NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 187 (March 2017)

Information Section p.6

Commentary

Is New Zealand Superannuation affordable?

Summary

The age of eligibility to receive New Zealand Superannuation is again being challenged.

The usual reason given for raising the age of eligibility is affordability of the scheme. For example the Commission for Financial Capability (formerly the Retirement Commission) in its 2016 Review of Retirement Income Policies justified it by asserting that in 2015/16 New Zealand Superannuation (NZS) cost 4.1 percent of GDP, and that "Treasury predict that it will rise to 7.1% (net) of GDP in 43 years".

I have a look at these numbers and find that they are misleading. The picture looks very different if we take into account the tax paid by the New Zealand Superannuation Fund, the contributions both main parties say they will start making to the Super Fund, and the contributions the Super Fund will start making to the cost of New Zealand Super in 2032/33.

There are further arguments to be considered about the affordability to the public purse of current levels of payment and economic affordability.

The affordability to the public purse is frequently presented as an absolute. But affordability is a matter of priorities, what New Zealand society wants and what it is prepared to pay in the way of taxes. Many other countries are facing the same problem and many have considerably more retired people, costs and tax revenue in proportion to their size than we do.

Economic affordability centres around the 'dependency ratio' – the number of people who are working, thereby generating income to be taxed and shared with superannuitants, compared to the growing number of superannuitants. But this does not take into account either other 'dependants' such as children, nor Treasury's most recent long-term projection which did not show a looming economic problem.

Finally, the question of New Zealand Superannuation cannot be seen on its own: we need to think about matters like New Zealand's population and other forms of retirement income.

Early this month, Prime Minister Bill English announced that his Government now favoured raising the age of eligibility to receive New Zealand Superannuation from 65 to 67 by 2040, a turnaround from its previous denial that any change was necessary. Labour has also reversed its 2014 election policy and now opposes the raising of the age.

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Retirement Income Policies[1] justified it by asserting that in 2015/16 New Zealand Superannuation (NZS) cost 4.1 percent of GDP, and that "Treasury predict that it will rise to 7.1% (net) of GDP in 43 years".

I have a look at these numbers and find that they are misleading. The picture looks very different if we take into account the tax paid by the New Zealand Superannuation Fund, the contributions both main parties say they will start making to the Super Fund, and the contributions the Super Fund will start making to the cost of New Zealand Superannuation in 2032/33 (according to current plans).

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Finally, it will become apparent that the question of New Zealand Superannuation cannot be seen on its own: we need to think about matters like New Zealand's population and other forms of retirement income. I don't cover these in detail but they are important to gain a full picture.

How much will New Zealand Super actually cost into the future?

Treasury looked at this question as part of its regular statement on New Zealand's Long-term Fiscal Position[2]. It released its latest one in November. In it they project current policies into the future to look at the 'fiscal' consequences of continuing those policies indefinitely – that is, the effect on government spending and revenue needs.

It shows that it is important not to rely on the headline figures of what the government spends on New Zealand Super. In the year to June 2016, payments to New Zealand superannuitants cost 4.9 percent of GDP or $12.3 billion. The projection shows that by 2060, the period of Treasury's long-term Statement, it would be costing 7.9 percent of GDP – an increase of over 60 percent, which sounds a little scary.

But New Zealand Super is taxed – so it is actually its net cost after the claw-back of superannuitants' tax payments that is important. (A Government could easily reduce its apparent level of spending by simply making New Zealand Super tax-free at its current *net* levels!) Its net cost to the government in 2016 drops to 4.2 percent of GDP or $10.4 billion. In 2060 it would cost 6.7 percent of GDP.

In addition, the Super Fund, set up by the 2000s Labour-led Government to partly fund New Zealand Super in the future, also pays tax. It doesn't make much of a difference right now (though the $0.5

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[1] See *2016 Review of Retirement Income Policies*, December 2016, http://www.cffc.org.nz/assets/Uploads/2016-Review-of-Retirement-Income-Policies-Tabled-Report-19.12.06.pdf.

[2] http://www.treasury.govt.nz/government/longterm/fiscalposition

billion in tax paid in 2016 and $4.6 billion since the Fund started is not to be sneezed at) but by 2060 the tax is projected to be $8.0 billion a year. That brings the net cost by 2060 down to 6.1 percent of GDP.

Then there is the direct effect of the Super Fund. Firstly, both main parties (and the Retirement Commissioner) want contributions to the fund to resume – some earlier than others. The current Government won't restart contributions until the year to June 2021. From then until the year to June 2033, when withdrawals are started from the Fund, there is an additional cost of up to $3.0 billion (which incidentally isn't counted in Core Crown expenses because it is regarded as capital spending). In 2021, the total cost to the government of New Zealand Super plus these contributions is projected to be 5.0 percent of GDP. It would have been the same in the year to June 2016 had contributions resumed that year. By 2060, when the Fund is projected to be contributing $4.0 billion to that year's New Zealand Super costs, the net cost to the government of the day amounts to 5.9 percent of GDP.

So the true comparison of the fiscal cost now and the cost in 2060 is more like this: 5.0 percent of GDP soon, compared to 5.9 percent in 2060. That increase doesn't look nearly as scary. If it is affordable now (as all seem to agree) then it is likely to be affordable in 2060. Here's a table summarising the situation with the total impact on government finances in the bottom line:

Net Fiscal Costs of New Zealand Superannuation

	2016	**2040**	**2060**
	Percent of GDP		
Gross New Zealand Super costs	4.9%	7.2%	7.9%
- deduct income tax on superannuitants	4.2%	6.1%	6.7%
- deduct tax paid by Super Fund	4.1%	5.6%	6.1%
- add contributions to the Fund/deduct withdrawals	**5.0%**	**5.4%**	**5.9%**

Affordability to the public purse

It is wrong to present affordability to the public purse as an absolute in the way that English and some others put it: he was raising the retirement age to "ensure the scheme remains affordable into the future"[1]. Affordability is a matter of priorities, what New Zealand society wants and what taxes we are prepared to pay.

The Retirement Commissioner points out that there are other costs that rise as the population ages such as health care. But to draw the conclusion that superannuation should be cut to pay for these is not logical, unless we are moving to a society where each generation is expected to look after itself and not concern itself about younger or older generations.

We do always need to consider our priorities and options, but one option is to raise more revenue. Many New Zealanders would be willing to pay more to maintain the financial security of their parents and themselves in retirement, and for other public services that they value. If the assumption is that the current level of taxation is fixed and can never increase as a proportion of GDP then there are many other problems we cannot address and the outlook for New Zealand is dim. Some of these problems cannot be addressed by individuals on their own (such as environmental problems, income inequality and poverty). In other cases such as health and retirement income, individuals could pay for it but it becomes inefficient, inequitable and impoverishing (as the US private health system shows). It is much

[1] https://www.beehive.govt.nz/release/nz-superannuation-age-lift-67-2040

better for everyone if the risks are shared and it is paid from government revenue. It might raise the government's costs, but from an economy-wide and societal point of view it costs less and is fairer.

We are not a highly taxed country. OECD data[1] shows that we have one of the lowest differences between what an employer pays and take-home pay among the high income countries that make up the OECD – we rank between 28 and 34 out of 34 countries and well below the OECD average. Our tax revenue as a proportion of GDP is low for a small country[2]. We rank 19 out of 35 OECD countries and less than most similar size OECD countries. Our problem is not the level of taxation but its distribution.

