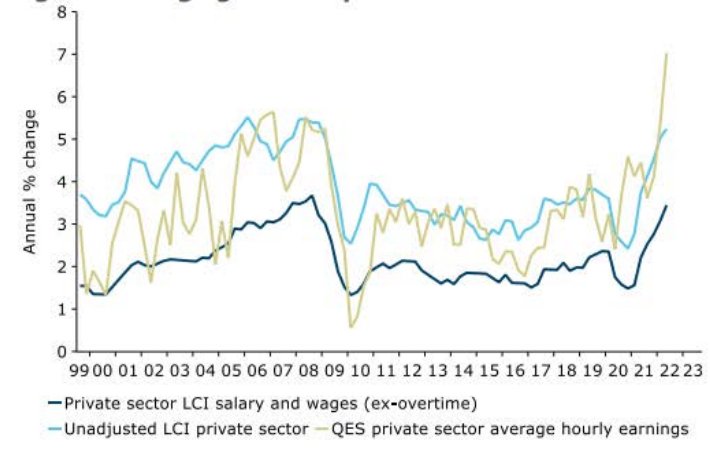
Source: Stats NZ, Macrobond, ANZ Research

Figure 3. Employment and filled jobs



Source: Stats NZ, Bloomberg, Macrobond, ANZ Research

Figure 4. Wage growth – private sector



Source: Stats NZ, Macrobond, ANZ Research

20. Wage growth is predicted to continue, and the recent ANZ Labour Market Review covering Q2 2022 cautions about the risk of a wage-price spiral if wages and inflation continue to rise rapidly<sup>15</sup>. To minimise this effect, MBIE recommends a minimum wage rate option that does not outpace general wage growth.
21. The CPI is often compared with the LCI to see how consumer inflation (that is, the change in prices of goods and services bought by households) compares with wage inflation (as a cost to employers). In the year to June 2022, CPI inflation was 7.3 percent while the LCI increased 3.4 percent, showing that wage growth has not met changes in living costs.

<sup>15</sup> ANZ. ANZ Labour Market Review August 2022. <https://www.anz.co.nz/content/dam/anzconz/documents/economics-and-market-research/2022/ANZ-Labour-Market-Review-2022Q2.pdf>

22. However, since 2017, minimum wage increases have overall exceeded CPI, increasing the real value of the minimum wage. CPI has seen a 16.1 percent increase from March 2017-June 2022, while the minimum wage rose 34.6 percent in this period, from \$15.75 in 2017 to \$21.20 in 2022. While MBIE recommends an increase to retain the real value of the current minimum wage against CPI in this report, we note that the real value of the minimum wage level has risen in recent years relative to overall CPI.

**The risk of disemployment effects from the recommended rate rise is low**

23. Employers, when faced with raised costs, can recoup these by raising prices (which can contribute to CPI increases), invest to become more productive, and/or cut costs (often by reducing labour hours). The motivation to reduce labour costs can result in restraints on employment, although other movements in the economy and labour market can influence the extent to which disemployment effects are realised. Business submissions this year report not seeing productivity increases to support additional wage bill, especially given the pronounced 34.6 percent minimum wage increase in the last 5 years.
24. MBIE considers it likely that the disemployment effects of previous years' minimum wage increases may have been masked by overall employment growth in a strong economy and highly constrained labour market, with unemployment rates of 3.2-3.3 percent through 2022 the lowest seen since 1986. Considering the forecasts for ongoing economic uncertainty, weaker employment growth and a likely rise in unemployment, MBIE recommends a cautious approach to a rate increase this year, while still responding to inflationary pressure on the real value of wages.
25. Domestic and international literature identifies that significant restraint on employment is only likely to occur when percentage increases in the minimum wage rate are larger than increases in the average wage. This logic suggests that increases to the minimum wage beyond option 3 (a 5 percent increase to \$22.26) would have some restraint effects on employment that may not be absorbed by job growth in the labour market. This could possibly result in additional unemployment and workforce underutilisation.
26. The recommended rate, a 6 percent increase to \$22.50, is estimated by MBIE to result in an employment restraint on less than 1,000 workers<sup>16</sup>. Option 3, the 5 percent increase to \$22.26, shows no additional employment restraint, largely as a result of forecast wage growth into 2023. The employment restraint figures modelled for Options 1-3 are all at or below anticipated wage growth, so are expected to result in no change to employment. Minimum wage rate increases from Options 4-6 show modelled restraints on employment of between 5,100 and 28,900 fewer individuals in employment than if the minimum wage was not increased in excess of wage growth. Prior years' minimum wage recommendations have tended to result in some degree of

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<sup>16</sup> Per statistics protocols, numbers lower than 1,000 are suppressed.



expected restraint on employment (ie the recommended rate of \$21.00 in 2012 was modelled to result in employment restraint for 3,900 individuals).

27. MBIE notes that the risk of restraint effects on employment may be greater than previous years, as it is likely that in 2023 disemployment effects may not be masked by employment growth. Recent and forecast stagnancy in employment growth<sup>17</sup> suggests that overall growth in employment is unlikely to absorb workers who may potentially lose work. The Treasury's 2022 BEFU has forecast net employment growth in 2022/2023 to be approximately 1.0 per cent, which is equivalent to 28,000 jobs.

### Current coverage of the minimum wage

28. An estimated 59,500 workers aged 16 to 64 were paid the minimum wage in the June quarter 2022 after it came into effect on 1 April 2022. This is approximately 2.9 percent of all wage earners in paid employment.
29. This is lower than the proportion of the total working population earning the minimum in 2021, which was 7.8 percent of workers (160,600). However, 2021 had seen a substantial increase of minimum wage workers from previous years, with rates of people paid the minimum wage at 3.0 percent in 2020 (57,700) (which was impacted by COVID-19), 4.2 percent in 2019 (85,400), and 3.5 percent in 2018 (71,500).
30. The minimum wage has also moved closer to the median wage since 2017, capturing a higher proportion of workers on the wage distribution – especially with the rate increase to \$20.00 per hour in 2021. However, recent wage growth has led to the proportion of workers paid at the minimum wage to reduce nearer to the more typical range of 3-4 percent.

### Minimum wage rate options considered in this report

31. To fulfil the objective of the minimum wage review, MBIE developed a range of options for minimum wage rate increases for 2023, and assessed the impacts of each option. Between the status quo (no increase) and Living Wage (\$23.65, 11.6 percent increase), MBIE has modelled increases of 3, 5, 7, and 9 percent to see effects across a spread of increments that could be tagged to current metrics relevant to wage movement and wider economic forces such as consumer price inflation.
32. The minimum wage rate options developed for this review are as follows:
- Option 1: \$21.20 per hour (the current 2022-23 adult minimum wage)
  - Option 2: \$21.84 per hour (a 3 percent increase)
  - Option 3: \$22.26 per hour (a 5 percent increase)
  - **Option 4: \$22.50 per hour (a 6 percent increase) (MBIE recommendation)**
  - Option 5: \$22.68 per hour (a 7 percent increase)

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<sup>17</sup> Westpac NZ. 8 August 2022: *Weekly Economic Commentary Westpac NZ*. August 2022. <https://library.westpaciq.com.au/content/dam/public/westpaciq/secure/economics/documents/nz/2022/08/8.8.22%20Weekly%20Economic%20Commentary%20Westpac%20NZ.pdf>

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- Option 6: \$23.10 per hour (a 9 percent increase)
  - Option 7: \$23.65 per hour (an 11.6 percent increase, current 2022-23 Living Wage)
33. The minimum wage options have been considered against recent and forecast:
- Labour Cost Index (LCI) changes (wage inflation)
  - Quarterly Employment Survey (QES) changes (general wage growth)
  - Consumers Price Index (CPI) changes (price inflation)
  - The ratio and average of latest CPI & LCI changes
  - QES wage forecast in June quarter 2023 by the Treasury (expected wage growth)
  - CPI growth forecast in June quarter 2023 by the Treasury (expected inflation)
  - Household living-costs price indices (HLPI) – for the lowest & highest quintiles
  - Current minimum wage and the Living Wage as the lower and upper limits
34. This report analyses the impacts of the six options on wages and inflation, employment, minimum wage workers, industries, the state sector and the interface with other government interventions. Some specific impacts of these rate options are summarised in Table 3.
35. The minimum wage options listed and summarised in Tables 2 and 3 below are mostly based on recognised economic or wage-related indicators or measures. We recommend this approach as it enables the final decisions on any increase to be evidence-based, and set against a marker that businesses and the wider public can readily understand.
36. We have not considered options greater than \$23.65 per hour because this would increase the minimum wage to a level beyond Living Wage Aotearoa’s living wage rate. The living wage rate is considered an appropriate upper limit by MBIE due to the significant costs and risks to employment associated with this rate were it immediately made the mandatory minimum wage. However, the aspiration of the voluntary Living Wage to support the costs of a specified family grouping is relevant to discussions on minimum standards for workers.
37. We have also not considered options less than the status quo, as this would not meet the objective of the minimum wage policy.

### **Limitations on the analysis**

38. MBIE’s minimum wage model uses economic and employment data by earnings to estimate the employment effects of different increases to the minimum wage, as well as the incidence of the different minimum wage options.
39. When the minimum wage increases, labour costs for businesses increase either directly as they employ minimum wage workers, or indirectly because of flow-on effects to the wages of workers paid close to the minimum wage. Material and service supply costs can also increase as higher labour costs further up the supply chain are passed on.



40. Employers may respond by absorbing the rises by accepting lower profits or by increasing the price of goods produced or services provided. Employers may also respond by reducing their highest input costs, which are usually labour. Negative labour or dis-employment effects resulting from this include job losses, lower job growth, unfilled vacancies and reduced hours of work.
41. The extent of these effects will depend on the size of the minimum wage rate increase, the economic and labour market context, and how firms respond. Only the first of these factors, however, can be fully understood in advance. For this reason, the estimates below should be treated as indicative, and based on a ‘point in time’ set of assumptions that may not necessarily come to pass.

**Tables of the rate options and modelled impacts**

42. The options considered below result in the current minimum wage (\$21.20) rising by between zero and 11.6 percent. Given the spread of indexes considered, rate increase options between the upper (Living Wage) and lower (status quo) limits were considered at regular 2 percent intervals between 3-9 percent. These are sufficiently dissimilar from each other to provide meaningful results in MBIE’s modelling of minimum wage rate impacts.

**Table 2: Minimum wage options included in the 2022 review (MBIE’s recommended rate is highlighted and bold)**

| Option # | Percent increase from existing MW | Minimum wage rate (per hour) | Economic indicators in this percent increase range   |
|----------|-----------------------------------|------------------------------|--|
| 1.       | 0%                                | \$21.20                      | <ul style="list-style-type: none"> <li>• Current minimum wage rate – status quo.</li> </ul>  |
| 2.       | 3.0%                              | \$21.84                      | <ul style="list-style-type: none"> <li>• Latest CPI/LCI ratio, from June quarter 2022 CPI 7.3% and LCI 3.4%: 2.15%</li> <li>• LCI changes in June 2022 quarter, which shows annual wage inflation: 3.4%</li> <li>• CPI forecast – to June 2024 quarter from Treasury 2022 BEFU, which is the forecast inflation growth the year following the implementation of the new rate: 3.6% (This indicates a predicted slowdown in inflation 2023-2024)</li> </ul> |
| 3.       | 5.0%                              | \$22.26                      | <ul style="list-style-type: none"> <li>• QES – Hourly wages annual % change 2022 BEFU forecast, which is the overall wage increase forecast (full year 2022): 4.6%</li> <li>• Forecast CPI inflation in year ending June 2023 (Treasury BEFU forecast): 5.2%</li> </ul>  |

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|    |       |         |   |
|----|-------|---------|---|
|    |       |         | <ul style="list-style-type: none"> <li>Average of June Quarter 2022 CPI and LCI increases: 5.35%</li> </ul>   |
| 4. | 6.0%  | \$22.50 | <ul style="list-style-type: none"> <li>Forecast CPI inflation for year ending March 2023 (based on actual September 2022 quarterly CPI, and RBNZ quarterly forecasts): 6.0%</li> <li>QES forecast wage growth June quarter 2023 from 2022 BEFU. Wage growth forecast in year of implementation, applied to current MW: 6.0%</li> <li>Latest QES wage increase – June 2022 quarter which is the latest overall wage increase from March 2022 to June 2022: 6.4%</li> <li>Household living-costs price indexes (HLPI) - lowest income quintile (June 2021 to June 2022)<sup>18</sup>. This is the living costs inflation experienced by lowest income quintile: 6.5%</li> </ul> |
| 5. | 7.0%  | \$22.68 | <ul style="list-style-type: none"> <li>CPI forecast for full year 2022 – annual inflation growth forecast from Treasury’s 2022 <a href="#">BEFU: 6.7%</a></li> <li>HLPI – average inflation changes in living costs for all households in year June 2021 to June 2022: 7.4%</li> <li>Consumer Price Inflation (CPI) – June 2022 quarter. Latest inflation growth at time of writing: 7.3%</li> </ul>  |
| 6. | 9%    | \$23.10 | <ul style="list-style-type: none"> <li>A percent increase between CPI and Living Wage figures, to analyse for completeness across a spread of rate options. For comparison only: 9%</li> </ul>  |
| 7. | 11.6% | \$23.65 | <ul style="list-style-type: none"> <li>QES forecast growth to June 2023 from 2022 BEFU. Wage growth forecast in year of implementation applied to MW, increased using latest QES change: \$11.1%</li> <li>Latest Living Wage rate, for implementation in September 2022. Increased by 3.95% from \$22.75 rate implemented in September 2021. 11.6% increase on current MW to \$23.65</li> </ul>   |

<sup>18</sup> Note % inflation to March 2022 lower than that for other income groups: Income Quintile 1 (low): 6.3%, Income Quintile 2: 6.4%, Income Quintile 3: 6.8%, Income Quintile 4: 6.9%, Income Quintile 5: 6.8%.

**Table 3: Summary of the impacts of the minimum wage options<sup>19</sup>**

| <b>Minimum wage rate impact measures</b>   | <b>Option 1<br/>0% \$21.20</b> | <b>Option 2<br/>3% \$21.84</b> | <b>Option 3<br/>5% \$22.26</b> | <b>Option 4<br/>6% \$22.50</b>                          | <b>Option 5<br/>7% \$22.68</b> | <b>Option 6<br/>9% \$23.10</b> | <b>Option 7<br/>11.6%<br/>\$23.65</b> |
|--|--------------------------------|--------------------------------|--------------------------------|---|--------------------------------|--------------------------------|---------------------------------------|
| Adult minimum wage (hourly rate)   | \$21.20                        | \$21.84                        | \$22.26                        | <b>\$22.50</b>  | \$22.68                        | \$23.10                        | \$23.65                               |
| Adult minimum wage (gross weekly income – 40 hour week) <sup>20</sup>            | \$848.00                       | \$873.60                       | \$890.40                       | <b>\$900.00</b>   | \$907.20                       | \$924.00                       | \$946.00                              |
| Adult minimum wage (gross annual income – 40 hour week)                          | \$44,096.00                    | \$45,427.20                    | \$46,300.80                    | <b>\$46,800.00</b>                                      | \$47,174.40                    | \$48,048.00                    | \$49,192.00                           |
| Percentage increase from existing minimum wage                                   | N/C                            | 3.0%                           | 5.0%                           | <b>6.0%</b>   | 7.0%                           | 9.0%                           | 11.6%                                 |
| Relativity to median wage <sup>21</sup>  | 71.5%                          | 73.6%                          | 75.1%                          | <b>75.9%</b>  | 76.5%                          | 77.9%                          | 79.7%                                 |
| Relativity to average wage <sup>22</sup>   | 57.3%                          | 59.1%                          | 60.2%                          | <b>60.9%</b>  | 61.3%                          | 62.5%                          | 64.0%                                 |
| Relativity of gross weekly income at MW rate to Job Seeker support <sup>23</sup> | 236.23%                        | 243.36%                        | 248.04%                        | <b>250.72%</b>  | 252.72%                        | 257.40%                        | 263.53%                               |
| Number of people directly impacted (rounded up to nearest 100)                   | NA                             | 114,500                        | 190,400                        | <b>201,000</b>  | 222,900                        | 302,300                        | 335,000                               |
| Estimated restraint on employment <sup>24</sup>                                  | N/C                            | N/C                            | N/C                            | <b>- &lt;1,000<br/>(figures under 1,000 suppressed)</b> | -5,100                         | -15,300                        | -28,900                               |
| Estimated economy-wide increase in wages (\$m, annual)                           | N/C                            | 92                             | 204                            | <b>284</b>  | 352                            | 537                            | 844                                   |
| Estimated inflationary   | N/C                            | 0.03%                          | 0.06%                          | <b>0.08%</b>  | 0.10%                          | 0.16%                          | 0.25%                                 |

<sup>19</sup> To ensure comparability between options, the modelling of all options is for the calendar year from 1 April 2023.

<sup>20</sup> This is calculated on a 40 hour week basis.

<sup>21</sup> The median hourly earnings are \$29.66 per hour (Labour Market Statistics (Income), June 2022).

<sup>22</sup> The average ordinary time hourly earnings are \$36.97 per hour or \$1,478.80 gross per week (Labour Market Statistics, June 2022).

<sup>23</sup> For a single adult, aged 25 or over, receiving \$358.97 (gross) per week, as from 1 April 2022. Source: <https://www.workandincome.govt.nz/products/benefit-rates/benefit-rates-april-2022.html>

<sup>24</sup> The employment effects for '16-64 year olds' are represented. These are estimates from the MBIE-MW employment restraint model updated in 2022

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| <b>Minimum wage rate impact measures</b>  | <b>Option 1<br/>0% \$21.20</b> | <b>Option 2<br/>3% \$21.84</b>   | <b>Option 3<br/>5% \$22.26</b>   | <b>Option 4<br/>6% \$22.50</b>            | <b>Option 5<br/>7% \$22.68</b>   | <b>Option 6<br/>9% \$23.10</b>   | <b>Option 7<br/>11.6%<br/>\$23.65</b> |
|---|--------------------------------|----------------------------------|----------------------------------|---|----------------------------------|----------------------------------|---------------------------------------|
| impact/GDP (percentage points) <sup>25</sup>  |                                |                                  |                                  |   |                                  |                                  |                                       |
| Estimated additional annual costs to the Government (\$ million, annual) <sup>26</sup>  | Nil                            | 8.2m                             | 17.8m                            | <b>Not specified</b>                      | 30.6m                            | 41.8m                            | 60.0m                                 |
| Full time employee receiving no tax credits or other income support - net weekly income and increase from \$21.20   | \$718.45<br>-                  | \$739.57<br>(\$21.12)<br>2.94%   | \$753.43<br>(\$34.98)<br>4.41%   | <b>\$761.35<br/>(\$42.90)<br/>5.97%</b>   | \$767.29<br>(\$48.84)<br>6.80%   | \$781.03<br>(\$62.58)<br>8.71%   | \$796.43<br>(\$77.98)<br>10.85%       |
| <u>Scenario:</u> Auckland based <b>couple</b> , both earning minimum wage, working a combined <b>60 hours</b> per week with two dependent children, receiving Working for Families and Accommodation Supplement - net weekly income and increase from \$21.20         | \$1,474.25                     | \$1,485.40<br>(\$11.15)<br>0.76% | \$1,492.72<br>(\$18.47)<br>1.25% | <b>\$1,496.90<br/>(\$22.65)<br/>1.54%</b> | \$1,500.04<br>(\$25.79)<br>1.75% | \$1,507.24<br>(\$32.99)<br>2.24% | \$1,514.07<br>(\$39.82)<br>2.70%      |
| <u>Scenario:</u> Auckland based <b>sole parent</b> , earning minimum wage, working <b>40 hours</b> per week with two dependent children, receiving Working for Families and Accommodation Supplement - net weekly income and number and percent increase from \$21.20 | \$1,293.62                     | \$1,301.06<br>(\$7.44)<br>0.57%  | \$1,305.94<br>(\$12.32)<br>0.95% | <b>\$1,308.73<br/>(15.10)<br/>1.17%</b>   | \$1,310.82<br>(\$17.19)<br>1.33% | \$1,315.58<br>(\$21.96)<br>1.70% | \$1,319.22<br>(\$25.59)<br>1.98%      |

<sup>25</sup> The inflationary impact on the GDP-Income measure of the estimated economy-wide increase in wages, weighted by the of share of compensation of employees in the National Accounts.

<sup>26</sup> This is a high-level estimate based on the additional costs to the Ministry of Social Development, Te Whatu Ora, and Accident Compensation Corporation and New Zealand Defence Force. It does not include potential transfer savings received by the government in additional tax and abated benefits. Figures given do not include ACC OCL rates – the Outstanding cash Liability, an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims.

43. MBIE's recommended Option 4 has been assessed to impact the earnings of about 201,000 workers, resulting in an economy-wide wage increase of \$284 million. Option 3, if implemented in April 2023, is assessed to impact the earnings of about 190,400 workers, resulting in an economy-wide wage increase of \$204 million. Option 5 is assessed to impact the earnings of about 222,900 workers, resulting in an economy-wide wage increase of \$352 million.
44. The estimated restraint on employment (for all working age population, 16-64 year olds) for Option 3 (5 percent increase) is near zero but for the next higher Option 4 (6 percent increase) is <-1000. Lower restraint in employment (less than -1,000 estimated for a 6 percent increase in 2023 compared to -6,400 for a \$21.25 option in 2022) is related to the similar percent increase in the minimum wage (6.0 percent in 2023 vs 6.25 percent modelled for 2022) but alongside a higher forecast QES wage increase (6.0 percent in 2023 vs 3.0 percent in 2022) in the early stages of economic recovery from COVID-19, and wage growth driven by the constrained labour market.
45. Estimated inflationary impact for these options at 0.06 to 0.10 percent points (pp) is marginally lower compared to the assessment of 0.10 to 0.12 percent points (pp) in previous two years for the selected options. Inflation modelled by MBIE reflects the wage income share of GDP, not inflation overall. The CPI, the most common measure of inflation, measures the prices of a basket of goods and services so will only reflect wage inflation indirectly (insofar as higher labour costs lead to higher product costs).

### **The effects of a minimum wage rate increase**

46. International literature on the minimum wage is divided on what the effects of minimum wage rate increases are. Increasing the rate helps lift the incomes of the lowest paid workers and contributes to improved living standards for households, although this benefit is always partially offset by tax and government support abatements. However, expected income gains from minimum wage increases must be balanced against potential negative impacts on employers, such as increased labour costs and inflation pressure, and negative outcomes for workers such as reduced hours or unemployment.
47. The size of these impacts depends on the size of the minimum wage increase, the economic and labour market context in which it occurs, the Government's actions to address adverse labour market conditions and how employers, employees, unions, and customers respond to these changes.
48. Minimum wage increases are most likely to apply to and benefit certain demographic groups such as young people, Māori, Pacific peoples, informal, part-time and/or low-skilled workers, who are more likely to be on low wages at or near the minimum<sup>27</sup>.

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<sup>27</sup> Cochrane, B., Fletcher, M., Pacheco, G., and Plum, A. *Low Pay In NZ*. New Zealand Research Institute, AUT. January 2018. <https://www.mbie.govt.nz/assets/c92012e10c/low-pay-in-nz-january-2018.pdf>

These groups are also more likely to be the first to experience negative employment effects resulting from minimum wage increases, such as reduced hours or job loss.

49. The largest demographic affected by the minimum wage is youth<sup>28</sup>, and over half of minimum wage earners in New Zealand are aged 16-24 – this age group is 61 percent of minimum wage earners, but 16 percent of all wage earners. Jobs filled by 15- to 19-year olds rose to 131,000 in the June 2022 quarter, up 18 percent when compared with the June 2021 quarter. There is also concern that high minimum wage rates can incentivise young people to work instead of continuing education or training, reducing their potential lifetime earnings.
50. When looking to alleviate cost of living pressures on households in poverty, it is important to note that minimum wage workers are distributed across the income spectrum, not concentrated in low-income households. The consensus is that the minimum wage is a poorly targeted tool to alleviate poverty and cost of living challenges, and government interventions via tax system and income support provide much better targeted support. Minimum wage increases can also decrease the amount of income support workers receive, due to tax and support abatements.

### **The recommended approach leaves space for Fair Pay Agreements (FPAs) to deliver a minimum wage premium in sector negotiations**

51. The Fair Pay Agreements Bill<sup>29</sup> was passed on 26 October 2022 and comes into force on 1 December 2022. FPAs will enable employers and unions within a sector to bargain for minimum employment standards for all employees in that industry or occupation, including the minimum wage rates.<sup>30</sup> Where an FPA sets wage rates that are higher than the statutory minimum wage, the statutory minimum wage would not apply. Over time, as more FPAs are negotiated, the statutory minimum wage setting may become less relevant and only apply to jobs and sectors without FPAs. The statutory minimum wage will set the minimum benchmark level from which FPA negotiations over an industry or occupation's lowest wages are likely to start.
52. MBIE's view is there should be some scope for FPA bargaining to agree sector minimum wage rates that are higher than the statutory rate, or other improved terms if they prefer. This would enable agreements to better reflect the skills, conditions, job and possibly regional characteristics of a particular industry's lowest paid workers. Setting the minimum wage rate too high will potentially reduce the scope or flexibility for FPA negotiations to agree on such a premium, or on significant improvements in different terms, such as overtime or penalty rates. However, it will take time for the

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<sup>28</sup> Maré, David C. and Hyslop, Dean R., Minimum Wages in New Zealand: Policy and practice in the 21st century (March 11, 2021). <http://dx.doi.org/10.2139/ssrn.3524034>

<sup>29</sup> [https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL\\_121328/fair-pay-agreements-bill](https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_121328/fair-pay-agreements-bill)

<sup>30</sup> The *Minimum Wage Act 1983* does not have provisions that enable sector-based or differential minimum wage rates to be set in specific circumstances e.g., regional minimum wages.

first FPAs to be negotiated and the matter of relativity to FPA premiums will become more relevant once these agreements are taking place.

## Next steps

53. Changes to the minimum wage in previous years have been announced prior to Christmas and are given effect in the following year through an Order in Council under section 4 of the Minimum Wage Act 1983. Since 2007, changes to the minimum wage have come into effect on 1 April. There is no obligation to change the minimum wage rates or a requirement that any rate changes come into effect on a particular date.
54. The Minimum Wage Order will be updated during drafting to reflect changes to the vocational education system that will be implemented from 2023, while preserving the current policy intent of the Training Wage and Starting-Out Wage
55. If you agree with MBIE's recommendations, the next step would be to seek Cabinet agreement to the following decisions before the end of December 2022:
  2. Set the adult minimum wage at \$22.50 per hour and the training and starting out minimum wage rates at \$18.00 per hour to come into effect on 1 April 2023, subject to:
    - o Key economic indicators at HYEFU 2022 remaining consistent with or better than those forecast in Treasury's BEFU 2022<sup>31</sup>
    - o Key labour market indicators at HYEFU 2022 remaining consistent with or better than those forecast in Treasury's BEFU 2022<sup>32</sup>, and
    - o No major widespread occurrences of COVID-19 resurgence in the community that require further lockdowns to come into effect
  3. Announce these decisions to the public prior to the end of 2022 to enable employers to plan and incorporate any changes into their administrative and payroll systems.

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<sup>31</sup> Forecasts based on Treasury's BEFU 2022, updated in the Half Year Economic and Fiscal Update (HYEFU) due to be released in December 2022 that include Gross Domestic Product (GDP), Consumer Price Index (CPI)

<sup>32</sup> Forecast indicators based on Treasury's BEFU 2022, updated in Statistics New Zealand quarterly updates that include employment rate, unemployment rate, net employment growth, wage inflation, and labour underutilisation

## Chapter one – approach to the 2022 review

### Obligation to review the minimum wage

56. The Minimum Wage Act (The Act) sets minimum hourly wage rates which provide a floor for wages paid to employees. It is a breach of the Act to pay an employee less than the minimum wage. An employer who does may be liable for a penalty imposed by the Employment Relations Authority.
57. Section 5(1) of the Act requires the responsible Minister to review the minimum wage rates by 31 December each year. Any change to the minimum wage rates is made through an Order in Council by the Governor-General, under section 4 of the Act.
58. Since 2012, the government’s objective for the minimum wage review has remained ‘to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses’ (CAB Min (12) 41/5B refers).
59. International conventions also recommend regular reviews of the minimum wage. The International Labour Organisation (ILO) suggests that countries’ minimum wage rates should be reviewed regularly to preserve workers’ purchasing power<sup>33</sup>. New Zealand is a signatory to the ILO’s Minimum Wage-Fixing Machinery Convention (1928), which includes a requirement to ensure an adequate minimum wage rate<sup>34</sup>.

### Streamlined process for this year’s review

60. Minimum wage reviews in the last decade have followed either a ‘streamlined’ or ‘comprehensive’ process. In 2012, Cabinet agreed that a ‘comprehensive’ review would be completed every four years, with ‘streamlined’ reviews occurring during the intervening years.<sup>35</sup> A comprehensive review was undertaken in 2021, as the continuing COVID-19 pandemic and the changing economic situation warranted a more in-depth review process. This year’s review will be a streamlined process to select a rate for 2023.
61. Streamlined reviews consider the impact of any minimum wage change on inflation, wage growth, restraint of employment growth and fiscal impacts on government. A streamlined review requires consultation with the Government’s social partners, the New Zealand Council of Trade Unions (NZCTU) and BusinessNZ.
62. MBIE has focused on the following factors in assessing the options for the minimum wage rates for 2023:
  - inflation, using CPI as the indicator
  - wage growth, using LCI and median wage as the indicator

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<sup>33</sup> International Labour Organisation, Global Wage Report 2008/2009

<sup>34</sup> Article 4, Convention Concerning the Creation of Minimum Wage-Fixing Machinery, C26 (1928) (opened for signature 16 June 1928, entered into force 14 June 1930)

<sup>35</sup> [CAB Min (12) 41-5 B refers].



- restraint on employment
- other relevant factors, which are:
  - i. impact on minimum wage workers
  - ii. impact on sectors
  - iii. affordability to government
  - iv. interfaces with other government interventions

## Stakeholder consultation

63. MBIE has undertaken consultation with BusinessNZ and NZCTU. Considering the uncertain environment facing workers and employers in 2022, some broader engagement with industry, charity and worker representatives has also been sought. This helps MBIE understand the impacts of rate changes in the current environment. Submissions received have been analysed and reflected in the relevant sections of this report.

## MBIE's minimum wage analytical model

64. The minimum wage model is a crucial analytical tool that helps to assess any potential restraining impacts of minimum wage rate rises on employment. It also estimates the incidence of the minimum wage across the demographic groups of interest, the wage bill, and the inflationary impact on GDP under different potential minimum wage options for next year.
65. The minimum wage model has an employment restraint sub-model. The sub-model is built from a regression technique and estimates likely changes in employment in response to changes in the gap between the minimum wage and the average wage, for a number of cohorts. These cohorts cover sub-groups of the New Zealand working-age population most vulnerable to changes in the minimum wage. These include youth, women, Māori and the Pacific workers. The sub-model captures the total employment impacts across the working age population (16-64 year old), summarising the impacts across these cohorts.
66. The minimum wage model used by MBIE in this report has been recently refreshed with updated employment data and a new regression method. The primary data source is the Household Labour Force Survey (HLFS) which covers employment records on a quarterly basis, from the December 2006 quarter to March 2022 quarter. It is essential to include recent employment data in order to provide robust estimates reflecting the current economic conditions.
67. The new method is the fixed-effect panel linear model, which is different from the time series method used in the previous update to the employment restraint component of the minimum wage model. A time series model is often applied when using highly aggregated data. In the case of time series analyses, how the overall employment for a specific cohort changes is assessed with respect to the minimum wage. The panel linear model extends the time series method and replaces it by exploring regional employment data over time.

68. It is expected that, when a new minimum wage is implemented, employment in some regions for the youth worker cohort may change more moderately or acutely compared to other regions due to local industry structures, population, and other region-specific factors. This regional information is more granular and better identifies the impact of minimum wage changes across regional or local elements of the New Zealand labour market. It potentially supports a more accurate assessment of the impacts of rate options on youth workers. The use of the moving average of the ratio between the minimum wage and the average wage also results in stable and statistically significant employment restraint estimates across different model specifications.
69. The panel linear model focuses on estimating the relationship between local employment and minimum wage. Other variables included in the model control for long- and short-term factors, seasonality in the quarterly data used and the time trend on employment. The long-run factors are population and labour participation rate. These factors suggest that the larger the local working age population, or greater the labour participation rate, the more people are employed. Short-term factors in the model are changes in population, labour participation rate, and quarterly Gross Domestic Production (GDP) from the last quarter. These factors attempt to mitigate temporary or one-off effects on employment. For instance, a negative shock in GDP may reduce labour supply/demand for a short period of time.
70. The Global Financial Crisis (GFC) between 2007 and 2009 and COVID-19 pandemic in 2020 were instances of significant labour market disruption that introduced larger than usual noise in employment data. These periods are properly controlled for in the model, minimising potential bias in the regression results.

#### **Additional modelling using TaxSim-NZ**

71. To assess the interaction and interface of the minimum wage options with related government interventions that provide wages and income support, the 2022 review has considered these effects using the TaxSim microsimulation model of the New Zealand tax-and-transfer system. Microsimulation captures a wide range of complex interactions between social assistance payments. It can provide broader and consistent measures of fiscal cost, characteristics of winners and losers, impacts on income measures of poverty and inequality, and allows for in-depth analysis to address specific questions.
72. Labour supply responses (or changes in hours worked) can support or work against common policy objectives like increasing income support, reducing poverty, or increasing work incentives. TaxSim estimates the trade-off between income and hours worked from observed choices, and then uses these estimates to model labour supply responses to changes in the tax-and-transfer system.
73. TaxSim is similar to the Treasury's TAWA (Tax and Welfare Analysis) model and extends it by adding a discrete choice model to calculate changes in labour supply in

response to tax-and-transfer policy changes. This additional model is important, since it is unrealistic to assume no labour supply changes in response to policy interventions - particularly for policies targeted to lower income households. TaxSim also captures some labour demand impacts through restriction on the labour supply choices available to families. Labour supply responses can occur whenever an alternative choice is *relatively* more appealing, even if the family's income and hours remain the same for their observed choice.

74. The TaxSim model uses individual and family characteristics to calculate disposable income, or income after taxes and transfers, for a large representative sample of New Zealand families. The current version of TaxSim-NZ provides an easy-to-use tool for the rapid examination of behavioural responses, and the implied distributional impacts and fiscal costs of such policies.
75. Information modelled using TaxSim has been included in Chapter Six of this report, under the section *Families, household income and the interface with other government interventions*.

## Next steps after the 2023 rate is decided

76. Conventionally, the responsible Minister makes a decision on the minimum wage rates based on MBIE's advice and notifies Cabinet about any changes to the minimum wage rates. Where there is a change, this is given effect through an Order in Council. Any change to the minimum wage rate would be made and take effect at the same time in 2023. A change to the minimum wage rate traditionally comes into effect on 1 April.

## Updates to the Minimum Wage Order

77. The minimum wage rate is set by Order in Council via the Minimum Wage Order.
78. Some phrasing around the Training Wage Rate needs to be updated in the Order for 2023, to reflect changes to education standards. This is a minor change that will preserve the current intent and effect of Minimum Wage Orders.
79. As the minimum wage review is concerned with setting the hourly rate of pay only, these considerations do not have an impact on the recommendations in this review.

## Rates for future years

80. MBIE recommends that the uncertain global and national economic context makes this an unsuitable time to set a longer-term trajectory for minimum wage rates.

## Minimum wage's relationship to the Living Wage

81. The key purpose of the statutory minimum wage is to provide a mandatory wage floor for all employers and employees, regardless of their circumstances. It is set by the Government and is influenced by factors such as: inflation; wage growth; effects on employment growth and the other factors listed earlier in this Section. Due to its function as a wage floor, minimum wage movements can also ripple upwards to some extent, meaning that some workers earning above the minimum wage also benefit from it increasing.
82. Alongside other government interventions, minimum wages can also contribute towards providing income support for the lowest paid workers, addressing poverty, reducing wage inequality and promoting firm productivity. MBIE's view is that these should be secondary objectives because the available evidence indicates that minimum wage movements have limited utility in achieving these objectives.
83. The Living Wage, which is currently \$23.65, targets a wage rate that would enable a family of two adults and two children to maintain a reasonable standard of living when the parents work 60 hours a week in total, with one parent working full time and one part time.
84. The Living Wage is set by the Living Wage Movement Aotearoa NZ, which is an incorporated society made up of faith based religious groups, unions and community groups. Living Wage Aotearoa is independent of the Government and paying the Living Wage rate is voluntary for employers.

