NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 181 (August 2016)

Information Section p.8

Commentary

Effective collective bargaining: some lessons from Europe

Summary

You may have noticed there was no July *Bulletin*. I was in Europe, mainly on holiday, but also talking to experts on collective bargaining in five countries. Here is some of what I learned.

The benefits of collective bargaining (CB) include ensuring wage growth does not fall behind productivity growth. It can also encourage productivity growth. It forms a stronger basis for trust in the workplace, encouraging innovation among employees. There is strong evidence that CB and unions reduce inequality via a number of channels. Good design of CB strengthens these roles and addresses potential problems.

New Zealand is an outlier in the OECD... Most of the OECD – Europe – has much stronger CB coverage than New Zealand and the other 'Anglo' countries where neoliberalism has been strong. Strong CB is therefore associated with some of the strongest economies and highest living standards in the world.

… but the varieties of collective bargaining are many and varied. No two European countries have the same system. Further, it is deceptive to judge CB solely on what their law says. Its shape and effectiveness depends crucially on 'cultural' issues which are often unwritten.

Extension of CB is common in Europe. 'Extension' is where collective agreements negotiated between unions and employers are extended to all employees in a firm, sector or industry. Its effectiveness relies on good union and employer organisation and other design features.

Union and employer organisation needed for extension. Extension does not necessarily weaken union membership. But some European countries with effective collective bargaining have similar union membership rates to New Zealand, suggesting that other factors are as important as high union density. Strong industry/sector employer bargaining organisations are also vital, requiring them to take an industry and longer term perspective. In Europe, employers support extension to remove wages from competition, allowing employers to pay higher wages to attract and keep skilled staff, encouraging increased productivity. The public support a wage system they see as just and fair.

Upside down values. Finally, I observed that the neoliberal thinking that has become embedded in New Zealand is upside down compared to Europe: it makes economic activity the goal in its own right, rather than improving living standards and social cohesion. More below.

You may have noticed there was no *Bulletin* in July. I was visiting Europe, mainly on holiday, but the CTU kindly paid some costs to enable me to visit experts on collective bargaining in five different countries. This is a shorter version of a paper I wrote about what I learned from those visits and reading of research on these issues. I took a particular interest in economic impacts of different forms of collective bargaining, and in how to make it as effective as possible.

Employment, economic growth, inequality

Collective bargaining (CB) and extension have a number of potential roles with respect to productivity and hence economic growth. It can help to ensure real wage growth does not fall behind productivity growth. It can also encourage productivity growth. By increasing the cost of labour and increasing aggregate demand it can encourage firms to invest in productivity-enhancing processes, equipment and technology. Pay that is perceived to be fair encourages more effort and engagement from workers.

CB also forms a stronger basis for trust in the workplace. It can encourage employees to take risks in innovation, find efficiencies and point out improvements. This is because it provides at least some assurance of security and of sharing future productivity benefits. The alternative (neoliberal) model of trust, which is popular in the U.K., is based on little more than a hope that employees can trust their employers' word, with no means to enforce it in the short or long term.

It is conceivable that extension, being a wage increase imposed on employers which have had no part in negotiating it, could lead to reduced employment or unemployment (and hence raised inequality). By analogy with minimum wage setting, this seems unlikely: employers adjust through productivity, efficiency, hours worked, prices and other mechanisms. However, carefully designed temporary exceptions for individual firms (see below) provide a 'pressure valve', and effective employer organisations should widen employer involvement in negotiations.

Further, coordination of negotiations[1] can reduce the risk of employment effects and strengthen the role of CB in reducing inequality. Coordination can take many forms, and can either be carried out by unions or jointly with employers and/or government. Less desirably it can also be imposed by government. Examples of forms it can take include a framework for the bargaining round; a 'spring offensive' (as in Japan) or other forms of lead agreements; pattern bargaining; industry papers explaining arguments; wage committees of both parties presenting information on key factors such as productivity, labour share of income, CPI. It is worth observing that coordination does not need a specific legal structure to occur (though of course different structures make it more or less feasible and effective); we could benefit from coordination even under the current legal framework.

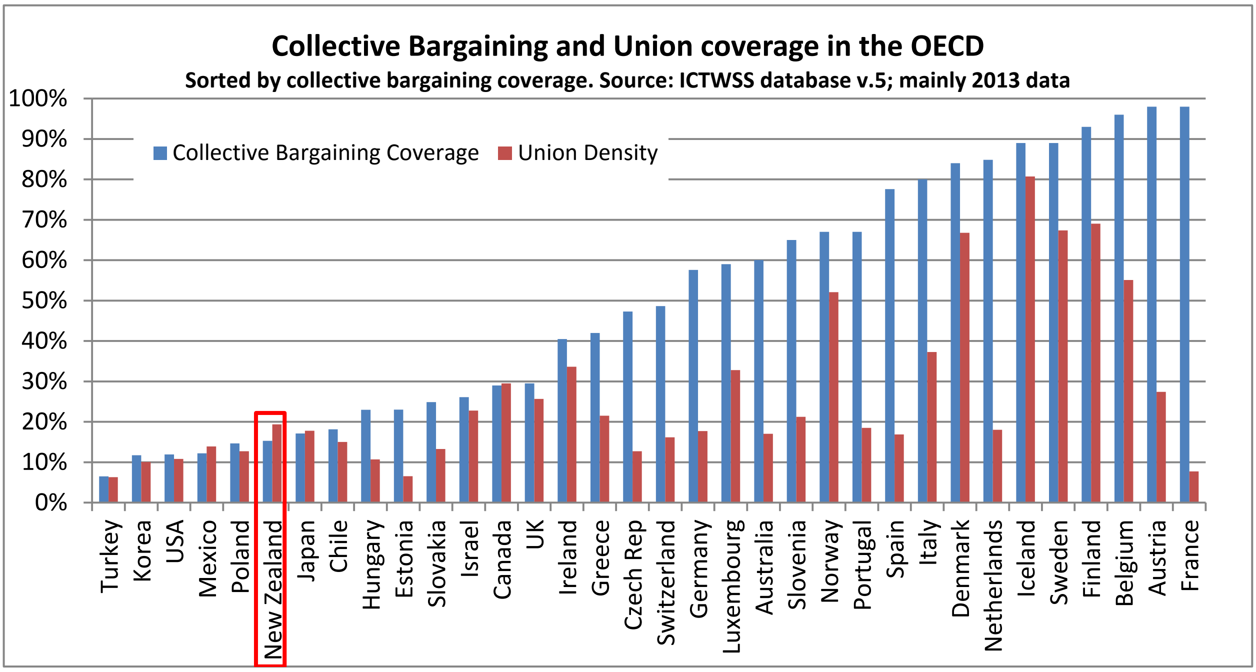
Often associated with coordination is 'articulation' – higher level collective agreements (CAs) putting requirements on lower level agreements in the industry/sector, such as 'no less favourable'.

In general there is strong evidence that CB and unions reduce inequality via a number of channels. Coordination and articulation strengthen that role. Some research suggests that extreme forms of extension (that is, where the gap between CB and union coverage is very high) can raise inequality. However this is questioned by the experts I spoke to[2] and the design of extension can address such concerns, as can coordination.

