



Coversheet

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Information redacted

YES

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Some information has been withheld for the reason of Confidential advice to Government



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Minimum Wage Review 2020

December 2020

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Executive Summary

This report fulfils a 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.

This year's minimum wage review takes place within the context of the newly elected Government's commitment to increase the minimum wage to \$20.00 in 2021 and the 2017 Coalition Agreement to 'progressively increase the Minimum Wage to \$20.00 per hour by 2020, with the final increase to take effect in April 2021'. This year's review also occurs in an uncertain economic environment, shaped by the global COVID-19 pandemic and the subsequent government responses.

The economic and labour market context

The restrictions on trade and travel have dramatically reduced revenue for many employers whose businesses rely on face-to-face transactions or on cross-border flows of people and goods.

Annual Gross Domestic Product (GDP) growth declined by 2.0 per cent in the year to June 2020. GDP fell 12.2 per cent in the June 2020 quarter, which was the largest quarterly decline on record. Treasury's Pre-Election Economic and Fiscal Update (PREFU) forecasts annual GDP growth to decline by 0.5 per cent in the year ending June 2021. Positive annual GDP growth of 3.6 per cent is forecast for the year ending June 2022 and 3.9 per cent in the year to June 2023.

The annual change in the Consumer Price Index (CPI) was 1.5 per cent and wage growth 2.1 per cent in the year to June 2020. The CPI is forecast to be stable at 1.2 per cent in each year to June 2021 and June 2022 before increasing to 1.4 per cent in the year to June 2023. Treasury is forecasting wage growth of 0.9 per cent in the year to June 2021 rising to 2.5 per cent and 2.6 per cent in 2022 and 2023 respectively.

The labour market has been disrupted by the COVID-19 lockdowns, however the impact to date has been less than the impact on the economy as a whole, and much less than initially expected. Many employers have reduced employees' hours of work, wages and jobs and Government-funded wage subsidies have kept many in work, with around 1.6 million people supported in employment at its peak in June 2020.

However, key labour market indicators show an expected negative impact on employment. Unemployment rose from 4.0 per cent to 5.3 per cent in the September 2020 quarter. The labour underutilisation rate increased from 10.4 per cent to 13.2. There was also 0.6 per cent and 0.4 per cent decreases in the number of filled jobs in the June 2020 and September 2020 quarters respectively and a progressive increase in the number of people receiving income assistance through the welfare system in 2020. The number of hours worked (-10.2 per cent) and paid hours (-3.5 per cent) dropped in the June 2020 quarter, resulting in less work and income for many people.

Net employment growth has also slowed.¹ In recent years, New Zealand has experienced relatively strong annual net employment growth as shown in Table 1 below. When jobs are being created in the economy, employees displaced by the effects of minimum wage increases are more likely to find work. However, in year to September 2020, annual net employment growth had fallen to 0.2 per cent (6,000 people). Treasury’s PREFU forecasts annual net employment growth to decline by 3.2 per cent (84,300 people) in the year to June 2021. However, net employment growth is forecast to improve through the remainder of 2021, with annual growth to June 2022 estimated to be 1.2 per cent (30,500 people).

Table 1: Net employment growth and estimated restraint on employment of past and this year’s proposed minimum wage increases

Year	Minimum wage rate	Net employment growth (average actual numbers year on year, to June)	Net employment growth (percentage year on year, to June)	Estimated restraint on employment of proposed MW increase
2018	\$16.50	91,000	3.6%	-3,000
2019	\$17.70	51,000	1.9%	-8,000
2020 (current)	\$18.90	42,000	1.6%	-6,500
2021 (MBIE proposed)	\$19.15	-84,300	-3.2%	-1,000 or less
2021 (Govt. indicative)	\$20.00	-84,300	-3.2%	-9,000
2022 (forecast)	N/A	30,500	1.2%	N/A
2023 (forecast)	N/A	66,500	2.6%	N/A

Many more workers are expected to be affected by the slowing economy and labour market over the coming months. Treasury has forecast the unemployment rate could rise to 7.7 per cent in the June 2021 quarter and peak at 7.8 per cent in March 2022. Unemployment is forecast to drop to 6.6 per cent in the year ending June 2023 and 5.8 per cent in the December 2023 quarter.

The hospitality, tourism, retail, transport, manufacturing and construction industries have been affected the most by the pandemic. These are sectors that employ a high proportion of minimum wage workers and would be affected by the increase in the minimum wage rate. Many employers in these sectors are also small businesses that have tight operating margins, are sensitive to cost increases and may be particularly vulnerable and on a long road to recovery.

The minimum wage review approach

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).

Minimum wage reviews can be ‘streamlined’ or ‘comprehensive.’ A ‘streamlined’ review was scheduled for 2020. However, due to the economic context caused by responses to COVID-19, we undertook an expanded and tailored review process, including consideration of additional

¹ Net employment growth is the rate at which new jobs are created in the economy.

factors, and wider consultation with stakeholders on the effects of minimum wage increases on their businesses and workers. Consultation partners included BusinessNZ and the New Zealand Council of Trade Unions (NZCTU) and government agencies. Consultation was also carried out with additional employer and worker representatives, and representatives from non-governmental organisations, including charities.

Worker representatives reported that minimum wage increases lift household incomes, helping to reduce poverty and inequality. They submitted that minimum wage increases benefit the labour market as they promote productivity and provide incentives for businesses to innovate and invest in capital. These submitters considered that a minimum wage increase does not necessarily increase unemployment.

Employer representatives highlighted the risk of reduced employment opportunities for youth and those without qualifications and argued that minimum wage increases do not increase productivity. Employers submitted that minimum wage increases incentivise businesses to offshore or automate their operations, cut jobs, reduce hours or shift to unethical employment practices. Further, minimum wage increases may drive up the price of food and other essential items.

The effects of minimum wage increases

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 improving living standards for households. However, expected income gains from minimum wage increases must be balanced against any potential negative impacts on employers, such as increased labour costs, inflation pressure, and for workers, reduced hours or unemployment.

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.

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. 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.

The minimum wage options considered in this review

The minimum wage rate options developed for this review are listed overleaf and summarised in Table 2. Options greater than \$22.10 have not been considered. This is because the Government's commitment is to reach \$20.00 by 2021 and increases larger than \$22.10 are unlikely to be adopted due to the current economic situation and the significant employment and inflation impacts. Options less than the status quo have not been considered, as this would erode the real incomes of the lowest paid workers compared to wage growth and inflation.

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- Option 1: \$18.90 per hour (status quo)
- Option 2: \$19.15 per hour (Consumer Price Index)
- Option 3: \$19.50 per hour
- Option 4: \$20.00 per hour (published indicative rate)
- Option 5: \$21.00 per hour
- Option 6: \$22.10 per hour (Living Wage rate)

Table 2: Summary of the impacts of the minimum wage options²

Minimum wage rate impact measures	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Adult minimum wage (hourly rate)	\$18.90	\$19.15	\$19.50	\$20.00	\$21.00	\$22.10
Adult minimum wage (gross weekly income for a 40 hour week)	\$756	\$766	\$780	\$800	\$840	\$884
Percentage increase	N/A	1.32%	3.17%	5.82%	11.11%	16.93%
Relativity to median wage ³	70.0%	70.9%	72.2%	74.1%	77.8%	81.9%
Relativity to average wage ⁴	55.9%	56.6%	57.7%	59.2%	62.1%	65.4%
Relativity to Job Seeker support ⁵	269.0%	272.5%	277.5%	284.6%	298.8%	314.5%
Number of people directly impacted (rounded up to nearest 100)	N/A	106,000	135,000	175,500	281,000	424,000
Estimated restraint ⁶ on employment ⁷	No change	-1,000 or less	-4000	-9,000	-19,000	-29,500
Estimated economy-wide increase in wages (\$ million, annual)	No change	29	94	216	607	1,232
Estimated inflationary impact (percentage points)	No change	No change	No change	0.10%	0.20%	0.40%
Estimated additional annual costs to the Government (\$ million, annual) ⁸	No change	9.3	28.6	49.9	110.1	206.3

² To ensure comparability between options, the modelling of all options is for the calendar year from 1 April 2021.

³ The median hourly earnings are \$27.00 per hour or \$1,080.00 per week (Labour Market Statistics (Income), June 2020).

⁴ The average hourly earnings are \$33.81 per hour or \$1,352.40 per week (Labour Market Statistics, September 2020).

⁵ For a single adult, aged 25 or over, receiving \$281.08 (gross) per week.

⁶ Restraint on employment is the net employment growth which may have taken place if not for the minimum wage increase, and does not include underemployment which along with unemployment and potential labour supply make up underutilisation.

⁷ The employment effects for '16-64 year olds' are represented. Figures rounded to the 500s.

⁸ This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, Oranga Tamariki, Accident Compensation Corporation and New Zealand Defence Force. It does not include potential transfer savings. This does not include change in transfers, or any changes in PAYE, GST or corporate tax that may result.

MBIE's recommendations

The effects of the COVID-19 pandemic on the economy and labour market are complex and have created considerable uncertainty for employers and employees. Due to the evolving global and domestic public health situation and the Government's fiscal response, the full economic and employment effects on businesses and the labour market have yet to become clear. Uncertainty is the prevailing message in almost all economic forecasts and commentary. A resurgence of COVID-19 in the community will slow any economic recovery and could potentially affect a decision to increase the minimum wage.

The economic situation, consumer caution and future uncertainty around trading conditions mean that employers may not be able to recover increased wage costs through normal responses such as reducing profit margins or increasing prices. The end result could be that the workers who would benefit the most from a minimum wage increase are the ones most likely to experience the negative effects of an increased minimum wage (such as reduced work hours or the substitution of some groups of workers for others).

MBIE recommends that any increase in the minimum wage comes into effect on 1 October 2021 when forecasts indicate net employment growth is starting to recover

The timing of a minimum wage increase is an important consideration in this year's decision.

Changes to the minimum wage have previously 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.

In previous years, negative employment effects of minimum wage increases have been mitigated by new jobs created in the economy. However, MBIE is concerned that the lack of forecast net employment growth over the first half of 2021 means that an increase in the minimum wage in April 2021 would be unaffordable for some businesses. This risks increasing unemployment or underutilisation for low-paid employees, particularly those people on or near the current minimum wage.

However, following the relatively large decline of net employment growth in the year to June 2021 (-3.2 per cent), Treasury has forecast a minimal reduction in net employment growth in the year to March 2022 (-0.1 per cent) and then positive growth in the year to June 2022 (+1.2 per cent). Deferring the date of a minimum wage increase to 1 October 2021 would align this change with a potential upturn in the economy when jobs are starting to be created again in the economy. This could mitigate the risk that extra wage costs from a minimum wage increase result in employers' reducing staff levels and workers' hours or negatively impact business viability.

This proposal would give employers much needed breathing space and enable those most affected by the downturn in trade to recover and retain their staff until the economic situation

improves. An increase in October 2021 would enable both employers and workers to share in the benefits of any economic recovery.

If the minimum wage rates are increased on 1 October 2021, the Minister is still required to undertake the annual statutory review prior to December 2021 to consider the rates for 2022.

MBIE recommends that the new adult minimum wage should be set at \$19.15 and come into effect on 1 October 2021

Although the Government has signalled a rate of \$20.00 to come into effect on 1 April 2021, MBIE believes the current economic conditions suggest a more gradual increase in the minimum wage is appropriate in 2021.

MBIE's view is that increasing the minimum wage at the forecast rate of CPI inflation to \$19.15 would achieve the objective of the minimum wage review, which is to protect the real incomes of low-paid employees while minimising the potential risk of job losses. This proposed increase also takes into account the current economic situation resulting from the COVID-19 pandemic, the forecasts of lower net employment growth and the financial pressure many employers are likely to face as a result of the economic downturn.

The proposed rate of \$19.15 achieves an increase to the wages of lowest paid workers that matches the inflation rate (actual and forecast) between the last minimum wage increase on 1 April 2020 and the proposed increase on 1 October 2021.

MBIE also recommends that the starting out and training minimum wages remain pegged at 80 per cent of the recommended adult minimum wage and are set at \$15.32 per hour.

These recommendations take into consideration the following factors:

- In 2012, Cabinet agreed that 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).
- \$20.00 is the published indicative rate for 2021, which was agreed by Cabinet in December 2018.
- Up to 106,000 workers (those currently earning up to \$19.15) would receive an increase up to the new minimum wage. Many new entrants to employment would start at the new minimum wage rate and many of those earning above the new minimum wage would also expect an increase over time as relative wage rates between different roles are addressed.
- The proposed rate is less than the Government's indicative rate (\$20.00) that had been widely publicised well in advance and is likely to have been included in business' forecasts, which will enable employers to integrate the proposed lower increase into their businesses.
- No increase would erode the real incomes of the lowest paid workers compared to wage growth and inflation.

- The estimated 'negative' effects of this level of increase are not disproportionately large. \$19.15 restrains employment less than the other options to increase to \$19.50, \$20.00, \$21.00 or \$22.10 (options 3 to 6). MBIE estimates that a new minimum wage of \$19.15 would mean that approximately 1,000 fewer individuals (our low estimate is 0 and our high estimate is 1,500) would be in employment than there would have been if the minimum wage had not increased. This is much lower than the estimated employment restraint of -9,000 people at \$20.00, which is comparable to the restraint figures for 2018 (-8,000) and 2019 (-6,500), but these increases occurred in different economic circumstances where there was net employment growth.
- The estimated additional annual economy-wide increase in wages of \$29 million, additional annual costs to Government of \$9.3 million and no inflationary impact for an increase to \$19.15. In comparison, for an increase to \$20.00, an additional annual economy-wide increase in wages of \$216 million, additional annual costs to Government of \$49.9 million and 0.10 per cent inflationary impact is estimated.
- Workers who are young, female, Māori, Pasifika, part-time employees, without formal qualifications, or working in the retail and hospitality industries are more likely to be paid at the minimum wage rate. These are also the groups who are most likely to experience job losses and reduced hours, although some of the negative effects of an increase may be mitigated by Government labour interventions, such as job subsidies, job creation, employment support and other initiatives.
- 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 trainees.

Recommended next steps

If you agree with MBIE's recommendation that any increase in the minimum wage comes into effect on 1 October 2021, we recommend that a decision on the rate to apply from that date is made in December 2020.

However, due to the current uncertainty in the economy and labour market, we recommend that this decision is confirmed by 1 June 2021 to ensure that the new rate is consistent with the objectives of the minimum wage review given the prevailing economic conditions at the time.

There is an option to delay making a decision on the new minimum wage rate until the New Year. New economic and labour market data will have been released by February 2021, but we do not believe that this data would materially change the analysis presented in this report. We also believe that there is value in making the decision sooner to provide certainty for businesses and other employers.

If you agree with these recommendations, the next step would be to seek Cabinet agreement to the following decisions before the end of December 2020:

- Set the adult minimum wage at \$19.15 per hour and the training and starting out minimum wage rates at \$15.32 per hour to come into effect on 1 October 2021, subject to:
 - No major occurrences of COVID-19 resurgence in the community that require further lockdowns to come into effect
 - Key economic indicators remaining consistent with or improving on those forecast in Treasury's PREFU 2020⁹
 - Key labour market indicators remaining consistent with or improving on those forecast in Treasury's PREFU 2020¹⁰, and
 - Other information that may inform setting the minimum wage rate, for example the National Survey of Employers, the potential effect of other Government priorities such as increasing sick leave entitlement and an additional public holiday
- Authorise a joint group of Ministers¹¹ to confirm the new minimum wage rates by 1 June 2021 following consideration of the relevant public health, economic and labour market conditions and indicators noted above
- Announce these decisions to the public prior to the end of 2020 to enable employers to plan and incorporate any changes into their administrative and payroll systems.

⁹ Forecasts based on Treasury's PREFU 2020, updated in the Half Year Economic and Fiscal Update (HYEFU) due to be released in December 2020 and the 2021 Budget Economic and Fiscal Update in May 2021 that include Gross Domestic Product (GDP), Consumer Price Index (CPI)

¹⁰ Forecast indicators based on Treasury's PREFU 2020, updated in Statistics New Zealand quarterly updates that include employment rate, unemployment rate, net employment growth, wage inflation, and labour underutilisation

¹¹ MBIE suggests joint Ministers include the: Minister of Finance, Minister for COVID-19 Response, Minister for Social Development and Employment, Minister of Health, Minister for Economic and Regional Development and Minister for Workplace Relations and Safety.

Chapter one – Approach to the 2020 review

Statutory and international obligations require the minimum wage to be reviewed annually

1. New Zealand has obligations under the International Labour Organisation's (ILO's) Minimum Wage-Fixing Machinery Convention (1928) to ensure a minimum wage rate is in force and that employers and workers are informed of the current rate.¹² The ILO recommends regular reviews of the minimum wage rate to preserve its purchasing power and provide certainty and predictability for employers.¹³
2. There are strong rationales for having a minimum wage and for reviewing the rate on a periodic basis. These include protecting real incomes for minimum wage earners to ensure workers' purchasing power is not eroded by inflation (for example, using the consumer price index (CPI) as an indicator), maintaining relativity to median or average earnings, and lifting the incomes of low-income households. In addition, it supports the workers who do not have the bargaining power or capability to negotiate. In the absence of annual increases to the minimum wage, these workers would likely receive no annual increase, or an increase lower than inflation. Over time, workers' real incomes for the same work would reduce, which could increase income inequality.
3. MBIE's analysis for this proposal does not include examining the merits of the underlying rationale for the minimum wage. Nevertheless, it is worth noting that the minimum wage is a well-established and accepted feature of New Zealand employment law.
4. The *Minimum Wage Act 1983* (the Act) establishes the minimum adult, training and starting out hourly rates that can be paid to employees. Section 5 of the Act requires the Minister for Workplace Relations and Safety to review the minimum wage rates by 31 December each year.
5. The Minister for Workplace Relations and Safety makes a recommendation to the Governor-General to prescribe the minimum wage following his review of the Ministry of Business, Innovation and Employment's (MBIE's) advice and seeks Cabinet approval of any changes. Minimum wage changes are set through an Order in Council made under section 4 of the Act.
6. To inform this decision, each year MBIE prepares a minimum wage review report that analyses the potential implications of an increase in the minimum wage rates for the Minister to consider. Access to the data used in this analysis was provided by Statistics NZ under strict micro-data access protocols and conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results

¹² Article 4, Convention Concerning the Creation of Minimum Wage-Fixing Machinery, CO26 (1928) (opened for signature 16 June 1928, entered into force 14 June 1930).

¹³ International Labour Organisation. (2016). *Minimum wage policy guide*.

presented in this report are the work of MBIE, not Statistics NZ or individual data suppliers and the findings are not Official Statistics.

Minimum wage reviews are either ‘comprehensive’ or ‘streamlined’

7. In 2012, Cabinet agreed that a ‘comprehensive’ review would be completed every four years (2015, 2019, 2023), with ‘streamlined’ reviews occurring during the intervening years.¹⁴
8. 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.
9. Comprehensive reviews build on the streamlined review process and must consider ‘other relevant factors’, determined by the responsible Minister, beyond the core factors of inflation, wage growth, restraint on employment and fiscal impact on government. Comprehensive reviews also have wider, but unspecified, consultation than the social partners and government agencies.

The 2020 review has been tailored to take account of this year’s unprecedented circumstances

10. This year’s minimum wage review occurs within the context of the:
 - 2017 Coalition Agreement commitment between the New Zealand Labour Party and New Zealand First Party to ‘progressively increase the minimum wage to \$20.00 per hour by 2020, with the final increase to take effect in April 2021’
 - Global COVID-19 pandemic, which has placed new pressures on the economy and the labour market
 - 2020 General Election on 17 October and the subsequent change of Government, which was delayed due to the resurgence of COVID-19 cases in the community in August 2020, and
 - The Labour Party’s 2020 manifesto commitment to increase the minimum wage to \$20.00 in 2021.
11. A streamlined review was scheduled for 2020. However, COVID-19 and the subsequent economic situation warranted a more tailored review process, which considered additional factors beyond those required by a streamlined review and wider stakeholder consultation. This would ensure that the review achieves its aim of “increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses.”¹⁵

¹⁴ [CAB Min (12) 41-5 B refers].

¹⁵ (CAB Min (12) 41/5B refers).

12. MBIE analysed the following core factors when assessing minimum wage rate options:

- Inflation
- Wage growth
- Restraint on employment growth
- Fiscal impacts on government.

13. For this year's review, the following factors were also considered:

- **The impact that COVID-19 has had (and is predicted to have) on labour markets.** COVID-19 has had a significant effect on the economy and the labour market. This is discussed further in Chapter Two.
- **The Government's goals to reset and rebuild the economy.** The new Government's election manifesto commitment is to increase the minimum wage to \$20.00 per hour in 2021. Alongside this, the Government's immediate focus is to support New Zealand's recovery and re-build from the effects of COVID-19. This includes a support package to assist businesses to hire 40,000 New Zealanders whose employment has been affected by COVID-19 back to work, and constructing infrastructure¹⁶ nation-wide to create jobs. Beyond this, the Government's key priorities include lifting productivity, lifting Māori and Pacific incomes, reducing child poverty and supporting improved health outcomes for all New Zealanders.¹⁷ This is discussed further in Chapter Two.
- **Government support for businesses and workers in light of COVID-19, including the Wage Subsidy Scheme and business loan schemes.** This is discussed in Chapter Three
- **The relativity of the minimum wage to welfare benefits and the average and median wages.** This is discussed in Chapter Four.
- **Information on sectors that have been most significantly affected by COVID-19, for example, tourism, accommodation, retail, education and manufacturing.** This is discussed in Chapter Four.
- **The effect of a minimum wage rate increase on different labour markets and for workers and households, particularly in sectors that have been severely affected by the pandemic.** This is discussed in Chapters Four and Six
- **The actual incomes of minimum wage workers, and households after tax and social transfers.** This is discussed in Chapter Six
- **The effects of a minimum wage increase on poverty, including child poverty.** The impacts on poverty are discussed in Chapter Six

¹⁶ The proposed infrastructure development includes constructing new roads and rail, school and hospital upgrades, building new state houses and regional projects. (Labour Party COVID-19 manifesto).

¹⁷ <https://www.treasury.govt.nz/publications/budget-policy-statement/budget-policy-statement-2020-html>

14. Due to the current economic environment and the additional factors noted previously in this report, this year's review included wider and more detailed analysis of the effects of a minimum wage increase on workers and employers than has been undertaken in previous reviews. Additional economic data and forecasts have been included (Chapter Two) plus analysis on the impacts on employers and the outlook for business (Chapter Three).
15. The indicative minimum wage rate agreed for 2021 (\$20.00) by Cabinet was also a focus for this review alongside the other potential rates that were considered. The modelling and evidence used in the review aligns with previous reviews (for a range of potential rates, estimating impacts such as wage growth, disemployment effects etc), and as with previous reviews, all potential minimum wage rate options have been tested, modelled, and considered.
16. The indicative rates through to 2021 were developed after consultation with employers and employees, who overwhelmingly considered those rates as the preferred pathway to achieve the \$20.00 commitment. This review needed to consider the impact on stakeholder confidence and certainty if a different rate is chosen without a clear justification, or if a rate was chosen that resulted in stakeholders losing confidence that the Government will achieve the \$20.00 rate next year.
17. It is important to understand the impacts of relatively high minimum wage increases. A \$1.10 increase from the current rate to the Government's indicative rate of \$20.00 would follow increases of \$1.20 that occurred in each of the past two years, which are all higher than most of the minimum wage increases since 2007. MBIE's ability to estimate the impacts of larger increases carries some risk, primarily because our understanding of changes to the minimum wage is based on smaller 50c increases from previous years. The effects of this year's increase may be harder to estimate, compared to last year, because of the number of workers currently at or near the minimum wage (as a result of last year's increase). Additionally, a large number of workers do not appear in the reference data as they worked reduced or no hours during the June 2020 quarter due to the COVID-19 lockdowns. It is unclear how many of these workers would be on or near the minimum wage.

The tailored review process included wider stakeholder consultation

18. This year, MBIE consulted with a wider group of stakeholders in order to gather information on the current economic climate and to better understand the potential implications of rate changes for workers and employers. Stakeholders included employer, worker representatives and representatives of non-governmental organisations, including charities.
19. Consultation was extended beyond MBIE's social partners (BusinessNZ and NZCTU) and core government agencies to include a wider range of employers' and employees' representatives and non-governmental organisations. The consultation focussed on gathering information to better understand the potential implications of rate changes

in the current environment. A full list of the stakeholders that were consulted is attached as **Annex Two**.

MBIE's minimum wage analytical model

20. MBIE uses an analytical model to predict the impact of minimum wages on wages, inflation and employment. The model estimates employment impacts with respect to changes in the relativity between the minimum wage and the average wage by using a range of employment elasticities derived from econometric analysis. This analysis focusses on groups that are most sensitive to changes in the minimum wage (e.g. youth, females, and Pacific people) and the employment impacts reported are the sum of the impacts on these groups.
21. The analytical framework assumes that everything else remains the same and it does not specifically deal with economy-wide and other specific feedback effects, some of which may have a positive impact (for example, productivity, demand and fiscal effects) while others may be negative (for example, international competitiveness). The timing of the adjustment is also simplified and a one-year adjustment period is assumed.
22. The minimum wage model used by MBIE has a medium level of confidence. It was reviewed and updated in 2018 to better predict the impact of minimum wage changes on employment. More specifically, the elasticities used in the model to estimate the impact of minimum wage changes on employment have been updated using a simpler set of explanatory terms, more recent employment data, and addressing some technical issues with the earlier model. However, the model contains inherent limitations in its ability to predict the effects of minimum wage increases (especially larger increases). These include a lack of evidence on the effects of successive increases across multiple years, no direct evidence of the degree of pay relativity adjustments, and no consensus in the international literature on the impact of the disemployment effects of minimum wage increases. Despite these limitations, the model provides sufficient information to allow Ministers to make an informed decision on whether to raise the minimum wage.
23. The model does not provide estimates on the flow-on economic impacts aside from inflation. MBIE is only able to estimate the direct impacts of minimum wage changes.
24. The model is also based on a number of assumptions about how a single change to the minimum wage will impact the labour market and wider economy. The impacts of a series of successive minimum wage changes are not captured in MBIE's minimum wage model, or the review. This is largely because there is little international or domestic evidence of the impact of these types of successive increases signalled well ahead and across multiple years. MBIE's model predicts the impact of a single change as a one-off event, which is consistent with the *Minimum Wage Act 1983* (the Act) and the requirement that the minimum wage is reviewed annually.

25. The model used by MBIE for assessing the level of incidence of various minimum wage options across the labour market and for specific cohorts, when implemented next year, has always been applied to detailed income data for this year (the latest available) and is sourced from a survey conducted by Statistics NZ during the June quarter of each year only. This results in revisions to the levels of minimum wage incidence when it is assessed with the income data for the June quarter of actual implementation, when they become available the next year.
26. But in 2020, due to the advent of COVID-19 in March-April and the availability of wage subsidies for employers to keep paying their workers, who were not working, the income data for June 2020 quarter is atypical with respect to the unusually lower count of non-zero salary and wage earners. This year's data excluded those additional employees reporting zero hours worked in the Household Labour Force Survey due to receiving a wage subsidy during June 2020 quarter, which MBIE estimates to be around 96,000 workers.
27. This has 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. This has also resulted in lower population weights as well as its distribution across various cohorts. One potential effect of this atypical data is to underestimate the number of people affected by the minimum wage. It is unclear what effect it has had on the model output.

