



COVERSHEET

Minister	Hon Michael Wood	Portfolio	Workplace Relations and Safety
Title of Cabinet paper	Setting the minimum wage for 2023	Date to be published	10 February 2023

List of documents that have been proactively released

Date	Title	Author
January 2023	Cabinet paper: Setting the minimum wage for 2023	Office of the Minister of Workplace Relations and Safety
31 January 2023	Setting the minimum wage for 2023 CAB-23-MIN-0007 Minute	Cabinet Office

Information redacted

NO

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In Confidence

Office of the Minister for Workplace Relations and Safety
Cabinet

Setting the minimum wage for 2023

Proposal

- 1 This paper seeks agreement to set the minimum wage rate for 2023.
- 2 This paper also seeks agreement to:
 - 2.1 maintain the Starting-Out and Training minimum wage rates at 80 percent of the adult minimum wage
 - 2.2 bring the minimum wage adjustment into effect on 1 April 2023
 - 2.3 make a technical update to the Minimum Wage Order relating to training requirements for the Starting-Out and Training wages, to reflect changes in the education system
 - 2.4 invite the Minister for Workplace Relations and Safety to provide drafting instructions to the Parliamentary Counsel Office to give effect to the above proposals via an Order in Council.

Relation to Government priorities

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

Executive Summary

- 5 On 6 December 2022, the Cabinet Priorities Committee noted that I considered that a minimum wage rate decision should be made once more information was available, to allow a decision based on the most up to date inflation and other economic data, and invited me to report back to Cabinet in late January 2023 [CPC-22-MIN-0048 refers].
- 6 Statistics New Zealand announced the Consumers Price Index (CPI) data for the December quarter 2022 on 25 January 2023. The release shows a CPI increase of 1.4 percent across the quarter, and 7.2 percent for the year ending December 2022.

- 7 Recent forecasts from the Treasury's Half-Year Economic and Fiscal Update (HYEFU) and NZ Institute of Economic Research (NZIER) Consensus Forecasts from December 2022 point to impending recessionary conditions in New Zealand and globally. In New Zealand low unemployment and a tight labour market are leading to wage growth, while inflationary pressures are putting pressure on businesses and households. Monetary policy responses to rein in inflation are increasing interest rates, which is expected to restrain spending, slow economic growth, and cause unemployment to increase over time.
- 8 I have taken into account recent CPI data, wage growth, and other economic information in recommending the minimum wage rate for 2023. I propose that Cabinet agrees to set the minimum wage at \$22.70 from 1 April 2023.
- 9 This increase is needed to maintain the real value of workers' incomes against inflation. The minimum wage has increased from \$15.75 per hour in 2017 to \$21.20 in 2022. By increasing the minimum wage in line with CPI we are ensuring that the gains of the last five years are not eroded, and that our lowest paid workers are able to keep up with increases in the cost of living.
- 10 This increase is balanced to ensure the minimum wage holds its real value against inflation, and to lower the risk of employment restraint by ensuring the increase also broadly aligns with general wage growth.
- 11 Before tax, a full time worker on the minimum wage working 40 hours a week will be paid an additional \$1.50 per hour, which for those working a 40 hour week is an additional \$60 per week, taking their weekly income to \$908.00. On an annual basis, such a worker will now earn \$47,216.00 before tax, an increase of \$3,120.
- 12 It is important to note that the data in this Cabinet paper is from the Ministry of Business, Innovation and Employment's 2022 Minimum Wage Review and was prepared for 30 November 2022 to support 6 December Cabinet decisions on setting the minimum wage. Because of the current uncertainty of the economic situation, it was agreed that a decision on setting the minimum wage for 2023 would instead be made after the 2022 December quarter CPI inflation figures were released – to ensure the decision was based on the most up to date economic data. A large proportion of the results on most factors (such as the numbers of people impacted by the minimum wage rate options) would be unchanged if MBIE were to rerun its minimum wage model at this stage, as there is no updated detailed income data for 2023 this early in the year.
- 13 The key element that could differ is the modelled employment restraint for all the minimum wage options. Re-estimated restraints could likely be smaller as the general wage increase forecast by the Treasury for the year to June 2023 is slightly higher in the 2022 HYEFU (6.8 percent) compared to the 2022 Budget forecast (at that time a 6 percent annual increase was forecast for average hourly wages).

- 14 According to MBIE's 2022 Minimum Wage Review analysis, the proposed increase will directly increase the wages of an estimated 222,900 workers – delivering a pay rise to those people currently paid the minimum wage, and those paid on rates above the current minimum but below the new rate. It is estimated to generate a low inflationary impact on the wage portion of GDP and low restraint on employment.
- 15 **Appendix One** of this paper contains a summary from MBIE's 2022 Minimum Wage Review of the assessed impacts of a range of minimum wage rate increases which were set out in full in the previous Cabinet paper [CPC-22-SUB-0048 refers].
- 16 **Appendix Two** contains more detailed background on the minimum wage rates in recent years, and the economic context with some updates since the 6 December Cabinet discussion that reflect the Treasury's HYEUFU, NZIER consensus forecasts, and Statistics NZ GDP and CPI data.
- 17 As well as selecting an adult minimum wage rate for this year, this paper recommends:
- 17.1 The new minimum wage rate commences on 1 April 2023.
 - 17.2 Maintaining the existing relativity of the Starting-Out and Training minimum wage rates at 80 percent of the adult minimum wage.
 - 17.3 Approval of a minor technical amendment to the Minimum Wage Order relating to training requirements for the Starting-Out and Training wages, to reflect changes in the education system.
 - 17.4 Inviting me to provide drafting instructions to the Parliamentary Counsel Office to give effect to the above proposals via an Order in Council.