The proportion of GDP New Zealand spends on pensions is also low. The OECD[3] put it at 4.8 percent of GDP in 2013 (a misleading figure but it is just a basis for comparison). The OECD average was 6.4 percent of GDP and only 10 out of 33 countries had a lower proportion, including Mexico with zero and others that also have private compulsory contribution schemes. There were 14 already above 7 percent of GDP. New Zealand's ratio is low partly because we are fortunate to have a relatively young population.

Clearly affordability is a decision that societies make in terms of their priorities.

Economic affordability

Much of the economic debate centres around the 'dependency ratio' – the number of people who are in paid work and thereby generating income and tax revenue, divided by the number of older people. This is projected to fall: fewer people will be working to generate the income required for each retired person. Treasury's population projections show it falling from 7 working age people to every person 65 or over in 1972 to 4.3 in 2017 to 2.1 in 2060[4]. Of course the effect of the fall in the ratio will depend on how many people of working age are working (the participation rate), and how many of the over 64s are working. The participation rate is currently rising more rapidly in this age group than any other.

But consider this: people over 64 are not the only 'dependants' in society (and an increasing proportion of them are not dependent either). Children make up the other main group of dependants. In 1972 children under 15 made up 31 percent – almost a third – of New Zealand's population and the 65+ age group only 9 percent. The working age population made up 60 percent. The whole 'dependency ratio' was 1.5 working age people to every dependant. The population is aging in two ways: we have a greater proportion of over-64s and a falling proportion of children under 15. In 2017 the children made up only 19 percent of the population, people of working age made up 65 percent and the over-64s 15 percent. The 'dependency ratio' is 1.9. By 2060 the projection reduces children to 16 percent of the population, people of working age 57 percent and the over-64s to 27 percent. The 'dependency ratio' would be 1.4 – not much lower than the 1.5 it was in 1972. So in 2017 we are in a sweet spot – the highest dependency ratio since 1972 was in 2.0 in 2006 and we are not far from that. Perhaps this is the unusual time rather than 2060! The effect of this all depends on the cost of raising, educating and looking after the health of children compared to the costs of old age.

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[1] "Tax wedge composition" tables for 2015, http://stats.oecd.org/OECDStat_Metadata/ShowMetadata.ashx?Dataset=TXWDECOMP&ShowOnWeb=true&Lang=en

[2] Revenue Statistics - OECD countries: Comparative tables. http://stats.oecd.org/Index.aspx?DataSetCode=REV

[3] Social Expenditure - Aggregated data, http://stats.oecd.org/Index.aspx?DataSetCode=SOCX_AGG

[4] That's taking the working age population to be aged 15 to 65. It's unlikely that adjusting the lower limit of 15 up a little would make a big difference to the analysis. Statistics New Zealand defines it to be aged 15 years and over.

It is interesting that Treasury's economic projections for the size of the economy do not show an economy struggling to pay for New Zealand Super – otherwise its cost as a proportion of GDP would be much higher. It is of course dependent on its assumptions which may be unrealistic. These include a high proportion of people continuing to work, and in particular among the 65+ age group. It also assumes that labour productivity grows at an annual rate of 1.5 percent and that real wages (the average hourly wage adjusted for rising prices) grow at the same rate. Productivity has been struggling well below that level for a decade. Wages since the early 1990s have failed to keep up with productivity.

However if the link between productivity and wages were achieved, Treasury observes that raising productivity is not the answer to paying for New Zealand Super: raising productivity raises wages, which raises the cost of Super because it is linked to wages, and we are no further forward without more progressive tax rates.

All of this means that this modelling cannot be the final word on the subject. But it is not immediately obvious that there is an economic reason to reduce the cost of New Zealand Super.

Finally

This discussion raises many questions: the question of New Zealand Superannuation cannot be seen on its own. What would be the impact on its affordability of increasing our future working age population by encouraging people to have more children or a somewhat higher level of immigration (better managed than now)? We could encourage more children by paying a universal child allowance, making child care better quality and free, and reducing working hours. Treasury says that if it raised its assumed net immigration rate from an average of 12,000 per year to 25,000 per year in the long run (both much lower than at present), "population ageing slows and the population is younger and approximately 928,000 higher in 2060. The higher net migration lowers the ratio of expenditure-to-GDP" and reduces net core Crown debt. These questions add to calls for a proper think about where we want for New Zealand's future population to head – a population policy.

New Zealand Super is not the only income retired people rely on. We should be thinking about boosting Kiwisaver, and the Retirement Commissioner recommends raising contribution rates. The CTU has proposed making Kiwisaver compulsory if the employer contribution rate was raised to 6 percent, there was a 2 percent contribution from both workers and the government, the minimum wage was increased at the same time, and the government contribution of 2 percent (of minimum wage or benefit level or another amount) applied to all those of working age who are not earning for a period.

We should also be thinking of fair ways to pay for the increasing cost. Susan St John in the Auckland University Retirement Policy and Research Centre has made proposals for a progressive tax on those receiving New Zealand Super[1] but more universal solutions may be less contentious given our history.

There will never be a last word on this subject. We should continue to review the situation, keeping a watch on both the adequacy of our people's retirement income and the cost of it. But New Zealand is lucky enough that we don't have to make urgent decisions to manage the cost of New Zealand Superannuation.

Bill Rosenberg

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[1] Improving the affordability of New Zealand Superannuation, 2015. http://www.business.auckland.ac.nz/en/about/our-research/bs-research-institutes-and-centres/retirement-policy-and-research-centre-rprc/our-research-12.html

Information

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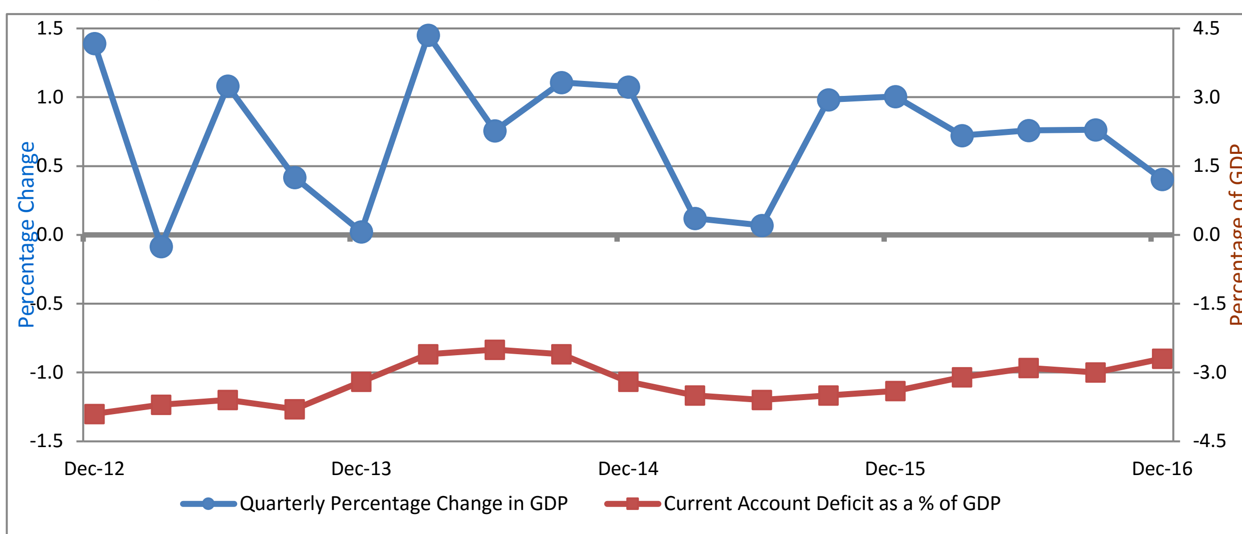
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 13 March 2017.