[1] In the past, it was theorised that centralisation had a role in determining inequality – that highly centralised or highly decentralised systems had lower inequality but inequality was higher in mixed systems. Coordination is now thought to play a much more important role than centralisation.
[2] There is a multi-country research project comparing the inequality effects of different forms of CB.

Concerns about the effect of CB on the internationally exposed sector of the economy (exporters, those competing with imports) can to an extent be resolved through wage coordination. In addition, the impact should not be overestimated – quality, non-wage cost and other product factors can play a large role in competitiveness. The proportion of the economy that is 'tradeable' is also important. Even in Germany, a strong exporter, growth has been based on domestic demand.

New Zealand is an outlier in the OECD…



Most of the OECD – Europe – has much stronger CB coverage than New Zealand and the other Anglo (extreme neoliberal) countries, particularly the US. Even the U.K., Canada and Australia have much stronger coverage than New Zealand, at least on paper. We are particularly unusual in having lower collective bargaining density than union density (one of only four in the OECD). The Eastern European countries which are relatively recent members of the European Union (EU) are exceptions in Europe. Although there is push back against labour rights in Western Europe from the 'troika' of the European Commission, European Central Bank and IMF, collective bargaining has nonetheless emerged from the Global Financial Crisis at worst only slightly weakened in most places (Greece, Portugal and Ireland, plus some East European countries are notable exceptions) and in some cases such as Germany, despite push-back from some employers, showed its strength in the crisis. Strong collective bargaining is therefore associated with some of the strongest economies and highest living standards in the world.

… but the varieties of collective bargaining are many and varied.

No two European countries have the same systems for CB. Even more importantly, it is highly deceptive to judge CB solely on its formal and statutory form. Its shape and effectiveness depends crucially on 'cultural' issues which are often unwritten including the country's history of labour and political relationships, the attitudes and organisation of employers, public opinion, attitudes as to what fairness looks like, tripartite institutions, and the degree to which strategic (long term) thinking is part of the national habit, particularly among employers. For example Netherlands employers can negotiate enterprise level agreements with a union (or non-union) of their choosing – but rarely do. In both

Germany and the Netherlands, for good and bad reasons, some of the greatest supporters of extension have been employer groups (see below).

Some ingredients for good design of extension

Extension of CB, where collective agreements (CAs) negotiated between unions and employers are extended to non-union members in a firm, sector or industry, is common in Europe. It relies not only on strong union and employer organisation (see below) but some critical features including the following.

A threshold test for extending a CA is a critical piece of the design. While a low threshold may appear attractive, there is a democratic accountability aspect that is required for both public support and credibility among workers covered. A simple coverage requirement (e.g. 50% CA coverage of employees) is often accompanied by a coverage requirement for employer organisations as well. However a hard minimum coverage proportion has problems including being too high a hurdle and difficult or impossible to determine in practice. Alternatives include a 'public interest' test, though this has been problematic in Germany's tripartite system where the peak employer organisation has repeatedly opposed accepting extensions on this basis even if employers at the lower level have agreed to it; a 'sufficiently representative' test, which may include consideration of the degree of non-standard employment in the industry/sector; and the proportion of small firms in the industry/sector (used in Portugal).

Sector and industry extension is common but is not necessarily the most important widening of coverage. In both the Netherlands and Germany the majority of coverage beyond union membership results from a requirement that employers extend the conditions of CAs to all their employees (e.g. the Netherlands has over 80% CB coverage consisting of about 20% union density, 10% sectoral extension and 50% employer extension). In other countries (e.g. France) the situation is reversed.

Provisions for exceptions from extension for individual employers are contentious but becoming increasingly common. There is a genuine case for them in certain circumstances, but they can also be used to undermine CB so need to be carefully designed. Individual employers can for various reasons find themselves in difficulties whereby insistence on the conditions of the extension would put them out of business; in these circumstances a carefully controlled and designed 'hardship' exception could be available whose conditions should include union agreement to its terms, the reasons for hardship should be specific to the firm (not a cyclical downturn in the economy), a fixed term (e.g. one year), an agreed process during the exception (e.g. productivity and wage targets), and security of employment and hours worked. In addition, a limited number of terms of a CA may still need to be negotiated locally, such as details of hours worked, but then only in circumscribed ways and clear principles of 'favourability' – i.e. no worse than the collective. The Dublin-based European Union research institute, Eurofound finds that exceptions (sometimes called "opening clauses") are in practice infrequently used because they are complex to use and risk reputational damage for the employer.

When extension won't work

For some sectors (e.g. agriculture and construction) little or no collective bargaining may be possible because of low union density. A variety of other approaches can be considered including a sector-specific minimum wage or a scale of minimum wages rather like the Australian 'modern awards'; and the use of conditions on government procurement. The use of minimum wage 'extension' is growing in Europe, even in highly unionised countries like Norway, especially when there are vulnerable low-income workers who are difficult to organise such as 'posted' workers (workers from other countries ‘posted’ for work in another country temporarily by their employer). Government procurement requirements that employees of contractors should be on an industry/sector CA may be supported by employers as a common wage floor. It is used in Switzerland and elsewhere.

Union and employer organisation needed for extension

There is no identifiable relationship between the strength of extension and union density: it does not necessarily weaken union membership. However some European unions do have these concerns and it is important not to let extension lead to remoteness of union leadership from its members.

On the other hand, some European countries with high CB density do have low union density. France is an extreme with only 8% union coverage but 98% CB coverage (2013). But Switzerland, Spain, Australia, Germany, Netherlands and Portugal all have lower union density than New Zealand while having much greater CB density. The highest union density is in the Nordic countries and Belgium, where it is well over 50% supported by the ‘Ghent’ system in which unions provide unemployment benefits instead of the state (or in the case of Norwegian unions are supported by the state in different ways). Apart from them, the highest density in the OECD is Italy at 37% – ‘only’ twice New Zealand’s. This suggests that other factors are as important as high union density and that high density requires the support of the state. This is not to suggest we can ignore union building (particularly not in the private sector where membership density is low), but it suggests priorities which address effectiveness – how we behave – are also very important. These include coordination of bargaining, credibility in taking industrial action, membership engagement, employer engagement, political engagement and communications.

Strong industry/sector employer bargaining organisations are also crucial for multi-employer CB. They are virtually non-existent in New Zealand. It is worth noting that such employer organisations are also important to strengthen industry training and industry development; in all cases they require an industry (rather than firm) specific view, which in turn benefits from taking a longer term perspective. Larger employers play key roles.

Why might employers support (extension of) collective bargaining?

In Europe, reasons employers support extension include removing wages from competition (larger employers in particular don’t like to be undercut and it allows them to pay higher wages to attract and keep skilled staff), the industrial ‘peace’ it brings (this assumes there is a credible threat of industrial action without it), a stable workforce, together encouraging increased productivity. One argument used goes like this: “Would you be happy if your competitors received subsidies? If not, why should your workers subsidise you?” In some countries arguably employers like extension because it keeps wages down, but there is a demonstrable earnings and security premium for union or CB coverage.

In Germany, employer support for CB was weakening pre-GFC with increased pressure for exceptions (‘opening clauses’) but it strengthened post-GFC in light of the arrangements made with unions for short time work (supported by government funding), zero wage rounds etc during the crisis. There is now a growing realisation that deregulation went too far, demonstrated by the introduction of a minimum wage, which is now a big topic of discussion in Europe.

Why might the public support better wage setting?