The economic context

- 18 While the labour market and wage growth are currently strong, there are headwinds on the horizon from both global and domestic factors, including interest rate increases as a result of monetary policy intervention to control inflation. In response to persistently high inflation, the Reserve Bank of New Zealand (RBNZ) has raised the Official Cash Rate (OCR) which is expected to soften consumer demand over time through higher interest rates.
- 19 GDP from the September 2022 quarter was higher than anticipated at 2 percent growth in the quarter, but forecasts indicate an impending recessionary environment. The Treasury's HYEUFU 2022 has lowered forecasts for GDP growth to 1 percent in the year to 30 June 2023, and raised projections for inflation (6.4 percent), unemployment (3.8 percent) and average ordinary-time wage growth (6.8 percent) in the same period. Wage growth is expected to peak in June 2023, while unemployment is anticipated to peak at 5.5 percent in the year to 2024. Recently released figures for CPI show a 7.2 percent increase in the year ending December 2022. This is

lower than the 7.5 percent increase forecast by the RBNZ in the November 2022 Monetary Policy Statement. Some independent economists now suggest that CPI has peaked¹, observing that quarterly CPI has declined from 2.2 percent in the September 2022 quarter to 1.4 percent in the December 2022 quarter.

- 20 The operating profit for businesses in the September 2022 quarter was \$24 billion, up \$4.7 billion (24 percent) compared with the September 2021 quarter.
- 21 Further information on the economic context is included in **Appendix Two**.

Reviewing the minimum wage

- 22 In a challenging economic environment, we need to ensure that we support living standards for employees on or near the minimum wage, while balancing the impacts of minimum wage increases on businesses.
- 23 The adult minimum wage is currently \$21.20 per hour, and the Starting-Out and Training minimum wages are \$16.96 per hour. The MBIE estimates that the adult minimum wage was being paid to approximately 59,600 workers at the end of June 2022, which was approximately 2.9 percent of all wage earners in paid employment.
- 24 High wage growth in 2022 shows median wages increasing at a steeper rate than previous years, and there is also a lower proportion of workers on the minimum wage (2.9 percent in June 2022 versus 7.8 percent in June 2021). This means that the proposed increase to the minimum wage is not expected to significantly drive wage compression in an already-competitive labour market.
- 25 While the coverage of the minimum wage declined in 2022, the current rate is 71.5 percent of the median wage, so a \$1.48 (7 percent) increase to \$22.68 was estimated in MBIE's 2022 minimum wage review to raise the wages of an estimated 222,900 workers. When the minimum wage is raised, workers above the current minimum and below the new rate also receive an adjustment to reach the new minimum rate. This is why the increase impacts more people than are currently paid the minimum wage (estimated to be 59,500 workers).
- 26 An increase to the minimum wage is necessary to achieve the objective of the Minimum Wage Review, which is to 'keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses' (CAB Min (12) 41/5B refers). Those on the lowest incomes face the greatest challenges in navigating a higher cost of living.

¹ BNZ Research: *Economy Watch*, 25 January 2023.
https://www.bnz.co.nz/assets/markets/research/20230125_CPI.pdf?0f0c6a44cc93a2539f39df17eccaf1efcb3228a4

Options for 2023

- 27 Considering the uncertainty of the economic climate, Cabinet agreed to wait until January 2023 to set the rate after reviewing the most up-to-date economic data, including CPI to the year ending December 2022 [CPC-22-MIN-0048 refers].
- 28 The Minimum Wage Review 2022 provided by MBIE analysed seven potential minimum wage rates, all of which are included as options in the recommendations in this paper.
- 29 Recommendation 1 of this paper includes seven rate options for 2023, aligned with those assessed in MBIE’s Minimum Wage Review 2022. I propose three of these options should be considered for the 2023 adult minimum wage rate:
- 29.1 *Option three*: \$22.26 (a 5 percent or \$1.06 increase)
- 29.2 *Option four*: \$22.50 (a 6 percent or \$1.30 increase)
- 29.3 *Option five*: \$22.70 (proposed, aligns with the rate of CPI inflation in the year to December 2022 - a 7.2 percent increase, rounded to the nearest 10 cents, resulting in a \$1.50 increase).
- 30 *Option five*, \$22.70, maintains the real value of the minimum wage against CPI inflation in the year to December 2022 – an annual increase of 7.2 percent. The Government’s economic policy has consistently focussed on supporting those on the lowest incomes. I consider that setting the rate to align with the increase in annual CPI inflation is a balanced position between the views of social partners. An increase of 7 percent is estimated to have a minor inflationary impact on the wages element of GDP, while helping the lowest paid workers keep up with the cost of living.
- 31 I also propose that the Starting Out and Training minimum wage rates remain at an 80 percent relativity to the adult minimum wage, and that the new minimum wage rates come into effect on 1 April 2023.

The estimated employment restraint impacts for a 5 to 7 percent increase in rates are moderate

- 32 The Treasury’s December 2022 HYEPU estimates annual average wage growth for the year ending June 2023 to be 6.8 percent. In the current uncertain economic climate it is prudent to select a rate that does not exceed overall wage growth, to reduce the potential for increased employment restraint impacts. Officials’ view is that a minimum wage increase near to this level is likely to have lower employment restraint impacts than increases that exceed general wage growth. I note that minimum wage increases we have made in this term of Government have accompanied historically low rates of unemployment.