85. The Government has committed to implementing a minimum living wage rate for cleaners, security guards and caterers under public service contracts. Core public service departments and departmental agencies will be required to pay a 'minimum living wage rate' in relevant service contracts for these worker groups as the contracts are negotiated or renewed, starting from 1 December 2021. MBIE has published guidance and a rate based on a Labour Cost index (LCI 5, as published by Statistics NZ) that anticipates changes to the Living Wage Movement's Living Wage rate over time to facilitate requisite financial planning and contract management for relevant service contracts by agencies.

## Chapter two – the economic context for the 2022 review

### Economic situation and outlook

#### The global outlook is for slowed economic growth and rising inflation

86. Global economic growth stalled in the second quarter of 2022, and indicators in many economies now point to an extended period of subdued growth. The IMF’s latest (October 2022) outlook remarks that cost-of-living crises, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook<sup>36</sup>. The war has raised energy and food prices for Europe and beyond, aggravating inflationary pressures at a time when the cost of living was already rising rapidly around the world<sup>37</sup>. Despite initial promise in 2022 as activity increased in the recovery from COVID-19, the OECD (September 2022) has projected that annual global GDP growth will slow from 3 percent in 2022 to 2.2 per cent in 2023, well below the pace foreseen prior to the war.
87. The RBNZ observed in its August 2022 Economic Outlook<sup>38</sup> that despite weakening economic conditions, demand in the New Zealand economy has remained resilient. Domestic demand is being supported by high levels of employment, accumulated savings and government support measures. However, domestic labour shortages, and supply-chain bottlenecks are limiting and delaying production. Global and domestic inflationary pressures have contributed to higher CPI inflation. International events have disrupted international trade patterns and sharply increased commodity prices. Domestically, growth in wages has added to business costs while supporting household spending. The RBNZ considers that the current low unemployment level is unsustainable for the economy.
88. New Zealand’s headline economic indicators are relatively positive. GDP rebounded 1.7 percent in the June 2022 quarter, above market expectations after a 0.2 percent fall in the March 2022 quarter<sup>39</sup>, and largely buoyed by hospitality and travel expenditure.
89. However in the latest NZIER Consensus Forecast, forecasts for GDP have been revised lower through to 2025. This reflects the headwinds from higher inflation and interest rates slowing down economic activity. Annual GDP growth is expected to ease to below 3 percent for the years ending March 2024 and March 2025 before increasing to just above 2 percent in 2026 (see Figure 2 below).

<sup>36</sup> IMF. *WORLD ECONOMIC OUTLOOK 2022 Countering the Cost-of-Living Crisis*. October 2022.

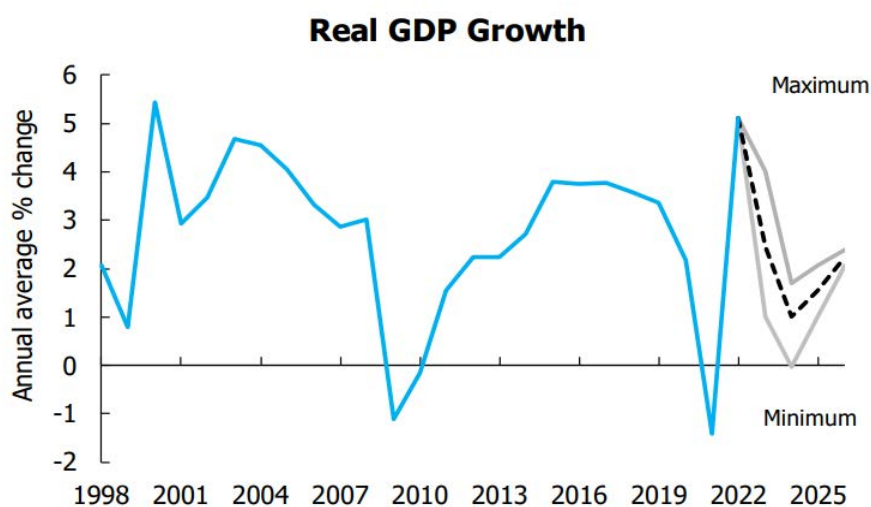
<https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>

<sup>37</sup> OECD. *OECD Economic Outlook, Interim Report September 2022: Paying The Price of War*. [https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2022/issue-1\\_ae8c39ec-en](https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2022/issue-1_ae8c39ec-en)

<sup>38</sup> Reserve Bank of New Zealand - Te Pūtea Matua. *Economic outlook August 2022*. <https://www.rbnz.govt.nz/-/media/088b0ccf70764f04b35ea20f73620d76.ashx>

<sup>39</sup> Stats NZ: <https://www.stats.govt.nz/news/gdp-increases-1-7-percent-in-june-2022-quarter/>

Figure 2: History and forecasts of real GDP growth, NZIER consensus report September 2022<sup>40</sup>



90. Economic activity in New Zealand across 2022 is expected to be supported by the reopening of the international border, elevated terms of trade, and robust investment. Economic growth, however, is expected to slow over time due to rising interest rates, a reduction in government consumption as COVID-19 related expenditure unwinds, and declining terms of trade.
91. In addition to humanitarian consequences, the Russian invasion of Ukraine is expected to have ongoing economic implications that flow through to New Zealand throughout 2022. These include impacts on oil prices, international commodity prices, global supply chains and the global growth outlook.
92. New Zealand’s border restrictions have eased earlier than expected, resulting in a faster forecast recovery in international visitor spending that helps to narrow the current account deficit. Rising world commodity prices are expected to boost the terms of trade, thereby supporting firm profitability and GDP growth.
93. Although the 2021/22 year was disrupted by COVID-19 restrictions, the economy has been resilient and, as a result, core Crown tax revenue grew by \$5.8 billion. Inflationary conditions are expected to drive growth in nominal GDP over the forecast period, which augments growth in core Crown tax revenue. Overall, core Crown tax revenue is expected to increase by \$40.5 billion over the forecast period.
94. As most of the COVID-19 fiscal support measures from the 2021/22 year are temporary, they will start to unwind in 2023. This, coupled with the stronger growth in core Crown tax revenue, means most key fiscal indicators will likely also start to improve over the forecast period.

<sup>40</sup> NZIER consensus forecast, 12 September 2022.  
<https://www.nzier.org.nz/hubfs/Public%20Publications/Consensus%20Forecasts/Consensus%20Forecasts%20Sep%202022.pdf>

95. Labour and materials shortages are holding New Zealand’s economy back and adding to inflation<sup>41</sup>. Global and local supply-chain bottlenecks limit and slow down production, making goods more expensive and further constraining output.
96. The New Zealand economy is also being constrained by acute labour shortages. Higher-than-usual levels of sickness from COVID-19 and other illnesses, as well as an outflow of New Zealanders heading overseas following the reopening of our border, have intensified these labour shortages. The unemployment rate remains very low at 3.3 percent in the June quarter 2022. A tight labour market is adding to high wage growth in some areas as businesses compete to attract or retain staff. However, this growth in wages is still outpaced by the rising cost of living for many New Zealanders.

**Inflation is a key challenge for New Zealand**

97. Treasury observes that inflation has surfaced as the main economic challenge in New Zealand and abroad. Consumers Price Index (CPI) inflation – which reached a 32-year high of 7.3% in the June 2022 quarter – is being driven by strong domestic demand pushing up against constrained supply, which in turn has been compounded by the Russian invasion of Ukraine. The June 2022 figure is expected to be the peak of inflation, with more moderate increases over the coming quarters (see Table 1 overleaf).

**Table 1: Actual and forecast CPI changes, September 2021 - March 2023**

| Quarter        | Quarterly CPI change |                        | Year to Dec 2021              | Year to June 2022 | Year to Sep 2022 | Year to Dec 2022 | Year to March 2023 |
|----------------|----------------------|------------------------|-------------------------------|-------------------|------------------|------------------|--------------------|
|                | Actual               | Forecast <sup>42</sup> |                               |                   |                  |                  |                    |
| September 2021 | 2.2%                 |                        | Dec 21 FY: 5.9% <sup>43</sup> | Jun 22 FY: 7.3%   | Sep 22 FY: 7.2%  |                  |                    |
| December 2021  | 1.4%                 |                        |                               |                   |                  |                  |                    |
| March 2022     | 1.8%                 |                        |                               |                   |                  |                  |                    |
| June 2022      | 1.7%                 |                        |                               |                   |                  |                  |                    |
| September 2022 | 2.2%                 |                        |                               |                   |                  |                  |                    |

<sup>41</sup> Reserve Bank of New Zealand - Te Pūtea Matua. *Monetary Policy Statement August 2022*. 17 August 2022. <https://www.rbnz.govt.nz/hub/publications/monetary-policy-statement/monetary-policy-statement-august-2022>

<sup>42</sup> Reserve Bank of New Zealand Te Pūtea Matua. *08/2022 Monetary Policy Statement*. August 2022. <https://www.rbnz.govt.nz/-/media/2e7d3800e1b5463bb1f4dcaace23c3d7.ashx>  
 Also see Westpac Economics Forecast Summary Spreadsheet, as at 13 October 2022, <https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/Forecasts/Westpac-NZ-Economic-Forecasts.xlsx>

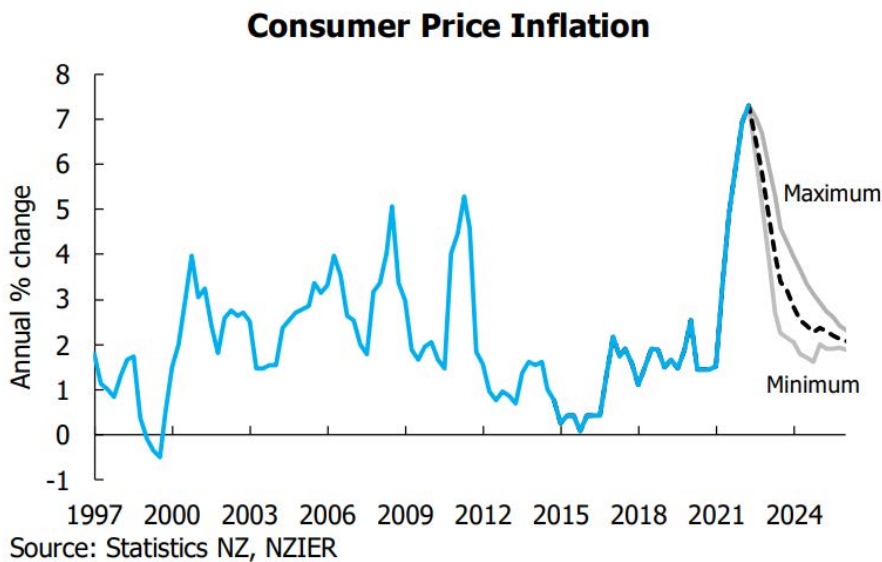
<sup>43</sup> Used to set 2022 minimum wage rate – 6% increase from 2021 rate of \$20.00



|               |      |  |  |  |                       |                            |
|---------------|------|--|--|--|-----------------------|----------------------------|
| December 2022 | 0.8% |  |  |  | Dec 22<br>FY:<br>6.5% |                            |
| March 2023    | 1.3% |  |  |  |                       | <b>Mar 23<br/>FY: 6.0%</b> |

98. In response to inflation the Reserve Bank of New Zealand has signalled its intention to tighten monetary policy, which will act as a constraint on economic activity. Raising interest rates have contributed to pressures on the housing market and house prices are forecast to fall throughout 2022 and 2023.

**Figure 3: NZIER Consensus Forecast - actual and forecast CPI changes, 1997-2024**



### Labour market and employment outlook

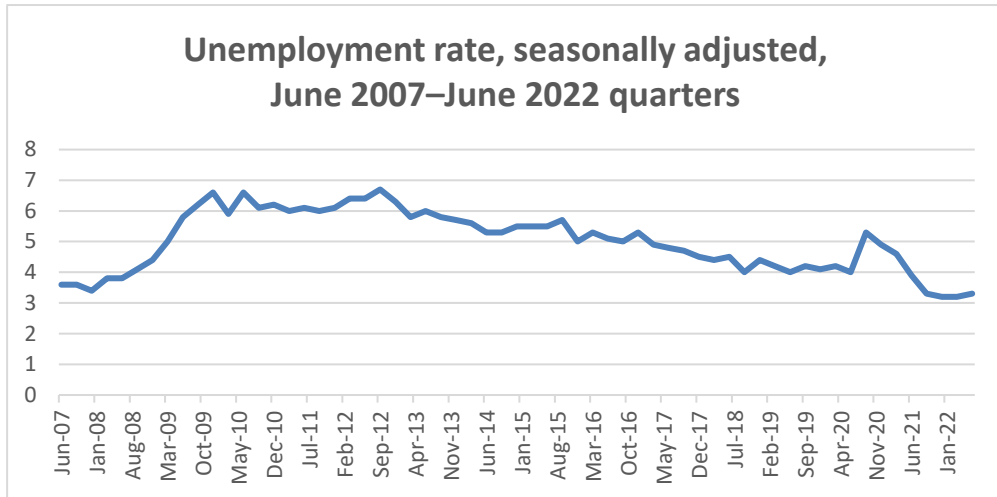
99. The labour market remains strong, with very low unemployment, although challenges are increasing. Wages are up strongly, although not quite meeting rising living costs. The international border has re-opened, and we expect to see impacts on the labour market over time.

#### The labour market remains tight, with low unemployment

100. Unemployment and underutilisation levels remain at near-record lows. In the June quarter, the unemployment rate was relatively unchanged (3.3 percent, compared to a record-low of 3.2 percent in March). The underutilisation rate likewise was steady (9.2 percent, compared to 9.3 in March). New Zealand’s unemployment rate is the sixth equal lowest in the OECD. Timely indicators suggest that labour demand remains strong, and hiring intentions remain at elevated levels after recovering from a record low in April 2020 during the COVID-19 pandemic. The labour market has been

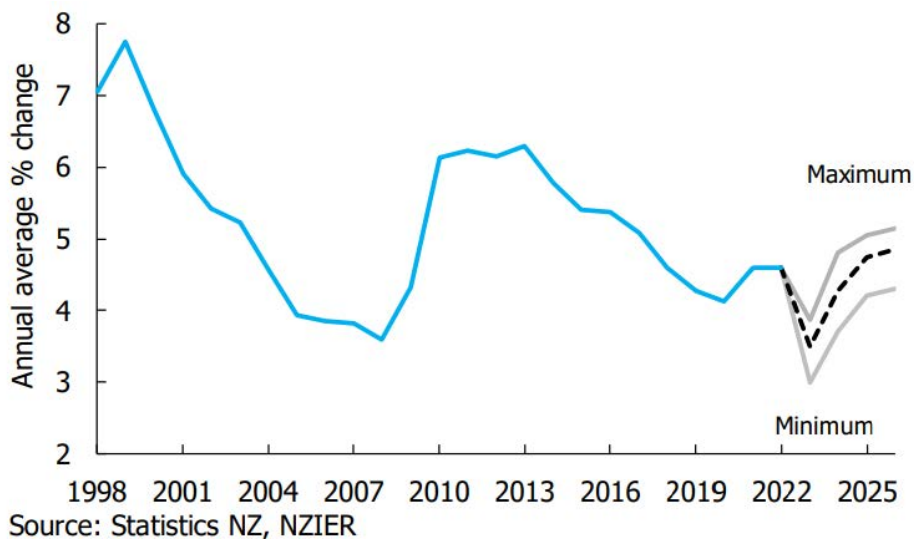
constrained by high demand and low supply, especially with low immigration as a result of COVID-19 response measures taken since 2020.

**Figure 4: Unemployment rate, seasonally adjusted, June 2007-June 2022**



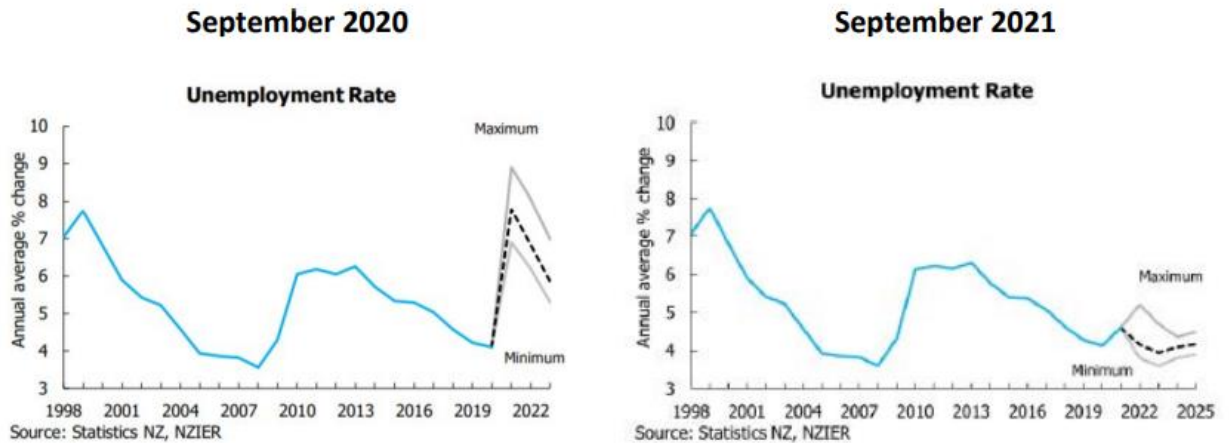
101. There were 96,000 unemployed people in New Zealand in the June 2022 quarter<sup>44</sup>. In the September 2022 NZIER consensus forecast, unemployment is still expected to continue declining before rising again.
102. Support from the Government, along with other aspects such as businesses adopting flexible working arrangements and high demand in the economy, have helped the New Zealand labour market recover from the COVID-19 outbreak without the substantial job losses predicted earlier in the pandemic. This can be seen comparing the NZIER consensus forecasts from September 2020, 2021 and 2022.

**Figure 5: History and forecasts of unemployment rate by annual average percent change, September 2022**



<sup>44</sup> <https://www.stats.govt.nz/indicators/unemployment-rate/>

Figures 6 and 7: Comparison of unemployment forecasts between 2020 and 2021.



103. Labour market outcomes for Māori and Pacific Peoples are improving, continuing a decade-long trend. The Māori unemployment rate - which peaked at 14.5 percent in 2012 - reached 5.5 percent in the June 2022 quarter, down from 7.8 percent in June 2021. This is the lowest unemployment rate for Māori since the current data series began in 2007. As at June 2022, the unemployment rate for Pacific Peoples – which also peaked in 2012, at 15.0 percent – is now 5.4 percent, the equal lowest rate on record.
104. There are headwinds that may slow employment growth over the medium term. Geopolitical instability, supply-chain disruptions, weak international growth, increasing interest rates, falling business confidence, and lower house prices may lead to slow or negative economic growth in New Zealand. Over the next year, these economic factors may flow through into labour market outcomes, leading to an increase in unemployment and underutilisation.

**COVID-19 is having less impact on New Zealand’s labour market than in the previous year, but there are other challenges ahead**

105. COVID-19 has receded in relative importance as a labour market driver. The arrival of COVID-19, and policy responses to it, had a dramatic impact on the global and New Zealand economy, and disrupted the New Zealand labour market on all fronts: demand for- and supply of- skills and labour; job matching; and the risk of increased worker vulnerability and wider disparities between sub-populations (e.g. those who were able to work from home versus those who weren’t).
106. The economic and labour market impacts of COVID-19 turned out to be less severe than initially feared. As case numbers have fallen, the behaviour of New Zealanders has largely returned to pre-COVID patterns, particularly with regard to movement and spending. As borders reopened in 2022, migration and international travel patterns have picked up, but remain well below pre-COVID levels.

107. In the short to medium term, there are major labour market challenges in three broad areas:
- a) The labour market is currently at historic levels of tightness, with businesses reporting difficulties in hiring workers. The reopening of the borders could potentially address some of this tightness, but migration flows will take time to reset.
  - b) Economic headwinds are emerging (geopolitical instability, supply-chain disruptions, weak international growth, increasing interest rates) which could slow employment growth, leading to higher levels of unemployment and underutilisation.
  - c) Wage growth is strong, but is not keeping pace with consumer inflation, leading to lower real incomes and the risk of household retrenchment (reductions in normal spending activity).

**Main benefit receipt numbers in 2022 remain below 2020 and 2021 levels**

108. Since May 2022, the proportion of the working-age population on main benefits has continued to remain below the levels seen in 2021 and 2020. There were 345,570 people on all main benefits as of 5 August 2022, with 100,740 on the Jobseeker Support-Work Ready benefit (down 6,903 people over the year). Compared to August last year, there were 12,800 fewer people receiving a main benefit (a 3.6 percent drop), although this largely reflects an increase in main benefits due to a national lockdown in mid-August 2021.
109. Generally, the year-on-year reductions in overall main benefit numbers have been slowing since the beginning of the year. This is partly because in 2021 there were record-high numbers of exits from benefits into work which drove overall decreases in main benefit numbers. Main benefit numbers are expected to decrease throughout 2022, but may increase earlier in 2023 than expected. It is still expected that main benefit numbers will decrease overall throughout the rest of 2022 (excluding seasonal trends). At Budget 2022, Treasury had forecast a period of low economic and employment growth from around mid-2023. However, since then, inflation has been higher than forecast and interest rates are rising faster than expected. It is possible that economic conditions could soften sooner and the turning point for benefit numbers increasing could begin around early-2023.
110. The Government is supporting people into work via a range of employment products and training programmes, including Flexi-wage and Mana in Mahi. Flexi-wage is a subsidy to support job seekers who are disadvantaged in the labour market. Mana in Mahi helps people who need additional support to get paid jobs while gaining a formal industry qualification. The Government has also developed Employment Action Plans to address barriers and challenges for groups that have experienced poorer employment outcomes in the past.

### Wage growth is at long-term highs, although not quite meeting rising living costs

111. All indicators of wage growth are at or near record levels. The annual New Zealand Income Survey reported that median hourly earnings for wage and salary earners rose by 6.8 percent to \$29.66 in the year to June 2022. This is the largest annual increase since the series began in 1998. Similar strength was shown in the Quarterly Employment Survey (QES) and Labour Cost Index (LCI), which reported the strongest wage increases in over a decade. Adjusted LCI rose 3.4 percent and QES average hourly earnings were up 6.4 percent over the year.
112. This wage growth is occurring across many groups. Over the year, median hourly earnings for Māori rose by 8 percent (to \$27.00), and for Pacific Peoples rose by 8.3 percent (to \$26.00). All major occupation groups saw hourly wage increases, with the biggest increases coming for labourers (up 9 percent) and clerical and administration workers (up 7 percent).
113. The Labour Cost Index also suggests wage increases are applying to a larger section of the workforce: two-thirds of all roles measured by the LCI saw a pay increase, the highest level since this series began in 1993. About 26 percent of roles saw a wage rise of more than 5 percent, the equal highest level in this series' history. The rise in the minimum wage (which increased by 6 percent in April 2022) will have influenced these results. More broadly, employers are increasingly citing matching market rates and retaining staff as the rationale for wage rises; suggesting the increasing competition for a small pool of available workers is driving wage inflation.
114. The NZIER September Consensus Forecast<sup>45</sup> suggests a strong wage growth outlook, but low employment growth, with an upward revision in expectations for unemployment. Although the tight labour market has been driving up wages in the past year, the reopening of New Zealand borders may weigh on wage growth as more firms can bring in workers from overseas. Meanwhile, the stronger wage growth is also underpinned by the high inflation environment.

**Figure 8: NZIER Consensus Forecast September 2022 - actual and forecast private sector wage inflation, average percent change**

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<sup>45</sup> NZIER consensus forecast, 12 September 2022.

<https://www.nzier.org.nz/hubfs/Public%20Publications/Consensus%20Forecasts/Consensus%20Forecasts%20Sep%202022.pdf>

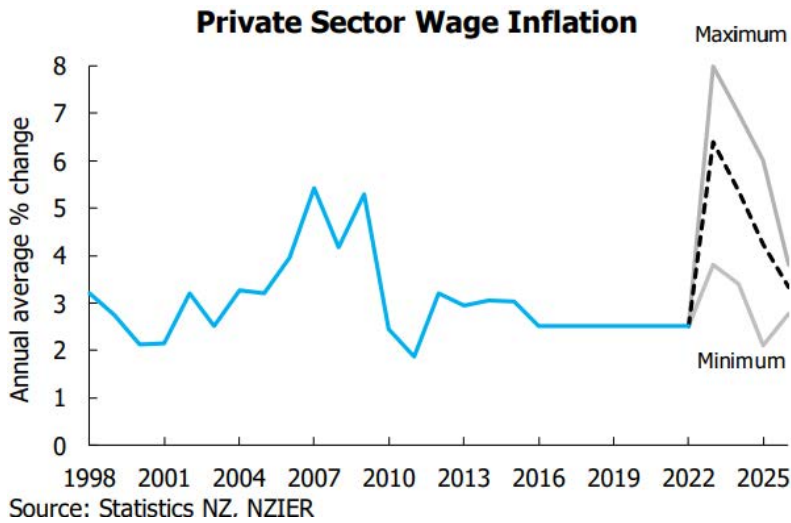
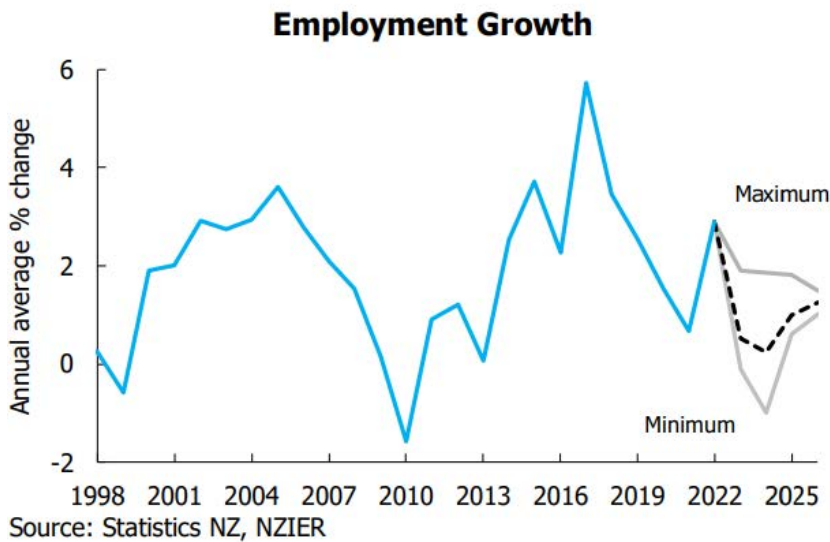


Figure 9: NZIER Consensus Forecast September 2022 - actual and forecast employment growth, annual average % change



115. Even with continued wage growth, rising living costs remains a challenge for many New Zealanders. Inflation remains at near-record highs, with the Consumer Price Index rising 7.3 percent in the year to June 2022 – the highest annual growth since 1990. Inflation has remained high at 7.2 percent in the year to September 2022.
116. The Government is helping New Zealanders deal with cost pressures through a range of levers, including prior increases to the Minimum Wage which tracked well ahead of inflation during the 2017-2021 period. Other initiatives include:
  - a) Budget 2022 aimed to help alleviate some cost pressures for people who earned less than \$70,000 in the previous tax year. Around 2.1 million people are estimated to have been supported by a \$350 cost of living payment. Additionally, the government has extended the reduction in fuel tax and public transport costs. This has been further

extended to January 2023 in response to the increasing cost of living.

- b) As part of Budget 2021, weekly main benefit payment rates were increased providing a boost to families with children. The changes were implemented in two stages: one increase in July 2021, and the final increase on 1 April 2022. Additionally, student support payment rates (Student Allowances and Student Loan Living Costs) were also increased from 1 April 2022, to match the incentives of studying to those on a main benefit.
- c) Additionally, main benefit abatement thresholds were increased from 1 April 2021. Thresholds increased to \$160 per week for all main benefits and to \$250 per week for the second threshold for recipients of Sole Parent Support, Supported Living Payment, and non-qualifying partners of recipients of New Zealand Superannuation/Veteran's Pension. This allows working beneficiaries to keep a greater portion of their earnings and will improve income adequacy and financial incentives to work part-time while on a benefit.
- d) From 2018, total incomes for beneficiaries (after housing costs) increased at a faster rate than inflation. Inflation excluding housing has increased by 12 percent from 2018 to 2022, while total incomes across all family types for benefit clients grew by 59 percent on average (after housing costs). Overall, total incomes after housing costs are 43 percent higher in real terms on average now than in 2018.

### **The border has reopened, and impacts on the labour market are expected over time**

- 117. Immigration settings have been rebalanced to support a higher-wage, higher-growth economy. The new Accredited Employer Work Visas requirements (including the median wage threshold and employer accreditation) means that fewer and higher skilled migrants will be eligible to work in New Zealand. Some migrant workers will still be able to undertake lower-paid work, including people with Working Holiday Scheme Visas and some Employer Accredited Visa workers for jobs under the sector agreements.
- 118. We expect it will take some time for migration flows to adjust. Prior to COVID-19, migration flows had strong seasonal aspects, so it may take some time for the full impact of border reopening to become apparent. For the year ending July 2022 (the latest period available) New Zealand reported a provisionally estimated outflow of 12,400 people. This was driven by a net outflow of 8,300 New Zealand citizens, compounded by a net outflow of 4,100 non-New Zealand citizens.
- 119. The labour market is forecast to remain tight in the near term, with the unemployment rate decreasing to near 3 percent later in 2022. In combination with increased salary expectations, this tightness is expected to catalyse nominal wage growth in 2023. This helps to offset the impact of increasing inflation which resulted in declining real wages in the September 2021 quarter. It is expected that positive annual real wage growth



will re-emerge at the start of 2023 and peak at the end of 2024. Slowing domestic demand is then expected to ease labour market tightness, resulting in the unemployment rate rising to 4.8% at the end of 2025.

120. MBIE considers that over the longer-term, New Zealand's labour market will continue to be shaped by broad mega-trends: advances in technology (such as automation, digitisation, new business models), climate change and efforts to decarbonise the economy, demographic change (with the population ageing and becoming more ethnically diverse), and globalisation. The speed, direction and impact of these changes on the labour market are difficult to predict. But COVID has sped up some expected developments (such as firms enabling working from home, or shifting to online retailing).
121. Furthermore, the combination of COVID-19 impacts with these long-term trends creates a complex picture with considerable uncertainty. The trajectories for recovery from the current economic conditions are unclear and dependent on a complex mix of factors, outside of Government's influence. Other, harder-to-predict changes or shocks could include natural, environmental, geopolitical or global economic events that add to the complexity of preparing for, and responding to, labour market disruption.

## The business outlook

122. In September 2022, New Zealand had 576,660 enterprises<sup>46</sup> (up 2.5 per cent from February 2021).
123. Business confidence has been low throughout 2022, with near-record lows of -62.6 experienced in June and an own activity outlook of -9.1 (the lowest since 2009, outside of 2020 during Covid-19 lockdowns). However, in the most recent ANZ survey, Business confidence had lifted in September to -37, while expected own activity rose to -2<sup>47</sup>. In September most activity indicators lifted for a third month, with residential construction the outlier – retail construction intentions have plummeted in 2022.

**Figures 10 and 11: ANZ NZ Business Outlook, September 2022, business confidence and activity outlook, and employment and profit outlook**

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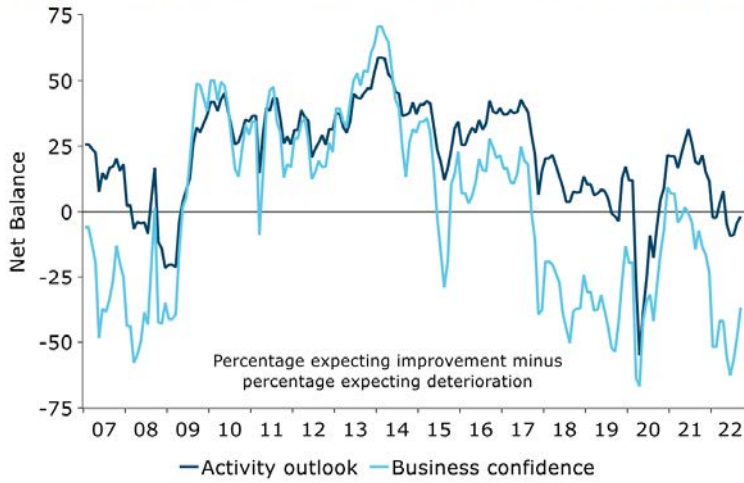
<sup>46</sup> An **enterprise** is an institutional unit and generally corresponds to legal entities operating in New Zealand. It can be a company, partnership, trust, estate, incorporated society, producer board, local or central government organisation, voluntary organisation, or self-employed individual. Statistics NZ business demography data identifies economically significant enterprises, which are mostly those with GST turnover greater than \$30,000 per year.

<sup>47</sup>ANZ. *ANZ Business Confidence Outlook, September 2022: Creeping Higher*.

<https://www.anz.co.nz/about-us/economic-markets-research/business-outlook/>



Figure 1. ANZ Business Confidence Index and ANZ Own Activity Index



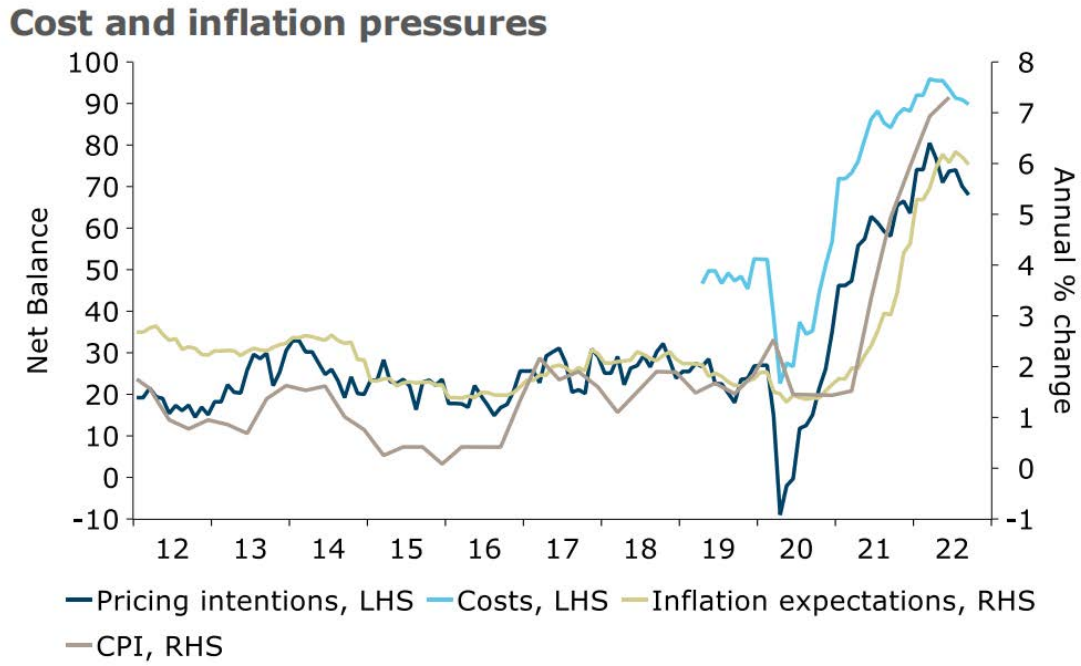
Employment and profit outlook



124. ANZ reports<sup>48</sup> that inflation pressures remain intense and are easing only very slowly. Firms’ pricing intentions reached a record high of 80.5 percent of firms intending to raise their prices in the next three months in March 2022, and have eased only slightly by September to a net 68 percent – which is still more than three times the 1992-2020 average. By sector, an intention to raise prices is most widespread in retail (92 percent of firms intend to raise their prices in the next three months) and manufacturing (75 percent). The lowest proportions were in agriculture (52.9 percent) and services (60 percent). Construction sector price intentions have dropped the most dramatically, from 94 percent in March to 63 percent in September.