European unions and politicians appeal to the justice and fairness resulting from coordinated wage setting. From working people’s viewpoint, without a strong wage system their incomes are undermined by low wages subsidised by taxes that they themselves pay. Both workers and employers see value in protection against ‘wage dumping’. A fair wage setting system also helps give workers some assurance that they will receive a share of the value of an open economy – otherwise they will increasingly oppose it. These arguments are not framed explicitly around CB or extension, but around justice and fairness.

From an economic viewpoint, wage growth is good for economic growth by creating internal demand for goods and services, and building a stronger middle class. This creates a ‘public good’ argument – that higher CB coverage is better for everyone and deserves state support in law and in other ways – for example tax deduction for union fees, government funded training for advocates

Works councils

Works councils provide an alternative form of worker participation to unions and CB. The experts I spoke to considered them generally worthwhile though they are very mixed in their effectiveness. They work because they have statutory backing – otherwise there is always the threat that they could be disestablished if they take decisions the employer disagrees with. In Germany they only really work when they have union support – which is quite resource intensive for unions. (There is a parallel here to our Health and Safety Committees and Representatives.) In Germany, 60% of Works Council members are union members; in Netherlands about 50%. So unions/CB and Works Councils complement each other rather than compete. They have different roles in different countries – for example in Germany they have no strategic or CB role, but in Netherlands they have a strategic role (though only about 10% do it properly and 40% are ineffective or non-existent). In both countries they can take a role in some secondary employment issues such as work hours, but not full CB.

Values are upside down in New Zealand

Speaking to Europeans exposes the fact that the neoliberal assumptions that have become embedded in New Zealand thinking are upside down: they make economic activity the goal in its own right, rather than a goal of improving living standards and social cohesion. Some examples:

New Zealand	Europe
Employers: “It is not our job to pay a decent wage – that is the role of the state” [they then oppose greater state spending].	It is not the job of the state to pay decent wages: the employer cannot pass this responsibility off to the state and ask for subsidies.
Wage competition and ‘flexibility’ gives the firm the incentive and ability to innovate and match skills to employment needs. This will increase its productivity.	Paying higher wages keeps skilled workers which raises the firm’s productivity and encourages workers to innovate and support the firm’s longer term goals
If each firm cannot determine its own wages then it risks going out of business and its workers’ skills won’t be optimally matched to its needs. Productivity will fall.	If firms compete on wages it allows low wage, low productivity firms to undermine high productivity firms paying higher wages, so discourages firms from raising skills and productivity.
The market will ensure workers’ pay reflects their productivity.	It is fair to share rising productivity among all workers through coordinated collective bargaining.

The practical outcome is that employers are advantaged even when there is no wider economic benefit. The New Zealand (neoliberal) framework is a short term, low productivity one; the European one takes a longer term view and has been successful in raising productivity. However this is a broad generalisation and generalisations are never universally true. There are many European models, there was always a neoliberal element to the European Union (especially of course in the U.K.), and pressures of international competition and the GFC, intensified by the ideology of the 'troika', are breaking down the 'European' values. More employers and policy makers are taking a short term view, which is tending to weaken CB. Nevertheless, extensive and effective CB structures remain.

Conclusion

Well-designed employment law is vital. But for effective and sustainable change to New Zealand's dysfunctional wage setting system, we must look beyond changes to the law and take a long term view in building our capability to act strategically and building the public support required for change. That includes finding allies in the public and amongst employers and changing the short term and narrow views that drive current debate.

Bill Rosenberg

Information

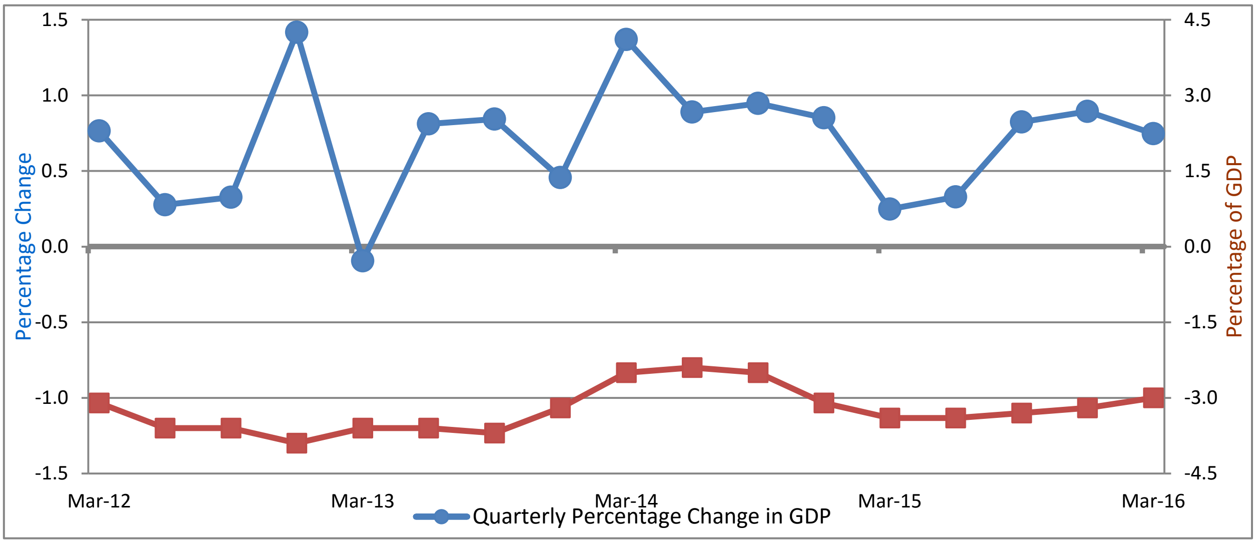
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 13 June 2016.

Annual Percentage Change (March Year)	**2016-17**	**2017-18**	**2018-19**
GDP	2.7	2.9	2.6
CPI	1.5	1.9	2.0
Private Sector average wage	2.3	2.4	2.7
Employment	2.2	2.1	1.6
Unemployment rate	5.5	5.2	5.1

Economy



- Growth in New Zealand's economy moderated in the March 2016 quarter, with Gross Domestic Product rising by 0.7 percent, compared to 0.9 percent in the December 2015 quarter. Growth for the year ended March 2016 was 2.4 percent. However GDP is barely keeping up with the rapidly growing population: GDP per person grew only 0.1 percent in the March quarter, and 0.5 percent over the year. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors and the falling prices for some of our main exports, did not change (it rose 0.0 percent) over the March year. It fell in the September 2015 and December 2015 quarters though grew strongly (1.6 percent) the March quarter. Production per hour worked in the economy grew only 0.5 percent compared to the same period last year and fell 0.2 percent in the March quarter, indicating very weak productivity growth. Business investment growth is also weakening. It rose 1.4 percent over the year compared to 9.0 percent the previous year, though it rose 2.0 percent over the three months. Household consumption growth also moderated to 0.4 percent in the quarter, though was relatively strong for the year, up 2.4 percent. The growth in the latest quarter was mainly due to strong growth in Construction (up 4.9 percent) and Health Care and social assistance (up 2.7 percent) followed by Retail Trade and Accommodation (up 1.3 percent), Transport, postal, and warehousing (up 1.5 percent), Financial and Insurance Services (up 0.9 percent), and Professional, Scientific, Technical, Administration and Support (up 0.6 percent). There were also stronger than average rises for Electricity, gas, water, and waste services (up 1.4 percent), Information media and telecommunications (up 1.1 percent) and Public administration and safety (up 1.0 percent). Manufacturing activity fell by 0.4 percent in the quarter (though it rose weakly by 1.4 percent in the year) led by a further fall in the largest sector Food, Beverage and Tobacco Manufacturing (down 1.3 percent after a 4.0 percent fall in the previous quarter) with Furniture and other manufacturing down a huge 12.0 percent and Non-metallic mineral product manufacturing (down 6.2 percent) also contributing. Offsetting those were Textile, Leather, Clothing, and Footwear Manufacturing (up 5.4 percent) and Transport equipment, machinery and equipment manufacturing (up 2.4 percent). In all, production fell in five manufacturing subsectors and it rose in four. Agriculture (down 0.1 percent), Mining (down 3.3 percent), Wholesale trade (down 0.2 percent) and Rental, hiring and real estate services (down 0.1 percent) also fell. Inflation returned to the economy as a whole with the GDP deflator (a price index for expenditure on the economy's production) rising 1.5 percent in the March quarter after falling for six months, with a total rise of 0.7 percent for the year.