- 33 Average wage growth in the year to September 2022 was 7.4 percent, and the Treasury's HYEPU expects average hourly wage growth to peak in the December 2022 quarter at 7.9 percent. The HYEPU forecast that wage growth will ease but remain high over the next two years at 6.8 percent and 6.1 percent for the years ending in the June 2023 and June 2024 quarters respectively.
- 34 Paragraphs 58 to 61 of the previous Cabinet paper CPC-22-SUB-0048 set out information from MBIE's 2022 Minimum Wage Review on the potential employment restraint and costs to business of increasing the minimum wage by 5, 6 or 7 percent. **Appendix One** provides a summary of the potential minimum wage impacts of these factors (as well as others such as the inflationary impact on the wage element of GDP, and the additional direct costs to Government), as derived from the model and data used to produce MBIE's 2022 Minimum Wage Review.
- 35 MBIE's 2022 Minimum Wage Review (which was provided as an annex to the Cabinet paper CPC-22-SUB-0048) sets out estimates for employment restraint arising from incremental increases in the minimum wage. These estimates are necessarily imprecise. Many factors impact on the labour market, and the effect of minimum wage increases is hard to pinpoint, even retrospectively.
- 36 MBIE's 2022 Minimum Wage Review used the most up to date data at the time it was provided to me in November 2022. While more recent figures and forecasts for wage growth, inflation and other economic factors have since become available, the estimated restraint modelled in MBIE's report for each option up to a 7 percent increase was relatively low. Low employment restraint impacts are expected for rates that do not outpace average wage growth. Average wage growth in the year to September 2022 was 7.4 percent, and wage growth is forecast to be 6.8 percent for the year to June 2023 in the Treasury's 2022 HYEPU.
- 37 In MBIE's 2022 Minimum Wage Review, MBIE estimated that increasing the minimum wage by 7 percent to \$22.68 would create a moderate employment restraint of 5,100 individuals (less people employed than would have been the case if the minimum wage had not increased). This would be lower than the employment restraint estimated in 2021 (7,900 people) and 2020 (9,000 people). In comparison, the estimated restraint on employment for a 5 percent increase to a \$22.50 or lower rate in 2023 was low, affecting less than 1,000 workers. Results below 1,000 workers occur because the modelled increases of 6 percent or lower did not exceed the average (QES based) wage growth forecast of 6 percent for 2023 in the Treasury's 2022 Budget Economic and Fiscal Update (BEFU), used in MBIE's model. However, MBIE noted that a forecast of lower employment growth in the year to June 2023 makes it more likely for even a small employment restraint effect to be more visible in 2023.

Increase	Annual economy-wide increase in wages (\$m)	Additional direct costs to Government (\$m)	Inflationary impact (on wage element of GDP – note <u>not</u> CPI)	Estimated restraint on employment
5% to \$22.26	204	17.8	0.06	<1,000
6% to \$22.50	284	Figure not calculated in MBIE report ²	0.08	<1,000
7% to \$22.68	352	30.6	0.10	5,100

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

I propose that the rate be set at \$22.70, a 7.2 percent increase, from 1 April 2023

39 Now that Statistics New Zealand has confirmed CPI for the December 2022 quarter, I propose that the 2023 minimum wage rate be set at \$22.70, a 7.2 percent increase rounded to the nearest 10 cents, that maintains the real value of the minimum wage against CPI inflation over the year ending December 2022.

40 Setting the minimum wage to align with CPI would reflect the approach taken by the Government to set the 2022 minimum wage rate – a 6 percent increase that corresponded to a 5.9 percent CPI increase in the year ended December 2021. A similar increase would continue this Government’s commitment to maintaining the value of the minimum wage against inflationary pressures since the last increase, and assist the country’s lowest paid workers facing an increased cost of living.

41 MBIE estimated in its 2022 Minimum Wage Review that a 7 percent increase to \$22.68 would have a beneficial impact for around 222,900 people, with a potential employment restraint of 5,100 people. This would result in an estimated annual economy-wide increase in wages of \$352 million, a corresponding 0.1 percent inflationary impact on the wages portion of GDP, and an annual cost to Government of \$30.6 million.

² A 6 percent increase option was added to range of rates in the MBIE 2022 Minimum Wage Review after cost consultation with Government had been completed, so costs to government agencies for this rate were not calculated.

- 42 While MBIE's Minimum Wage Review does not estimate impacts on CPI inflation, it acknowledges that increases in the minimum wage can, in theory, have an inflationary effect, if employers respond to increased wage costs by increasing the price of goods produced or services provided or if workers on the new minimum wage spend more. However, the consensus view is that increased wage costs (including minimum wage increases) are not a significant driver of CPI inflation.

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

- 43 I propose that the Starting-Out and Training rates continue to be set at 80 percent of the adult minimum wage in accordance with the Minimum Wage Act 1983. Based on a 7.2 percent increase rounded to a \$22.70 adult minimum wage, the Starting-Out and Training rates would increase to \$18.16 per hour.
- 44 A differential between the adult minimum wage and the Starting-Out and Training rates supports the transition of youth into employment and helps further the policy objective of incentivising employers to take on and support trainees.

The new rates should come into effect on 1 April 2023

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

Technical amendment to reflect changes to the vocational education system

- 46 The wording of the Minimum Wage Order for 2023, relating to the Training and Starting-Out rates, needs to be updated to reflect changes to the vocational education system. The current Order uses the term "industry training programme," which will not exist in its current form when the Reform of Vocational Education is fully implemented. Minor drafting changes are required to link the Order more clearly into the new education framework, while preserving the current intent and effect of Minimum Wage Orders with respect to Starting-Out and Training Wage rates.