Minimum wage options considered in this review

28. Six minimum wage options were selected to analyse and model for this review:
 - Option 1: \$18.90 (Status quo)
 - Option 2: \$19.15
 - Option 3: \$19.50
 - Option 4: \$20.00 (Government's published indicative rate)
 - Option 5: \$21.00
 - Option 6: \$22.10 (Proposed by Living Wage Aotearoa as a 'living wage').¹⁸
29. These options are proposed for consideration by the Minister but there is no requirement that the adult minimum wage rate for 2020 should be set at any of these rates. This section outlines the anticipated effects of the five minimum wage options on wages and inflation as well as on employment and poverty.
30. To determine the figure for Option 2, the calculation used the PREFU forecast quarterly Consumer Price Index and Statistics NZ quarterly reported CPI data as shown overleaf.

¹⁸ This figure is proposed by the Living Wage Aotearoa New Zealand movement. The wage rate is based on a market wage that would provide the income necessary to meet a set of specified needs for a family of two adults and two children where one adult works 40 hours per week and the other 20 hours per week.

Quarter	Consumers Price Index (CPI)	Source	Minimum Wage
2020Q1	1052	Statistics NZ	\$ 18.90
2020Q2	1047	Statistics NZ	\$ 18.81
2020Q3	1053	Statistics NZ	\$ 18.92
2020Q4	1053.9	Treasury PREFU	\$ 18.93
2021Q1	1057.4	Treasury PREFU	\$ 19.00
2021Q2	1059.6	Treasury PREFU	\$ 19.04
2021Q3	1065.7	Treasury PREFU	\$ 19.15

Alternative implementation options have been considered

31. While there is no statutory obligation to make decisions regarding the minimum wage rates by a particular date, the rates need to be reviewed by the end of December each year. In recent years, Ministers have sought Cabinet approval of new rates in mid-December and announced the changes prior to Christmas to come into effect on 1 April in the following year.

32. Due to the uncertainty around COVID-19 and its short and medium-term effects on the economy and labour market, MBIE has considered the following alternative implementation options that mitigate the potentially detrimental impacts of a minimum wage increase on particular sectors or groups:
 - Defer any increase to later in the year, to June or October 2021 or incrementally increase the rates in stages during 2021. Options such as deferring minimum wage increases in 2020 have been implemented overseas, such as in Australia
 - Defer any increase to April 2022 (i.e. no increase in 2021) with a commitment to increase the rate to a more substantial level i.e. to a higher percentage of the median wage
 - Provide sector specific minimum wage increases or exemptions from increasing the minimum wage available on application for some employers.

Chapter two – The economic and labour market context for the 2020 review

33. This year’s minimum wage review takes place in unusual economic circumstances. This chapter provides a more comprehensive overview of the current state of the economy and labour market than is normal in a minimum wage review report.

The economic environment is being shaped by the global COVID-19 pandemic and the future is uncertain

34. The International Monetary Fund (IMF) World Economic Outlook reported there has been an unprecedented decline in global activity due to the COVID-19 pandemic in the first two quarters of 2020. In its June 2020 update, the IMF forecast a 5.2 per cent decline in global growth for the remainder of 2020¹⁹ but revised this in its October update to a less severe outlook of -4.4 per cent, which is 1.5 percentage points below the April 2020 forecast.²⁰ The Organisation for Economic Co-operation and Development (OECD) noted that gross domestic product for all member countries contracted in the June 2020 quarter, ranging from -3.2 per cent in South Korea to -20.4 per cent in the United Kingdom.²¹
35. Both the IMF and the OECD have stated that, while the world is in a recession, a gradual recovery is currently underway, with global growth projected to rebound and reach 5.2 per cent in 2021. This is lower than was forecast in the OECD’s June 2020 update. Global growth would then slow to 3.5 per cent in the medium term. However, the forecast data and the economic outlook is highly uncertain with considerable risks. The IMF noted that recovery is likely to be long and uneven.
36. The IMF notes the uncertainty surrounding COVID-19, the state of the world economies, and labour markets stems from the following key factors²²:
- The length of the pandemic and required lockdowns
 - Voluntary social distancing, which will affect spending
 - Displaced workers’ ability to secure employment, possibly in different sectors
 - Scarring from firm closures and unemployed workers exiting the workforce, which may make it more difficult for activity to bounce back once the pandemic fades
 - The impact of changes to strengthen workplace safety – such as staggered work shifts, enhanced hygiene and cleaning between shifts, new workplace practices relating to proximity of personnel on production lines – which incur business costs

¹⁹ <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

²⁰ <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

²¹ Parliament’s Monthly Economic Review – 12 October 2020, <https://www.parliament.nz/en/pb/library-research-papers/monthly-economic-review/monthly-economic-review-october-2020/>

²² International Monetary Fund, June 2020

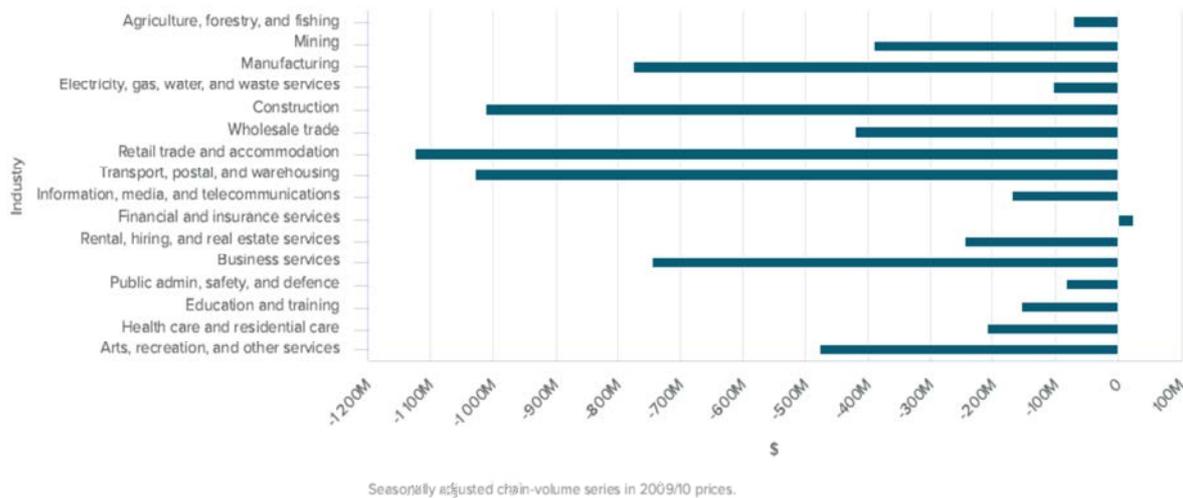
- Global supply chain reconfigurations that affect productivity as companies try to enhance their resilience to supply disruptions
- The extent of cross-border spill overs from weaker external demand as well as funding shortfalls.

37. The global downturn and domestic responses to COVID-19 have had a strong impact on New Zealand’s economy. The nation-wide lockdown in effect from 25 March to 13 May 2020 (with some restrictions loosened on 27 April 2020) shut down large parts of the economy. Hospitality, tourism, retail trade, transport and logistics, manufacturing and construction sectors have borne the brunt of this lockdown and later restrictions. The lockdown measures to address the COVID-19 resurgence in Auckland in August 2020, with lesser restrictions on the rest of the country, placed further pressure on businesses and workers. The impact on regions has been uneven, largely following sectoral impacts.

COVID-19’s effects have significantly reduced domestic economic activity in New Zealand

38. In the June 2020 quarter, GDP in the New Zealand economy declined by 12.2 per cent, the largest decline on record. Service industries, which make up two-thirds of the economy, fell 10.9 per cent, principally due to significant decreases in retail, accommodation and food (25.2 per cent) and transport, postal and warehousing (down 38.7 per cent). Goods-producing industries, which make up about one-fifth of the economy, declined 16.3 per cent. Construction (down 25.8 per cent) was the main contributor followed by manufacturing (down 13.0 per cent) , while primary industries fell 8.7 per cent with mining most severely affected (down 43.9 per cent).²³ GDP per capita fell 12.6 per cent, real disposable national income was down 12.3 per cent, and the annual GDP in the year to June 2020 declined by 2.0 per cent.²⁴

Figure 1: Gross domestic product by industry – Change from March 2020 to June 2020 quarters (Source: Statistics NZ)

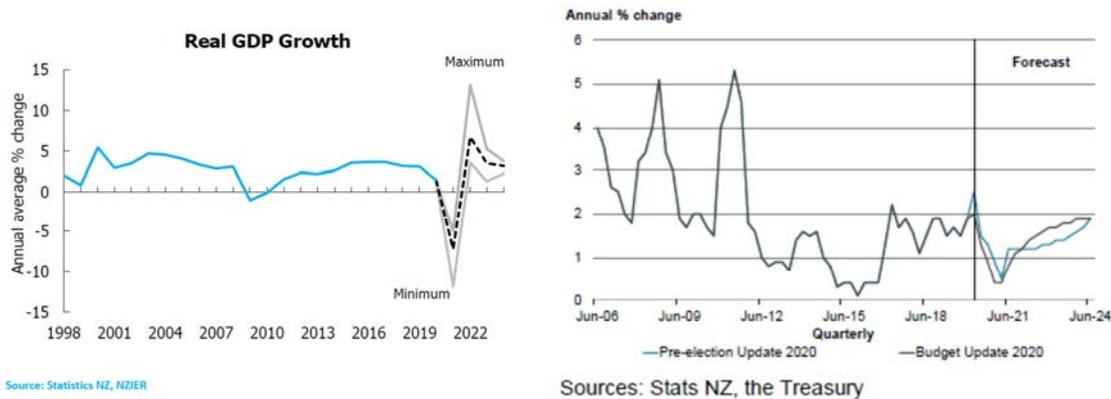


²³ StatisticsNZ. (2020). *Gross Domestic Product June 2020 quarter*

²⁴ StatisticsNZ. (2020). *Gross Domestic Product June 2020 quarter*

39. Looking forward, the Consensus Forecasts published by The New Zealand Institute of Economic Research (NZIER) continues to show a wide range of forecasts for the economy, reflecting a large degree of uncertainty over the growth outlook.²⁵ The most optimistic forecast for the New Zealand economy is a decline in GDP of over 5 per cent on average for the year to March 2021, while the most pessimistic is a decline of 11.8 per cent. On average, annual GDP is now expected to contract for the year to March 2021, before a rebound to 6.7 per cent in the year to March 2022. Following the decline in economic activity to March 2021, the Consensus Forecasts indicate a V-shaped recovery to March 2022 and then moderating in the year to March 2023 as shown in Figure 2 below.
40. Treasury’s Pre-election Economic and Fiscal Update (PREFU) forecasts assume that extended border restrictions together with weaker world growth suggest a slow economic recovery. With the New Zealand economy looking to be more resilient, the reduced activity is not expected to be as severe over 2021 but consistent growth returning to pre-COVID levels is forecast to take longer. GDP is forecast to fall by 0.5 per cent in the year to June 2021, before rising gradually to 4.1 per cent by June 2024.
41. Treasury is forecasting annual change in Consumer Price Inflation (CPI) to be stable at 1.2 per cent in each year to June 2021 and June 2022 before increasing to 1.4 per cent in the year to June 2023 as shown in Figure 3 below.

Figures 2 and 3: Historic and forecast real GDP growth (NZIER Consensus Forecasts) and annual CPI change (Treasury PREFU), September 2020



42. After three years of strong wage growth (3.0 per cent in 2018, 4.4 per cent in 2019 and 3.0 per cent in 2020), Treasury forecasts wage growth to decline to 0.9 per cent in the year to June 2021 before rising to 2.5 per cent in 2022 and 2.6 per cent in 2023.

²⁵ New Zealand Institute of Economic Research. (2020). *Consensus Forecasts September 2020*.

Labour activity and utilisation have declined significantly since January, but the unemployment rate has remained relatively static

43. In the year to September 2020, New Zealand's annual unemployment rate rose from 4.2 per cent to 5.3 per cent. During this period, 47,000 workers moved out of the workforce into Not in the labour force (NILF).²⁶
44. The underutilisation rate has risen from 10.4 per cent in September 2019 to 12.0 per cent in the June 2020 and to 13.2 per cent in the September 2020 quarter. The rise in underutilisation over the year to September 2020 was driven by large increases in the number of underemployed people (up 44.3 per cent or 39,500 more people), i.e. part-time workers looking for more work hours, and in the number of available potential jobseekers (up 26.5 per cent or 18,500 more people).
45. While the unemployment rate improved in the June 2020 quarter, other key indicators show the COVID-19 lockdowns had a negative impact on employment, with a sharp fall in the number of filled jobs (April 2020) and the number of people receiving income assistance through the welfare system rising in the period from 2020 onwards. In the June 2020 quarter, the number of hours worked (-10.2 per cent) and paid hours (-3.5 per cent) declined significantly, resulting in reductions in work and income for many people. This indicators improved in the September 2020 quarter but other indicators such as the total number of people employed and filled jobs fell from the previous quarter. The table below summarises these key indicators.

Table 3: Key labour market indicators by quarter (Sept. 2019 to Sept. 2020)

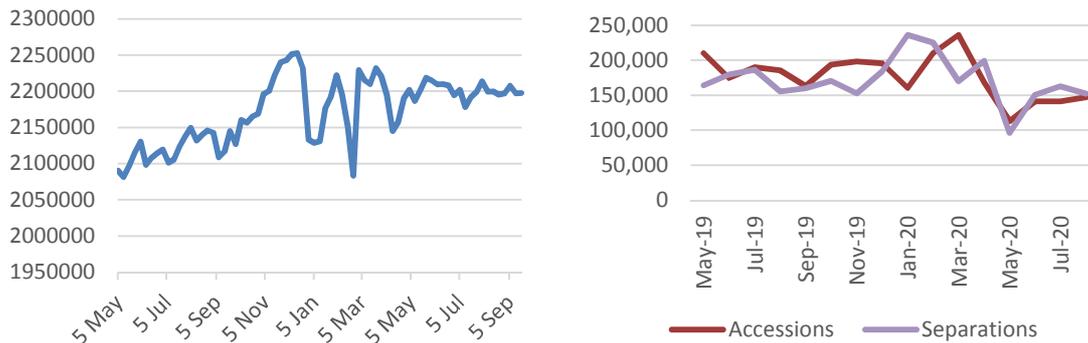
Labour market indicators (Percentage change from previous quarter shown in brackets)	Sept 2019 quarter	Dec 2019 quarter	Mar 2020 quarter	Jun 2020 quarter	Sept 2020 quarter	Annual change to Sept 2020
Total number of people employed (seasonally adjusted)	2,703,000 (+0.4%)	2,711,000 (+0.3%)	2,740,000 (+1.1%)	2,731,000 (-0.3%)	2,709,000 (-0.8%)	6,000 (+0.2%)
People not in labour force	1,171,000 (0.1%)	1,188,000 (+1.4%)	1,185,000 (-0.2%)	1,223,000 (+3.2%)	1,218,000 (-0.4%)	47,000 (+4.0%)
Filled jobs (seasonally adjusted)	1,979,700 (+0.4%)	1,982,500 (+0.1%)	2,000,400 (+0.9%)	1,988,400 (-0.6%)	1,979,700 (-0.4%)	0 (0.0%)
Total number of people unemployed	118,000 (+5.3%)	116,000 (-1.4%)	120,000 (+3.8%)	114,000 (-5.3%)	151,000 (+32.5%)	33,000 (+28.5%)
Labour force participation	70.7%	70.4%	70.7%	69.9%	70.1%	-0.6%
Employment rate	67.7%	67.5%	67.7%	67.1%	66.4%	-1.3%
Unemployment rate	4.2%	4.1%	4.2%	4.0%	5.3%	+1.1%
Underutilisation rate	10.4%	10.1%	10.4%	12.0%	13.2%	+2.8%

²⁶ Statistics NZ's Labour Market Statistics September 2020 quarter, <https://www.stats.govt.nz/information-releases/labour-market-statistics-september-2020-quarter>

Hours worked – total weekly average per quarter (seas. adj.)	92,367,000 (+0.8%)	92,111,000 (-0.3%)	93,097,000 (+1.1%)	83,557,000 (-10.2%)	91,397,000 (+9.4%)	-970,000 (-1.1%)
Hours paid – total weekly hours paid average per quarter (seas. adj.)	62,000,000 (+0.4%)	62,400,000 (+0.5%)	62,800,000 (+0.7%)	60,600,000 (-3.5%)	61,600,000 (+1.6%)	-400,000 (-0.7%)

46. Since April 2020’s fall, the number of filled jobs has remained consistently just under 2 million. The number of employees starting jobs (accessions) and the number stopping jobs (separations) narrowed in August 2020, but there were still more separations (152,000) than accessions (147,000), showing job losses exceed jobs created. This has been the case in four of the last five months. Compared with August 2019, accessions were down by 21% while separations were only down by 2%. This means that people left or lost jobs about as frequently as in the previous year, but employers hired fewer people so the economy is less dynamic. This affects people already displaced from jobs and those returning or new to the job market.

Figures 4 and 5: Total number of filled jobs and the number of employees starting and stopping jobs (September 2020)



Source: IDI, analysis by Treasury

To protect jobs, the Government introduced measures to support affected employers retain their employees

47. The Government’s support measures have enabled organisations to maintain employment connections with their staff and ensure employees’ incomes continued during and after the lockdowns. The response has broadly addressed the following key business issues:

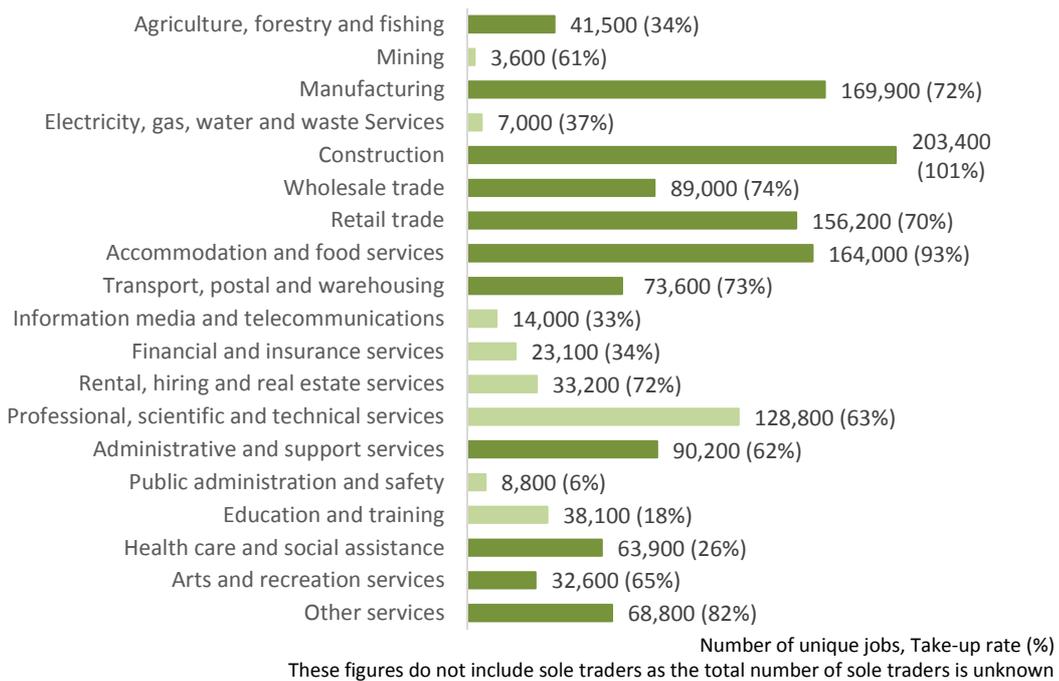
- **Cash flow** - \$14.0 billion has been paid to 759,421 businesses under the COVID-19 Wage Subsidy, Wage Subsidy Extension and COVID-19 Leave Support Scheme. At its peak, the Wage Subsidy was supporting just over 1,660,000 jobs in late May 2020. There has also been the COVID-19 Temporary loss carry-back scheme and tax refund and payment support
- **Fixed costs** - \$1.62 billion in loans distributed under the Small Business Cashflow (Loan) Scheme (SBCS) to 99,260 businesses, 98 per cent of which have 20 full-time employees or fewer. Other support includes: the Business

Finance Guarantee scheme, COVID-19 Business Debt Hibernation, and financial support for resolving commercial rent issues

- **Business support & capability development** – Business helpline, advisors and vouchers through business.govt.nz
- **Recovery** – Funding for business advice; Helping small businesses with digitalisation (\$10 million); Support for the tourism industry (\$400 million); COVID-19 response and recovery funding set aside for further initiatives if required (\$14 billion).

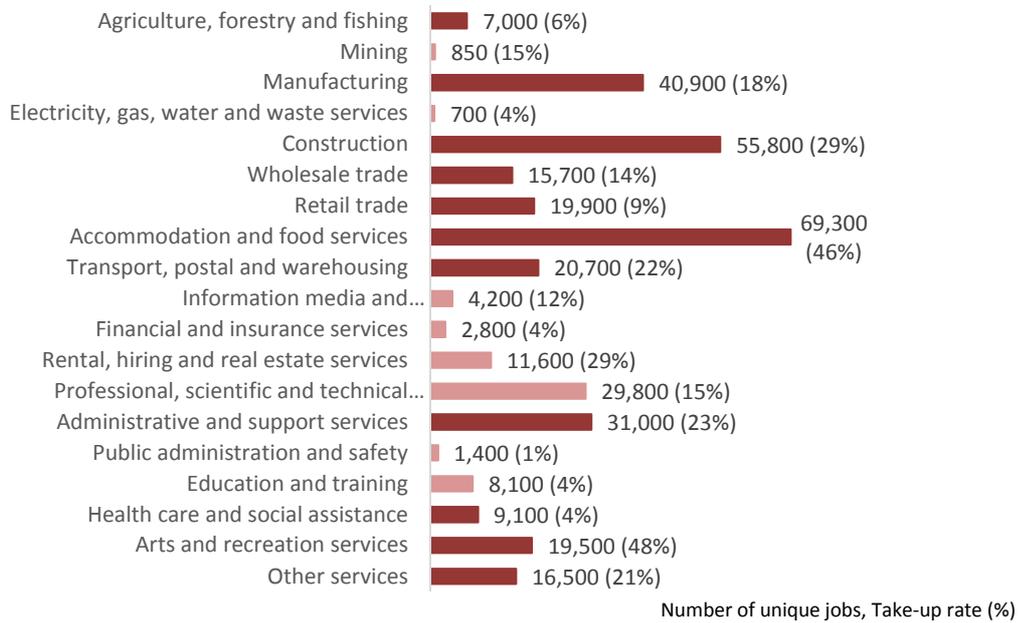
48. Many sectors were severely affected by national lockdown with construction, manufacturing, retail, accommodation and food amongst the hardest hit. A significant proportion of these sectors’ workforces were supported by the Wage Subsidy and Wage Subsidy Extension as shown in Figures 6 and 7 below. Many of these sectors have higher proportions of minimum wage workers (shown with darker shading).

Figure 6: Jobs supported by the Wage Subsidy by Industry (to 24 July 2020)



49. Data on the Wage Subsidy Extension overleaf shows that services sectors such as accommodation and food and arts and recreation were still requiring support as the Wage Subsidy ended. However, other sectors, such as manufacturing and construction have been showing signs of recovery. For information on the number of workers on the minimum wage in each sector, refer to Table 18 in Chapter Eight.

Figure 7: Jobs supported by the Wage Subsidy Extension by Industry (to 24 July 2020)



These figures do not include sole traders as the total number of sole traders is unknown

Source: IDI, analysis by Ministry of Social Development (MSD).

50. Similarly, many of these sectors also received the highest proportion of the Small Business Cashflow Loans: construction (17 per cent); accommodation and food services (13 per cent); professional, scientific and technical services (10 per cent); retail trade (9 per cent) and manufacturing (7 per cent).

Some demographic groups have been more affected than others

51. A higher proportion of jobs supported by the Wage Subsidy (68 per cent) and Wage Subsidy Extension (18 per cent) were occupied by males than jobs occupied by women (51 per cent and 14 per cent respectively). This difference is linked to the gender composition of different sectors that were most affected by the lockdowns, e.g. high numbers of men in manufacturing and construction, high numbers of women in education and healthcare.
52. By age of employees, the highest proportion of support from the Wage Subsidy was for jobs occupied by workers aged 18-19 years old (62 per cent), whilst jobs employing people 65 and over (54 per cent) received the least support. The Wage Subsidy Extension supported 18 per cent of jobs occupied by people in their 20s, while 14 per cent of jobs were occupied by people over 50.
53. By ethnicity, jobs held by Asian workers had the the highest proportion of jobs supported by the Wage Subsidy (64 per cent) and Wage Subsidy Extension (22 per cent), followed by Other (59 per cent and 20 per cent), European (58 per cent and 15 per cent), Pacific Peoples (55 per cent and 14 per cent) and Māori (54 per cent and 14 per cent). This data does not reflect those who had already lost their job or left the workforce.

54. Unemployment rates in the September 2020 quarter were also higher for some demographic groups: youth 15-19 years old (19.5 per cent up from 14.0 in June 2020), 20-24 year old workers (9.9 per cent, up from 8.0 per cent) female workers (5.5 per cent, up from 4.4 per cent in June), Māori (8.8 per cent, up from 6.6 per cent), Pacific peoples (8.1 per cent, up from 6.3 per cent). Youth not in employment, education, or training (NEET) remained at 12.6 per cent, unchanged from the June 2020 quarter, but the NEET rate increased by 1.7 per cent annually in the year ending September 2020 (up from 10.9 per cent in September 2019).²⁷

The COVID-19 response has exacerbated or created new challenges and risks within the labour market

55. The magnitude of impact on the labour market has to date been less than the impact on the economy as a whole, and much less than expected. However, the labour market has still been disrupted on all fronts: demand for and supply of skills and labour, and the matching of these to fill jobs in firms and provide employment.
56. The wage subsidies have kept many in work from the start of lockdown but key indicators show an expected negative impact on employment with an increase in displaced workers expected in the short-term. Although some areas of the economy have been hit harder than others, displaced workers are expected to come from all sectors and regions, with a wide range of skill levels and job experience.
57. Border restrictions have affected both labour demand and labour supply. New Zealand is experiencing a higher than normal domestic population (around 120,000 more than normal in July) as more overseas New Zealand citizens and residents are returning home and decreased numbers of people leaving the country.
58. The flow of offshore visitors and international students has effectively cut off much of the customer base for the tourism sector and the international education industry, as well as impacting the conference and major events industries.
59. COVID-19 has also affected the supply of migrant workers. The border remains closed to non-resident foreigners, though many migrant workers who were onshore when the border closed are still in New Zealand. We are seeing emerging evidence of pressure on areas that were reliant on migrant labour to fill skill or labour gaps, such as in dairy, horticulture, forestry, meat processing, accommodation, food services and road freight. For example, in a normal year, there might be 70,000 migrant workers taking seasonal fruit-picking jobs while this year there is only 13,000.
60. It is unclear how employers might respond to these challenges, but firms may adopt more innovative, less labour-intensive approaches and look to other resident population groups to fill current and future workforce needs, relying less on migrants.