- New Zealand recorded a Current Account deficit of $1.5 billion for the March 2016 quarter in seasonally adjusted terms (but an actual surplus of $1.3 billion), compared to a $2.2 billion deficit in the December 2015 quarter and $1.7 billion in the September quarter. There was another deficit in the goods trade ($515 million, seasonally adjusted, following a $760 million deficit in the December 2015 quarter) and a surplus of $624 million in goods and services ($211 million in December), while the deficit on primary income (mainly payments to overseas investors) fell to $1.7 billion from $2.1 billion in December (not seasonally adjusted). For the year to March 2016, the current account deficit was $7.5 billion or 3.0 percent of GDP compared to an $8.0 billion deficit in the year to September (3.2 percent of GDP). The deficit on investment income was $8.4 billion for the year.
- The country's Net International Liabilities were $157.0 billion at the end of March 2016, up from $151.9 billion at the end of December 2015 and $152.2 billion a year before. The March net liabilities were equivalent to 63.1 percent of GDP, compared to 61.8 percent in December and 63.5 percent a year before. The rise in liabilities was due to a $1.5 billion net inflow of investment adding to $3.6 billion in market value changes (led by a $2.7 billion change in market price attributable according to Statistics New Zealand to high share market prices) without which the net liabilities would have been $153.4 billion. New Zealand's international debt was $292.7 billion (117.7 percent of GDP), of which 30.7 percent is due within 12 months, compared to $150.2 billion in financial

assets (other than shares; 60.4 percent of GDP), leaving a net debt of $142.4 billion (57.3 percent of GDP). Of the net debt, $10.1 billion was owed by the government including the Reserve Bank (equivalent to 4.1 percent of GDP and down from $11.6 billion in December) and $101.2 billion by the banks (40.7 percent of GDP), which owed $62.9 billion to related parties. Total insurance claims owed by overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 31 March 2016, $18.5 billion of these claims had been settled, leaving $1.7 billion outstanding.

★ Overseas Merchandise Trade for the month of July saw exports of goods fall 4.9 percent from the same month last year while imports fell 10.3 percent. This created a trade deficit for the month of $433 million or 10.9 percent of exports. There was a trade deficit for the year of $3.0 billion. In seasonally adjusted terms, exports rose 2.2 percent or $90 million over the month (compared to a 0.9 percent fall the previous month) with small rises in Dairy (up 0.6 percent or $10 million), Mechanical machinery and equipment (up 1.7 percent or $2 million) and Aluminium and aluminium articles (up 13.1 percent or $10 million, not seasonally adjusted) – offset by falls in Meat (down 9.3 percent or $50 million), Fruit (down 16.1 percent or $39 million), Crude oil (down 31.5 percent or $25 million but not seasonally adjusted), Logs, wood and wood articles (down 1.5 percent or $6 million), and Electrical machinery and equipment (down 6.6 percent or $6 million). Seasonally adjusted imports rose 5.6 percent or $235 million over the previous month, creating a trade deficit of $218 million compared to a $73 million deficit in the previous month. Import rises were led by Textiles and textile articles (up 6.8 percent or $11 million) – offset by Electrical machinery and equipment (down 7.7 percent or $28 million), Optical, Medical and measuring equipment (down 12.8 percent or $20 million), Mechanical machinery and equipment (down 2.3 percent or $13 million), Plastic and plastic articles (down 7.8 percent or $13 million) and Petroleum and products (down 2.4 percent or $9 million not seasonally adjusted).

★ The Performance of Manufacturing Index[1] for July 2016 was 55.8, a fall from 57.6 in the previous month. The employment sub-index was at 54.6, a rise from 53.7 in the previous month.

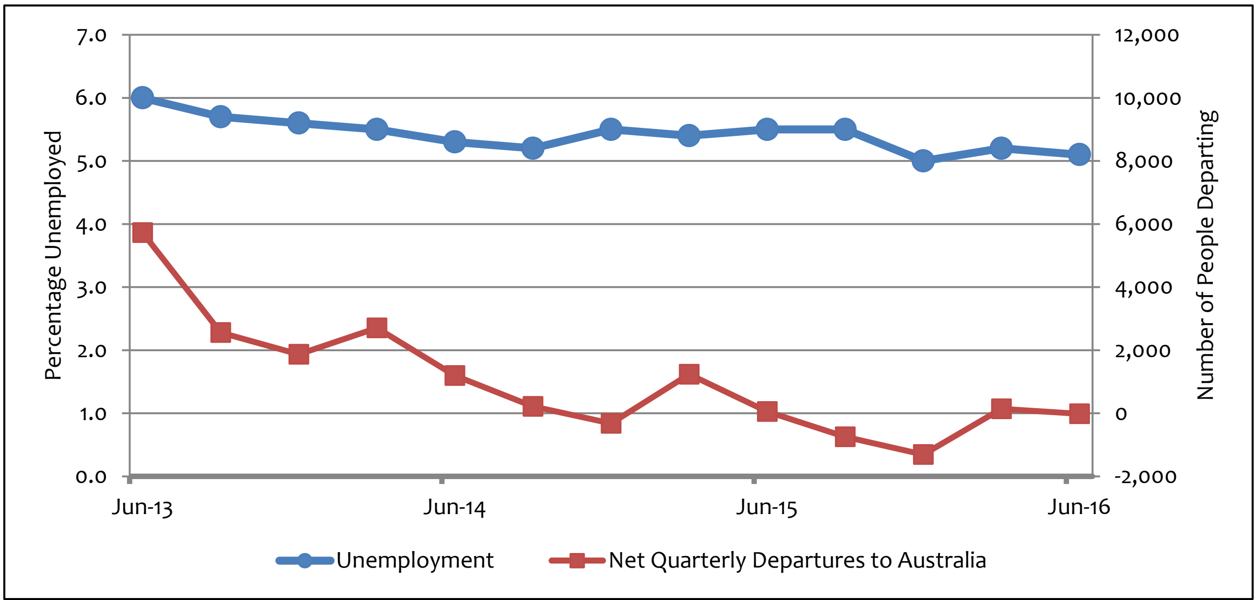
★ The Performance of Services Index[1] for July 2016 was 54.2, a fall from 56.4 in the previous month. The employment sub-index fell to 53.8 from 54.8 in the previous month.