Annual Percentage Change (March Year)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
GDP	3.4	3.3	3.1	2.5
CPI	1.7	1.7	2.0	2.0
Private Sector average wage	1.6	2.3	3.0	3.2
Employment	4.8	2.4	2.1	1.6
Unemployment rate (% of labour force)	5.0	4.7	4.7	4.8

Economy



★ Growth in New Zealand's economy was below expectations in the December 2016 quarter, with Gross Domestic Product rising by 0.4 percent, compared to 0.8 percent in September (revised down from 1.1 percent) and 0.8 percent in the June quarter too. Average growth for the year ended December 2016 was 3.1 percent (and 2.7 percent increase between December quarters). However

GDP is not keeping up with the rapidly growing population: GDP per person fell 0.2 percent in the December quarter, and 0.9 percent over the year. On the other hand, real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, rose by an exceptionally strong 2.3 percent during the December quarter and rose 2.0 percent over the year to December. I estimate[1] that production per hour worked in the economy fell by 2.4 percent compared to the same period last year and fell 0.9 percent in the December quarter, indicating falling productivity which is bad for future wage growth. Business investment growth in the three months (1.8 percent) was strong relative to a revised 0.7 percent in the September quarter and much faster than GDP growth. Investment in housing grew only 0.1 percent, a second slow quarter (0.6 percent in the September quarter) and much lower than the 5.3 percent in the June quarter. Household consumption growth was relatively weak, rising only 0.4 percent in the quarter in contrast to 1.4 percent in the previous quarter and for the year up 4.3 percent. Inflation in the economy as a whole is stronger than CPI with the GDP deflator (a price index for expenditure on the economy's production) rising 1.9 percent in the December quarter and 0.8 percent in the September quarter, with a total rise of 3.9 percent for the year.

★ By industry, the largest contributors to growth in the latest quarter were Professional, scientific, technical, administration, and support (up 1.7 percent) followed by Construction (up 1.8 percent), Financial and Insurance services (up 1.3 percent), Health care and assistance (up 0.1 percent) and Arts, recreation and other services (up 3.8 percent). They were offset by falls led by Manufacturing (down 1.6 percent), Agriculture, forestry and fishing (down 0.8 percent), Mining (down 2.3 percent), and Transport, postal and warehousing (down 0.7 percent). Over the year, the biggest rise was in Construction (up 10.5 percent), followed by Retail trade and accommodation (up 5.3 percent), Professional, scientific, technical, administration, and support (up 4.7 percent), Health care and assistance (up 4.7 percent) and Arts, recreation and other services (up 4.7 percent). However Agriculture, forestry and fishing was down 0.4 percent over the year and Mining was down 9.2 percent.

★ New Zealand recorded a Current Account deficit of $1.6 billion in seasonally adjusted terms for the December 2016 quarter (but an actual deficit of $2.3 billion) following a revised $5.0 billion deficit for the September 2016 quarter. There was another deficit in the goods trade ($833 million, seasonally adjusted, following a $703 million deficit in the September quarter, with deficits in all quarters back to September 2014). There was a surplus of $375 million in goods and services ($332 million in September), while the deficit on primary income (mainly payments to overseas investors) improved to $2.0 billion from $2.2 billion in September (not seasonally adjusted). For the year to December 2016, the current account deficit was $7.1 billion or 2.7 percent of GDP compared to a $7.6 billion deficit in the year to September (3.0 percent of GDP). The deficit on investment income was $8.1 billion for the year. During the year to March, foreign direct investors (those with a degree of control of the companies they hold shares in) were paid dividends at the rate of 10.6 percent after tax, compared to 11.8 percent the year before. By comparison they received a rate of return

[1] Because of the changes to the Household Labour Force Survey, there is a break in the hours-worked series in June. I estimated the increase for June using the historical relationship with hours paid from the more limited Quarterly Employment Survey.

of only 2.6 percent after tax on debt owed to them by their companies. Portfolio investors received returns of 4.2 percent on shares and 2.0 percent on debt.

★ The country's Net International Liabilities were $156.5 billion at the end of December 2016, down from $166.1 billion at the end of September and up from $153.8 billion a year before. The December net liabilities were equivalent to 59.9 percent of GDP, compared to a revised 64.8 percent in September and 62.2 percent a year before. They would take 2.24 years of goods and services exports to pay off, up from 2.21 years a year before. The fall in net liabilities was due to a $3.3 billion net outflow of investment plus $6.3 billion in valuation changes (mainly in market valuations) without which the net liabilities would have been $162.8 billion. Part of the net outflow of investment was due to insurance companies running down overseas investments to pay for claims from the November earthquakes. The largest part of the outflow was banks increasing their investment assets overseas. New Zealand's international debt was $289.0 billion (110.6 percent of GDP), of which 32.4 percent is due within 12 months, compared to $143.1 billion in financial assets (other than shares; 54.8 percent of GDP), leaving a net debt of $145.9 billion (55.9 percent of GDP). Of the net debt, $6.5 billion was owed by the government including the Reserve Bank (equivalent to 2.5 percent of GDP and down from $11.4 billion in September) and $107.8 billion by the banks (41.3 percent of GDP), which owed $158.4 billion gross. Total insurance claims made on overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 31 December 2016, $19.5 billion of these claims had been settled, leaving $0.6 billion outstanding. For the Kaikōura earthquakes, out of an estimated $694 million of claims, $14 million had been settled.

★ Overseas Merchandise Trade for the month of February saw exports of goods fall 5.5 percent from the same month last year while imports rose 4.0 percent. This created a trade deficit for the month of $18 million or 0.5 percent of exports. There was a trade deficit for the year of $3.8 billion or 7.9 percent of exports, worse than the 6.6 percent deficit in the year to the same month in 2015. In seasonally adjusted terms, exports fell 2.8 percent or $115 million over the month (compared to a 0.9 percent rise the previous month) led by falls in Fruit (down 16.7 percent or $42 million), Seafood (down 11.9 percent or $15 million, and Meat (down 1.6 percent or $9 million), offset by rises led by Aluminium and Aluminium articles (up 16.4 percent or $12 million, not seasonally adjusted), and Electrical machinery and equipment (up 10.9 percent or $9 million).

★ The Performance of Manufacturing Index for February 2017 was 55.2, a rise from 52.2 in the previous month. The employment sub-index was at 51.4, a slight fall from 51.6 in the previous month.

★ The Performance of Services Index for February 2017 was 58.8, down from 59.5 the previous month. The employment sub-index was 54.6, up from 53.7 in the previous month.