<sup>48</sup> ANZ. *ANZ Business Confidence Outlook, September 2022: Creeping Higher*. <https://www.anz.co.nz/about-us/economic-markets-research/business-outlook/>

Figure 12: ANZ NZ Business Outlook, September 2022 – cost and inflation pressures



Source: ANZ, Statistics NZ, Macrobond

## Chapter three – current and historical minimum wage

### The current minimum wage rates and their coverage

125. The current minimum wage rates prescribed in the Minimum Wage Order 2022 are set out below:
- the adult minimum wage rate is \$21.20 per hour
  - the starting-out minimum wage rate is \$16.96 per hour
  - the training minimum wage rate is \$16.96 per hour.
126. The adult minimum wage rate applies to all employees aged 16 years and over, unless they are eligible for the starting-out wage or training wage.
127. The starting-out wage was introduced in May 2013. The starting-out wage is designed to incentivise employers to take a chance on a young person, enabling them to earn money, gain skills, and get work experience they need.
128. The Act provides that the starting-out wage rate must be set at no less than 80 percent of the adult minimum wage rate and is currently set at this level. The Act provides that the Order can prescribe one or more classes of worker to whom this rate applies. The current Order sets out the following categories of employee to whom the starting-out wage applies:
- aged 16 or 17 years who have not completed six months continuous employment with their current employer; or
  - aged 18 or 19 years who have been continuously paid one or more specified social security benefits for not less than six months, and have not completed six months continuous employment with any employer; or
  - aged 16, 17, 18, or 19 years who are required by their employment agreement to undertake at least 40 credits a year of an industry training programme to become qualified for the occupation in which they are employed.
129. The training minimum wage rate applies to a trainee who is aged 20 years or over, is not involved in supervising or training other workers, and is required by their employment agreement to undertake at least 60 credits each year of an industry training programme to become qualified for the occupation in which they are employed. It is also set at an 80% relativity to the adult minimum wage.
130. An estimated 59,500 workers aged 18 to 64 were paid the adult minimum wage in June 2022, which is approximately 2.9 percent of all wage earners in paid employment. The total percentage of minimum wage earners has decreased from 7.8 percent in 2021 (160,000 workers). The current coverage of the minimum wage is also lower than more moderate prior rates, from 3.0 percent in 2020 (57,700), 4.2 percent in 2019

(85,400), and 3.5 percent in 2018 (71,500)<sup>49</sup>. The increase in coverage in 2021 was to be expected as the minimum wage moved closer to the median wage, but the tight labour market has seen an increase in wage offerings above the minimum.

**Table 4: Incidence of MW workers across focus demographic groups in 2022**

| Demographic (at the current MW of \$21.20) | % of minimum wage earners |               |               | % of total wage earners |
|--|---------------------------|---------------|---------------|-------------------------|
|  | 16-24                     | 25-64         | 16-64         | 16-64                   |
| Aged 16-24 years                           | 100%                      | 0%            | 61%           | 16%                     |
| Female* <sup>50</sup>                      | 61%                       | 64%           | 62%           | 49%                     |
| European/Pakeha*                           | 56%                       | 46%           | 52%           | 59%                     |
| Māori                                      | 21%                       | 15%           | 19%           | 15%                     |
| Pacific                                    | 5%                        | 5%            | 5%            | 6%                      |
| Part-time                                  | 68%                       | 41%           | 57%           | 15%                     |
| Studying                                   | 33%                       | 7%            | 23%           | 13%                     |
| <b>Total</b>                               | <b>46,300</b>             | <b>29,700</b> | <b>76,000</b> | <b>2,089,500</b>        |

131. The most significantly represented demographic paid the living wage is young workers aged 16-24, which make up 61 percent of all minimum wage earners but only 16 percent of total wage earners across ages 16-64. This is in line with expectations that the minimum wage is most often paid to less experienced workers.

<sup>49</sup> The advent of COVID-19 in March-April 2020 and the availability of wage subsidies for employers to keep paying their workers who were not working meant that the income data for June 2020 quarter was atypical and had an unusually lower count of non-zero salary and wage earners. The data excluded employees reporting zero hours worked in the Household Labour Force Survey due to receiving a wage subsidy during June 2020 quarter, which MBIE estimated to be around 96,000 workers. This resulted in a snapshot of the income profile of the labour market captured in the June 2020 quarter less representative of the whole of 2020.

<sup>50</sup> A data error led to the European and Female datasets being swapped in the original version of this report. This error also occurred in the 2021 report – for comparison, the previous report’s demographic tables should show the following figures.

| Demographic (Using the current MW of \$20.00) | 2021 % of minimum wage earners |       |       | 2021 % of total wage earners |
|---|--------------------------------|-------|-------|------------------------------|
|   | 16-24                          | 25-64 | 16-64 | 16-64                        |
| Female  | 52%                            | 66%   | 59%   | 49%                          |
| European/Pakeha                               | 54%                            | 36%   | 45%   | 59%                          |

132. Part-time workers working less than 30 hours a week (57 percent of minimum wage earners aged 16-64, and 15 percent of total wage earners) are also highly represented among minimum wage earners.
133. Māori and Pacific Peoples are slightly overrepresented at the minimum wage compared to their respective proportions in the overall number of wage and salary earners. This indicates that Māori and Pacific Peoples currently represent a disproportionate number of minimum wage workers relative to their proportion in the wider labour market. In 2022 Māori accounted for about 15 percent of total wage earners, and 19 percent of total minimum wage earners. The 2021 figures were similar to the latest 2022 figures. In 2020, Māori accounted for 13 percent of total waged workers and 15 percent of the minimum wage earners. Pacific Peoples accounted for about 6 percent of the total wage earners in 2022, and 5 percent of total minimum wage earners. The 2021 and 2020 figures showed Pacific workers were a larger proportion of minimum wage earners (10 and 9 percent) in relation to total wage earners (7 and 6 percent). This suggests that Māori and Pacific Peoples could be disproportionately affected by a minimum wage increase.
134. Women are overrepresented at the minimum wage. About 62 percent of all minimum wage workers were women in the 2022 review, compared to 49 percent of total wage earners. This has increased from 59 percent of minimum wage earners and 49 percent of the workforce in the 2021 review. However, women are understood to be lower paid and more likely to work part time in general, so may still be disproportionately impacted by minimum wage changes.
135. Individuals without formal qualifications, disabled workers, and refugees or migrants are also more likely to be paid at and near the minimum wage than other groups of workers. These workers are more likely to work in retail and hospitality industries, which employ the highest proportions of minimum wage workers. For more detailed information on the demographic and job characteristics of workers paid the minimum wage, refer to Chapter Six of this report.

## The current minimum wage and other income benchmarks

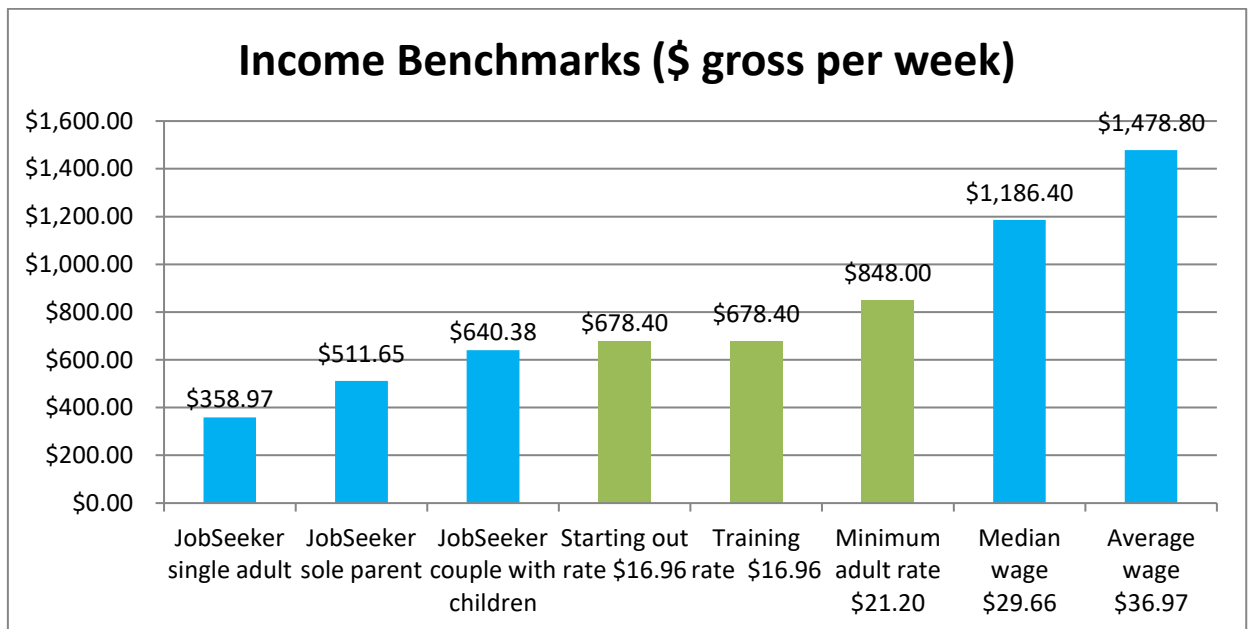
136. The ratio of the minimum wage to median wage (the Kaitz index) is a common measure of how much the minimum wage affects the wage distribution. As the average wage is affected by extreme salaries or wages at either end of the wage distribution, with changes in the average primarily reflecting movements in high-earner incomes, the median wage is used as a more neutral measure of wage trends<sup>51</sup>. The median is not substantively affected either by changes in the minimum wage or movement at the top of the wage distribution. This means that changes in median are more reflective of the broader economic situation.

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<sup>51</sup> International Labour Organisation, *Minimum Wage Policy Guide*, Chapter 5.5

- 137. Figure 13 overleaf compares the minimum wage rates with other income benchmarks, all calculated as weekly income for a 40-hour week before tax.
- 138. The current adult minimum wage rate of \$21.20 per hour is now approximately 71.5 percent of the current median wage (\$29.66 per hour) and 57.3 percent of the average wage (\$36.97 per hour)<sup>52</sup>. This is similar to the relativities in the 2021 report, at a minimum wage rate of \$20.00 per hour. A comparison of New Zealand’s Kaitz index with international jurisdictions is provided in Chapter four.
- 139. Compared with other income benchmarks, the current weekly adult minimum wage is significantly higher than the JobSeeker Support rates for single adults (\$358.97, 42.3 percent of the minimum wage) and for sole parents (\$511.65, 60.3 percent).

**Figure 13: Weekly gross income from minimum wages and other income benchmarks (September 2022)**



### Changes to the minimum wage in the last 10 years

- 140. Since 2000, the minimum wage rate has increased every year following the annual review. Changes in the hourly rates since 2011 are shown below. The minimum wage has risen steeply since 2017.

**Table 5: Changes to the minimum wage rates since 2011**

| Effective Date | Adult Minimum Wage | Starting out and Training wages | Percent Change (Adult Minimum Wage) |
|----------------|--------------------|---------------------------------|-------------------------------------|
| 1 April 2011   | \$13.00            | \$10.40                         | 2.0%                                |

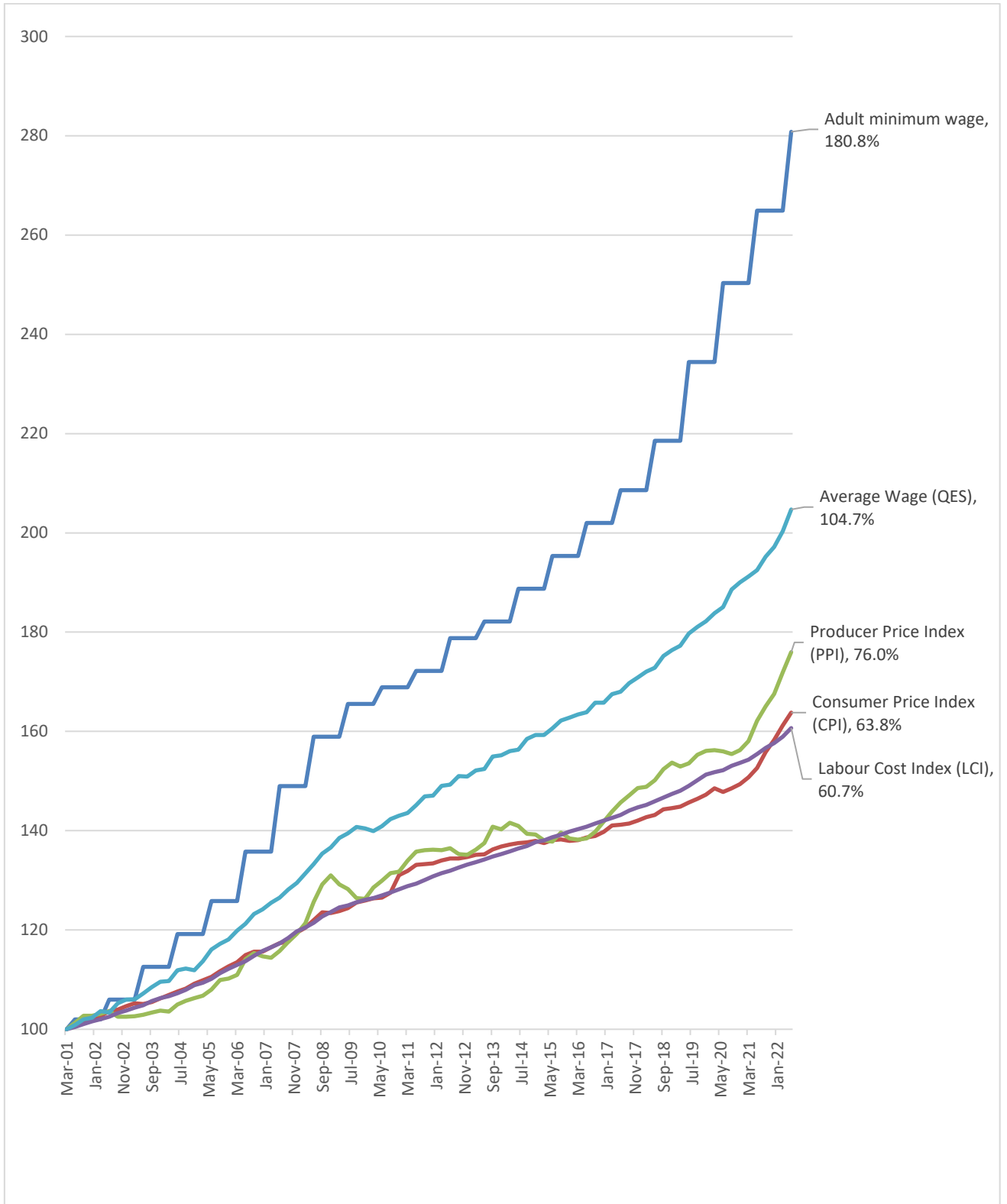
<sup>52</sup> Statistics NZ, [Labour market statistics \(income\): June 2021 quarter | Stats NZ](#)

**IN CONFIDENCE**

|              |         |         |      |
|--------------|---------|---------|------|
| 1 April 2012 | \$13.50 | \$10.80 | 3.8% |
| 1 April 2013 | \$13.75 | \$11.00 | 1.9% |
| 1 April 2014 | \$14.25 | \$11.40 | 3.6% |
| 1 April 2015 | \$14.75 | \$11.80 | 3.5% |
| 1 April 2016 | \$15.25 | \$12.20 | 3.4% |
| 1 April 2017 | \$15.75 | \$12.60 | 3.2% |
| 1 April 2018 | \$16.50 | \$13.20 | 4.8% |
| 1 April 2019 | \$17.70 | \$14.16 | 7.3% |
| 1 April 2020 | \$18.90 | \$15.12 | 6.8% |
| 1 April 2021 | \$20.00 | \$16.00 | 5.8% |
| 1 April 2022 | \$21.20 | \$16.96 | 6.0% |

141. The 2017 Labour-led Government’s Coalition Agreement committed to ‘progressively increase the Minimum Wage to \$20 per hour by 2020, with the final increase to take effect in April 2021’. The second increase was due to apply from 1 April 2020 (\$17.80-\$18.90). At the time NZ was in lockdown – only essential businesses (eg energy, supermarkets) operated, and many workers were supported by the wage subsidy. Government choose to go ahead with this increase despite the uncertainty of the situation, and subsequent increase to \$20 was made as scheduled in 2021.
142. The 2022 rate of \$21.20, a 6 percent increase, was chosen in early 2022, reflecting the 5.9 percent Consumer Price Index inflationary increase from the December 2021 Quarter. Decisions on the minimum wage rate are usually made by Cabinet in December and announced pre-Christmas. The 2021 minimum wage review decision was deferred in December 2021 due to the arrival of the Omicron variant of Covid-19 and the rollout of a new national Covid-19 Response Framework.
143. The minimum wage rate has increased at a faster rate than general wages, labour costs, and consumer price inflation over the past 20 years, as shown overleaf in figure 14.

Figure 14: Percent increase in the minimum wage rate compared to inflation and other wage, cost and price measures, indexed to March 2001





## Chapter four – NZ’s minimum wage in a global context

### Minimum wages across the OECD

144. It is important to consider how New Zealand’s wage-setting policies compare internationally. New Zealand has a relatively high minimum wage compared to other OECD countries.
145. Only Luxembourg and Australia have higher hourly minimum wages and minimum annual nominal incomes. Variations in rankings between the annual and hourly datasets in Table 6 below are caused by the different lengths of standard working weeks<sup>53</sup> between countries.

**Table 6: Ranking of the minimum wage rate across selected OECD countries**

| Rank | As Annual Nominal Income |                                   | As Hourly Rate |                     |
|------|--------------------------|-----------------------------------|----------------|---------------------|
|      | Country                  | Annual rate (\$NZD) <sup>54</sup> | Country        | Hourly rate (\$NZD) |
| 1    | Australia                | \$46,671                          | Australia      | \$23.62             |
| 2    | Luxembourg               | \$44,170                          | Luxembourg     | \$21.24             |
| 3    | New Zealand              | \$44,096                          | New Zealand    | \$21.20             |
| 4    | Germany                  | \$39,714                          | Germany        | \$19.09             |
| 5    | United Kingdom           | \$37,164                          | United Kingdom | \$17.87             |
| 6    | Belgium                  | \$35,175                          | Belgium        | \$17.80             |
| 7    | Ireland                  | \$33,881                          | Ireland        | \$16.71             |
| 8    | Netherlands              | \$33,531                          | Netherlands    | \$16.12             |
| 9    | France                   | \$31,420                          | France         | \$17.26             |

146. In Europe and the UK, there is a trend to set minimum wages against a target relative to the median wage. The Council of Europe’s European Social Charter codifies a living wage and, according to the case-law of its supervisory body, the level of 60 per cent of the net average wage is taken as the basis for appropriate remuneration<sup>55</sup> – so several

<sup>53</sup> Annual income is assessed by calculating the hourly rate with the standard working week, multiplied by 52 (weeks). The standard working week is 40 hours for most countries except for France (35), Australia (38), Belgium (38), Ireland (39) and Israel (42).

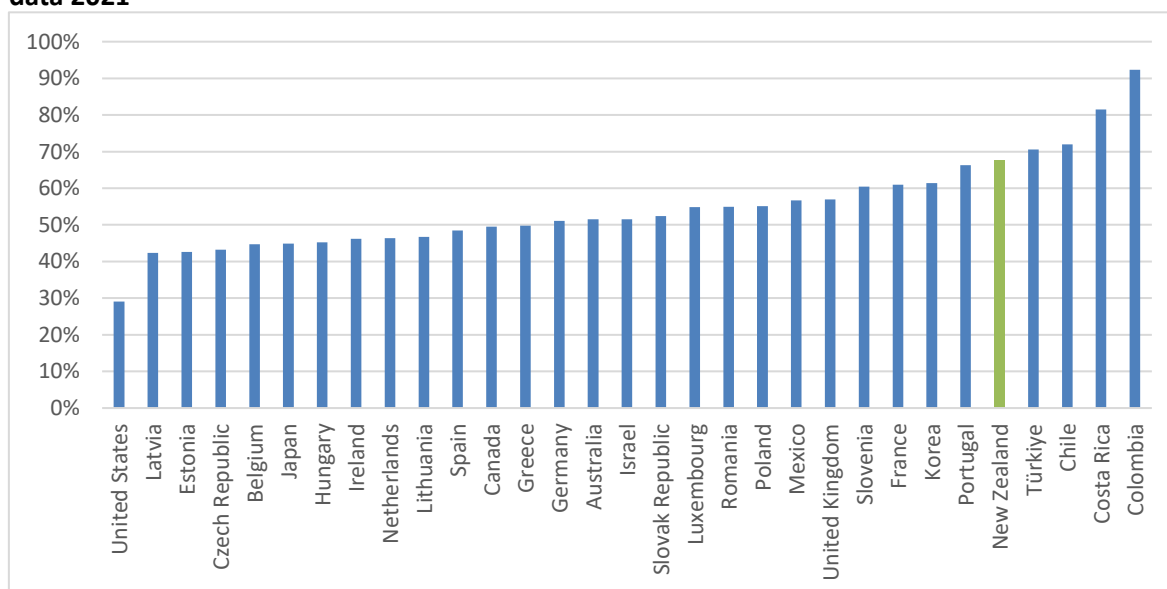
<sup>54</sup> The hourly rate is taken from official government sources. The hourly rate is then converted into \$NZD using Inland Revenue’s Overseas currency rates 2022 - rolling 12-month average in [IRD currency rates](#).

<sup>55</sup> Zimmer, R. (2019). Living wages in international and European law. *Transfer: European Review of Labour and Research*, 25(3), 285–299. <https://doi.org/10.1177/1024258919873831>

EU member states such as Germany and Spain have set this as a target<sup>56</sup>. The UK’s Low Pay Commission set a target for the National Living Wage (minimum wage equivalent) to reach 60 percent of median earnings by 2020. Having reached this target, a new target has been set for the UK rate to reach 66 percent of median earnings by 2024.

- 147. The EU is currently in the process of adopting a directive on adequate minimum wages. The new directive does not include a suggested rate relativity for minimum wages, although a relativity of 60 percent of the median wage was discussed as a criterion. The directive establishes procedures for the adequacy of statutory minimum wages including regular reviews, promotes collective bargaining on wage setting, and enhances access to minimum wage protection for those workers who are entitled to a minimum wage under national law. However the EU does not require member states to set a minimum wage, and member states use varied approaches to centralised minimum wage setting and collective bargaining.
- 148. New Zealand has one of the highest ratios of the minimum wage to the median wage amongst OECD countries. In the 2021 review, the minimum wage rate option of \$21.25 was calculated to be 76.6 percent of the June 2021 median wage. Due to overall wage growth, the actual relativity has declined slightly now that the \$21.20 minimum wage rate is in force. The \$21.20 minimum wage rate is currently calculated to be 71.5 percent of the median in June 2022 for this review, and as shown in Figure 15 from OECD data – a ratio that is still relatively high in global terms.

**Figure 15: Kaitz index: minimum wages relative to median wages in OECD countries, OECD data 2021<sup>57</sup>**



<sup>56</sup> Eurofound (2022), Minimum wages in 2022: Annual review, Minimum wages in the EU series, Publications Office of the European Union, Luxembourg. [https://www.eurofound.europa.eu/sites/default/files/ef\\_publication/field\\_ef\\_document/ef22040en.pdf](https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef22040en.pdf)

<sup>57</sup> Organisation for Economic Co-operation and Development OECD (2020). Minimum relative to median wages of full-time workers - <https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>

## Recent international literature

149. A substantial body of relevant international literature on the minimum wage was summarised in the 2021 report, including two significant papers summarising the demographic coverage, key issues and effects of the NZ minimum wage published by Fry and Wilson<sup>58</sup> and Maré and Hyslop<sup>59</sup>. Refer to the 2021 minimum wage review for a comprehensive summary of recent international literature.

### Additional research of note published in 2022 includes:

150. The introduction of a minimum wage in Germany has provided a ‘natural experiment’ on the impacts of a minimum wage. A German study by Dustmann et al on the reallocation effects of the minimum wage<sup>60</sup> found that introducing Germany’s minimum wage had the intended effect of reducing income inequality. The wages at the low end of the distribution increased faster than those at the top, after controlling for a range of effects. Importantly, there was no discernible effect on employment. This applied both to people who were initially employed below the new minimum wage, and those who were unemployed.

151. However, the study found that increasing the minimum wage was not a costless exercise - part of the increase in earnings was explained by individual employees moving from low-wage to higher-wage (and by assumption higher productivity) employers, while some low productivity firms exited the market. Many of these were micro-businesses employing less than four employees.

152. The implication of this is that policies which allow lower wages enable the viability of less productive, lower-paying businesses. Fry and Wilson<sup>61</sup> have similarly noted anecdotal evidence from the US that increases in the minimum wage induced some firms to look to increase productivity to offset the higher wage bills.

153. Dustmann et al also found evidence that workers (especially men, who are more likely to accept employment further from where they live) experienced an increase in commuting time as a result of moving to a higher-paying employer.

154. Eurofound’s 2022 annual review of minimum wages in the EU<sup>62</sup> includes an investigation into the impact of the 22 percent increase in the minimum wage in Spain in 2019. Eurofound found that Spain registered the greatest reduction in wage inequality among the EU27 Member States in 2019, cited to be an effect of the

<sup>58</sup> Fry, J. and Wilson, P. (2021). The tale of Goldilocks and the three fears (about the minimum wage). NZIER Insight, 96-2021.

<sup>59</sup> Maré, D., and Hyslop, D. *Minimum Wages in New Zealand: Policy and Practice in the 21<sup>st</sup> Century*. No. 14302. IZA Discussion Papers. Institute for the Study of Labour (IZA).

<sup>60</sup> Dustmann, Christian, Attila Lindner, Uta Schönberg, Matthias Umkehrer, and Philipp vom Berge. 2022. ‘Reallocation Effects of the Minimum Wage\*’. *The Quarterly Journal of Economics* 137 (1): 267–328. <https://doi.org/10.1093/qje/qjab028>.

<sup>61</sup> Fry, J. and Wilson, P. (2021). The tale of Goldilocks and the three fears (about the minimum wage). NZIER Insight, 96-2021.

<sup>62</sup> <https://www.eurofound.europa.eu/publications/report/2022/minimum-wages-in-2022-annual-review>

increase, which counteracted relatively high national wage inequality that had been growing in the years before the hike.

**Note on research covering minimum wage impacts on poverty**

- 155. As discussed in MBIE’s 2021 review, Maré and Hyslop’s review of minimum wages in New Zealand concludes that as minimum wage workers are broadly spread across the household income distribution, minimum wages are largely ineffective as a redistributive income support policy<sup>63</sup>. Many people on low hourly rates of pay are in households where incomes are not particularly low. Income transfer policies designed to target low household incomes are more effective at reaching people with low household incomes. To the extent that minimum wages are intended as an income support policy, Maré and Hyslop’s recommend they should be designed and evaluated in the context of other income support policies.
  
- 156. Other New Zealand-based research examining the effects of minimum wage increases similarly suggests that increasing the minimum wage has a relatively limited effect on the inequality of income and poverty (per adult equivalent income) (Alinaghi, Creedy and Gemmell).<sup>64</sup> This was largely due to many low-wage earners being secondary earners<sup>65</sup> in higher income households, whereas many low income households have no earners in the labour market and so do not benefit from an increase. The study identified that increasing the minimum wage provided more substantial assistance for sole parents employed at this income level. It concluded that other options like family-based government fiscal transfers and in-work tax credits are likely to be better targeted in achieving poverty measures and redistribution gains in New Zealand than increasing the minimum wage. However, the paper acknowledged minimum wage policies are relevant as they have other objectives such as providing a wage floor to protect low-paid workers with limited bargaining power.

**Chapter five – impacts of rate options on NZ**

**Impact of minimum wage increases on wages and inflation**

- 157. When the minimum wage increases, labour costs for businesses increase either directly as they employ minimum wage workers, or indirectly because of flow-on effects to the wages of workers paid close to the minimum wage. Employers may respond by absorbing the rise, by accepting lower profits or by increasing the price of goods produced or services provided. They can also reduce labour costs, either by reducing hours paid to employees or by reducing the size of their work force.

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<sup>63</sup> Maré, D., and Hyslop, D. *Minimum Wages in New Zealand: Policy and Practice in the 21<sup>st</sup> Century*. No. 14302. IZA Discussion Papers. Institute for the Study of Labour (IZA). March 2021.

<sup>64</sup> Alinaghi, Nazila, Creedy, John, Gemmell, Norman, (2020), The Redistributive Effects of a Minimum Wage Increase in New Zealand: A Microsimulation Analysis, *Australian Economic Review*, 10.1111/1467-8462.12381.

<sup>65</sup> A primary wage earner’s job is the main source of income for themselves and their family, whereas secondary wage earners depend on another worker for the majority of their household’s income.

158. Whether this leads to higher general inflation depends on the broader drivers of inflation, such as changes in aggregate demand, consumer preferences, and costs of inputs. It is difficult to predict how businesses across different sectors will respond to an increase in the minimum wage as they will each have different pressures and capacity to manage the increase in costs.

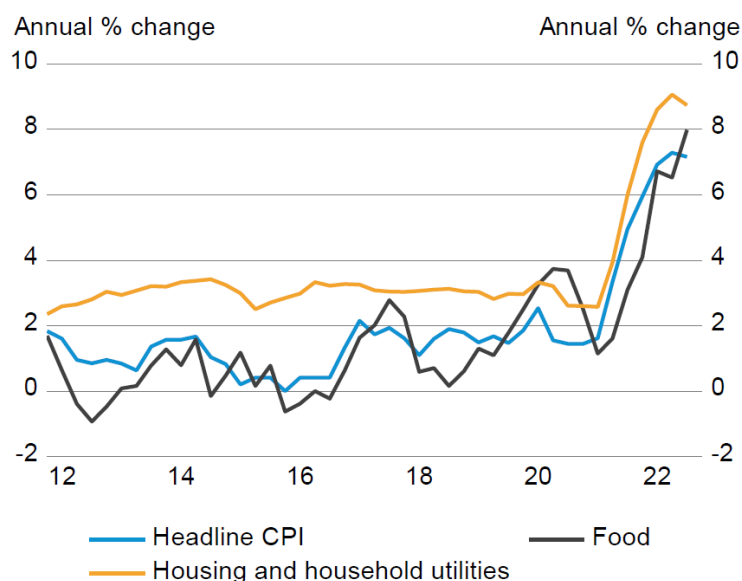
### **The current inflationary environment**

159. New Zealand, along with much of the rest of the world, is experiencing levels of inflation not seen for some decades. The main driver for the 32-year high of 7.3 percent annual inflation to the June 2022 quarter was identified by Stats NZ as the housing and household utilities group (up by 9.1 percent; home ownership cost within it up by 18 percent), due to rising prices for construction and rentals for housing<sup>66</sup>. Transport (up by 14 percent) and food prices (up by 6.5 percent) also contributed to the 32-year-high CPI inflation.
160. While this report focuses on June 2022 statistics for comparability with other labour market indicators, the recently released September quarter CPI results must also be considered. Inflation remained higher than expected in September 2022, with a quarterly increase of 2.2 percent and annual increase of 7.2 percent, driven by food and housing costs. Food prices were the main driver of inflation in September 2022, up 4.1 percent in the quarter and 8.3 percent in the year. This reflects the largest quarterly rise in vegetable prices since the series began in September 1999, following ongoing labour shortages and poor growing conditions.
161. As at September 2022, the cost of building remains the largest contributor to annual inflation, up 16.8 percent up on September 2021. Despite low sentiment in the construction sector and some improvements in material availability, material costs and competition for scarce labour stoked inflation in the September quarter. The price of building a house rose 3.3 percent in the quarter, down from 4.5 percent in June. Growth in housing construction costs should ease in future as subsiding demand, together with reductions in supply constraints, see overall capacity pressures ease.

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<sup>66</sup> [Annual inflation at 7.3 percent, 32-year high | Stats NZ](#); [Consumers price index: June 2022 quarter | Stats NZ](#)

Figure 16: CPI, Food and Housing Groups: Treasury Economic Brief, October 2022<sup>67</sup>



162. Treasury<sup>68</sup> commented in the May 2022 BEFU that inflation had emerged as the principal economic challenge due to strong household demand (supported by fiscal and monetary policy) and a buoyant housing market, while pushing up against supply constraints as businesses navigate restrictions and struggle to obtain materials and labour. Food and housing pressures on CPI are reflected in Figure 16 from Treasury’s October 2022 Economic Brief. Domestic supply constraints have been compounded by global supply disruption and the Russian invasion of Ukraine. Treasury also noted that the tightness in the labour market is expected to push up wages, with employers competing to hire people, and workers seeking higher pay as costs rise – however the Treasury did not describe rising wages as a primary contributor to inflation in its outlook.

**Note on the inflationary impacts calculated by MBIE**

163. Before interpreting the modelling and analysis of the minimum wage options in this section, it must be noted that the inflationary impacts noted in MBIE’s Minimum Wage model do not relate directly to CPI inflation. The inflationary impacts calculated by MBIE do not reflect the commonly used definition of inflation, but inflation of an element of GDP which can contribute to more general inflation but is not a direct driver of consumer price inflation.

164. References to ‘Inflationary impacts’ throughout this review relate solely to their impact on the growth of economy-wide wages due to minimum wage increases, which is weighted by the compensation share of employees in the GDP. Lay readers are likely to

<sup>67</sup> The Treasury. *Consumers Price Index Review – September 2022 quarter*. Economic Brief: 18 October 2022.

<sup>68</sup> [Budget Economic and Fiscal Update Basics 2022 - Budget 2022 - 19 May 2022 \(treasury.govt.nz\)](https://www.treasury.govt.nz/budget/2022/budget-economic-and-fiscal-update-basics-2022)

interpret the mention of ‘inflation’ and ‘inflationary impacts’ as being reference to the CPI which is not the case.

165. The Minimum Wage review uses an economy-wide model that assesses the inflationary risk via the higher GDP (Income) generated which is attributed to the different proposed minimum wage increases. The figures derived in the model show the incremental effects of proposed increases on the nominal GDP-Income measure (which can raise aggregate demand across the economy, and thus increase the risk of inflation). The model does not estimate changes in the Consumer Price Index (CPI).
166. Minimum wage increases have not been cited by Stats NZ or Treasury as significant factors driving consumer price inflation. Increases in the minimum wage can, in theory, have an inflationary effect, if employers respond to increased wage costs by increasing the price of goods produced or services provided or if workers on the new minimum wage spend more. However, the consensus view is that increased wage costs (including minimum wage increases) are not currently the primary driver of CPI inflation.

**Estimated coverage and inflationary impacts of the 2023 rate options**

167. Table 7 below shows the number of workers that would be captured in the wage band of each option, the estimated impacts on the economy-wide wage expenditure, and the estimated inflationary impacts. As expected, increases to the minimum wage result in more workers captured by the new rate. Economy-wide wage increases also rise with each rate increase. The first three options (\$21.20, \$21.84 and \$22.26) are estimated to have close to zero impact on inflation (as defined above), options 4 and 5 (\$22.68 to \$23.10) are estimated to lead to a low increase in inflation and option 5 (\$23.65) is estimated to lead to a moderate increase in inflation.

**Table 7: Economy-wide impacts of minimum wage options**

| <b>Option</b>  | <b>Number of workers earning between current and new option of minimum wage (rounded to nearest 100)</b> | <b>Economy-wide increase in wages (\$m, annual)</b> | <b>Expected increase in inflation (%)</b> |
|----------------|--|---|---|
| \$21.20        | 59,500   | 0   | 0.0                                       |
| \$21.84        | 114,500  | 92  | 0.03%                                     |
| \$22.26        | 190,400  | 204   | 0.06%                                     |
| <b>\$22.50</b> | <b>201,000</b>   | <b>284</b>  | <b>0.08%</b>                              |
| \$22.68        | 222,900  | 352   | 0.10%                                     |
| \$23.10        | 302,300  | 537   | 0.16%                                     |
| \$23.65        | 335,000  | 844   | 0.25%                                     |

168. Each review of the minimum wage uses the most up to date data available, reflected in each year's June Labour Market Statistics (Income) survey, which includes the impact of ongoing wage movement, not just the effect of raising the statutory minimum wage. In 2021, the \$21.25 minimum wage option was assessed to impact 300,700 workers when analysing the impact of this option using the 2021 income data, but the actual coverage of the actual \$21.20 rate in 2022 is only 59,500 workers when using the current 2022 income data, which reflects overall wage increases separate from the April 2022 minimum wage increase. Broader wage movement has seen wages in New Zealand increase 6.4 percent in the year to June 2022. This adjustment of the forecast number of workers against actual labour market statistics is similarly reflected in previous reviews.
169. Wage movement is likely to continue. Because of this, the number of workers currently estimated to be directly impacted by an increase in the minimum wage to \$22.50 (a 6% increase) at 1 April 2023 – 201,000 when using the latest 2022 income data available – is likely to be considerably lower when assessed using the 2023 Income data mid-next year.
170. In last year's review, the \$22.75 minimum wage option (The 2021 Living Wage) was assessed to impact 475,900 workers (with an economy-wide wage increase of \$1,317 million) when analysing the impact of this option using the 2020 Income data. In this year's review, the \$22.68 option would impact only 222,900 (about 53 percent fewer) workers (with an economy-wide wage increase of \$352 million) when using the 2021 income data. This reflects wage increases over that period.
171. While a minimum wage increase raises the wages of workers in entry level roles, it can also create wage compression issues as entry level worker wages become closer to those of more experienced employees. Wage compression occurs when there is only a small difference in pay between employees regardless of their skills, seniority or experience. Some employers may already be experiencing wage compression due to the relatively large increases in the minimum wage from 2018-2021. This can create pay scales within business that are considered inequitable and can lead to higher skilled employees becoming disillusioned with wage levels, which can in turn result in reduced productivity and increased turnover.
172. The fraction of minimum wage workers to total wage earners in New Zealand has normally been around 3 to 4 percent (3.5 percent in 2018, 4.2 percent in 2019, 3.0 percent in 2020, a rise to 7.8 percent in 2021, and a reversion to 2.9 percent in 2022). The rise in coverage of the minimum wage in 2021 reflected the compression effect that a minimum wage increasing at a faster rate than the median wage had on the income distribution for workers.
173. The proposed rate of \$22.50 is expected to affect 201,000 workers, 9.9 percent of wage earners. This is calculated using point in time income data and assumes that everyone below the proposed new minimum wage rate moves to it and no further. It is likely that workers paid just below the minimum wage would probably receive the



general company pay movement (or more), and possibly some adjustment to maintain pay relativity above the minimum if affordable to an employer (although compression has been raised as an issue in submissions this year) – rather than just a blunt adjustment to the new rate and no further. This is why a year later the fraction of workers on the statutory minimum wage normally drifts back towards 3 to 4 percent of wage earners.