Financial Implications

- 47 The Accident Compensation Corporation (ACC), New Zealand Defence Force, Ministry of Social Development and Te Whatu Ora have indicated that a minimum wage increase may have a financial impact. They have

indicated that they are seeking, or will likely seek, funding increases through the Budget process.

- 48 For a 7 percent increase to the minimum wage rate, total annual costs to the Government directly related to the proposed increase were estimated to be \$30.6 million in MBIE's Minimum Wage Review 2022.
- 49 There may be additional fiscal impacts in addition to wage costs. Some Government programmes are adjusted based on labour market wage statistics (for example, parental leave payment rates are adjusted annually based on changes in average ordinary time hourly earnings). Minimum wage rate increases may have an impact on these programmes.
- 50 Increases in the minimum wage will have an indirect impact on New Zealand Superannuation and main benefit rates as these are now indexed to the net average wage (since 1 April 2020). Any fiscal impact will be treated as a forecast change through Budget 2022.
- 51 It is likely that the fiscal costs to Government may be partly offset by an increase in the GST received (as a result of people having more disposable income to spend) and a reduction in the amount of social transfers (due to abatements on Government support). These impacts are difficult to accurately quantify.

ACC's outstanding claims liability

- 52 ACC's outstanding claims liability (OCL) is an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims up to a hundred years. This does not impose an immediate cost on the Crown but does have an impact on the notional solvency of the ACC scheme (the measure of ACC's assets to liabilities). It is important to note that the estimated OCL impact is excluded from the estimated figure of fiscal costs to the Government, as it is usually a substantially larger figure and including it would produce a distorting effect.
- 53 For the rate of \$22.26, ACC estimates an OCL impact of \$70 million (in addition to the \$17.8 million fiscal costs to the Government estimated for a \$22.26 rate to avoid distortion).
- 54 For the rate of \$22.68, ACC estimates an OCL impact of \$187 million (also in addition to the \$30.6 million fiscal costs to the Government estimated for a \$22.68 rate to avoid distortion).

Legislative Implications

- 55 Minimum wages are set through an Order in Council made under section 4, 4A and 4B of the Act. To give effect to a change in the minimum wage, a new Order in Council needs to be made by the Governor-General, on the recommendation of the Minister for Workplace Relations and Safety. Subject to Cabinet's decisions, the new Order to increase the minimum wage will come into force on 1 April 2023.

- 56 I intend to bring a paper to the Cabinet Legislation Committee in February 2023 to give effect to the minimum wage adjustment decided upon.
- 57 I also intend to ask the Parliamentary Counsel Office, in drafting the new Order, to make some minor technical updates to phrasing around training requirements for the Starting-Out and Training wages to reflect changes in the education system. These changes will retain all the same functions as the existing Order.

Impact Analysis

Regulatory Impact Statement

- 58 The Treasury's Regulatory Impact Analysis (RIA) team has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement (RIS) on the grounds that it would substantively duplicate the Minimum Wage Review 2022. This exemption is granted on the condition that the document contains all the requirements that would otherwise be included in the RIS. The RIA Panel at MBIE has reviewed the Minimum Wage Review 2022 and confirmed that it contains these requirements.
- 59 The Minimum Wage Review 2022 was provided with the previous Cabinet paper [CPC-22-SUB-0048 refers].
- 60 Additionally, no RIS is required for the technical change in the wording of the Minimum Wage Order with respect to definitions of training programmes for the Starting-Out and Training Wage, as this change will retain the current function of the Order. The Treasury's RIA team has determined that this proposal is exempt from the requirement to provide a RIS on the grounds that it has no or only minor impacts on businesses, individuals, and not-for-profit entities.

Climate Implications of Policy Assessment

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

Population Implications

- 62 The following table outlines the population implications of these proposals.

Population group	How the proposal may affect this group
Young people	Young workers aged 16-24 represent a high proportion of those employees on the minimum wage. As at June 2022, 61 percent of those earning the minimum wage were between 16 and 24 years old, while these workers comprise only 16 percent of wage earners overall. Young workers are most exposed to the risks

	<p>and benefits of minimum wage increases.</p> <p>Those who remain in work will likely see an increase in their wages. However, others might lose their jobs or not gain employment due to the employment restraint effects that minimum wage increases can have.</p> <p>There is some concern that high minimum wages may discourage young workers from remaining in education, with short-term rewards impacting their future earning potential.</p>
Māori	<p>Māori are overrepresented among those in low-paid jobs. MBIE modelling finds that Māori represent approximately 15 percent of total wage earners and 19 percent of total minimum wage earners (the latter is 1 percent lower than in the 2021 review).</p> <p>There is some evidence that Māori are more likely to be adversely affected by employment restraint effects than other ethnic groups. A 2011 study found that Māori who were earning the minimum wage experienced significant falls in their employment and total weekly hours when the minimum wage increased significantly.³ However, recent years have seen falls in Māori unemployment, despite increases to the minimum wage.</p>
Pacific peoples	<p>Pacific peoples are among those most likely to benefit from minimum wage increases. Pacific peoples account for around 6 percent of total wage earners and 5 percent of total minimum wage earners. The 2021 and 2020 figures for Pacific workers were similar and showed a greater percent of minimum wage earners (10 and 9 percent) in relation to total wage earners (7 and 6 percent).</p>
Women	<p>Women tend to be overrepresented in a number of demographic characteristics associated with low pay, including working part-time and working in the hospitality and retail sectors. Wāhine Māori and Pacific women are more likely to be in low-paid jobs, so an increase to minimum wage could be particularly beneficial to these groups.</p> <p>62 percent of minimum wage earners between the ages of 16-64 are women, and 64 percent of minimum wage earners between 25 and 64 years are women. By comparison, 49 percent of total wage earners between the ages of 16 to 64 are women. With respect to changes over time, the proportion of the 16-64 age group of wage earners who are women has remained at 49 percent but those earning the minimum wage has risen from 59 percent in 2021 to 62 percent in 2022.</p>
Disabled people	<p>Labour market statistics show a persistent gap in median incomes from wages and salaries for disabled people. In June 2022, the median weekly income from wages and salaries for those aged 15-64 was \$960 for disabled people, \$233 less than the weekly median \$1,193 figure for non-disabled. This is \$89 more per week than the gap of \$144 in June 2021. This suggests</p>

