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Te Kauae Kaimahi

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Information Section p.7

This is the last Bulletin for the year. The next one will be published on 31 January 2019. Best wishes for a good break and a new year of progress.

Commentary

How New Zealand's income is shared, 2018

Summary

Newly released statistics allow us to update the share of New Zealand's income that goes to wages and salaries – the labour share of income – for the year to March 2018 for the whole economy and to 2017 for individual industries.

The labour share of income fell from 61.2 percent of Net Domestic Income (NDI) to 59.1 percent in 2018, worth an average of $2,122 out of the pockets of each wage and salary earner per year. The 2018 labour income share of 59.1 percent is a small rise from the 59.0 percent last year.

Incomes of the self-employed have risen from 12.2 percent to 13.7 percent of NDI between 2009 and 2018, probably helped by rising farm incomes and rents, but the trend is flat or falling.

The largest beneficiary of the change in income shares over this period was corporate profits. For locally owned companies I estimate profits have risen from 11.6 percent to 17.9 percent of NDI over the 2009 to 2018 period. Together with profits, interest payments and other investment income going to overseas investors, the corporate sector's profits are taking a steeply increasing portion of income.

The cost of housing is directly seen in the national income accounts only in the "imputed" income of owners of owner-occupied houses – the rent they save by owning a home. It peaked in the early 1990s as a proportion of NDI and has been falling since then. Capital gains, which have been large recently, are not recorded in national income. However part of housing costs is shown in the rapid growth of the profits of the "FIRE" sector: Financial and Insurance Services, and Rental, Hiring and Real Estate Services. Its profits rose from 8.4 percent of total profits in the economy in 1972, to 15.2 percent in 2008, to 20.5 percent in 2017.

From 2009 to 2017, the labour income share fell in every industry except Mining; Food, Beverage and Tobacco Manufacturing (whose profits had a bad year in 2017, but its labour income share had been falling before that); Professional, Scientific and Technical Services (which unusually has had a rising labour income share since about 2000); and Arts and Recreation.

High salaries are taking an increasing proportion of total wage and salary income. Between 1994 and 2016, the average salary among the top 0.1 percent of wage and salary earners has risen from 13 times the average for all wage and salary earners to 17 times (rising from 1.3 percent of all wage and salary income to 1.7 percent). The average salaries of the top 1 percent grew from 6.3 times average wage and salary incomes to 7.4 times. Most of these people will be business executives or highly paid professionals and will be receiving additional income through the likes of bonus shares and the dividends on shareholdings.

A week ago, Statistics New Zealand (SNZ) published new National Accounts statistics that allow us to update the share of New Zealand's income that goes to wages and salaries – the labour share of income – for the year to March 2018 for the whole economy and to 2017 for individual industries. This commentary looks at what has changed and where New Zealand's income goes.

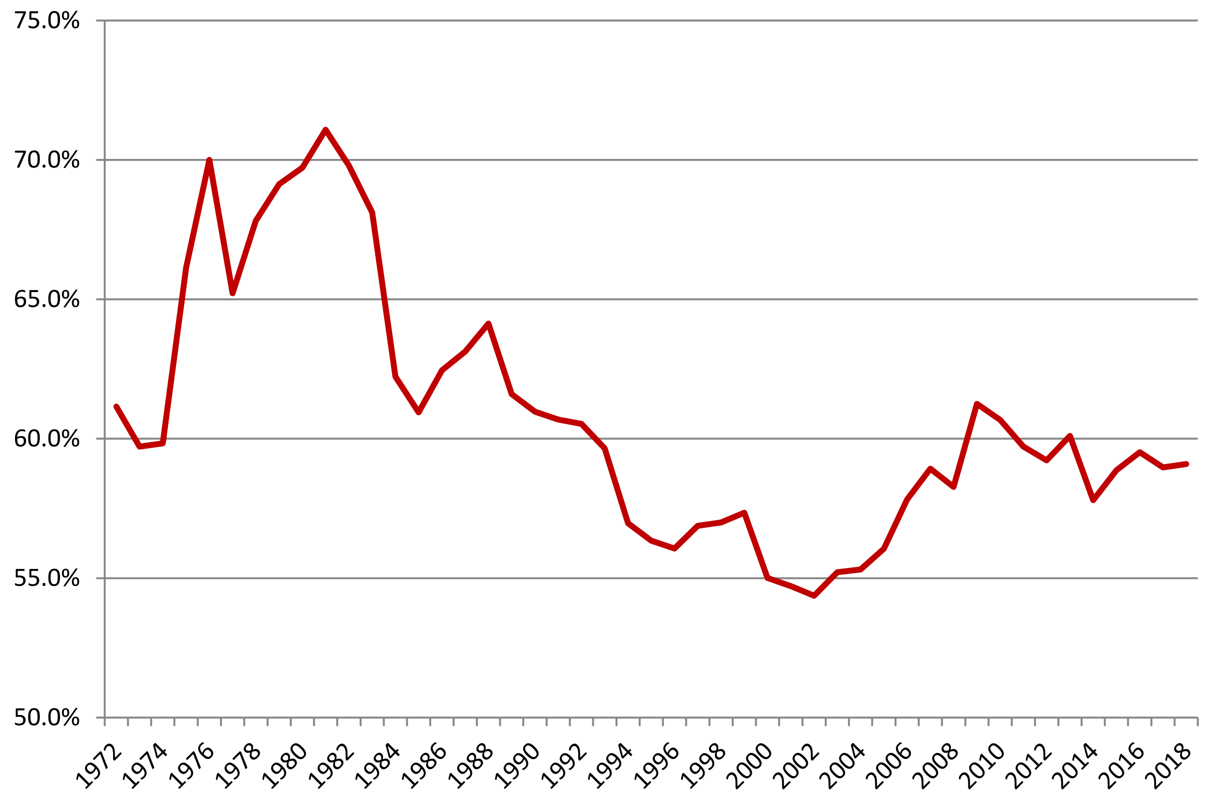
I calculate these income shares based on the share of *Net* Domestic Income which is after deducting consumption of fixed capital (provision for depreciation and the damage or loss of assets such as in disasters) because this is truer representation of economic income. More often you will see income shares of *Gross* Domestic Income, which includes consumption of fixed capital and is simpler to calculate, and sometimes data is not available to calculate the Net figure. The labour income share is a higher proportion of Net Domestic Income because consumption of fixed capital is deducted from profits (Gross Operating Surplus).