For these two indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

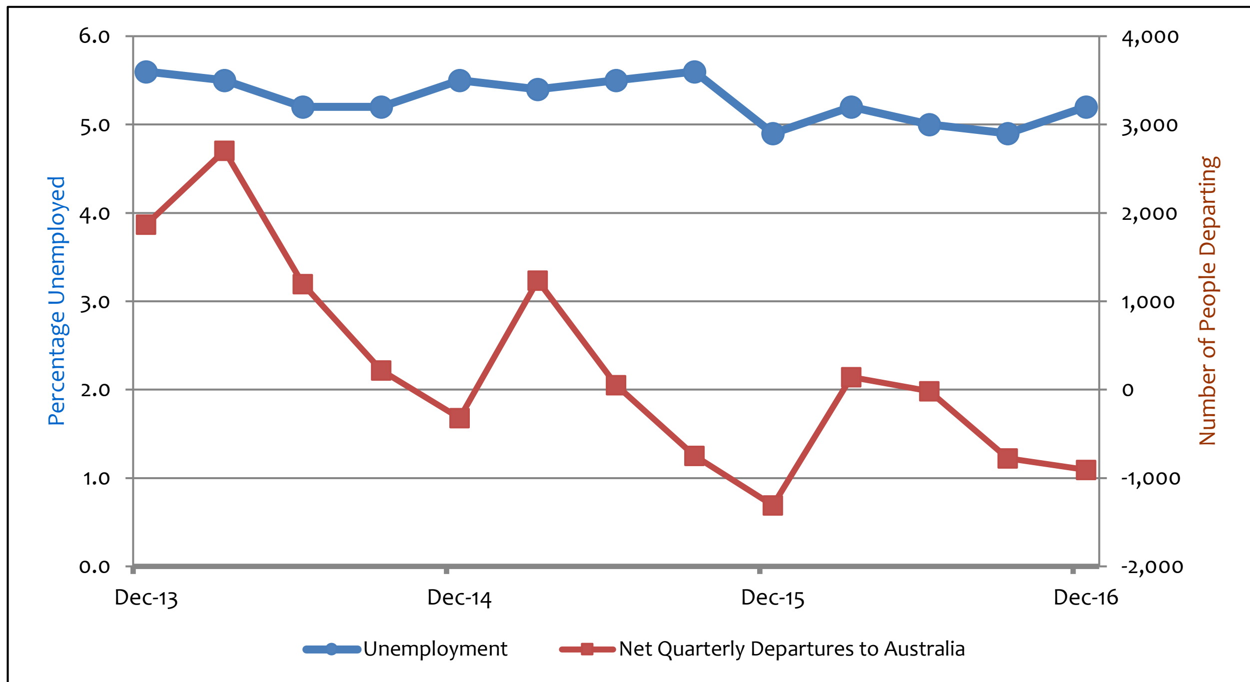
- The Retail Trade Survey for the three months to December 2016 showed retail sales rose 3.9 percent by volume and 4.7 percent by value compared with the same quarter a year ago. They rose 0.6 percent by volume and 1.1 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Accommodation (up 4.0 percent), Pharmaceutical and other store-based retailing (up 3.1 percent), Motor vehicles and parts (up 2.7 percent), Furniture, floor coverings, houseware, textiles (up 2.4 percent), and Recreational goods (up 2.2 percent). There were falls in Non-store and commission retailing (which includes internet

purchases) which was down 4.8 percent, and Clothing, footwear, and accessories (down 1.0 percent). Both also fell in volume. Supermarket and grocery stores, the largest single sector, rose just 0.1 percent by value (up $4 million) and fell 0.5 percent by volume.

★ On 23 March 2017 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. It indicated that the rate is likely to be in place for a considerable time unless there were unforeseen events: “Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly”. It considered that the international outlook had improved with a recovery in commodity prices, but there was still “extensive geo-political uncertainty” and surplus capacity (high unemployment and underused production capacity) abroad. Inflation was increasing internationally. The exchange rate had fallen “partly in response to weaker dairy prices and reduced interest rate differentials. This is an encouraging move, but further depreciation is needed to achieve more balanced growth. ” Economic growth in New Zealand in the December quarter was weaker than expected but that may be temporary. It is based on “on-going accommodative monetary policy, strong population growth, and high levels of household spending and construction activity. Dairy prices have been volatile in recent auctions and uncertainty remains around future outcomes.” The Bank considered that house price rises had moderated, partly due to its loan-to-value ratio restrictions and tighter lending conditions, but was not sure that the moderation would be sustained because house building wasn’t keeping up with demand. With CPI inflation at 1.3 percent in the year to December 2016, it was back in the Bank’s target band, and the Bank considered it would rise to 2 percent. The next OCR announcement will be on 11 May 2017.

★ According to REINZ, the national median house price rose $45,000 or 10.0 percent to $495,000 in the year to February 2017 and rose 0.3 percent from the previous month seasonally adjusted. The Auckland median price rose 6.7 percent or $50,000 over the year to $800,000 and fell 1.7 percent seasonally adjusted from the previous month. Excluding Auckland the national median price rose $28,000 to $411,000 or 7.3 percent higher than a year before. It was up 0.2 percent on the previous month, seasonally adjusted. Two regions had record median prices: Northland ($421,250, up 20.4 percent over the year), and Otago ($317,250, up 17.5 percent over the year). There was a rise from 675 to 708 in the number of sales in the $1 million plus range over the year but falls from 1,656 to 1,639 in the $600,000 to $1 million range and from 3,026 to 2,247 valued under $400,000. Under $400,000 now constitutes only 36.4 percent of sales compared to 41.5 percent a year ago. Total sales were down 14.2 percent from 7,291 a year ago to 6,253 in February 2017.

Employment



Note: as described in the September 2016 Bulletin, the release reported on below of **Household Labour Force Survey** statistics on employment and unemployment reflects a major revision of the survey that took effect from June 2016. The changes include the measurement of unemployment, whose values have been revised back to 2007. Other employment statistics, including numbers employed and hours worked, cannot be accurately compared between June 2016 and previous months.