³ Pacheco, G. (2011). Estimating Employment Impacts with Binding Minimum Wage Constraints. *The Economic Record*, 87(279), 587-602.

	that disabled people are likely to be overrepresented among lower paid people who will benefit from minimum wage increases.
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Human Rights

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

Consultation

- 65 MBIE consulted with BusinessNZ and the New Zealand Council of Trade Unions on the minimum wage options considered in the 2022 review and the analytical model used to assess them, as has been the case in recent reviews of the minimum wage. MBIE also invited submissions from a range of employer representatives, unions and worker representatives, and non-governmental organisations.
- 66 The consultation focussed on gathering information to better understand the potential implications of increasing the minimum wage in the current economic environment and labour market. Feedback from social partners and other stakeholders is summarised in the Review report.
- 67 In submissions to the MBIE 2022 Minimum Wage Review, most employer representatives argued that New Zealand already has a relatively high minimum wage, and further increases would not raise productivity, but would contribute to higher costs and therefore price inflation. Employers highlighted that excessive minimum wage rises in the current environment present risks to employment, especially for younger and less skilled workers, as well as to business viability.
- 68 Conversely, the NZ Council of Trade Unions expressed the view that the rate should be increased to align with the Living Wage (currently \$23.65) to meaningfully support workers facing higher living costs. The NZCTU referred to academic evidence suggesting that the minimum wage has little impact on employment levels or the level of general inflation in the economy.

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

Communications

- 71 I intend to make a media statement about the new minimum wage rates for 2023 following Cabinet's decisions.

Proactive Release

- 72 I intend to proactively release this Cabinet paper and the previous Cabinet paper [CPC-22-SUB-0048 refers], and will invite MBIE to release the Minimum Wage Review 2022 report on its website, subject to any appropriate withholding of information that would be justified under the Official Information Act 1982.

Recommendations

- 73 The Minister for Workplace Relations and Safety recommends that Cabinet:
- 1 **agree** one of the following options to establish a minimum wage rate for 2023:

EITHER

- 1.1 *Option one:* \$21.20, maintaining the status quo with no increase; or
- 1.2 *Option two:* \$21.84, a 3 percent increase; or
- 1.3 *Option three:* \$22.26, a 5 percent increase; or
- 1.4 *Option four:* \$22.50, a 6 percent increase; or
- 1.5 *Option five:* \$22.70, (**proposed**) a 7.2 percent increase rounded to the nearest ten cents (which aligns with annual Consumer Price Index inflation for the year ended December 2022); or
- 1.6 *Option six:* \$23.10, a 9 percent increase; or
- 1.7 *Option seven:* \$23.65, an 11.6 percent increase to the current Living Wage rate

IN CONFIDENCE

- 2 **agree** to maintain the Starting-Out and Training minimum wage rates at 80 percent of the adult minimum wage
- 3 **agree** that the minimum wage adjustment will come into effect on 1 April 2023
- 4 **agree** to make a technical update to the Minimum Wage Order relating to training requirements for the Starting-Out and Training wages to reflect changes in the education system
- 5 **invite** the Minister for Workplace Relations and Safety to provide drafting instructions to Parliamentary Counsel Office to give effect to the above proposals via an Order in Council.

Authorised for lodgement

Hon Michael Wood

Minister for Workplace Relations and Safety

Annex One: Summary of the impacts of the minimum wage options from MBIE’s Minimum Wage Review 2022⁴

Minimum wage rate impact measures	Option 1 0% \$21.20	Option 2 3% \$21.84	Option 3 5% \$22.26	Option 4 6% \$22.50	Option 5 7% \$22.68	Option 6 9% \$23.10	Option 7 11.6% \$23.65
Adult minimum wage (hourly rate)	\$21.20	\$21.84	\$22.26	\$22.50	\$22.68	\$23.10	\$23.65
Adult minimum wage (gross weekly income – 40-hour week) ⁵	\$848.00	\$873.60	\$890.40	\$900.00	\$907.20	\$924.00	\$946.00
Adult minimum wage (gross annual income – 40-hour week)	\$44,096.00	\$45,427.20	\$46,300.80	\$46,800.00	\$47,174.40	\$48,048.00	\$49,192.00
Percentage increase from existing minimum wage	N/C	3.0%	5.0%	6.0%	7.0%	9.0%	11.6%
Relativity to median wage ⁶	71.5%	73.6%	75.1%	75.9%	76.5%	77.9%	79.7%
Relativity to average wage ⁷	57.3%	59.1%	60.2%	60.9%	61.3%	62.5%	64.0%
Relativity of gross weekly income at MW rate to Job Seeker support ⁸	236.23%	243.36%	248.04%	250.72%	252.72%	257.40%	263.53%
Number of people directly impacted (rounded up to nearest 100)	N/A	114,500	190,400	201,000	222,900	302,300	335,000
Estimated restraint on employment ⁹	N/C	N/C	N/C	- <1,000 (figures under 1,000)	-5,100	-15,300	-28,900

⁴ The modelling of all options is for the calendar year from 1 April 2023. The review was completed in November 2022, using the current data at that time.

