



## COVERSHEET

<b>Minister</b>	Hon Michael Wood	<b>Portfolio</b>	Workplace Relations and Safety
<b>Title of Cabinet paper</b>	Minimum Wage Review 2022	<b>Date to be published</b>	10 February 2023

<b>List of documents that have been proactively released</b>		
<b>Date</b>	<b>Title</b>	<b>Author</b>
December 2022	Cabinet paper: Minimum Wage Review 2022	Office of the Minister of Workplace Relations and Safety
6 December 2022	Minimum Wage Review 2022 CPC-22-MIN-0048 Minute	Cabinet Office

### **Information redacted**

**NO**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

**In Confidence**

Office of the Minister for Workplace Relations and Safety  
Cabinet

**Minimum Wage Review 2022**

**Proposal**

1 This paper seeks Cabinet's agreement to:

EITHER

*Option one* (recommended):

- 1.1 Defer a decision on setting the minimum wage rate for 2023 until after the release of December 2022 Consumers Price Index (CPI) data on 25 January 2023, in order to make a decision that broadly aligns with CPI to the year ending December 2022
- 1.2 Announce in December 2022 the intention to wait for the December 2022 quarter CPI release in January 2023 before confirming an adjustment to the minimum wage rate for 1 April 2023
- 1.3 Authorise myself and the Minister of Finance to select and announce the 2023 minimum wage rate in late January or early February 2023

OR

*Option two:*

- 1.4 Select and announce a new minimum wage rate in December 2022:
  - a. \$21.20, maintaining the status quo with no increase;
  - b. \$21.84, a 3 percent increase;
  - c. \$22.26, a 5 percent increase;
  - d. \$22.50, a 6 percent increase;
  - e. \$22.68, a 7 percent increase;

**IN CONFIDENCE**

- f. \$23.10, a 9 percent increase;
- g. \$23.65, an 11.6 percent increase to the current Living Wage rate

OR

*Option three:*

- 1.5 Select and announce a new minimum wage rate in December 2022 but signal that the decision may be reviewed in late January 2023 if CPI and/or other economic indicators are significantly different than forecast
- 1.6 Authorise myself and the Minister of Finance to select and announce the 2023 minimum wage rate in late January or early February 2023

OR

*Option four:*

- 1.7 Select and announce a new minimum wage rate in late January or early February 2023 after the release of the December 2022 CPI data on 25 January 2023
  - 1.8 Do not make any announcement regarding 2023 minimum wage setting in December 2022
  - 1.9 Authorise myself and the Minister of Finance to select and announce the 2023 minimum wage rate in late January or early February 2023.
- 2 This paper also seeks Government agreement to draft a technical amendment to the Minimum Wage Order relating to phrasing around training requirements for the Starting-Out and Training wages to reflect changes in the education system.

**Relation to Government priorities**

- 3 This proposal contributes to delivering the Government's priorities to:
  - 3.1 accelerate New Zealand's recovery from the effects of COVID-19
  - 3.2 support the long-term wellbeing of New Zealanders by making progress in the areas of child wellbeing, housing, and climate change.
- 4 Continuing to increase the minimum wage is also a manifesto commitment.

## Executive Summary

### The economic context

- 5 The adult minimum wage is currently \$21.20 per hour, and the Starting-Out and Training minimum wages are \$16.96 per hour. The Ministry of Business, Innovation and Employment (MBIE) estimates that the adult minimum wage was being paid to approximately 59,600 workers at the end of June 2022, which is approximately 2.9 percent of all wage earners in paid employment.
- 6 New Zealand is currently experiencing high inflation and a tight labour market leading to high wage growth. Due to wage growth and labour shortages in industries such as hospitality, the coverage of the minimum wage has declined to cover only 2.9 percent of wage earners in June 2022, from 7.8 percent (160,000 wage earners) in June 2021.
- 7 While the coverage of the minimum wage has declined in 2022, the current rate is relatively close to the median wage (71.5 percent). So a 6 percent or \$1.30 increase to \$22.50, MBIE's recommended rate, is expected to apply to an estimated 201,000 workers.
- 8 The estimated employment restraint impacts of a minimum wage rate increase up to 6 percent are low, as the increase is below projected wage growth.
- 9 While the labour market and wage growth are currently strong, there are headwinds on the horizon from both global and domestic factors, including interest rate increases as a result of monetary policy intervention to control inflation. In response to persistently high inflation, the Reserve Bank of New Zealand (RBNZ) has raised the Official Cash Rate (OCR) which is expected to soften consumer demand over time through higher interest rates. Forecasts predict lower GDP, slower employment growth, and higher unemployment. While unemployment has remained at record lows of 3.2 to 3.3 percent through 2022, it is predicted to rise in 2023. In a challenging economic environment, we need to ensure that we support living standards, and balance the impacts of minimum wage increases on businesses.
- 10 Inflation is at a 30-year high, putting pressure on all New Zealanders' incomes. The RBNZ has recently revised its December 2022 and March 2023 CPI forecasts upwards, forecasting annual CPI to year end December 2022 to be 7.5% (RBNZ November forecast). An increase to the minimum wage is necessary to achieve the objective of the Minimum Wage Review, which 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).
- 11 Increasing the minimum wage to maintain the purchasing power of low-wage workers is likely to continue to support low-income earners – noting that in the expected economic climate it is prudent to select a rate that does not exceed overall wage growth, to reduce the potential for increased employment restraint impacts.