★ The Retail Trade Survey for the three months to June 2016 showed retail sales rose 6.0 percent by volume and 5.5 percent by value compared with the same quarter a year ago. They rose 2.3 percent by volume and 2.2 percent by value in the quarter, seasonally adjusted. By value the fastest rises were in Non-store and commission retailing (which includes internet purchases) which was up 6.9 percent, Hardware, building, and garden supplies (up 5.9 percent), Pharmaceutical and other store-based retailing (up 4.9 percent), Food and Beverage services (up 3.6 percent), and Furniture, floor coverings, houseware, textiles (up 3.4 percent). There were falls in Recreational goods (down 2.9 percent), Accommodation (down 2.1 percent) and Fuel (down 0.7 percent). Supermarket and grocery stores, the largest single sector, rose 1.2 percent by value (up $53 million).

★ On 11 August 2016 the Reserve Bank reduced the Official Cash Rate (OCR) by 25 basis points to a record low of 2.00 percent from 2.25 percent, signalling the likelihood of further reductions to raise inflation to its target of around 2 percent. It was accompanied by a Monetary Policy Statement. The Bank's announcement expressed concerns that global growth remains below trend despite "unprecedented levels of monetary stimulus" with further monetary easing occurring and long term interest rates at record lows. Surplus capacity (meaning high unemployment) remains in many countries as do continuing weak commodity prices. Political risks are also high. The New Zealand dollar remains too high, which is bad for export and import-competing sectors and along with low global inflation is causing deflation (negative inflation) in tradeable goods and services prices making it difficult for the RBNZ to meet its inflation target. The Governor called for a decline in the exchange rate. Growth in the domestic economy is based on "strong inward migration, construction activity, tourism, and accommodative monetary policy" while dairy prices are depressing incomes in the dairy farming sector and reducing farm spending. The Bank is elsewhere making increasingly urgent calls on the Government to assist by spending on infrastructure. "High net immigration is supporting strong growth in labour supply and limiting wage pressure." House price rises "remain excessive" and have spread across the regions "adding to concerns about financial stability". The Bank is consulting on new and stronger measures to "mitigate financial system risks arising from the rapid escalation in house prices". Despite tradeables deflation the Bank expects overall inflation to rise from the December quarter (but its own testing of its economic modelling shows it consistently overestimates future inflation). It is worried that inflation expectations will start to fall below its 2 percent target. The next OCR announcement will be on 22 September.

★ According to REINZ, the national median house price rose $40,000 or 8.6 percent to $505,000 in the year to July 2016 and rose $5,000 (1.0 percent) on the previous month though it is still below the $506,000 reached in May 2016. The Auckland median price rose 12 percent or $90,000 over the year to $825,000 and 0.5 percent or $4,000 on the previous month. Excluding Auckland the national median price rose $38,000 or 10.8 percent to $390,000 compared to a year before. Four regions had record median prices in addition to Auckland – Waikato/Bay of Plenty (up 26 percent over the year), Northland (up 16 percent) and Manawatu/Whanganui (up 15.5 percent). The Central Otago Lakes median rose 32 percent over the year to $660,000, clearly the second most expensive region. There was a rise of 12 percent to 1,015 in number of sales in the $1 million plus range. The proportion of sales under $400,000 fell by 4 percentage points compared to the same month a year before, while the proportion under $600,000 fell 5 percentage points from 65 percent to 60 percent.

Employment



Note: the release reported on below of **Household Labour Force Survey** statistics on employment and unemployment reflects a major revision of the survey as from June 2016. The changes include a change to the measurement of unemployment which reduced the reported unemployment rate for March 2016 from 5.7 percent to 5.2 percent, and new statistics on union membership, type of employment agreement (collective or individual), employment type (casual, seasonal, fixed term, temp agency, permanent etc) and job tenure. The changes also mean that some statistics, including numbers employed and hours worked, cannot be accurately compared between June 2016 and previous months. We will report in more detail in a future *Bulletin* commentary.

★ According to the Household Labour Force Survey the unemployment rate in the June 2016 quarter fell to 5.1 percent or 131,000 people, compared to a substantially revised 5.2 percent (see above) in March (132,000 people), seasonally adjusted. It is still more than half as much again than the 3.3 percent it was in December 2007. The unemployed were not the only people looking for work: the new statistics include a measure called "underutilisation" which includes the officially unemployed as above, people looking for work who are not immediately available or have not looked sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours ("underemployed"). In the June quarter there were a total of 342,000 people looking for work classed as "underutilised", or 12.7 percent of the labour force extended to include these people. Of them, 106,300 were underemployed, 126,300 were officially unemployed, and 109,500 additional jobless people looking for work (these figures are not seasonally adjusted). The 12.7 percent underutilisation rate is down from 13.2 percent a year before but still considerably higher than in June 2007 when it was 9.7 percent. It is higher for women at 15.6 percent than for men (10.1 percent). Excluding the officially unemployed, the underutilisation rate is 8.0 percent which has changed very little since June 2009 when it was 8.1 percent – it peaked at 8.5 percent in 2012 and troughed at 7.5 percent in 2013. There are 44,800 unemployed people who have been out of work for more than 6 months. This is apparently a sharp increase from the 39,200 a year before but a change in the survey question could have contributed to this. This is 35.5 percent of the unemployed compared to 29.5 percent a year before, and has not been previously reached in a June quarter since 1996. Those out of work for more than a year is at 16.7 percent of the unemployed compared to 12.1 percent a year before (again possibly affected by the changed survey question). Compared to OECD unemployment rates, New Zealand had 11th equal lowest (out of 34 countries), despite the radical change in the measurement of unemployment not a great improvement on 12th in March.

★ The number recorded as employed rose by 58,000 between the March and June 2016 quarters, but this rise is in part because of changes in the way employment is measured and so is not a true measure of the change in employment. For example, up to 10,000 Defence Force personnel are now included (but formerly were not), and changes in questioning in the survey have led to increased numbers of self-employed being identified (such as Uber drivers), some of whom work very few hours a week. The recorded employment rate accordingly rose sharply from 65.2 percent to 66.2 percent over the three months. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) rose sharply from 68.8 percent to 69.7 percent, all in seasonally adjusted terms. These changes also led to a huge recorded increase of 5.7 percent in hours worked over a year before – again not a true measure of increased work.

★ In the North Island, unemployment rates have apparently fallen compared to a year ago (though the above change in definition needs to be remembered) including a statistically and economically significant fall in Auckland from 5.9 percent to 4.7 percent. However the majority of North Island regions are still above the national average unemployment rate of 4.9 percent (not seasonally adjusted): Northland still rising at a very high 10.4, Bay of Plenty at 5.1 percent, Gisborne/Hawkes Bay at 5.0 percent, Manawatu-Whanganui at 5.6 percent and Wellington at 5.3 percent. Auckland, Waikato (4.8 percent) and Taranaki (4.8 percent) have unemployment just below the national average. The South Island on the whole looks considerably better, but the unemployment rate is higher than a year ago in all but Southland with Tasman/Nelson/Marlborough/West Coast at 5.9 percent, Canterbury at 3.2 percent, Otago at 4.5 percent and Southland at 5.0 percent.