⁵ This is calculated on a 40-hour week basis.

⁶ The median hourly earnings are \$29.66 per hour (Labour Market Statistics (Income), June 2022). Note that this compares a prospective 2023 minimum wage to 2022 median wage data; in the context of strong forecasted wage growth this figure is likely to be lower when 2023 data is available.

⁷ The average ordinary time hourly earnings are \$36.97 per hour or \$1,478.80 gross per week (Labour Market Statistics, June 2022).

⁸ For a single adult, aged 25 or over, receiving \$358.97 (gross) per week, as from 1 April 2022. Source: <https://www.workandincome.govt.nz/products/benefit-rates/benefit-rates-april-2022.html>.

IN CONFIDENCE

Minimum wage rate impact measures	Option 1 0% \$21.20	Option 2 3% \$21.84	Option 3 5% \$22.26	Option 4 6% \$22.50	Option 5 7% \$22.68	Option 6 9% \$23.10	Option 7 11.6% \$23.65
				suppressed)			
Estimated economy-wide increase in wages (\$ million, annual)	N/C	92	204	284	352	537	844
Estimated inflationary impact/GDP (percentage points) ¹⁰	N/C	0.03%	0.06%	0.08%	0.10%	0.16%	0.25%
Estimated additional annual costs to the Government (\$ million, annual) ¹¹	Nil	8.2	17.8	Not specified	30.6	41.8	60.0
Full time employee receiving no tax credits or other income support - net weekly income and increase from \$21.20	\$718.45 -	\$739.57 (\$21.12) 2.94%	\$753.43 (\$34.98) 4.41%	\$761.35 (\$42.90) 5.97%	\$767.29 (\$48.84) 6.80%	\$781.03 (\$62.58) 8.71%	\$796.43 (\$77.98) 10.85%
<u>Scenario:</u> ¹² Auckland based couple , both earning minimum wage, working a combined 60 hours per week with two dependent children, receiving Working for	\$1,474.25	\$1,485.40 (\$11.15) 0.76%	\$1,492.72 (\$18.47) 1.25%	\$1,496.90 (\$22.65) 1.54%	\$1,500.04 (\$25.79) 1.75%	\$1,507.24 (\$32.99) 2.24%	\$1,514.07 (\$39.82) 2.70%

⁹ The employment effects for '16-64-year olds' are represented. These are estimates from the MBIE-MW employment restraint model updated in 2022.

¹⁰ The inflationary impact on the GDP-Income measure of the estimated economy-wide increase in wages, weighted by the share of compensation of employees in the National Accounts.

¹¹ This is a high-level estimate based on the additional costs to the Ministry of Social Development, Te Whatu Ora, Accident Compensation Corporation and New Zealand Defence Force. It does not include potential transfer savings received by the Government in additional tax and abated benefits. Figures given do not include ACC OCL rates – the Outstanding Claims Liability, an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims.

¹² These scenarios are based on current tax and benefit rates as at the time of the review in October 2022.

IN CONFIDENCE

Minimum wage rate impact measures	Option 1 0% \$21.20	Option 2 3% \$21.84	Option 3 5% \$22.26	Option 4 6% \$22.50	Option 5 7% \$22.68	Option 6 9% \$23.10	Option 7 11.6% \$23.65
Families and Accommodation Supplement - net weekly income and increase from \$21.20							
<u>Scenario:</u> 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 number and percent increase from \$21.20	\$1,293.62	\$1,301.06 (\$7.44) 0.57%	\$1,305.94 (\$12.32) 0.95%	\$1,308.73 (15.10) 1.17%	\$1,310.82 (\$17.19) 1.33%	\$1,315.58 (\$21.96) 1.70%	\$1,319.22 (\$25.59) 1.98%

Annex Two: Additional background on the recent history of the minimum wage and the current economic context

The following information is based on the detailed analysis included in the earlier Cabinet paper considered by the Cabinet Priorities Committee on 6 December 2022 [CPC-22-SUB-0048 refers], updated to reflect more recent information releases from Statistics New Zealand, NZIER, and the Treasury.

Background

- 1 The adult minimum wage is currently \$21.20, and the Starting-Out and Training minimum wage rates are currently \$16.96. As Minister for Workplace Relations and Safety, I have a statutory obligation under section 5 of the Minimum Wage Act 1983 (the Act) to review the minimum wage rates by 31 December each year.
- 2 In November 2022 MBIE recommended a 6 percent increase to be announced in December 2022 in the Minimum Wage Review 2022, based on a projection of CPI to March 2023 using two quarters of actual and two quarters of forecast data.
- 3 To provide the Government with increased certainty that the minimum wage rate will respond appropriately to current economic conditions, I proposed that the decision be made now, in January 2023, following the release of December 2022 CPI data.