## Options for 2023

- 12 MBIE has analysed a range of minimum wage rate options for 2023 from between no increase and an 11.6 percent increase to the current \$23.65 Living Wage rate. MBIE has recommended a 6 percent increase in its November Minimum Wage Review 2022 which would have maintained the real value of the minimum wage relative to the forecast CPI over the year ending March 2023, based on the information available at the time of the review, with small employment restraint effects.<sup>1</sup>
- 13 As expected, stakeholders' views were mixed. The New Zealand Council of Trade Unions has called for an immediate lift in the minimum wage to match the Living Wage. BusinessNZ indicated a preference for a moderate rate of increase that would reflect a balance between CPI and the Labour Cost Index (LCI) which reflects wage costs to business. Annual CPI to year end September 2022 was 7.2 percent, and annual LCI to year end September 2022 was 3.7 percent. Other business stakeholders asked that a moratorium be placed on further rate increases for this year, or until economic conditions stabilise. Business representatives gave a clear message that they would like a rate set in December 2022 to provide certainty and time to plan.
- 14 Considering the current uncertainty of the economic climate, there is a risk that if the minimum wage rate is set now, the inflation data released in January 2023 will show that the rate set in December 2022 either does not maintain the real value of the minimum wage or overshoots.
- 15 I propose that Cabinet authorise myself and the Minister of Finance to decide the minimum wage rate for 2023 in late January or early February 2023, following the 25 January 2023 announcement of December's CPI figures. Further, more up to date, economic data would also be available then. This provides less time for employers to prepare for a rate adjustment, but it would ensure a right-sized rate that responds to the economic conditions.
- 16 I propose broadly aligning the new minimum wage rate with CPI inflation data from the year ending December 2022. The quarterly increase in the headline CPI figures for the March, June and September 2022 quarters were 1.8 percent, 1.7 percent and 2.2 percent respectively. The current RBNZ forecast is for annual CPI inflation in the year ending December 2022 to be 7.5 percent.<sup>2</sup> Using year end December 2022 actual figures improves the certainty of data that the Government relies on to make its decision, if this decision is made in January 2023. However, business feedback is that confirming a rate in December is preferable for business planning to waiting for a January announcement.

---

<sup>1</sup> MBIE's recommendation uses forecasts for around a 6 percent annual CPI rate for the year ended 31 March 2023. MBIE has used forecasts that rely on two quarters of confirmed, and two quarters of forecast, CPI data from the August Reserve Bank of New Zealand Monetary Policy Statement, and October commercial bank forecasts that suggest a range of 5 to 7 percent CPI for the year to March 2023.

<sup>2</sup> Reserve Bank of New Zealand, Monetary Policy Statement, November 2022.

- 17 To respond to businesses' desire for certainty, I propose to announce in December 2022 the intention to wait for the December 2022 quarter CPI release in January 2023 (*option one* in this paper). I am also seeking delegated authority for myself and the Minister of Finance to confirm a rate that broadly aligns with CPI inflation to the year ending December 2022.
- 18 Cabinet may instead prefer to choose a rate adjustment now from the seven options analysed in the Minimum Wage Review 2022 and make an announcement in December 2022 (*option two*). These options are summarised in **Appendix One** and attached in full in **Appendix Two** of this paper.
- 19 Alternatively, Cabinet could select and announce a new minimum wage rate in:
- 19.1 December 2022 but signal that the decision may be reviewed in late January 2023 if CPI and/or other economic indicators are significantly different than forecast at present (*option three*);
- 19.2 late January or early February 2023 after the release of the December 2022 CPI data on 25 January 2023 – without a December announcement of the deferral (*option four*).
- 20 Regardless of when the rate is selected, I propose that the new minimum wage rates come into effect on 1 April 2023.

## Background

- 21 The adult minimum wage is currently \$21.20, and the Starting-Out and Training minimum wage rates are currently \$16.96. As Minister for Workplace Relations and Safety, I have a statutory obligation under section 5 of the *Minimum Wage Act 1983* (the Act) to review the minimum wage rates by 31 December each year.
- 22 Similar to previous years, the following factors were considered in MBIE's analysis:
- 22.1 inflation, using the CPI as the indicator
- 22.2 wage growth, using median wage as the indicator
- 22.3 restraint on employment
- 22.4 fiscal impacts on Government.
- 23 For this year's review, I also directed officials to consider other factors:
- 23.1 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

- 23.2 the relativity to household living costs, in particular the cost of housing, and the financial needs of workers and their families
- 23.3 the effects of a minimum wage increase on personal and household incomes of minimum wage workers, after tax and social transfers
- 23.4 impacts on specific groups, such as Māori and Pacific people, women, and young people
- 23.5 the impacts on different employers, including small, medium and large businesses, export and import reliant businesses and other employers such as charities
- 23.6 impacts on sectors that have high proportions of minimum wage workers, for example, tourism, retail and hospitality.

**The minimum wage has risen substantially in recent years...**

24 The table shows below annual changes to the minimum wage since 2012, compared with the annual increase in the median wage.