★ By industry, over half of the total 104,900 increase recorded in employment over the year (see the above warnings due to the change in the survey) had the industry “not specified” (58,000). Of the rest, the increase was led by Agriculture, forestry and fishing with 12,700 more employed, Wholesale trade 30,400, Professional, scientific, technical, administrative, and support service 15,100, Public Administration and Safety (which would include newly counted Defence) 16,300, and Education and Training 14,700. However these were offset by falls led by Manufacturing which was down 18,500 workers, Transport, postal and warehousing down 11,700, Information media and telecommunications down 5,900, and Construction down 4,000.

★ The seasonally adjusted female unemployment rate at 5.4 percent was higher than for men (4.7 percent), but both fell from the previous quarter (5.7 percent and 4.8 percent respectively). Māori unemployment fell from 12.2 percent in June 2015 to 11 percent, and Pacific people’s unemployment fell from 10.1 percent to 19.1 percent over the year.

★ Youth unemployment for 15-19 years was 18.4 percent in June 2016, down from 22.4 percent in March and 19.6 percent a year before (note that this and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and Pacific Peoples are not). For Māori in June 2016 the unemployment rate was 24.3 percent and for Pacific Peoples it was 32.5 percent. For

20-24 year olds it was 9.3 percent, down from 9.4 percent in March and 10.2 percent a year before. For Māori in June 2016 it was 17.4 percent and for Pacific Peoples it was 12.2 percent. The Not in employment, education, or training (NEET) rate for 15-19 year olds was 6.8 percent, down from 8.8 percent in March and 7.6 percent a year before. For Māori in June 2016 the rate was 11.0 percent and for Pacific Peoples it was also 11.0 percent. For 20-24 year olds the NEET rate was 14.3 percent, down from 15.8 percent in March and 15.2 percent a year before. For Māori in June 2016 the rate was 25.0 percent and for Pacific Peoples it was 20.4 percent. For the whole 15-24 year old group, unemployment was higher for those in education (13.1 percent) than those not in education (12.1 percent). There were 71,000 people aged 15-24 years who were not in employment, education, or training (NEET).

★ For the first time the HLFS surveyed **union membership** and having a **collective employment agreement**. In the June 2016 quarter, the results showed total union membership of 379,300, which is 19.1 percent of employees (or slightly higher if those who didn't know were discounted). Among men, the proportion is 15.5 percent (156,700 people), and among women 22.8 percent (222,700 people). Proportions by age are 7.4 percent for 15-25 year olds, 14.6 percent for 25-34 year olds, 18.4 percent for 35-44 year olds, 25.6 percent for 45-54 year olds, 29.3 percent for 55-64 year olds, and 23.3 percent for those 65 or above. Regarding coverage by a collective employment agreement, 20.6 percent of employees said their employment agreement was a collective, 62.9 percent said it was an individual agreement, and 8.6 percent said they had no agreement (which is illegal). A further 7.7 percent didn't know. Coverage by collective agreement was 17.3 percent for men and 24.1 percent for women, but twice the proportion of young people (aged 15-24) reported they were on a collective (15.6 percent) than reported they were union members. In total, 410,300 people said they were on collectives.

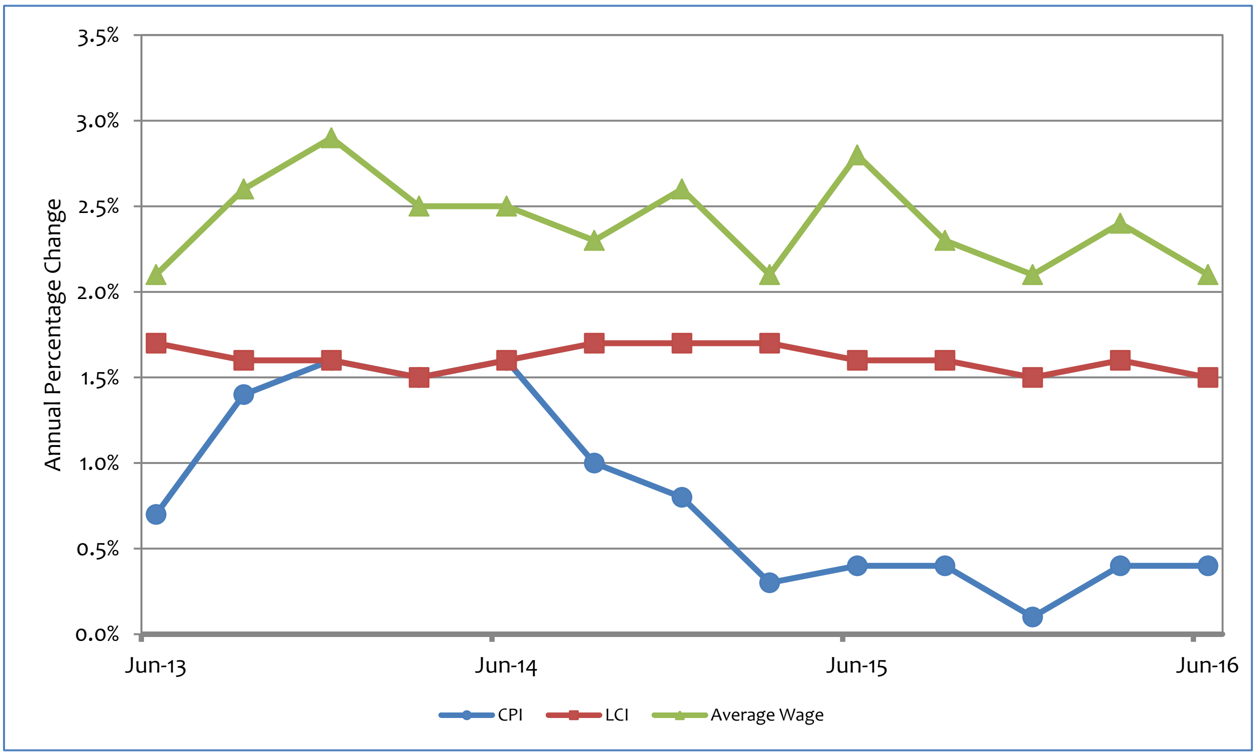
★ For the first time the HLFS also reported on "**employment relationship**". In the June 2016 quarter, 88.7 percent of employees (1,762,900) reported they were permanent, 5.4 percent casual (106,400), 3.2 percent fixed term (63,600), 1.6 percent seasonal (31,300), and 0.3 percent employed through a "temporary agency" (6,600). Women were slightly less likely to be permanent employees: they made up 48.4 percent of permanent employees, and 87.3 percent of women were permanent compared to 90.0 percent of men. Instead, women were more likely to be casual (5.9 percent of them compared to 4.8 percent of men) or fixed term (4.2 percent of women compared to 2.3 percent of men). However somewhat more men were in seasonal work than women – 1.7 percent of men (16,900) compared to 1.5 percent of women (14,400). Of the temp agency employees, 3,000 were men and 3,600 women. Women make up 49.1 percent of employees.