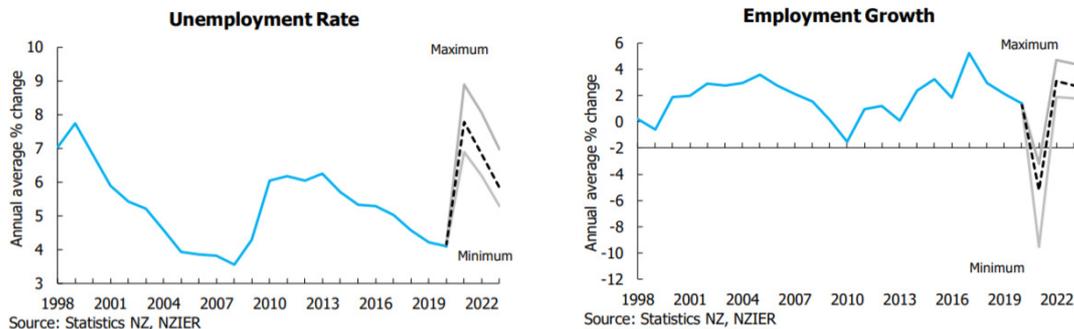
²⁷ Labour Market Statistics September 2020 quarter, <https://www.stats.govt.nz/information-releases/labour-market-statistics-september-2020-quarter>

- 61. Although employers in industries reliant on migrant labour may look to other resident population groups to fill vacant positions, it is MBIE’s view that the opportunities this creates for New Zealand workers would not offset the disemployment effects of a significant minimum wage increase. Many displaced workers in New Zealand are not in a position to move to undertake seasonal, low-skilled work, and many of these jobs require living on-site, which would not be suitable for workers who are already renting and have dependents. Employers in these industries are also more likely to reduce production, rather than employ more workers at a higher wage rate, because paying higher wages to less productive workers leads to bigger losses.
- 62. There are also still approximately 200,000 temporary migrants in New Zealand with work rights, and there are choices about the visa conditions for this group and their role in the labour market.

Unemployment is forecast to rise as the Government subsidies end

- 63. While the Government’s Wage Subsidy Scheme and other measures have reduced the immediate financial effects of COVID-19, large numbers of newly displaced workers are expected, in addition to the already underemployed.
- 64. Treasury’s PREFU forecasts unemployment could rise to 7.7 per cent in the June 2021 quarter, peaking at 7.8 per cent in the March 2022 quarter before easing to 5.3 per cent by June 2024.²⁸ Unemployment levels may remain elevated for the rest of the decade. This is lower and later than the forecast peak in the Budget Update of 9.8 per cent in the September 2020 quarter. These forecasts are consistent with NZIER’s Consensus Forecasts (shown below) that indicate unemployment could rise to 7.8 per cent in the year to March 2021, dropping to 6.8 per cent in 2022 and then to 5.8 per cent in 2023.²⁹ However, the Reserve Bank’s November 2020 Monetary Policy Statement forecasts unemployment to peak at 6.4 per cent in the second quarter of 2021.

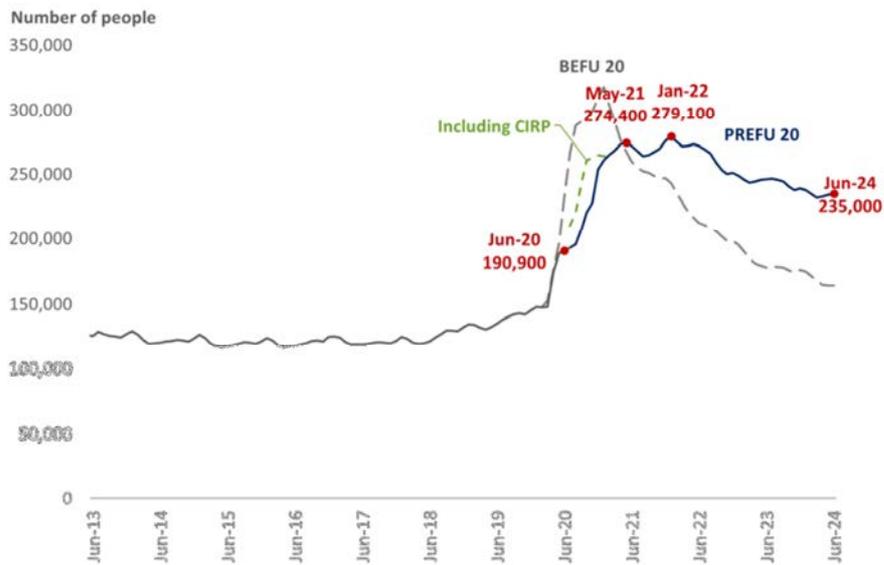
Figures 8 and 9: History and forecast of unemployment rate and employment growth



²⁸ <https://www.treasury.govt.nz/system/files/2020-09/prefu20.pdf>
²⁹ https://nzier.org.nz/static/media/filer_public/d7/86/d786c315-5af7-48d3-a6dc-593016e58d50/consensus_forecasts_september_2020_.pdf

65. In its September 2020 Consensus Forecasts, NZIER notes that the “range of forecasts for the unemployment rate is wide, reflecting uncertainty over how the labour market will perform as the wage subsidy scheme comes to an end, and with the potential for further COVID - 19 outbreaks.”
66. The number of people receiving income assistance through the welfare system has risen since March and is forecast to continue rising from 2020 onwards. Treasury notes that there were more than 202,274 people on the Jobseeker Support benefit in September 2020, up 57,268 people from 145,006 at 20 March 2020. The number of people on Jobseeker Support is forecast to increase in 2020 as the Government’s COVID-19 support measures end as shown below. This is forecast to continue increasing throughout 2021 to a peak in January 2022 before decreasing in 2023 and 2024.

Figure 10: JobSeeker Support – Historic and forecast (actual numbers)

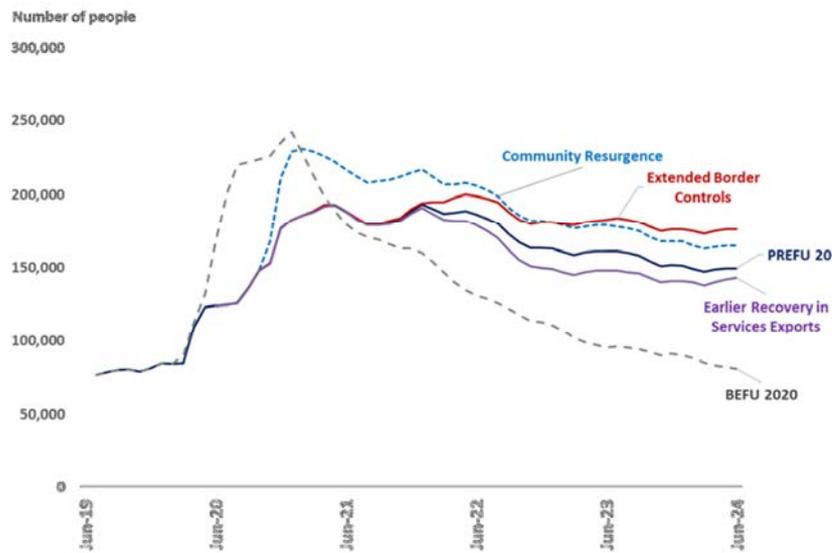


Source: MSD³⁰

67. However, there is still uncertainty. Treasury’s PREFU forecasts included three scenarios for potential Jobseeker Support that ranged from earlier economic recovery and improving employment conditions to a community resurgence of COVID-19 within New Zealand and extended border controls. These scenarios are shown in Figure 11 overleaf.

³⁰ <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/forecasts-and-scenarios-sep-2020.html>

Figure 11: Treasury PREFU employment scenario forecasts (actual numbers)



Source: MSD³¹

The effects of COVID-19 may move through New Zealand’s labour market in stages and influence people’s long-term employment decisions

68. The Great Recession (2007-2009) moved through New Zealand’s labour market in stages. First, the reduction in economic activity began in the first quarter of 2008 (triggered more by drought than the international conditions) and continued until the third quarter of 2009. Second, indicators recorded a reduction in hiring of new workers followed by a reduction in hours worked. Finally, employment, which had been growing until mid-2008 responded, with a sharp reduction through 2009.
69. Unemployment lagged these initial impacts, but took a long time to recover. The unemployment rate was under 4.0 per cent for almost the whole period 2004 to 2007. It rose above 6 per cent at the end of 2009, and remained roughly at that level until 2013, with a peak of 6.7 per cent in the third quarter of 2013. It wasn’t until 2017 that we saw consistent numbers below 5.0 per cent).
70. Other impacts of the COVID-19 situation on the supply of labour are less clear-cut, with trends still to become clear. We expect labour market participation to fall as discouraged workers leave the labour force for education, retirement or other roles. Although the relatively high number of New Zealanders who have returned since the international COVID-19 crisis began are considered to have affected parts of the economy (for example consumption and housing), their effect on the labour market is unclear, especially given uncertainty as to whether they will stay once off-shore conditions change. It is possible that fewer New Zealanders will leave New Zealand over upcoming years, but that too is uncertain.

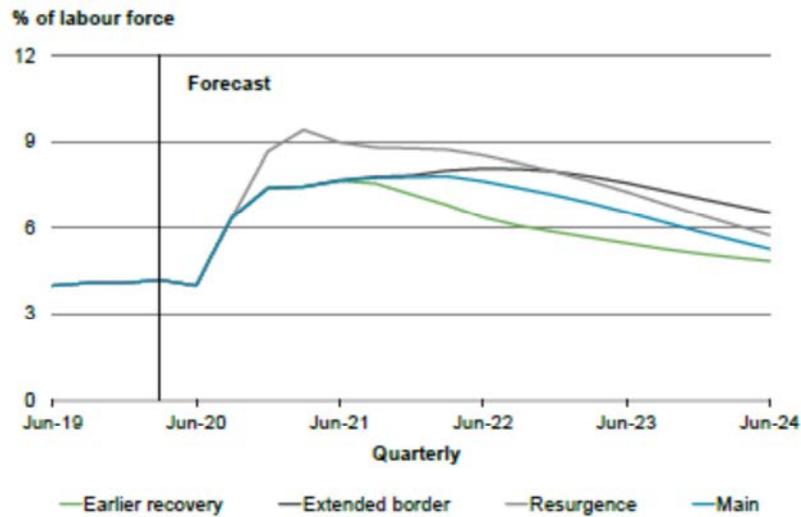
³¹ <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/forecasts-and-scenarios-sep-2020.html>

71. Effects in past recessions suggest that people already in education and training may choose to remain so longer rather than trying to seek employment in a crowded job market. This further education could potentially increase the employability of some prospective workers, particularly if it is able to be focused on missing foundation skills or higher skills likely to be in demand. However, at the moment we are seeing a slight decrease in tertiary enrolments, as learners delay their studies due to COVID-19. There is also evidence of school attendance dropping, which could have negative long-term labour market consequences.

A resurgence of COVID-19 in the community could slow the forecast economic recovery

72. Treasury's PREFU notes there are multiple factors influencing the uncertainty in the economy, in particular, the evolution of the virus and effective treatments, the pace of recovery, and the implications ('scarring') from long-term reductions in output and persistent high unemployment.
73. Extended border controls and a resurgence of COVID-19 in the community are identified as key risks for the labour market forecasts. The extended border controls scenario, weaker travel demand and continuing uncertainty constrain economic output, increase prices and lead to spare capacity in the labour market and weaker wage growth. Treasury forecasts that potential output would be "1% lower at the end of the forecast and the unemployment rate is 6.6%, compared to about 5.3% in the main forecast."
74. The resurgence scenario could increase the risk of business failures, further increase uncertainty and reduce business and household spending. Treasury considers that unemployment is likely to be higher, potentially mitigated by further Government fiscal support, peaking at around 9.4 per cent, compared to 5.3 per cent in the main forecast. Should a resurgence occur later than shown in Figure 12 overleaf, the unemployment peak would move further into 2021.
75. MBIE's view is, if either of these scenarios occurred over the next six months, the negative employment effects of a minimum wage increase would be worse than for the options presented in this report. Ministers would need to re-consider any decisions that had been made to change the minimum wage rate.

Figure 12: Alternative COVID-19 scenarios: Unemployment rate



Source: Treasury PREFU

The Government’s goals and actions to reset and rebuild the economy

76. In its election manifesto, the new Government committed to increase the minimum wage to \$20.00 per hour in 2021. This aligns with the indicative minimum wage rate signalled in 2017 and has been analysed in this report.
77. Alongside this, the Government’s immediate focus is to support New Zealand’s recovery and re-build from the effects of COVID-19. This includes the Flexi-wage subsidy to assist businesses hire and train 40,000 New Zealanders whose employment has been affected by COVID-19 back to work and the construction of infrastructure projects nationwide to create new jobs.
78. The Government is also making changes to employment law. The election manifesto commits to increasing minimum sick leave entitlements from five days to ten days, and to introducing Matariki as a public holiday in 2022. These changes are both predicted to increase labour costs for businesses and organisations in the year following an October 2021 increase.
79. The Government is implementing a range of other interventions that aim to support employment, particularly for vulnerable low-wage workers. The interventions would address and balance some of the negative effects of increasing the minimum wage for employers. These include:
 - *Apprenticeship Boost* - a payment made directly to employers to help employers keep and take on new apprentices so apprentices can keep earning and training towards their qualifications as the economy recovers from the impacts of COVID-19

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- *Mana in Mahi* - connecting employers with people who are keen to work and learn and require additional support to start their new career
 - *Skills for industry* - funding and support to help with short-term pre-employment or in-work training to provide industry specific skills for a job
 - *Employment support through the Ministry of Social Development (MSD)* - ongoing post-placement support and advice through information, guidance and assistance to work through issues between employers and employees.
80. Beyond this, the previous Government's wider priorities, that were outlined in Budget 2020 and remain in effect, include lifting productivity, lifting Māori and Pacific incomes, reducing child poverty and supporting improved health outcomes for all New Zealanders. All of these interventions will contribute to reducing some of the restraint effects of a minimum wage increase.

Chapter three – The business response and outlook

81. In February 2020, New Zealand had 557,680 enterprises³² (up 1.7 per cent from February 2019), of which 152,874 had 2.317 million paid employees (up 1.2 per cent) and 146,853 (96 per cent) employed 20 people or less.
82. In a May 2020 survey by MSD³³ of businesses that had received the Wage Subsidy, a majority identified cost cutting as their primary response to the COVID-19 lockdowns. These measures included: reducing operational overheads (50 per cent of respondents); asking staff to reduce work hours (21 per cent); wage cuts to senior management (20 per cent); and cancelling planned pay rises (15 per cent).
83. Respondents future intentions for their businesses included: further reducing overheads (47 per cent of respondents); deferring planned investments (21 per cent), cancelling planned pay rises (19 per cent); asking staff to reduce work hours (18 per cent); wage cuts to senior management (16 per cent); cancelling bonus/extra payments (15 per cent); or negotiating new terms with lenders or investors (13 per cent).

Many employers adjusted their borrowing arrangements to continue trading

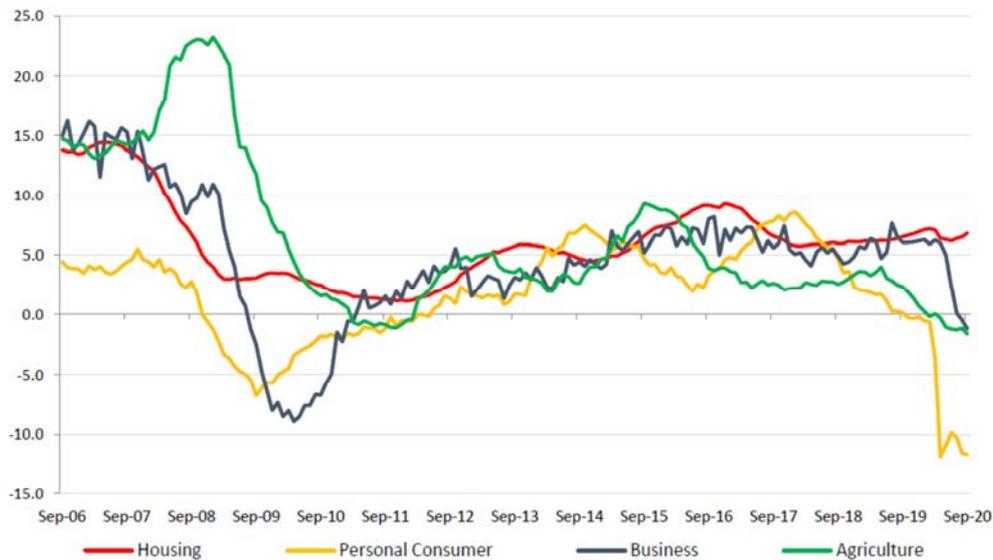
84. In addition to accessing the Government's wage subsidy and other support, many employers have responded to the effects of COVID-19 by adjusting their borrowing arrangements with banks and other lending institutions, to enable them to continue trading. In the MSD business survey noted above, 14 per cent of businesses had negotiated new terms with lenders or investors.
85. Since January 2014, the average annual growth rate year-on-year in business lending has been 5.6 per cent.³⁴ In 2020, the annual year-on-year business lending growth rate reduced from an increase of 6.3 per cent in January 2020 to a decrease of 0.5 per cent in August 2020 as shown overleaf.

³² 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.

³³ Ministry of Social Development, *Understanding recipients views of the NZ Wage Subsidy Scheme – Topline Report*, May 2020, 90,134 survey respondents (25% response rate), 57% employed staff
<https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/statistics/benefit/2020/survey/wage-subsidy-survey-topline-report.pdf>

³⁴ <https://www.rbnz.govt.nz/statistics/c5>

Figure 13: Sector lending growth rates – Banks and NBLIs (percentage)



Source: Reserve Bank, 30 October 2020 update³⁵

86. Alongside the reduction in lending growth, total lending by New Zealand’s registered banks and other lending institutions declined to \$117.7 billion in August 2020, down from \$121.2 billion in January 2020 and \$123.4 billion in April 2020.³⁶ Many businesses have also been approved by banks to make lower repayments on their loans, or postpone repayments altogether.³⁷ Since March 2020 (to 31 August 2020):

- 29,390 businesses (5.4 per cent of all business enterprises) have sought \$17.6 billion in new bank lending, which includes new loans and loan limit increases
- 15,135 businesses (2.8 per cent) have reduced their loan payments on \$18.3 billion of loans (15.0 per cent of total lending)
- 3,404 (0.6 per cent) have deferred all loan payments on \$1.2 billion of loans (1.0 per cent of total lending)
- 4,098 businesses (0.8 per cent) have restructured their existing bank loans on loans totalling \$8.6 billion (7.3 per cent of total lending).

Weekly corporate liquidation rates in 2020 are lower than in 2019

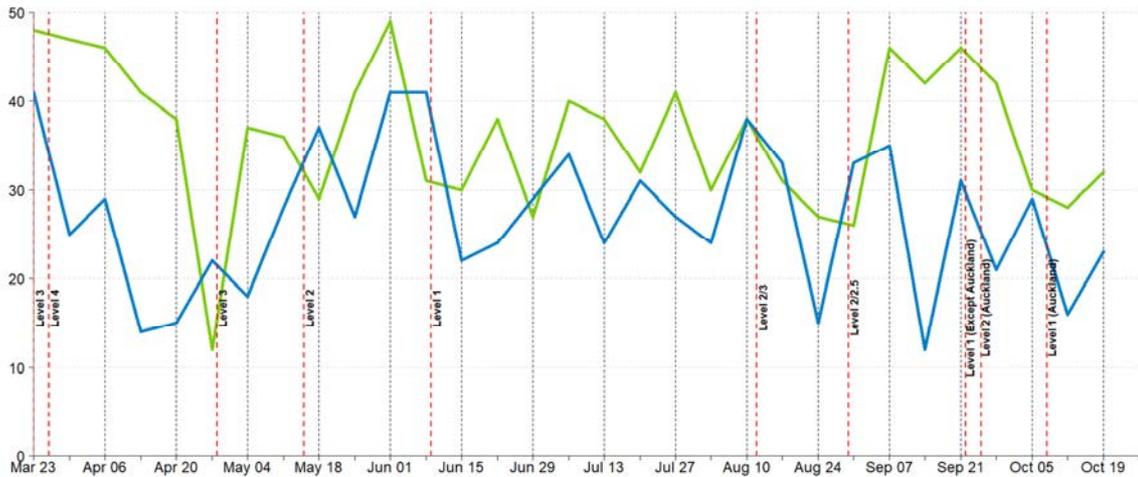
87. Since March, the number of weekly company liquidations in 2020 (Figure 14 overleaf, blue line) has been consistently below the comparable time in 2019 (Figure 14, green line). For the week ending 19 October 2020, there was a 28.1% decrease in the number of liquidations over the same week in 2019.

³⁵ <https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Statistics/tables/c52/Bank-Balance-Sheet-key-points.pdf?revision=f5c7dc08-316c-420b-aa8c-4ff6bceb8226>

³⁶ <https://www.rbnz.govt.nz/statistics/c5>

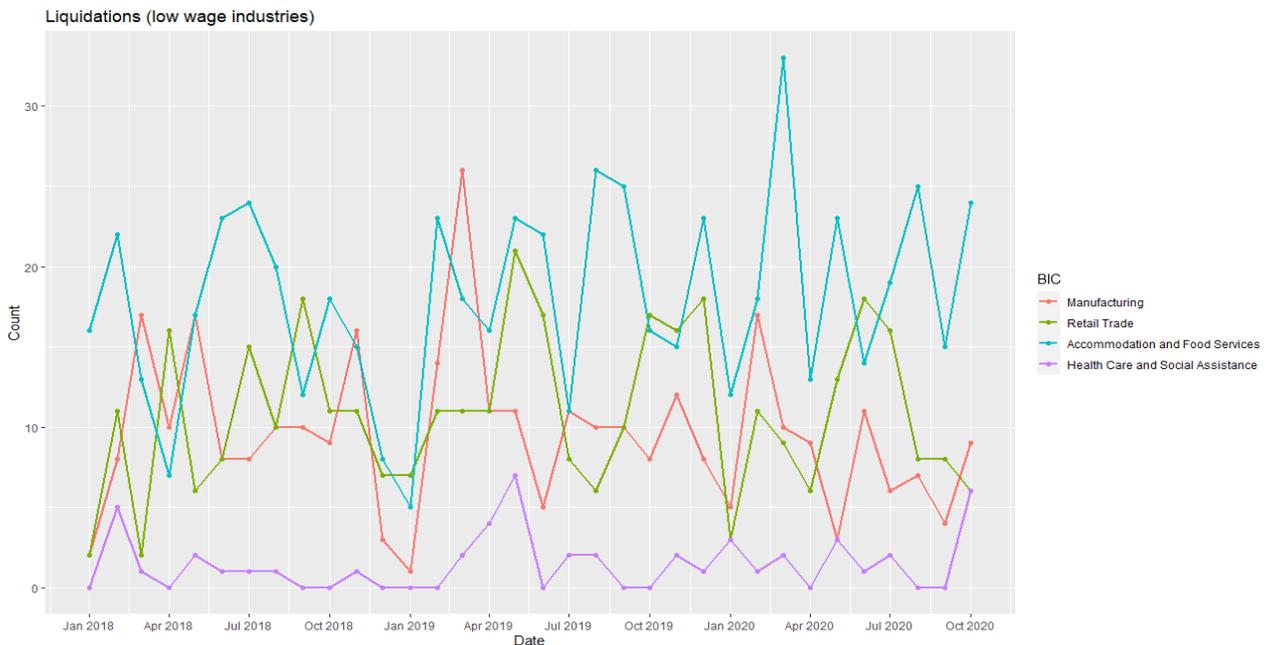
³⁷ New Zealand Bankers Association, Business statistics <https://www.nzba.org.nz/wp-content/uploads/2020/09/Business-lending-data-31-August-2020.pdf>

Figure 14: Company liquidations – Comparison 2019 to 2020 (actual numbers)



88. Figure 15 below shows that liquidations spiked in March 2020 for accommodation and food services and manufacturing before returning to historic cyclical numbers in the remainder of the year.

Figure 15: Company liquidations – Low wage industries 2018 to 2020 (actual)



Source: New Zealand Companies Office

89. MBIE has noted that there have been more company incorporations in 2020 than in 2019. Many incorporations are a result of existing companies diversifying and adapting their business activities to new trading conditions, such as starting online businesses, and individuals replacing their jobs or looking to supplement existing incomes with new business enterprises.

90. Additionally, only 41 businesses have applied to the Government's debt hibernation scheme,³⁸ with 15 debt hibernations having been approved by creditors (as at 19 October 2020). This indicates that the ongoing Government wage subsidies, loans, tax and other support have been effective in supporting business cashflows through the economic downturn.
91. Historically, company liquidations and insolvency appointments are lower in the quarter leading up to an election and just prior to Christmas, as government departments, banks, and other lending institutions reduce recovery action. The wage subsidy and the wage subsidy extension also ended for many businesses in the September 2020 quarter. MBIE believes that, as the effects of the economic downturn hit and the Government's COVID-19 related support ends, the number of business insolvencies and liquidations are likely to increase in the first half of 2021.

For some sectors and organisations, COVID-19 may bring new opportunities

92. The Government wants to reset the economy and ensure social and sustainability objectives are met. The changing global and domestic economic conditions may create fundamental structural changes to New Zealand's economy, including the types of jobs our economy fosters. The challenge for policy makers will be around resetting the economy, increasing growth and productivity and ensuring social and sustainability objectives are met. This could provide new opportunities for the labour market including:

- job creation and growth in new areas, for example new technology sectors like Fintech
- movement of workers into different jobs and sectors
- benefits for some sectors due to pandemic and border closures, such as increased local product manufacturing and domestic tourism
- improvements to workers' conditions, such as better flexible working arrangements.