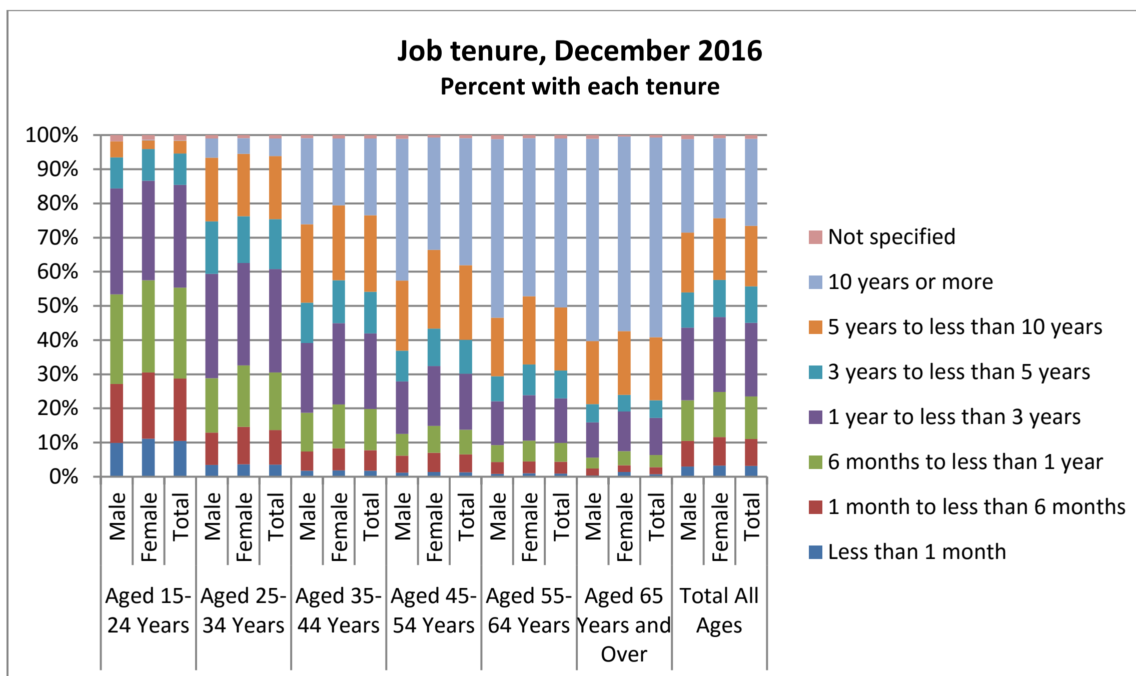
- According to the Household Labour Force Survey (HLFS) the unemployment rate in the December 2016 quarter rose to 5.2 percent or 139,000 people, compared to 4.9 percent in September (129,000 people), seasonally adjusted. It is more than half as much again than the 3.3 percent it was in December 2007, which would mean 51,600 more people would have jobs. The unemployed were not the only people looking for work: "underutilisation" 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 December quarter there were a total of 343,900 people looking for work classed as "underutilised", or 12.8 percent of the labour force extended to include these people. Of them, 115,200 were underemployed, 138,100 were officially unemployed, and 101,600 were additional jobless people looking for work (these figures are not seasonally adjusted). The 12.8 percent underutilisation rate is the same as a year before and considerably higher than in September 2007 when it was 8.8 percent. It is higher for women at 15.7 percent than for men (10.2 percent). Excluding the officially unemployed, the underutilisation rate is 7.8 percent. There are 45,100 unemployed people who have been out of work for more than 6 months. This is apparently a large increase from the 35,300 a year before but a change in the survey question could have contributed to this. This is 32.7 percent of the unemployed compared to 28.7 percent a year before, and has not been previously reached in a December quarter since 1999. Those out of work

for more than a year are 11.6 percent of the unemployed compared to 11.3 percent a year before (again possibly affected by the changed survey question). Compared to OECD unemployment rates, New Zealand had 13th lowest (out of 34 countries), compared to 10th in September.

- The number recorded as employed rose by 19,000 between the September and December 2016 quarters (seasonally adjusted). The recorded employment rate rose from 66.7 percent to 66.9 percent over the three months. It was 61.6 percent for women and 72.4 percent for men. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) rose from 70.1 percent to 70.5 percent, all in seasonally adjusted terms.
- In the North Island, unemployment rates rose compared to a year ago in four out of the eight regions but only in Taranaki was the rise statistically significant (that is, for the other regions the error in the estimates of unemployment means it cannot be ruled out that the rises were in fact zero). In the North Island, Gisborne/Hawke's Bay has the worst unemployment rate at 8.1 percent while Northland, previously the worst, is now second at 7.3 percent. Bay of Plenty at 4.9 percent has the best (lowest). Auckland is at 5.1 percent (the same as a year before) and Wellington 5.6 percent (up from 5.3 percent a year before). The South Island looks considerably better, with Tasman/Nelson/Marlborough/West Coast at 4.1 percent (4.0 percent a year before), Canterbury at 3.7 percent (3.3 percent a year before), and Otago at 4.0 percent (4.2 a year before) and Southland at 5.0 percent (4.0 percent a year before).
- By industry, the increase in employment of 54,900 since the September quarter was made up of both gains and losses. The biggest gains were of 21,900 in Retail trade, accommodation and food services, and 17,100 both in Construction and in Professional, scientific, technical, administrative, and support services. The biggest loss was 30,300 among people with no industry specified. These are not seasonally adjusted.
- The seasonally adjusted female unemployment rate at 5.7 percent in December was higher than for men (4.8 percent), and both rose from the previous quarter (5.2 percent and 4.7 percent respectively). Māori unemployment rose from 10.3 percent in December 2015 to 11.9 percent in December 2016, and Pacific people's unemployment rose from 9.2 percent to 9.7 percent over the year.
- **Youth unemployment** for 15-19 year olds was 22.0 percent in December, up from 19.1 percent in September, and similar to the 22.1 percent in December 2015 (these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not). For Māori 15-19 year olds in December 2016 the unemployment rate was 30.7 percent and for Pacific Peoples it was 31.1 percent, both higher than a year before. For 20-24 year olds youth unemployment was 9.4 percent, up from 9.1 percent in September and 8.3 percent a year before. For Māori 20-24 year olds in December 2016 it was 15.9 percent and for Pacific Peoples it was 11.3 percent, both higher than a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) for 15-19 year olds was 9.6 percent, up from 7.2 percent in September and 6.6 percent a year before. For Māori 15-19 year olds in December 2016 the rate was 14.8 percent and for Pacific Peoples it was 14.1 percent, both higher than a year before. For 20-24 year olds the NEET rate was 17.3 percent, up from 14.8 percent in September and 15.0 percent a year before. For Māori 20-24 year olds in December 2016 the rate was 28.2 percent and for Pacific Peoples it was 22.3 percent. For the whole 15-24 year old group, unemployment was higher for those in education (17.3 percent) than those not in education (12.3 percent). There were

91,000 people aged 15-24 years who were not in employment, education, or training (NEET), up from 75,000 in September and 72,000 a year before.

- From the June quarter, the HLFS started surveying **union membership** and having a **collective employment agreement**. In the December 2016 quarter, total union membership was estimated at 377,900, a 0.7 percent rise from 375,400 in the September quarter but lower than the 379,300 in the June quarter. The membership is 18.3 percent of employees (or slightly higher if those who didn't know were discounted) compared to 18.7 percent in the September quarter and 19.1 percent in the June quarter. Women make up 58.7 percent of the membership compared to 49.3 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.8 percent compared to 15.0 percent. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends. Regarding coverage by a collective employment agreement, 19.2 percent of employees (395,300, which is larger than the estimated number of union members) said their employment agreement was a collective in December compared to 19.5 percent in September and 20.6 percent (410,300) in June; 65.9 percent (1,358,400) said it was an individual agreement compared to 65.0 percent in September and 62.9 percent in June, and 7.8 percent or 160,000 said they had no agreement (which is illegal), compared to 7.9 percent in September and 8.6 percent in June. While the proportion has fallen slightly, there is still a large number that flout the law. A further 7.0 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.4 percent for men and 22.1 percent for women. Again, these figures could be affected by seasonal variations in numbers.
- For the first time in June the HLFS also reported on "**employment relationship**". In the December 2016 quarter, 89.3 percent of employees (1,840,300) reported they were permanent, 5.2 percent casual (107,400), 2.8 percent fixed term (57,100), 1.4 percent seasonal (28,700), and 0.5 percent employed through a "temporary agency" (10,200). The proportion reporting they were permanent was down from 4.8 percent (1,804,100) in September and 5.4 percent (1,762,900) in June. Women were slightly less likely to be permanent employees: 88.2 percent of women were permanent compared to 90.4 percent of men. Instead, women were more likely to be casual (5.2 percent of them compared to 4.6 percent of men) or fixed term (3.4 percent of women compared to 2.1 percent of men). However somewhat more men were in seasonal work than women – 1.6 percent of men (16,600) compared to 1.2 percent of women (12,100). Of the temp agency employees, 4,500 were men and 5,700 women. Women make up 49.3 percent of employees. Employment relationships may have seasonal variations, so we should be cautious about seeing trends in quarterly comparisons. In addition, small differences may not be statistically significant.
- For the first time in June the HLFS also reported on **duration of employment (job tenure)**. In the December quarter, 23.5 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.1 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 18.1 percent had been in their job for at least five but less than ten years, and 25.5 percent had been in their jobs for 10 years or more. Women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 27.4 percent of men had been in their jobs for more than 10 years, but only 23.4 percent of women. But the differences may not be statistically significant. As would be expected, age is a significant factor as the graph below shows.