## Impacts on employment

174. Employers may also respond to minimum wage increases by reducing their highest input costs, which are usually labour. Negative employment effects resulting from this include job losses, lower job growth, unfilled vacancies and reduced hours of work. The extent of these effects will depend on the size of the minimum wage rate increase, the economic and labour market context in which the rate increase occurs and how firms respond.
175. A theme in submissions from employer representatives in 2022 is that in response to minimum wage rate increases, employers are seeking to hire more skilled workers at higher rates instead of less experienced workers on the minimum wage. They argued, as in previous submissions, that this is less costly than hiring a minimum wage worker where there is more expense in training and pastoral support to make a less skilled worker more productive. It also means that the employer does not need to adjust the entire pay scale for all their workers to accommodate the increase at the lowest level as employing one more expensive worker is less costly than paying all workers more.
176. In 2021, some employer representatives noted that some businesses were simply closing, particularly if the owners were considering retirement or investing in other opportunities. The Employers and Manufacturers Association observed this year that businesses are reducing opening hours by closing early or not opening on some regular work days, due to prohibitive costs of being open.
177. MBIE’s modelling indicates that significant restraint on employment growth is only likely when proposed changes to the minimum wage rate are large compared to the forecast increases in the average wage. This is consistent with domestic and international literature. MBIE’s model uses a range of economic and employment data to predict the employment effects of different increases to the minimum wage. The model provides a main estimate, which represents the ‘mean effect’ and the lower and higher confidence estimates around the mean effect.
178. The mean figures modelled for the 16-64 year old age group under the different minimum wage options represents the most likely employment restraint impacts. As shown in Table 7 below, the modelling suggests that minimum wage increases at above 6 per cent (i.e., \$22.68 and above) which is the latest forecast wage growth of the Treasury in 2023 would restrain employment growth, at progressively higher levels when the minimum wage increase exceeds the forecast wage growth substantially.

**Table 8: Summary of employment impacts**

**IN CONFIDENCE**

| Option        | Potential constraint on employment growth        |   |   |
|---------------|--|---|---|
|               | Kaitz ratio based-<br>'16-64 year olds'<br>(Low) | Kaitz ratio based-<br>'16-64 year olds'<br>(Mean) | Kaitz ratio based-<br>'16-64 year olds'<br>(High) |
| 0% \$21.20    | S  | S   | S   |
| 3% \$21.84    | S  | S   | S   |
| 5% \$22.26    | S  | S   | S   |
| 6% \$22.50    | S  | S   | S   |
| 7% \$22.68    | -3,000   | -5,100  | -7,100  |
| 9% \$23.10    | -9,100   | -15,300   | -21,300   |
| 11.6% \$23.65 | -17,100  | -28,900   | -39,900   |

179. The \$22.50 minimum wage option, if implemented in April 2023, is assessed to have a potential restraint on employment growth of less than 1,000 workers across all confidence bands.
180. In comparison, the analysis undertaken in 2021, on the \$21.25 minimum wage option (which was the closest to the \$21.20 rate implemented in April 2022) was assessed to have a potential restraint on employment growth of 6,400 workers (16-64 year olds-relative impact) with the range of 3,700 (Groups most affected) and 7,100 (16-64 year olds-direct impact). Further, the \$20.00 minimum wage implemented in April 2021 was assessed to have a potential restraint on employment growth of 9,000 workers (16-64 year olds-relative impact) with the range of 5,500 (Groups most affected) and 10,000 (16-64 year olds-direct impact).
181. The lower main employment restraint estimate in 2022 in relation to 2021 (6,400 vs 9,000) and the lower values (3,700 vs 5,500) of the lower bands, and lower values (7,100 vs 10,000) for the upper bands, are related to two key factors. These are a higher percent minimum wage increase in 2022 (6 percent compared to 5.8 percent in 2021), but combined with considerably higher overall (QES) wage increase forecast by the Treasury for the 2022 June year (3 percent) in the May 2021 BEFU, compared to the 2021 June year (0.9 percent) in May 2020 BEFU – which was released soon after the COVID outbreak in March-April 2020.
182. Overall, having updated the model, there is a lower main employment restraint estimate in for 2023 compared to the modelling used from 2018-2021. Lower employment restraint is related to the considerably higher overall (QES) wage increase forecast by the Treasury for the 2023 June year (6 percent) in the May 2022 BEFU, compared to for the 2021 June year (3 percent) in May 2021 BEFU, during the early stages of recovery post-COVID. Also, the MBIE-MW model has been updated with data

to the 2022 March quarter, and is now using quarterly data along with a modified model specification to capture shorter and longer term impacts, as well as fixed effects.

### Impacts on wage distribution

183. Recent increases in the minimum wage have been higher than median wage growth, which has compressed the wage distribution curve more towards the median wage, steepening the lower wage side. This means that increases in the minimum wage from this point are likely to impact on more workers than has previously been the case. The distributional impact of the minimum wage is shown below in Figure 17.

184. **Figure 17: Distributional impact of the minimum wage (2020)**



Source: Maré and Hyslop, 2021<sup>69</sup>

185. The increased minimum wage ‘bite’ shown above makes increases likely to have a greater effect on employers’ costs. The proposed rate of \$22.50 will directly impact around 201,000 workers at a cost to businesses of \$284 million. A further \$0.18 increase to \$22.68 benefits approximately 222,900 workers (21,900 more) at a total cost of \$352 million (\$68 million more) to businesses. Increasing the minimum wage rate \$0.60 to \$23.10 would benefit approximately 302,000 workers but at an increased total cost of \$537 million (\$221 million more than \$22.50) in wages to businesses.

186. With larger increases to the minimum wage above \$22.50, total wage costs for employers may become unaffordable for some firms, particularly those in sectors with high numbers of minimum wage workers. These sectors currently include hospitality (with 17.3 per cent of workers on the minimum wage), retail (9.8 per cent), and

<sup>69</sup> David C. Maré and Dean R. Hyslop, March 2021, Minimum Wages in New Zealand: Policy and practice in the 21st century, Motu Working Paper 21-03, [Minimum Wages in New Zealand: Policy and practice in the 21st century | Motu](#). Source notes: Distributions are centred at the 1st and 99th percentile values of overall wages in each period. Vertical lines indicate the (average) prevailing minimum wage applying to each group in 1997-00, 2008-11, and 2018-20.

administrative services (6.2 per cent). This risks vulnerable businesses ceasing trading or downsizing, which could increase unemployment and/or underutilisation for lower-paid employees, particularly those people on or near the current minimum wage.

187. The rate of increase of the proposed \$22.50 rate is below or equal to the increases in median hourly wages in the year to June 2022 (6.8 percent) and Treasury's Budget 2022 forecast for average ordinary hourly wages (6.0 percent). The recommended rate will not exceed general expected wage increases and are therefore not expected to significantly drive wage compression in an already-competitive labour market. However, expectations of weaker net employment growth and a tight labour market mean that the negative employment effects of minimum wage increases are likely to be mitigated by new jobs created and available in the economy.

## Impacts on child poverty

188. Reducing poverty, particularly child poverty, is a key government objective. Legislation introduced in 2018 (the Child Poverty Reduction Act) establishes a framework for measuring child poverty, and requirements to set targets to reduce child poverty, and to report regularly on progress towards the targets.
189. Poverty and material hardship are multi-dimensional and trends can be quite different, depending on the focus. There are nine measures which must be reported on annually, including three primary and six secondary measures<sup>70</sup>. The primary measures are:
- BHC50: before housing cost income – the number of children in households with much lower incomes (50 percent) than the median household income.
  - AHC50: after housing cost income – the number of children in households with incomes much lower (50 percent) than a typical 2018 household, after housing costs.
  - Material hardship: a lack of six or more out of the 17 items in the material deprivation index (DEP17), which include things like having two pairs of shoes in good condition and not putting off doctor visits<sup>71</sup>
190. For the year ended June 2021, all nine measures of child poverty were trending downwards, over the three years since the 2017/18 baseline. The figures also show the Government has met the first round of child poverty targets on two of the three primary measures. Using the primary measures specified in the Child Poverty Reduction Act, Statistics NZ estimated that, in the year ended June 2021, 11.0 percent of children lived in a household experiencing material hardship.<sup>72</sup> On the AHC50 measure, the 2020/21 financial year, 16.3 percent of children (187,300) lived in households with after-housing-costs equivalised disposable income that was less than

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<sup>70</sup> [Child Poverty Reduction Factsheets | Child and Youth Wellbeing \(childyouthwellbeing.govt.nz\)](#)

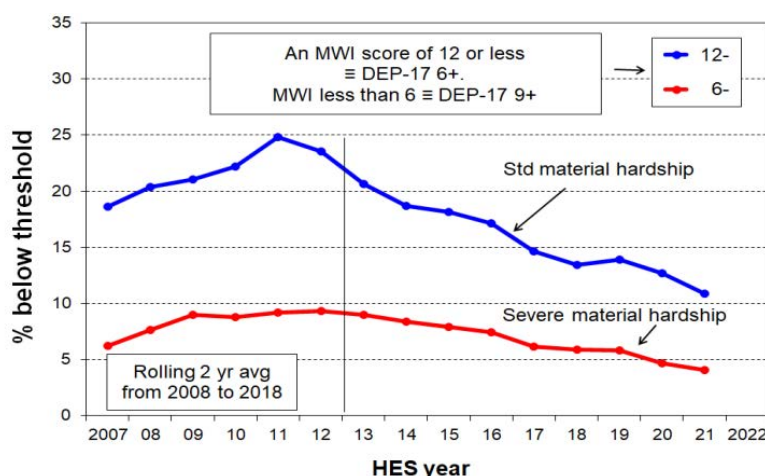
<sup>71</sup> [Factsheet - Child poverty rates, targets and measures.pdf \(childyouthwellbeing.govt.nz\)](#)

<sup>72</sup> New Zealand's Child Poverty Reduction Act adopts a multi-measure multi-level approach, with four primary and six supplementary measures that consider different depths of child poverty before and after housing costs, and material hardship.

50 percent of the median after-housing-costs income in 2017/18 (the baseline year)<sup>73</sup>. On the BHC50 measure, 13.6 percent of children were living in households with less than 50 percent of the median equivalised disposable household income before housing costs are deducted – an increase from 13.2 percent in the year ended June 2020<sup>74</sup>. Estimates are that around 40 percent of children in poverty live in households where there is at least one adult in full-time employment or self-employment.<sup>75</sup>

191. For international comparison of New Zealand’s child poverty measures, the 2020 EU-13 material hardship rate for New Zealand two parent households with one or two children is 7 percent, close to the EU median for this household type (6 percent)<sup>76</sup>. For two parent households with three or more children the New Zealand rate (17 percent) is above the median EU rate for this group (11 percent). For New Zealand sole parent households, the EU-13 material hardship rate is 29 percent, down from 34 percent in 2017, but still well above the European median for this household type (19 percent). New Zealand also has a relatively high proportion of sole parent households compared with European countries.
192. Material hardship rates for children increased during the Global Financial Crisis from 2008 and associated downturn, and have improved from 2013 to 2021 (Figure 18 overleaf). Perry attributes this downward trend to “a combination of rising employment rates, rising wages, increases to income support for families with children, increased support for housing and child-care costs, and other measures that reduce demand on the family budget (eg free doctors’ visits and the food-in-schools programme)”.

**Figure 18: Material hardship trends for children (0-17 years), 2007 to 2021**



<sup>73</sup> [Child poverty statistics: Year ended June 2021 | Stats NZ](#)

<sup>74</sup> [Child poverty statistics: Year ended June 2021 | Stats NZ](#)

<sup>75</sup> Department of the Prime Minister and Cabinet. (2018). *Child Poverty Reduction Proactive Release March 2018*. Retrieved at <https://dpmc.govt.nz/sites/default/files/2018-03/doc-06-cbc-paper-legislating-to-drive-action-to-reduce-child-poverty.pdf>

<sup>76</sup> Perry, B. Child Poverty in New Zealand. October 2022. <https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/research/child-poverty-in-nz/2022-child-poverty-report.pdf>

193. Perry's 2022 report on child poverty<sup>77</sup> observes that hardship rates of children in households reliant on government supported income are four to five times higher than rates for children in households where the main source of income is paid work. Although working households have lower hardship rates, there are many more such households than beneficiary households, so the actual numbers of children in hardship are similar across both beneficiary and working households. Perry emphasises that many households supported by paid work are reliant on government support such as Working for Families on top of their market income.
194. Data from the 2020 Household Labour Force Survey indicated that 33 percent of minimum wage earners were in the household demographic of 'couple with dependent children', and 10 percent were in the demographic of 'single with dependent children'. 38 percent were couple or single households without dependent children, and 19 percent were 'other'. A range of factors influence whether the overall incomes of households with minimum wage workers and dependent children are in poverty. These include whether there are other earners, numbers of hours worked, household size, and entitlement and take-up of government income support (eg through tax credits and supplementary assistance). Non-income factors will further influence the extent to which minimum wage earning households with children experience material hardship.
195. International evidence suggests that under certain conditions (eg growing demand for labour, and no or small disemployment effects) minimum wage increases can be effective in reducing poverty.<sup>78</sup> Overall, however, a key message from the literature is that minimum wage increases on their own are a 'blunt instrument' for reducing child poverty. This is because minimum-wage and other low paid workers can be found in households across the income distribution, and (as indicated above) a relatively small proportion of minimum wage earners are parents in households with dependent children. The DPMC Child Poverty Unit has noted that material hardship and income poverty are only moderately related, meaning that there are many people in material hardship who are not income poor and vice versa.
196. The effects of minimum wages on poverty are also highly context specific, with important interaction effects with economic conditions, employment settings, and the tax and transfer system. As is shown later in this report, some households with a minimum wage earner will not receive the full financial gains of a minimum wage increase. That is because their higher level of income may reduce the amount of financial assistance they are entitled to receive through Government transfers, such as Working for Families and the Accommodation Supplement.

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<sup>77</sup> Perry, B. Child Poverty in New Zealand. October 2022. <https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/research/child-poverty-in-nz/2022-child-poverty-report.pdf>

<sup>78</sup> Matsaganis, Medgyesi and Karakitsios. (2015). *EU Research note on interaction between minimum wages, income support, and poverty*. European Commission.

197. The Child Poverty Unit and Ministry of Social Development undertook analysis<sup>79</sup> for the 2018 minimum wage review, to consider the impacts of proposed minimum wage changes on selected child poverty measures. That analysis indicated that minimum wage increases were more likely to have an impact on income poverty rates for households *without* children, with limited impacts on measured income poverty for households with children.
198. There are a range of reasons for this finding, but a key one is that minimum-wage earning households with children often receive government-provided income support to supplement their employment income. In particular, the design of the Minimum Family Tax Credit (MFTC) component of Working for Families guarantees low income families with a dependent child or children an after-tax minimum income, by ‘topping up’ a household’s earned income to a set level.
199. Over the past few years the government has implemented a number of targeted initiatives to increase the net incomes of many low-income working households. These changes include: the Families Package (which made changes to Working for Families and introduced Best Start payment to families in the first few years of their child’s life); increases in abatement thresholds which affect the number of hours someone can work before their benefit reduces; and removal of the ‘hours test’ for the In Work Tax Credit (IWTC).
200. In the COVID-19 pandemic, despite the profound impacts of COVID-19 on the economy and society, the Government’s public health response and the measures taken to protect the economy and jobs have helped reduce pandemic-related impacts on child poverty rates. The Wage Subsidy and other support for businesses supported over 1.8 million jobs throughout COVID-19 to help ensure parents kept their jobs<sup>80</sup>.
201. Other recent changes have increased the incomes of non-working families. These include the wage indexation of main benefits, increases in main benefits in 2020, 2021 and 2022, and changes to increase the Family Tax Credit rate and abatement rate to support low-income families in April 2022. The combination of these changes and minimum wage changes has maintained a gap between main benefits and paid work that is consistent with previous years, and broadly maintains existing financial incentives to work.
202. Further minimum wage changes may increase incentives for people to enter work or increase their hours of work. These kinds of behavioural impacts are difficult to model,

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<sup>79</sup> The analysis looked at whether proposed minimum wage increases put the incomes of scenario households (for different household sizes, locations and numbers of hours worked) over various standard poverty lines. Poverty lines are generally set as a proportion of median incomes (e.g. 40 percent, 50 percent or 60 percent), either before or after housing costs (‘BHC’ or ‘AHC’). The modelling assumed lower quartile rents and full-take up of income-support entitlements such as Working for Families and Accommodation Supplement. Further information can be found in the Minimum Wage Review 2018 (MBIE, 2018).

<sup>80</sup> New Zealand Government. *Wellbeing Budget 2022 - A Secure Future*. 19 May 2022. <https://budget.govt.nz/budget/pdfs/wellbeing-budget/b22-wellbeing-budget.pdf>

but New Zealand analysis<sup>81</sup> suggests that they may be greater for sole parents in particular, leading to meaningful reductions in income poverty rates<sup>82</sup> for this group (and their children).

203. There has been no specific analysis for this review of the impact of minimum wage changes on income poverty measures or levels of material hardship. Material hardship impacts are difficult to analyse as they are influenced by a broad range of factors, beyond income. Nevertheless, there is good evidence that increasing income is a key means of reducing material hardship.<sup>83</sup> We would expect that increased net household income as a result of minimum wage increases will have a positive impact on actual day-to-day living conditions of some low and middle income families, and help contribute to reduced material hardship for some households.

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<sup>81</sup> Alinaghi, Nazila, John Creedy and Norman Gemmill (2019) The redistributive effect of a minimum wage increase in New Zealand: A micro-simulation analysis. The Australian Economic Review. The University of Melbourne.

<sup>82</sup> Note that emphasis was income poverty, not material hardship.

<sup>83</sup> See for example, Guio, Anne-Catherine, Eric Marlier, Frank Vandenbroucke and Pim Verbunt (2020) *Micro- and macro-drivers of child deprivation in 31 European countries. 2020 edition*. Eurostat Statistical Working Papers



## Chapter six – impacts on workers

### Cost of living

204. The Consumer Price Index<sup>84</sup> (CPI) and Household Living-Cost Price Indexes<sup>85</sup> (HLPI), published by Statistics NZ, provide trend data on changes in the cost of living over time. Analysis of this data indicates that low-income and beneficiary households have experienced higher than average price inflation over the past decade.
205. The CPI measures how inflation affects New Zealand as a whole. The HLPI measures how inflation affects 13 different household groups, plus an all-households group. Inflation as measured by the CPI was 7.3 percent in the June 2022 quarter compared with the June 2021 quarter), while inflation for the average household as measured in the HLPIs in the same year (ending June 2022) was 7.4 percent. These two measures of inflation are typically used for different purposes. A key use of the CPI is monetary policy, while the focus of HLPIs is to provide insight into the cost of living for different household groups.
206. Housing is treated differently between these two measures. The CPI captures the cost of building a new home, while the HLPIs capture mortgage interest payments. In the HLPIs, interest payments increased 31 percent for the average household in the year to June 2022. In the CPI, the cost of building a new home increased 18 percent in the year to June 2022.
207. Reflecting CPI, increasing prices were widely felt across all household groups in the June 2022 quarter HLPI, as all the household groups faced their highest annual cost-of-living increase since the series began in 2008. Higher prices for housing and petrol were the main contributors to the increase across all household groups. Per Figure 19 below, in the year to June 2022, Average Household HLPI is up 7.4 percent, Beneficiary 6.5 percent, Superannuitant 6.6 percent, Expenditure Quintile 1 (low) 6.1 percent, Expenditure quintile 5 (high) 8.1 percent, and Māori 7.6 percent<sup>86</sup>.

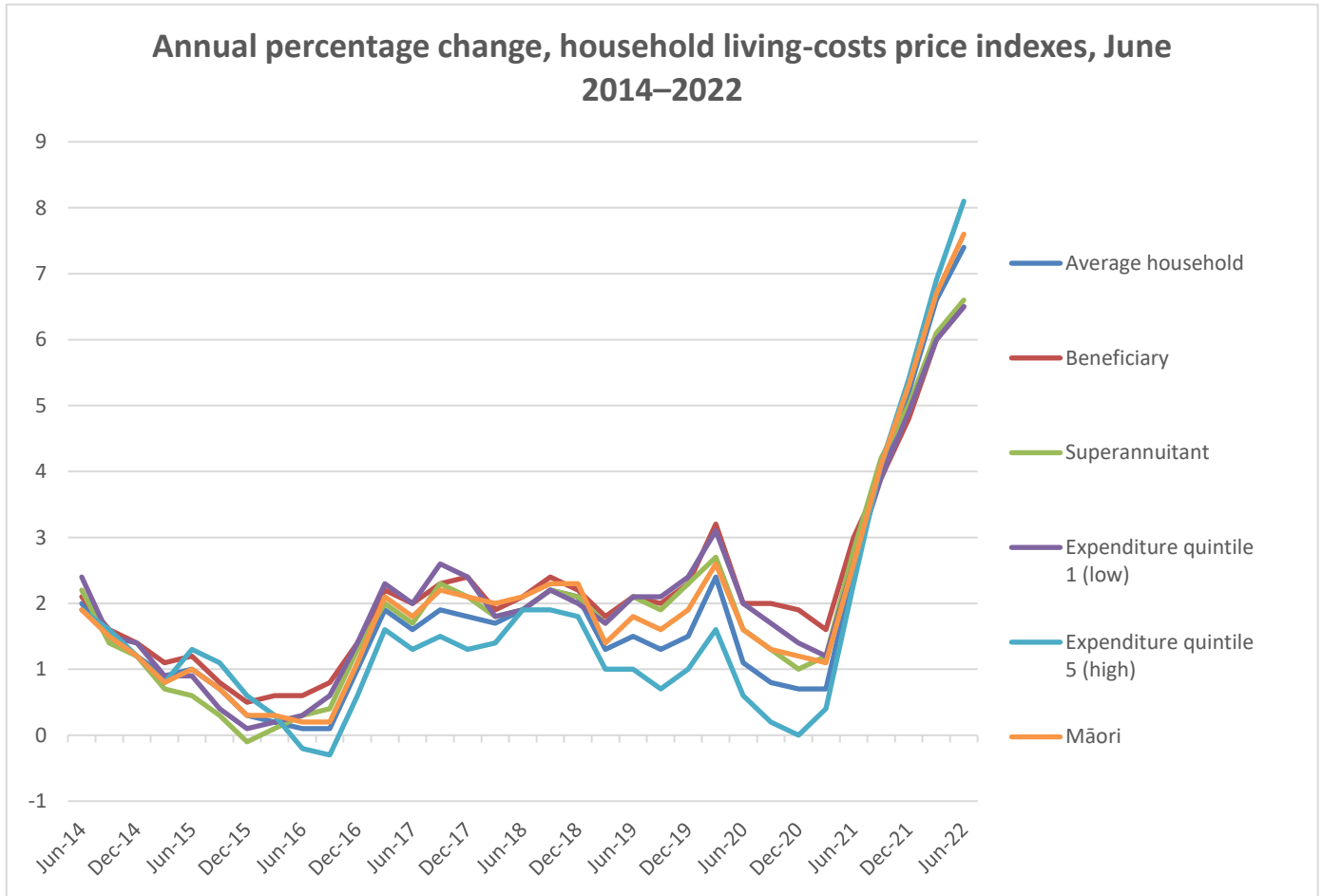
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<sup>84</sup> The Consumer Price Index measures the change in the price of goods and services for a basket of goods intended to be representative for an 'average' New Zealand household.

<sup>85</sup> The Household Living-Costs Price Indexes are produced by Statistics NZ and track the experience of inflation for different groups (e.g. for beneficiaries, superannuitants and Māori, and by income and expenditure quintiles).

<sup>86</sup> <https://www.stats.govt.nz/information-releases/household-living-costs-price-indexes-june-2022-quarter/>

Figure 19: Annual percentage change, HLPs June 2014-2022

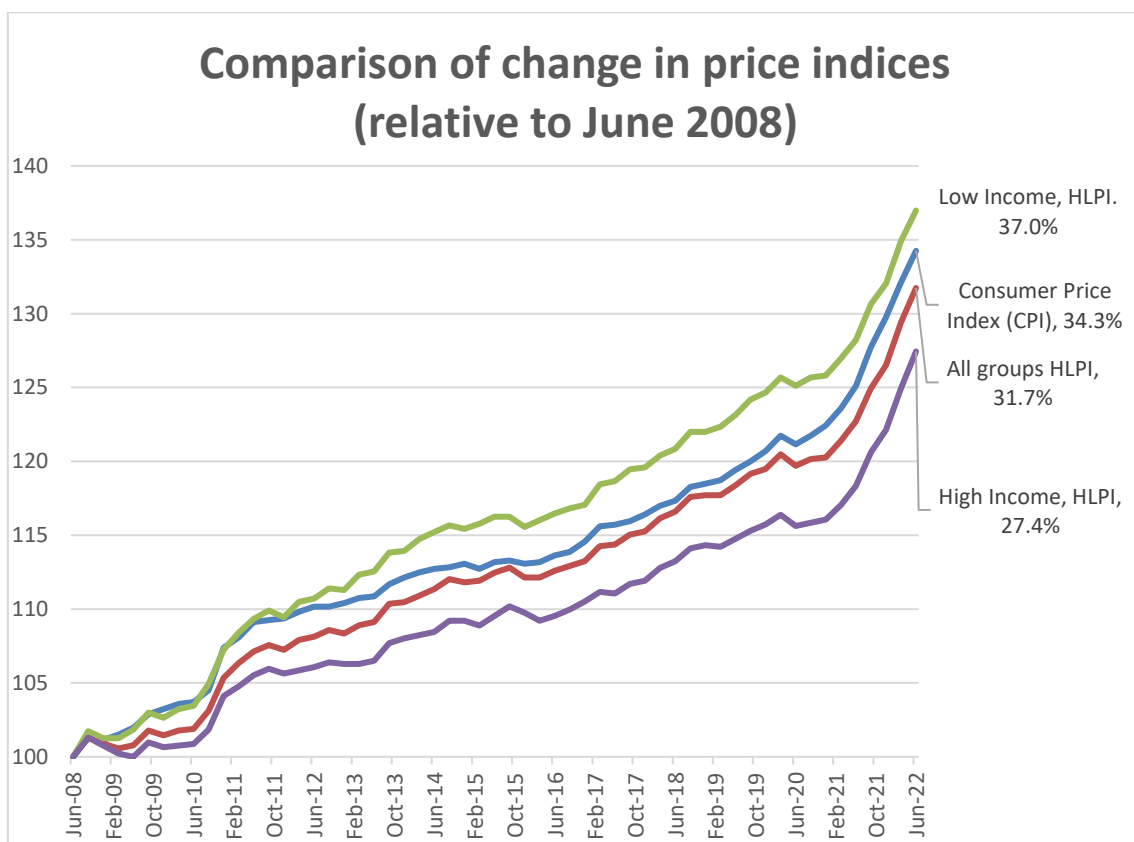


208. The cost of living for the average household, as measured by the HLPs, increased 7.4 percent in the June 2022 quarter compared with the June 2021 quarter<sup>87</sup>. The cost of living for highest-spending households increased 8.1 percent (reflecting raised interest rates, due to RBNZ’s increases in the Official Cash Rate to mitigate inflation) while that for lowest-spending households and beneficiary households increased 6.5 percent. The highest-spending household group spends about 7.3 percent of their expenditure on interest payments. This compares with 4.6 percent for the average household and 2.0 percent for the lowest-spending household group. This means the highest-spending households experience the higher interest rates more than other household groups.
209. Annual inflation for lowest-spending households and beneficiary households was 6.5 percent, facing higher prices for petrol, rent, groceries/food and interest payments. Beneficiary households spend about a third of their expenditure on rent. This compares with about 14 percent for the average household and about 5 percent for highest-spending households. Therefore, increases in the cost of rent impact beneficiary households more than other household groups.

<sup>87</sup> <https://www.stats.govt.nz/news/rising-housing-and-petrol-costs-lead-to-higher-inflation-across-all-household-groups/>

210. The cost of living for Māori households was 7.6 percent higher in June 2022 compared with June 2021. This compares with 7.4 percent for the average household. The increase was largely due to higher prices for petrol and interest payments, as well as for rent and grocery food. Māori households spend a greater proportion of their expenditure on rent than the average household, at nearly 20 percent. This compares with about 14 percent for the average household. They also spend slightly more on private transport supplies and services, such as petrol. These contributed to their cost-of-living increase.
211. Between 2008 and 2022, the cumulative inflation experienced by low-income households (by quintile) was 37.0 percent. This exceeds to 31.7 percent for all households generally, 34.3 percent in the CPI and 27.4 percent for high income households, as shown in Figure 20 below. Since June 2020, the upward trend in price indices across all income groups has accelerated as the inflationary pressures have pushed the prices of consumer goods and services higher. This is a result of the economic recovery that eventuated after the COVID-19 lockdowns in 2020 and 2021, and border closures an international supply chain constraints that have limited the movement of labour and goods.

**Figure 20: Comparison of change in price indices (relative to June 2008)**



212. Since 2008, the biggest drivers of increases in the cost of living for low income households have been insurance, local authority property rates, rents and (to a lesser extent) food, as shown in Figure 21 overleaf. In recent months, the cost of private

transport, mainly reflecting petrol prices, has contributed to the rising cost of living, as have increases over the last year in food prices, energy, rents and interest.

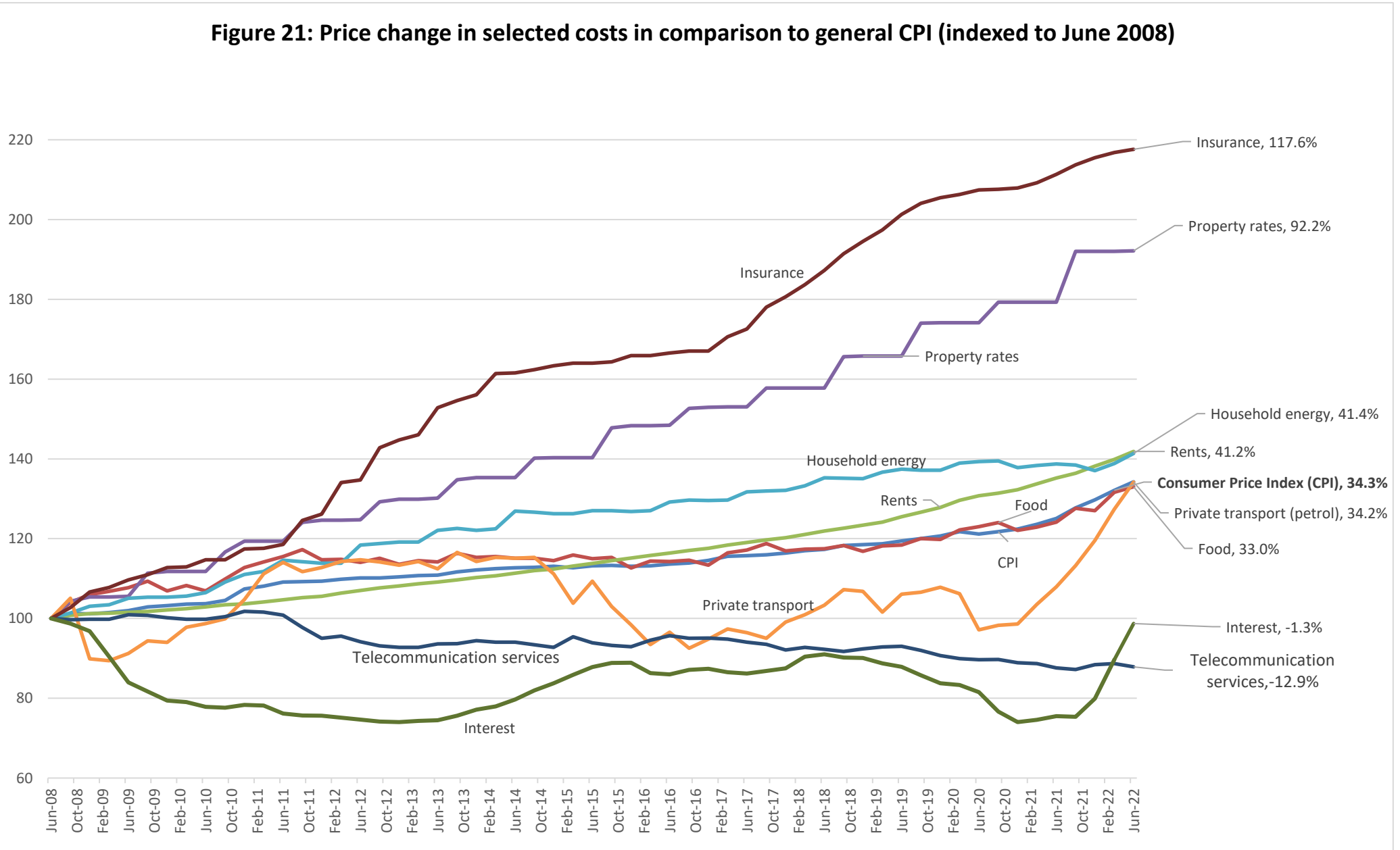
213. The higher cost-of-living increases experienced by low income households are primarily due to the fact that items such as rent and petrol costs account for a greater proportion of the expenditure of these households. Insurance and property rates mostly affect housing, and are also reflected in rents to low-income households as these costs are passed on by landlords. As a result, the significant cost increases for these items have had a greater impact on low-income households. Low income households are also less likely to have benefited from decreases in interest rates over the previous years, as they are less likely to own their own home and have a mortgage. Interest rates are currently rising again as part of the response to inflation – this is expected to moderate the purchase cost of housing in the near to medium term, but increased mortgage repayments on rental properties may also be passed on as costs to renters.
214. Housing costs are a significant expense for low income households, which are more likely to rent. This was covered comprehensively in Section Two of the *Minimum Wage Review 2021*. As observed in the 2021 report, in 2022 the rent prices of new tenancies started in the last year have continued to increase. Statistics NZ’s annual rental price indexes, which measure the changes in prices that households pay for housing rentals, for the stock measure of rental property prices increased by 4.0 percent whereas the flow measure increased 5.1 percent in the year to June 2022.<sup>88</sup> The annual changes in the year to June 2021 were 3.1 percent (stock) and 4.9 percent (flow). The changes in the year to June 2020 were 3.4 percent (stock) and 0.2 percent (flow), and 3.3 percent (stock) and 3.9 percent (flow) in the year to June 2019.
215. In the year to June 2022, the CPI rose 7.3 percent, led by increased costs for housing and household utilities, transport and food.<sup>89</sup> Housing and household utilities increased 9.1 percent, influenced by home ownership (up 18 percent) and actual rentals for housing (up 4.3 percent). Transport increased 14 percent, influenced by private transport supplies and services (up 25 percent) and purchase of vehicles (up 4.0 percent). Food prices increased 6.5 percent, influenced by grocery food (up 7.1 percent) and restaurant meals and ready-to-eat food (up 5.8 percent).

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<sup>88</sup> Rental price indexes measure the changes in prices that households pay for housing rentals and are calculated by Statistics NZ. The flow measure of rents captures rental price changes only for dwellings that have a new tenancy started in the reference month. It tends to be more volatile than the stock measure, which shows rental price changes across the whole rental population, including renters currently in tenancies.

<sup>89</sup> Statistics NZ, [Consumers price index: June 2022 quarter | Stats NZ](#)

Figure 21: Price change in selected costs in comparison to general CPI (indexed to June 2008)



216. The CPI is often compared with the Labour Cost Index (LCI) to indicate the extent to which wages are rising in relation to the cost of living. While the LCI and Quarterly Employment Survey are showing increased wage movement, these increases are falling behind inflation in the CPI.
217. The LCI all salary and wage rates (including overtime) increased 3.4 percent in the year to the June 2022 quarter, which compares with 2.1 percent in the year to June 2021. The increase in wages in the year to June 2022 was mainly driven by the private sector, which increased by 3.4 percent, with public sector wages rising by 3.0 percent over the year. Average ordinary time hourly earnings increased to \$36.97 (up 6.4 percent) in the year ended June 2022.