Business confidence is higher than in March 2020 and the overall outlook is improving

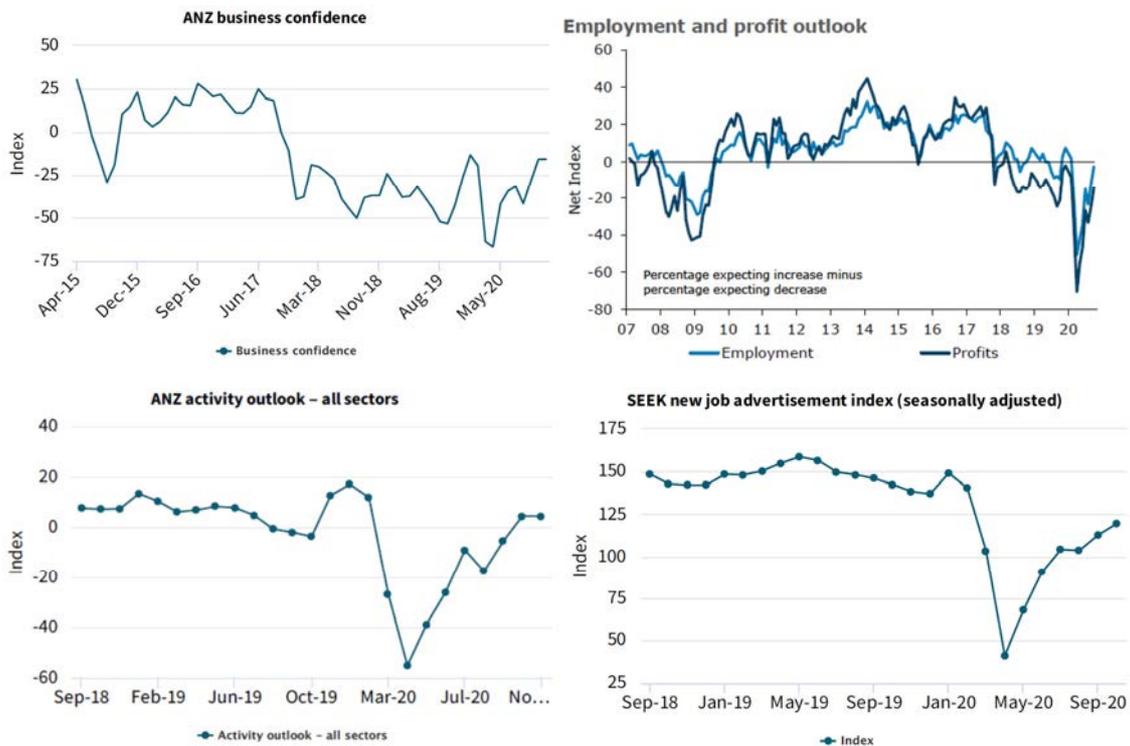
93. NZIER has identified that a net 37 per cent of businesses surveyed reported a decline in trading activity over the June 2020 quarter with a net 25 per cent of businesses also expecting weaker demand in the September 2020 quarter. As a result, a net 19 per cent of businesses reduced staff numbers in the June quarter, and a net 28 per cent expect to in the next quarter.³⁹

³⁸ The debt hibernation scheme allows businesses to agree with creditors to defer payments on debts for up to 7 months, reducing the risk of creditors initiating liquidation proceedings.

³⁹ <https://nzier.org.nz/media/nziers-qsbo-shows-sharp-fall-in-activity-with-businesses-still-downbeat-quarterly-survey-of-business-opinion-july-2020>

94. October’s ANZ Business Confidence Index for New Zealand is still negative but has increased sharply to -15.7 in October 2020, up from -28.5 in September 2020 and up from -41.8 in August. Activity outlook (4.7 vs -5.4 in September), export intentions (-5.3 vs -4.7), and investment intentions (1.9 vs 0.3) all strengthened. Both profit expectations (-14.3 vs -24.4) and employment intentions (-2.5 vs -11.8) lifted, although the retail (-9.5) and services (-6.1) sectors had lower hiring intentions. Business pricing intentions increased faster (21.4 vs 15.1), particularly in retail (30.4) and manufacturing (32.8).
95. While improving from previous quarters, business confidence, profit expectations and employment intentions for sectors such as agriculture, retail trade, manufacturing and services industries like arts and recreation, accommodation and food are weak which will affect workers who are already likely to be on the minimum wage.⁴⁰
96. New job advertisements increased in the September 2020 quarter after a significant reduction in activity in the first half of the year. Sectors showing the greatest improvement in job ad numbers from Q2 2020 to Q3 2020 are Trades & Services (56%), Information and Communication Technology (53%), and Manufacturing and Transport & Logistics (65%).⁴¹

Figures 16 to 19: Key business confidence and activity outlook indicators



Source: Statistics NZ, ANZ Business Confidence Outlook

⁴⁰ ANZ New Zealand Business Confidence Outlook, 29 October 2020

⁴¹ SEEK NZ Employment Report, October 2020, <https://www.seek.co.nz/about/news/seek-nz-q3>

Chapter four – Current and historical minimum wage

Previous Government’s commitment to raise the minimum wage

97. In December 2018, Cabinet agreed to publish indicative rates for the adult minimum wage in line with the 2017 Coalition Agreement between Labour and New Zealand First to increase the rate to \$20.00 per hour by April 2021 [Cabinet Office circular CO(17)10 refers]. The indicative rates are not binding and are subject to each year’s annual review.
98. The published indicative rates were determined in consultation with stakeholders during the 2018 annual review. The majority of stakeholders expressed a preference to reach the \$20.00 target through even annual increases, as opposed to front-loaded or back-loaded increases. The indicative rates of \$17.70 from 2019, \$18.90 from 2020 were adopted in those years and the indicative rate of \$20.00 from 2021 is included as an option in this review.

The current and prescribed minimum wage rates and their coverage

99. The current minimum wage rates prescribed in the Minimum Wage Order 2020 are set out below:
 - the adult minimum wage rate is \$18.90 per hour
 - the starting-out minimum wage rate is \$15.12 per hour
 - the training minimum wage rate is \$15.12 per hour.
100. 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.
101. The starting-out wage was introduced in May 2013. Its purpose is to support more young people entering the workforce and gaining the education and training they need for work. The Act provides that the starting-out wage rate must be set at no less than 80 per cent of the adult minimum wage rate and is currently set at this level. The Act allows the Order to prescribe one or more classes of worker to whom this rate applies, with certain factors where those workers are aged between 16-19 years and are not involved in supervising or training other workers. As such the Order sets out the following categories to which 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.

102. 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.
103. An estimated 57,700 workers aged 16 to 64 are paid the minimum wage in 2020, which is approximately 3.0 per cent of all wage earners in paid employment. The total percentage of minimum wage earners in 2020 has decreased from 3.5 per cent in 2018 (71,500) and from 4.2 per cent in 2019 (85,400), which is to be expected as the minimum wage moves closer to the median wage.
104. Women make up 63 per cent of all minimum wage earners, with part-time workers (60 per cent) and young people (55 per cent) making up the next largest groups. Māori (16 per cent of minimum wage earners), Pacific peoples (6 per cent), individuals without formal qualifications, disabled workers, and refugees or migrants are also more likely to be paid the minimum wage than other groups of workers. These workers are more likely to work in retail and hospitality industries.
105. For more detailed information on the demographic and job characteristics of workers paid the minimum wage, refer to Table 14 of Chapter Seven of this report.

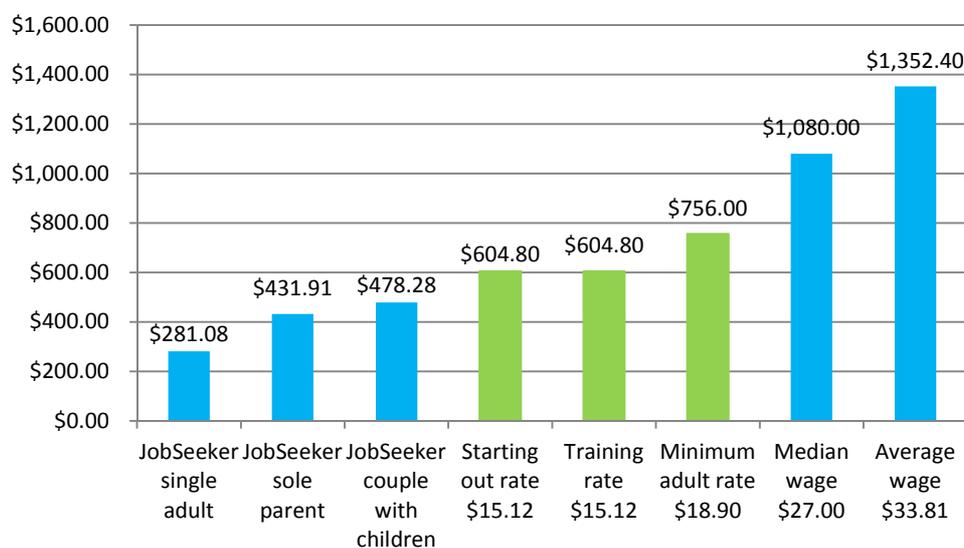
The current minimum wage and other income benchmarks

106. The ratio of the minimum wage and a country's median wage (the Kaitz index) is a widely used measure of how much the minimum wage affects the wage distribution. The median wage is used as a more neutral measure of tendency and a "*better point of reference*"⁴² because the median is not 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. 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.
107. The current adult minimum wage rate of \$18.90 per hour is approximately 70.0 per cent of the median wage (\$27.00 per hour) and 55.9 per cent of the average wage (\$33.81 per hour)⁴³.
108. Compared with other income benchmarks, the current weekly adult minimum wage is significantly higher than the JobSeeker Support rates for single adults (\$281.08, 37.2 per cent of the minimum wage) and for sole parents (\$431.91, 57.1 per cent). Figure 20 overleaf compares the minimum wage rates with other income benchmarks, all calculated as weekly income for a 40 hour week before tax.

⁴² International Labour Organisation, *Minimum Wage Policy Guide*, Chapter 5.5

⁴³ Statistics NZ, Labour Market Statistics (income) – September 2020 quarter

Figure 20: Weekly gross income from minimum wages and other income benchmarks



Changes to the minimum wage over the past 10 years

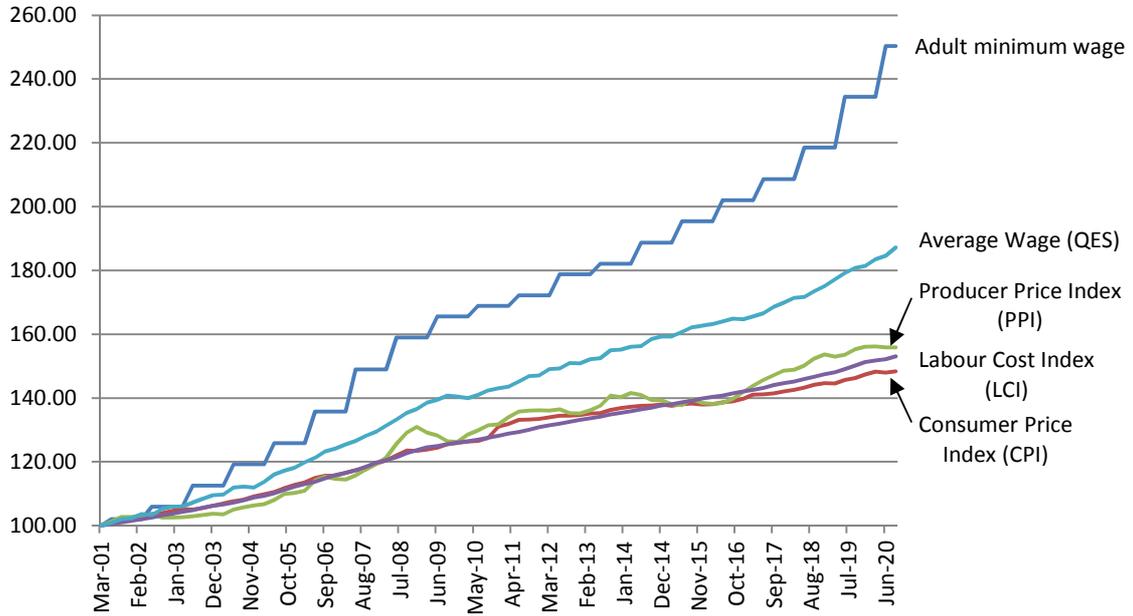
109. Since 2000, the minimum wage rate has increased every year following the annual review. Changes in the hourly rates since 2010 are shown below.

Table 8: Changes to the minimum wage rates since 2010

Effective Date	Adult Minimum Wage	Starting out and Training wages	Per Cent Change (Adult Minimum Wage)
1 April 2010	\$12.75	\$10.20	2.0%
1 April 2011	\$13.00	\$10.40	2.0%
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%

110. When compared to inflation and other cost measures, the minimum wage rate has increased at a faster rate than general wages, labour costs, and consumer prices over the past 20 years, as shown overleaf in Figure 21.

Figure 21: The minimum wage rate compared to inflation and other cost measures, indexed to March 2001



Chapter five – The minimum wage in a global context and in international research

Minimum wages across the OECD

111. New Zealand has a relatively high minimum wage compared to other OECD countries. Only Luxembourg and Australia have higher hourly minimum wages and minimum annual nominal incomes, when expressed in New Zealand dollars. Variations in rankings between the annual and hourly datasets in Table 9 below are caused by the different standard working weeks between countries.

Table 9: Ranking of the minimum wage rate across selected OECD countries, October 2020

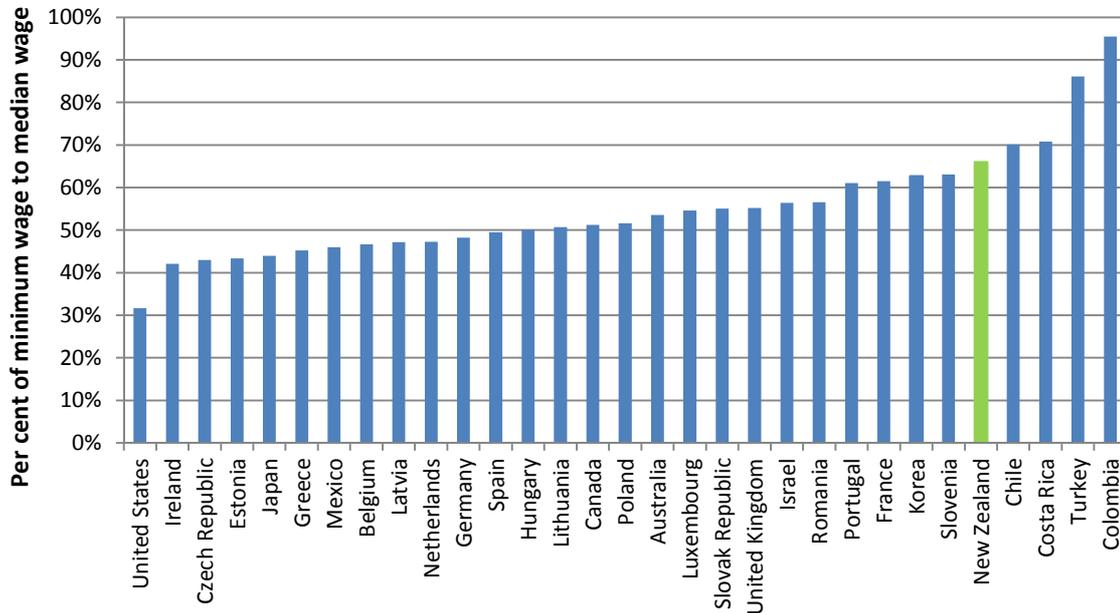
As Annual Nominal Income ⁴⁴			As Hourly Rate ⁴⁵		
Rank	Country	\$NZD	Rank	Country	\$(NZD)
1	Luxembourg	\$45,079	1	Luxembourg	\$ 21.67
2	Australia	\$41,622	2	Australia	\$ 21.06
3	New Zealand	\$39,312	3	New Zealand	\$ 18.90
4	United Kingdom	\$36,253	4	France	\$ 17.80
5	Ireland	\$35,922	5	Ireland	\$ 17.71
6	Netherlands	\$35,356	6	United Kingdom	\$ 17.43
7	Belgium	\$34,213	7	Belgium	\$ 17.31
8	Germany	\$34,107	8	Netherlands	\$ 17.00
9	France	\$32,397	9	Germany	\$ 16.40

112. New Zealand has one of the highest ratios of the minimum wage to the median wage amongst OECD countries, as is shown in Figure 22 overleaf.

⁴⁴ 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).

⁴⁵ The hourly rate is taken from official government sources. The hourly rate is then converted into \$NZD using Inland Revenue's 15 September 2020 *Overseas currency rates 2019 - rolling 12-month average*.

Figure 22: International comparison – Minimum wages to the median wages OECD countries (2019 data)



Source: OECD⁴⁶

Review of international literature on the minimum wage

After early consensus on the impacts of the minimum wage, alternative findings have created a division in published research

113. There was a nearly universal consensus on the impact of the minimum wage in academic studies from the 1960's to the early 1990's. These studies used standard economic theory and time-series data to support the ideas that an increase in the minimum wage will result in (Neumark, 2014; Neumark & Wascher, 2004; Seltzer, 1997; Jardim et al, 2017; and Geloso, 2016):
- Reduced consumption of goods as firms increase prices
 - Firms substituting labour with capital or high-skilled employment
 - Lower employment of low-wage workers.
114. This group of studies suggest that the employment elasticity effect of the minimum wage is -0.1 to -0.3, meaning that a 10 per cent increase in the minimum wage is associated with a 1 to 3 per cent decrease in employment (Seltzer, 1997).
115. However, in the 1990's, an alternative school emerged which either used the same time-series method (but with larger datasets/time periods), or cross-section comparisons to find that minimum wage increases have negligible or even marginally

⁴⁶ Organisation for Economic Co-operation and Development OECD (2019). *Minimum relative to median wages of full-time workers* - <https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>

positive employment effects (Sturn, 2018; Ferraro et al., 2018; Harasztosi et al., 2017; Belman et al., 2015; Hoffman, 2016; and Papps et al., 2014).

116. Recent academic literature on minimum wage effects continues this lack of consensus. Two polarised camps, each with their own leading academics, have become entrenched – one in support of minimum wage increases and the other against. In a well-publicised example, competing studies published in 2017 on the effects of minimum wage increases in Seattle by researchers at the University of Washington and the University of California Berkeley arrived at opposing conclusions.⁴⁷ Subsequent papers for both camps continue to undermine one another. The disagreements can be traced to study design methods, theoretical bias, or simply a focus on different econometrics. The debate is far from settled but many recent studies favour the alternative evidence.

On the overall labour market

117. A majority of the literature argues that while the overall employment effects on the economy may be small or negligible, it is stronger for subsets of the population.
118. In a study of evidence across 19 OECD countries, it was found that there was no overall effect on total employment. Looking at specific subsets of the population, there were impacts, but these were only small or insignificant. Interestingly, they found the difference in elasticities for low minimum wages compared to high minimum wages is insignificant (Sturn, 2018).
119. Another study from the United States conducted a meta-analysis of 15 years of research published on the effects of minimum wage increases. The paper reviewed 37 studies and 739 estimates and found that the average estimated employment effect was very small.⁴⁸
120. A 2019 study from the Institute for Research on Labour and Employment looked into the effects of raising the minimum wage to \$15 in low-income US counties and found positive outcomes across a range of metrics. The study is noteworthy for its large dataset of millions of households in more than 750 counties. The paper found no adverse effects on employment, weekly hours, or annual weeks worked. It also found no negative employment effects among women, blacks and Hispanics, as well as substantial declines in household and child poverty. The study measured the gap between the minimum wage and the median wage in poor areas, assuming a \$15 hourly pay floor, and compared the gap to ones in other places to calculate disemployment effects.⁴⁹

⁴⁷ See Jardim, E., C.Long, M., Plotnich, R., van Inwegen, E., Vigdor, J., & Wething, H. (2017). *Minimum Wage Increases, Wages, and Low-wage employment: Evidence from Seattle*. University of Washington and Reich, M., Allegretto, S., & Godoey, A. (2017). *Seattle's Minimum Wage Experience 2015-16*. University of California, Berkeley.

⁴⁸ Wolfson, Paul J. and Belman, Dale. (2016). 15 Years of Research on U.S. Employment and the Minimum Wage. *Tuck School of Business*, Working Paper No. 2705499.

⁴⁹ Anna Godøy and Michael Reich. (2019). "Minimum Wage Effects in Low-Wage Areas". IRLE Working Paper No. 106-19. <http://irle.berkeley.edu/files/2019/07/Minimum-Wage-Effects-in-Low-Wage-Areas.pdf>

121. Another well-publicised 2019 study from the National Bureau of Economic Research also offers a positive view on the effects of minimum wage increases.⁵⁰ It is based on a new method that infers the employment effects of a minimum wage increase by comparing the difference between jobs paying at or slightly higher than the minimum wage to the jobs that disappeared or shifted into compliance after an increase. The effects were estimated against hourly wage data using 138 state-level minimum wage changes between 1979 and 2016. The study found that the disemployment effects of minimum wage increases were minimal over a five year period, despite some evidence of reduced employment in tradable sectors, specifically identifying manufacturing. The study also suggests that conventional studies produce misleading inferences due to spurious changes in employment higher up the wage distribution ladder.
122. A November 2019 study commissioned by the UK Government surveys the international evidence on the impacts of minimum wages. The study finds that minimum wage increases result in limited disemployment effects, while significantly increasing the earnings of low paid workers. Across the United States, the report's evidence suggests that restraint on employment is small when the minimum wage does not exceed 59 per cent of the median wage, although small employment effects were found even in counties with a minimum wage as high as 81 per cent of the median wage. In the UK, a 2016 Low Pay Commission report concluded that the introduction of a national minimum wage resulted in small disemployment effects, while also finding that the minimum wage led to a small reduction in hours. The evidence of small impacts on low wage employment is consistent with recent findings on the effects of minimum wage increases in Germany and Hungary.⁵¹
123. Another 2019 study focussed on New York City's \$15 minimum wage increase on restaurant employees demonstrated no negative employment effects. In fact, the evidence showed strong job and wage growth and a higher number of new restaurants, fuelled by the strong US economy. Restaurants were thriving despite increased rents, reduced margins from third-party food delivery apps, and other factors. New York restaurants have responded by slightly increasing prices to absorb the wage increases. Other states including California, Oregon, and Washington are also experiencing strong gains in the food and beverage sector despite higher state-level minimum wages. The ability for any sector to absorb minimum wage increases would only be tested during an economic downturn.⁵²

⁵⁰ Cengiz, Doruk; Dube, Arindrajit; Lindner, Attila, Zipperer, Ben (2019). The Effect of Minimum Wages on Low-Wage Jobs: Evidence from the United States Using a Bunching Estimator. *National Bureau of Economic Research*, working paper 25434.

⁵¹ Dube, Arindrajit. (2019). *Impacts of minimum wages: review of the international evidence*. University of Massachusetts Amherst, National Bureau of Economic Research and IZA Institute of Labor Economics.

⁵² Moe, Lina; Parrott, James; Lathrop, Yannet (2019). New York City's \$15 Minimum Wage and Restaurant Employment and Earnings. *Center for New York City Affairs at the New School and the National Employment Law Project*.

124. Despite the positive picture painted by these new studies, older studies suggest a hidden impact on turnover. One study found that even if there are no employment effects, minimum wage increases can impact accession and separation rates⁵³ (Liu et al, 2016; & Geloso, 2016). Workers may remain unmatched, thus the minimum wage creates coordination failure, resulting in suboptimal levels of productivity (Geloso, 2016) which has adverse effects on the economy as a whole even if they do not directly reduce employment.
125. In addition, many studies note that hours of work fall (Papps, 2014).⁵⁴ The lost income associated with hour reductions exceed the gains associated with wage increases, leaving workers with a net loss, as was the case in Seattle which had a dramatic wage increase from \$9.47 to \$14 in two years (Jardim et al, 2017).
126. The Bank of Canada, in a 2018 review of the impact of minimum wages in Canada, found that employment effects are statistically significant, especially for younger workers. The study's structural model simulation estimated that a negative labour supply shock that raises wages by 0.7 per cent would result in a decline in demand for labour, leading to a decline in total hours worked of 0.3 per cent, which equates to a loss of about 60,000 jobs by 2019 (assuming working hours remain unchanged).⁵⁵

On minimum wage increases during a recession

127. A study carried out in the US analysed the minimum wage's effects on the employment and income trajectories of low-skilled workers during the Great Recession and subsequent recovery in the United States.⁵⁶ It compared the effects of minimum wage increases between "bound" states (those states which had an effective minimum wage increase of \$1.31) and "unbound" states (those states that had an increase of \$0.43). They found that over three subsequent years, binding minimum wage increases had significant negative effects on the employment and earnings of target workers. This was due to employment declines, increased probabilities of working without pay (i.e., an "internship" effect), and lost wage growth associated with reductions in experience accumulation. Relative to low-skilled workers in unbound states, targeted workers' average incomes fell by \$100 over the first year and by an additional \$50 over the following 2 years.

On large minimum wage increases

128. In January 2018, the province of Ontario in Canada raised its minimum wage from \$11.60 to \$14 per hour. That month, Ontario experienced a decline of over 59,000

⁵³ As noted previously in this report, accessions are the number of employees starting jobs and separations are the number stopping jobs

⁵⁴ Papps, Kerry L; & Gregg, Paul. (2014). *Beyond the wage: Changes in employment and compensation patterns in response to the national minimum wage*. University of Bath.

⁵⁵ Brouillette, Dany; Cheung, Calista; Gao, Daniel; & Gervais, Oliver. (2017). *The Impacts of Minimum Wage Increases on the Canadian Economy*. Bank of Canada.

⁵⁶ Clemens, Jeffrey & Wither, Michael, (2019). *The minimum wage and the Great Recession: Evidence of effects on the employment and income trajectories of low-skilled workers*, Journal of Public Economics

part-time jobs.⁵⁷ While there is no empirical evidence to establish a direct link between the rate hike and the job losses, commentators pointed to the rise in wages as causing the job losses. Premier Doug Ford subsequently halted the previous Liberal government's plan to raise the minimum wage to \$15 per hour on January 1st 2019.

129. In South Korea, the minimum wage increased by large rates, rising by 16.4 per cent in 2018 and 10.9 per cent in 2019, with a pledge by President Moon Jae-in to raise the minimum wage to 10,000 Won by 2020. Unemployment rose in January 2019 and businesses reported cutting employee hours of work, although these could be attributed to other factors including a slowing economy and regional trade headwinds.⁵⁸ In response, the Korean Government announced a rate rise of just 2.9 per cent for 2020 due to “economic conditions, employment situations, and market receptiveness” for the decision to scale back the promised wage rise.⁵⁹ In October 2019, Statistics Korea reported an unemployment rate decrease from 3.6 per cent to 3.1 per cent, year-on-year.⁶⁰
130. In Alberta, Canada, the minimum wage rose by \$1.20 every year for four years from 2014. As of 2017, 25,000 workers had lost their jobs.⁶¹ In Estonia, the minimum wage increased 10 per cent each year in 2013-16. There were no or only indiscernible effects on employment in the period.⁶² In Hungary, the minimum wage increased by 60 per cent in 2001, resulting in 10 per cent of workers losing their jobs while the rest experienced a 50 per cent income increase. New jobs continued to appear equal to the number of lost jobs.

On youth

131. The majority of minimum wage studies focus on youth because evidence shows they are most impacted by the minimum wage.⁶³ The literature almost unanimously agrees that for teenagers, a higher minimum wage is associated with: higher earnings,⁶⁴ reduced hires,⁶⁵ reduced hours,⁶⁶ and reduced turnover. For those in their 20s, the

⁵⁷ Statistics Canada. (2018). *Labour force characteristics by province – seasonally adjusted*. Retrieved from <https://www150.statcan.gc.ca/n1/daily-quotidien/180209/t003a-eng.htm>

⁵⁸ Kim, Cynthia; Yang, Heekyong. Reuters. (2018). *Moonwalking: South Korea's wage, hours policies backfire for jobless, low income worker*. Reuters. Retrieved from <https://www.reuters.com/article/us-southkorea-economy-jobs-insight/moonwalking-south-koreas-wage-hours-policies-backfire-for-jobless-low-income-workers-idUSKBN1K70DD>

⁵⁹ Yonhap. (2019). *Moon apologizes for failure to keep campaign pledge on minimum wage*. Korean Herald. Retrieved from <http://www.koreaherald.com/view.php?ud=20190714000190>

⁶⁰ Statistics Korea. (2019). *Economically Active Population Survey in September 2019*. Retrieved from <http://kostat.go.kr/portal/eng/pressReleases/5/2/index.board?bmode=read&aSeq=378064>

⁶¹ Marchand, Joseph. (2017). *Thinking about Minimum Wage Increases in Alberta: Theoretically, Empirically, and Regionally*. C.D. Howe Institute.