<b>Date of new minimum wage (1 April)</b>	<b>Adult minimum wage</b>	<b>% change</b>	<b>Median wage (June each year)</b>	<b>% change</b>	<b>Minimum wage as % of the median wage</b>
2012	\$13.50	3.8%	\$20.78	3.8%	65%
2013	\$13.75	1.9%	\$21.48	3.4%	64%
2014	\$14.25	3.6%	\$21.92	2.0%	65%
2015	\$14.75	3.5%	\$22.68	3.5%	65%
2016	\$15.25	3.4%	\$23.22	2.4%	66%
2017	\$15.75	3.3%	\$24.00	3.4%	66%
2018	\$16.50	4.8%	\$25.00	2.9%	66%
2019	\$17.70	7.3%	\$25.50	2.0%	69%
2020	\$18.90	6.8%	\$27.00	5.9%	70%
2021	\$20.00	5.8%	\$27.76	2.8%	72%
2022	\$21.20	6.0%	\$29.66	6.8%	71.5%

- 25 Recent years’ increases in the minimum wage have typically been higher than median wage growth, which has compressed the wage distribution curve, steepening the lower wage side. Minimum wage increases have outpaced general wage growth in recent years – capturing more people in the minimum wage increases, resulting in a smaller gap between the minimum and median wage rates, and placing higher costs on minimum wage employers than general wage growth.
- 26 New Zealand’s current minimum wage rate is now 71.5 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>3</sup>.

- 27 However, all indicators of wage growth are currently at or near record levels. Statistics NZ 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 LCI in the September 2022 quarter, which reported the strongest wage increases in over a decade. Adjusted LCI rose 3.7 percent and QES average hourly earnings were up 7.4 percent over the year.
- 28 High wage growth in 2022 shows median wages increasing at a steeper rate than previously, resulting in less concern about wage compression from a minimum wage increase this year, and a lower proportion of workers on the minimum wage (2.9 percent in June 2022 versus 7.8 percent in June 2021).

**... with no discernible negative economic impacts**

- 29 Minimum wage 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.
- 30 Minimum wage increases can have the following effects:
- 30.1 *Increased earnings for minimum wage workers*, although net household income is also affected by other Government interventions, such as taxation and abatements for those receiving income support, accommodation assistance and tax credits.
- 30.2 *Increased labour costs for employers*, especially for sectors that employ a large number of minimum wage workers such as hospitality and retail, as well as flow-on costs from increasing the wages of other workers earning close to the minimum wage to maintain their wage relativity to the minimum wage.
- 30.3 *Inflation pressure*, if employers pass on all or part of their increased labour costs through increased prices. New Zealand’s annual consumer price inflation rate was at a near-30-year-high of 7.2 percent in the year to September 2022, exceeding the Reserve Bank’s target range of 1 to 3 percent. MBIE’s minimum wage review modelling suggests that the economy-wide inflationary impacts of minimum wage increase options under consideration remain relatively low.
- 30.4 *Employment impacts*, including lower job growth, reduced hours and substitution of higher-paid and skilled employees for minimum wage workers. The employment restraint effects of minimum wage increases depend on the size of the increase, the economic and labour market context in which it occurs, and how employers respond to the changes.

<sup>3</sup> Low Pay Commission. <https://www.gov.uk/government/consultations/low-pay-commission-consultation-2022>



In New Zealand, a 2021 report by Motu Economic and Public Policy Research did not find evidence of adverse employment effects from increases in the minimum wage. It did note, however, that youth and low skilled workers are most at risk of this impact. MBIE's 2022 review supports this finding, as youth make up 61 percent of minimum wage earners.

- 30.5 *Changed fiscal costs for Government*, through both direct wage costs (employees paid at or near the minimum wage) and indirect costs due to Government expenditure on programmes that are affected by the minimum wage. These costs are mitigated to some extent by the Government's decision to pay some public sector supply contractors at a living wage rate.
- 31 Overall, the New Zealand experience to date suggests that expected employment restraint effects of minimum wage increases have been offset by the strong employment growth seen in recent years – although as employment growth slows<sup>4</sup>, these risks are likely to become more pronounced. Employment restraint results in fewer people being newly employed than would have been the case if the minimum wage had not increased.
- 32 We have consistently raised the minimum wage every year on average by 6.14 percent since 2018 without notable adverse economic impacts. Even after the minimum wage was increased to \$21.20 per hour in April 2022, unemployment has remained at its current record lows despite the impacts of COVID-19 and international price shocks on the economy.
- 33 New Zealand's employment rate is a record high 69.3 percent, among the highest in the OECD, and the labour force participation rate has continued to increase, with record high participation of 71.7 percent in the September 2022 quarter. Unemployment fell to a record low 3.2 percent in the December 2021 quarter and has held at 3.2 to 3.3 percent through the year, as more New Zealanders benefitted from more jobs due to the strong economy.
- 34 However, a slowdown in employment growth is likely in 2023, and unemployment is expected to rise. MBIE has warned that job growth is less likely to mask any employment restraint from minimum wage rate increases next year, as it may not be as easy for employees to find new opportunities.
- 35 The trajectory of inflation is also uncertain, as the effects of monetary policy take time to filter through. A September 2022 quarterly inflation of 2.2 percent exceeded higher estimates in the NZIER consensus forecast for the quarter.

---

<sup>4</sup> The Treasury's Budget and Fiscal Economic Update (BEFU) in May 2022 forecast employment growth to slow to 1 percent to the year end June 2023 and to 0.1 percent to the year end June 2024. The November 2022 RBNZ MPS has forecast annual employment growth for these two periods of 1.4 per cent and -0.4 per cent, respectively.