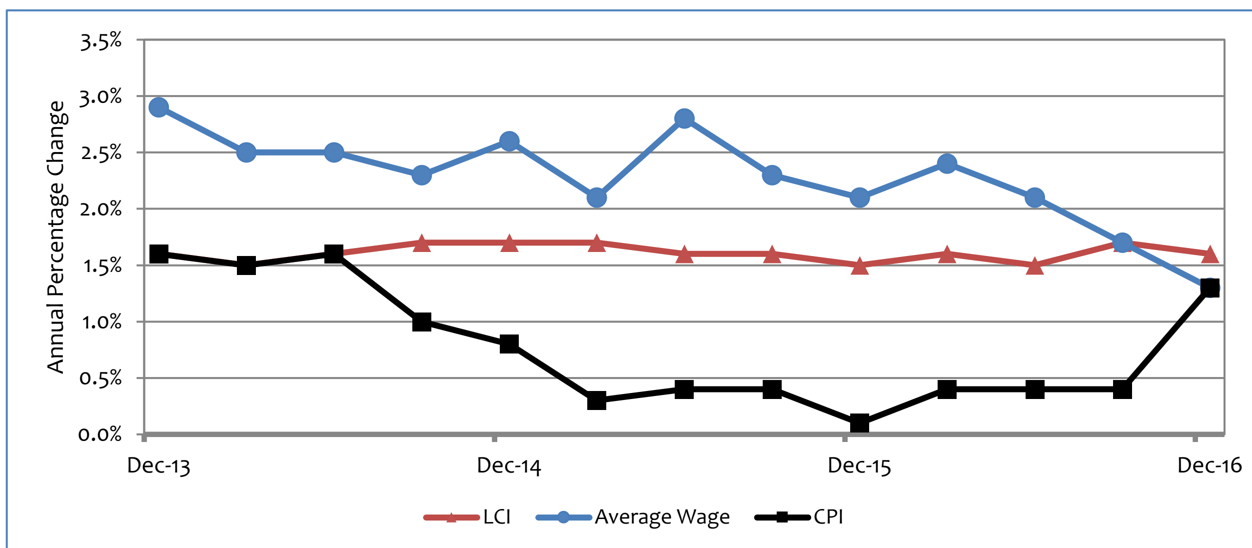


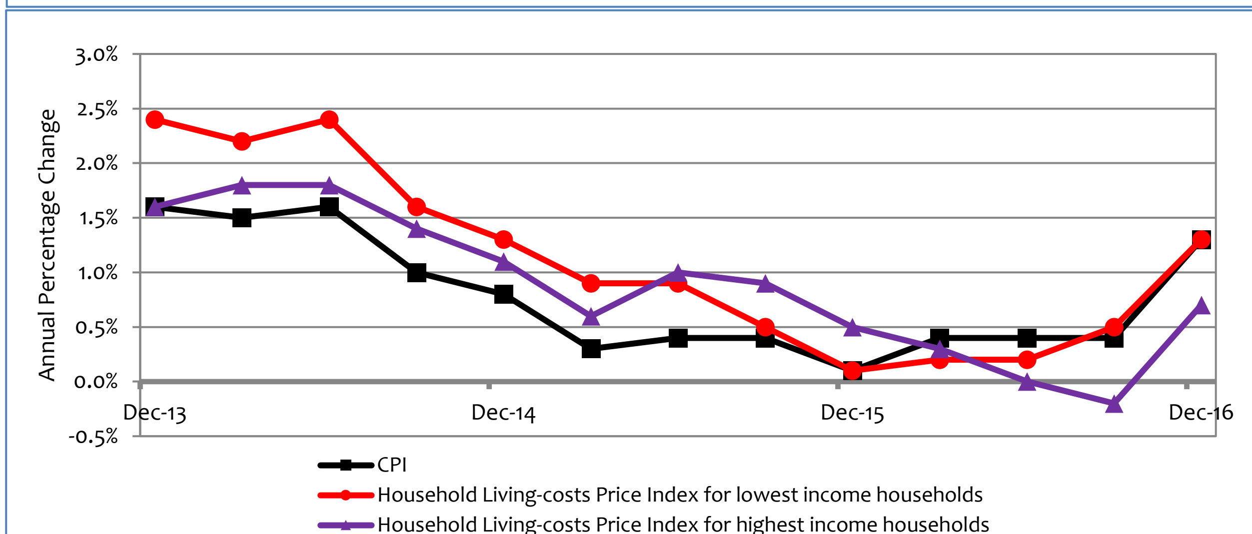
- The Ministry of Social Development reports that at the end of December 2016 there were 124,311 working age people on the Jobseeker benefit, 1,384 more than a year before and a rise of 2,027 from 122,284 in September. At December 2016, 67,502 were classified as 'Work Ready', and 56,809 were classified as 'Health Condition or Disability'. A total of 297,010 were on 'main' benefits, 4,339 fewer than a year before, mainly due to 3,410 fewer on Sole Parent Support, but 13,135 higher than September, mainly because of over 10,000 going onto a 'Jobseeker Support Student Hardship' benefit during the three months. It was 12,797 more than in December 2007. Of the 37,733 benefits cancelled during the three months to December, 17,604 or 46.7 percent obtained work, 14.1 percent transferred to another benefit and 1.4 percent became full time students.

- ★ Job Vacancies Online for February 2017 showed the seasonally adjusted number of job vacancies rose by 2.6 percent in the month and rose 17.6 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Auckland rose 18.3 percent, Wellington 10.5 percent, the rest of the North Island 28.9 percent, Canterbury 0.4 percent and the rest of the South Island 27.7 percent. Over the month, vacancies rose in Auckland by 3.1 percent, Wellington by 3.6 percent, the rest of the North Island by 3.7 percent, Canterbury by 0.1 percent and in the rest of the South Island by 2.9 percent. By industry, the fastest annual increases were in Healthcare and medical (up 18.1 percent), Education and training (up 17.8 percent), Construction and engineering (up 15.6 percent), and Sales, retail, marketing and advertising (up 14.5 percent). IT (Information Technology) fell 7.7 percent. Over the month, the fastest increases were in Construction and engineering (up 4.8 percent), Healthcare and medical (up 3.8 percent), and Accounting, HR, legal and administration (up 3.1 percent) while Education and training fell 4.3 percent, Hospitality and tourism fell 1.3 percent and IT fell 0.7 percent. By occupation, the fastest rises over the year were for Machinery Drivers (up 38.9 percent), Labourers (up 30.2 percent), Managers (up 18.7 percent), Sales (up 17.9 percent), and Technicians and Trades workers (up 17.4 percent). Over the month the fastest risers were Managers (up 7.5 percent), Machinery Drivers (up 3.8 percent), Sales (up 3.7 percent) and Technicians and Trades workers (up 3.3 percent).