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

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

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

- 5 New Zealand's median wage is calculated once annually using June data. The median wage figure used in MBIE's 2022 Minimum Wage Review analysis is from the annual Labour Market Statistics (Income) data from the Household Labour Force Survey for the year ending June 2022. Relativities between the minimum and median wage are calculated as if the minimum wage rate was applied to the labour market at the time of that June 2022 incomes data snapshot. However, wage growth has continued since this point, meaning the median is rising and will be higher by the time it is next calculated in June 2023. As the proposed minimum wage rate broadly aligns with expectations for wage growth in the year to June 2023, it is most likely that the relativity of the current minimum wage rate to the median will be maintained, once the rate set in force in April 2023 is compared to the median in June 2023 (due for release by Stats NZ in August 2023).
- 6 All indicators of wage growth are currently at or near record levels. Statistics NZ reported that median hourly earnings for wage and salary earners rose by 6.8 percent to \$29.66 in the year to June 2022. This is the largest annual increase since the series began in 1998. Similar strength was shown in the Quarterly Employment Survey (QES) and LCI in the September 2022 quarter, which reported the strongest wage increases in over a decade. Adjusted LCI rose 3.7 percent and QES average hourly earnings were up 7.4 percent over the year.
- 7 High wage growth in 2022 shows median wages increasing at a steeper rate than previously, resulting in less concern about wage compression from a minimum wage increase this year, and a lower proportion of workers on the minimum wage (2.9 percent in June 2022 versus 7.8 percent in June 2021).

... with no discernible negative economic impacts

- 8 Minimum wage increases are broadly understood to benefit workers by boosting the incomes of lowest paid employees, providing a wage floor and lifting household incomes, helping to reduce poverty and inequality.
- 9 Minimum wage increases can have the following effects:
 - 9.1 *Increased earnings for minimum wage workers*, although net household income is also affected by other Government interventions, such as taxation and abatements for those receiving income support, accommodation assistance and tax credits.
 - 9.2 *Increased labour costs for employers*, especially for sectors that employ a large number of minimum wage workers such as hospitality and retail, as well as flow-on costs from increasing the wages of other workers earning close to the minimum wage to maintain their wage relativity to the minimum wage.

- 9.3 *Inflation pressure*, if employers pass on all or part of their increased labour costs through increased prices. New Zealand's annual consumer price inflation rate was at a near-30-year-high of 7.2 percent in the year to September 2022, exceeding the Reserve Bank's target range of 1 to 3 percent. MBIE's minimum wage review modelling suggests that the economy-wide inflationary impacts of minimum wage increase options under consideration remain relatively low.
- 9.4 *Employment impacts*, including lower job growth, reduced hours and substitution of higher-paid and skilled employees for minimum wage workers. The employment restraint effects of minimum wage increases depend on the size of the increase, the economic and labour market context in which it occurs, and how employers respond to the changes. In New Zealand, a 2021 report by Motu Economic and Public Policy Research did not find evidence of adverse employment effects from increases in the minimum wage. It did note, however, that youth and low skilled workers are most at risk of this impact. MBIE's 2022 review supports this finding, as youth make up 61 percent of minimum wage earners.
- 9.5 *Changed fiscal costs for Government*, through both direct wage costs (employees paid at or near the minimum wage) and indirect costs due to Government expenditure on programmes that are affected by the minimum wage. These costs are mitigated to some extent by the Government's decision to pay some public sector supply contractors at a living wage rate.
- 10 In submissions on MBIE's 2022 Minimum Wage Review, most employers highlighted the risk of reduced employment opportunities for minimum wage workers, particularly for youth and those without qualifications or experience. They argued that New Zealand already has a high minimum wage and further increases do not increase productivity but do contribute to higher costs, stoking price inflation for consumers. Employers submitted that minimum wage increases incentivise businesses to cut jobs, reduce hours, or shift to hiring more skilled, higher wage employees. Minimum wage rate increases also affect business viability
- 11 The NZ Council of Trade Unions' submission advocated for a rise in the minimum wage rate to the Living Wage rate of \$23.65, the abolition of the starting-out and training wage rates, and the establishment of a tripartite body to provide the minimum wage recommendation to the Minister of Workplace Relations and Safety in future. The NZCTU referred to research showing that minimum wage changes have had little impact on employment levels; that the cost of living for low-income workers has been running ahead of general inflation for over a decade; and academic evidence which suggests that the minimum wage has little impact on the level of general inflation in the economy, and concern about inflationary impacts should not be a barrier to the delivery of a meaningful minimum wage.
- 12 Overall, the New Zealand experience to date suggests that expected employment restraint effects of minimum wage increases have been offset by

the strong employment growth seen in recent years – although as employment growth slows¹³, these risks are likely to become more pronounced. Employment restraint results in fewer people being newly employed than would have been the case if the minimum wage had not increased.