## The current economic context requires a prudent response

- 36 The labour market and economy were more resilient than expected through COVID-19. Employment and labour participation have reached record highs in a reported labour shortage, with net migration slow to resume after restrictions during the pandemic. In New Zealand's 2022 recovery, job ads data has continued to show growth to reach above pre-COVID-19 levels, firms are reporting difficulties in finding skilled and unskilled labour, and wages are rising faster than they have in over a decade.
- 37 However, high inflation is causing concern in New Zealand and around the world. Global economic activity is experiencing a sharper-than-expected slowdown, with inflation higher than seen in several decades. The IMF reports that a global cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the ongoing COVID-19 pandemic are all influencing a more negative outlook. Global growth is forecast to slow from 6 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001, except for the global financial crisis and the acute phase of the COVID-19 pandemic.
- 38 The combination of supply chain disruptions and strong demand has seen capacity pressures intensify, contributing to higher inflation. New Zealand's CPI annual inflation rate was expected to have peaked at a 32-year high of 7.3 percent in the June 2022 quarter and was forecast earlier in the year to trend down in the following quarters and years. However, the most recent quarterly CPI announcement exceeded expectations, and annual inflation remained close to the peak rate at 7.2 percent in the year ended September 2022. The current RBNZ forecast is for annual CPI inflation to the year ending December 2022 to be 7.5 percent<sup>5</sup>. This suggests a higher increase than that recommended by MBIE in its November review would be needed to fulfil the objective of maintaining the real value of the minimum wage. MBIE's recommended 6 percent increase aligned with inflation forecasts at the point in time of MBIE's Minimum Wage Review. The employment restraint for this rate of increase was expected to be reasonably low.

## MBIE has recommended a 6 percent increase in the minimum wage which would have aligned with the projected increase in the CPI in the year ending March 2023

- 39 MBIE completed its 2022 Minimum Wage Review in November 2022. It assessed several minimum wage options to analyse the potential impact of the different increases. Its report recommends increasing the adult minimum wage rate to \$22.50 per hour and the Starting-Out and Training wages to \$18.00 per hour on 1 April 2023. A summary of this assessment is in **Annex One** and the full report is attached as **Annex Two**.
- 40 MBIE's recommendation is a 6 percent increase, which would have maintained the real value of the minimum wage relative to the forecast CPI over the year to end March 2023, as at the point in time that the Review report

<sup>5</sup> Reserve Bank of New Zealand, Monetary Policy Statement, November 2022.

was provided to me. It also took anticipated wage growth into account as at that point in time.

- 41 MBIE estimates that an increase to \$22.50 would have a beneficial impact for around 201,000 people, with a potential employment restraint of less than 1,000 people. This would result in an estimated annual economy-wide increase in wages of \$284 million, and a corresponding 0.08 percent inflationary impact on the wages portion of GDP.
- 42 Government agencies were not specifically consulted on the costs of a 6 percent increase<sup>6</sup>, but the additional annual direct costs to Government would fall between the reported costs of \$17.8 million for a 5 percent increase and \$30.6 million for a 7 percent increase.
- 43 MBIE notes that a 6 percent increase will achieve the objective of the minimum wage review, which is to protect the real incomes of low-paid employees while minimising the risk of job losses, again, as at the point in time of the review. This risk would be likely to fall disproportionately on younger workers in particular.
- 44 The estimated negative effects of this level of increase are expected to be low. As mentioned above, MBIE estimates that a 6 percent increase is likely to result in less than 1,000 individuals not being employed, compared to the situation of no change to the minimum wage. A 7 percent increase is estimated to affect 5,100 individuals. MBIE recommends against higher increases as the estimated employment restraint affects substantially more people (15,300 for a 9 percent increase and 28,900 for 11.6 percent to the Living Wage). The employment restraint effects are also considered more likely to materialise given expected modest employment growth in 2023, making it harder for impacted workers to find alternative jobs.
- 45 However, their recommendation uses CPI forecasts, before CPI data for the December 2022 quarter will be available (this data release is scheduled for 25 January 2023).
- 46 The September 2022 CPI data showed a higher than predicted rate of inflation at 2.2 percent over the quarter. There is a risk that a rate set in December 2022 that uses forecast inflation for December 2022 and March 2023 quarters may result in a rate that either does not maintain the real value of the minimum wage or overshoots.

### **I propose to set a rate that incorporates data on inflation from the December 2022 quarter, to be released on 25 January 2023**

- 47 Adopting MBIE's recommended increase of 6 percent would allow an announcement of a new minimum wage rate in December 2022. However, if the Government wants increased certainty that the rate chosen aligns with

---

<sup>6</sup> MBIE consulted on the cost impacts that could arise from increases of 0, 3, 5, 7, 9, and 11.6 percent. The 6 percent option was added after the higher-than-expected September 2022 CPI data was released, to refine the recommendation in light of the more recent CPI figures. At this point Government agencies had already been consulted on the cost impacts.

inflation to maintain the real value of the minimum wage, I consider that this decision should be based on data that is as up to date as possible, and defer a decision and announcement to late January or early February 2023.