### Impacts on minimum wage workers

218. Minimum wage rate increases are broadly understood to benefit workers by boosting the incomes of lowest paid employees, providing a wage floor and lifting household incomes, helping to reduce poverty and inequality, and increasing productivity. Minimum wage increases can also incentivise businesses to become more productive, efficient, and innovative, and to invest in capital.
219. Workers might also experience negative impacts from the responses to a minimum wage increase by employers, such as reducing hours, recruiting fewer people, shifting production offshore, or increasing automation. This year’s employer submissions on minimum wage impacts, re-iterating previous years’ concerns and as found in a survey by the former Department of Labour in 2012, note that some employers change their hiring practices in reaction to the changes to the minimum wage in line with the impacts above.<sup>90</sup> MBIE’s 2018 consultation with workers also found that hiring practices change in line with the impacts above.

### The number and demographics of people affected

220. Of the 2,089,500 wage earners employed in New Zealand, 2.9 percent (59,500) are earning the minimum wage in 2022. The data on wage earners is from the June 2022 quarter Household Labour Force Survey (HLFS).
221. The following tables estimate the number of workers aged 16 to 64 who are likely to be affected by the minimum wage options considered in this review. The percentage columns refer to the percentage of workers earning at the relevant wage level among the total population of wage and salary earners.

**Table 9: Estimated affected adult workers (aged 18 to 64 years)**

| Option  | 18-64 |        | 18-19 |        | 20-24 |        | 25-64 |        |
|---------|-------|--------|-------|--------|-------|--------|-------|--------|
|         | %     | Number | %     | Number | %     | Number | %     | Number |
| \$21.20 | 2.9%  | 59,500 | 19.8% | 12,400 | 8.0%  | 17,500 | 1.7%  | 29,800 |

<sup>90</sup> Department of Labour. (2012). *Employers’ attitudes and practice around the change to the minimum wage.*

|                |             |                |              |               |              |               |             |                |
|----------------|-------------|----------------|--------------|---------------|--------------|---------------|-------------|----------------|
| \$21.84        | 5.6%        | 114,500        | 30.4%        | 19,000        | 15.2%        | 33,400        | 3.5%        | 62,100         |
| \$22.26        | 9.3%        | 190,400        | 42.5%        | 26,600        | 24.3%        | 53,400        | 6.3%        | 110,400        |
| <b>\$22.50</b> | <b>9.9%</b> | <b>201,000</b> | <b>43.0%</b> | <b>26,900</b> | <b>24.9%</b> | <b>54,700</b> | <b>6.8%</b> | <b>119,300</b> |
| \$22.68        | 10.9%       | 222,900        | 45.8%        | 28,700        | 27.1%        | 59,600        | 7.7%        | 134,600        |
| \$23.10        | 14.8%       | 302,300        | 54.6%        | 34,200        | 33.6%        | 73,700        | 11.1%       | 194,400        |
| \$23.65        | 16.4%       | 335,000        | 57.5%        | 36,000        | 36.0%        | 79,000        | 12.5%       | 220,000        |

Note: the percentage column refers to the percentage of workers earning at the relevant wage level among the whole population of wage earners of the particular age group.

222. The \$22.50 option for 2023 is assessed to impact 201,000 adult workers aged 18-64, using the June 2022 HLFs income data. This is within the range of the expected impacts for previously selected rate options. Comparatively, the \$21.25 option in the 2021 review was assessed to impact 273,100 adult using the 2021 income data. The \$20.00 option for 2021 was assessed to impact 163,500 adult workers using the 2020 Income data, and the \$18.90 option for 2020 was assessed to impact 219,400 adult workers when using the 2019 Income data.
223. The \$20.00 minimum wage option was assessed to impact 8.7 percent of the adult workers in 2021 using the 2020 income data, but only impacted 7.0 percent of the workers when using the 2021 income data, which included (general) wage increases separate from the minimum wage increase.
224. Table 10 below shows that generally, larger numbers of 16- to 17-year-olds will be affected by increases in the adult minimum wage than the starting out wage, because very few young people are paid the starting-out wage.

**Table 10: Estimated affected young workers (aged 16 to 17 years)**

| Rate option               | Rate \$ coverage       | Workers aged 16-17 paid adult minimum wage |               |
|---------------------------|------------------------|--|---------------|
|                           |                        | %  | Number        |
| Current starting-out wage | \$16.96-\$21.20        | 20.3%                                      | 10,000        |
| Current MW                | \$21.20                | 33.5%                                      | 16,500        |
| Option 2                  | \$21.20-\$21.84        | 47.4%                                      | 23,300        |
| Option 3                  | \$21.20-\$22.26        | 52.8%                                      | 26,000        |
| <b>Option 4</b>           | <b>\$21.20-\$22.50</b> | <b>54.1%</b>                               | <b>26,600</b> |

|          |                 |       |        |
|----------|-----------------|-------|--------|
| Option 5 | \$21.20-\$22.68 | 56.1% | 27,600 |
| Option 6 | \$21.20-\$23.10 | 61.2% | 30,100 |
| Option 7 | \$21.20-\$23.65 | 64.0% | 31,500 |

225. Option 4, the \$22.50 option for 2023, is assessed to impact 26,600 young workers (16-17-year-olds) when analysing the impact of this option using the 2022 income data. This is lower than the \$21.25 option for 2022 which was assessed to impact 27,500 16-17-year-old workers when analysing the impact of this option using the 2021 income data. The \$20.00 option for 2021 was assessed to impact only 10,200 16-17 year old workers when analysing the impact of this option using the 2020 income data. However, there were likely issues with the 2020 data due to the COVID-19 pandemic and associated lockdowns.
226. Actual impacts on young workers differed from those predicted in 2020 and 2021. The \$20.00 minimum wage rate option for 2021 was assessed to impact only 32.1 percent of the young workers in 2020 using the 2020 income data available, but then impacted 42.9 percent when using the 2021 income data. The \$21.25 option for 2022 was assessed to impact 66.5 percent of the young workers in 2021 using the 2021 income data, but impacted 52.8 percent when using the 2022 income data.
227. Workers who are women, Māori, Pacific peoples, without formal qualifications, part-time employees, or working in the retail and hospitality industries are understood to be more likely to be paid at the minimum wage rate. These workers are therefore generally more likely to benefit from any increase to the minimum wage rate. However, they may also be the first to experience any negative impacts that could result from a change to the minimum wage (for example, reduced hours or jobs offered or substitution of some groups of workers for others). A significant rise in the level of the minimum wage may have the effect of employment losses and subsequently increased hardship for lower skilled workers.
228. Table 11 below shows the proportion of minimum wage earners and total wage earners with certain demographic and job characteristics.

**Table 11: Demographics of wage earners**

| Demographic (Using the current MW of \$21.20) | % of minimum wage earners |       |       | % of total wage earners |
|---|---------------------------|-------|-------|-------------------------|
|   | 16-24                     | 25-64 | 16-64 | 16-64                   |
| Aged 16-24 years                              | 100%                      | s     | 61%   | 16%                     |



|                       |               |               |               |                  |
|-----------------------|---------------|---------------|---------------|------------------|
| Female* <sup>91</sup> | 61%           | 64%           | 62%           | 49%              |
| European/Pakeha*      | 56%           | 46%           | 52%           | 59%              |
| Māori                 | 21%           | 15%           | 19%           | 15%              |
| Pacific peoples       | 5%            | 5%            | 5%            | 6%               |
| Part-time             | 68%           | 41%           | 57%           | 15%              |
| Studying              | 33%           | 7%            | 23%           | 13%              |
| <b>Total</b>          | <b>46,300</b> | <b>29,700</b> | <b>76,000</b> | <b>2,089,500</b> |

### Young people

229. Young people tend to earn less than older employees due to their lack of work experience and being in the beginning stages of their career. Over half of minimum wage workers are in this age group - as at June 2022, 61% of those earning the minimum wage were between 16 and 24 years old, and in 2021 this figure was 51%. The same age group has only accounted for about 16% of all workers aged 16-64 in 2021 and 2022. However, many young people do not remain in minimum wage jobs long-term, as they move on to higher paying jobs as they gain skills and work experience.
230. Because young workers are most highly represented at the minimum wage, minimum wage increases have the greatest impact on young people. Those who remain in work will likely see an increase in their wages. However, others might lose their jobs or not gain employment due to the disemployment effects that minimum wage increases can have. Young people who do not successfully transition into employment from education, particularly those with low skills and prolonged periods of inactivity, are at risk of lowered employability over the long-term. Therefore, there is a risk that increasing the minimum wage significantly could reduce young peoples' well-being over the long-term. Conversely, a high minimum wage can incentivise young people to leave education and training and take up employment. So any disemployment effects

<sup>91</sup> A data error led to the European and Female datasets being swapped in the original version of this report. This error also occurred in the 2021 report – for comparison, the previous report's demographic tables should show the following figures.

| Demographic (Using the current MW of \$20.00) | 2021 % of minimum wage earners |       |       | 2021 % of total wage earners |
|---|--------------------------------|-------|-------|------------------------------|
|   | 16-24                          | 25-64 | 16-64 | 16-64                        |
| Female  | 52%                            | 66%   | 59%   | 49%                          |
| European/Pakeha                               | 54%                            | 36%   | 45%   | 59%                          |

may have the opposite impact, creating incentives for young people to stay in full-time education or training and improve their qualifications, enabling them to transition into higher skilled and better paid employment.

231. In New Zealand's current tight labour market, there is a lower risk of disemployment effects for young people due to high labour demand. Filled jobs for youth aged 15 to 19 years have lifted strongly over the last year, rising to 131,000 in the June 2022 quarter – up 18 percent when compared with the June 2021 quarter<sup>92</sup>.
232. However, it should be noted that previous adjustments to youth minimum wages have seen some disemployment effects for youth in New Zealand. The 2008 youth minimum wage reform coincided with an increase in the adult minimum wage rate of 75 cents and therefore resulted in an overall 8.5% minimum wage increase for 16- and 17-year-olds. That minimum wage increase reduced the proportion of 16 and 17 year olds in employment by between 3 and 6 percent (4,500 - 9,000 jobs). The jobs that were lost by 16- and 17-year-olds were generally taken up by people aged 18 to 19 years. As noted previously, Pacheco (2011) suggested that a higher minimum wage rate may be encouraging 18- to 19-year-olds to choose paid work over further education.

### Women

233. Women are more likely than men to be impacted by any changes to the minimum wage rate as they tend to be over-represented in lower paid employment (for example, part-time and service sector jobs). Table 11 shows that 62 percent of all minimum wage workers are women, and 64 percent of minimum wage workers between 25 and 64 years are women. By comparison, 49 percent of the total workforce are women. The percentage of minimum wage earners who are women has increased since last year's review by 3 percent for workers between the ages of 16 and 64, and decreased by 2 percent for workers between the ages of 25 and 64.

### Māori and Pacific peoples

234. Māori are over-represented among those in low paid jobs and more likely to be adversely affected compared to other ethnic groups by any disemployment impacts of a higher minimum wage. A 2011 study found that Māori who were earning the minimum wage experienced significant falls in their employment and total weekly hours when the minimum wage increased significantly.<sup>93</sup>
235. MBIE modelling finds that Māori represent approximately 15 percent of total wage earners and 19 percent of total minimum wage earners, which is 1 percent lower than in the 2021 review.

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<sup>92</sup> Stats NZ: <https://www.stats.govt.nz/news/lift-in-jobs-for-youth/>

<sup>93</sup> Pacheco, G. (2011). Estimating Employment Impacts with Binding Minimum Wage Constraints. *The Economic Record*, 87(279), 587-602.

236. Pacific peoples account for around 6 percent of total wage earners and 5 percent of total minimum wage earners. The 2021 and 2020 figures for Pacific workers were similar and showed a greater percent of minimum wage earners (10 and 9 percent) in relation to total wage earners (7 and 6 percent).

### Part-time workers

237. 68 percent of workers earning the minimum wage aged 16 to 24 years work part-time, while 41 percent of the workers earning the minimum wage over 25 years of age work part-time. Therefore, any increase to the minimum wage will directly benefit a large proportion of low paid, younger part-time workers.

### Students

238. Table 11 shows that 33 percent of minimum wage workers aged 16 to 24 are in education, compared to 13 percent of total wage workers who are studying. The high proportion of young people in part-time minimum wage jobs while studying suggests that they are likely to move into higher paying, full-time jobs in the future.
239. Higher minimum wages could encourage young people to leave education and join the workforce. But on the other hand, higher wages are likely to be a barrier for young people gaining employment (as higher rates of starting pay encourage the hiring of more experienced older workers) and could therefore encourage young people to remain in education. The impact depends on the level of the minimum wage, the costs of education, the job opportunities available and young people's perceptions of their employment prospects. For example, a weaker labour market may generally lead to an increase in the number of people enrolling in study programs.
240. A Hyslop and Stillman study (2011) found that the removal of the youth minimum wage in 2008 lowered the employment rate of 16- and 17-year-olds by 3 to 6 percentage points within a two-year period after the law changed. Most of the affected were students. The study also found evidence that employment substitution increased for 18- and 19-year-olds, i.e. jobs held by 16 and 17 year olds shifted to 18 and 19 year olds, also largely among the student population. In addition, the average hours worked by students between the ages of 16 and 19 fell relative to the hours worked by 20 and 21 year olds.<sup>94</sup>

## Families, household income and the interface with other government interventions

241. By household type, MBIE data from June 2022 identifies that the following households have at least one minimum wage worker.

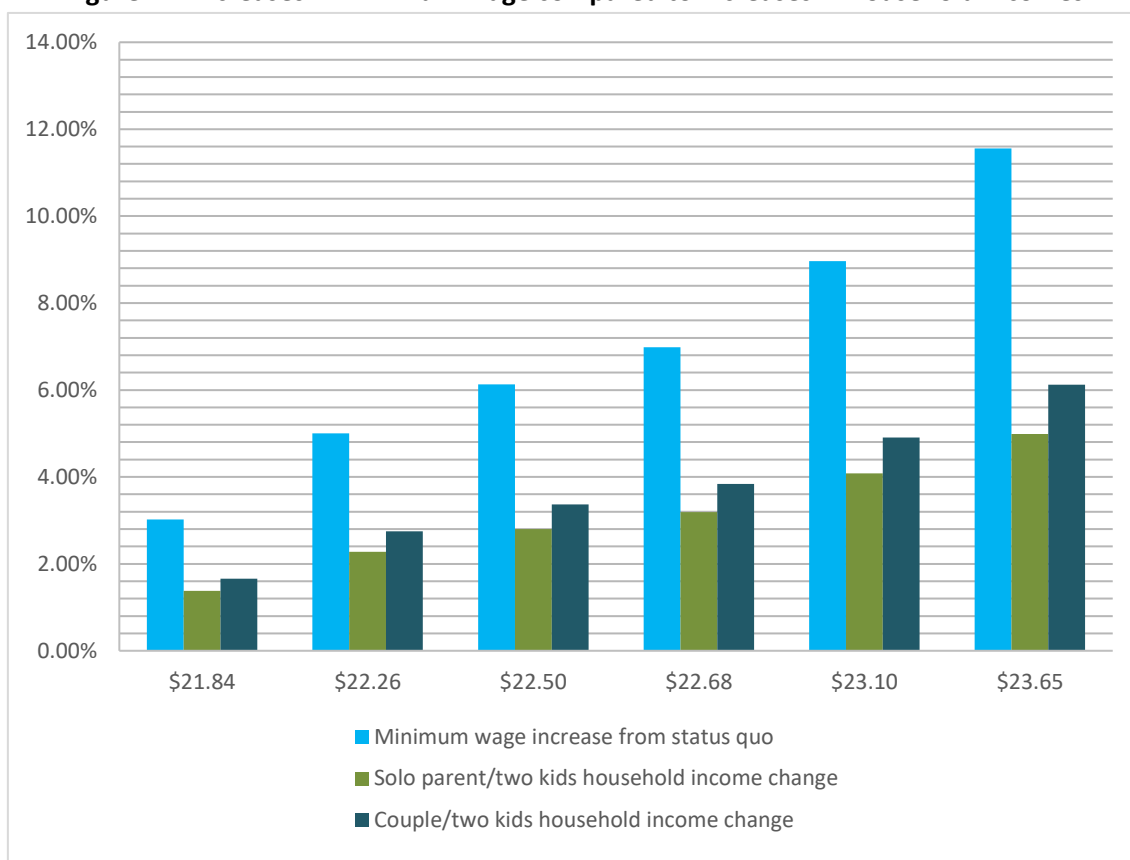
**Table 12: Minimum wage earners by household type (June 2022)**

<sup>94</sup> Hyslop and Stillman, (2011).

| <b>Demographic</b><br>(June 2022 HLFS data) | <b>% of total minimum<br/>wage earners</b> |
|---|--|
| Couple with dependent child(ren)            | 35%  |
| Couple without dependent child(ren)         | 26%  |
| Single with dependent child(ren)            | 10%  |
| Single without dependent child(ren)         | 10%  |
| Others                                      | 19%  |

242. Wages are often only part of the income of low-income workers. There are a range of government interventions and initiatives aimed at protecting employment and increasing incomes. These interventions encompass labour market policies, the social assistance system, the taxation system, and education and training policies.
243. In many households, the total income will increase with the higher minimum wage, which will make it easier for minimum wage earners and their families to meet living costs. However, some households with a minimum wage earner will not receive the full financial gains of a minimum wage increase. That is because their higher level of income may reduce the amount of financial assistance they are entitled to receive through government transfers, such as Working for Families and the Accommodation Supplement. This occurs as the amount of assistance someone is eligible to receive abates as the income of the recipient increases. The reduction in assistance paid out will slightly offset the costs to government of the minimum wage increase, although the extent of this cannot be quantified.
244. Figure 22 below compares the percentage increase of the various minimum wage options examined in this report to the estimated increase in household income (after government transfers) of two different family compositions. The family income is an average over three locations in New Zealand – Auckland, Whakatāne and Ashburton – identified overleaf. The figure shows that the increase in the minimum wage is not fully realised in increased household income due to abatements of government transfers.

Figure 22: Increases in minimum wage compared to increases in household incomes



245. The tables below and overleaf set out a summary of various scenarios that provide a clear illustration of the combined effect of a wage increase and the abatement of assistance on household incomes. These scenarios indicate the net gain for a sole parent with two children could be relatively small and even smaller for a couple with two children. The full set of scenarios can be found in **Annex Two**.

Table 13: A couple working a combined 60 hours per week at various minimum wage options with two dependent children living in various regions across New Zealand

| Options                 |  | Auckland     | Ashburton    | Whakatāne    |
|-------------------------|--|--------------|--------------|--------------|
| <b>\$21.20</b>          | Combined household net earnings            | \$55,563     | \$55,563     | \$55,563     |
|                         | Government transfers after abatements      | \$21,098     | \$13,090     | \$13,875     |
|                         | Total annual household earnings            | \$76,661     | \$68,653     | \$69,438     |
|                         | <b>Percent increase in annual earnings</b> | <b>Nil</b>   | <b>Nil</b>   | <b>Nil</b>   |
| <b>\$21.84 (+3.02%)</b> | Combined household net earnings            | \$57,181     | \$57,181     | \$57,181     |
|                         | Government transfers after abatements      | \$20,060     | \$12,052     | \$12,837     |
|                         | Total annual household earnings            | \$77,241     | \$69,233     | \$70,018     |
|                         | <b>Percent increase in annual earnings</b> | <b>0.76%</b> | <b>0.84%</b> | <b>0.84%</b> |
| <b>\$22.26</b>          | Combined household net earnings            | \$58,243     | \$58,243     | \$58,243     |

**IN CONFIDENCE**

|                          |  |              |              |              |
|--------------------------|--|--------------|--------------|--------------|
| <b>(+5.00%)</b>          | Government transfers after abatements      | \$19,378     | \$11,370     | \$12,155     |
|                          | Total annual household earnings            | \$77,622     | \$69,614     | \$70,399     |
|                          | <b>Percent increase in annual earnings</b> | <b>1.25%</b> | <b>1.40%</b> | <b>1.38%</b> |
| <b>\$22.50 (+6.13%)</b>  | Combined household net earnings            | \$58,850     | \$58,850     | \$58,850     |
|                          | Government transfers after abatements      | \$18,989     | \$10,981     | \$11,766     |
|                          | Total annual household earnings            | \$77,839     | \$69,831     | \$70,616     |
|                          | <b>Percent increase in annual earnings</b> | <b>1.54%</b> | <b>1.72%</b> | <b>1.70%</b> |
| <b>\$22.68 (+6.98%)</b>  | Combined household net earnings            | \$59,305     | \$59,305     | \$59,305     |
|                          | Government transfers after abatements      | \$18,697     | \$10,689     | \$11,474     |
|                          | Total annual household earnings            | \$78,002     | \$69,994     | \$70,779     |
|                          | <b>Percent increase in annual earnings</b> | <b>1.75%</b> | <b>1.95%</b> | <b>1.93%</b> |
| <b>\$23.10 (+8.96%)</b>  | Combined household net earnings            | \$60,361     | \$60,361     | \$60,361     |
|                          | Government transfers after abatements      | \$18,015     | \$10,007     | \$10,793     |
|                          | Total annual household earnings            | \$78,377     | \$70,369     | \$71,154     |
|                          | <b>Percent increase in annual earnings</b> | <b>2.24%</b> | <b>2.50%</b> | <b>2.47%</b> |
| <b>\$23.65 (+11.56%)</b> | Combined household net earnings            | \$61,609     | \$61,609     | \$61,609     |
|                          | Government transfers after abatements      | \$17,123     | \$9,115      | \$9,900      |
|                          | Total annual household earnings            | \$78,732     | \$70,724     | \$71,509     |
|                          | <b>Percent increase in annual earnings</b> | <b>2.70%</b> | <b>3.02%</b> | <b>2.98%</b> |

**Table 14: A sole parent working 40 hours per week at various minimum wage options with two dependent children living in various regions across New Zealand**

| Options                 |  | Auckland     | Ashburton    | Whakatāne    |
|-------------------------|--|--------------|--------------|--------------|
| <b>\$21.20</b>          | Combined household net earnings            | \$36,715     | \$36,715     | \$36,715     |
|                         | Government transfers after abatements      | \$30,553     | \$23,356     | \$23,013     |
|                         | Total annual household earnings            | \$67,268     | \$60,072     | \$59,728     |
|                         | <b>Percent increase in annual earnings</b> | <b>Nil</b>   | <b>Nil</b>   | <b>Nil</b>   |
| <b>\$21.84 (+3.02%)</b> | Combined household net earnings            | \$37,794     | \$37,794     | \$37,794     |
|                         | Government transfers after abatements      | \$29,861     | \$22,664     | \$22,321     |
|                         | Total annual household earnings            | \$67,655     | \$60,458     | \$60,115     |
|                         | <b>Percent increase in annual earnings</b> | <b>0.57%</b> | <b>0.64%</b> | <b>0.65%</b> |
| <b>\$22.26 (+5.00%)</b> | Combined household net earnings            | \$38,502     | \$38,502     | \$38,502     |
|                         | Government transfers after abatements      | \$29,407     | \$22,210     | \$21,867     |
|                         | Total annual household earnings            | \$67,909     | \$60,712     | \$60,369     |
|                         | <b>Percent increase in annual earnings</b> | <b>0.95%</b> | <b>1.07%</b> | <b>1.07%</b> |

|                              |  |              |              |              |
|------------------------------|--|--------------|--------------|--------------|
| <b>\$22.50<br/>(+6.13%)</b>  | Combined household net earnings            | \$38,907     | \$38,907     | \$38,907     |
|                              | Government transfers after abatements      | \$29,147     | \$21,950     | \$21,607     |
|                              | Total annual household earnings            | \$68,054     | \$60,857     | \$60,514     |
|                              | <b>Percent increase in annual earnings</b> | <b>1.17%</b> | <b>1.31%</b> | <b>1.31%</b> |
| <b>\$22.68<br/>(+6.98%)</b>  | Combined household net earnings            | \$39,210     | \$39,210     | \$39,210     |
|                              | Government transfers after abatements      | \$28,952     | \$21,756     | \$21,412     |
|                              | Total annual household earnings            | \$68,163     | \$60,966     | \$60,623     |
|                              | <b>Percent increase in annual earnings</b> | <b>1.33%</b> | <b>1.49%</b> | <b>1.50%</b> |
| <b>\$23.10<br/>(+8.96%)</b>  | Combined household net earnings            | \$39,912     | \$39,912     | \$39,912     |
|                              | Government transfers after abatements      | \$28,498     | \$21,301     | \$20,958     |
|                              | Total annual household earnings            | \$68,410     | \$61,213     | \$60,870     |
|                              | <b>Percent increase in annual earnings</b> | <b>1.70%</b> | <b>1.90%</b> | <b>1.91%</b> |
| <b>\$23.65<br/>(+11.56%)</b> | Combined household net earnings            | \$40,696     | \$40,696     | \$40,696     |
|                              | Government transfers after abatements      | \$27,903     | \$20,706     | \$20,363     |
|                              | Total annual household earnings            | \$68,599     | \$61,403     | \$61,059     |
|                              | <b>Percent increase in annual earnings</b> | <b>1.98%</b> | <b>2.22%</b> | <b>2.23%</b> |

### Modelled taxes and transfers in the TaxSim-NZ microsimulation model

246. The TaxSim-NZ model covers a range of taxable and non-taxable income sources, including income replacement benefits (e.g. Jobseeker Support, Student Allowances, New Zealand Superannuation), targeted support (e.g. Accommodation Supplement), tax credits (Family Tax Credit, In-Work Tax Credit, Best Start and Independent Earner Tax Credit) and source deductions such as PAYE, ACC earners levy and Student Loan repayments.
247. As described above, in many households, the total income will increase substantially with the higher minimum wage, but some predominantly lower income households with a minimum wage earner will not receive as much from a minimum wage increase due to reduced entitlements to income-related support.

### Modelled impacts of the minimum wage options using the TaxSim-NZ microsimulation model

248. The microsimulation modelling results compare the adult minimum wage from an assumed “no change” policy of \$21.20 per hour (Minimum wage in 2022) to three potential alternatives of \$22.25 per hour (lower, 5 per cent increase), \$22.50 per hour (recommended, 6 per cent increase) and \$22.70 per hour (higher, 7 per cent increase). All of the comparisons are for 1 April, 2023. The differences between each pair of potential alternatives are also considered.

249. Changes to the minimum wage generally increase direct costs to employers, unlike most tax-and-transfer changes which only alter the split of labour costs between the employee and the government (at no additional cost to the employer). Increasing the minimum wage generally increases labour costs for employers, which can be offset through higher prices, lower profits, increased debt or offsetting changes to the firm's overall composition of wages, hours and employee numbers.
250. TaxSim assesses the impact of minimum wage increases on individuals and families after accounting for interactions with the tax-and-transfer system. Further, TaxSim models labour supply responses to changes in disposable income caused by the minimum wage change. The labour supply responses are driven by the trade-off between income and hours worked, with an increase to the minimum wage generally increasing income for low-wage workers while their hours remain constant. The income/hours trade-off is relatively more favourable after the minimum wage increase, which generally increases labour supply *in the absence of any demand-side responses*. This finding for the labour supply is consistent with previous academic work for New Zealand[4].

**Key impacts of the minimum wage options under consideration using the TaxSim-NZ model**

251. TaxSim assesses the interactions between the minimum wage increases and the tax-and transfer system. The simulation finds that increasing the minimum wage to the recommended rate of \$22.50 increases the total wage cost to employers by roughly \$356M, split between roughly \$240M extra income to families and \$116M extra to the government due to extra taxes and lower transfer spending. Comparatively, increasing the minimum wage to \$22.25 increases the total wage cost by roughly \$262M, split between roughly \$177M extra income to families and \$85M extra to the government. Increasing the minimum wage to \$22.70 increases the total wage cost by roughly \$442M, split between roughly \$298M extra income to families and \$143M extra to the government. This assumes no spill-over wage increases to those above minimum wage, which would also generally increase the total wage cost to employers, the extra income to families and extra money going to the government.
252. The comparison between the three minimum wage scenarios indicates that the labour supply responses are approximately linear within the range of minimum wage options considered (\$22.25 to \$22.70). The incidence of minimum wage increases extends a long way up the (family) income distribution due to secondary earners in couples. Higher income families with a secondary minimum wage earner generally have less interactions with the transfer system, and generally see more of the minimum wage increase resulting in increased disposable income compared to lower income families.
253. The labour supply responses modelled, conditional on no offsetting behaviour from firms, are positive due to the more favourable income/hours trade-off. The labour supply response is stronger for lower wage individuals and single adult families (both with and without children).



254. TaxSim includes some labour demand effects through the choices which are available to families, and the modelling could be extended to match external estimates of demand-side job losses. This would provide detail on the interaction of the minimum wage increases with the rest of the tax-and-transfer system, and the labour supply responses conditional on any demand-side job losses.

**Distributional impacts and labour supply effects for minimum wage options under consideration**

255. The distribution of ‘winners and losers’ and their ‘gains and losses’ by family income deciles for the minimum wage options under consideration illustrate the marginal effects of these options assuming no supply or demand responses. The incidence of minimum wage increases extends a long way up the income distribution due to the number of secondary earners in couples, with the average change in disposable income increasing slightly as disposable income increases.
256. When summarising the results for the lower four deciles (1-4) of family income in comparison to the higher three deciles (8-10), the percent of winners in the lower group of deciles remains at about 64 per cent for the \$22.25 and \$22.50 options but declines slightly to 62 per cent for the \$22.70 option. At the higher end of the distribution it rises from 8 to 10 per cent for the higher (8-10) group of deciles for the higher minimum wage levels. The mean gains per week for the lower group of deciles rises from an average value of \$13.30 (at the \$22.25 rate) to \$16.50 (\$22.50) and to \$19.10 (\$22.70) while this rises from \$18.90 (\$22.25) to \$22.45 (\$22.50) and to \$23.65 (\$22.70) for the higher group of deciles. The number of families losing is minimal and the amount they lose is also less than \$1 per week on average.
257. Higher income families receiving gains from the minimum wage increase will generally be couples with a secondary earner below the new minimum wage. These secondary earners are less likely to face income-related abatement compared to lower income families.
258. When there are labour supply responses, these are concentrated at lower wages and are generally positive (increased hours worked). This is to be expected as lower wage workers are more likely to have minimum wage alternatives and increasing income while hours remain constant makes these options relatively more appealing. There are stronger labour supply responses amongst sole parents and single females. Many of the new labour market entrants are modelled to move into part-time work, with the stronger labour supply responses for sole parents and single females likely reflecting higher observed rates of part-time work for these families.

## Feedback from the New Zealand Council of Trade Unions

260. The CTU was invited by MBIE to provide a submission on the 2022 minimum wage review. The CTU and its affiliates together support a common policy position for the minimum wage. The CTU proposed that:
- The minimum wage for 2023 should be \$23.65 – the level of the current Living Wage.
  - A new tripartite body be responsible for establishing the minimum wage recommendation to the Minister of Workplace Relations and Safety in future.
  - That youth and training rates should be abolished, with all workers being paid at least the minimum wage.
261. The CTU supports the aspiration of the Living Wage ensures that workers have the income that they need to pay for the necessities of life. That they can participate as an active citizen in the community. It reflects the basic expenses of workers and their families such as food, transportation, housing and childcare.
262. The CTU says that the cost of living for low-income workers has been running ahead of general inflation for more than a decade (referencing household living costs – see Figure 18: Comparison of change in price indices for an illustration of this). The CTU also referred to increases in food prices and rents, observing that food prices rose at the fastest rate in 13 years in September 2022, and that *“if the minimum wage had risen at the same rate as rents, then in March this year it should have been \$25.17 an hour.”*
263. Last year, the CTU presented research that minimum wage changes had little impact on unemployment levels. This year it remarked that since the last minimum wage change, unemployment fell to its lowest rate since measured consistently in 1986, and employers state that their number one current issue is the availability of labour. The CTU concluded that unemployment should not be considered an issue at this minimum wage juncture.
264. The CTU submission also discussed inflation, referring to academic evidence which suggests that the minimum wage has little impact on the level of general inflation in the economy, and concern about inflationary impacts should not be a barrier to the delivery of a meaningful minimum wage.
265. On the matter of affordability for business, the CTU referred to increases in business profits in the last two years, stating that overall business profits rose 26.2% last year and are up nearly 60% from two years ago. The CTU’s position is that *“if companies are making very large surpluses at this time, they have the space to make sure that both their shareholders and their Minimum Wage workforce are rewarded”*.

266. The CTU is advocating for the introduction of a standard set by a third party as an important step in moving to a new system for setting the minimum wage. The CTU has agreed to a policy for a new tripartite body to set the minimum wage in the future, modelled on those currently used overseas – particularly in the UK.
267. The submission also reaffirmed the position of the CTU that youth and training rates should be abolished, with all workers being paid at least the minimum wage.

### **Feedback from worker representatives and charities**

268. As part of this year's review process, considering the cost-of-living concerns in the current economic context, MBIE invited worker organisations and charities to submit. The Salvation Army provided a response.
269. The Salvation Army submitted in support of a raise to the minimum wage, preferably to the level of the Living Wage, on the basis that the rationale for the minimum wage should be based on a return from labour that enables income adequacy for lower paid workers. This would help ensure lowest paid workers' real incomes genuinely increase and are not eroded by rising living costs (inflation) or through not keeping pace with overall wage increases across the workforce (average hourly wages/median hourly wages).
270. The Salvation Army noted that the cost of living in New Zealand is becoming increasingly unaffordable, making it difficult to live on the minimum wage and impossible to save for the future – issues visible to the Salvation Army's front-line services which have seen an increase in people seeking support. The Salvation Army submission reinforced prior worker submissions from previous years, in describing minimum wage increases as a key means of lifting household incomes and helping to reduce poverty and inequality – but not the sole lever the Government should look to apply.
271. A key message was that minimum wage policy needs to be combined with the other income support and employment policies that aim to lift incomes and increase skills and productivity. The Salvation Army stressed that crucial redistribution policies, such as welfare and income support payments, need to keep pace with the level of need and rising living costs. Increasing the minimum wage underlines the urgency in reviewing targeted welfare support settings for those on low incomes and additional earnings thresholds for those relying on welfare support.
272. Other policies identified as contributing to worker wellbeing include the Government's focus on maintaining high levels of employment during the pandemic through supporting employers with wage subsidies; increasing training for young people; introducing legislation for sector-based Fair Pay Agreements; and efforts to improve competition in sectors like the grocery and building sectors.

273. The Salvation Army suggested that applying Treasury's He Ara Waiora framework would give the review a more holistic perspective on the impacts of minimum wage increases.

### **MBIE comment on worker and charity representative submissions**

274. The CTU's proposal to increase the minimum wage to \$23.65 has been assessed as one of the options in this paper. The CTU's rate proposal would substantially increase the real incomes of 335,000 low-paid workers with high restraint on employment (-28,900). This option is likely to result in substantial increases in wage costs for employers (\$844 million) across the economy. This would increase the risk that low-paid workers become unemployed as employers continue to focus on COVID-19 recovery and managing a range of other constraints due to high inflation, interest, supply pressures and labour shortages. As the minimum wage increases, businesses may also choose to employ higher skilled workers to improve productivity and limit the necessity to adjust their entire pay scales to accommodate a new base. This may limit access to the labour market for youth and less skilled workers.
275. MBIE considers that a differential between the adult minimum wage and the training and starting-out rates may support the transition of youth into employment and helps further the policy objective of incentivising employers to take on and support less experienced workers and trainees.
276. MBIE concurs that the modelled inflationary impacts of increasing the minimum wage in line with the options assessed in this report are likely to be negligible when assessed alongside the other inflationary pressures present in the economy.
277. MBIE will consider options for future minimum wage setting frameworks, including the independent tripartite commission model used in the UK.

## Chapter seven – impacts on employers

### Impact on sectors

278. The following Table 15 provides an overview of the number of minimum wage earners in different sectors. The retail and hospitality sectors continue to have the greatest number of minimum wage earners in 2022, with 19,900 and 19,500 workers or 9.8% and 17.3% of the workers in these sectors earning the minimum wage, respectively. But this is considerably lower than in 2021 with 35,600 and 33,900 workers or 18.4% and 29.5% of the workers in these sectors earning the minimum wage, respectively.
279. In 2020 (at the height of the COVID-19 pandemic) with 15,600 and 12,500 workers, respectively, retail and hospitality represented 8% and 13% of workers. The figures in 2019 were 20,800 and 23,300, respectively.
280. Other sectors with a high number of minimum wage earners are manufacturing (4,800 in 2022, 15,300 in 2021, and 4,700 in 2020), health (5,100 in 2022, 10,500 in 2021, and 3,800 in 2020) and construction (5,600 in 2022, 9,700 in 2021, and 2,600 in 2020).