★ International Travel and Migration statistics showed 11,070 permanent and long-term arrivals to New Zealand in February 2017 and 5,070 departures in seasonally adjusted terms, a net gain of 6,000. There was a record actual net gain of 71,333 migrants in the year to February, the highest ever. Net migration to Australia in the year to January was 1,034 arrivals, with 24,650 departures and 25,684 arrivals. However there was a net loss of 4,319 New Zealand citizens to Australia over the year and a net loss of 1,687 to all countries. For the month of February, there was a seasonally adjusted net loss to Australia of 50, compared to a gain of 70 a year before. In February, 10.8 percent of the arrivals had residence visas, 33.0 percent student visas, 28.4 percent work visas, and 4.6 percent visitors. A further 22.9 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 December 2016 and increased 1.6 percent in the year, ahead of the 1.3 percent increase in the CPI. The LCI increased 0.5 percent in the public sector and 0.4 percent in the private sector in the three months to December. Over the year it rose 1.8 percent in the public sector and 1.6 percent in the private sector. During the year, 45 percent of jobs surveyed did not receive a pay rise, and 47 percent of private sector jobs got no rise. For the 55 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.2

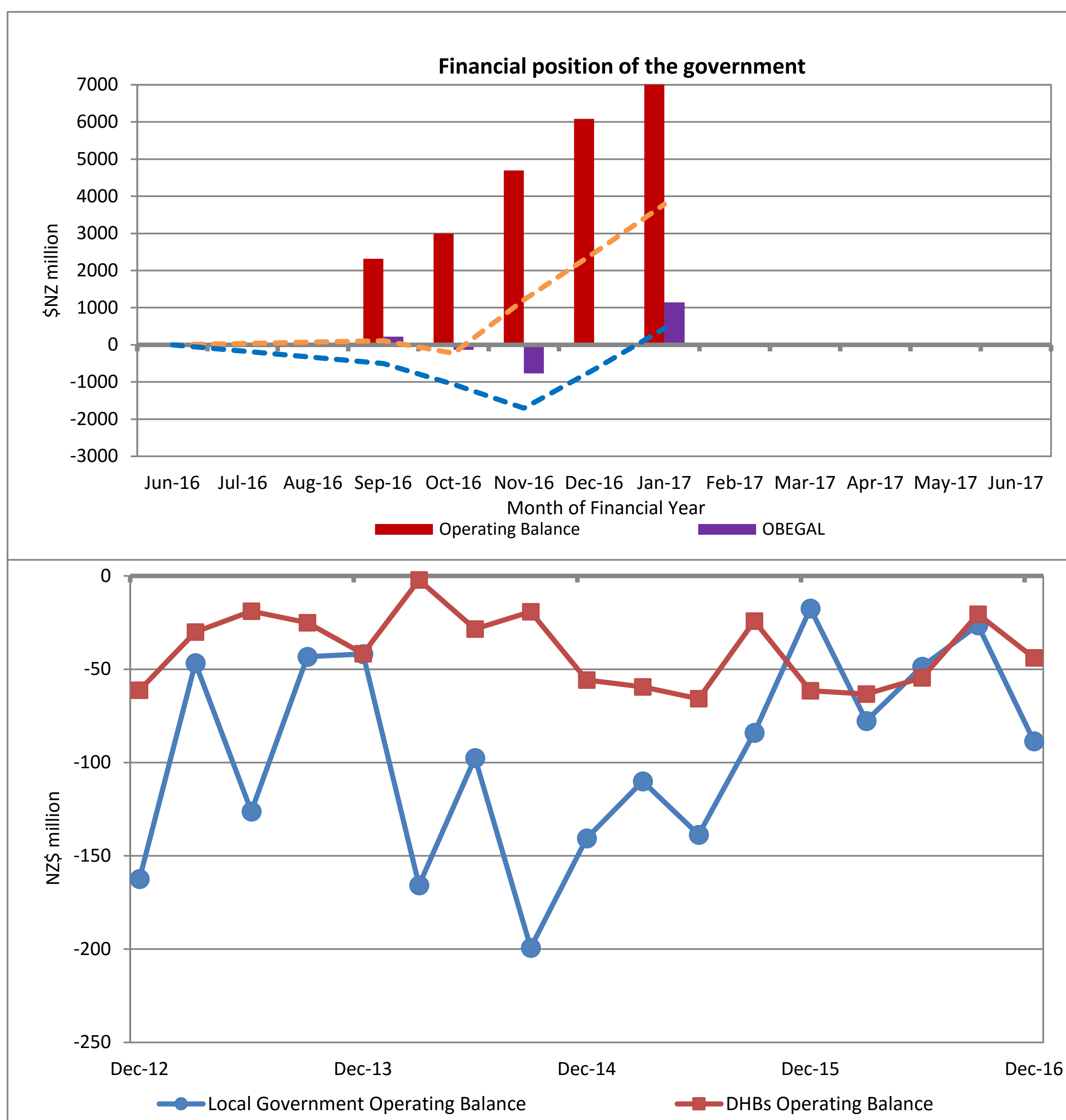
percent and the average increase was 3.1 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.2 percent; the average increase in the public sector was 2.5 percent and in the private sector 3.1 percent. We estimate that over the year, jobs on collective employment agreements were 2.2 times as likely to get a pay rise as those which 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, after falling behind for almost two years, salary and ordinary time wage rates in Canterbury rose more quickly in the quarter than in the rest of the country: 0.8 percent in Canterbury but 0.4 percent in the rest of the country; but over the year to December, wage rates rose faster in the rest of the country: 1.4 percent in Canterbury compared to 2.2 percent elsewhere. For those getting a rise, Canterbury wage rates rose 4.0 percent in the year compared to 3.6 percent elsewhere.

- The Quarterly Employment Survey for the three months to December 2016 found the average hourly wage for ordinary-time work was $29.75, down 0.1 percent on the previous quarter and up just 1.3 percent over the year (the lowest increase since 2010 when the country was just coming out of recession). Female workers (at $27.51) earned 13.2 percent less than male workers (at $31.68) for ordinary time hourly earnings. The average ordinary-time wage was $27.74 in the private sector (down 0.3 percent in the quarter and up just 1.1 percent in the year) and $37.63 in the public sector (up 0.5 percent in the quarter and up 3.0 percent in the year). Average total hourly wages (including overtime) ranged from $19.05 in Accommodation and food services, and $20.81 in Retail trade, to $41.82 in Finance and insurance services, and $40.26 in Information, media and telecommunications in December. In Accommodation and food services, 61 percent of employee jobs were part time, and in Retail trade, 44 percent were part time; 44 percent were also part time in Health care and social assistance, 41 percent in Arts, recreation and other services, and 31 percent in Education and training. Together these five industries made up 68 percent of all part time work. (The QES does not include agriculture or fishing and excludes very small businesses.)
- The Consumer Price Index (CPI) rose 0.4 percent in the December 2016 quarter compared with the September quarter, or 0.7 percent in seasonally adjusted terms (it is often negative in the December quarter), and increased 1.3 percent for the year to December, the first time it has been 1.0 percent or more since September 2014. For the quarter, the largest upward influence was Transport (up 3.7 percent) which by itself would have accounted for the total rise, pushed up by rising prices for petrol, passenger transport (especially international air travel) and new cars. However Housing and household utilities rose 0.6 percent, worth nearly a third of the rise, mainly due to rents rising 0.5 percent and new houses up 1.4 percent. They were offset by falls in Food (down 1.2 percent, mainly due to a 9.9 percent fall in Fruit and vegetable prices) and Household contents and services (down 1.4 percent, the largest contributor being costs of furniture and furnishings which fell 2.3 percent). Over the year however, Housing and household utilities was easily the biggest driver in the rise, up 3.3 percent and contributing almost two-thirds (60 percent) of the increase, led by rents up 2.0 percent and new housing up 6.5 percent but rises above average inflation in Property maintenance (up 3.1 percent), Property rates and services (up 3.2 percent), and Household energy (up 2.4 percent). Not part of the Housing group but also related to housing are house insurance (up 3.5 percent – but contents insurance was down 0.3 percent), and Real estate services (up 12.1 percent). Not part of the CPI (though in Household Living Cost Indexes) is