⁶² Ferraro, Simona; Hanilane, Birgit; & Staehr, Karsten. (2018). Minimum wages and employment retention: A Microeconomic study for Estonia. *Baltic Journal of Economics*, 18(1), 51-67.

⁶³ Pacheco, Gail. (2007). The Changing Role of Minimum Wage in New Zealand. *New Zealand Journal of Employment Relations*, 32(3), 2-17.

⁶⁴ Liu, Shanshan; Hyclak, Thomas J.; & Regmi, Krishna. (2016). Impact of the Minimum Wage on Youth Labour Markets. *LABOUR: Review of Labour Economics & Industrial Relations*, 30(1), 18-37.

⁶⁵ Ibid.

⁶⁶ Pacheco at [24].

impact is less consistent and less pronounced.⁶⁷ Some studies identified that negative effects on youth employment associated with minimum wage increases are exacerbated during economic recessions (Dolton et al, 2012⁶⁸).

132. Pacheco's (2011)⁶⁹ study of data from 1986 to 2004 identifies that the impact of a higher minimum wage on workers aged 16-29 years old is significant and negative when the binding constraint is included. Of this group, the most adversely affected individuals appear to be 16–19 year olds. Pacheco (2011) also noted that minimum wage increases tend to be associated with increased employment for 18-19 year olds, although it is noted that this may be a result of model mis-specification. She suggests that a higher minimum wage may be encouraging 18-19 year olds to choose paid work over further education, increasing labour participation. Subsequent papers by the same author again finds significant negative employment effects on higher minimum wages, particularly for youth and ethnic minorities. Alingaghi, Creedy and Gemmell (2020) suggest the results of Pacheco's study indicates employers may be encouraged to substitute away from minimum wage workers in lower age groups towards similar, slightly higher paid workers.
133. Hyslop, & Stillman. (2011) examined the impact of the 2008 youth minimum wage reform, which extended the adult minimum wage rate to the majority of young people aged from 16 years.⁷⁰ The study found that the starting-out wage was largely not used by businesses and that firms generally pay the majority of 16 and 17 year old workers the adult minimum wage. This is still the case today as can be seen in Table 13 14 in Chapter Seven.

On women

134. In New Zealand, 56 per cent of all minimum wage earners are women. While studies agree that raising the minimum wage would help reduce the gender pay gap, disemployment effects on women have not been robustly studied. However, when the UK introduced a national minimum wage, employment retention for part-time women reduced by 3 per cent.⁷¹

On ethnic minorities

135. The impact on ethnic minorities has not been generally studied to date. One author found only one robust study which reported that the minimum wage stimulated employment among single African American and Hispanic mothers in the United

⁶⁷ Liu et al. at [25].

⁶⁸ Dolton, P., Bondibene, C., Schivardi, F., & Spinnewijn, J. (2012). *The international experience of minimum wages in an economic downturn*. Economic Policy, 27(69), 99-142. Retrieved September 11, 2020, from <http://www.jstor.org/stable/41428847>

⁶⁹ Pacheco, G. (2011). Estimating employment impacts with binding minimum wage constraints. *The Economic Record*, 87(279). doi:10.1111/j.1475-4932.2011.00722.x

⁷⁰ Hyslop, & Stillman. (2011). *Impact of the 2008 Youth Minimum Wage Reform*.

⁷¹ Dickens, Richard; Riley, Rebecca; & Wilkinson, David. (2015). A Re-examination of the Impact of the UK National Minimum Wage on Employment. *Economica*, 82, 841-864.

States, but reduced employment among childless African American and Hispanic people.⁷²

136. Pacheco (2011) noted that Māori stood out as a sub-group (of 16-29 year olds) adversely affected by a higher minimum wage in New Zealand. Māori who face a binding minimum wage experienced significant falls in their employment propensity and usual total weekly hours worked.

On poverty

137. Recent New Zealand-based research examining the effects of minimum wage increases 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).⁷³ This was largely due to many low-wage earners being secondary earners 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.

On small businesses

138. Chava, Oettl and Singh (2019)⁷⁴ analysed the effects of ‘one-size fits all’ federal minimum wage increases on small businesses in the United States. The study found increases in the federal minimum wage worsen the financial health of small businesses in the states bound by the minimum wage. Small, young, labour-intensive, minimum-wage sensitive establishments (e.g. restaurants, retail) located in these states and businesses located in competitive and low-income areas experience higher financial stress (reduced cashflows, lower bank credit, loan defaults), which can lead to a higher rate of business closures and less new entrants. The premise is that wages are a significant part of small businesses’ operating costs and not all affected firms would have the flexibility to immediately adjust their capital-to-labour ratio or pass on the increased costs to their customers and profit margins cannot be maintained by reducing other costs or by increasing productivity. This working paper has not been peer-reviewed.

⁷² Belman, Dale; Wolfson, Paul; & Nawakitphaitoon, Kritkorn. (2015). Who Is Affected by the Minimum Wage? *Industrial Relations*, 54(4), 582-615.

⁷³ Alinaghi, Nazila, Creedy, John, Gemmell, Norman, (2020), The Redistributive Effects of a Minimum Wage Increase in New Zealand: A Microsimulation Analysis, 10.1111/1467-8462.12381, *Australian Economic Review*.

⁷⁴ Chava, Sudheer; Oettl, Alexander; Singh, Manpreet (2019), Does a One-Size-Fits-All Minimum Wage Cause Financial Stress for Small Businesses? *National Bureau of Economic Research*, working paper 26523. © 2019 by Sudheer Chava, Alexander Oettl, and Manpreet Singh.

On labour productivity

139. Some studies have shown that minimum wages not only help to reduce wage variation across businesses and channel productivity gains into higher wages, but they can also contribute to higher labour productivity – both at the enterprise level and at the aggregate economy-wide level. At the enterprise level, workers may be motivated to work harder (Ehrenberg and Smith, 2009)⁷⁵, stay longer with their employer, be more committed, and gain experience, which can encourage higher levels of employer and employee training. As a result, some firms can become more efficient and productive over time. (Riley and Bondibene (2015)⁷⁶, Croucher and Rizov (2012)⁷⁷). Dube, Lester and Reich (2012) attribute reduced turnover for restaurant workers in California to the effect of the minimum wage, which reduces wage competition between low-paying enterprises.⁷⁸
140. However, some researchers have noted that productivity increases may be the result of a fall in employment due to the minimum wage, as enterprises substitute capital for labour and adopt more capital-intensive production technologies. (Aaronson and Phelan (2000)⁷⁹, Aaronson and Phelan (2017)⁸⁰).

⁷⁵ Ehrenberg R. G. and R. S. Smith, 2009. *Modern Labor Economics: Theory and Public Policy*, 10th Edition, Pearson.

⁷⁶ Riley, R.; Bondibene, C., R.; 2015. *The Impact of the National Minimum Wage on UK Businesses*. Report to the Low Pay Commission. National Institute of Economic and social Research and Centre for Macroeconomics.

⁷⁷ Croucher, R.; Rizov, M.; 2012. *The Impact of the National Wage on Labour Productivity in Britain*, E-Journal of International Labour Studies, Volume 1, No. 3-4 October-December 2012.

⁷⁸ Dube, A.; Lester, T., W.; Reich, M.; 2012. *Minimum Wage Shocks, Employment Flows and Labour Market Frictions*, IRLE Working Paper No. 122-12.

⁷⁹ Aaronson, Daniel and Phelan, Brian J., *The Evolution of Technological Substitution in Low-Wage Labor Markets* (July 10, 2020). FRB of Chicago Working Paper No. 2020-16

⁸⁰ Aaronson, D. and Phelan, B.J., 2017. "Wage Shocks and the Technological Substitution of Low- wage Jobs." *The Economic Journal*, 129(617), pp.1-34.

Chapter six – Impacts on New Zealand

141. The following chapters explain how minimum wages can help lift the incomes of individuals and families and contribute to improved living standards. However, some employers and employees can experience negative impacts, depending on the level of the increase and how firms respond to it.

Effect on wages and inflation

142. 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. 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.
143. Table 10 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 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 two options (\$18.90 and \$19.50) are estimated to have close to zero impact on inflation, options 3 and 4 (\$20.00 to \$21.00) are estimated to lead to a low increase in inflation and option 5 (\$22.10) is estimated to lead to a moderate increase in inflation.

Table 10: Economy-wide impacts of minimum wage options (figures rounded)

Option	Current number of workers earning between current and new option of minimum wage	Economy-wide increase in wages (\$m, annual)	Expected increase in inflation
\$18.90	57,700	0	0.00%
\$19.15	106,000	29	0.00%
\$19.50	135,000	94	0.00%
\$20.00	175,500	216	0.10%
\$21.00	281,000	607	0.20%
\$22.10	424,000	1,232	0.40%

144. The \$18.90 minimum wage option was assessed to impact 242,400 workers when analysing the impact of this option using the 2019 Income data, but impacted only 57,700 workers when using the 2020 income data, which included wage increases

separate from the minimum wage increase. This is because 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. The adjustment of the forecast number of workers against actual labour market statistics was also employed in last year's review.

145. In last year's review, the \$21.15 minimum wage option (2019 Living Wage) was assessed to impact 518,500 workers (with an economy-wide wage increase of \$1,731 million) when analysing the impact of this option using the 2019 Income data. In this year's review, the \$21.00 option impacted only 281,000 (about 46% fewer) workers (with an economy-wide wage increase of \$607 million) when using the 2020 income data, which included wage increases that applied separate from the minimum wage increase.
146. 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 in 2018 and 2019. 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 result in reduced productivity and increased turnover.
147. The fraction of minimum wage workers to total wage earners in New Zealand has normally been around 3 to 4 per cent (3.5 per cent in 2018, 4.2 per cent in 2019 and 3.0 per cent in 2020). This arithmetical calculation is based on point in time income data and assumes that everyone below the proposed new minimum wage rate moves to it and no further. It is also likely that workers paid just below the minimum wage would probably receive the general company pay movement (or more), not just the (small) adjustment to the new rate. This is why a year later the fraction of workers on the minimum wage normally drifts back towards 3 to 4 per cent of wage earners. This year, the effect of COVID-19 on company revenues means that this pass on process may not happen to the same extent or may be delayed until the economic effects are clearer.

Impacts on employment

148. Employers may also respond to minimum wage increases by reducing their highest input costs, which is 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.

149. MBIE’s modelling indicates that significant restraints on employment growth are only likely to occur when changes to the minimum wage rate are large compared to increases in the average wage. This is consistent with domestic and international literature. MBIE’s model uses economic and employment data to predict the employment effects of different increases to the minimum wage. The model provides estimates for three groups:

- **Groups most affected:** The model produces predicted employment impacts for aggregate groups most affected by minimum wage changes (16-17 year olds, 18-19 year olds, females, Māori, Pacific peoples)
- **16-64 year olds (relative impact):** All workers aged between 16 and 64 years old are included and the impact of the change to the minimum wage relative to the average wage is used to assess the employment effects
- **16-64 year olds (direct impact):** All workers aged between 16 and 64 years old are included and the model captures the direct employment effect of the proposed minimum wage increase as well as the increase to the average wage separately rather than relative to each other.

150. Of these three groups, MBIE uses the figures modelled for the 16 to 64 year olds ‘relative impact’ since we consider this to be the best estimate of the impacts. As shown in Table 11 below, the modelling suggests that increases above \$20.00 would significantly restrain employment growth.

Table 11: Summary of employment impacts⁸¹

Option	Potential restraint on employment growth		
	Groups most affected	16-64 year olds (relative impact)	16-64 year olds (direct impact)
\$18.90	0	0	0
\$19.15	-1,000 or more	-1,000 or more	-1,000 or more
\$19.50	-2,500	-4,000	-4,500
\$20.00	-5,500	-9,000	-10,000
\$21.00	-11,500	-19,000	-21,000
\$22.10	-18,000	-29,500	-33,000

151. The \$18.90 minimum wage implemented in April 2020 was assessed to have a potential restraint on employment growth of -6,500 workers (16-64 year olds-relative impact) with a band range for this rate of -4,000 (Groups most affected) and -7,300 (16-64 year olds-direct impact).

⁸¹ The results in Table 11 are based on the Treasury’s official wage growth forecasts contained in the Treasury’s Pre Election Economic and Fiscal Update 2020. Restraints on employment estimates found in the Minimum Wage Review 2019 were based on NZIER’s wage growth forecasts, found in their Quarterly Predictions.

152. The \$20.00 indicative rate for 2021 is assessed to have a potential restraint on employment growth of -9,000 workers (16-64 year olds-relative impact) with a band range for this rate of -5,500 (Groups most affected) and -10,000 (16-64 year olds-direct impact).
153. The difference in restraint effects between the 2020 minimum wage rate (\$18.90) and the 2021 indicative rate (\$20.00) are related the slightly lower but similar percentage minimum wage increase in 2021 (5.8%) compared to 2020 (6.8%), but combined with a lower overall (QES) wage increase forecast by the Treasury in 2021 (0.9%) compared to 2020 (3.0%).
154. These predicted employment impacts are expected to occur in a period of slowing employment growth after a couple of years of steady growth ((1.9 per cent to June 2019 and 1.6 per cent to June 2020). MBIE forecast employment to grow by 1.7 per cent (or 43,600) in 2020⁸². The longer-term employment forecast was for employment to grow by 1.4 per cent annually, adding about 39,400 workers on average per year to the workforce in the 10 years to 2028.⁸³
155. However, the effects of COVID-19 has slowed net employment growth in 2020.⁸⁴ In year to September 2020, annual employment growth was 6,000 employees (0.2 per cent). Treasury's PREFU forecasts net employment to decline by 84,300 employees (-3.2 per cent) in the year to June 2021 before recovering to positive growth of 30,500 employees (1.2 per cent) in the year to June 2022.
156. This means that the estimated negative employment effects of a minimum wage increase in 2021 are unlikely to be absorbed by the growth in the number of jobs in the economy. If new jobs are not being created in the labour market, displaced workers are more likely to become unemployed or underutilised. Even where the overall employment effects of a minimum wage change are predicted to be negligible, there may still be impacts on particular groups of workers. These impacts are discussed in Chapter Seven.

Impacts on poverty

157. 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.
158. Using the primary measures specified in the Child Poverty Reduction Act, Statistics NZ estimates that, in 2018/19, between 13.4 per cent and 20.8 per cent of New Zealand children lived in poverty or material hardship.⁸⁵ Estimates are that around 40 per cent

⁸² MBIE. (2018). Short-term employment forecasts 2017-2020 – February 2018.

⁸³ MBIE. (2019). Medium to long-term employment outlook: Looking ahead to 2028 – August 2019.

⁸⁴ Net employment growth is the rate at which new jobs are created in the economy.

⁸⁵ 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.

of children in poverty live in households where there is at least one adult in full-time employment or self-employment.⁸⁶

159. Data from the 2019 Household Labour Force Survey⁸⁷ indicates that just under 22 per cent of people earning at or below the minimum wage in 2019 (35,700 people) were parents in households with dependent children. This increases to 34 per cent if taking into account everyone (not just parents) earning at or below the minimum wage, and living in a household with dependent children. A range of factors influence whether the overall incomes of these households are in poverty. These include whether there are other earners, number 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.
160. 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.⁸⁸ 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 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.
161. The Child Poverty Unit and Ministry of Social Development undertook analysis⁸⁹ 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.
162. 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

⁸⁶ 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>

⁸⁷ Evidence from the 2019 income supplement of the Household Labour Force Survey

⁸⁸ Matsaganis, Medgyesi and Karakitsios. (2015). *EU Research note on interaction between minimum wages, income support, and poverty*. European Commission.

⁸⁹ 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%, 50% or 60%), 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).

families with a dependent child or children an after-tax minimum income, by ‘topping up’ a household’s earned income to a set level.

163. 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).
164. Other recent changes, such as the wage indexation of main benefits and the \$25 per week across-the-board increase in main benefits from 1 April 2020, have increased the incomes of non-working families. 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.
165. 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, but recent New Zealand analysis⁹⁰ suggests that they may be greater for sole parents in particular, leading to meaningful reductions in poverty rates for this group (and their children).
166. There has been no specific analysis of the impact of minimum wage changes on levels of material hardship, which is one of the ten legislated measures of child poverty. These 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.⁹¹ 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.

⁹⁰ Alinaghi, Nazila, John Creedy and Norman Gemmill (2020) The redistributive effect of a minimum wage increase in New Zealand: A micro-simulation analysis. The Australian Economic Review. The University of Melbourne.

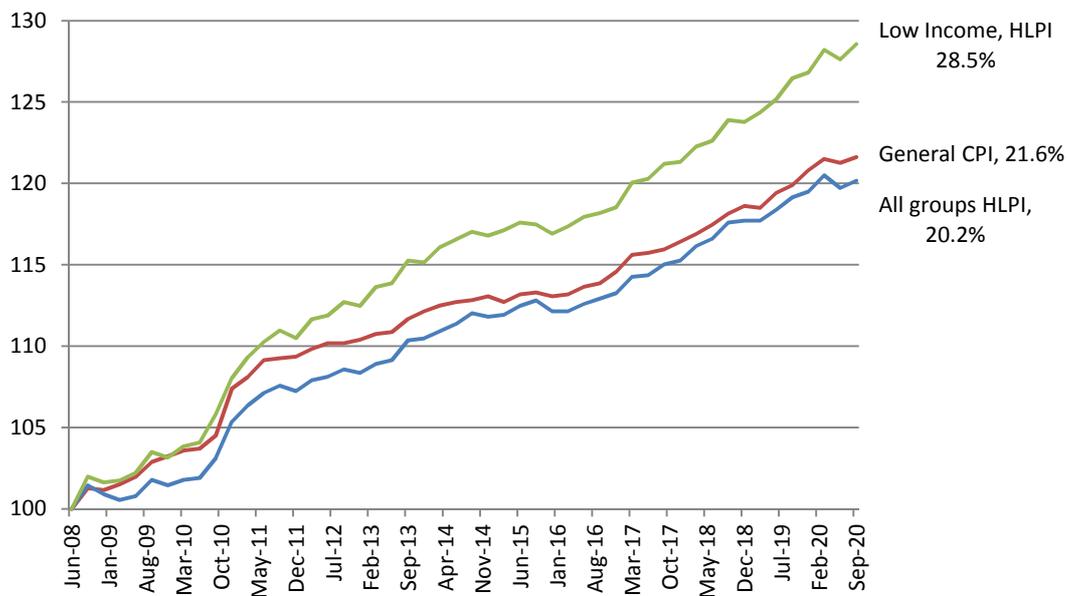
⁹¹ See for example, Guio, Anne-Catherine, Eric Marlier, Frank Vandenbroucke and Pim Verbunt (2020) *Micro- and macro-drivers of child deprivation in 31 European countries. 2020 edition*. Eurostat Statistical Working Papers

Chapter seven – Impacts on workers

Cost of living

167. The Consumer Price Index⁹² (CPI) and Household Living-Cost Price Indexes⁹³ (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. Between 2008 and 2020, the cumulative inflation experienced by low-income households was 28.5 per cent, compared to 20.2 per cent for all households generally and 20.2 per cent in the Consumer Price Index, as shown in Figure 23 below. In early 2020, the upward trend in price indices reversed, as the effects of COVID-19 reduced the costs of some consumer goods or services, but prices have since recovered.

Figure 23: Comparison of change in price indices (relative to June 2008)

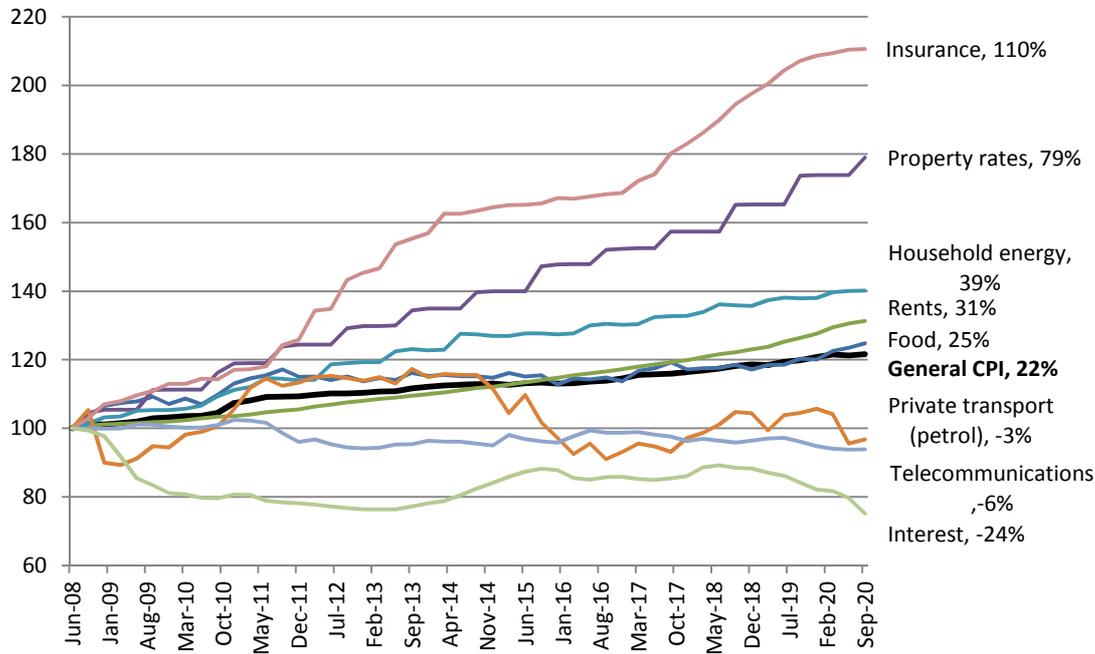


168. Since 2008, the biggest drivers of increases in the cost of living for low income households have been insurance, local authority property rates, household energy and rents (in that order), as shown in Figure 24 overleaf.
169. The higher cost of living increases experienced by low income households are primarily due to the fact that items such as rent and electricity account for a greater proportion of the expenditure of these households. 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 recent decreases in interest rates, as they are less likely to own their own home and have a mortgage.

⁹² 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.

⁹³ 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).

Figure 24: Price change in selected costs in comparison to general CPI (indexed to June 2008)



170. In the year to September 2020, the CPI rose 1.4 per cent.⁹⁴ Prices for alcohol and tobacco (up 5.1 per cent); food (up 3.7 per cent); and housing and household utilities (up 2.6 per cent) were the leading contributors to the annual increase in the CPI. The increase was influenced by higher prices for fruit and vegetables (up 15 per cent), tobacco (up 11 per cent), house rents (up 3.1 per cent), and restaurant and takeaway meals (up 3.8 per cent). These items also drove the September 2020 quarterly inflation increase of 0.7 per cent compared with June 2020. However, these increases were offset by lower annual prices for petrol and private transport supplies (down 7.3 per cent), communications (down 2.9 per cent) and clothing and footwear (down 1.2 per cent).

171. The LCI all salary and wage rates (including overtime) increased 1.9 per cent in the year to the September 2020 quarter. This was mainly driven by the public sector, which increased by 2.6 per cent, where increases in pay for police, prison officers, hospital staff, and teachers occurred due to previously agreed collective employment agreements. Private sector wages rose by 1.6 per cent over the year.

Impacts on minimum wage workers

The number and demographics of people affected

172. Of the 1,914,900 wage earners employed in New Zealand,⁹⁵ 3.0 per cent (57,700) are earning the minimum wage in 2020. The data on wage earners is from the June 2020

⁹⁴ Statistics New Zealand, Consumer price index: September 2020 quarter

⁹⁵ This number only includes wage and salary earners aged 16-64, and excludes workers aged 65 years and older, self-employed, and non-paid employees.

quarter Household Labour Force Survey (HLFS). In the year to June 2020, the data excluded the additional workers who reported working zero hours due to the COVID-19-related lockdowns whose jobs were supported by the Wage Subsidy during June 2020 quarter. As noted previously, it is estimated that there were 96,000 workers who reported zero hours but it is unclear how many of these workers would be on or near the minimum wage.

173. The following tables estimate the number of workers aged 16 to 64 who are likely to be affected by the minimum wage options. 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 12: Estimated affected adult workers (aged 18 to 64 years)

Option	18-64		18-19		20-24		25-64	
	%	Number	%	Number	%	Number	%	Number
\$18.90	2.7%	51,100	13.2%	7,700	6.6%	13,900	1.8%	29,500
\$19.15	5.1%	96,200	24.3%	14,200	13.5%	28,600	3.3%	53,300
\$19.50	6.6%	124,700	28.1%	16,400	16.5%	35,000	4.5%	73,200
\$20.00	8.7%	163,500	33.7%	19,700	21.9%	46,500	6.0%	97,300
\$21.00	14.1%	264,900	46.1%	26,900	31.5%	66,900	10.6%	171,000
\$22.10	21.6%	406,500	58.2%	34,000	44.9%	95,300	17.2%	277,100

174. Table 13 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 few young people are paid the starting-out wage.

Table 13: Estimated affected young workers (aged 16 to 17 years)

Option	Workers aged 16-17 paid adult minimum wage	
	%	Number
\$15.12 to \$18.90 (Workers aged 16-17 paid at starting-out wage (80% of adult minimum wage))	31.4%	10,000
At \$18.90	20.8%	6,600
\$18.90 to \$19.15	30.5%	9,700
\$18.90 to \$19.50	32.1%	10,200
\$18.90 to \$20.00	47.5%	15,100
\$18.90 to \$21.00	52.2%	16,600
\$18.90 to \$22.10	54.7%	17,400

175. Workers who are female, Māori, Pacific peoples, without formal qualifications, part-time employees, or working in the retail and hospitality industries are 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.
176. Table 14 below shows the proportion of minimum wage earners and total wage earners with certain demographic and job characteristics. The table shows, for example, that 65 per cent of minimum wage earners aged 16 to 24 are part-time workers compared with 16 per cent of all wage earners. Likewise, 35 per cent of minimum wage earners aged 16 to 24 years are studying compared with 13 per cent of all wage earners.

Table 14: Demographics of current minimum wage earners

Demographic	% of minimum wage earners			% of total wage earners
	16-24	25-64	16-64	16-64
Aged 16-24 years	100%	0%	49%	16%
Female	49%	64%	56%	50%
European/Pākehā	59%	45%	52%	62%
Māori	13%	17%	15%	13%
Pacific	8%	9%	9%	6%
Part-time	65%	44%	54%	16%
Studying	35%	10%	22%	13%
Total	28,100	29,500	57,700	1,914,900

Young people

177. Minimum wage increases have a greater 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 low 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 MW can incentivise young people to leave education and training and take up employment. So any disemployment effects may have 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.

178. 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. In the 2019 review, 55 per cent of those earning the minimum wage were between 16 and 24 years old. Table 14 shows the figure for the 2020 review is 49 per cent. The same age group only accounts for about 16 per cent of all workers. 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.
179. 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 per cent minimum wage increase for 16 and 17 year olds. However, that minimum wage increase reduced the proportion of 16 and 17 year olds in employment by between 3 and 6 per cent (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. This trend also supports the Alingaghi et al (2020) suggestion higher minimum wage rates may be encourage employers to substitute younger minimum wage workers for slightly older, higher paid workers.