- 48 MBIE's proposed 6 percent increase for the minimum wage is based on analysis that includes two quarters of actual CPI data and two quarters of forecast data to project a rate for the year ending March 2023. Current bank forecasts and confirmed CPI figures to date at the time of this recommendation suggested a range of between 5 and 7 percent increase in CPI to the year ending March 2023<sup>7</sup>, although the current RBNZ forecast is for annual CPI inflation in the year ending December 2022 to be 7.5 percent (the forecast for the year ending March 2023 is also for a 7.5 percent increase).
- 49 I suggest that it would be prudent to wait until the December 2022 CPI inflation data is released by Statistics NZ on 25 January 2023.
- 50 There is then still a choice about the relevant year for the measurement of the appropriate inflation rate. Once the December 2022 quarter inflation data is released, there will be actual data for the inflation rate for the year to December 2022. The quarterly increase in the headline CPI figures for the March, June and September 2022 quarters were 1.8 percent, 1.7 percent and 2.2 percent respectively. The RBNZ's December 2022 quarter forecast figure is 1.7 percent<sup>8</sup>.
- 51 This information could then be used to inform the setting of the minimum wage rate. This would reflect the approach taken by the Government when we set the 2022 minimum wage rate – a 6 percent increase that corresponded to a 5.9 percent CPI increase in the year ended December 2021. Using this approach, any decision would be based on the actual inflation rate and would be reflective of the inflation situation to December 2022.
- 52 The alternative would be to forecast the inflation rate for the year to March 2023. This would comprise three quarters of actual CPI data, and one forecast quarter to cover the year to March 2023.
- 53 I propose that Cabinet authorises myself and the Minister of Finance to confirm and announce the minimum wage rate based on the 25 January release of December 2022 CPI figures in early 2023. I propose aligning the new minimum wage rate with CPI inflation to the year ending December 2022.
- 54 This decision would then be implemented once changes to the Minimum Wage Order were drafted in February. This timing would still enable a minimum wage rate change on the conventional date of 1 April 2023.
- 55 As mentioned, business representatives would like the minimum wage rate to be set in December 2022 to provide certainty and time to plan. To respond to

---

<sup>7</sup> The September NZIER consensus forecast showed a range of low, mean and high forecasts for December 2022 CPI at 0.2, 0.7 and 1.4 percent. More recent commercial bank forecasts as of late October include ANZ (1.1 percent), Westpac (0.5 percent), and BNZ (0.5 percent).

<sup>8</sup> Reserve Bank of New Zealand Monetary Policy Statement November 2022 forecasts 1.7 percent CPI for December 2022 quarter.

businesses' desire for certainty, I propose to announce in December 2022 the intention to wait for the December 2022 quarter CPI release on 25 January 2023 before confirming an adjustment to the minimum wage rate which aligns with CPI inflation to the year ending December 2022 (*option one*).

56 Cabinet may instead prefer to consider other options. A further option would be to choose a rate adjustment now from the seven options analysed in the Minimum Wage Review 2022 and make an announcement in December 2022 (*option two*). These rate options are summarised in **Appendix One** and attached in full in **Appendix Two** of this paper.

57 Alternatively, Cabinet could select and announce a new minimum wage rate in:

57.1 December 2022, but signal that the decision may be reviewed in late January 2023 if CPI and/or other economic indicators are significantly different than forecast (*option three*);

57.2 late January or early February 2023 after the release of the December 2022 CPI data on 25 January 2023 (*option four*).

### **The estimated employment restraint impacts of the range for a 5 to 7 percent increase in rates are moderate**

58 MBIE's minimum wage report sets out estimates for employment restraint arising from incremental increases in the minimum wage. These estimates are necessarily imprecise. Many factors impact on the labour market, and the effect of minimum wage increases is hard to pinpoint, even retrospectively.

59 With this caveat, MBIE estimates that increasing the minimum wage by 7 percent to \$22.68 will create a moderate employment restraint of 5,100 individuals (less people employed than would have been the case if the minimum wage had not increased). This is lower than the employment restraint estimated in 2021 (7,900 people) and 2020 (9,000 people). However, MBIE considers that a forecast of more modest employment growth in 2023 makes it more likely for even a smaller employment restraint effect to be more visible in 2023. A 7 percent increase would retain the real value of the minimum wage but result in some increased costs to business compared with smaller increases.

60 The estimated restraint on employment for a \$22.50 or lower rate in 2023 is low, affecting less than 1,000 workers, as a 6 percent or lower rate of increase does not exceed the average (QES based) wage growth forecast for 2023 in the Treasury's 2022 Budget Economic and Fiscal Update (BEFU). A smaller increase would also result in reduced costs to business but would not maintain the real value of the minimum wage.

Increase	Annual economy-wide increase in wages (\$mm)	Additional direct costs to Government (\$mm)	Inflationary impact (on wage element of GDP – note not CPI)	Estimated restraint on employment
5% to \$22.26	204	17.8	0.06	<1,000
6% to \$22.50	284	Figure not calculated	0.08	<1,000
7% to \$22.68	352	30.6	0.10	5,100

61 These findings of a small employment restraint are consistent with studies of minimum wage increases both overseas and in New Zealand. Many international studies have found the overall employment effects on the economy of moderate minimum wage increases may be small or negligible. In New Zealand, as mentioned at paragraph 26, a 2021 report by Motu Economic and Public Policy Research did not find evidence of adverse employment effects from increases in the minimum wage.

**I propose a continued differential for the Starting-Out and Training rates**

62 I propose that the Starting-Out and Training rates continue to be set at 80 percent of the adult minimum wage in accordance with the Act. Based on a 6 percent increase to a \$22.50 adult minimum wage, the Starting-Out and Training rates would increase to \$18.00 per hour.

63 A differential between the adult minimum wage and the Starting-Out and Training rates supports the transition of youth into employment and helps further the policy objective of incentivising employers to take on and support trainees.