★ The Ministry of Social Development reports that at the end of June 2016 there were 117,954 working age people on the Jobseeker benefit, a fall of 118 from a year before but a rise of 820 from 117,134 in March. At June 2016, 64,265 were classified as 'Work Ready', and 53,689 were classified as 'Health Condition or Disability'. A total of 280,177 were on 'main' benefits, 5,172 fewer than a year before but 286 higher than March. It was 21,860 more than in June 2008. Of the 51,459 benefits cancelled during the three months to June, 20,253 or 39.4 percent obtained work, 11.0 percent transferred to another benefit and 4.5 percent became full time students.

★ Job Vacancies Online for July 2016 showed the number of job vacancies rose by just 0.4 percent in the month and rose 11.8 percent over the same month a year previously in seasonally adjusted terms. Over the year, vacancies in Auckland rose 13.1 percent, Wellington 13.4 percent, rest of the North Island 21.4 percent, South Island other than Canterbury 14.8 percent, while Canterbury fell 5.7 percent. Over the month, vacancies fell in Auckland (down 0.3 percent), Canterbury (down 1.0 percent) and the rest of the South Island (down 1.5 percent) but rose in Wellington (1.7 percent) and the rest of the North Island other than Auckland (3.4 percent). By industry, the greatest annual increases were in Education and Training which rose 31.8 percent, Hospitality and tourism which rose 22.2 percent and Accounting, HR, legal and administration which rose 10.8 percent. Construction and Engineering rose only 2.6 percent (but fell 4.9 percent during the month) and similarly Information Technology rose only 4.2 percent during the year and fell 2.2 percent in the month. Since the previous month, vacancies in five of the eight identified industry groups rose and in the other three vacancies fell. By occupation, the greatest rise over the year was in Labourers (up 31.2 percent), followed by Technicians and Trades workers (up 22.6 percent), Machinery drivers (up 17.8 percent), Managers (up 10.6 percent), Clerical and administration (up 8.6 percent) and Professionals (up 8.1 percent). Over the month, vacancies rose in all occupational groups other than Machinery Drivers which fell 2.0 percent. All the above are in seasonally adjusted terms.

★ International Travel and Migration statistics showed 10,420 permanent and long-term arrivals to New Zealand in July 2016 and 4,820 departures in seasonally adjusted terms, a net gain of 5,600. There was an actual net gain of 69,015 migrants in the year to July. While this is a new high for a July year, total monthly net gains peaked in November last year (taking account of seasonal variations), and peaked in January to and from Australia. Net migration to Australia in the year to July was 1,750 arrivals, with 23,843 departures and 25,593 arrivals. However there was still a net loss of 3,646 New Zealand citizens to Australia over the year and a net loss of 3,069 to all countries. For the month of July, there was a seasonally adjusted net loss to Australia of 20, compared to a gain of 180 a year before. In July, 11.2 percent of the arrivals had residence visas, 34.2 percent student visas, 24.7 percent work visas, and 4.7 percent visitors. A further 24.6 percent were New Zealand or Australian citizens.

Wages and prices



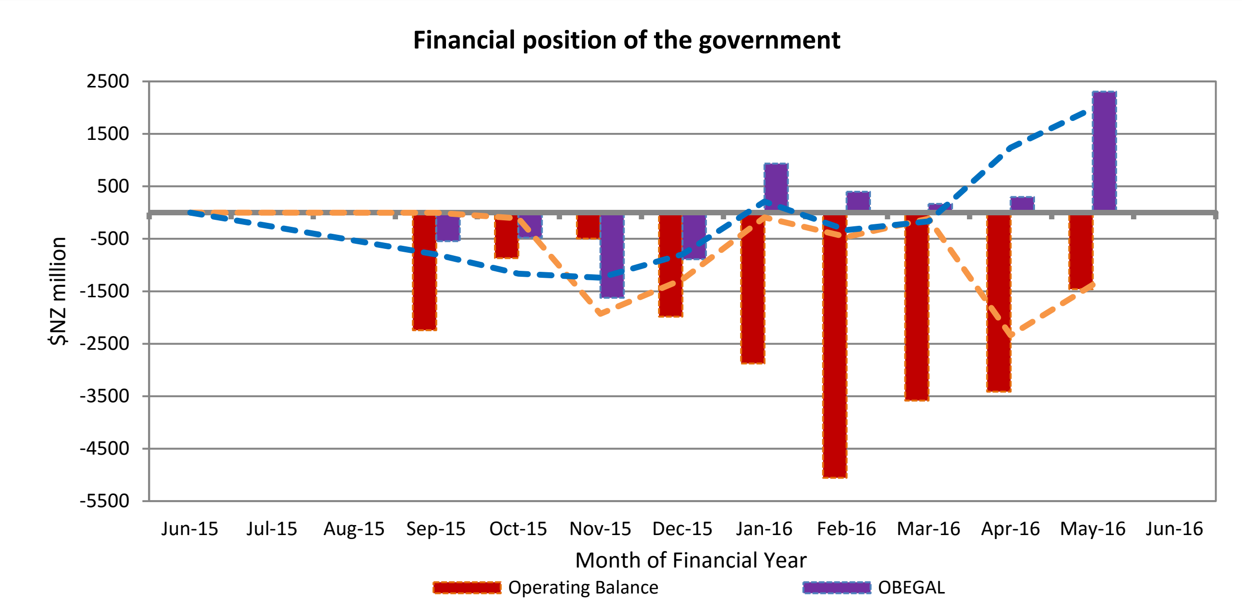
- The [Labour Cost Index](#) (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to June 2016 and increased 1.5 percent in the year, ahead of the 0.4 percent increase in the CPI. It increased 0.2 percent in the public sector and 0.4 percent in the private sector in the three months to June. Over the year it rose 1.3 percent in the public sector and 1.6 percent in the private sector. During the year, 44 percent of jobs surveyed did not receive a pay rise, and 47 percent did not in the private sector. For the 56 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.2 percent and the average increase was 3.0 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.4 percent; the average increase in the public sector was 2.2 percent and in the private sector 3.2 percent. We estimate that jobs on collective employment agreements were 2.2 times as likely to get a pay rise as those who were not, and are more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent but are 20 percent less likely to get one of more than 5 percent. Only 45 percent of jobs that were not on a collective got a pay rise during the year whereas the Centre for Labour, Employment and Work reports 99 percent of those on a collective got a pay rise. In the construction industry, salary and ordinary time wage rates in Canterbury are rising considerably more slowly than in the rest of the country: 0.3 percent in the quarter in both Canterbury and in the rest of the country; but over the year to June, 1.0 percent in Canterbury compared to 2.1 percent elsewhere. For those getting a rise, Canterbury wage rates rose 3.3 percent in the year compared to 4.0 percent elsewhere.

