



NEW ZEALAND COUNCIL OF TRADE UNIONS

CTU Monthly Economic Bulletin

No. 64 (October 2005)

Comment

The Greens get a hard time from business about their policies – and Peters and Dunne made it a bottom line that the Greens were not given any Ministerial positions. Yet much of green economics makes a lot of sense. They constantly point out that the trade imbalance is damaging our economic base. They are strong supporters of the manufacturing sector. The Greens are the biggest advocates for a “buy New Zealand made” campaign. They have long warned about oil prices peaking as supply starts to reduce. They point out that our biggest export sector – tourism – relies on our clean, green image, which should therefore be protected and enhanced. They argue that water should not be treated as a private commodity, champion public transport and argue for the sustainable use of resources. They want the first \$5,000 to be tax free (at a cost of over \$1 billion) which makes the tax system more progressive. Their social policy focuses on income redistribution and eliminating child poverty. They push hard for increases in the minimum wage.

There are obvious points of tension that could arise for unions when confronted with the reality of green economics. The familiar difficulty usually involves a “jobs versus the environment” issue. But these need not be insurmountable. For instance, there was compensation of \$120 million paid to the West Coast when the logging of native forests was prohibited. The \$92 million share paid to the regional council has now grown to be worth \$118 million and has funded numerous projects along the way. But the energy requirements to maintain growth in New Zealand pose a real challenge for green economics. We have a one thousand-year supply of coal. While some progress is being made on clean-burning technology, the difficulties in sequestering carbon emissions may not be resolved for some time. New Zealand is such a small part of the world when it comes to climate change – and in any case 50% of our emissions are from methane and nitrous oxide from farming stock. Many of the solutions to problems posed by green economics appear therefore to be scientific ones. But Greens quite reasonably point out that although jobs are important, if we are destroying the planet because of the economic model being applied, then the stakes in the jobs versus environment debate are getting a lot bigger. Greens would however support just transition mechanisms for workers affected by environmental policies.

Fundamentally, green economics appears to be about sustainable development – thinking beyond tomorrow. For unions, this is a much better scenario than models that only have an economic bottom-line and ignore social, cultural and environmental issues. But the difficulties in applying regulatory or market-based (eg. tax) policy solutions often place the Greens at a political disadvantage. Many have a suspicion that the Greens are right about the problem but the solution appears to be impractical. But given the political realities of electing a genuinely centre-left government, unionists and Labour Party members could all benefit from spending some time and effort in the next two or three years seeking a better understanding of green economics.

Meanwhile, as I indicated in last month's comment, we could be in for a rough ride. The high dollar and rises in interest rates are a real threat to the export sector and jobs are being lost in significant numbers. It is not easy for the Reserve Bank when inflation is already at 3.4% and the housing sector and household consumption are combining with oil prices to push up consumer prices. But if the forecasts of an economic slowdown are correct, then it has been a mistake to push up interest rates to 7% as the slowdown will have a deflationary effect eventually. But the Reserve Bank is not prepared to wait for that eventuality. The Reserve Bank will nevertheless be relieved that National did not win the election. Just imagine the effect on interest rates of another \$2.2 billion into the cash economy through tax cuts early next year. And in case you are wondering about how much more is being paid to the banks for mortgages, a recent survey revealed that whereas in March 1999, New Zealanders spent \$340 million servicing their mortgages, by August 2005 it was \$679 million due to soaring house prices and rising interest rates.

Economic Snapshot

This is a snapshot of key indicators for unions. Consumer prices rose by 1.1% in the September 2005 quarter and were up by 3.4% annually. Food prices increased by 0.9% in the September 2005 year. The next CPI update is on 18th January 2006. Unemployment is at 3.7%. Maori unemployment is 8.6% and Pacific peoples 6%. The minimum wage is \$9.50 for those aged 18 years and over and \$7.60 for 16/17 year olds and trainees. Ordinary time wages as measured by the Quarterly Employment Survey¹ for June 2005 were up annually by 3.6% (2.2% in the private sector and 9.6% in the public sector). The average ordinary-time-hourly wage as measured by the QES is \$20.92. For the private sector it is \$19.43 and for the public sector it is \$26.92. For females it is \$19.30 which is 86.7% of the male average wage of \$22.25 an hour. The Labour Cost Index (for June 2005) showed private sector wages up 2.5% for the year, with public sector wages up by 2.9%. The key statistic for unions to note probably is that the LCI shows that where there were wage increases in the last measured quarter, the average rate of increase was 5% and the median increase was 3.9%. The next update of wages data is on 8th November. Economic activity (GDP) increased by 1.1% in the June 2005

¹ The QES as a measure has “compositional problems” meaning that if there is more employment of workers in a higher than average wage part of the labour market, this shows up in the QES as an increase in average wages. So the labour cost index is a better measure. However, it tends to miss increases in pay due to promotion or new job categories.

quarter and 3.1% for the June 2005 year. The official cash rate set by the Reserve Bank is 7%.

Consensus forecasts² published by NZIER

The consensus forecasts were updated in late September. Compared with the last set of forecasts they show a lower track for GDP and wages and a higher track for CPI.