**Table 15: Minimum wage workers by sector  
(as at June 2022, using the current rate of \$21.20)**

| Sector        | Workers            |        | Working Hours    | Earnings            |
|---------------|--------------------|--------|------------------|---------------------|
|               | % of total workers | Number | % of total hours | % of total earnings |
| Agriculture   | 3.2%               | 2,500  | 3.2%             | 2.2%                |
| Mining        | S <sup>95</sup>    | S      | S                | S                   |
| Manufacturing | 2.4%               | 4,800  | 1.8%             | 1.1%                |
| Utilities     | S                  | S      | S                | S                   |
| Construction  | 2.9%               | 5,600  | 2.4%             | 1.6%                |
| Wholesale     | 1.7%               | 1,400  | 1.5%             | 0.9%                |

<sup>95</sup> S = suppressed due to low numbers – below 1,000 individuals.

|                                    |             |               |             |             |
|------------------------------------|-------------|---------------|-------------|-------------|
| Retail                             | 9.8%        | 19,900        | 6.8%        | 5.0%        |
| Hospitality                        | 17.3%       | 19,600        | 10.4%       | 8.7%        |
| Transport and Storage              | 1.2%        | 1,000         | 0.7%        | 0.4%        |
| Information and Telecommunications | S           | S             | S           | S           |
| Finance                            | S           | S             | S           | S           |
| Real Estate                        | S           | S             | S           | S           |
| Professional Services              | 0.8%        | 1,300         | 0.5%        | 0.2%        |
| Administrative Services            | 6.2%        | 3,500         | 5.5%        | 3.5%        |
| Public Administration              | 0.9%        | 1,500         | 0.8%        | 0.4%        |
| Education                          | 1.5%        | 2,800         | 0.8%        | 0.5%        |
| Health                             | 2.2%        | 5,100         | 1.5%        | 0.9%        |
| Arts and Recreation                | 5.7%        | 2,300         | 3.5%        | 2.1%        |
| Other Services                     | 3.9%        | 3,400         | 2.8%        | 1.8%        |
| <b>Total</b>                       | <b>3.6%</b> | <b>76,000</b> | <b>2.4%</b> | <b>1.4%</b> |

## Impact on regions

281. The impact of the minimum wage in the regions is determined, in part, by understanding both the number and proportion of minimum wage earners in that region. Table 16 provides an overview of the number of minimum wage earners across New Zealand. As expected, Auckland continues to be the region with the greatest number of minimum wage earners, due to its size.
282. However, the proportion of minimum wage workers compared to all workers in each region provides a different story than the actual number of workers. This year's modelling indicates that Southland has a higher proportion of workers earning the current minimum wage than other regions, making up 5.4 percent of all workers. Other regions with high proportions of minimum wage earners include Canterbury, Gisborne/Hawkes Bay, and the combined Nelson/Tasman/Marlborough/ West Coast region.
283. Across the regions, the proportions of workers paid the minimum wage have substantially reduced over the last year, following a dramatic rise in the proportion of workers paid minimum wage indicated in the 2021 data. In 2021, the highest proportion of minimum wage workers was in the combined

Nelson/Tasman/Marlborough/West Coast region, with 9.4 percent of workers paid at the minimum wage. High rates of minimum wage workers were also seen in Manawatū-Whanganui at 8.9 percent, Taranaki at 8.6 percent, and Auckland at 8.3 percent. In 2021 there were substantially higher proportions of workers on the current minimum wage rate than in the 2020 Minimum Wage Review, showing an increase in the incidence of minimum wage rates as the minimum wage rose. In 2021, the region with the lowest proportion of workers earning the then minimum wage of \$20.00 was Wellington, at 6.2 percent. This exceeded the highest proportion of workers earning the then minimum wage of \$18.90 in 2020, at 5 percent of all workers in the Manawatū-Whanganui region. In 2020 all other regions showed a minimum wage incidence from 2.4 – 3.9 percent - regions with a high proportion of minimum wage earners in 2020 included Otago (3.9 percent), Nelson/Tasman/Marlborough/West Coast (3.6 percent), Taranaki (3.3 percent) and Bay of Plenty (3.3 percent).

284. The lowered incidence of the minimum wage in 2022 reflects wage growth in a tight labour market and a rebalancing of the proportion of the population paid the minimum wage. As the minimum wage increases, capturing more workers on higher wage levels, so does the proportion of workers in each region who are captured by the minimum wage. Previous minimum wage reviews have noted that the percentage of workers who earn the minimum wage tends to re-equalise to 3 – 4 percent (nationally) over the following 12 to 18 months as other wages change. So the percentage of the total workforce earning the minimum wage at higher rates regionally (e.g. 21.3 percent of workers in Southland for the \$23.65 option shown overleaf) is unlikely to eventuate in reality.
285. Recovery from the impacts of COVID-19 has been uneven across the regions, with hospitality, tourism, and events operators still significantly affected by the ongoing after-effects of travel restrictions, compounded with labour shortages. Tight labour markets and skills shortages are noticeable across the country, especially in typically minimum-wage industries like tourism and hospitality<sup>96</sup> and wage growth is being seen in some sectors in response to the difficulty in attracting workers. Severe skill shortages and supply chain challenges are continuing to impact employer and staff wellbeing, and business viability.

**Table 16: Number of minimum wage workers in each region (and as a percentage of all workers in each region) 2022**

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<sup>96</sup> See Regional Skills Leadership Groups' local insight reports, June/July 2022: <https://www.mbie.govt.nz/business-and-employment/employment-and-skills/regional-skills-leadership-groups/>

| Options                        | Northland                      | Auckland                        | Waikato                         | Bay of Plenty                  | Gisborne/<br>Hawke's Bay        | Taranaki                      | Manawatu-<br>Wanganui           | Wellington                     | Nelson/Tasman/Marl<br>borough/ West Coast | Canterbury                      | Otago                           | Southland                      |
|--------------------------------|--------------------------------|---------------------------------|---------------------------------|--------------------------------|---------------------------------|-------------------------------|---------------------------------|--------------------------------|---|---------------------------------|---------------------------------|--------------------------------|
| <b>\$21.20</b><br>(Status quo) | 2,600<br>(4.2%)                | 25,700<br>(3.6%)                | 5,000<br>(2.6%)                 | 4,300<br>(3.3%)                | 4,400<br>(4.9%)                 | 1,100<br>(2.3%)               | 3,700<br>(3.7%)                 | 6,500<br>(2.6%)                | 3,600<br>(4.6%)                           | 13,400<br>(4.8%)                | 3,400<br>(3.4%)                 | 2,400<br>(5.4%)                |
| <b>\$21.84</b>                 | 4,800<br>(7.8%)                | 45,200<br>(6.3%)                | 10,800<br>(5.6%)                | 6,700<br>(5.1%)                | 8,500<br>(9.5%)                 | 2,700<br>(5.7%)               | 6,600<br>(6.6%)                 | 12,700<br>(5.2%)               | 5,600<br>(7.2%)                           | 20,600<br>(7.4%)                | 9,300<br>(9.3%)                 | 4,400<br>(9.9%)                |
| <b>\$22.26</b>                 | 6,600<br>(10.7%)               | 72,700<br>(10.1%)               | 20,700<br>(10.6%)               | 11,800<br>(9.0%)               | 12,000<br>(13.4%)               | 4,000<br>(8.4%)               | 10,900<br>(10.8%)               | 18,800<br>(7.6%)               | 7,900<br>(10.1%)                          | 33,000<br>(11.9%)               | 12,600<br>(12.6%)               | 5,600<br>(12.6%)               |
| <b>\$22.50</b>                 | <b>7,200</b><br><b>(11.6%)</b> | <b>76,000</b><br><b>(10.6%)</b> | <b>21,900</b><br><b>(11.3%)</b> | <b>12,900</b><br><b>(9.8%)</b> | <b>12,300</b><br><b>(13.8%)</b> | <b>4,400</b><br><b>(9.3%)</b> | <b>11,800</b><br><b>(11.7%)</b> | <b>20,000</b><br><b>(8.1%)</b> | <b>8,500</b><br><b>(10.9%)</b>            | <b>33,700</b><br><b>(12.2%)</b> | <b>13,300</b><br><b>(13.3%)</b> | <b>5,800</b><br><b>(13.3%)</b> |
| <b>\$22.68</b>                 | 7,900<br><b>(12.8%)</b>        | 82,100<br>(11.4%)               | 23,900<br>(12.3%)               | 14,800<br>(11.2%)              | 13,600<br>(15.2%)               | 4,800<br>(10.1%)              | 13,800<br>(13.7%)               | 22,100<br>(9.0%)               | 10,000<br>(12.8%)                         | 37,300<br>(13.5%)               | 14,000<br>(14.0%)               | 6,300<br>(14.2%)               |
| <b>\$23.10</b>                 | 10,100<br>(16.3%)              | 108,300<br>(15.1%)              | 33,200<br>(17.1%)               | 19,800<br>(15.0%)              | 17,200<br>(19.2%)               | 7,000<br>(14.8%)              | 20,000<br>(19.9%)               | 29,100<br>(11.8%)              | 14,400<br>(18.5%)                         | 46,800<br>(16.9%)               | 18,600<br>(18.6%)               | 8,100<br>(18.2%)               |
| <b>\$23.65</b>                 | 10,900<br>(17.6%)              | 118,100<br>(16.4%)              | 36,700<br>(18.9%)               | 20,900<br>(15.9%)              | 18,600<br>(20.8%)               | 7,400<br>(15.6%)              | 22,600<br>(22.4%)               | 33,300<br>(13.5%)              | 16,300<br>(20.9%)                         | 52,600<br>(19.0%)               | 19,600<br>(19.6%)               | 9,500<br>(21.3%)               |

## Feedback from BusinessNZ

286. BusinessNZ was invited by MBIE to provide a submission on the 2022 minimum wage review. BusinessNZ's approach to the minimum wage remains unchanged from previous years, and the organisation has engaged in discussion with MBIE through 2022 to supplement their written submission from 2021, which still applies.
287. COVID-19 and subsequent labour shortages and supply chain constraints have placed severe constraints on many businesses, particularly small to medium sized enterprises. Businesses have seen some recovery in spending patterns as pandemic response restrictions have been lifted. However, ongoing supply chain issues, labour shortages and rising wage costs have resulted in a continuation of cashflow challenges for sectors



that employ the highest concentrations of those on or about the minimum wage, such as tourism, horticulture, agriculture, hospitality and retail. BusinessNZ suggested caution when considering future increases to the minimum wage, noting that there have been calls for nil increases to take pressure off businesses.

288. BusinessNZ acknowledged that no raise in the minimum wage in 2023 would be “an effective austerity measure” that would see the real value of workers’ incomes decline. However, elevating the rate to meet the Living Wage (the highest rate option assessed by MBIE in this review) would be an excessive shock to businesses that would not reflect the actual needs of minimum wage workers (as the Living Wage is predicated on the needs of a family of four, and the majority of minimum wage workers are not supporting families).
289. BusinessNZ was most interested this year in how the minimum wage settings could respond appropriately to Consumer Price Index (CPI) movements, in combination with Labour Cost Index (LCI) movement to reflect wage costs to employers. BusinessNZ observed that CPI has fluctuated considerably over the last 30 years but none of the spikes has ever lasted for long, and suggested that a longer term view of trends over time is more rational than simply reacting to point-in-time peaks and troughs.
290. BusinessNZ recommended that conservative increases be set on a year-by-year basis, responding to a rolling average of movements in the CPI and LCI to reflect a balance between workers’ living costs and increased wage costs for employers.

## Feedback from employers

291. In this year’s review, MBIE consulted some additional organisations representing businesses who employ a high proportion of minimum wage workers and that have been disproportionately affected by the COVID-19 pandemic.
292. MBIE received submissions from Tourism Industry Aotearoa (TIA), Hospitality NZ, The Employers and Manufacturers Association (EMA), Federated Farmers, Retail NZ, and Horticulture New Zealand.
293. All reported that minimum wage has, in recent years, been a key component of member business’ rising costs, in sectors that also report being heavily impacted by COVID-19 lockdowns, labour shortages, border closures, supply chain issues, and (in the case of Horticulture New Zealand) adverse weather events.

## Effects of the COVID-19 pandemic

294. Retail, hospitality, tourism, horticulture, farming and manufacturing businesses across the country are significantly impacted by the current economic environment. The cost of doing business is increasing, influenced by COVID-19 impacts, inflation, high input

costs and supply chain problems, lower foot traffic, staff shortages and economic uncertainty. The retail sector reports that it is in a recession and the EMA reports that smaller businesses are on very tight margins as they have yet to recover fully from the impacts of covid. Hospitality businesses say they *“are still recovering from the impacts of COVID-19 amid the global war on talent”* with severe staff shortages, competing with other industries such as tourism for a limited workforce.

295. TIA reports that the impacts of COVID-19 on the tourism industry have been severe. For instance, the number of people attributed to being directly employed in tourism was 146,295 people in the year ended March 2021, a decrease of 33.1 percent (72,285 people) from the previous year. Now, tourism businesses are facing many challenges in rebuilding their workforces with the people and skills they need, including that many of the people that left the industry are simply not around to return.
296. For all sectors, 2020-2022's constrained access to overseas workers has presented challenges. In the near to medium term, access to overseas workers may not reach the levels experienced pre-COVID, meaning that tourism and other businesses must concentrate more on the local market. Businesses are having to compete for workers with other industries and sectors who are also facing their own workforce and skills shortages.

### **Impacts of minimum wage increases**

297. Most employer submitters highlighted the risk of reduced employment opportunities for minimum wage workers, particularly for youth and those without qualifications or experience. They argued that New Zealand already has a high minimum wage and further increases do not increase productivity but do contribute to higher costs, stoking price inflation for consumers. Employers submitted that minimum wage increases incentivise businesses to cut jobs, reduce hours, or shift to hiring more skilled, higher wage employees. Minimum wage rate increases also affect business viability.
298. Retail NZ reported that the impacts of the previous change in the minimum wage have been overwhelmingly negative, leading to increased process and reduced employment opportunities. The retail sector reported that the previous minimum wage increase in 2022 has seen them take steps to save costs in other areas. 21 percent have reduced hours of operation (less days and shortened daily hours), 46 percent have either reduced the number of hours available to work; 41 percent have reduced employee numbers, and 77 per cent have passed on the minimum wage increase to customers in higher prices. Only 3 percent of members report that it has made their employees more productive and engaged, and 3 percent say there has been no impact (positive or negative). The EMA similarly noted that as minimum wages have risen, other benefits to employees have decreased, wages have compressed, and hours of work have been reduced.

299. Retail NZ also said the increased minimum wage has reduced incentives to work, and 12 percent of retailers have found that staff want to work fewer hours, creating additional staffing shortages.
300. Minimum wage increases have resulted in wage compression. The EMA, Federated Farmers, and Hospitality NZ pointed out that a minimum wage increase puts pressure on employers to increase wages for staff above minimum wage in order to maintain wage relativity. However increased minimum wage costs reduce the capacity for wage rises for more experienced staff, leading to dissatisfaction in higher skilled workers if relativities cannot be maintained.
301. Submitters also expressed concern that rate increases will reduce opportunities for less experienced workers. Federated Farmers said that raising the minimum wage will “act as a barrier to farmers being able to provide employment opportunities to less experienced staff”, and result in younger workers being excluded from opportunities to join the industry as preference is given to more experienced older and/or international workers.
302. The EMA says that the minimum wage regime is a blunt tool that may offer some short-term benefits to employees but drives significant operating costs which have the impact of not making some businesses viable. Retail NZ echoes this approach, saying any further increases to the minimum wage will directly impact the viability of retail business, leading to business closures and lack of investment, and reducing employment opportunities for minimum wage workers.

### **Response to inflationary pressures**

303. While employer representatives recognised that there is pressure on workers’ living costs due to inflation, they observed that wage growth is already being seen, especially given the 2022 environment of low unemployment and immigration and constrained labour supply. Market forces are already creating strong wage opportunities for workers who prove themselves capable, while an affordable entry level wage allows employers to take a chance on inexperienced entry level staff and promote them as their experience grows.
304. Most submitters did not think that an increase to align with CPI for 2023 was suitable, saying any increase would only stoke price inflation further. They considered that in the absence of productivity gains, the increased costs passed on to consumers fuel CPI. Federated Farmers noted that increases in the minimum wage from 2017-2020 were over double the increase of CPI in the period.
305. Various views on a ‘cost of living’ CPI adjustment were expressed. Federated Farmers observed that farm employees are far less exposed to the current cost-of-living increases than their urban counterparts, with the total value of their remuneration packages commonly including accommodation, power, meat and firewood. A

compulsory 'cost-of-living' increase in wages would be tough on farm employers at a time when all input costs are accelerating rapidly. This was a sentiment shared across other sectors, which have also faced rising rents, supply chain issues, and other adverse conditions.

### **Submitters' suggestions on what the minimum wage should be in 2023**

306. Several employer representatives suggested that minimum wage increases should be put on hold until 2024 or 2025, or until economic conditions settle.
307. TIA wrote in support of a moderate increase in the minimum wage, suggesting an increase of around 4 percent. TIA said *"we feel this reflects the interests of both employees and employers, and the nature of the wider pressures on wage rates in a tight labour market. To move beyond this level risks wider wage price pressures that move beyond the ability of businesses to pay in what is an extremely challenging time to be operating a tourism business."*
308. Some submitters raised that wage growth trends and increasing commitments to the Living Wage make an increase to the statutory minimum rate unnecessary. According to the latest Retail NZ Wages Guide, the vast majority of the retail sector does pay a significantly higher rate than the minimum or Living Wage already – with the average retail wage rate at \$26.65 in 2022. TIA members are signed on to a Tourism Sustainability Commitment which encourages employers to plan towards paying at least the Living Wage rate to all staff. TIA also raised that, as overseas workers return, policies such as the Accredited Employer Work Visa set a minimum level of \$25 per hour for people engaged via this pathway, which does influence overall pay rates.
309. Several submitters expressed concerns about how the minimum wage might interact with the impacts on wages of other government initiatives, like the Tourism Industry Transformation Plan work, Fair Pay Agreements (FPAs), and additional costs to workers through Social Insurance. Generally, it was suggested that FPAs and sectoral commitments to higher wages will make the minimum wage rate less relevant over time.
310. Horticulture NZ notes that ultimately, increasing productivity is the only sustainable means of absorbing extra costs, but increasing wages does not of itself increase worker productivity, such as the rate at which food crops are picked and processed. Horticulture NZ recommended the use of additional labour market policies to address New Zealand's productivity challenges, for example through education, training and skills building.

### **More advance notice on minimum wage increases is sought**

311. Retail NZ submitted that this year's February 2022 announcement of the April 2022 minimum wage rate from the Government was not helpful. Such short notice had a direct impact on businesses who had already planned out their yearly targets and

budgets. They request adequate notice by at least six months in advance so business can incorporate this into business planning.

312. TIA and Horticulture NZ also requested that changes to the minimum wage should be well-signalled to businesses so they can plan for the increase and build it into their operating budgets, particularly as wage-related costs often form a considerable part of operating budgets.

### **MBIE comment on employer submissions**

313. MBIE has considered the submissions from BusinessNZ and other organisations representing employers as part of its review of the minimum wage.
314. MBIE notes BusinessNZ's proposed approach for setting the rate in 2023. MBIE's analysis in this paper considers both CPI and LCI movements.
315. MBIE's recommendation takes a longer-term view of how the current spike in CPI is expected to play out towards the time of the rate increase, and is aligned with expected wage growth sufficiently to not compress wages above the minimum or add an unpredictable cost shock to employers.
316. While a short-term moratorium to be placed on minimum wage increases would help support businesses and other employers from the economic impacts of the COVID-19 pandemic, MBIE considers that the policy intent is that the real incomes of workers should also be preserved. If such a moratorium was applied for too long or during a period of high inflation such as the present, there is a risk that workers incomes would start being eroded by inflation over time and would not keep pace with increasing costs, particularly for housing, food and transport.

## Chapter eight – impacts on government

### Impacts on government

317. Increases to the minimum wage are expected to have direct and indirect fiscal impacts for some government agencies. This section summarises these estimated impacts.
318. Most government agencies pay staff at least the Living Wage rate, and will not be substantially affected by minimum wage rate increases below this amount.
319. The Ministry of Social Development, Accident Compensation Corporation, Ministry of Education, New Zealand Defence Force, Oranga Tamariki, and Health New Zealand Te Whatu Ora were identified as the agencies most likely to be affected by any change to the minimum wage rate. MBIE requested feedback on anticipated material impacts.
320. In addition, MBIE canvassed over 30 Public Service and Non-Public Service Departments to learn whether the proposed minimum wage options would be expected to have a direct material impact, or an impact on departments under their oversight.
321. The options MBIE consulted on did not include the recommended \$22.50 rate, as the increments chosen for analysis were sent to agencies in August 2022, before the current recommendation was refined following October 2022 CPI updates. However, cost impacts for the recommended rate can be inferred between the \$22.26 and \$22.68 rate options provided by agencies.
322. Almost all agencies reported no material impact to direct costs from anticipated increases, since their remuneration rates are currently above the current Living Wage. Likewise, a number of agencies projected no fiscal pressure from payments to service contractors, particularly as the Government is now requiring new public service contracts to pay the living wage (now \$23.65) to cleaners, caterers and security services personnel. Others reported that their ability to fund those contracts could be impacted as a result of minimum wage increases.
323. Te Whatu Ora - Health New Zealand identified that there would be some cost implications for increased staff remuneration for Districts (previously District Health Boards), the NZ Defence Force indicated additional staffing costs, and the Ministry for Culture and Heritage noted that there were staff remuneration cost implications in some government funded entities that they have oversight of including the Royal New Zealand Ballet, Te Papa, Heritage New Zealand, and Nga Taonga.
324. In summary, total annual costs to government directly related to a minimum wage increase are estimated to be (in millions):<sup>97</sup>

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<sup>97</sup> These figures are subject to their own assumptions and caveats based on the individual methodologies used by each agency.

**Table 17: Indicative increased costs to government**

| Option  | Additional annualised cost (\$) |
|---------|---------------------------------|
| \$21.20 | -                               |
| \$21.84 | 8.2m                            |
| \$22.26 | 17.8m                           |
| \$22.68 | 30.6m                           |
| \$23.10 | 41.8m                           |
| \$23.65 | 60.0m                           |

325. **Te Whatu Ora / Health New Zealand** identified that there would be direct workforce cost implications for the Districts (previously District Health Boards).

**Table 18: Indicative increased costs for Te Whatu Ora Districts**

| Option  | Additional annualised cost (\$) |
|---------|---------------------------------|
| \$21.20 | -                               |
| \$21.84 | 576,028                         |
| \$22.26 | 1,324,595                       |
| \$22.68 | 2,666,190                       |
| \$23.10 | 4,423,562                       |
| \$23.65 | 8,284,496                       |

326. **The New Zealand Defence Force (NZDF)** advised that raising the minimum wage would have some direct cost impacts affecting NZ Cadet Force cadets, some casual employees, and members of the Regular and Territorial Forces in the ranks of Private (Equivalent) and Lance Corporal (Equivalent). All civilian employees are at or above the \$23.65 living wage rate. Any decision to absorb the cost internally or seek additional funding would be dependant on the rate approved by Cabinet.

**Table 19: Indicative increased costs for NZDF**

| Option  | Additional annualised cost (\$) |
|---------|---------------------------------|
| \$21.20 | -                               |
| \$21.84 | 301,000                         |
| \$22.26 | 499,000                         |
| \$22.68 | 696,000                         |

|         |           |
|---------|-----------|
| \$23.10 | 894,000   |
| \$23.65 | 1,152,000 |

**327.** The **Accident Compensation Corporation (ACC)** advises that minimum wage increases up to \$23.65 would not have any direct staffing costs. However, increases are expected to have direct impacts on funding for third-party employers and weekly compensation reports. Increases to the minimum wage also have an impact on the Labour Cost Index (LCI), and ACC reports that most services get an annual LCI uplift, so if the LCI is higher due to minimum wage increases it will flow into most other claims costs indirectly. While this is not a direct link, ACC registers an expectation of increased costs related to minimum wage rate increases.

**Table 20: Indicative increased costs for the Accident Compensation Corporation**

| Option  | Indirect cost from minimum wage impact on LCI (\$) | Direct cost: funding for third-party employers (\$) | Direct cost: weekly compensation costs (\$) | Total cash costs (\$) |
|---------|--|---|---|-----------------------|
| \$21.20 | 0m   | -   | -   | No change             |
| \$21.84 | 5m   | 2m  | 0   | 7m                    |
| \$22.26 | 8m   | 4m  | 1m  | 13m                   |
| \$22.68 | 12m  | 6m  | 5m  | 23m                   |
| \$23.10 | 15m  | 7m  | 9m  | 31m                   |
| \$23.65 | 20m  | 9m  | 14m   | 43m                   |

- 328.** In addition to anticipated third-party funding and weekly compensation costs, a minimum wage increase is expected to impact ACC’s outstanding claims liability (OCL). The OCL is an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims.
- 329.** Changes in the OCL will have an impact on the solvency of the ACC scheme (the measure of ACC’s assets to liabilities). Any additional funding required will be sought through the levy setting process and government appropriations per ACC funding policy. For the nearest proposed options of \$22.26 and \$22.68, the estimated OCL impacts are \$70 million and \$187 million respectively. The estimated impacts associated with each option are outlined in Table 18 overleaf.

**Table 21: Anticipated cost impacts to ACC’s OCL**



| <b>Option</b> | <b>OCL impact – funded support services and indirect LCI (\$m) <sup>98</sup></b> | <b>OCL impact – weekly compensation costs (\$m)</b> |
|---------------|--|---|
| \$21.20       | -  | -   |
| \$21.84       | 0  | 0   |
| \$22.26       | 55   | 15  |
| \$22.68       | 135  | 52  |
| \$23.10       | 216  | 94  |
| \$23.65       | 320  | 150   |

330. The following table shows the estimated levy rate impacts each option will have on the levied accounts. Note these are midpoints of the estimates, a range of impacts exists.

**Table 22: Anticipated additional funding required for ACC**

| <b>Option</b>         | <b>\$21.20</b> | <b>\$21.84</b> | <b>\$22.26</b> | <b>\$22.68</b> | <b>\$23.10</b> | <b>\$23.65</b> |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Motor Vehicle Account | \$0.00         | \$0.00         | \$0.36         | \$1.21         | \$2.09         | \$3.30         |
| Earners' Account      | \$0.00         | \$0.00         | \$0.00         | \$0.00         | \$0.01         | \$0.01         |
| Work Account          | \$0.00         | \$0.00         | \$0.00         | \$0.00         | \$0.00         | \$0.02         |

331. Levy rates for the 2022/23, 2023/24, and 2024/25 levy years were approved by the Government in 2021. This means that the levies for these three years cannot be adjusted. The next opportunity to set rates will be in 2024 for the 2025/26, 2026/27 and 2027/28 levy years.
332. The Non-Earners' Account appropriation for 2023/24 is currently being updated for submission to the October Baseline Update and does not allow for any of the increased minimum wage options.
333. Additional funding requirements would need to be included in the forecast costs for the 2024/25 year and out years. The additional funding required would be:

**Table 23: Anticipated additional funding required for ACC**

| <b>Option</b> | <b>Additional NEA Funding Required (\$)</b> |
|---------------|---|
| \$21.20       | 0m  |
| \$21.84       | 0m  |
| \$22.26       | 2m  |

<sup>98</sup> LCI indirect cost plus non pay equity related care cost increases are expected to have indirect costs as a result of the impacts of the minimum wage options on the Labour Cost Index (LCI)

|         |     |
|---------|-----|
| \$22.68 | 6m  |
| \$23.10 | 10m |
| \$23.65 | 16m |

334. The **Ministry of Social Development (MSD)** advises that the change to the minimum wage would not have a direct effect on their wage costs. MSD adopted the Fair Pay approach in setting starting salaries from 2 April 2018, meaning the minimum starting salary is the Living Wage. However MSD anticipates costs from cleaning contracts, funded support programmes and Home Help.

335. **Table 24: Anticipated costs for MSD**

| <b>Option</b> | <b>MSD Cleaning contracts</b> | <b>Funded support programmes</b> | <b>Home Help (figures for 2023/24 financial year)</b> |
|---------------|-------------------------------|----------------------------------|---|
| \$21.20       | -                             | -                                | -   |
| \$21.84       | \$244,066.00                  | \$1,440,000.00                   | \$66,000  |
| \$22.26       | \$359,081.00                  | \$2,400,000.00                   | \$111,000   |
| \$22.68       | \$474,097.00                  | \$3,360,000.00                   | \$155,000   |
| \$23.10       | \$589,112.00                  | \$4,320,000.00                   | \$199,000   |
| \$23.65       | \$739,727.00                  | \$5,544,000.00                   | \$256,000   |

336. MSD contracts external vendors that provide cleaning services throughout the country. Based on the steps provided, additional cost will be incurred if minimum wage is increased to \$21.84 or above.

337. For funded support, a proportion of expenditure will be minimum wage roles or roles that are affected by relativity to minimum wage. This is assumed at 15 percent of overhead (admin support type roles and those affected by relativity) with around 6 per cent of contract value impacted by any increase.

338. Marginal costs relate to MSD’s Home Help programme, which provides financial assistance to eligible people who require temporary part-time help to complete domestic tasks (normally performed in their homes). MSD increases the Home Help hourly rate by the same percentage as any increase in the minimum wage. This ensures that the amount paid for home help workers does not fall below the minimum wage. Home Help is a component of the Special Circumstance Assistance BoRE (Benefit or Related Expense) appropriation in vote Social Development. It is demand driven and any additional spending expected to result from the setting of the minimum wage will be sought, as a forecast change, in the Budget 2023 process. The largest option (option 6, \$23.65) would add about 6 percent to Home Help spending itself but far less (about 1.3 percent) to the Special Circumstance Assistance appropriation.

339. Funding for an 80-cent increase in the minimum wage to \$22.00 at April 2023 is already factored in at Budget 2022. Any additional funding, as specified in the table above under each option, will be sought at Budget 2023.
340. Increases in the minimum wage will have an indirect impact on New Zealand Superannuation and main benefit rates as these are now indexed to the net average wage (since 1 April 2020). New Zealand Superannuation and Veteran's Pension are pegged to the dollar movement in the net average wage (unless CPI percent movement gives a higher rate) and main benefits are also pegged to the percentage movement in the net average wage. The average wage (and CPI) may both be influenced by changes to the minimum wage. Further, in the case of main benefits, beneficiaries with other income may find their income increased by changes to the minimum wage and so result in a reduction in benefit rate (higher abatement) or benefit cancellation. All of these influences are quite indirect and unable to be estimated. Any fiscal impact will be treated as a forecast change through Budget 2023.
341. **Inland Revenue** has advised that the direct fiscal impacts to them would be nil, and previous advice from IR suggests that the impact on its policies cannot readily be quantified. Based on previous years' feedback, it is probable a minimum wage increase would result in slightly less tax revenue collected but also slightly less government expenditure on income-tested dependent forms of social assistance. The net effect on government's revenue-less-expenditure for Inland Revenue administered products is therefore unlikely to be substantial.
342. As for previous years, while it is not possible to quantify the exact impacts, the following outcomes are expected:
- a minimum wage increase could lead to decreased spending as a result of lower entitlements being paid out due to higher abatement rates of welfare benefits and other social assistance (eg Working for Families Tax Credits)
  - the number of people required to make student loan repayments could increase, as well as the repayment rates attached to the loans
  - the amount of KiwiSaver contributions could rise, which could increase costs for employers if more people receive their full member tax credit entitlement
  - it is expected that PAYE tax paid by employees will increase, but government revenue is likely to be offset by a decrease in corporate tax paid by employers (as wages are a line item expense, ie deductible from employer gross revenue)
  - an increase in the minimum wage may lead to more people having more disposable income, which could result in greater consumer spending and the collection of more GST.

## Chapter nine - Setting the rate

343. This section summarises the assessment of the options to increase the minimum wage rate for the Minimum Wage Review 2022. Key information relating to each option is collated, including predicted impacts generated by MBIE's minimum wage model on inflation, wages growth and restraint on employment.
344. The Review also considers the following additional factors identified by the Minister for Workplace Relations and Safety:
- the relativity of the minimum wage to welfare benefits, to the average and median wages in New Zealand, in other OECD countries, and to Living Wage Aotearoa's Living Wage
  - the relativity to household living costs, in particular the cost of housing, and the financial needs of workers and their families
  - the effects of minimum wage increases on personal and household incomes of minimum wage workers, after tax and social transfers
  - impacts on specific groups, such as Māori and Pacific people, women, and those with a disability
  - impacts on and viability of sectors that have been most significantly affected by COVID-19 and have high proportions of minimum wage workers, for example, tourism, accommodation, retail, hospitality, and manufacturing
  - the proposed minimum wage level in 2023 assessed in comparison with household living and economic performance/measurement benchmarks.
345. These factors provide useful contextual information and additional insights into the impacts of minimum wage increases. Although it has not always been possible to quantify these additional factors in respect to each option, a number of broad conclusions can be drawn:
- The gross earnings of workers, families, and households will increase as the minimum wage increases and this may make it easier for minimum wage earners and their families to meet living costs. However, because tax and social transfers (eg Working for Families, Accommodation Supplement) are designed to assist low paid workers, particularly those with dependent children, the net increase to household incomes can be reduced, often markedly. A higher level of increase to the minimum wage would result in a greater net increase in household incomes.
  - Those most likely to benefit from minimum wage increases (eg youth, females, Māori and Pacific People working in the hospitality, retail, manufacturing and administrative services sectors) are also likely to be more impacted by reduced hours or lower jobs growth.

- The minimum wage is currently set at a level where individuals and families working full-time are generally above income poverty line measures (assuming they are receiving their full and correct entitlements to tax and social transfers). However, minimum wage increases may reduce poverty rates for households that do not work full-time hours or do not receive social transfers. They may also have some impact on rates of material hardship.
- The impact of minimum wage increases vary across employers and sectors. Employers with a large number or proportion of minimum wage earners are most likely to be impacted.
- Sectors that have been severely affected by COVID-19 and subsequent limitations on travel and labour supply are also those that have a larger proportion of staff on minimum wage. Some employers, particularly in the hospitality, tourism, retail, transport, manufacturing and construction sectors, could respond to a minimum wage increase by cutting labour costs through reducing hours, taking on less workers, and cutting jobs.

## Comparing the rate options

346. The objective of the minimum wage review is to *'keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses'* (CAB Min (12) 41/5B refers).
347. **Option 1 (\$21.20)**, which is the current adult minimum wage rate and status quo, would not constrain employment growth and there would be no impact on national weekly wage earnings or inflation. It would have no marginal fiscal cost to government. **Option 2 (\$21.84), a 3% increase** is modelled to have a negligible impact on employment and very little cost to government. However, both Option 1 and Option 2 would reduce the real value of the current minimum wage (paid to about 59,500 workers) against inflation, and are therefore not consistent with the objective of the minimum wage review. **MBIE does not recommend Options 1 or 2.**
348. Given rising inflation on consumer price index and labour costs, the most suitable rates under consideration to meet the objective of maintaining the value of workers' incomes are **Option 3 (\$22.26, a 5% increase), 4 (\$22.50, a 6% increase) and 5 (\$22.68, a 7% increase)**. CPI was the basis for the most recent minimum wage rate recommendation and decision. MBIE's recommendation in the 2021 review was for a 5 percent increase from \$20.00 on the basis of the CPI having risen 4.9 percent in the year to September 2021, and the current 2022 rate of \$21.20 per hour was selected by the Government in early 2022 in response to the year to December 2021 CPI announcement of 5.9 percent.
349. There has been much media coverage of the fact that the Consumer Price Index (CPI) inflation of 7.3 percent in the year to June 2022 reflects the highest increase in 32 years. The rate of price change of goods and services purchased by New Zealand

households has been driven primarily by housing, transport and food costs. MBIE considers the most appropriate response to CPI movement is by covering the year since the minimum wage was last increased, from 1 April 2022 to 31 March 2023 – currently forecast to be around 6 percent.