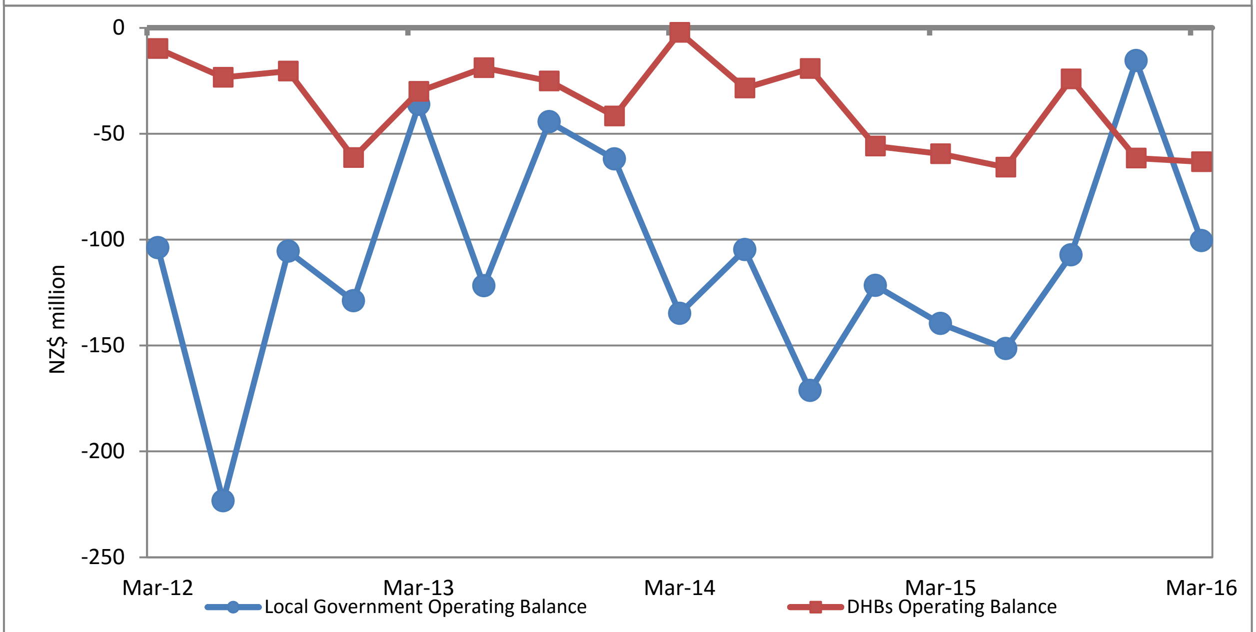
- The [Quarterly Employment Survey](#) for the three months to June 2016 found the average hourly wage for ordinary-time work was $29.62, up 0.5 percent on the previous quarter and up 2.1 percent over the year. Female workers (at $27.37) earned 13.2 percent less than male workers (at $31.53) for ordinary time hourly earnings. The average ordinary-time wage was $27.72 in the private sector (up 0.8 percent in the quarter and up 2.1 percent in the year) and $36.94 in the public sector (*down* 0.8 percent in the quarter and up 3.0 percent in the year). The public sector average wage tends to fall every June quarter and more markedly for women; this has been occurring since about 2002. Perhaps it is because there is a seasonal intake of lower paid staff.

★ The Consumer Price Index rose 0.4 percent in the June 2016 quarter compared with the March quarter, and increased 0.4 percent for the year to June. For the quarter, the largest upward influences were Food (up 0.3 percent but contributing 12.3 percent of the total rise, mainly due to vegetables rising 25.6 percent), Housing and household utilities (up 1.0 percent but contributing 62.7 percent, or almost two-thirds of the rise mainly due to rising rents, up 0.6 percent, the cost of new housing which rose 2.1 percent, and electricity up 1.8 percent), and Transport (up 1.0 percent mainly due to petrol which rose 5.3 percent, but offset by falling costs of new cars, road and domestic air transport). These were offset by falls mainly in Household contents and services (down 1.0 percent mainly due to falling prices of furniture and furnishings), and Recreation and culture (down 0.7 percent mainly due to falls in the costs of Audio-visual and computing equipment). In seasonally adjusted terms, the CPI rose 0.2 percent from March, Food rose 0.2 percent, Alcoholic beverages and tobacco rose 1.0 percent, Clothing and footwear rose 0.6 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.4 percent, Recreation and culture fell 0.3 percent, and Education rose 0.8 percent. Inflation in Canterbury for the year was 0.2 percent and 0.3 percent in the rest of the South Island. In Auckland prices rose 0.4 percent, Wellington 0.3 percent and 0.6 percent in the North Island other than Auckland and Wellington. Auckland's housing costs rose 4.1 percent over the year, the fastest in the country; Wellington's at 2.5 percent and Canterbury's at 2.6 percent rose slowest, with the national average movement of 3.3 percent exceeded only by Auckland.

★ The Food Price Index fell by 0.2 percent in the month of July 2016 (falling 0.3 percent in seasonally adjusted terms). Food prices fell 1.3 percent in the year to July. Compared with the previous month, fruit and vegetable prices rose 0.1 percent (and fell 1.1 percent seasonally adjusted); meat, poultry, and fish prices rose 0.1 percent; grocery food prices fell 0.7 percent (down 0.8 percent seasonally adjusted); non-alcoholic beverage prices fell 0.9 percent; and restaurant meals and ready-to-eat food prices rose 0.2 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector





★ According to Treasury's [Financial Statements of the Government of New Zealand] for the eleven months ended 31 May 2016, core Crown tax revenue was $364 million (0.6 percent) higher than forecast in the 2016 Budget Economic and Fiscal Update (BEFU). Customs and excise duties were $188 million above forecast, PAYE was $182 million above and GST was $98 million above, but Corporate tax revenue was $161 million below forecast, mainly as a result of below-forecast Portfolio Investment Entity (PIE) tax. Total revenue was $396 million over forecast. Core Crown expenses were $89 million (just 0.1 percent) below forecast. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $2.3 billion in surplus, $321 million better than forecast. The Operating Balance was a $1.5 billion deficit, $82 million worse than expected. This was largely due to higher than expected losses: "ACC actuarial losses (primarily due to changes in discount rates) of $880 million; [and] The Emissions Trading Scheme liability has increased due to an increase in carbon prices (from $12.00 to $15.15/unit), resulting in losses of $520 million". These were partly offset by "movements in financial instruments of $1.0 billion". Net debt at 24.7 percent of GDP ($61.5 billion) was $0.5 billion better than the $62.0 billion forecast. Gross debt at $87.8 billion was $1.3 billion worse than forecast.

★ District Health Boards recorded combined deficits of $54.6 million for the twelve months to June 2016 (the full year but not yet audited). This is $35.2 million worse than their plans. The Funder arms were in surplus by $166.4 million, and Provider arms (largely their hospitals) in deficit by $229.9 million. The Northern region was $0.2 million ahead of plan with a surplus of $9.2 million and all in surplus. The Midland region was $14.7 million behind plan with a combined deficit of $9.4 million and all DHBs but Waikato in deficit. Central region was $17.3 million behind plan and all but Hawke's Bay in deficit including Capital and Coast at $11.9 million and Hutt Value at $7.0 million, for a total deficit of $18.4 million. The Southern Region was $3.5 million behind plan with a $36.0 million deficit and all but Nelson Marlborough DHB in deficit, with Southern showing a $35.1 million deficit. In all only seven of the 20 DHBs were not in deficit. The DHB furthest ahead of plan was Waikato by $2.3 million, and Capital and Coast was easily furthest behind, by $13.4 million.

- Local Government recorded a 2.0 percent ($45.5 million) fall in operating income and a 1.7 percent rise in operating expenditure ($39.5 million) including a 3.9 rise in employee costs for the March 2016 quarter compared to December 2015. This resulted in an operating deficit of $100.6 million in the March quarter, compared with a deficit of $15.6 million in the December quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010, all in seasonally adjusted terms. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

This bulletin is available online at http://www.union.org.nz/economicbulletin181.

For further information contact Bill Rosenberg.