Women

180. 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 low paid employment (for example, part-time and service sector jobs). Table 14 shows that 56 per cent of all minimum wage workers are women, and 64 per cent of minimum wage workers between 25 and 64 years are women. By comparison, 50 per cent of the total workforce is female. The percentage of minimum wage earners who are women has decreased since last year's review by 7 per cent for workers between the ages of 16 and 64 and by 9 per cent for workers between the ages of 25 and 64.

Māori and Pacific peoples

181. Māori are overrepresented among those in low paid jobs and more likely to be adversely affected compared to other ethnic groups by 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.⁹⁶ MBIE modelling finds that Māori represent approximately 13 per cent of total wage earners and 15 per cent of total minimum wage earners, which is 1 per cent lower than in the 2019 review and 2 per cent lower than in 2018.
182. Pacific peoples account for around 6 per cent of total wage earners and 9 per cent of total minimum wage earners, which is 3 per cent higher than in the 2019 review.

⁹⁶ Pacheco, G. (2011). Estimating Employment Impacts with Binding Minimum Wage Constraints. *The Economic Record*, 87(279), 587-602.

Part-time workers

183. Table 14 shows that 65 per cent of workers earning the minimum wage aged 16 to 24 years work part-time, while 44 per cent 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. They 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.
184. A survey by the former Department of Labour in 2012 found that some employers change their hiring practices in reaction to the changes to the minimum wage in line with the impacts above.⁹⁷ MBIE's 2018 consultation with workers also found that hiring practices change in line with the impacts above.

Students

185. Table 14 shows that 35 per cent of minimum wage workers aged 16 to 24 are in education compared to 13 per cent of the 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.
186. 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 (compared to older workers) and could therefore encourage them 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.
187. 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.⁹⁸
188. Modelling from last year's minimum wage review, when the proposed adult minimum wage was \$18.90 per hour, indicated that 33 per cent of minimum wage earners between the ages of 16 and 24 were students. This year's data suggests the same metric has increased to 35 per cent, under the new proposed adult minimum wage of \$20.00.

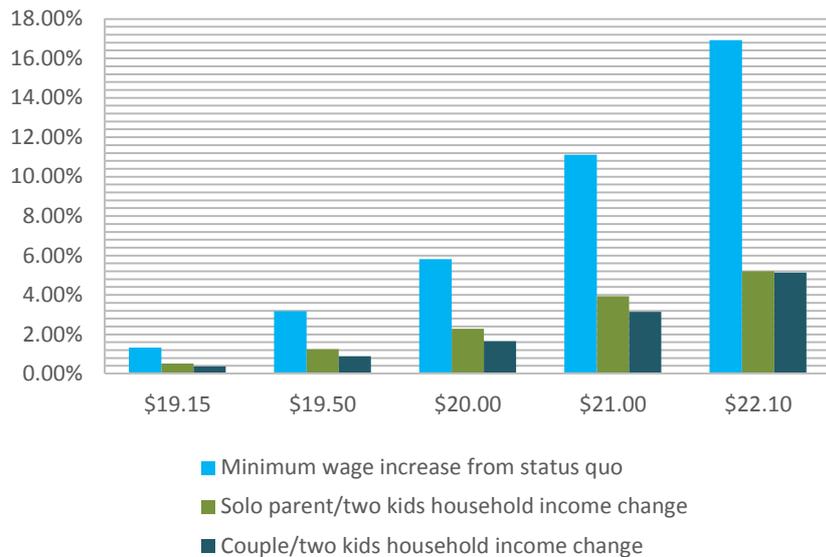
⁹⁷ Department of Labour. (2012). *Employers' attitudes and practice around the change to the minimum wage*.

⁹⁸ Hyslop and Stillman, (2011).

Families and interface with other government interventions

- 189. 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.
- 190. 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 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 government 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.
- 191. Figure 25 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, Whangārei 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 25: Increases in minimum wage compared to increases in household incomes



- 192. Tables 15 and 16 set out a summary of various scenarios that provide a clear illustration of the combined effect of a wage increase and the abatement of government assistance on household incomes. These scenarios indicate the net gain

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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 One.

Table 15: 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
\$18.90	Combined household net earnings	\$49,788.94	\$49,788.94	\$49,788.94
	Government transfers after abatements	\$20,570.00	\$12,172.00	\$13,030.00
	Total annual household earnings	\$70,358.94	\$61,960.94	\$62,818.94
	Per cent increase in annual earnings	Nil	Nil	Nil
\$19.15 (+1.32%)	Combined household net earnings	\$50,421.60	\$50,421.60	\$50,421.60
	Government transfers after abatements	\$20,180.00	\$11,782.00	\$12,640.00
	Total annual household earnings	\$70,601.60	\$62,203.60	\$63,061.60
	Per cent increase in annual earnings	0.34%	0.39%	0.39%
\$19.50 (+3.17%)	Combined household net earnings	\$51,307.32	\$51,307.32	\$51,307.32
	Government transfers after abatements	\$19,634.00	\$11,236.00	\$12,094.00
	Total annual household earnings	\$70,941.32	\$62,543.32	\$63,401.32
	Per cent increase in annual earnings	0.83%	0.94%	0.93%
\$20.00 (+5.82%)	Combined household net earnings	\$52,572.64	\$52,572.64	\$52,572.64
	Government transfers after abatements	\$18,854.00	\$10,456.00	\$11,314.00
	Total annual household earnings	\$71,426.64	\$63,028.64	\$63,886.64
	Per cent increase in annual earnings	1.52%	1.72%	1.70%
\$21.00 (+11.11%)	Combined household net earnings	\$55,103.27	\$55,103.27	\$55,103.27
	Government transfers after abatements	\$17,294.00	\$8,896.00	\$9,754.00
	Total annual household earnings	\$72,397.27	\$63,999.27	\$64,857.27
	Per cent increase in annual earnings	2.90%	3.29%	3.24%
\$22.10 (+16.93%)	Combined household net earnings	\$57,886.97	\$57,886.97	\$57,886.97
	Government transfers after abatements	\$15,578.00	\$7,830.00	\$8,038.00
	Total annual household earnings	\$73,464.97	\$65,716.97	\$65,924.97
	Per cent increase in annual earnings	4.41%	6.06%	4.94%

Table 16: 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
\$18.90	Combined household net earnings	\$32,865.96	\$32,865.96	\$32,865.96
	Government transfers after abatements	\$28,563.00	\$20,638.32	\$21,023.00
	Total annual household earnings	\$61,428.96	\$53,504.16	\$53,888.96
	Per cent increase in annual earnings	Nil	Nil	Nil
\$19.15 (+1.32%)	Combined household net earnings	\$33,287.74	\$33,287.74	\$33,287.74
	Government transfers after abatements	\$28,433.00	\$20,508.20	\$20,893.00
	Total annual household earnings	\$61,720.74	\$53,795.94	\$54,180.74
	Per cent increase in annual earnings	0.47%	0.55%	0.54%
\$19.50 (+3.17%)	Combined household net earnings	\$33,878.22	\$33,878.22	\$33,878.22
	Government transfers after abatements	\$28,251.00	\$20,326.20	\$20,711.00
	Total annual household earnings	\$62,129.22	\$54,204.42	\$54,589.22
	Per cent increase in annual earnings	1.14%	1.31%	1.30%
\$20.00 (+5.82%)	Combined household net earnings	\$34,721.76	\$34,721.76	\$34,721.76
	Government transfers after abatements	\$27,991.00	\$20,066.20	\$20,451.00
	Total annual household earnings	\$62,712.76	\$54,787.96	\$55,172.76
	Per cent increase in annual earnings	2.09%	2.40%	2.38%
\$21.00 (+11.11%)	Combined household net earnings	\$36,408.85	\$36,408.85	\$36,408.85
	Government transfers after abatements	\$27,226.00	\$19,301.20	\$19,686.00
	Total annual household earnings	\$63,634.85	\$55,710.05	\$56,094.85
	Per cent increase in annual earnings	3.59%	4.12%	4.09%
\$22.10 (+16.93%)	Combined household net earnings	\$38,264.64	\$38,264.64	\$38,264.64
	Government transfers after abatements	\$26,082.00	\$18,157.20	\$18,542.00
	Total annual household earnings	\$64,346.64	\$56,421.84	\$56,806.64
	Per cent increase in annual earnings	4.75%	5.45%	5.41%

Feedback from the New Zealand Council of Trade Unions (NZCTU)

193. Each year, the Minister invites the New Zealand Council of Trade Unions (NZCTU) to provide a submission on the minimum wage review. The NZCTU referred to their 2019 and 2015 submissions.

194. The NZCTU recommends increasing the minimum wage from 1 April 2021 to \$22.29 per hour, which is two-thirds (66 per cent) of the forecast average ordinary time wage.⁹⁹ Alternatively, in declining order of preference, they suggest the minimum wage could, ideally, be set at the current Living Wage (\$22.10) or the currently signalled rate of \$20.00 per hour, both to come into effect on 1 April 2021.

195. The NZCTU notes that increasing the rate to these levels:

- explicitly values the work of those who are paid the least, including many of the essential workers under Alert level 4, noting that the current disconnect between value and pay is not sustainable and women are disproportionately represented among minimum wage workers
- provides a structural wage floor for the labour market as a whole and helps address the leftward skew of the wage and salary distribution, where 65-57 per cent of employees have earned below the average hourly wage since 1998. It argues that a regulated minimum wage is the only mechanism available to Government to enable workers to share in the benefits of increased productivity and is the mechanism that ensures less poverty in working households than in those without paid work
- does not necessarily increase unemployment and to the extent it does, the Government should invest in areas that support job creation in areas that support high quality, skilled, well paid jobs that move us to a zero carbon future. It would also like to see an acceleration of active labour market policies to match people with the jobs that do exist and use creative ways, such as increasing eligibility and length of paid parental leave, to temporarily reduce labour supply.
- promotes productivity and provides incentives for businesses to innovate and invest in capital.

196. The NZCTU considers that:

- The minimum wage must be increased significantly as New Zealand workers have low wages compared to other developed countries, which limits New Zealand's ability to attract or retain skilled workers.
- The minimum wage encourages employers to invest in productivity, which needs to increase to sustain higher wages and address the gap between

⁹⁹ This is estimated from the average wage at March 2020 (\$33.14) increased by Treasury's PREFU forecast of 0.9 per cent in average ordinary time hourly wage in the year to June 2021.

growth in real wages and labour productivity that has been widening since 2009.

- There is a need to ensure productivity is passed on to workers in their wages (and that this has not been the case in recent years), advocating for increased collective bargaining to ensure low and middle income earners benefit from rising wages and strongly supporting the implementation of Fair Pay Agreements to achieve this.
- Low wages are a barrier to economic development and productivity, as well as being a social issue. It notes that the public subsidises poor remuneration and productivity through wage subsidies such as Working for Families.
- Minimum wage increases address the needs of low income workers, reduces inequality and poverty, and increases labour participation rates.

197. The NZCTU also made the following points:

- That unemployment and labour underutilisation is increasing post-COVID, but this is due to the impact of the border closures and the pandemic's effect on the economies of our trading partners rather than any current or signalled increase in the minimum wage.
- The Government is providing significant support to businesses through low interest loans, enhanced tax settings and the wage subsidy.
- Employers have had time to prepare and plan for changes to the minimum wage – the changes have been signalled for three years.
- The CTU strongly supports an increase in either (or both) abatement thresholds or abatement rates for Working for Families and the Accommodation Supplement, acknowledging that for some minimum wage workers, any increase in the minimum wage will be clawed back at a rate of between 42.5% and 79.5%.
- A minimum wage increase will be fiscally positive for the Government because the Government has already agreed to pay all directly engaged and contractors in the Public Sector a Living Wage. Additionally, any increase in the pay of minimum wage recipients will be returned to Government at a rate of between 17.5% and 79.5% depending on whether the person concerned receives Working for Families, the Accommodation Supplement or has a student loan.
- Fair Pay Agreements, more widespread collective bargaining, the rollout of the Living Wage to contractors to the Government, and the rise of pay equity claims may mean that in the future, the minimum wage may no longer be as structurally important as a wage floor. However, the NZCTU considers New Zealand is still many years away from this being the case.

- In a recent BusinessNZ survey, 61% of businesses indicated that they were prepared to pay a Living Wage as a minimum in their business in the near future (the survey sample was small with just under 1,100 businesses responding).
- A 5.8% increase to the lowest paid workers will help the Reserve Bank resist deflationary pressures.

Feedback from worker representatives

198. As part of this year’s expanded review process, MBIE engaged in consultation with additional employee representatives and those that provided submissions and feedback are listed in **Annex Two**.
199. These submitters 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. They expressed that the cycle of low-skilled, low paid jobs creates a poverty cycle, and that minimum wage increases are a key means of lifting household incomes and helping to reduce poverty and inequality. It was noted that an increase would contribute to reducing gender and ethnic pay inequalities.
200. Submitters expressed support for the minimum wage increases over the previous years, noting that “workers on the minimum wage have seen real growth in their hourly earnings since 2017”. They noted that the positive effects include:
- Providing a wage floor and lifting household incomes that help to reduce poverty and inequality
 - More money circulating in the economy
 - Higher productivity
 - Provide incentives for businesses to innovate and invest in capital
 - Shows that “essential workers” are valued.

Effects of COVID-19 on workers

201. Submitters identified that the COVID-19 lockdown amplified experiences of poverty and hardship among low wage earners. People on low incomes had limited ability to stock up on food, were unable to travel to a food bank to receive support, and were dependent on support from government and community-based social services. The Salvation Army noted that there is “a whole group of people seeking help who were just getting by but who now need help.”
202. They noted that COVID-19 has resulted in many workers losing their jobs. The Salvation Army noted that young people, Māori, women, and specific regions like Northland and sectors like hospitality and retail have been most impacted.

Minimum wage rates

203. All submissions supported an increase in the minimum wage in 2021, with one suggesting increasing the rate to \$20.00 and two suggesting the minimum wage should be the Living Wage, \$22.10 per hour.

Minimum wage rates in future

204. Worker representatives had suggestions for how the process for setting the minimum wage rates could be altered in the future. For example, E tū suggested that the minimum wage rate decisions should be linked to 2/3rds of the average hourly rate, rather than made annually by the Minister, and that there should be no decrease in the rate should the average wage reduce.
205. The New Zealand Council of Christian Social Services suggested indexing the minimum wage rate to the Consumer Price Index (CPI) or that the minimum wage should be based on an evidence-based calculation which takes into account the actual cost of living, such as the Living Wage calculation.

Other suggestions

206. The Salvation Army noted that the Government needs to increase training skills, productivity and should fund and contract for work in such a way that allows organisations to be good employers and pay fair wage rates.
207. The PSA suggested that the Government needs to move with speed to sufficiently resource and support the resolution of outstanding equal pay claims within the State services, and to enhance employment legislation to ensure working people have access to union membership and fair collective bargaining processes.

MBIE comment on submissions by worker representative organisations

208. MBIE has assessed the NZCTU’s proposals to increase the minimum wage to \$22.29, \$22.10 and \$20.00 per hour. The impacts of these proposals are outlined in Table 17 below.

Table 17: Assessment of NZCTU's proposals for the minimum wage (rounded)

Option	Workers affected	Restraint on employment (16-64 year olds)¹⁰⁰	Inflationary impact (%)	Annual increase in wage (\$m)
\$22.29	432,000	-31,500	0.5%	1,365
\$22.10	424,000	-29,500	0.4%	1,232
\$20.00	175,500	-9,000	0.1%	216

209. The CTU’s \$22.10 and \$22.29 rate options would substantially increase the real incomes of low-paid workers. However, both these options are estimated to place significant restraint on employment growth, which Treasury forecasts to be negative (-

¹⁰⁰ This column is rounded to the nearest 500s.

3.2 per cent) in the year to June 2021 with a low-level recovery (+1.2 per cent) in the year to June 2022. These options will also result in substantial increases in wage costs for employers and, given the uncertainty in the economy and difficult trading conditions, increases the risk that low-paid workers become unemployed as employers focus on survival and recovery.

210. We consider that the inflationary impacts of these options of 0.4 per cent and 0.5 per cent, respectively, are likely to be negligible in the current low interest rate environment when assessed alongside the other pressures on the economy. As the NZCTU points out, these may assist meet the Reserve Banks inflation targets. However, this benefit is likely to be outweighed by the additional labour costs imposed on employers and employment. However, a \$20.00 minimum wage would increase the real incomes of low-paid workers and have much lower impacts on employment and employer wage costs. This also aligns with the Government's indicative rate.
211. As noted previously in this report, most academic literature uses the median wage as a point of reference for minimum wage setting as it is a more neutral measure of tendency and more reflective of the broader economic situation than the average wage. The median wage is not affected either by changes in the minimum wage or movement at the top end of the wage distribution whereas the average is affected by extreme salaries or wages at either end of the wage distribution, particularly movements in high-earner incomes.

Chapter Eight – Impacts on employers

212. Changes to the level of the minimum wage can affect not just those receiving the minimum wage but also those who are paid close to it. When the minimum wage increases, some employers increase the wages of workers paid above the minimum wage to maintain wage relativity to the minimum wage. The flow-on effect is also considered to be a consequence of employers benchmarking wage increases to the minimum wage, as regular increases to the minimum wage rate can be useful starting point for their initial wage-setting.

Impact on sectors

213. The impact of a minimum wage increase on each sector depends on the number of employees earning the minimum wage and close to it in those sectors. In New Zealand (and in many countries), employers in the hospitality, retail, and manufacturing sectors are more likely to have staff paid at, or close to the minimum wage than employers in the professional/technical services, and health industries.
214. Table 18 provides an overview of the number of minimum wage earners in different sectors. The retail and hospitality sectors have the greatest number of minimum wage earners in 2020 with 15,600 and 12,500 employees, respectively (more than 8 and 13 per cent of workers). The corresponding figures in 2019 were 20,800 and 23,300, respectively. Other sectors with a high number of minimum wage earners are manufacturing (4,700 in 2020 vs 7,700 in 2019), health (3,800 vs 4,700) and administrative services (2,900 vs 5,700). MBIE considers that part of the reductions noted above in the numbers of minimum wage workers reflects, in part, the higher number of employees reporting zero hours worked in the June 2020 quarter in this year's survey due to the COVID-19 lockdowns. Figures 6 and 7 in this report show the number of jobs supported in each sector through the Wage Subsidy Scheme and Wage Subsidy Extension.

Table 18: Minimum wage workers by sector

Sector	Workers		Working Hours	Worker Earnings
	% of total workers on the minimum wage	Number of minimum wage workers	% of total hours worked by minimum wage workers	% of total earnings by minimum wage workers
Hospitality	13.2%	12,500	9.2%	7.5%
Retail	8.2%	15,600	6.0%	4.5%
Administrative Services	5.2%	2,900	4.0%	2.5%
Arts and Recreation	4.2%	1,300	1.9%	1.2%
Other Services	3.2%	2,400	2.8%	1.8%
Wholesale	2.6%	2,200	2.4%	1.4%

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Manufacturing	2.4%	4,700	2.0%	1.2%
Transport and Storage	2.2%	1,800	1.7%	1.0%
Agriculture	2.2%	1,600	1.5%	1.0%
Health	1.6%	3,800	1.1%	0.6%
Construction	1.6%	2,600	1.4%	0.8%
Education	1.2%	2,000	0.4%	0.3%
Public Administration	1.1%	1,700	1.0%	0.5%
Professional Services	0.7%	1,100	0.4%	0.2%
Real Estate	S ¹⁰¹	S	1.9%	1.0%
Utilities	S	S	S	S
Information and Telecommunications	S	S	S	S
Finance	S	S	S	S
Mining	S	S	S	S
Total	3.0%	57,700	2.0%	1.1%

Impact on regions

215. 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 19 overleaf 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.
216. 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 the Manawatū-Whanganui region has a higher proportion of workers earning the current minimum wage than other regions, making up 5.0 per cent of all workers. Other regions with a high number of minimum wage earners include Otago (3.9 per cent), Nelson/Tasman/Marlborough/ West Coast (3.6 per cent), Taranaki (3.3 per cent) and Bay of Plenty (3.3 per cent).
217. As the minimum wage increases capturing more worker on higher wage levels, so does the proportion of workers in each region who are captured by the minimum wage. An important point to note is that the percentage of workers who earn the minimum wage tends to re-equalise to 3 – 4 per cent (nationally) as other wages change. So the percentage of the total workforce earning the minimum wage at higher rates regionally (e.g. 23.3 per cent of workers in Northland for the \$22.10 option shown overleaf) is unlikely to eventuate in reality.

¹⁰¹ S represents a number that is suppressed due to a cell value that is lower than 1,000.

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Table 19: Number of minimum wage workers in each region (and as a percentage of all workers in each region)

Options	Northland	Auckland	Waikato	Bay of Plenty	Gisborne/ Hawke's Bay	Taranaki	Manawatū- Whanganui	Wellington	Nelson/Tasman/ Marlborough/ West Coast	Canterbury	Otago	Southland
\$18.90 (Status quo)	1,800 (2.9%)	16,100 (2.4%)	4,500 (2.4%)	4,200 (3.3%)	2,500 (2.9%)	1,600 (3.3%)	5,200 (5.0%)	6,800 (2.8%)	2,700 (3.6%)	7,000 (2.6%)	4,000 (3.9%)	1,300 (3.1%)
\$19.15	3,000 (4.8%)	31,600 (4.6%)	9,400 (5.0%)	7,800 (6.2%)	4,000 (4.7%)	3,100 (6.4%)	8,200 (7.9%)	11,700 (4.8%)	4,700 (6.3%)	13,400 (5.0%)	6,500 (6.4%)	2,600 (6.1%)
\$19.50	3,700 (5.9%)	38,900 (5.7%)	13,000 (6.9%)	9,600 (7.6%)	5,500 (6.4%)	3,400 (7.0%)	10,500 (10.2%)	14,700 (6.0%)	5,900 (7.8%)	17,700 (6.6%)	8,400 (8.2%)	3,500 (8.3%)
\$20.00	5,400 (8.6%)	51,400 (7.5%)	18,000 (9.5%)	12,300 (9.7%)	7,800 (9.1%)	4,300 (8.8%)	12,600 (12.2%)	18,900 (7.7%)	7,400 (9.8%)	23,800 (8.9%)	9,500 (9.3%)	4,000 (9.5%)
\$21.00	9,400 (15.0%)	83,800 (12.2%)	28,500 (15.1%)	19,700 (15.6%)	12,300 (14.3%)	8,000 (16.4%)	18,600 (18.0%)	28,700 (11.7%)	13,500 (18.0%)	36,200 (13.6%)	15,900 (15.6%)	6,300 (14.9%)
\$22.10	14,600 (23.3%)	126,600 (18.5%)	42,200 (22.3%)	28,600 (22.6%)	20,100 (23.4%)	11,500 (23.6%)	27,600 (26.7%)	41,500 (16.9%)	18,700 (24.9%)	55,800 (20.9%)	26,800 (26.3%)	10,000 (23.6%)

Feedback from BusinessNZ

218. BusinessNZ was invited by the Minister for Workplace Relations and Safety to provide a submission on the 2020 minimum wage review. Business NZ's submissions repeated arguments made in previous years. However, they noted that the effects of minimum wage increases highlighted in their submission would now be multiplied by the recessionary consequences of COVID-19.
219. BusinessNZ submitted that a moratorium should be placed on minimum wage increases at least until COVID-19-related restrictions are removed from international travel and trade and preferably until New Zealand is out of recession. They noted that increasing the minimum wage now, when economic conditions are only predicted to get worse, will deepen future recessionary impacts.
220. BusinessNZ made the following comments regarding the effects of an increase to the minimum wage:
- Increased costs that are not offset by increased productivity typically flow through into increased prices or, if the market cannot sustain higher prices, cost cutting, including job losses.
 - Many business owners respond to minimum wage increases by cutting the hours of staff and not taking on new staff.
 - Job losses disproportionately affect the young, marginalised groups and those who are least skilled and educated. Submissions from other employers supported this.
 - Minimum wage increases reduce job and training opportunities for youth.
 - Minimum wage increases have sped up the shift of food manufacturing offshore, and incentivise automation in some sectors (e.g. horticulture), resulting in less jobs.
 - Minimum wage increases do not boost productivity.
 - Minimum wage increases make it difficult for businesses to maintain pay relativities between workers who are paid the minimum wage, and those who receive higher pay. This results in difficulties recruiting senior staff.
 - As the minimum wage rate rises so does the number of people paid the minimum wage, which drives more workers to the lowest end of the wage spectrum.
221. Regarding the way the minimum wage rates should be set in the future, BusinessNZ considers that:
- The approach to the minimum wage should be moved away from a rate per hour to a requirement that a worker's average wage not fall below the minimum wage set by the Act.

- There should be a review of the role and effect of the minimum wage, given the diverse and dynamic working conditions today, in particular the impacts of COVID-19, which differ from when the minimum wage was first implemented in 1945.
 - Account should also be taken of the effects of the Working for Families Scheme and other transfer payments on the incomes of those on the minimum wage.
 - The minimum wage should be set as a percentage of the median wage.
 - Future increases to the minimum wage should be no greater than inflation.
222. BusinessNZ submitted that the Government should continue to emphasise the need for increased access to training and employment opportunities, particularly for young people. They suggested the Government consider the use of tax cuts, rather than increases in minimum wage rates, as a more effective way of increasing real wages for low-paid workers.

Feedback from employers

223. As part of this year's expanded review process, MBIE focused on consulting with organisations representing businesses who employ a high proportion of minimum wage workers and who may have been disproportionately affected by the COVID-19 pandemic. Employers and employers representatives that provided submissions and feedback are listed in **Annex Two**.

Effects of COVID-19

224. Submitters noted that the COVID-19 lockdowns have placed considerable financial pressure on employers. Submitters expressed that it was "extremely disappointing to see an increase in the minimum wage during the pandemic."¹⁰² Many businesses could not operate during Alert Level 4, and are facing extra costs as a result of COVID-19 alert level rule compliance. Costs include elevated expenditure on personal protective equipment (PPE), perspex screens, increases in absence due to sick leave, extra cleaning, the single server requirement and single use items.
225. Employer organisations submitted that the effects of COVID-19 are resulting in job losses and business closures. The New Zealand Restaurant Association reports that "at the height of COVID-19, 57 per cent of our members were considering closing their businesses permanently." The Restaurant Association also notes that they had "84 redundancies and five business closures within [their] membership in the month of September alone, and expect this number to continue to grow in the coming months."

Effects of minimum wage increase

226. Many employers noted that minimum wage increases are resulting in significantly increased costs for their businesses, which makes contracts unprofitable in low margin

¹⁰² New Zealand Restaurant Association

industries. Employers noted that compliance costs are increasing. Many are worried about the cumulative effects of a minimum wage increase, increased sick leave and an additional public holiday during a time when they are “struggling to survive.”¹⁰³

227. Submitters remarked on increased pressure to raise wages of workers who are earning above the minimum wage. The Small Business Advisors said there is a strong expectation within small businesses that wages will rise proportionately with the minimum wage increase.
228. Employers note it is becoming increasingly difficult to pass on costs to customers, particularly in a COVID-19 climate. One submitter notes that “a consumer would not stomach a 6% increase on the price of their meal out.” The NZ Aged Care Association notes that aged residential care providers “are not able to set the price they charge their residents, so cannot recoup cost increases by raising prices.”
229. Employers note that increased costs result in contracting out roles, or contracts going to tender and encourage a “race to the bottom in the industry.” Others note that it encourages employers to shift to paying piece rates or unethical employment practices.
230. Some submitters note that minimum wage increases have no significant effect on the recruitment and retention of workers. However, some employers say that minimum wage increases result in higher morale and lower staff turnover.
231. Employers say that businesses will be financially restrained from investing in research and development to increase productivity, adapt to climate change, and develop in order to remain internationally competitive.