350. Wage growth has also increased in 2022, but has not kept pace with the recent spike in CPI. Wage inflation, measured by the labour cost index (LCI), was 3.4 percent in the year ended June 2022, while average ordinary time hourly earnings rose 6.4 percent.
351. To meet the Government’s objective to “protect the real income of low-paid workers”, a range of options align with recent and forecast CPI paths to raise the minimum wage in track with price inflation:
- Option 3, a 5 percent increase, would align with Treasury’s May 2022 BEFU forecast for CPI over the year to March 2023. However, recent CPI quarters have exceeded Treasury’s forecasts, making an annual CPI decline to 5 percent by March 2023 less likely.
  - Option 4, a 6 percent increase, aligns with current revised CPI expectations in the year to March 2023. This is MBIE’s recommendation.
  - Option 5 would raise the minimum wage by 7 percent, and aligns with most recent actual inflation in the goods and services associated with the general cost of living. However, CPI is still expected to decline from current heights, and the costs of a 7 percent increase should be considered carefully against the benefits actually passed on to workers.
352. MBIE acknowledges that the minimum wage is a poorly targeted tool for supporting lower income households most adversely affected by increases in living costs, which can be better supported by government through direct transfer and taxation policies that are designed specifically to support lower income households. Maré and Hyslop’s 2021 review of minimum wage policies<sup>99</sup> concluded that “minimum wages are largely ineffective as a redistribution tool, given the broad incidence of minimum wage workers across the household income distribution – many people on low hourly rates of pay are nevertheless in households where incomes are not particularly low.”
353. MBIE considers that a 7 percent increase to the minimum wage to align with the recent CPI inflation would add substantial direct cost to employers while not effectively targeting those households most in need, or responding to the most likely actual CPI increase overall since the last minimum wage rate rise. Interactions between the tax and income support systems means that households may not receive the full value of the minimum wage rate increase. For a scenario of a solo parent with two children in Auckland, **Option 5** (\$22.68, a 7% increase in the minimum wage rate) leads

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<sup>99</sup> Maré, D., and Hyslop, D. *Minimum Wages in New Zealand: Policy and Practice in the 21<sup>st</sup> Century*. No. 14302. IZA Discussion Papers. Institute for the Study of Labour (IZA).

to 1.33 percent of additional income after tax and transfer abatements. This is only 0.16 percent more than **Option 4** (\$22.50, a 6% increase to the minimum wage) which results in a 1.17 percent increase in annual earnings for the same household, in turn only a 0.22 percent increased return on **Option 3** (\$22.26, a 5% increase to the minimum wage) which results in a 0.95% increase in annual earnings. Higher minimum wage rate options deliver even less net return to workers relative to the added labour cost to employers – **Option 6** (\$23.10, a 9% increase) only delivers a net 1.70 percent increase in annual earnings under the same scenario, while the Living Wage rate at **Option 7** (\$23.65, an 11.6% increase to the minimum wage) results in a 1.98 percent increase in net annual earnings after tax and income support abatements. MBIE notes that abatement thresholds may be adjusted to CPI movements and other indicators by the time the minimum wage rate changes in 2023 – however, these figures show a low direct cash return at current tax and welfare rates.

354. Additionally to this, sectors that typically employ a higher proportion of minimum wage workers (61% of which are youth aged 16-24) are bearing the impacts of a globally uncertain economic environment, rising costs from supply chain issues due to COVID-19 and geopolitical conflict, and a constrained labour market leading to low labour capacity and rising wage growth. A majority of industry submissions received by MBIE for this year’s review requested that a moratorium be placed on further minimum wage increases, noting that employers have weathered annual minimum wage rate increases of around 6 percent on average from 2018-2022, outpacing CPI inflation that has averaged closer to 3 percent in this time (based on years to June, 2018-2022). Those employer submissions that supported a minimum wage increase emphasised the importance of an affordable increment, and noted that the tight labour market is contributing to organic wage growth without government intervention.
355. MBIE has previously noted its concern at the increasing number of people who are likely to be affected by a minimum wage increase and the likely additional costs to employers of funding the increase. The key factor in determining the recommended option is the estimated additional annual economy-wide increase in wages. Of the options that meet the review objective to maintain the value of workers’ incomes while minimising job losses, **Option 4 (\$22.50)** provides the best balance between the number of people that benefit from an increase (201,000) and the estimated economy-wide wage bill increase for employers (\$284 million). In comparison, for **Option 5 (\$22.68)**, the additional annual economy-wide increase in wages is estimated to be \$352 million. Increasing the minimum wage to higher levels (**Options 5 to 7**) increases the economic costs considerably and will put additional pressure on employers, particularly in vulnerable sectors that have been hardest hit by the effects of the COVID-19, and supply chain constraints.
356. The objective of the minimum wage review to increase the minimum wage while minimising job losses means potential unemployment effects of rate rises must be

considered. The estimated restraint on employment of a minimum wage increase for **Option 3 (\$22.26, a 5% increase), 4 (\$22.50, a 6% increase) and 5 (\$22.68, a 7% increase)** is no restraint, <1000 and -5,100 respectively. In comparison, in 2018, 2019, 2020 and 2021, the estimated restraints on employment for the recommended minimum wage rates were -8,000, -6,500, -9,000 and -3,900 respectively. So, the estimated restraint on employment for these three 2023 options are lower than effects that were considered acceptable in previous years. **MBIE does not recommend Options 6 (\$23.10, a 9% increase) and 7 (\$23.65, an 11.5% increase)**. The restraint figures of 15,300 and 28,900 for these options greatly exceed those deemed acceptable in previous years, and could put pressure on the labour market’s ability to absorb workers that experience negative employment effects.

357. To balance the need to maintain the value of workers’ incomes against inflation with the uncertainty and cost pressures facing employers of minimum wage workers, **MBIE recommends Option 4 (\$22.50, a 6% increase)**.
358. Given international economic uncertainty, MBIE recommends an increase to the minimum wage that will respond to the rise in CPI but also take into account rising costs for employers in a high-inflation environment. Although forecasts<sup>[1]</sup> speculate a slowdown in inflation in the medium term, geopolitical instability in Europe and the ongoing effects of COVID-19 are contributing to a fraught global economic situation, and a measured approach would be most suitable in the current conditions.

## Options analysis summary

**Table 3: Summary of employment impacts for the six minimum wage options**

| Minimum wage rate impact measures                                      | Option 1<br>0% \$21.20 | Option 2<br>3% \$21.84 | Option 3<br>5% \$22.26 | Option 4<br>6% \$22.50 | Option 5<br>7% \$22.68 | Option 6<br>9% \$23.10 | Option 7<br>11.6%<br>\$23.65 |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------------|
| Adult minimum wage (hourly rate)                                       | \$21.20                | \$21.84                | \$22.26                | <b>\$22.50</b>         | \$22.68                | \$23.10                | \$23.65                      |
| Adult minimum wage (gross weekly income – 40 hour week) <sup>100</sup> | \$848.00               | \$873.60               | \$890.40               | <b>\$900.00</b>        | \$907.20               | \$924.00               | \$946.00                     |
| Adult minimum wage (gross annual income – 40 hour week)                | \$44,096.00            | \$45,427.20            | \$46,300.80            | <b>\$46,800.00</b>     | \$47,174.40            | \$48,048.00            | \$49,192.00                  |
| Percentage increase from existing minimum wage                         | N/C                    | 3.0%                   | 5.0%                   | <b>6.0%</b>            | 7.0%                   | 9.0%                   | 11.6%                        |

<sup>[1]</sup> NZIER consensus forecast 12 September 2022: [Consensus Forecasts Sep 2022.pdf \(nzier.org.nz\)](https://www.nzier.org.nz/publications/nzier-consensus-forecasts-show-a-weaker-economic-outlook-as-high-inflation-and-interest-rates-continue), <https://www.nzier.org.nz/publications/nzier-consensus-forecasts-show-a-weaker-economic-outlook-as-high-inflation-and-interest-rates-continue>.

<sup>100</sup> This is calculated on a 40 hour week basis.



**IN CONFIDENCE**

| Minimum wage rate impact measures   | Option 1<br>0% \$21.20 | Option 2<br>3% \$21.84 | Option 3<br>5% \$22.26 | Option 4<br>6% \$22.50                                  | Option 5<br>7% \$22.68 | Option 6<br>9% \$23.10 | Option 7<br>11.6%<br>\$23.65 |
|---|------------------------|------------------------|------------------------|---|------------------------|------------------------|------------------------------|
| Relativity to median wage <sup>101</sup>  | 71.5%                  | 73.6%                  | 75.1%                  | <b>75.9%</b>  | 76.5%                  | 77.9%                  | 79.7%                        |
| Relativity to average wage <sup>102</sup>   | 57.3%                  | 59.1%                  | 60.2%                  | <b>60.9%</b>  | 61.3%                  | 62.5%                  | 64.0%                        |
| Relativity of gross weekly income at MW rate to Job Seeker support <sup>103</sup>       | 236.23%                | 243.36%                | 248.04%                | <b>250.72%</b>  | 252.72%                | 257.40%                | 263.53%                      |
| Number of people directly impacted (rounded up to nearest 100)                          | NA                     | 114,500                | 190,400                | <b>201,000</b>  | 222,900                | 302,300                | 335,000                      |
| Estimated restraint on employment <sup>104</sup>  | N/C                    | N/C                    | N/C                    | <b>- &lt;1,000<br/>(figures under 1,000 suppressed)</b> | -5,100                 | -15,300                | -28,900                      |
| Estimated economy-wide increase in wages (\$m, annual)                                  | N/C                    | 92                     | 204                    | <b>284</b>  | 352                    | 537                    | 844                          |
| Estimated inflationary impact/GDP (percentage points) <sup>105</sup>                    | N/C                    | 0.03%                  | 0.06%                  | <b>0.08%</b>  | 0.10%                  | 0.16%                  | 0.25%                        |
| Estimated additional annual costs to the Government (\$ million, annual) <sup>106</sup> | <b>Nil</b>             | 8.2m                   | 17.8m                  | <b>Not specified</b>                                    | 30.6m                  | 41.8m                  | 60.0m                        |
| Full time employee receiving no tax   | \$718.45<br>-          | \$739.57<br>(\$21.12)  | \$753.43<br>(\$34.98)  | <b>\$761.35<br/>(\$42.90)</b>                           | \$767.29<br>(\$48.84)  | \$781.03<br>(\$62.58)  | \$796.43<br>(\$77.98)        |

<sup>101</sup> The median hourly earnings are \$29.66 per hour (Labour Market Statistics (Income), June 2022).

<sup>102</sup> The average ordinary time hourly earnings are \$36.97 per hour or \$1,478.80 gross per week (Labour Market Statistics, June 2022).

<sup>103</sup> For a single adult, aged 25 or over, receiving \$358.97 (gross) per week, as from 1 April 2022. Source: <https://www.workandincome.govt.nz/products/benefit-rates/benefit-rates-april-2022.html>

<sup>104</sup> The employment effects for '16-64 year olds' are represented. These are estimates from the MBIE-MW employment restraint model updated in 2022

<sup>105</sup> The inflationary impact on the GDP-Income measure of the estimated economy-wide increase in wages, weighted by the of share of compensation of employees in the National Accounts.

<sup>106</sup> This is a high level estimate based on the additional costs to the Ministry of Social Development, Te Whatu Ora, and Accident Compensation Corporation and New Zealand Defence Force. It does not include potential transfer savings received by the government in additional tax and abated benefits. Figures given do not include ACC OCL rates – the Outstanding cash Liability, an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims.

**IN CONFIDENCE**

| <b>Minimum wage rate impact measures</b>  | <b>Option 1<br/>0% \$21.20</b> | <b>Option 2<br/>3% \$21.84</b>   | <b>Option 3<br/>5% \$22.26</b>   | <b>Option 4<br/>6% \$22.50</b>                        | <b>Option 5<br/>7% \$22.68</b>   | <b>Option 6<br/>9% \$23.10</b>   | <b>Option 7<br/>11.6%<br/>\$23.65</b> |
|---|--------------------------------|----------------------------------|----------------------------------|---|----------------------------------|----------------------------------|---------------------------------------|
| credits or other income support - net weekly income and increase from \$21.20   |                                | 2.94%                            | 4.41%                            | <b>5.97%</b>  | 6.80%                            | 8.71%                            | 10.85%                                |
| <u>Scenario:</u> Auckland based <b>couple</b> , both earning minimum wage, working a combined <b>60 hours</b> per week with two dependent children, receiving Working for Families and Accommodation Supplement - net weekly income and increase from \$21.20         | \$1,474.25                     | \$1,485.40<br>(\$11.15)<br>0.76% | \$1,492.72<br>(\$18.47)<br>1.25% | <b>\$1,496.90</b><br><b>(\$22.65)</b><br><b>1.54%</b> | \$1,500.04<br>(\$25.79)<br>1.75% | \$1,507.24<br>(\$32.99)<br>2.24% | \$1,514.07<br>(\$39.82)<br>2.70%      |
| <u>Scenario:</u> Auckland based <b>sole parent</b> , earning minimum wage, working <b>40 hours</b> per week with two dependent children, receiving Working for Families and Accommodation Supplement - net weekly income and number and percent increase from \$21.20 | \$1,293.62                     | \$1,301.06<br>(\$7.44)<br>0.57%  | \$1,305.94<br>(\$12.32)<br>0.95% | <b>\$1,308.73</b><br><b>(15.10)</b><br><b>1.17%</b>   | \$1,310.82<br>(\$17.19)<br>1.33% | \$1,315.58<br>(\$21.96)<br>1.70% | \$1,319.22<br>(\$25.59)<br>1.98%      |

## **MBIE recommends that the new adult minimum wage should be set at \$22.50 and come into effect on 1 April 2023**

359. A 6 percent increase to the minimum wage will align with the projected around 6 percent increase in the consumer price index (CPI) in the year from 1 April 2022 (when the minimum wage was last raised) to 31 March 2023. This will preserve the real value of the minimum wage against inflation. The 6 percent increase, aligned with **Option 4** of the options analysed in this review, also has a low estimated disemployment effect. These considerations align with Cabinet’s agreed objective for the minimum wage review to *‘keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses’* (CAB Min (12) 41/5B refers).
360. However, the global and national economies are delicately balanced. There is currently a high level of uncertainty about whether recession lies ahead, and employers are facing many cost challenges. In this environment MBIE suggests it would be prudent to look past the recent >7 percent headline inflation figures to the projected inflation for the year ahead.
361. Both the September and December 2021 quarters, which contribute to the recent 7.3 percent headline CPI figure in the year to June 2022, were already accounted for in the April 2022 minimum wage rate adjustment which reflected the CPI increase across the year to December 2022. A 7 percent increase reacting to the June 2022 year CPI figure would double count inflation from those quarters, which were already factored into the current rate.
362. Increasing the minimum wage by 6 percent to a rounded rate of \$22.50 is likely to have positive impacts for low-paid workers by raising their income. Up to 201,000 workers (those currently earning up from \$21.20 to \$22.50) will receive an increase up to the new minimum wage. New entrants to employment can expect to start at a higher wage rate, and many of those earning above the new minimum wage can also expect an increase over time as relative wage rates between different roles are addressed. This represents an increase in hourly wages and overall income for many workers.
363. Employers may respond to an increase by increasing the prices of goods or services, reducing the hours of workers, capital investments or substitution of some groups of workers for others. To date, while there are anecdotal reports of employers responding to minimum wage increases in this manner, MBIE has not found any evidence of this occurring on a large scale, despite the relatively large increase of \$1.20 in last year’s minimum wage, and comparable increases in preceding years since 2018. The flow-on effects of relative pay adjustments to workers who are paid just above the minimum wage are also difficult to quantify.

364. In many households, the total income will increase along with the higher minimum wage, which will make it easier for minimum wage earners and their families to meet living costs. However, some households with a minimum wage earner will not receive the full financial gains of a minimum wage increase. Their higher level of income may reduce financial gains of a minimum wage increase by reducing the amount of financial assistance they are entitled to receive through Government transfers (such as Working for Families and the Accommodation Supplement). This occurs because the amount of government assistance someone is eligible to receive abates as the income of the recipient increases.
365. The minimum wage model identifies a minimal direct inflationary impact of 0.08 percent to the GDP-Income measure of the estimated economy-wide increase in wages from increasing the minimum wage to \$22.50. MBIE acknowledges the risk of inflationary pressure on wages due to relative pay adjustments for wages above the minimum wage and increased costs of goods and services, as well as the risk of wage compression at the lower end of the wage distribution scale. MBIE's model provides an estimate of the total increased cost of labour across the entire economy. It does not include any compression effects for workers whose wages above the minimum wage are increased for reasons of relativity, as these are a result of individual decisions made by employers.
366. Increasing the overall income for low wage earners may result in more people having disposable income, which could then lead to an increase in spending and consumption levels, benefitting local businesses and economies.
367. It is likely that worker representatives will continue to advocate for higher minimum wage rates. The adoption of a wage equivalent to the Living Wage by core government agencies may also place additional pressure on the perceived appropriateness of the proposed minimum wage rate. In contrast, business representatives may continue to argue that the minimum wage increase raises the costs of work without accompanying productivity gains, resulting in job losses, particularly given the uncertainty of the current economic environment.

**MBIE recommends maintaining the starting-out and training minimum wage rates at 80 percent of the adult minimum wage (\$18.00)**

368. MBIE has not considered other options for the starting-out wage and the training minimum wage because:
- a differential between these rates and the adult minimum wage rates may support the transition of youth into employment
  - employers expect these minimum wages to be 80 percent of the adult minimum wage

- maintaining the training minimum wage rate at 80 percent of the adult minimum wage helps further the policy objective of incentivising employers to take on and support trainees
  - legislation does not allow a rate lower than 80 percent and anything substantially higher than 80 percent might reduce incentives for employers to take on trainees
  - it is important that the starting-out and training minimum wages are the same, as they are often used interchangeably.
369. The preferred option is compatible with the Government’s expectations for the design of regulatory systems as the preferred option delivers net benefits to New Zealanders and meets the criteria outlined in the ‘Government Expectations for Good Regulatory Practice’ document.<sup>107</sup>
370. Procedurally, increasing the minimum wage is straightforward and requires no significant process or procedural change. Effective communication and signalling is required and so press releases and media statements will be used to communicate the increase in a way that ensures clear messaging. These are most likely to occur soon after the Cabinet decision.
371. Once implemented, all employers will be required to pay their workers at least the minimum wage (or the applicable training wage or starting-out wage). Failure to provide this minimum pay would mean that the employer is in breach of the Minimum Wage Act 1983, and liable for penalties and recovery of wages.

## **Monitoring, evaluation and review of the minimum wage decision**

372. MBIE has ongoing responsibilities to support Ministers’ decisions on minimum wage rates in its annual review. The effects of minimum wage increases are monitored by analysing a range of labour market and economic statistics regularly published by Statistics NZ and other organisations. The outcome of the statistical analysis will inform future recommendations on the minimum wage rate. There is a statutory requirement to review the minimum wage on an annual basis.
373. As the Government has increased the minimum wage every year since 2000, MBIE will continue to monitor the long-term impacts of minimum wage increases, paying particular attention to potential employment effects. The effects of minimum wage increases are monitored by analysing quarterly labour market statistics published by Statistics NZ and other organizations, through other economic indicators, and through feedback provided to the Government from surveys and letters to Ministers. The results of the analysis will feed into MBIE’s future reviews of the minimum wage.

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<sup>107</sup> The Treasury, *Government Expectations for Good Regulatory Practice*, April 2017, <https://www.treasury.govt.nz/sites/default/files/2015-09/good-reg-practice.pdf>

374. There are several current initiatives aimed at improving outcomes for New Zealand's lowest paid workers, including changes that have increased wage rates for the lowest paid public sector workers. These and other initiatives create additional complexity when attempting to determine the impact of minimum wage changes. However, each initiative also provides additional evidence and understanding of the impacts of policy on employees paid close to or near the minimum wage, and on their employers, and how these impacts can have flow on effects for the rest of the labour market. There will be ongoing monitoring and consideration of the impacts on the labour market from these initiatives, as well as in light of this year's minimum wage increase.

## Annex One – Scenarios on interface of minimum wage options with other government interventions

The following six scenarios are provided in this annex:

- A couple with two children working a combined 60 hours per week and
  - **Scenario 1:** living in Avondale, Auckland paying median rent of \$600
  - **Scenario 2:** living in Ashburton, Canterbury paying median rent of \$380
  - **Scenario 3:** living in Whakatāne, Bay of Plenty paying median rent of \$450.
  
- A sole parent with two children working 40 hours per week and:
  - **Scenario 4:** living in Avondale, Auckland paying median rent of \$600
  - **Scenario 5:** living in Ashburton, Canterbury paying median rent of \$380
  - **Scenario 6:** living in Whakatāne, Bay of Plenty paying median rent of \$450.

Median rent figures were published on the Tenancy Services website on 31 July 2022 from tenancy bond data from 1 February 2022 – 31 July 2022.<sup>108</sup>

### Scenario 1

| Scenario 1a: A couple with two children working a combined 60 hours per week at \$21.20, living in Avondale, Auckland paying median market rent of \$600 |                   |                 |                 |             |                  |              |
|--|-------------------|-----------------|-----------------|-------------|------------------|--------------|
| Minimum wage   |                   |                 |                 | \$21.20     |                  |              |
|  | Weekly work hours | Weekly earnings | Annual Earnings | Tax         | ACC Earners Levy | Net earnings |
| <b>Parent A</b>  | 40                | \$848.00        | \$44,096.00     | \$6,736.80  | \$643.80         | \$36,715.40  |
| <b>Parent B</b>  | 20                | \$424.00        | \$22,048.00     | \$2,878.40  | \$321.90         | \$18,847.70  |
| <b>Combined net earnings without other income support</b>  |                   |                 |                 | \$55,563.10 |                  |              |
| Maximum In Work Tax Credit   |                   |                 |                 | \$3,770.00  |                  |              |
| Maximum Family Tax Credit  |                   |                 |                 | \$12,054.00 |                  |              |
| Total abatement on family support due to income  |                   |                 |                 | \$6,329.88  |                  |              |
| Total Working for Families assistance after abatement  |                   |                 |                 | \$9,494.12  |                  |              |
| Maximum accommodation supplement   |                   |                 |                 | \$15,542.80 |                  |              |
| Abatement on accommodation supplement  |                   |                 |                 | \$3,939.00  |                  |              |
| Total accommodation supplement after abatement   |                   |                 |                 | \$11,603.80 |                  |              |
| <b>Effective annual earnings for the household</b>   |                   |                 |                 | \$76,661.02 |                  |              |
| <b>Percentage increase in minimum wage</b>   |                   |                 |                 | 0.00%       |                  |              |
| <b>Percentage increase in annual earnings</b>  |                   |                 |                 | 0.00%       |                  |              |

| Scenario 1b: A couple with two children working a combined 60 hours per week at \$21.84, living in Avondale, Auckland paying median market rent of \$600 |                   |                 |                 |            |                  |              |
|--|-------------------|-----------------|-----------------|------------|------------------|--------------|
| Minimum wage   |                   |                 |                 | \$21.84    |                  |              |
|  | Weekly work hours | Weekly earnings | Annual Earnings | Tax        | ACC Earners Levy | Net earnings |
| <b>Parent A</b>  | 40                | \$873.60        | \$45,427.20     | \$6,969.72 | \$663.24         | \$37,794.24  |

<sup>108</sup> <https://www.tenancy.govt.nz/rent-bond-and-bills/market-rent/>

**IN CONFIDENCE**

|   |    |          |             |                    |          |             |
|---|----|----------|-------------|--------------------|----------|-------------|
| <b>Parent B</b>   | 20 | \$436.80 | \$22,713.60 | \$2,994.77         | \$331.62 | \$19,387.21 |
| <b>Combined net earnings without other income support</b> |    |          |             | \$57,181.45        |          |             |
| Maximum In Work Tax Credit                                |    |          |             | \$3,770.00         |          |             |
| Maximum Family Tax Credit                                 |    |          |             | \$12,054.00        |          |             |
| Total abatement on family support due to income           |    |          |             | \$6,869.02         |          |             |
| Total Working for Families assistance after abatement     |    |          |             | \$8,954.98         |          |             |
| Maximum accommodation supplement                          |    |          |             | \$15,542.80        |          |             |
| Abatement on accommodation supplement                     |    |          |             | \$4,438.20         |          |             |
| Total accommodation supplement after abatement            |    |          |             | \$11,104.60        |          |             |
| <b>Effective annual earnings for the household</b>        |    |          |             | <b>\$77,241.04</b> |          |             |
| <b>Percentage increase in minimum wage</b>                |    |          |             | <b>3.02%</b>       |          |             |
| <b>Percentage increase in annual earnings</b>             |    |          |             | <b>0.76%</b>       |          |             |

| <b>Scenario 1c: A couple with two children working a combined 60 hours per week at \$22.26, living in Avondale, Auckland paying median market rent of \$600</b> |                   |                 |                 |                    |                  |              |
|---|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$22.26            |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$890.40        | \$46,300.80     | \$7,122.50         | \$675.99         | \$38,502.31  |
| <b>Parent B</b>   | 20                | \$445.20        | \$23,150.40     | \$3,071.25         | \$338.00         | \$19,741.15  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | <b>\$58,243.46</b> |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$7,222.82         |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$8,601.18         |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$15,542.80        |                  |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$4,765.80         |                  |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$10,777.00        |                  |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | <b>\$77,621.64</b> |                  |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | <b>5.00%</b>       |                  |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | <b>1.25%</b>       |                  |              |

| <b>Scenario 1d: A couple with two children working a combined 60 hours per week at \$22.50, living in Avondale, Auckland paying median market rent of \$600</b> |                   |                 |                 |                    |                  |              |
|---|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$22.50            |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$900.00        | \$46,800.00     | \$7,210.00         | \$683.28         | \$38,906.72  |
| <b>Parent B</b>   | 20                | \$450.00        | \$23,400.00     | \$3,115.00         | \$341.64         | \$19,943.36  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | <b>\$58,850.08</b> |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$7,425.00         |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$8,399.00         |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$15,542.80        |                  |              |



**IN CONFIDENCE**

|  |                    |
|--|--------------------|
| Abatement on accommodation supplement              | \$4,953.00         |
| Total accommodation supplement after abatement     | \$10,589.80        |
| <b>Effective annual earnings for the household</b> | <b>\$77,838.88</b> |
| <b>Percentage increase in minimum wage</b>         | <b>6.13%</b>       |
| <b>Percentage increase in annual earnings</b>      | <b>1.54%</b>       |

| <b>Scenario 1e: A couple with two children working a combined 60 hours per week at \$22.68, living in Avondale, Auckland paying median market rent of \$600</b> |                   |                 |                 |                    |                  |              |
|---|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$22.68            |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$907.20        | \$47,174.40     | \$7,275.45         | \$688.75         | \$39,210.20  |
| <b>Parent B</b>   | 20                | \$453.60        | \$23,587.20     | \$3,147.72         | \$344.37         | \$20,095.11  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | <b>\$59,305.31</b> |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$7,576.63         |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$8,247.37         |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$15,542.80        |                  |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$5,093.40         |                  |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$10,449.40        |                  |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | <b>\$78,002.08</b> |                  |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | <b>6.98%</b>       |                  |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | <b>1.75%</b>       |                  |              |

| <b>Scenario 1f: A couple with two children working a combined 60 hours per week at \$23.10, living in Avondale, Auckland paying median market rent of \$600</b> |                   |                 |                 |                    |                  |              |
|---|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$23.10            |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$924.00        | \$48,048.00     | \$7,434.40         | \$701.50         | \$39,912.10  |
| <b>Parent B</b>   | 20                | \$462.00        | \$24,024.00     | \$3,224.20         | \$350.75         | \$20,449.05  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | <b>\$60,361.15</b> |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$7,930.44         |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$7,893.56         |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$15,542.80        |                  |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$5,421.00         |                  |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$10,121.80        |                  |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | <b>\$78,376.51</b> |                  |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | <b>8.96%</b>       |                  |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | <b>2.24%</b>       |                  |              |

| <b>Scenario 1g: A couple with two children working a combined 60 hours per week at \$23.65, living in Avondale, Auckland paying median market rent of \$600</b> |  |  |  |  |  |  |
|---|--|--|--|--|--|--|
|---|--|--|--|--|--|--|

**IN CONFIDENCE**

| Minimum wage  |                   |                 |                 | \$23.65            |                  |              |
|---|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$946.00        | \$49,192.00     | \$7,777.60         | \$718.20         | \$40,696.20  |
| <b>Parent B</b>   | 20                | \$473.00        | \$24,596.00     | \$3,324.30         | \$359.10         | \$20,912.60  |
| <b>Combined net earnings without other income support</b> |                   |                 |                 | \$61,608.80        |                  |              |
| Maximum In Work Tax Credit                                |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit                                 |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income           |                   |                 |                 | \$8,393.76         |                  |              |
| Total Working for Families assistance after abatement     |                   |                 |                 | \$7,430.24         |                  |              |
| Maximum accommodation supplement                          |                   |                 |                 | \$15,542.80        |                  |              |
| Abatement on accommodation supplement                     |                   |                 |                 | \$5,850.00         |                  |              |
| Total accommodation supplement after abatement            |                   |                 |                 | \$9,692.80         |                  |              |
| <b>Effective annual earnings for the household</b>        |                   |                 |                 | <b>\$78,731.84</b> |                  |              |
| <b>Percentage increase in minimum wage</b>                |                   |                 |                 | <b>11.56%</b>      |                  |              |
| <b>Percentage increase in annual earnings</b>             |                   |                 |                 | <b>2.70%</b>       |                  |              |

## Scenario 2

| Scenario 2a: A couple with two children working a combined 60 hours per week at \$21.20, living in Ashburton, Canterbury paying median market rent of \$380 |                   |                 |                 |                    |                  |              |
|---|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$21.20            |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$848.00        | \$44,096.00     | \$6,736.80         | \$643.80         | \$36,715.40  |
| <b>Parent B</b>   | 20                | \$424.00        | \$22,048.00     | \$2,878.40         | \$321.90         | \$18,847.70  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | \$55,563.10        |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$6,329.88         |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$9,494.12         |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$7,534.80         |                  |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$3,939.00         |                  |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$3,595.80         |                  |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | <b>\$68,653.02</b> |                  |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | <b>0.00%</b>       |                  |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | <b>0.00%</b>       |                  |              |

| Scenario 2b: A couple with two children working a combined 60 hours per week at \$21.84, living in Ashburton, Canterbury paying median market rent of \$380 |                   |                 |                 |            |                  |              |
|---|-------------------|-----------------|-----------------|------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$21.84    |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax        | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$873.60        | \$45,427.20     | \$6,969.72 | \$663.24         | \$37,794.24  |
| <b>Parent B</b>   | 20                | \$436.80        | \$22,713.60     | \$2,994.77 | \$331.62         | \$19,387.21  |

**IN CONFIDENCE**

|   |                    |
|---|--------------------|
| <b>Combined net earnings without other income support</b> | \$57,181.45        |
| Maximum In Work Tax Credit                                | \$3,770.00         |
| Maximum Family Tax Credit                                 | \$12,054.00        |
| Total abatement on family support due to income           | \$6,869.02         |
| Total Working for Families assistance after abatement     | \$8,954.98         |
| Maximum accommodation supplement                          | \$7,534.80         |
| Abatement on accommodation supplement                     | \$4,438.20         |
| Total accommodation supplement after abatement            | \$3,096.60         |
| <b>Effective annual earnings for the household</b>        | <b>\$69,233.04</b> |
| <b>Percentage increase in minimum wage</b>                | <b>3.02%</b>       |
| <b>Percentage increase in annual earnings</b>             | <b>0.84%</b>       |

| <b>Scenario 2c: A couple with two children working a combined 60 hours per week at \$22.26, living in Ashburton, Canterbury paying median market rent of \$380</b> |                   |                 |                 |                    |                  |              |
|--|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage   |                   |                 |                 | \$22.26            |                  |              |
|  | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>  | 40                | \$890.40        | \$46,300.80     | \$7,122.50         | \$675.99         | \$38,502.31  |
| <b>Parent B</b>  | 20                | \$445.20        | \$23,150.40     | \$3,071.25         | \$338.00         | \$19,741.15  |
| <b>Combined net earnings without other income support</b>  |                   |                 |                 | <b>\$58,243.46</b> |                  |              |
| Maximum In Work Tax Credit   |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit  |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income  |                   |                 |                 | \$7,222.82         |                  |              |
| Total Working for Families assistance after abatement  |                   |                 |                 | \$8,601.18         |                  |              |
| Maximum accommodation supplement   |                   |                 |                 | \$7,534.80         |                  |              |
| Abatement on accommodation supplement  |                   |                 |                 | \$4,765.80         |                  |              |
| Total accommodation supplement after abatement   |                   |                 |                 | \$2,769.00         |                  |              |
| <b>Effective annual earnings for the household</b>   |                   |                 |                 | <b>\$69,613.64</b> |                  |              |
| <b>Percentage increase in minimum wage</b>   |                   |                 |                 | <b>5.00%</b>       |                  |              |
| <b>Percentage increase in annual earnings</b>  |                   |                 |                 | <b>1.40%</b>       |                  |              |

| <b>Scenario 2d: A couple with two children working a combined 60 hours per week at \$22.50, living in Ashburton, Canterbury paying median market rent of \$380</b> |                   |                 |                 |                    |                  |              |
|--|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage   |                   |                 |                 | \$22.50            |                  |              |
|  | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>  | 40                | \$900.00        | \$46,800.00     | \$7,210.00         | \$683.28         | \$38,906.72  |
| <b>Parent B</b>  | 20                | \$450.00        | \$23,400.00     | \$3,115.00         | \$341.64         | \$19,943.36  |
| <b>Combined net earnings without other income support</b>  |                   |                 |                 | <b>\$58,850.08</b> |                  |              |
| Maximum In Work Tax Credit   |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit  |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income  |                   |                 |                 | \$7,425.00         |                  |              |
| Total Working for Families assistance after abatement  |                   |                 |                 | \$8,399.00         |                  |              |
| Maximum accommodation supplement   |                   |                 |                 | \$7,534.80         |                  |              |
| Abatement on accommodation supplement  |                   |                 |                 | \$4,953.00         |                  |              |

**IN CONFIDENCE**

|  |                    |
|--|--------------------|
| Total accommodation supplement after abatement     | \$2,581.80         |
| <b>Effective annual earnings for the household</b> | <b>\$69,830.88</b> |
| <b>Percentage increase in minimum wage</b>         | <b>6.13%</b>       |
| <b>Percentage increase in annual earnings</b>      | <b>1.72%</b>       |

| <b>Scenario 2e: A couple with two children working a combined 60 hours per week at \$22.68, living in Ashburton, Canterbury paying median market rent of \$380</b> |                   |                 |                 |                    |                  |              |
|--|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage   |                   |                 |                 | \$22.68            |                  |              |
|  | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>  | 40                | \$907.20        | \$47,174.40     | \$7,275.45         | \$688.75         | \$39,210.20  |
| <b>Parent B</b>  | 20                | \$453.60        | \$23,587.20     | \$3,147.72         | \$344.37         | \$20,095.11  |
| <b>Combined net earnings without other income support</b>  |                   |                 |                 | <b>\$59,305.31</b> |                  |              |
| Maximum In Work Tax Credit   |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit  |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income  |                   |                 |                 | \$7,576.63         |                  |              |
| Total Working for Families assistance after abatement  |                   |                 |                 | \$8,247.37         |                  |              |
| Maximum accommodation supplement   |                   |                 |                 | \$7,534.80         |                  |              |
| Abatement on accommodation supplement  |                   |                 |                 | \$5,093.40         |                  |              |
| Total accommodation supplement after abatement   |                   |                 |                 | \$2,441.40         |                  |              |
| <b>Effective annual earnings for the household</b>   |                   |                 |                 | <b>\$69,994.08</b> |                  |              |
| <b>Percentage increase in minimum wage</b>   |                   |                 |                 | <b>6.98%</b>       |                  |              |
| <b>Percentage increase in annual earnings</b>  |                   |                 |                 | <b>1.95%</b>       |                  |              |

| <b>Scenario 2f: A couple with two children working a combined 60 hours per week at \$23.10, living in Ashburton, Canterbury paying median market rent of \$380</b> |                   |                 |                 |                    |                  |              |
|--|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage   |                   |                 |                 | \$23.10            |                  |              |
|  | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>  | 40                | \$924.00        | \$48,048.00     | \$7,434.40         | \$701.50         | \$39,912.10  |
| <b>Parent B</b>  | 20                | \$462.00        | \$24,024.00     | \$3,224.20         | \$350.75         | \$20,449.05  |
| <b>Combined net earnings without other income support</b>  |                   |                 |                 | <b>\$60,361.15</b> |                  |              |
| Maximum In Work Tax Credit   |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit  |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income  |                   |                 |                 | \$7,930.44         |                  |              |
| Total Working for Families assistance after abatement  |                   |                 |                 | \$7,893.56         |                  |              |
| Maximum accommodation supplement   |                   |                 |                 | \$7,534.80         |                  |              |
| Abatement on accommodation supplement  |                   |                 |                 | \$5,421.00         |                  |              |
| Total accommodation supplement after abatement   |                   |                 |                 | \$2,113.80         |                  |              |
| <b>Effective annual earnings for the household</b>   |                   |                 |                 | <b>\$70,368.51</b> |                  |              |
| <b>Percentage increase in minimum wage</b>   |                   |                 |                 | <b>8.96%</b>       |                  |              |
| <b>Percentage increase in annual earnings</b>  |                   |                 |                 | <b>2.50%</b>       |                  |              |

| <b>Scenario 2g: A couple with two children working a combined 60 hours per week at \$23.65, living in Ashburton, Canterbury paying median market rent of \$380</b> |         |
|--|---------|
| Minimum wage   | \$23.65 |