**The new rates should come into effect on 1 April 2023**

64 I propose that the new minimum wage rates come into effect on 1 April 2023. Since 1997, every minimum wage increase has come into effect in either March or April of the year following the decision, mostly on 1 April. There is no legislative requirement that the minimum wage increase comes into effect on 1 April. This date is chosen because it aligns with annual adjustments to the thresholds for the Accommodation Supplement, the Minimum Family Tax Credit, and the end of the financial and tax years for most employers.

**Minimum wage rates for future years**

65 Cabinet invited me to report back on a proposed trajectory for indicative rates for the minimum wage going forward [CAB-22-MIN-0005 refers]. MBIE’s 2022 Minimum Wage Review considered this and concluded that the uncertain

global and national economic context makes this an unsuitable time to set a longer-term trajectory for minimum wage rates. I agree with MBIE's assessment.

## Financial Implications

- 66 The Accident Compensation Corporation (ACC), New Zealand Defence Force, Ministry of Social Development and Te Whatu Ora have indicated that a minimum wage increase may have a financial impact. For these agencies, total annual costs to the Government directly related to the proposed increase are estimated to be \$17.8 million for a 5 percent increase and \$30.6 million for a 7 percent increase. They have indicated that they are seeking, or will likely seek, funding increases through the Budget process.
- 67 For these agencies, total annual costs to the Government directly related to a 5 percent increase to a \$22.26 minimum wage rate are estimated to be \$17.8 million. There could be also an estimated impact on the ACC's levy rate for the Motor Vehicle Account of \$0.36 and \$0.00 on the Earners and Work Accounts.
- 68 For a 7 percent increase to a \$22.70 minimum wage rate, total annual costs to the Government directly related to the proposed increase are estimated to be \$30.6 million, and there could be also an estimated impact on the ACC's levy rate for the Motor Vehicle Account of \$1.21 and \$0.00 on the Earners and Work Accounts.
- 69 There may be additional fiscal impacts in addition to wage costs. Some Government programmes are adjusted based on labour market wage statistics (for example, parental leave payment rates are adjusted annually based on changes in average ordinary time hourly earnings). Minimum wage rate increases may have an impact on these programmes.
- 70 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). Any fiscal impact will be treated as a forecast change through Budget 2022.
- 71 It is likely that the fiscal costs to Government may be offset by an increase in the GST received (as a result of people having more disposable income to spend) and a reduction in the amount of social transfers (due to abatements on Government support). These impacts are difficult to accurately quantify.

### ACC's outstanding claims liability

- 72 ACC's outstanding claims liability (OCL) is an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims up to a hundred years. This does not impose an immediate cost on the Crown but does have an impact on the notional solvency of the ACC scheme (the measure of ACC's assets to liabilities). It is important to note that the estimated OCL impact is excluded from the estimated figure of fiscal costs to

the Government, as it is usually a substantially larger figure and including it would produce a distorting effect.

- 73 For the rate of \$22.26, ACC estimates an OCL impact of \$70 million (in addition to the \$17.8 million fiscal costs to the Government estimated for a \$22.26 rate to avoid distortion).
- 74 For the rate of \$22.68, ACC estimates an OCL impact of \$187 million (also in addition to the \$30.6 million fiscal costs to the Government estimated for a \$22.68 rate to avoid distortion).

## Legislative Implications

- 75 Minimum wages are set through an Order in Council made under section 4, 4A and 4B of the Act. To give effect to a change in the minimum wage, a new Order in Council needs to be made by the Governor-General, on the recommendation of the Minister for Workplace Relations and Safety. Subject to Cabinet's decisions, the new Order to increase the minimum wage will come into force on 1 April 2023.
- 76 I intend to bring a paper to the Cabinet Legislation Committee in February 2023 to give effect to the minimum wage adjustment decided upon.
- 77 I also intend to ask the Parliamentary Counsel Office, in drafting the new Order, to make some minor technical updates to phrasing around training requirements for the Starting-Out and Training wages to reflect changes in the education system. These changes will retain all the same functions as the existing Order.

## Impact Analysis

### Regulatory Impact Statement

- 78 The Treasury's Regulatory Impact Analysis (RIA) team has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement (RIS) on the grounds that it would substantively duplicate the Minimum Wage Review 2022. This exemption is granted on the condition that the document contains all the requirements that would otherwise be included in the RIS. The RIA Panel at MBIE has reviewed the Minimum Wage Review 2022 and confirmed that it contains these requirements.
- 79 Additionally, no RIS is required for the technical change in the wording of the Minimum Wage Order with respect to definitions of training programmes for the Starting-Out and Training Wage, as this change will retain the current function of the Order. The Treasury's RIA team has determined that this proposal is exempt from the requirement to provide a RIS on the grounds that it has no or only minor impacts on businesses, individuals, and not-for-profit entities.