Period	% increase March 2006 yr	% increase March 2007 yr
GDP	2.2	2.1
CPI	3.5	2.7
Wages (QES)	3.2	3.3
Unemployment	4.0	4.4

Incomes

The NZ Income Survey is run annually. It showed that in the June 2005 quarter the average weekly income from all sources was \$586. Average weekly income from wages and salaries was \$592, up 7.6% from 2004. This is due to increased hours of work as well as higher wages. Median hourly earnings were \$16.10 (\$17.50 for men and \$15.00 for women). The ratio is 85.7%, down from 87.8% in 2002. The most disturbing feature of the survey was that the ratio of average hourly earnings for women compared with men had declined from 86% to 82%. Pay rates for full-time men were up by 6.3% compared with 3.2% for women. One of the likely drivers of such a big fall in the ratio is that many more women than men were employed in the last year. There were 1.5% more men employed but 4.9% more women. If the majority of those women were employed in jobs that paid below the average wage for women that would drag down the pay ratio between women and men. Although the large nurses pay increase would have boosted average wages for women, many other higher settlements could have been in male-dominated industries. Whatever the explanation, it is major issue of concern as it shows that the labour market continues to strongly discriminate against women. Meanwhile the Auckland Chamber of Commerce in a recent salary survey noted that the gap between incomes for skilled and unskilled staff widened by 30% since 2004.

Interest Rates

The official cash rate was increased to 7% on 27th October and there is a chance of a further rise on 8th December. But expect this to be more contentious than the most recent rise unless we see the dollar start to fall soon.

Consumer Price Index (CPI)

The CPI has increased by 1.1% in the September 2005 quarter and 3.4% in the September 2005 year. The most significant price rises were for petrol (up 20.3%), and the purchase and construction of new dwellings (up 6.6%). Significant price falls came from international air travel (down 5.1%) and fresh vegetables (down 11.8%). If prices for petrol had remained unchanged from

² Average of forecasts from NZIER, Berl, ANZ- National Bank, ASB Bank, BNZ Bank, First New Zealand Capital, Deutsche Bank, UBS, Westpac, Reserve Bank of New Zealand, and Treasury.

the September 2004 quarter to the September 2005 quarter, the CPI would have increased by 2.7%. I have already sent out the updated CTU Real Wage Calculator.

Employment and Numbers on Benefits

Job vacancies grew by 2% in the September 2005 year but this is a much lower increase than we have recently (eg. 9% for July 2005 year). The ANZ Job Vacancy Rate Survey shows a job vacancy rate from newspaper ads of 1.7%, down from 2% in 2003 and 2004. Internet vacancies were at 1.3%. The figures suggest that although there remains high demand for labour, there is slightly less demand than in 2004. Meanwhile the number of people on benefits declined by 5% (16,000) in the last year. There are 83,000 fewer people on benefits than in 1999 – a fall of 22%.

Trade

The annual trade deficit is now \$5.8 billion. Recent figures show that capital items such as machinery plant, tractors and computers boosted the value of imports. But overall the trade balance has been in deficit since June 2002. This latest quarter saw a trade deficit of \$2 billion (27.3% of the value of exports). Prices for our commodity exports have been declining since May this year. The ANZ New Zealand Dollar Commodity Price Index fell by 1.5% in September. These figures all add to the growing seriousness of our high private debt and huge current account deficit (about 8% of GDP). For instance our net international debt increased by 12.5% in the March 2005 year. In the last year, exports have increased by 2.4%, but imports by 7.1%. The TWI (trade weighted exchange index) has gone up by 4.7% in the last year.

Housing

The median house price rose by 16% from September 2004 to reach \$290,000. The Auckland median is \$379,000. The Southland median is \$126,500. Another measure of house price movement (Quotable Value) puts the annual increase at 14.9%. Overall house prices have risen by 57% since 2002. Little wonder that the rate of home ownership is falling with predictions that it will keep sliding from 68% in 2001 to 62% by 2016. Meanwhile, farm prices are up from a median of \$750,000 last year to \$873,000 in September 2005.

Work Stoppages

There were 16 stoppages ending in the June 2005 quarter. The annual number of stoppages has lifted to 41 (from 32 in the March 2005 year) comprising 27 private sector and 14 public sector strikes. The manufacturing industry had the highest number of stoppages, with 15 strikes, while the transport and storage industry had the highest losses in wages and salaries and person-days of work. The finance and insurance industry had the highest number of workers involved in stoppages.

Migration

In the year ended September 2005, there were 78,900 permanent and long-term arrivals, down 2,900 (4%) on the September 2004 year. Over the same period, departures increased by 8,500 (13%) to reach 72,500. The overall

result was a net migration gain of 6,400 in the September 2005 year, which is 64% lower than the net inflow of 17,800 people in the previous September year. In the year ended September 2005, there was a net inflow of 9,300 from the United Kingdom, unchanged from the September 2004 year. There were also reduced net inflows from India (2,000), Japan (1,700) and China (1,000), down from net inflows of 2,800, 1,900 and 3,700, respectively, in the previous year. Overall, the net inflow from Asia has reduced, from 11,600 in the September 2004 year, to 6,100 in the September 2005 year. In contrast, there were increased net inflows from Fiji (2,300), Germany (1,300) and South Africa (1,100). There was a net outflow to Australia of 20,700 in the September 2005 year, an increase of 7,100 (52%) compared with the previous September year, and a net outflow of 1,000 to Korea.

Statisphere

There is a new portal that directs you to all official statistics. It is on www.statisphere.govt.nz if you want to check it out.

For further information contact Peter Conway on 04 802 3816 or peterc@nzctu.org.nz