Submitters’ suggestions on what the minimum wage should be in 2020, and on how minimum wages should be set in the future

232. Employers echoed BusinessNZ’s submission that minimum wage increases should be put on hold until after New Zealand has recovered from COVID-19 or until international travel restrictions are lifted. One suggests that the minimum wage increase to \$20.00 should be spread over the next two years. One submitter said:

“if [the minimum wage increase] is done in the next 6-12 months, it’s very hard for the government to say ‘we’re doing everything we can to help business. Delaying the increase would go a long way.”

233. Submitters suggest in the future, the minimum wage should consider broader aspects of worker pay, such as overtime, piece rates, training and career opportunities and the skills of new workers entering the industry. Some employers suggest that the Government should index the minimum wage to the CPI. Some employers suggest sector-specific minimum wages, for example a lower minimum wage for sectors like retail.

¹⁰³ Export/manufacturing NZ

234. Submitters also made the following suggestions:

- reduce tax rates for businesses
- relax immigration controls
- reduce red tape for businesses
- cancel or defer other planned changes to employment law (e.g. the increase in sick leave, extra public holiday)
- lower the lowest tax rate or provide additional social security support
- provide cash injections for businesses who cannot afford to pay the minimum wage
- adjust benefit threshold rates
- remove secondary tax for workers where the industry supports the multiple employer scenario
- increase training and skills
- provide tax incentives for innovation and increased productivity.

235. Employer representatives also requested that any changes in the minimum wage rates are announced early in order to give employers time to prepare.

MBIE comment on employer submissions

236. MBIE has considered the submissions from BusinessNZ and other organisations representing employers as part of its review of the minimum wage.

237. MBIE acknowledges that BusinessNZ's proposal for a short-term moratorium to be placed on minimum wage increases would help support businesses and other employers from the recessionary impacts of the COVID-19 pandemic. MBIE's recommendation to defer an increase to 1 October 2021 reflects this proposal. However, if such a moratorium applied for too long, 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.

238. BusinessNZ submitted that as the minimum wage rate increases, so too do the number of people that are paid the minimum wage. MBIE uses a range of evidence in the minimum wage model to estimate the number of people that are paid the minimum wage. There has not been any evidence in recent years that the number of minimum wage earners has significantly increased (Table 20), although the latter does not take into account pay parity adjustments. It is also possible that large increases over a short period of time could increase the proportion of workers earning the minimum wage, at least temporarily.

Table 20: Number of people paid the minimum wage from past reviews

Review year	Number of people paid the minimum wage	% of total workers
2012	84,800	3.8%
2013	54,600	2.4%
2014	62,700	2.7%
2015	74,900	3.2%
2016	73,300	2.9%
2017	76,400	3.9%
2018	71,500	3.5%
2019	85,400	4.2%
2020	57,700	3.0%

239. BusinessNZ also noted that minimum wage increases reduce job opportunities for youth. MBIE appreciates that minimum wage increases have a greater impact on young people. 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 having difficulty finding employment over the long-term.
240. According to the 2019 review, 55 per cent of individuals earning the minimum wage were between 16 and 24 years old, with the percentile decreasing to 49 per cent according to the latest data. In 2020, the individuals between 16 and 64 years of age account for only 16 per cent of all workers who are earning the minimum wage, down from 17 per cent in 2019.
241. Employers made suggestions on the way the minimum wage rates could be calculated in the future, including permanently CPI-indexing the minimum wage review, and creating different minimum wage rates for different sectors. These points are not within scope of the current review, but will be considered if the minimum wage policy is reviewed more broadly in the future.

Chapter Nine – Impacts on government

243. Increases to the minimum wage are expected to have direct and indirect fiscal impacts for some government agencies. This section summarises these estimated impacts.
244. The Ministry of Social Development, Accident Compensation Corporation, Ministry of Education, New Zealand Defence Force, Oranga Tamariki, Ministry of Health and Inland Revenue 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.
245. In addition, MBIE canvassed over thirty Public Service and Non-Public Service Departments to learn whether the published indicative minimum wage increase (\$20.00 in 2021) is expected to have a direct material impact, or an impact on departments under their oversight. Most of the agencies reported no material impact from anticipated increases to direct costs since their remuneration rates are currently above the minimum wage. However, a number of agencies did raise the possibility of budgetary impacts as a result of the likely need to make pay relativity adjustments.
246. Likewise, a number of agencies projected no fiscal pressures from payments to service contractors, while others reported that their ability to fund those contracts could be impacted as a result of minimum wage increases.
247. The Ministry of Social Development, Accident Compensation Corporation, Ministry of Education, New Zealand Defence Force, Oranga Tamariki and the Ministry of Health indicated that minimum wage increases are likely to have an impact. A breakdown of these estimates by agency is provided below.¹⁰⁴ For these agencies, total annual costs directly related to a minimum wage increase are estimated to be (in millions):
- Option 1 (\$18.90): \$0
 - Option 2 (\$19.15): \$9.3 million
 - Option 3 (\$19.50): \$28.6 million
 - Option 4 (\$20.00): \$49.9 million
 - Option 5 (\$21.00): \$110 million
 - Option 6 (\$22.10): \$206 million

Ministry of Health

248. The Ministry of Health (MoH) identified that their lowest paid staff are on an hourly rate of \$23.38 so there would be no direct workforce cost implications for the Ministry.
249. There are three main areas in the health sector where a minimum wage increase is likely to have a substantial fiscal impact:

¹⁰⁴ These figures are subject to their own assumptions and caveats based on the individual methodologies used by each agency.

- **Direct workforce costs for District Health Boards (DHBs).** Direct workforce costs are limited to staff who have contracted hours. Staff who are covered by individual employment agreements are unlikely to be affected by the rate options since only a small number are employed at the proposed minimum wage levels. The data excludes costs associated with leave, KiwiSaver, and ACC levies.
- **Increased funding costs for increased wages for third party employers.** A number of private sector organisations provide services that are funded through either DHB or Ministry provider contracts. Support workers make up the majority of the workforce within these organisations and are often paid at rates only slightly higher than the minimum wage. Any increase to the minimum wage is likely to result in additional costs to these organisations and indirect funding implications through any resulting increase in the contract rates and requirements under the Care and Support Worker (Pay Equity) Settlement Act 2017.
- **Costs relating to in-between travel and sleepover wages.** The Government is required to pay some workers for travel between clients and sleeping overnight at their workplace while on duty. These settlements apply to some providers of health-related services.

250. The Ministry advises that the majority of the minimum wage options would have relatively minor direct fiscal implications for DHBs, with the exception of an increase to \$22.10. However, it advises that there would be significant increased costs for funding of third party employers, and in-between travel and sleepover wages.

251. The total cost implications for each option are summarised in Table 21.

Table 21: Indicative increased costs for the Ministry of Health

Option	DHB direct wage costs (\$)	Funding for third-party employers (\$)	In-between travel and sleepover wages (\$)	Estimated total increase costs for health sector (\$)
\$18.90	-	-	-	-
\$19.15	18,931	2,030,000	2,440,000	4,488,931
\$19.50	158,468	10,670,000	5,840,000	16,668,468
\$20.00	433,985	15,650,000	10,740,000	26,823,985
\$21.00	1,489,290	43,760,000	20,510,000	65,759,290
\$22.10	3,812,512	94,470,000	31,250,000	129,532,512

Accident Compensation Corporation

252. The Accident Compensation Corporation (ACC) advises that minimum wage increases up to \$22.10 would not have any direct staffing costs. However, increases up to this point are expected to have an impact on funding for third-party employers and weekly

compensation reports. The estimated costs associated with each option are outlined below.

Table 22: Indicative increased costs for the Accident Compensation Corporation

Option	Funding for third-party employers (\$)	Weekly compensation costs (\$)	Total (\$)
\$18.90	-	-	-
\$19.15	2,345,747	2,000,000	4,345,747
\$19.50	5,629,793	5,000,000	10,629,793
\$20.00	10,321,287	10,000,000	20,321,287
\$21.00	19,704,276	18,000,000	37,704,276
\$22.10	30,025,563	28,000,000	58,025,563

253. 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 outstanding claims liability (OCL) is an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims. For the indicative rate of \$20.00, ACC estimates an OCL impact of \$80 million.
254. 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. The estimated impacts associated with each option are outlined in Table 23.

Table 23: Anticipated cost impacts to ACC's OCL

Option	OCL impact – funded support services (\$)	OCL impact – weekly compensation costs (\$)
\$18.90	-	-
\$19.15	-	10,000,000
\$19.50	-	20,000,000
\$20.00	30,000,000	50,000,000
\$21.00	230,000,000	160,000,000
\$22.10	450,000,000	290,000,000

255. Levies for the 2021/22 period have been maintained with the next levy consultation expected to occur in 2021. The Non-Earners' Account appropriation for 2020/21 has already been set. Additional funding requirements would need to be included in the forecast costs for the 2021/22 year and outyears. The additional funding required is set out in Table 24 overleaf.

Table 24: Anticipated additional funding required for ACC

Option	Additional funding required (\$)
\$18.90	-
\$19.15	1,000,000
\$19.50	4,000,000
\$20.00	10,000,000
\$21.00	29,000,000
\$22.10	50,000,000

256. ACC identified one potential flow-on impact of delaying the increase to 1 October 2021. Part of the weekly compensation impact on ACC of increases in the minimum wage is the increase in ACC’s minimum weekly compensation entitlements, which are payments to low or potential earners (claimants injured before the age of 18). ACC calculates compensation for these claimants based on minimum wage as at 1 July each year. This normally results in a delay in increases in compensation resulting from minimum wage from March to July. However, with a 1 October 2021 implementation, increases in compensation for these clients won’t be implemented until 1 July 2022. This impacts claimants on low fixed incomes and is an existing source of dissatisfaction (with the current 3 month delay), which may be exacerbated by a longer delay.

Ministry of Social Development

257. 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. All 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.

258. 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). Confidential advice to Government

259. Home Help is a component of the Special Circumstance Assistance 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 Confidential advice to Government The largest option (Option 5) would add about 17% to Home Help, but a far smaller 3% to the current Special Circumstance Assistance appropriation. Confidential advice to Government

260. The expected cost increase for MSD from different wage options are outlined in Table 25 below, which shows the impact on MSD Home Help spending compared to the assumptions made at PREFU 20 (that minimum wage will remain at \$18.90 in April 2021). In each case the April 2021 minimum wage is set as shown for each option and then no further changes assumed.

Table 25: Indicative increased costs for MSD’s Home Help Programme (\$ actual)

Option	2020/21, 3 months from Apr 2021	2021/22	2022/23	2023/24	2024/25
\$18.90	-	-	-	-	-
\$19.15	6,000	27,000	27,000	27,000	27,000
\$19.50	16,000	65,000	66,000	66,000	66,000
\$20.00	29,000	120,000	121,000	121,000	121,000
\$21.00	55,000	229,000	231,000	231,000	231,000
\$22.10	83,000	349,000	352,000	352,000	352,000

Ministry of Education

261. In the education sector, a large number support staff (ground staff, caretakers, cleaners, support staff and untrained teachers) are low paid. Support staff are paid from individual schools’ operating grants, which means that marginal costs resulting from increases to the minimum wage would largely need to be met by Boards of Trustees from school operational funding. Increases to school operational funding is part of the annual Budget process. The level of increase to minimum wage rates would add a cost pressure for Boards, dependant on the level of future increases to school operational funding.
262. The Ministry of Education reports that the figures in Table 26 overleaf are likely to be affected by collective bargaining negotiations for non-teaching staff and forthcoming pay equity settlement negotiations. The costs reflect that the Ministry has moved to a minimum collective agreement rate of \$21.15 per hour in most of its collective agreements so only those who are employed under an IEA based on the terms and conditions of an expired collective agreement should be paid below \$19.15 per hour.
263. The Ministry of Education noted that an increase in the minimum wage rate to \$22.10 per hour would exceed the minimum pay rates in the non-teaching employment agreements. As salary costs for non-teaching staff are met by schools, such an increase to the minimum rate would be a cost pressure for school funding. It is estimated that the additional salary cost, assuming all non-teaching staff are being paid on the employment agreements’ minimum pay rates, would be approximately \$6.5m per annum across the schooling network.

Table 26: Indicative increased costs for the Ministry of Education

Option	Estimated total increased cost for the Ministry of Education (\$)
\$18.90	-
\$19.15	285,000
\$19.50	696,000
\$20.00	1,356,000
\$21.00	3,005,000
\$22.10	10,998,000

Oranga Tamariki

264. Oranga Tamariki advises that the proposed minimum wage options are not expected to have a marginal impact on workforce costs, as all of its direct employees are paid above these rates. All marginal costs relate to increased funding and procurement costs from increased wages for third party employers delivering social services (eg counselling, social welfare, youth and community services). Table 27 shows the predicted marginal costs to Oranga Tamariki as a result of different minimum wage increases.

Table 27: Indicative increased costs for Oranga Tamariki

Option	Estimated total increased cost for Oranga Tamariki (\$)
\$18.90	-
\$19.15	37,440
\$19.50	195,000
\$20.00	631,000
\$21.00	2,254,000
\$22.10	5,192,000

Inland Revenue

265. Inland Revenue advised that the direct fiscal impacts to them would be negligible, and that the impact on their policies cannot be quantified.

Potential impacts on the tax and transfers system

266. There are too many variables and behavioural assumptions required in order to accurately estimate the flow-on revenue effects of a minimum wage increase on the various products Inland Revenue administers.

267. It is probable a minimum wage increase would result in slightly less tax revenue collected but also slightly less government expenditure on income-test 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.

268. While it is not possible to quantify the exact impacts, Inland Revenue expects the following outcomes:
- 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, i.e. 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.

New Zealand Defence Force

269. The New Zealand Defence Force (NZDF) advises that raising the minimum wage to the \$20.00 indicative rate would result in a direct material impact of \$700,000. Military recruits and officer cadets are remunerated at minimum wage rates upon enlistment.

Table 28: Indicative increased costs for the New Zealand Defence Force

Option	Estimated total increased cost for the NZDF (\$)
\$18.90	-
\$19.15	150,000
\$19.50	350,000
\$20.00	700,000
\$21.00	1,340,000
\$22.10	2,480,000

Chapter Ten – Setting the rate

270. This section summarises the assessment of the options to increase the minimum wage rate for the Minimum Wage Review 2020. 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.
271. The Review also considers the following additional factors identified by the Minister for Workplace Relations and Safety:
- the actual incomes of minimum wage workers, and households after tax and social transfers
 - the relativity of the minimum wage to welfare benefits and the average and median wages
 - the Government's goals to reset and rebuild the economy
 - Government support for businesses and workers in light of COVID-19, including the Wage Subsidy Scheme, business loan schemes and other support
 - the impact that COVID-19 has had (and is predicted to have) on labour markets
 - impacts on sectors that have been most significantly affected by COVID-19, for example, tourism, accommodation, retail, education and manufacturing.
272. 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 peoples 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 are those that are 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.

Options Analysis

Table 29: Summary of employment impacts for the five minimum wage options

Minimum wage rate impact measures	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Adult minimum wage (hourly rate)	\$18.90	\$19.15	\$19.50	\$20.00	\$21.00	\$22.10
Adult minimum wage (gross weekly income – 40 hour week) ¹⁰⁵	\$756	\$766	\$780	\$800	\$840	\$884
Percentage increase	N/A	1.32%	3.17%	5.82%	11.11%	16.93%
Relativity to median wage ¹⁰⁶	70.0%	70.9%	72.2%	74.1%	77.8%	81.9%
Relativity to average wage ¹⁰⁷	55.9%	56.6%	57.7%	59.2%	62.1%	65.4%
Relativity to Job Seeker support ¹⁰⁸	269.0%	272.50%	277.5%	284.6%	298.8%	314.5%
Number of people directly impacted (rounded up to nearest 100)	N/A	106,000	135,000	175,500	281,000	424,000
Estimated restraint on employment ¹⁰⁹	No change	-1,000 or less	-4,000	-9,000	-19,000	-29,500
Estimated economy-wide increase in wages (\$ million, annual)	No change	29	94	216	607	1,232
Estimated inflationary impact (percentage points)	No change	No change	N/C	0.10%	0.20%	0.40%
Estimated additional annual costs to the Government (\$ million, annual) ¹¹⁰	N/A	9.3	28.6	49.9	110.1	206.3
Full time employee receiving no tax credits or other income support - net	\$632.04	\$640.15	\$651.51	\$667.73	\$700.17	\$735.87

¹⁰⁵ This is calculated on a 40 hour week basis.

¹⁰⁶ The median hourly earnings are \$27.00 per hour or \$1,080.00 per week (Labour Market Statistics (Income), June 2020).

¹⁰⁷ The average hourly earnings are \$33.81 per hour or \$1,352.40 per week (Labour Market Statistics, September 2020).

¹⁰⁸ For a single adult, aged 25 or over, receiving \$281.08 (gross) per week.

¹⁰⁹ The employment effects for '16-64 year olds' are represented. Figures rounded to the 500s.

¹¹⁰ This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, Oranga Tamariki, Accident Compensation Corporation and New Zealand Defence Force. It does not include potential transfer savings.

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weekly income and increase from \$18.90	(\$0.00) 0%	(\$8.11) 1.28%	(\$19.47) 3.08%	(\$35.69) 5.65%	(\$68.13) 10.78%	(\$103.83) 16.43%
Auckland based sole parent, earning minimum wage, working 40 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement - net weekly income and increase from \$18.90	\$1,181.33 (\$0.00) 0%	\$1,186.94 (\$5.61) 0.47%	\$1,194.79 (\$13.46) 1.14%	\$1,206.01 (\$24.68) 2.09%	\$1,223.75 (\$42.42) 3.59%	\$1,237.44 (\$56.11) 4.75%
Auckland based couple, both earning minimum wage, working a combined 60 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement - net weekly income and increase from \$18.90	\$1,353.05 (\$0.00) 0%	\$1,357.72 (\$4.67) 0.35%	\$1,364.26 (\$11.21) 0.83%	\$1,373.59 (\$20.54) 1.51%	\$1,392.26 (\$39.21) 2.90%	\$1,412.79 (\$59.74) 4.42%

273. **Option 1 (\$18.90)**, 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. However, Option 1 would reduce the real value of the current minimum wage paid to about 57,700 workers and is therefore not consistent with 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.' It would also mean the Government would not achieve its commitment to increase the minimum wage to \$20.00 by 2021. *MBIE does not recommend Option 1.*
274. It is estimated that an increase to **\$21.00 (Option 5)** or to **\$22.10 (Option 6)** would result in 19,000 or 29,500 fewer individuals in employment than there would have been if the minimum wage had not increased. This is compared to forecast employment growth of -84,300 people in 2021. This is a large restraint on employment, particularly in a year marked by economic uncertainty and rising unemployment. It would also mean the Government would not achieve its commitment to increase the minimum wage to \$20.00 by 2021. *MBIE does not recommend either Option 4 or Option 5.*
275. The estimated restraint on employment of a minimum wage increase to **\$19.50 (Option 3)** or **\$20.00 (Option 4)** is -4,000 and -9,000 respectively. In 2018 and 2019, the estimated restraint on employment for the recommended minimum wage rates were -8,000 and -6,500 respectively, so the estimated restraint on employment for Options 2 and 3 are comparable to effects deemed acceptable in previous years. However, in 2018 and 2019, these employment effects could be absorbed by the net employment growth (51,000 and 42,000 respectively).
276. Treasury forecasts net employment growth of -3.2 per cent (a decline of 84,300 employees) in the year to June 2021, before recovering to 1.2 per cent in the year to June 2022. This means that the relatively small negative employment effects resulting

from increasing the minimum wage to either \$19.50 or \$20.00 could be unlikely to be absorbed within the labour market and may be reflected in job losses and reduced hours for workers. An increase to **\$19.15** would represent a more cautious increase that is more likely to minimise job losses than an increase to either \$19.50 or \$20.00, while still protecting the real income of low-paid workers. However, it would also mean the Government would not achieve its commitment to increase the minimum wage to \$20.00 by 2021.

277. Table 30 below compares previous years' employment growth and estimated restraint on employment with this years'.

Table 30: Net employment growth, actual and forecast: 2018 - 2023

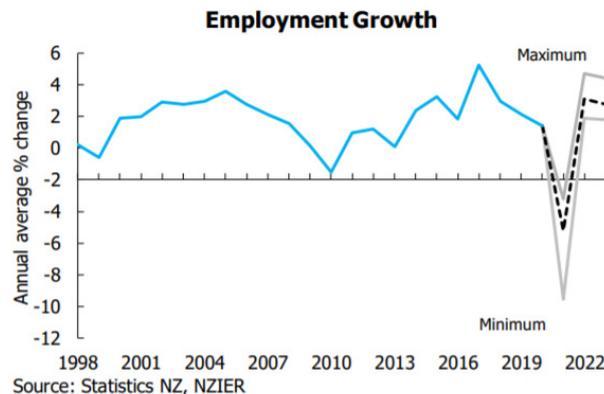
Year	No. of employed people (average all quarters)	Employment growth (annual percentage change, to June years)	Net employment growth (average actual numbers year on year, to June)	Estimated restraint on employment of proposed MW increase	Economic climate in year of the MW review
2018	2,566,000	3.6%	91,000	-3,000	Positive growth, unemployment the lowest it had been since June 2008, tightening of the labour market.
2019	2,617,000	1.9%	51,000	-8,000	Unemployment rate rose slightly, but labour market competitive, employment rate at peak sustainable levels. Underutilisation rate fell, labour market remained tight despite the \$0.75 and \$1.20 increases to the minimum wage in 1 April 2018 and 1 April 2019 respectively
2020	2,659,000	1.6%	42,000	-6,500	Uncertain economic environment, shaped by COVID-19
2021 (forecast)	2,574,700	-3.2%	-84,300	-1,000 (\$19.15) -4,000 (\$19.50) -9,000 (\$20.00)	Uncertain economic environment, shaped by COVID-19, forecast peak in unemployment, forecast net decline in employment growth
2022 (forecast)	2,605,200	1.2%	30,500	N/A	Uncertain economic environment, shaped by COVID-19, employment growth beginning to recover, unemployment rate beginning to decline, but still above pre-COVID levels
2023 (forecast)	2,671,700	2.6%	66,500	N/A	N/A

MBIE’s recommendations

MBIE recommends that any increase in the minimum wage comes into effect on 1 October 2021 when forecasts indicate net employment growth is starting to recover

278. MBIE’s view is that the timing of when a new minimum wage rate comes into effect is an important consideration in this year’s minimum wage decision.
279. In previous years negative employment effects of increases to the minimum wage have been offset or mitigated by the number of new jobs being created by the economy. However, MBIE is concerned that the lack of forecast employment growth over the first half of 2021 means that an increase in the minimum wage in April 2021 risks increasing unemployment or underutilisation for low-paid employees, particularly those on or near the current minimum wage without employment growth to offset those effects.
280. However, the drop in net employment growth is likely to be temporary. Treasury’s PREFU forecasts annual net employment growth to decline by 3.2 per cent (84,300 people) in the year to June 2021. However, this is forecast to recover to 1.2 per cent growth for the year to June 2022. NZIER consensus forecasts also predict employment growth to begin to recover in the year to June 2022.

Figure 26: History and forecast of employment growth



281. Deferring the date of a minimum wage increase to 1 October 2021 would align this change with a potential upturn in the economy and mitigate the risk that the extra wage costs could result in employers’ reducing staff levels and workers’ hours, or impact business viability.
282. The full impacts of COVID-19 on the economy are highly uncertain and will remain so until the effects of the border closure, lockdowns, the abatement of Government support, such as the Wage Subsidy, and effects of other support measures become clearer. It is also unclear when the borders will reopen, and therefore when the pressure on the tourism and hospitality industries will lift. This proposal would give employers much needed breathing space and enable those most affected by the downturn in trade to recover and retain their staff for when the economic situation

improves. An increase in October 2021 would enable both employers and employees to share in the benefits of any economic recovery.

MBIE recommends that the new adult minimum wage should be set at \$19.15 and come into effect on 1 October 2021

283. Setting the minimum wage rates requires balancing the benefits of any changes to the rate, such as protecting the lowest paid employees, against the costs that any change to the rate might bring, such as restraint on employment growth. It also requires that the Government's goals for the economy, including the commitment to increase the minimum wage to \$20.00 by 2021, are taken into account.

284. In light of these considerations, MBIE recommends that the adult minimum wage rate increases to \$19.15. This option is preferred because:

- In 2012, Cabinet agreed that 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].
- MBIE's view is that increasing the minimum wage at the forecast rate of CPI inflation to \$19.15 would preserve the real incomes of employees and minimise the potential employment displacement effects.
- No increase would erode the real incomes of the lowest paid workers compared to wage growth and inflation.
- Up to 106,000 workers (those currently earning up to \$19.15) would receive an increase up to the new minimum wage. New entrants to employment could expect to start at a higher wage rate and many of those earning above the new minimum wage would also expect an increase over time as relative wage rates between different roles are addressed.
- The estimated 'negative' effects of this level of increase are not disproportionately large. \$19.15 restrains employment less than the other options to increase to \$19.50, \$20.00, \$21.00 or \$22.10 (options 3 to 6). MBIE estimates that a new minimum wage of \$19.15 would mean that there would be approximately 1,000 workers or less in employment than there would have been if the minimum wage had not increased. This is much less than the estimated employment restraint of -4,000 at \$19.50 or -9,000 people at \$20.00, which is comparable to the restraint figures for 2018 (-8,000) and 2019 (-6,500), but these increases occurred in different economic circumstances where there was net employment growth.
- An increase in the minimum wage to \$19.15 results in an additional cost to Government of \$9.3 million and no inflationary impact. For comparison, an increase to \$19.50 would result in an additional cost to Government of \$28.5 million and no inflationary impact, while an increase to \$20.00 would result in

an additional cost to Government of \$49.8 million and 0.1 per cent inflationary impact.

285. MBIE also recommends maintaining the starting-out and training minimum wage rates at 80 per cent of the adult minimum wage (\$15.32). MBIE has not considered other options for 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 per cent of the adult minimum wage
- maintaining the training minimum wage rate at 80 per cent 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 per cent and anything substantially higher than 80 per cent 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.

286. 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.¹¹¹

287. 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.

288. 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.

Implementing a new minimum wage rate on 1 October 2021 has some risks

289. While an increase to \$19.15 would result in workers receiving an extra \$8.11 after tax a week (depending on household and tax circumstances), delaying the increase until 1 October (26 weeks) would mean workers would receive a total of \$210.86 (after tax) less than if an increase to \$19.15 occurred on 1 April 2021. It would also mean the

¹¹¹ The Treasury, *Government Expectations for Good Regulatory Practice*, April 2017, <https://www.treasury.govt.nz/sites/default/files/2015-09/good-reg-practice.pdf>

Government would not achieve its commitment to increase the minimum wage to \$20.00 by 2021.