- 13 We have consistently raised the minimum wage every year, on average by 6.14 percent since 2018, without notable adverse economic impacts. Even after the minimum wage was increased to \$21.20 per hour in April 2022, unemployment has remained at its current record lows despite the impacts of COVID-19 and international price shocks on the economy.
- 14 New Zealand's employment rate is a record high 69.3 percent, among the highest in the OECD, and the labour force participation rate has continued to increase, with record high participation of 71.7 percent in the September 2022 quarter. Unemployment fell to a record low 3.2 percent in the December 2021 quarter and has held at 3.2 to 3.3 percent through the 2022 year, as more New Zealanders benefitted from more jobs due to the strong economy.
- 15 However, a slowdown in employment growth is likely in 2023, and unemployment is expected to rise. This outlook has been reinforced by the Treasury's HYEFU and NZIER consensus forecasts from December 2022. MBIE has warned that job growth is less likely to mask any employment restraint from minimum wage rate increases next year, as it may not be as easy for employees to find new opportunities.
- 16 The trajectory of inflation is also uncertain, as the effects of monetary policy take time to filter through. A September 2022 quarterly inflation of 2.2 percent exceeded higher estimates in the NZIER consensus forecast for the quarter, and as a result the Treasury's HYEFU and NZIER consensus forecast have projected higher inflation and a longer period until inflation declines. The latest figures for CPI show a 7.2 percent increase in the year ending December 2022. This is lower than the 7.5 percent increase forecast by the Reserve Bank of New Zealand in December 2022. Some banks and independent economists now suggest that CPI has peaked, observing that quarterly CPI has declined from 2.2 percent in the September 2022 quarter to 1.4 percent in the December 2022 quarter. On this basis, some commentators are of the view that future Official Cash Rate rises may be more moderate than previously thought¹⁴.

¹³ The Treasury's Budget and Fiscal Economic Update (BEFU) in May 2022 forecast employment growth to slow to 1 percent to the year end June 2023 and to 0.1 percent to the year end June 2024. The November 2022 RBNZ MPS has forecast annual employment growth for these two periods of 1.4 per cent and -0.4 per cent, respectively.

¹⁴ Hargreaves, David. Interest NZ. *ANZ economists change their call and now expect the Reserve Bank to lift the Official Cash Rate by 50 points next month, rather than the signalled 75 points; Kiwibank economists see peak OCR of 5% - 'enough is enough'*. 25 January 2023. <https://www.interest.co.nz/business/119347/figures-stats-nz-show-overall-rate-inflation-stayed-same-december-quarter-and>

The current economic context requires a prudent response

- 17 Since Cabinet considered the Minimum Wage Review 2022 in December 2022, more information has become available, including the Treasury's Half-Year Fiscal and Economic Update (HYEFU), the NZIER Consensus Forecasts for December 2022, and Statistics New Zealand's release of the CPI data for the December 2022 quarter.
- 18 Overall, the labour market and economy were more resilient than expected through COVID-19 in 2020, 2021 and 2022. Employment and labour participation have reached record highs in a reported labour shortage, with net migration slow to resume after restrictions during the pandemic. In New Zealand's 2022 recovery, job ads data has continued to show growth to reach above pre-COVID-19 levels, firms are reporting difficulties in finding skilled and unskilled labour, and wages are rising faster than they have in over a decade.
- 19 Inflation and rising interest rates remain key headwinds for the economy, according to the Treasury's HYEFU and NZIER's December 2022 Quarterly Predictions and Consensus Forecasts.
- 20 High inflation is causing concern in New Zealand and around the world. Global economic activity is experiencing a sharper-than-expected slowdown, with inflation higher than seen in several decades. The IMF reports that a global cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the ongoing COVID-19 pandemic are all influencing a more negative outlook. Global growth is forecast to slow from 6 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001, except for the global financial crisis and the acute phase of the COVID-19 pandemic.
- 21 The Treasury's HYEFU and December NZIER Consensus Forecasts indicate expectations for a stronger starting point for the New Zealand economy over 2023 to 2024, but a downward revision to the outlook for 2025 and 2026.
- 22 The New Zealand economy has continued to grow, with GDP increasing by 2 percent in the September 2022 quarter – more than twice the 0.8 percent expected for the quarter by the RBNZ. The June 2022 quarter GDP figure has also been revised upwards to 1.9 from 1.7 percent. These GDP figures have not reduced expectations of a shallow recession next year, with both the Reserve Bank and the Treasury predicting the economy will contract by just under 1 percent during the 2023 year to December.
- 23 The economy has appeared resilient despite rising interest rates throughout 2022, but expectations that interest rates will increase by more than previously expected are likely to have driven a downward revision for the longer term in 2025 to 2026. There is a delay in the dampening effect of interest rates on economic activity, but this dampening is expected to become more apparent as more mortgages are re-fixed and re-priced in 2023.

- 24 The Treasury has forecast a recession, reflecting global economic headwinds and tightening monetary policy. The HYEPU anticipates nine months of GDP decline next year and forecasts that the economy will contract 0.8 percent in 2023. The economic growth outlook reflects the expected slowdown in global growth predicted by the IMF, and the impact of tighter monetary policy. The economy is expected to slow though 2023 and gradually recover in 2024.
- 25 The HYEPU forecasts that inflation pressures for households and businesses are expected to persist to 2024, but are expected to decline from the peak of 7.3 percent annual inflation in June 2022 to below 3 percent by late 2024.
- 26 The labour market is still tight, with participation rising and unemployment historically low at 3.3 percent. The unemployment rate is expected to increase to a high of 5.5 percent in 2024, and decline to around 4 percent – remaining low by historical standards. The labour market is expected to remain tight in many sectors, with wage pressures continuing. Wage growth expectations have been revised upward for 2023, with annual wage growth expected to remain high at over 6 percent in 2023 and 2024.
- 27 The combination of supply chain disruptions and strong demand has seen capacity pressures intensify, contributing to higher inflation. New Zealand's CPI annual inflation rate was expected to have peaked at a 32-year high of 7.3 percent in the June 2022 quarter and was forecast earlier in the year to trend down in the following quarters and years. However, the September 2022 quarterly CPI announcement exceeded expectations, and annual inflation remained close to the peak rate at 7.2 percent in the year ended September 2022, and the most recent figures show that inflation has remained high at 7.2 percent in the year ended December 2022.