**IN CONFIDENCE**

|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax        | ACC Earners Levy   | Net earnings |
|---|-------------------|-----------------|-----------------|------------|--------------------|--------------|
| <b>Parent A</b>   | 40                | \$946.00        | \$49,192.00     | \$7,777.60 | \$718.20           | \$40,696.20  |
| <b>Parent B</b>   | 20                | \$473.00        | \$24,596.00     | \$3,324.30 | \$359.10           | \$20,912.60  |
| <b>Combined net earnings without other income support</b> |                   |                 |                 |            | \$61,608.80        |              |
| Maximum In Work Tax Credit                                |                   |                 |                 |            | \$3,770.00         |              |
| Maximum Family Tax Credit                                 |                   |                 |                 |            | \$12,054.00        |              |
| Total abatement on family support due to income           |                   |                 |                 |            | \$8,393.76         |              |
| Total Working for Families assistance after abatement     |                   |                 |                 |            | \$7,430.24         |              |
| Maximum accommodation supplement                          |                   |                 |                 |            | \$7,534.80         |              |
| Abatement on accommodation supplement                     |                   |                 |                 |            | \$5,850.00         |              |
| Total accommodation supplement after abatement            |                   |                 |                 |            | \$1,684.80         |              |
| <b>Effective annual earnings for the household</b>        |                   |                 |                 |            | <b>\$70,723.84</b> |              |
| <b>Percentage increase in minimum wage</b>                |                   |                 |                 |            | <b>11.56%</b>      |              |
| <b>Percentage increase in annual earnings</b>             |                   |                 |                 |            | <b>3.02%</b>       |              |

### Scenario 3

| <b>Scenario 3a: A couple with two children working a combined 60 hours per week at \$21.20, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                   |                 |                 |            |                    |              |
|---|-------------------|-----------------|-----------------|------------|--------------------|--------------|
| Minimum wage  |                   |                 |                 | \$21.20    |                    |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax        | ACC                | Net earnings |
| <b>Parent A</b>   | 40                | \$848.00        | \$44,096.00     | \$6,736.80 | \$643.80           | \$36,715.40  |
| <b>Parent B</b>   | 20                | \$424.00        | \$22,048.00     | \$2,878.40 | \$321.90           | \$18,847.70  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 |            | \$55,563.10        |              |
| Maximum In Work Tax Credit  |                   |                 |                 |            | \$3,770.00         |              |
| Maximum Family Tax Credit   |                   |                 |                 |            | \$12,054.00        |              |
| Total abatement on family support due to income   |                   |                 |                 |            | \$6,329.88         |              |
| Total Working for Families assistance after abatement   |                   |                 |                 |            | \$9,494.12         |              |
| Maximum accommodation supplement  |                   |                 |                 |            | \$8,320.00         |              |
| Abatement on accommodation supplement   |                   |                 |                 |            | \$3,939.00         |              |
| Total accommodation supplement after abatement  |                   |                 |                 |            | \$4,381.00         |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 |            | <b>\$69,438.22</b> |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 |            | <b>0.00%</b>       |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 |            | <b>0.00%</b>       |              |

| <b>Scenario 3b: A couple with two children working a combined 60 hours per week at \$21.84, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                   |                 |                 |            |                    |              |
|---|-------------------|-----------------|-----------------|------------|--------------------|--------------|
| Minimum wage  |                   |                 |                 | \$21.84    |                    |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax        | ACC Earners Levy   | Net earnings |
| <b>Parent A</b>   | 40                | \$873.60        | \$45,427.20     | \$6,969.72 | \$663.24           | \$37,794.24  |
| <b>Parent B</b>   | 20                | \$436.80        | \$22,713.60     | \$2,994.77 | \$331.62           | \$19,387.21  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 |            | <b>\$57,181.45</b> |              |
| Maximum In Work Tax Credit  |                   |                 |                 |            | \$3,770.00         |              |

**IN CONFIDENCE**

|   |                    |
|---|--------------------|
| Maximum Family Tax Credit                             | \$12,054.00        |
| Total abatement on family support due to income       | \$6,869.02         |
| Total Working for Families assistance after abatement | \$8,954.98         |
| Maximum accommodation supplement                      | \$8,320.00         |
| Abatement on accommodation supplement                 | \$4,438.20         |
| Total accommodation supplement after abatement        | \$3,881.80         |
| <b>Effective annual earnings for the household</b>    | <b>\$70,018.24</b> |
| <b>Percentage increase in minimum wage</b>            | <b>3.02%</b>       |
| <b>Percentage increase in annual earnings</b>         | <b>0.84%</b>       |

| <b>Scenario 3c: A couple with two children working a combined 60 hours per week at \$22.26, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                   |                 |                 |                    |                  |              |
|---|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$22.26            |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$890.40        | \$46,300.80     | \$7,122.50         | \$675.99         | \$38,502.31  |
| <b>Parent B</b>   | 20                | \$445.20        | \$23,150.40     | \$3,071.25         | \$338.00         | \$19,741.15  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | <b>\$58,243.46</b> |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$7,222.82         |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$8,601.18         |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$8,320.00         |                  |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$4,765.80         |                  |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$3,554.20         |                  |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | <b>\$70,398.84</b> |                  |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | <b>5.00%</b>       |                  |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | <b>1.38%</b>       |                  |              |

| <b>Scenario 3d: A couple with two children working a combined 60 hours per week at \$22.50, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                   |                 |                 |                    |                  |              |
|---|-------------------|-----------------|-----------------|--------------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$22.50            |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$900.00        | \$46,800.00     | \$7,210.00         | \$683.28         | \$38,906.72  |
| <b>Parent B</b>   | 20                | \$450.00        | \$23,400.00     | \$3,115.00         | \$341.64         | \$19,943.36  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | <b>\$58,850.08</b> |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$7,425.00         |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$8,399.00         |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$8,320.00         |                  |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$4,953.00         |                  |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$3,367.00         |                  |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | <b>\$70,616.08</b> |                  |              |

**IN CONFIDENCE**

|   |       |
|---|-------|
| <b>Percentage increase in minimum wage</b>    | 6.13% |
| <b>Percentage increase in annual earnings</b> | 1.70% |

| <b>Scenario 3e: A couple with two children working a combined 60 hours per week at \$22.68, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                   |                 |                 |             |                  |              |
|---|-------------------|-----------------|-----------------|-------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$22.68     |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax         | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$907.20        | \$47,174.40     | \$7,275.45  | \$688.75         | \$39,210.20  |
| <b>Parent B</b>   | 20                | \$453.60        | \$23,587.20     | \$3,147.72  | \$344.37         | \$20,095.11  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | \$59,305.31 |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00  |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00 |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$7,576.63  |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$8,247.37  |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$8,320.00  |                  |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$5,093.40  |                  |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$3,226.60  |                  |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | \$70,779.28 |                  |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | 6.98%       |                  |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | 1.93%       |                  |              |

| <b>Scenario 3f: A couple with two children working a combined 60 hours per week at \$23.10, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                   |                 |                 |             |                  |              |
|---|-------------------|-----------------|-----------------|-------------|------------------|--------------|
| Minimum wage  |                   |                 |                 | \$23.10     |                  |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax         | ACC Earners Levy | Net earnings |
| <b>Parent A</b>   | 40                | \$924.00        | \$48,048.00     | \$7,434.40  | \$701.50         | \$39,912.10  |
| <b>Parent B</b>   | 20                | \$462.00        | \$24,024.00     | \$3,224.20  | \$350.75         | \$20,449.05  |
| <b>Combined net earnings without other income support</b>   |                   |                 |                 | \$60,361.15 |                  |              |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00  |                  |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00 |                  |              |
| Total abatement on family support due to income   |                   |                 |                 | \$7,930.44  |                  |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$7,893.56  |                  |              |
| Maximum accommodation supplement  |                   |                 |                 | \$8,320.00  |                  |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$5,421.00  |                  |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$2,899.00  |                  |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | \$71,153.71 |                  |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | 8.96%       |                  |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | 2.47%       |                  |              |

| <b>Scenario 3g: A couple with two children working a combined 60 hours per week at \$23.65, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |         |
|---|---------|
| Minimum wage  | \$23.65 |

**IN CONFIDENCE**

|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax        | ACC Earners Levy | Net earnings |
|---|-------------------|-----------------|-----------------|------------|------------------|--------------|
| <b>Parent A</b>   | 40                | \$946.00        | \$49,192.00     | \$7,777.60 | \$718.20         | \$40,696.20  |
| <b>Parent B</b>   | 20                | \$473.00        | \$24,596.00     | \$3,324.30 | \$359.10         | \$20,912.60  |
| <b>Combined net earnings without other income support</b> |                   |                 |                 |            | \$61,608.80      |              |
| Maximum In Work Tax Credit                                |                   |                 |                 |            | \$3,770.00       |              |
| Maximum Family Tax Credit                                 |                   |                 |                 |            | \$12,054.00      |              |
| Total abatement on family support due to income           |                   |                 |                 |            | \$8,393.76       |              |
| Total Working for Families assistance after abatement     |                   |                 |                 |            | \$7,430.24       |              |
| Maximum accommodation supplement                          |                   |                 |                 |            | \$8,320.00       |              |
| Abatement on accommodation supplement                     |                   |                 |                 |            | \$5,850.00       |              |
| Total accommodation supplement after abatement            |                   |                 |                 |            | \$2,470.00       |              |
| <b>Effective annual earnings for the household</b>        |                   |                 |                 |            | \$71,509.04      |              |
| <b>Percentage increase in minimum wage</b>                |                   |                 |                 |            | 11.56%           |              |
| <b>Percentage increase in annual earnings</b>             |                   |                 |                 |            | 2.98%            |              |

## Scenario 4

| <b>Scenario 4a: A solo parent with two children working 40 hours per week at \$21.20, living in Avondale, Auckland paying median market rent of \$600</b> |                   |                 |                 |            |             |              |
|---|-------------------|-----------------|-----------------|------------|-------------|--------------|
| Minimum wage  |                   |                 |                 | \$21.20    |             |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax        | ACC         | Net earnings |
| <b>Parent A</b>   | 40                | \$848.00        | \$44,096.00     | \$6,736.80 | \$643.80    | \$36,715.40  |
| Maximum In Work Tax Credit  |                   |                 |                 |            | \$3,770.00  |              |
| Maximum Family Tax Credit   |                   |                 |                 |            | \$12,054.00 |              |
| Total abatement on family support due to income   |                   |                 |                 |            | \$376.92    |              |
| Total Working for Families assistance after abatement   |                   |                 |                 |            | \$15,447.08 |              |
| Maximum accommodation supplement  |                   |                 |                 |            | \$15,860.00 |              |
| Abatement on accommodation supplement   |                   |                 |                 |            | \$754.00    |              |
| Total accommodation supplement after abatement  |                   |                 |                 |            | \$15,106.00 |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 |            | \$67,268.48 |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 |            | 0.00%       |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 |            | 0.00%       |              |

| <b>Scenario 4b: A solo parent with two children working 40 hours per week at \$21.84, living in Avondale, Auckland paying median market rent of \$600</b> |                   |                 |                 |            |             |              |
|---|-------------------|-----------------|-----------------|------------|-------------|--------------|
| Minimum wage  |                   |                 |                 | \$21.84    |             |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax        | ACC         | Net earnings |
| <b>Parent A</b>   | 40                | \$873.60        | \$45,427.20     | \$6,969.72 | \$663.24    | \$37,794.24  |
| Maximum In Work Tax Credit  |                   |                 |                 |            | \$3,770.00  |              |
| Maximum Family Tax Credit   |                   |                 |                 |            | \$12,054.00 |              |
| Total abatement on family support due to income   |                   |                 |                 |            | \$736.34    |              |
| Total Working for Families assistance after abatement   |                   |                 |                 |            | \$15,087.66 |              |
| Maximum accommodation supplement  |                   |                 |                 |            | \$15,860.00 |              |
| Abatement on accommodation supplement   |                   |                 |                 |            | \$1,086.80  |              |



**IN CONFIDENCE**

|  |             |
|--|-------------|
| Total accommodation supplement after abatement     | \$14,773.20 |
| <b>Effective annual earnings for the household</b> | \$67,655.10 |
| <b>Percentage increase in minimum wage</b>         | 3.02%       |
| <b>Percentage increase in annual earnings</b>      | 0.57%       |

| <b>Scenario 4c: A solo parent with two children working 40 hours per week at \$22.26, living in Avondale, Auckland paying median market rent of \$600</b> |                          |                        |                        |             |            |                     |
|---|--------------------------|------------------------|------------------------|-------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$22.26     |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>  | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>   | 40                       | \$890.40               | \$46,300.80            | \$7,122.50  | \$675.99   | \$38,502.31         |
| Maximum In Work Tax Credit  |                          |                        |                        | \$3,770.00  |            |                     |
| Maximum Family Tax Credit   |                          |                        |                        | \$12,054.00 |            |                     |
| Total abatement on family support due to income   |                          |                        |                        | \$972.22    |            |                     |
| Total Working for Families assistance after abatement   |                          |                        |                        | \$14,851.78 |            |                     |
| Maximum accommodation supplement  |                          |                        |                        | \$15,860.00 |            |                     |
| Abatement on accommodation supplement   |                          |                        |                        | \$1,305.20  |            |                     |
| Total accommodation supplement after abatement  |                          |                        |                        | \$14,554.80 |            |                     |
| <b>Effective annual earnings for the household</b>  |                          |                        |                        | \$67,908.89 |            |                     |
| <b>Percentage increase in minimum wage</b>  |                          |                        |                        | 5.00%       |            |                     |
| <b>Percentage increase in annual earnings</b>   |                          |                        |                        | 0.95%       |            |                     |

| <b>Scenario 4d: A solo parent with two children working 40 hours per week at \$22.50, living in Avondale, Auckland paying median market rent of \$600</b> |                          |                        |                        |             |            |                     |
|---|--------------------------|------------------------|------------------------|-------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$22.50     |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>  | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>   | 40                       | \$900.00               | \$46,800.00            | \$7,210.00  | \$683.28   | \$38,906.72         |
| Maximum In Work Tax Credit  |                          |                        |                        | \$3,770.00  |            |                     |
| Maximum Family Tax Credit   |                          |                        |                        | \$12,054.00 |            |                     |
| Total abatement on family support due to income   |                          |                        |                        | \$1,107.00  |            |                     |
| Total Working for Families assistance after abatement   |                          |                        |                        | \$14,717.00 |            |                     |
| Maximum accommodation supplement  |                          |                        |                        | \$15,860.00 |            |                     |
| Abatement on accommodation supplement   |                          |                        |                        | \$1,430.00  |            |                     |
| Total accommodation supplement after abatement  |                          |                        |                        | \$14,430.00 |            |                     |
| <b>Effective annual earnings for the household</b>  |                          |                        |                        | \$68,053.72 |            |                     |
| <b>Percentage increase in minimum wage</b>  |                          |                        |                        | 6.13%       |            |                     |
| <b>Percentage increase in annual earnings</b>   |                          |                        |                        | 1.17%       |            |                     |

| <b>Scenario 4e: A solo parent with two children working 40 hours per week at \$22.68, living in Avondale, Auckland paying median market rent of \$600</b> |                          |                        |                        |             |            |                     |
|---|--------------------------|------------------------|------------------------|-------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$22.68     |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>  | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>   | 40                       | \$907.20               | \$47,174.40            | \$7,275.45  | \$688.75   | \$39,210.20         |
| Maximum In Work Tax Credit  |                          |                        |                        | \$3,770.00  |            |                     |
| Maximum Family Tax Credit   |                          |                        |                        | \$12,054.00 |            |                     |
| Total abatement on family support due to income   |                          |                        |                        | \$1,208.09  |            |                     |
| Total Working for Families assistance after abatement   |                          |                        |                        | \$14,615.91 |            |                     |

**IN CONFIDENCE**

|  |             |
|--|-------------|
| Maximum accommodation supplement                   | \$15,860.00 |
| Abatement on accommodation supplement              | \$1,523.60  |
| Total accommodation supplement after abatement     | \$14,336.40 |
| <b>Effective annual earnings for the household</b> | \$68,162.52 |
| <b>Percentage increase in minimum wage</b>         | 6.98%       |
| <b>Percentage increase in annual earnings</b>      | 1.33%       |

| <b>Scenario 4f: A solo parent with two children working 40 hours per week at \$23.10, living in Avondale, Auckland paying median market rent of \$600</b> |                   |                 |                 |             |          |              |
|---|-------------------|-----------------|-----------------|-------------|----------|--------------|
| Minimum wage  |                   |                 |                 | \$23.10     |          |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax         | ACC      | Net earnings |
| <b>Parent A</b>   | 40                | \$924.00        | \$48,048.00     | \$7,434.40  | \$701.50 | \$39,912.10  |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00  |          |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00 |          |              |
| Total abatement on family support due to income   |                   |                 |                 | \$1,443.96  |          |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$14,380.04 |          |              |
| Maximum accommodation supplement  |                   |                 |                 | \$15,860.00 |          |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$1,742.00  |          |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$14,118.00 |          |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | \$68,410.14 |          |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | 8.96%       |          |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | 1.70%       |          |              |

| <b>Scenario 4g: A solo parent with two children working 40 hours per week at \$23.65, living in Avondale, Auckland paying median market rent of \$600</b> |                   |                 |                 |             |          |              |
|---|-------------------|-----------------|-----------------|-------------|----------|--------------|
| Minimum wage  |                   |                 |                 | \$23.65     |          |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax         | ACC      | Net earnings |
| <b>Parent A</b>   | 40                | \$946.00        | \$49,192.00     | \$7,777.60  | \$718.20 | \$40,696.20  |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00  |          |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00 |          |              |
| Total abatement on family support due to income   |                   |                 |                 | \$1,752.84  |          |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$14,071.16 |          |              |
| Maximum accommodation supplement  |                   |                 |                 | \$15,860.00 |          |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$2,028.00  |          |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$13,832.00 |          |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | \$68,599.36 |          |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | 11.56%      |          |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | 1.98%       |          |              |

## Scenario 5

| <b>Scenario 5a: A solo parent with two children working 40 hours per week at \$21.20, living in Ashburton, Canterbury paying median market rent of \$380</b> |                   |                 |                 |         |     |              |
|--|-------------------|-----------------|-----------------|---------|-----|--------------|
| Minimum wage   |                   |                 |                 | \$21.20 |     |              |
|  | Weekly work hours | Weekly earnings | Annual Earnings | Tax     | ACC | Net earnings |

**IN CONFIDENCE**

|   |    |          |             |                    |          |             |
|---|----|----------|-------------|--------------------|----------|-------------|
| <b>Parent A</b>                                       | 40 | \$848.00 | \$44,096.00 | \$6,736.80         | \$643.80 | \$36,715.40 |
| Maximum In Work Tax Credit                            |    |          |             | \$3,770.00         |          |             |
| Maximum Family Tax Credit                             |    |          |             | \$12,054.00        |          |             |
| Total abatement on family support due to income       |    |          |             | \$376.92           |          |             |
| Total Working for Families assistance after abatement |    |          |             | \$15,447.08        |          |             |
| Maximum accommodation supplement                      |    |          |             | \$8,663.20         |          |             |
| Abatement on accommodation supplement                 |    |          |             | \$754.00           |          |             |
| Total accommodation supplement after abatement        |    |          |             | \$7,909.20         |          |             |
| <b>Effective annual earnings for the household</b>    |    |          |             | <b>\$60,071.68</b> |          |             |
| <b>Percentage increase in minimum wage</b>            |    |          |             | <b>0.00%</b>       |          |             |
| <b>Percentage increase in annual earnings</b>         |    |          |             | <b>0.00%</b>       |          |             |

**Scenario 5b: A solo parent with two children working 40 hours per week at \$21.84, living in Ashburton, Canterbury paying median market rent of \$380**

|   |                          |                        |                        |                    |            |                     |
|---|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$21.84            |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>                                       | 40                       | \$873.60               | \$45,427.20            | \$6,969.72         | \$663.24   | \$37,794.24         |
| Maximum In Work Tax Credit                            |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit                             |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income       |                          |                        |                        | \$736.34           |            |                     |
| Total Working for Families assistance after abatement |                          |                        |                        | \$15,087.66        |            |                     |
| Maximum accommodation supplement                      |                          |                        |                        | \$8,663.20         |            |                     |
| Abatement on accommodation supplement                 |                          |                        |                        | \$1,086.80         |            |                     |
| Total accommodation supplement after abatement        |                          |                        |                        | \$7,576.40         |            |                     |
| <b>Effective annual earnings for the household</b>    |                          |                        |                        | <b>\$60,458.30</b> |            |                     |
| <b>Percentage increase in minimum wage</b>            |                          |                        |                        | <b>3.02%</b>       |            |                     |
| <b>Percentage increase in annual earnings</b>         |                          |                        |                        | <b>0.64%</b>       |            |                     |

**Scenario 5c: A solo parent with two children working 40 hours per week at \$22.26, living in Ashburton, Canterbury paying median market rent of \$380**

|   |                          |                        |                        |                    |            |                     |
|---|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$22.26            |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>                                       | 40                       | \$890.40               | \$46,300.80            | \$7,122.50         | \$675.99   | \$38,502.31         |
| Maximum In Work Tax Credit                            |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit                             |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income       |                          |                        |                        | \$972.22           |            |                     |
| Total Working for Families assistance after abatement |                          |                        |                        | \$14,851.78        |            |                     |
| Maximum accommodation supplement                      |                          |                        |                        | \$8,663.20         |            |                     |
| Abatement on accommodation supplement                 |                          |                        |                        | \$1,305.20         |            |                     |
| Total accommodation supplement after abatement        |                          |                        |                        | \$7,358.00         |            |                     |
| <b>Effective annual earnings for the household</b>    |                          |                        |                        | <b>\$60,712.09</b> |            |                     |
| <b>Percentage increase in minimum wage</b>            |                          |                        |                        | <b>5.00%</b>       |            |                     |
| <b>Percentage increase in annual earnings</b>         |                          |                        |                        | <b>1.07%</b>       |            |                     |

**Scenario 5d: A solo parent with two children working 40 hours per week at \$22.50, living in Ashburton, Canterbury paying median market rent of \$380**

|              |  |  |  |         |  |  |
|--------------|--|--|--|---------|--|--|
| Minimum wage |  |  |  | \$22.50 |  |  |
|--------------|--|--|--|---------|--|--|

**IN CONFIDENCE**

|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
|---|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
| <b>Parent A</b>                                       | 40                       | \$900.00               | \$46,800.00            | \$7,210.00         | \$683.28   | \$38,906.72         |
| Maximum In Work Tax Credit                            |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit                             |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income       |                          |                        |                        | \$1,107.00         |            |                     |
| Total Working for Families assistance after abatement |                          |                        |                        | \$14,717.00        |            |                     |
| Maximum accommodation supplement                      |                          |                        |                        | \$8,663.20         |            |                     |
| Abatement on accommodation supplement                 |                          |                        |                        | \$1,430.00         |            |                     |
| Total accommodation supplement after abatement        |                          |                        |                        | \$7,233.20         |            |                     |
| <b>Effective annual earnings for the household</b>    |                          |                        |                        | <b>\$60,856.92</b> |            |                     |
| <b>Percentage increase in minimum wage</b>            |                          |                        |                        | <b>6.13%</b>       |            |                     |
| <b>Percentage increase in annual earnings</b>         |                          |                        |                        | <b>1.31%</b>       |            |                     |

**Scenario 5e: A solo parent with two children working 40 hours per week at \$22.68, living in Ashburton, Canterbury paying median market rent of \$380**

| Minimum wage  |                          |                        |                        | \$22.68            |            |                     |
|---|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>                                       | 40                       | \$907.20               | \$47,174.40            | \$7,275.45         | \$688.75   | \$39,210.20         |
| Maximum In Work Tax Credit                            |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit                             |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income       |                          |                        |                        | \$1,208.09         |            |                     |
| Total Working for Families assistance after abatement |                          |                        |                        | \$14,615.91        |            |                     |
| Maximum accommodation supplement                      |                          |                        |                        | \$8,663.20         |            |                     |
| Abatement on accommodation supplement                 |                          |                        |                        | \$1,523.60         |            |                     |
| Total accommodation supplement after abatement        |                          |                        |                        | \$7,139.60         |            |                     |
| <b>Effective annual earnings for the household</b>    |                          |                        |                        | <b>\$60,965.72</b> |            |                     |
| <b>Percentage increase in minimum wage</b>            |                          |                        |                        | <b>6.98%</b>       |            |                     |
| <b>Percentage increase in annual earnings</b>         |                          |                        |                        | <b>1.49%</b>       |            |                     |

**Scenario 5f: A solo parent with two children working 40 hours per week at \$23.10, living in Ashburton, Canterbury paying median market rent of \$380**

| Minimum wage  |                          |                        |                        | \$23.10            |            |                     |
|---|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>                                       | 40                       | \$924.00               | \$48,048.00            | \$7,434.40         | \$701.50   | \$39,912.10         |
| Maximum In Work Tax Credit                            |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit                             |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income       |                          |                        |                        | \$1,443.96         |            |                     |
| Total Working for Families assistance after abatement |                          |                        |                        | \$14,380.04        |            |                     |
| Maximum accommodation supplement                      |                          |                        |                        | \$8,663.20         |            |                     |
| Abatement on accommodation supplement                 |                          |                        |                        | \$1,742.00         |            |                     |
| Total accommodation supplement after abatement        |                          |                        |                        | \$6,921.20         |            |                     |
| <b>Effective annual earnings for the household</b>    |                          |                        |                        | <b>\$61,213.34</b> |            |                     |
| <b>Percentage increase in minimum wage</b>            |                          |                        |                        | <b>8.96%</b>       |            |                     |
| <b>Percentage increase in annual earnings</b>         |                          |                        |                        | <b>1.90%</b>       |            |                     |

| <b>Scenario 5g: A solo parent with two children working 40 hours per week at \$23.65, living in Ashburton, Canterbury paying median market rent of \$380</b> |                          |                        |                        |                    |            |                     |
|--|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
| Minimum wage   |                          |                        |                        | \$23.65            |            |                     |
|  | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>  | 40                       | \$946.00               | \$49,192.00            | \$7,777.60         | \$718.20   | \$40,696.20         |
| Maximum In Work Tax Credit   |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit  |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income  |                          |                        |                        | \$1,752.84         |            |                     |
| Total Working for Families assistance after abatement  |                          |                        |                        | \$14,071.16        |            |                     |
| Maximum accommodation supplement   |                          |                        |                        | \$8,663.20         |            |                     |
| Abatement on accommodation supplement  |                          |                        |                        | \$2,028.00         |            |                     |
| Total accommodation supplement after abatement   |                          |                        |                        | \$6,635.20         |            |                     |
| <b>Effective annual earnings for the household</b>   |                          |                        |                        | <b>\$61,402.56</b> |            |                     |
| <b>Percentage increase in minimum wage</b>   |                          |                        |                        | <b>11.56%</b>      |            |                     |
| <b>Percentage increase in annual earnings</b>  |                          |                        |                        | <b>2.22%</b>       |            |                     |

## Scenario 6

| <b>Scenario 6a: A solo parent with two children working 40 hours per week at \$21.20, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                          |                        |                        |                    |            |                     |
|---|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$21.20            |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>   | 40                       | \$848.00               | \$44,096.00            | \$6,736.80         | \$643.80   | \$36,715.40         |
| Maximum In Work Tax Credit  |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit   |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income   |                          |                        |                        | \$376.92           |            |                     |
| Total Working for Families assistance after abatement   |                          |                        |                        | \$15,447.08        |            |                     |
| Maximum accommodation supplement  |                          |                        |                        | \$8,320.00         |            |                     |
| Abatement on accommodation supplement   |                          |                        |                        | \$754.00           |            |                     |
| Total accommodation supplement after abatement  |                          |                        |                        | \$7,566.00         |            |                     |
| <b>Effective annual earnings for the household</b>  |                          |                        |                        | <b>\$59,728.48</b> |            |                     |
| <b>Percentage increase in minimum wage</b>  |                          |                        |                        | <b>0.00%</b>       |            |                     |
| <b>Percentage increase in annual earnings</b>   |                          |                        |                        | <b>0.00%</b>       |            |                     |

| <b>Scenario 6b: A solo parent with two children working 40 hours per week at \$21.84, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                          |                        |                        |             |            |                     |
|---|--------------------------|------------------------|------------------------|-------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$21.84     |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>  | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>   | 40                       | \$873.60               | \$45,427.20            | \$6,969.72  | \$663.24   | \$37,794.24         |
| Maximum In Work Tax Credit  |                          |                        |                        | \$3,770.00  |            |                     |
| Maximum Family Tax Credit   |                          |                        |                        | \$12,054.00 |            |                     |
| Total abatement on family support due to income   |                          |                        |                        | \$736.34    |            |                     |
| Total Working for Families assistance after abatement   |                          |                        |                        | \$15,087.66 |            |                     |
| Maximum accommodation supplement  |                          |                        |                        | \$8,320.00  |            |                     |
| Abatement on accommodation supplement   |                          |                        |                        | \$1,086.80  |            |                     |

**IN CONFIDENCE**

|  |                    |
|--|--------------------|
| Total accommodation supplement after abatement     | \$7,233.20         |
| <b>Effective annual earnings for the household</b> | <b>\$60,115.10</b> |
| <b>Percentage increase in minimum wage</b>         | <b>3.02%</b>       |
| <b>Percentage increase in annual earnings</b>      | <b>0.65%</b>       |

**Scenario 6c: A solo parent with two children working 40 hours per week at \$22.26, living in Whakatane, Bay of Plenty paying median market rent of \$450**

|   |                          |                        |                        |                    |            |                     |
|---|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$22.26            |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>                                       | 40                       | \$890.40               | \$46,300.80            | \$7,122.50         | \$675.99   | \$38,502.31         |
| Maximum In Work Tax Credit                            |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit                             |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income       |                          |                        |                        | \$972.22           |            |                     |
| Total Working for Families assistance after abatement |                          |                        |                        | \$14,851.78        |            |                     |
| Maximum accommodation supplement                      |                          |                        |                        | \$8,320.00         |            |                     |
| Abatement on accommodation supplement                 |                          |                        |                        | \$1,305.20         |            |                     |
| Total accommodation supplement after abatement        |                          |                        |                        | \$7,014.80         |            |                     |
| <b>Effective annual earnings for the household</b>    |                          |                        |                        | <b>\$60,368.89</b> |            |                     |
| <b>Percentage increase in minimum wage</b>            |                          |                        |                        | <b>5.00%</b>       |            |                     |
| <b>Percentage increase in annual earnings</b>         |                          |                        |                        | <b>1.07%</b>       |            |                     |

**Scenario 6d: A solo parent with two children working 40 hours per week at \$22.50, living in Whakatane, Bay of Plenty paying median market rent of \$450**

|   |                          |                        |                        |                    |            |                     |
|---|--------------------------|------------------------|------------------------|--------------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$22.50            |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>         | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>                                       | 40                       | \$900.00               | \$46,800.00            | \$7,210.00         | \$683.28   | \$38,906.72         |
| Maximum In Work Tax Credit                            |                          |                        |                        | \$3,770.00         |            |                     |
| Maximum Family Tax Credit                             |                          |                        |                        | \$12,054.00        |            |                     |
| Total abatement on family support due to income       |                          |                        |                        | \$1,107.00         |            |                     |
| Total Working for Families assistance after abatement |                          |                        |                        | \$14,717.00        |            |                     |
| Maximum accommodation supplement                      |                          |                        |                        | \$8,320.00         |            |                     |
| Abatement on accommodation supplement                 |                          |                        |                        | \$1,430.00         |            |                     |
| Total accommodation supplement after abatement        |                          |                        |                        | \$6,890.00         |            |                     |
| <b>Effective annual earnings for the household</b>    |                          |                        |                        | <b>\$60,513.72</b> |            |                     |
| <b>Percentage increase in minimum wage</b>            |                          |                        |                        | <b>6.13%</b>       |            |                     |
| <b>Percentage increase in annual earnings</b>         |                          |                        |                        | <b>1.31%</b>       |            |                     |

**Scenario 6e: A solo parent with two children working 40 hours per week at \$22.68, living in Whakatane, Bay of Plenty paying median market rent of \$450**

|   |                          |                        |                        |             |            |                     |
|---|--------------------------|------------------------|------------------------|-------------|------------|---------------------|
| Minimum wage  |                          |                        |                        | \$22.68     |            |                     |
|   | <b>Weekly work hours</b> | <b>Weekly earnings</b> | <b>Annual Earnings</b> | <b>Tax</b>  | <b>ACC</b> | <b>Net earnings</b> |
| <b>Parent A</b>                                       | 40                       | \$907.20               | \$47,174.40            | \$7,275.45  | \$688.75   | \$39,210.20         |
| Maximum In Work Tax Credit                            |                          |                        |                        | \$3,770.00  |            |                     |
| Maximum Family Tax Credit                             |                          |                        |                        | \$12,054.00 |            |                     |
| Total abatement on family support due to income       |                          |                        |                        | \$1,208.09  |            |                     |
| Total Working for Families assistance after abatement |                          |                        |                        | \$14,615.91 |            |                     |

**IN CONFIDENCE**

|  |                    |
|--|--------------------|
| Maximum accommodation supplement                   | \$8,320.00         |
| Abatement on accommodation supplement              | \$1,523.60         |
| Total accommodation supplement after abatement     | \$6,796.40         |
| <b>Effective annual earnings for the household</b> | <b>\$60,622.52</b> |
| <b>Percentage increase in minimum wage</b>         | <b>6.98%</b>       |
| <b>Percentage increase in annual earnings</b>      | <b>1.50%</b>       |

| <b>Scenario 6f: A solo parent with two children working 40 hours per week at \$23.10, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                   |                 |                 |                    |          |              |
|---|-------------------|-----------------|-----------------|--------------------|----------|--------------|
| Minimum wage  |                   |                 |                 | \$23.10            |          |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC      | Net earnings |
| <b>Parent A</b>   | 40                | \$924.00        | \$48,048.00     | \$7,434.40         | \$701.50 | \$39,912.10  |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |          |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |          |              |
| Total abatement on family support due to income   |                   |                 |                 | \$1,443.96         |          |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$14,380.04        |          |              |
| Maximum accommodation supplement  |                   |                 |                 | \$8,320.00         |          |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$1,742.00         |          |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$6,578.00         |          |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | <b>\$60,870.14</b> |          |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | <b>8.96%</b>       |          |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | <b>1.91%</b>       |          |              |

| <b>Scenario 6g: A solo parent with two children working 40 hours per week at \$23.65, living in Whakatane, Bay of Plenty paying median market rent of \$450</b> |                   |                 |                 |                    |          |              |
|---|-------------------|-----------------|-----------------|--------------------|----------|--------------|
| Minimum wage  |                   |                 |                 | \$23.65            |          |              |
|   | Weekly work hours | Weekly earnings | Annual Earnings | Tax                | ACC      | Net earnings |
| <b>Parent A</b>   | 40                | \$946.00        | \$49,192.00     | \$7,777.60         | \$718.20 | \$40,696.20  |
| Maximum In Work Tax Credit  |                   |                 |                 | \$3,770.00         |          |              |
| Maximum Family Tax Credit   |                   |                 |                 | \$12,054.00        |          |              |
| Total abatement on family support due to income   |                   |                 |                 | \$1,752.84         |          |              |
| Total Working for Families assistance after abatement   |                   |                 |                 | \$14,071.16        |          |              |
| Maximum accommodation supplement  |                   |                 |                 | \$8,320.00         |          |              |
| Abatement on accommodation supplement   |                   |                 |                 | \$2,028.00         |          |              |
| Total accommodation supplement after abatement  |                   |                 |                 | \$6,292.00         |          |              |
| <b>Effective annual earnings for the household</b>  |                   |                 |                 | <b>\$61,059.36</b> |          |              |
| <b>Percentage increase in minimum wage</b>  |                   |                 |                 | <b>11.56%</b>      |          |              |
| <b>Percentage increase in annual earnings</b>   |                   |                 |                 | <b>2.23%</b>       |          |              |