290. Since 1997, every minimum wage change was implemented in either March or April of the year following the decision, mostly on 1 April. There is no legal requirement that the minimum wage increase comes into effect on 1 April; however, 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 year for most employers. Implementing an increase later during the year in 2021 means these dates no longer align, which could mean some additional administrative and payroll costs for employers, who will have been preparing for an increase in April 2021. As many payroll systems are now digitalised, for most employers these costs are likely to be less than the additional costs of a minimum wage increase occurring in April 2021.
291. A change to implementation date and a departure from the indicative rate of \$20.00 could increase uncertainty for both employers and workers. This may be justified in a year which has been characterised by such an uncertain economic environment and effective communication and signalling would be required.
292. The detailed income data required to derive the impact of minimum wage change options is collected by Statistics NZ in the June quarter of each year, as part of the quarterly Labour Market Statistics. The implementation of the new minimum wage on 1 April of each year enables the capture of the impact of this change during the June quarter of that year. A delay in implementation to 1 October 2021 will mean the Household Labour Force Survey will not capture the effects of this change and impact MBIE's ability to assess the effects of the change in the 2021 minimum wage review. As this may affect the data available for the minimum wage review in 2021, MBIE will provide further advice on the implications to joint Ministers by 1 June 2021 should Cabinet agree to delay implementation of an increase to 1 October 2021.
293. Increased minimum wages present the risk that some employers may attempt to avoid paying the minimum wage. For example, employers may make decisions about their business practices that are designed to avoid paying the new minimum wage, such as shifting work to contractors. There is a risk that other employers may simply fail to comply with the Act by paying wages that are lower than the Act allows. This could be mitigated by current labour inspection practices or information being provided to employers about minimum employment standards and to employees about their rights.
294. As with any minimum wage increase, there is a risk of changing economic, labour market, or other factors that could result in the effects of the minimum wage increase being different from those modelled. In the context of the COVID-19 pandemic, where potential further outbreaks, border closures (or re-openings) and lockdowns could affect employment statistics.

Increasing the minimum wage to \$19.15 in 2021 is likely to have the following impacts

295. The rate increase will have positive impacts for low-paid workers by raising their income. Up to 106,000 workers (those currently earning up from \$18.90 to \$19.15) 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. The most significant benefits are for minimum wage workers who are sole parents as shown in Tables 15 and 16.
296. 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, MBIE has not found any evidence of such responses occurring on a large scale, despite the relatively large increase of \$1.20 in last year's minimum wage. However, these effects may be more pronounced in a recessionary environment. The flow-on effects of relative pay adjustments are also difficult to quantify.
297. 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 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 government assistance someone is eligible to receive abates as the income of the recipient increases.
298. The minimum wage model identifies no direct inflationary impact to the general price level from increasing the minimum wage to \$19.15. MBIE acknowledges the risk of inflationary pressure on wages due to relative pay adjustments for wages above the minimum wage 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.
299. 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.
300. Despite well-publicised indicative rates for the minimum wage, worker representatives may 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 argue that the minimum wage increase raises the costs of work without accompanying productivity gains, resulting in job losses, particularly in the current economic environment.

Other options that were considered but discarded

301. MBIE considered sector-specific minimum wage increases. For example, implementing a minimum wage increase for employers in those industries which have not been affected as badly by COVID-19, and delaying an increase for other sectors such as retail and accommodation. This approach has been adopted in Australia; however, it is easier to implement there because industries have been characterised into ‘awards.’ In New Zealand, implementing sector specific minimum wages would require a legislative change to the Minimum Wage Act 1983. *For this reason, MBIE did not consider this option further.*
302. MBIE also considered the option of increasing the minimum wage incrementally in 2021, for example, implementing an increase to \$19.15 in April or in June and then a further increase to \$20.00 in October. However, MBIE’s view is that this option would still result in an increase to the minimum wage at a time when forecast employment growth is negative, which would risk an increase in unemployment or underutilisation for low-paid employees. *For this reason, MBIE considers that a single increase on 1 October 2021 is preferable.*

Monitoring, evaluation and review of the minimum wage decision

303. 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.
304. 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.
305. 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

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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 \$572
 - **Scenario 2:** living in Ashburton, Canterbury paying median rent of \$340
 - **Scenario 3:** living in Whakatāne, Bay of Plenty paying median rent of \$420.
- A sole parent with two children working 40 hours per week and:
 - **Scenario 4:** living in Avondale, Auckland paying median rent of \$572
 - **Scenario 5:** living in Ashburton, Canterbury paying median rent of \$340
 - **Scenario 6:** living in Whakatāne, Bay of Plenty paying median rent of \$420.

Median rent figures were published on the Tenancy Services website on 30 September 2020 from tenancy bond data from 1 April 2020 – 30 September 2020.¹¹² On 26 March 2020, the Government introduced a freeze on rent increases that applied until 25 September 2020. Landlords were unable to increase rent for their rental properties until after 25 September 2020. Information on any subsequent rent increases have not yet been reflected in the bond data.

Scenario 1

Scenario 1a: A couple with two children working a combined 60 hours per week at \$18.90, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$18.90		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$756.00	\$39,312.00	\$5,899.60	\$546.44	\$32,865.96
Parent B	20	\$378.00	\$19,656.00	\$2,459.80	\$273.22	\$16,922.98
Combined net earnings without other income support				\$49,788.94		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,067.00		
Total Working for Families assistance after abatement				\$10,326.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$5,616.00		
Total accommodation supplement after abatement				\$10,244.00		
Effective annual earnings for the household				\$70,358.94		
Percentage increase in minimum wage				0.00%		
Percentage increase in annual earnings				0.00%		

¹¹² <https://www.tenancy.govt.nz/rent-bond-and-bills/market-rent/>

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Scenario 1b: A couple with two children working a combined 60 hours per week at \$19.15, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$19.15		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$766.00	\$39,832.00	\$5,990.60	\$553.66	\$33,287.74
Parent B	20	\$383.00	\$19,916.00	\$2,505.30	\$276.83	\$17,133.87
Combined net earnings without other income support				\$50,421.60		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,262.00		
Total Working for Families assistance after abatement				\$10,131.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$5,811.00		
Total accommodation supplement after abatement				\$10,049.00		
Effective annual earnings for the household				\$70,601.60		
Percentage increase in minimum wage				1.32%		
Percentage increase in annual earnings				0.34%		

Scenario 1c: A couple with two children working a combined 60 hours per week at \$19.50, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$19.50		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$780.00	\$40,560.00	\$6,118.00	\$563.78	\$33,878.22
Parent B	20	\$390.00	\$20,280.00	\$2,569.00	\$281.89	\$17,429.11
Combined net earnings without other income support				\$51,307.32		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,535.00		
Total Working for Families assistance after abatement				\$9,858.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$6,084.00		
Total accommodation supplement after abatement				\$9,776.00		
Effective annual earnings for the household				\$70,941.32		
Percentage increase in minimum wage				3.17%		
Percentage increase in annual earnings				0.83%		

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Scenario 1d: A couple with two children working a combined 60 hours per week at \$20.00, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$20.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$800.00	\$41,600.00	\$6,300.00	\$578.24	\$34,721.76
Parent B	20	\$400.00	\$20,800.00	\$2,660.00	\$289.12	\$17,850.88
Combined net earnings without other income support				\$52,572.64		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,925.00		
Total Working for Families assistance after abatement				\$9,468.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$6,474.00		
Total accommodation supplement after abatement				\$9,386.00		
Effective annual earnings for the household				\$71,426.64		
Percentage increase in minimum wage				5.82%		
Percentage increase in annual earnings				1.52%		

Scenario 1e: A couple with two children working a combined 60 hours per week at \$21.00, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$21.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$840.00	\$43,680.00	\$6,664.00	\$607.15	\$36,408.85
Parent B	20	\$420.00	\$21,840.00	\$2,842.00	\$303.58	\$18,694.42
Combined net earnings without other income support				\$55,103.27		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$5,705.00		
Total Working for Families assistance after abatement				\$8,688.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$7,254.00		
Total accommodation supplement after abatement				\$8,606.00		
Effective annual earnings for the household				\$72,397.27		
Percentage increase in minimum wage				11.11%		
Percentage increase in annual earnings				2.90%		

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Scenario 1f: A couple with two children working a combined 60 hours per week at \$22.10, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$22.10		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$884.00	\$45,968.00	\$7,064.40	\$638.96	\$38,264.64
Parent B	20	\$442.00	\$22,984.00	\$3,042.20	\$319.48	\$19,622.32
Combined net earnings without other income support				\$57,886.97		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$6,563.00		
Total Working for Families assistance after abatement				\$7,830.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$8,112.00		
Total accommodation supplement after abatement				\$7,748.00		
Effective annual earnings for the household				\$73,464.97		
Percentage increase in minimum wage				16.93%		
Percentage increase in annual earnings				4.41%		

Scenario 2

Scenario 2a: A couple with two children working a combined 60 hours per week at \$18.90, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$18.90		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$756.00	\$39,312.00	\$5,899.60	\$546.44	\$32,865.96
Parent B	20	\$378.00	\$19,656.00	\$2,459.80	\$273.22	\$16,922.98
Combined net earnings without other income support				\$49,788.94		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,067.00		
Total Working for Families assistance after abatement				\$10,326.00		
Maximum accommodation supplement				\$7,462.00		
Abatement on accommodation supplement				\$5,616.00		
Total accommodation supplement after abatement				\$1,846.00		
Effective annual earnings for the household				\$61,960.94		
Percentage increase in minimum wage				0.00%		
Percentage increase in annual earnings				0.00%		

IN-CONFIDENCE

Scenario 2b: A couple with two children working a combined 60 hours per week at \$19.15, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$19.15		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$766.00	\$39,832.00	\$5,990.60	\$553.66	\$33,287.74
Parent B	20	\$383.00	\$19,916.00	\$2,505.30	\$276.83	\$17,133.87
Combined net earnings without other income support				\$50,421.60		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,262.00		
Total Working for Families assistance after abatement				\$10,131.00		
Maximum accommodation supplement				\$7,462.00		
Abatement on accommodation supplement				\$5,811.00		
Total accommodation supplement after abatement				\$1,651.00		
Effective annual earnings for the household				\$62,203.60		
Percentage increase in minimum wage				1.32%		
Percentage increase in annual earnings				0.39%		

Scenario 2c: A couple with two children working a combined 60 hours per week at \$19.50, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$19.50		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$780.00	\$40,560.00	\$6,118.00	\$563.78	\$33,878.22
Parent B	20	\$390.00	\$20,280.00	\$2,569.00	\$281.89	\$17,429.11
Combined net earnings without other income support				\$51,307.32		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,535.00		
Total Working for Families assistance after abatement				\$9,858.00		
Maximum accommodation supplement				\$7,462.00		
Abatement on accommodation supplement				\$6,084.00		
Total accommodation supplement after abatement				\$1,378.00		
Effective annual earnings for the household				\$62,543.32		
Percentage increase in minimum wage				3.17%		
Percentage increase in annual earnings				0.94%		

IN-CONFIDENCE

Scenario 2d: A couple with two children working a combined 60 hours per week at \$20.00, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$20.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$800.00	\$41,600.00	\$6,300.00	\$578.24	\$34,721.76
Parent B	20	\$400.00	\$20,800.00	\$2,660.00	\$289.12	\$17,850.88
Combined net earnings without other income support				\$52,572.64		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,925.00		
Total Working for Families assistance after abatement				\$9,468.00		
Maximum accommodation supplement				\$7,462.00		
Abatement on accommodation supplement				\$6,474.00		
Total accommodation supplement after abatement				\$988.00		
Effective annual earnings for the household				\$63,028.64		
Percentage increase in minimum wage				5.82%		
Percentage increase in annual earnings				1.72%		

Scenario 2e: A couple with two children working a combined 60 hours per week at \$18.90, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$21.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$840.00	\$43,680.00	\$6,664.00	\$607.15	\$36,408.85
Parent B	20	\$420.00	\$21,840.00	\$2,842.00	\$303.58	\$18,694.42
Combined net earnings without other income support				\$55,103.27		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$5,705.00		
Total Working for Families assistance after abatement				\$8,688.00		
Maximum accommodation supplement				\$7,462.00		
Abatement on accommodation supplement				\$7,254.00		
Total accommodation supplement after abatement				\$208.00		
Effective annual earnings for the household				\$63,999.27		
Percentage increase in minimum wage				11.11%		
Percentage increase in annual earnings				3.29%		

IN-CONFIDENCE

Scenario 2f: A couple with two children working a combined 60 hours per week at \$19.40, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$22.10		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC Earners Levy	Net earnings
Parent A	40	\$884.00	\$45,968.00	\$7,064.40	\$638.96	\$38,264.64
Parent B	20	\$442.00	\$22,984.00	\$3,042.20	\$319.48	\$19,622.32
Combined net earnings without other income support				\$57,886.97		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$6,563.00		
Total Working for Families assistance after abatement				\$7,830.00		
Maximum accommodation supplement				\$7,462.00		
Abatement on accommodation supplement				\$8,112.00		
Total accommodation supplement after abatement				\$0.00		
Effective annual earnings for the household				\$65,716.97		
Percentage increase in minimum wage				16.93%		
Percentage increase in annual earnings				6.06%		

Scenario 3

Scenario 3a: A couple with two children working a combined 60 hours per week at \$18.90, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$18.90		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$756.00	\$39,312.00	\$5,899.60	\$546.44	\$32,865.96
Parent B	20	\$378.00	\$19,656.00	\$2,459.80	\$273.22	\$16,922.98
Combined net earnings without other income support				\$49,788.94		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,067.00		
Total Working for Families assistance after abatement				\$10,326.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$5,616.00		
Total accommodation supplement after abatement				\$2,704.00		
Effective annual earnings for the household				\$62,818.94		
Percentage increase in minimum wage				0.00%		
Percentage increase in annual earnings				0.00%		

IN-CONFIDENCE

Scenario 3b: A couple with two children working a combined 60 hours per week at \$19.15, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$19.15		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$766.00	\$39,832.00	\$5,990.60	\$553.66	\$33,287.74
Parent B	20	\$383.00	\$19,916.00	\$2,505.30	\$276.83	\$17,133.87
Combined net earnings without other income support				\$50,421.60		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,262.00		
Total Working for Families assistance after abatement				\$10,131.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$5,811.00		
Total accommodation supplement after abatement				\$2,509.00		
Effective annual earnings for the household				\$63,061.60		
Percentage increase in minimum wage				1.32%		
Percentage increase in annual earnings				0.39%		

Scenario 3c: A couple with two children working a combined 60 hours per week at \$19.50, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$19.50		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$780.00	\$40,560.00	\$6,118.00	\$563.78	\$33,878.22
Parent B	20	\$390.00	\$20,280.00	\$2,569.00	\$281.89	\$17,429.11
Combined net earnings without other income support				\$51,307.32		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,535.00		
Total Working for Families assistance after abatement				\$9,858.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$6,084.00		
Total accommodation supplement after abatement				\$2,236.00		
Effective annual earnings for the household				\$63,401.32		
Percentage increase in minimum wage				3.17%		
Percentage increase in annual earnings				0.93%		

IN-CONFIDENCE

Scenario 3d: A couple with two children working a combined 60 hours per week at \$20.00, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$20.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$800.00	\$41,600.00	\$6,300.00	\$578.24	\$34,721.76
Parent B	20	\$400.00	\$20,800.00	\$2,660.00	\$289.12	\$17,850.88
Combined net earnings without other income support				\$52,572.64		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$4,925.00		
Total Working for Families assistance after abatement				\$9,468.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$6,474.00		
Total accommodation supplement after abatement				\$1,846.00		
Effective annual earnings for the household				\$63,886.64		
Percentage increase in minimum wage				5.82%		
Percentage increase in annual earnings				1.70%		

Scenario 3e: A couple with two children working a combined 60 hours per week at \$21.00, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$21.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$840.00	\$43,680.00	\$6,664.00	\$607.15	\$36,408.85
Parent B	20	\$420.00	\$21,840.00	\$2,842.00	\$303.58	\$18,694.42
Combined net earnings without other income support				\$55,103.27		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$5,705.00		
Total Working for Families assistance after abatement				\$8,688.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$7,254.00		
Total accommodation supplement after abatement				\$1,066.00		
Effective annual earnings for the household				\$64,857.27		
Percentage increase in minimum wage				11.11%		
Percentage increase in annual earnings				3.24%		

IN-CONFIDENCE

Scenario 3f: A couple with two children working a combined 60 hours per week at \$22.10, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$22.10		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$884.00	\$45,968.00	\$7,064.40	\$638.96	\$38,264.64
Parent B	20	\$442.00	\$22,984.00	\$3,042.20	\$319.48	\$19,622.32
Combined net earnings without other income support				\$57,886.97		
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$6,563.00		
Total Working for Families assistance after abatement				\$7,830.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$8,112.00		
Total accommodation supplement after abatement				\$208.00		
Effective annual earnings for the household				\$65,924.97		
Percentage increase in minimum wage				16.93%		
Percentage increase in annual earnings				4.94%		

Scenario 4

Scenario 4a: A sole parent with two children working 40 hours per week at \$18.90, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$18.90		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$756.00	\$39,312.00	\$5,899.60	\$546.44	\$32,865.96
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$1,690.00		
Total accommodation supplement after abatement				\$14,170.00		
Effective annual earnings for the household				\$61,428.96		
Percentage increase in minimum wage				0.00%		
Percentage increase in annual earnings				0.00%		

IN-CONFIDENCE

Scenario 4b: A sole parent with two children working 40 hours per week at \$19.15, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$19.15		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$766.00	\$39,832.00	\$5,990.60	\$553.66	\$33,287.74
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$1,820.00		
Total accommodation supplement after abatement				\$14,040.00		
Effective annual earnings for the household				\$61,720.74		
Percentage increase in minimum wage				1.32%		
Percentage increase in annual earnings				0.47%		

Scenario 4c: A sole parent with two children working 40 hours per week at \$19.50, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$19.50		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$780.00	\$40,560.00	\$6,118.00	\$563.78	\$33,878.22
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$2,002.00		
Total accommodation supplement after abatement				\$13,858.00		
Effective annual earnings for the household				\$62,129.22		
Percentage increase in minimum wage				3.17%		
Percentage increase in annual earnings				1.14%		

IN-CONFIDENCE

Scenario 4d: A sole parent with two children working 40 hours per week at \$20.00, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$20.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$800.00	\$41,600.00	\$6,300.00	\$578.24	\$34,721.76
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$2,262.00		
Total accommodation supplement after abatement				\$13,598.00		
Effective annual earnings for the household				\$62,712.76		
Percentage increase in minimum wage				5.82%		
Percentage increase in annual earnings				2.09%		

Scenario 4e: A sole parent with two children working 40 hours per week at \$21.00, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$21.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$840.00	\$43,680.00	\$6,664.00	\$607.15	\$36,408.85
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$245.00		
Total Working for Families assistance after abatement				\$14,148.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$2,782.00		
Total accommodation supplement after abatement				\$13,078.00		
Effective annual earnings for the household				\$63,634.85		
Percentage increase in minimum wage				11.11%		
Percentage increase in annual earnings				3.59%		

IN-CONFIDENCE

Scenario 4f: A sole parent with two children working 40 hours per week at \$22.10, living in Avondale, Auckland paying median rent of \$572						
Minimum wage				\$22.10		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$884.00	\$45,968.00	\$7,064.40	\$638.96	\$38,264.64
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$817.00		
Total Working for Families assistance after abatement				\$13,576.00		
Maximum accommodation supplement				\$15,860.00		
Abatement on accommodation supplement				\$3,354.00		
Total accommodation supplement after abatement				\$12,506.00		
Effective annual earnings for the household				\$64,346.64		
Percentage increase in minimum wage				16.93%		
Percentage increase in annual earnings				4.75%		

Scenario 5

Scenario 5a: A sole parent with two children working 40 hours per week at \$18.90, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$18.90		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$756.00	\$39,312.00	\$5,899.60	\$546.44	\$32,865.96
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$7,935.20		
Abatement on accommodation supplement				\$1,690.00		
Total accommodation supplement after abatement				\$6,245.20		
Effective annual earnings for the household				\$53,504.16		
Percentage increase in minimum wage				0.00%		
Percentage increase in annual earnings				0.00%		

IN-CONFIDENCE

Scenario 5b: A sole parent with two children working 40 hours per week at \$19.15, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$19.15		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$766.00	\$39,832.00	\$5,990.60	\$553.66	\$33,287.74
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$7,935.20		
Abatement on accommodation supplement				\$1,820.00		
Total accommodation supplement after abatement				\$6,115.20		
Effective annual earnings for the household				\$53,795.94		
Percentage increase in minimum wage				1.32%		
Percentage increase in annual earnings				0.55%		

Scenario 5c: A sole parent with two children working 40 hours per week at \$19.50, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$19.50		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$780.00	\$40,560.00	\$6,118.00	\$563.78	\$33,878.22
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$7,935.20		
Abatement on accommodation supplement				\$2,002.00		
Total accommodation supplement after abatement				\$5,933.20		
Effective annual earnings for the household				\$54,204.42		
Percentage increase in minimum wage				3.17%		
Percentage increase in annual earnings				1.31%		

IN-CONFIDENCE

Scenario 5d: A sole parent with two children working 40 hours per week at \$20.00, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$20.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$800.00	\$41,600.00	\$6,300.00	\$578.24	\$34,721.76
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$7,935.20		
Abatement on accommodation supplement				\$2,262.00		
Total accommodation supplement after abatement				\$5,673.20		
Effective annual earnings for the household				\$54,787.96		
Percentage increase in minimum wage				5.82%		
Percentage increase in annual earnings				2.40%		

Scenario 5e: A sole parent with two children working 40 hours per week at \$21.00, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$21.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$840.00	\$43,680.00	\$6,664.00	\$607.15	\$36,408.85
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$245.00		
Total Working for Families assistance after abatement				\$14,148.00		
Maximum accommodation supplement				\$7,935.20		
Abatement on accommodation supplement				\$2,782.00		
Total accommodation supplement after abatement				\$5,153.20		
Effective annual earnings for the household				\$55,710.05		
Percentage increase in minimum wage				11.11%		
Percentage increase in annual earnings				4.12%		

IN-CONFIDENCE

Scenario 5f: A sole parent with two children working 40 hours per week at \$22.10, living in Ashburton, Canterbury paying median rent of \$340						
Minimum wage				\$22.10		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$884.00	\$45,968.00	\$7,064.40	\$638.96	\$38,264.64
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$817.00		
Total Working for Families assistance after abatement				\$13,576.00		
Maximum accommodation supplement				\$7,935.20		
Abatement on accommodation supplement				\$3,354.00		
Total accommodation supplement after abatement				\$4,581.20		
Effective annual earnings for the household				\$56,421.84		
Percentage increase in minimum wage				16.93%		
Percentage increase in annual earnings				5.45%		

Scenario 6

Scenario 6a: A sole parent with two children working 40 hours per week at \$18.90, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$18.90		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$756.00	\$39,312.00	\$5,899.60	\$546.44	\$32,865.96
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$1,690.00		
Total accommodation supplement after abatement				\$6,630.00		
Effective annual earnings for the household				\$53,888.96		
Percentage increase in minimum wage				0.00%		
Percentage increase in annual earnings				0.00%		

IN-CONFIDENCE

Scenario 6b: A sole parent with two children working 40 hours per week at \$19.15, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$19.15		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$766.00	\$39,832.00	\$5,990.60	\$553.66	\$33,287.74
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$1,820.00		
Total accommodation supplement after abatement				\$6,500.00		
Effective annual earnings for the household				\$54,180.74		
Percentage increase in minimum wage				1.32%		
Percentage increase in annual earnings				0.54%		

Scenario 6c: A sole parent with two children working 40 hours per week at \$19.50, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$19.50		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$780.00	\$40,560.00	\$6,118.00	\$563.78	\$33,878.22
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$2,002.00		
Total accommodation supplement after abatement				\$6,318.00		
Effective annual earnings for the household				\$54,589.22		
Percentage increase in minimum wage				3.17%		
Percentage increase in annual earnings				1.30%		

IN-CONFIDENCE

Scenario 6d: A sole parent with two children working 40 hours per week at \$20.00, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$20.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$800.00	\$41,600.00	\$6,300.00	\$578.24	\$34,721.76
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$0.00		
Total Working for Families assistance after abatement				\$14,393.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$2,262.00		
Total accommodation supplement after abatement				\$6,058.00		
Effective annual earnings for the household				\$55,172.76		
Percentage increase in minimum wage				5.82%		
Percentage increase in annual earnings				2.38%		

Scenario 6e: A sole parent with two children working 40 hours per week at \$21.00, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$21.00		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$840.00	\$43,680.00	\$6,664.00	\$607.15	\$36,408.85
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$245.00		
Total Working for Families assistance after abatement				\$14,148.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$2,782.00		
Total accommodation supplement after abatement				\$5,538.00		
Effective annual earnings for the household				\$56,094.85		
Percentage increase in minimum wage				11.11%		
Percentage increase in annual earnings				4.09%		

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Scenario 6f: A sole parent with two children working 40 hours per week at \$22.10, living in Whakatāne, Bay of Plenty paying median rent of \$420						
Minimum wage				\$22.10		
	Weekly work hours	Weekly earnings	Annual Earnings	Tax	ACC	Net earnings
Parent A	40	\$884.00	\$45,968.00	\$7,064.40	\$638.96	\$38,264.64
Maximum In Work Tax Credit				\$3,770.00		
Maximum Family Tax Credit				\$10,623.00		
Total abatement on family support due to income				\$817.00		
Total Working for Families assistance after abatement				\$13,576.00		
Maximum accommodation supplement				\$8,320.00		
Abatement on accommodation supplement				\$3,354.00		
Total accommodation supplement after abatement				\$4,966.00		
Effective annual earnings for the household				\$56,806.64		
Percentage increase in minimum wage				16.93%		
Percentage increase in annual earnings				5.41%		

Annex Two: Stakeholder consultation list

For the 2020 Minimum Wage Review, MBIE consulted with the following stakeholders:

- Arable Food Industry Council
- Building Service Contractors of New Zealand Inc.
- Bus & Coach Association New Zealand
- E Tū
- Employers and Manufacturing Association
- Federated Farmers of New Zealand
- FIRST Union
- Horticulture New Zealand
- Hospitality New Zealand
- Human Rights Commission
- Living Wage Aotearoa
- Mangere Budgeting Services Trust
- ManufacturingNZ
- Mayors Taskforce for Jobs
- Meat Industry Association of New Zealand
- New Zealand Aged Care Association
- New Zealand Beverage Council
- New Zealand Food and Grocery Council
- New Zealand Security Association
- New Zealand Trucking Association
- NZ Council of Christian Social Services
- NZ Meat Workers and Related Trades Union (Inc.)
- NZ Union of Students' Associations
- Public Service Association (PSA)
- Rail and Maritime Transport Union
- Regional Business Partner Network
- Restaurant Association of New Zealand
- Retail Meat New Zealand
- Retail NZ
- Salvation Army
- Small Business Advisors Group
- Tourism Industry Aotearoa
- Unite Union
- Youthline