Interest, which was still falling in December (down 2.2 percent in the quarter and 10.0 percent over the year) though there are now signs it is beginning to rise again. In seasonally adjusted terms, the CPI rose 0.7 percent from September, Food rose 0.4 percent, Alcoholic beverages and tobacco rose 1.3 percent, Clothing and footwear rose 0.8 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.7 percent, Recreation and culture rose 0.2 percent, and Education rose 0.8 percent. Inflation in Canterbury for the year was 1.2 percent and it was 1.5 percent in the rest of the South Island. In Auckland prices rose 1.2 percent, Wellington 1.6 percent and 1.4 percent in the North Island other than Auckland and Wellington. Auckland's housing costs rose 3.9 percent over the year, the fastest in the country; Wellington's rose 2.6 percent, the North Island (outside Auckland and Wellington) rose 3.2 percent, Canterbury's rose 2.0 percent and rest of the South Island rose 2.9 percent, with the national average movement of 3.3 percent exceeded only by Auckland.

- In November, Statistics New Zealand published its first quarterly release of several new price series, The **Household Living-costs Price Indexes** (HLPIs). These show price increase like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by different types of households. There is a total of fourteen indexes: for "all households", Beneficiary households, Māori households, Superannuitant households, five for households ranked by income (five "income quintiles"), and five for households ranked by expenditure ("expenditure quintiles"). The incomes and expenditures are calculated to take account of household size and composition ("equivalised"). They are not strictly comparable to the CPI because they used different a methodology. See the commentary in the November 2016 Bulletin for more detail. The September release shows that over the year to September, the All households HLPI index rose 0.1 percent, the Beneficiary households index rose 0.8 percent, the Māori households index rose 0.2 percent, and the Superannuitant households index rose 0.4 percent. By income quintile, the index for the lowest income households (quintile 1) rose 0.5 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.0 percent, quintile 4 rose 0.0 percent, and quintile 5 fell 0.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.6 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.1 percent, quintile 4 fell 0.1 percent, and quintile 5 fell 0.3 percent. Over the September quarter, the All households HLPI index rose 0.3 percent, the Beneficiary households index rose 0.2 percent, the Māori households index rose 0.2 percent, and the Superannuitant households index rose 0.3 percent. By income quintile, the index for the lowest income households (quintile 1) rose 0.3 percent, quintile 2 rose 0.4 percent, quintile 3 rose 0.2 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.4 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.2 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.4 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.4 percent. The next release is on 9 February.

- ★ The Food Price Index rose by 0.2 percent in the month of February 2017 (and rose 0.8 percent in seasonally adjusted terms). Food prices rose 2.2 percent in the year to February. Compared with the previous month, fruit and vegetable prices rose 1.8 percent (and up 4.5 percent seasonally adjusted); meat, poultry, and fish prices fell 1.5 percent; grocery food prices rose 0.2 percent (also up 0.2 percent seasonally adjusted); non-alcoholic beverage prices rose 0.1 percent; and restaurant meals and ready-to-eat food prices rose 0.1 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)



★ According to Treasury's Financial Statements of the Government of New Zealand for the seven months to 31 January 2017, core Crown tax revenue was $291 million (0.7 percent) higher than forecast in the 2016 Half Year Economic and Fiscal Update (HYEFU 16). In the November statement, Treasury adjusted its forecasts to estimate the fiscal cost of the Kaikōura earthquakes which were "expected to be between $2 billion and $3 billion. As a result, $1 billion was added to the HYEFU 16 forecasts in relation to estimated costs that could not be met by insurance proceeds, reprioritisation or existing budget allowances." The results reported need to be read in this light. Corporate tax was $378 million above forecast. Treasury comments that "profits in 2016 tax year were higher than forecast and that this has continued into the 2017 tax year". However GST was $138 million (1.2 percent) below forecast. "Economic indicators point to below-forecast growth in

domestic consumption and residential investment in the December quarter", Treasury says. Overall core Crown revenue was $81 million or 0.2 percent higher than forecast. Core Crown expenses were $338 million (0.8 percent) below forecast, mainly because spending on the Kaikōura earthquakes have yet to be quantified. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $1,145 million in surplus, $703 million better than forecast. The Operating Balance was a $7.8 billion surplus, $4.0 billion higher than expected "primarily relating to an actuarial gain of $3.3 billion ($3.0 billion higher than forecast) on the ACC liability" resulting from an increase in the discount rate it uses. Net debt at 24.1 percent of GDP ($61.7 billion) was $78 million better than forecast. Gross debt at $86.8 billion (33.9 percent of GDP) was $1.8 billion less than forecast. The Crown's net worth in financial terms was $4.1 billion higher than forecast at $97.2 billion. Net capital spending was $204 million lower than forecast.

★ District Health Boards had 821 full time equivalent staff fewer than planned at the end of January 2017 (62,035 compared to 62,856 planned). While all categories of staff were affected except Nursing (which was 150 over plan), the largest shortfalls were in Allied Health Personnel (370 short), Medical Personnel (doctors – 269 short), and Management/Administration staff (262 short). Average costs per full time equivalent staff were very close to those planned ($93,900 compared to $93,300). The DHBs recorded combined deficits of $43.9 million in the seven months to January. This is $19.0 million worse than their plans. The Funder arms were in surplus by $100.4 million, and Provider arms (largely their hospitals) in deficit by $144.2 million, $71.0 million worse than planned. The Northern region was $6.1 million behind plan with a surplus of $9.5 million and all DHBs but Northland in surplus. The Midland region was $8.6 million behind plan with a surplus of $1.1 million and three of the five DHBs in deficit. Central region was $4.4 million behind plan with a combined $22.1 million deficit and all in deficit. The Southern Region was $63,000 ahead of plan with a $32.4 million deficit and three of the five DHBs in deficit, with Canterbury showing a $23.0 million deficit and Southern $10.9 million. In all, seven of the 20 DHBs were in surplus. The DHB furthest ahead of plan was Southern by $1.9 million, and Auckland was furthest behind, by $6.2 million. Capital expenditure across all DHBs was well behind plan with $415.5 million spent out of $520.1 million planned. Only MidCentral and Nelson Marlborough were ahead of their capital expenditure plans.

★ Local Government recorded a 2.2 percent ($53.7 million) fall in operating income in seasonally adjusted terms and a 0.3 percent rise in operating expenditure ($8.3 million) including a 0.8 percent fall in employee costs (down $4.5 million) for the December 2016 quarter compared to September 2016. This resulted in an operating deficit of $88.5 million in the December quarter, compared with a deficit of $26.4 million in the September quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin187.

For further information contact Bill Rosenberg.