### Climate Implications of Policy Assessment

80 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

### Population Implications

81 The following table outlines the population implications of these proposals.

Population group	How the proposal may affect this group
Young people	<p>Young workers aged 16-24 represent a high proportion of those employees on the minimum wage. As at June 2022, 61 percent of those earning the minimum wage were between 16 and 24 years old, while these workers comprise only 16 percent of wage earners overall. Young workers are most exposed to the risks and benefits of minimum wage increases.</p> <p>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 employment restraint effects that minimum wage increases can have.</p> <p>There is some concern that high minimum wages may discourage young workers from remaining in education, with short-term rewards impacting their future earning potential.</p>
Māori	<p>Māori are overrepresented among those in low-paid jobs. MBIE modelling finds that Māori represent approximately 15 percent of total wage earners and 19 percent of total minimum wage earners (the latter is 1 percent lower than in the 2021 review).</p> <p>There is some evidence that Māori are more likely to be adversely affected by employment restraint effects than other ethnic groups. 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>9</sup></p>
Pacific peoples	<p>Pacific peoples are among those most likely to benefit from minimum wage increases. 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).</p>
Women	<p>Women tend to be overrepresented in a number of demographic characteristics associated with low pay, including working part-time and working in the hospitality and retail sectors. Wāhine Māori and Pacific women are more likely to be in low-paid jobs,</p>

<sup>9</sup> Pacheco, G. (2011). Estimating Employment Impacts with Binding Minimum Wage Constraints. *The Economic Record*, 87(279), 587-602.

	<p>so an increase to minimum wage could be particularly beneficial to these groups.</p> <p>62 percent of minimum wage earners between the ages of 16-64 are women, and 64 percent of minimum wage earners between 25 and 64 years are women. By comparison, 49 percent of total wage earners between the ages of 16 to 64 are women. With respect to changes over time, the proportion of the 16-64 age group of wage earners who are women has remained at 49 percent but those earning the minimum wage has risen from 59 percent in 2021 to 62 percent in 2022.</p>
<p>Disabled people</p>	<p>Labour market statistics show a persistent gap in median incomes from wages and salaries for disabled people. In June 2022, the median weekly income from wages and salaries for those aged 15-64 was \$960 for disabled people, \$233 less than the weekly median \$1,193 figure for non-disabled. This is \$89 more per week than the gap of \$144 in June 2021. This suggests that disabled people are likely to be overrepresented among lower paid people who will benefit from minimum wage increases.</p>

## Human Rights

- 82 I recommend that the Starting-Out and Training minimum wages continue to be set at 80 percent of the adult minimum wage. As these minimum wages make a distinction on the basis of age, namely those aged 16 to 19 years, or on the basis of their employment status, they continue to raise a potential issue of discrimination under section 19(1) of the *New Zealand Bill of Rights Act 1990* (NZBORA).
- 83 However, this discrimination appears to be justified in light of section 5 of the NZBORA. There can be negative long-term economic and social effects associated with young people being out of work, especially if they remain unemployed for a significant period of time. Providing the ability to pay young, unskilled, and in-training workers a lower wage than the adult minimum wage is one way to get young people into work and work-based training.

## Consultation

- 84 MBIE consulted with BusinessNZ and the New Zealand Council of Trade Unions on the minimum wage options considered in this year’s review and the analytical model used to assess them, as has been the case in recent reviews of the minimum wage. MBIE also invited submissions from a range of employer representatives, unions and worker representatives, and non-governmental organisations.
- 85 The consultation focussed on gathering information to better understand the potential implications of increasing the minimum wage in the current economic environment and labour market. Feedback from social partners and other stakeholders is summarised in the Review report.

- 86 MBIE also consulted with Government agencies during the review on the potential implications and costs to Government of the minimum wage options. The ACC, Te Whatu Ora Health New Zealand, Ministry of Social Development, and New Zealand Defence Force identified potential cost implications.
- 87 The Treasury and Department of Prime Minister and Cabinet (Child Poverty Unit and Policy Advisory Group) were consulted on MBIE's draft Review report.

## Communications

- 88 I intend to make a media statement about the new minimum wage rates for 2023 following Cabinet's decisions.
- 89 Depending on Cabinet's decision, I will either announce a rate in December 2022, or announce my intention to await more economic information in the new year and set a rate, in consultation with the Minister of Finance, to be announced in late January or early February 2023.

## Proactive Release

- 90 I intend to proactively release this Cabinet paper and will invite MBIE to release the Minimum Wage Review 2022 report on its website, subject to any appropriate withholding of information that would be justified under the *Official Information Act 1982*.

## Recommendations

- 91 The Minister for Workplace Relations and Safety recommends that Cabinet:
- 1 **note** that the Ministry of Business, Innovation and Employment has provided the Minimum Wage Review 2022 and has recommended a 6 percent increase in the minimum wage to \$22.50
  - 2 **note** that Ministry of Business, Innovation and Employment's recommendation is based on an analysis that is informed by two quarters of confirmed, and two quarters of forecast, CPI data as at the point in time of the Minimum Wage Review 2022
  - 3 **note** that I am of the view that due to the uncertain economic situation, and particularly uncertainty about the inflation environment, a decision on setting the minimum wage rate for 2023 should wait for the December 2022 CPI data to be released on 25 January 2023 – this would allow a decision based on the most up to date inflation and other economic data
  - 4 **agree** one of the following options to establish a minimum wage rate for 2023:  
EITHER

4.1 *Option one [recommended]:* Authorise the Minister of Finance and the Minister for Workplace Relations and Safety to announce a deferral in December 2022, and select a new minimum wage rate in late January or early February 2023, which broadly aligns with CPI inflation figures from the year ending December 2022 following the release of this data on 25 January 2023

OR

4.2 *Option two:* Select and announce a new minimum wage rate in December 2022:

- a. \$21.20, maintaining the status quo with *no increase*;
- b. \$21.84, a 3 percent increase;
- c. \$22.26, a 5 percent increase;
- d. \$22.50, a 6 percent increase;
- e. \$22.68, a 7 percent increase;
- f. \$23.10, a 9 percent increase;
- g. \$23.65, an 11.6 percent increase to the current Living Wage rate

OR

4.3 *Option three:* Select and announce a new minimum wage rate in December 2022 but signal that the decision may be reviewed in late January 2023 if CPI and/or other economic indicators are significantly different than forecast, *and* authorise the Minister of Finance and the Minister for Workplace Relations and Safety to review and confirm a new minimum wage rate in late January or early February 2023.

OR

4.4 *Option four:* Authorise the Minister of Finance and the Minister for Workplace Relations and Safety to select and announce a new minimum wage rate in late January or early February 2023 after the release of the December 2022 CPI data on 25 January 2023.

5 **agree** to maintain the Starting-Out and Training minimum wage rates at 80 percent of the adult minimum wage

6 **agree** that the minimum wage adjustment will come into effect on 1 April 2023

7 **note** that the uncertain global and national economic context makes this an unsuitable time to set a longer-term trajectory for minimum wage rates

- 8 **agree** to make a technical update to the Minimum Wage Order relating to the phrasing of training requirements for the Starting-Out and Training wages to reflect changes in the education system
- 9 **invite** the Minister for Workplace Relations and Safety to provide drafting instructions to Parliamentary Counsel Office to give effect to the above proposals via an Order in Council.

Authorised for lodgement

Hon Michael Wood

**Minister for Workplace Relations and Safety**

## Annex One: Summary of the impacts of the minimum wage options<sup>10</sup>

Minimum wage rate impact measures	Option 1 0% \$21.20	Option 2 3% \$21.84	Option 3 5% \$22.26	Option 4 6% \$22.50	Option 5 7% \$22.68	Option 6 9% \$23.10	Option 7 11.6% \$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>11</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>12</sup>	71.5%	73.6%	75.1%	<b>75.9%</b>	76.5%	77.9%	79.7%
Relativity to average wage <sup>13</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>14</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)	N/A	114,500	190,400	<b>201,000</b>	222,900	302,300	335,000
Estimated restraint on employment <sup>15</sup>	N/C	N/C	N/C	<b>- &lt;1,000 (figures under 1,000 suppressed)</b>	-5,100	-15,300	-28,900

<sup>10</sup> The modelling of all options is for the calendar year from 1 April 2023.

<sup>11</sup> This is calculated on a 40-hour week basis.

<sup>12</sup> The median hourly earnings are \$29.66 per hour (Labour Market Statistics (Income), June 2022).

<sup>13</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>14</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>15</sup> The employment effects for '16-64-year olds' are represented. These are estimates from the MBIE-MW employment restraint model updated in 2022.

IN CONFIDENCE

Minimum wage rate impact measures	Option 1 0% \$21.20	Option 2 3% \$21.84	Option 3 5% \$22.26	Option 4 6% \$22.50	Option 5 7% \$22.68	Option 6 9% \$23.10	Option 7 11.6% \$23.65
Estimated economy-wide increase in wages (\$ million, annual)	N/C	92	204	284	352	537	844
Estimated inflationary impact/GDP (percentage points) <sup>16</sup>	N/C	0.03%	0.06%	0.08%	0.10%	0.16%	0.25%
Estimated additional annual costs to the Government (\$ million, annual) <sup>17</sup>	Nil	8.2	17.8	<b>Not specified</b>	30.6	41.8	60.0
Full time employee receiving no tax credits or other income support - net weekly income and increase from \$21.20	\$718.45 -	\$739.57 (\$21.12) 2.94%	\$753.43 (\$34.98) 4.41%	<b>\$761.35</b> <b>(\$42.90)</b> <b>5.97%</b>	\$767.29 (\$48.84) 6.80%	\$781.03 (\$62.58) 8.71%	\$796.43 (\$77.98) 10.85%
Scenario: <sup>18</sup> 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	\$1,474.25	\$1,485.40 (\$11.15) 0.76%	\$1,492.72 (\$18.47) 1.25%	<b>\$1,496.90</b> <b>(\$22.65)</b> <b>1.54%</b>	\$1,500.04 (\$25.79) 1.75%	\$1,507.24 (\$32.99) 2.24%	\$1,514.07 (\$39.82) 2.70%

<sup>16</sup> The inflationary impact on the GDP-Income measure of the estimated economy-wide increase in wages, weighted by the share of compensation of employees in the National Accounts.

<sup>17</sup> This is a high-level estimate based on the additional costs to the Ministry of Social Development, Te Whatu Ora, 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 Claims Liability, an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims.

<sup>18</sup> These scenarios are based on current tax and benefit rates as at the time of the review in October 2022.

IN CONFIDENCE

Minimum wage rate impact measures	Option 1 0% \$21.20	Option 2 3% \$21.84	Option 3 5% \$22.26	Option 4 6% \$22.50	Option 5 7% \$22.68	Option 6 9% \$23.10	Option 7 11.6% \$23.65
income and increase from \$21.20							
Scenario: 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 (\$7.44) 0.57%	\$1,305.94 (\$12.32) 0.95%	<b>\$1,308.73</b> <b>(15.10)</b> <b>1.17%</b>	\$1,310.82 (\$17.19) 1.33%	\$1,315.58 (\$21.96) 1.70%	\$1,319.22 (\$25.59) 1.98%



## **Annex Two: Minimum Wage Review 2022 report**