The new statistics revised the data so that the fall in the labour income share that has occurred since 2009 has been slower than SNZ's 2017 data showed, but the fall from 61.2 percent of Net Domestic Income (NDI) to 59.1 percent in 2018 is still worth an average of $2,122 out of the pockets of each wage and salary earner per year. The 2018 share of 59.1 percent is a small rise from the 59.0 percent last year. See figure 1. Top salaries as part of labour income are discussed below.

The remainder of the income goes to owners of capital – profits, interest, royalties and the like – is called "operating surplus" in the national accounts, and includes income of the self-employed.

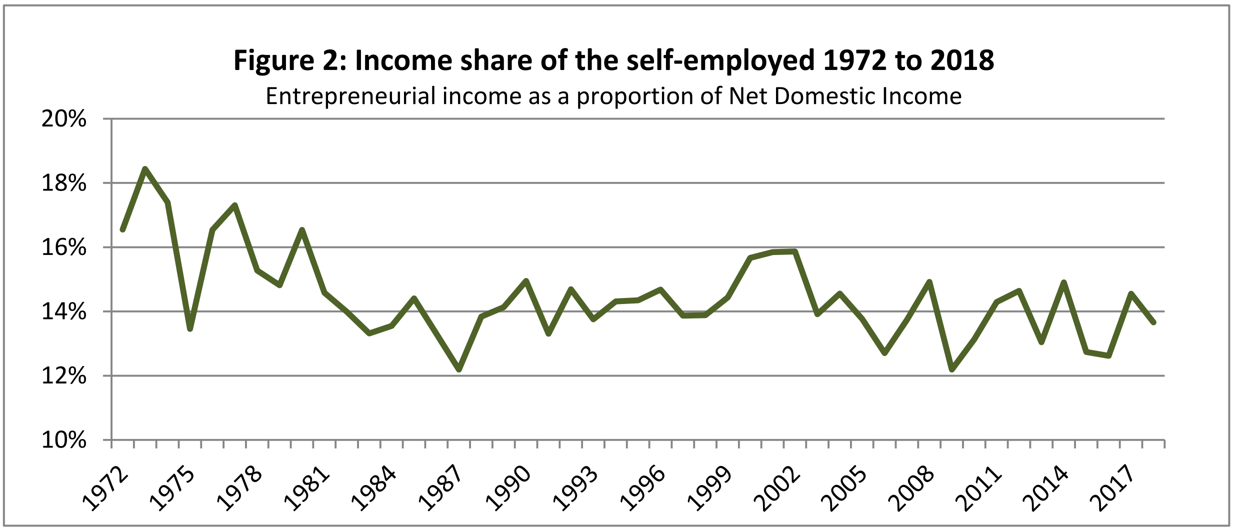
Figure 1: The labour share of income 1972-2018

Compensation of employees as a proportion of Net Domestic Income



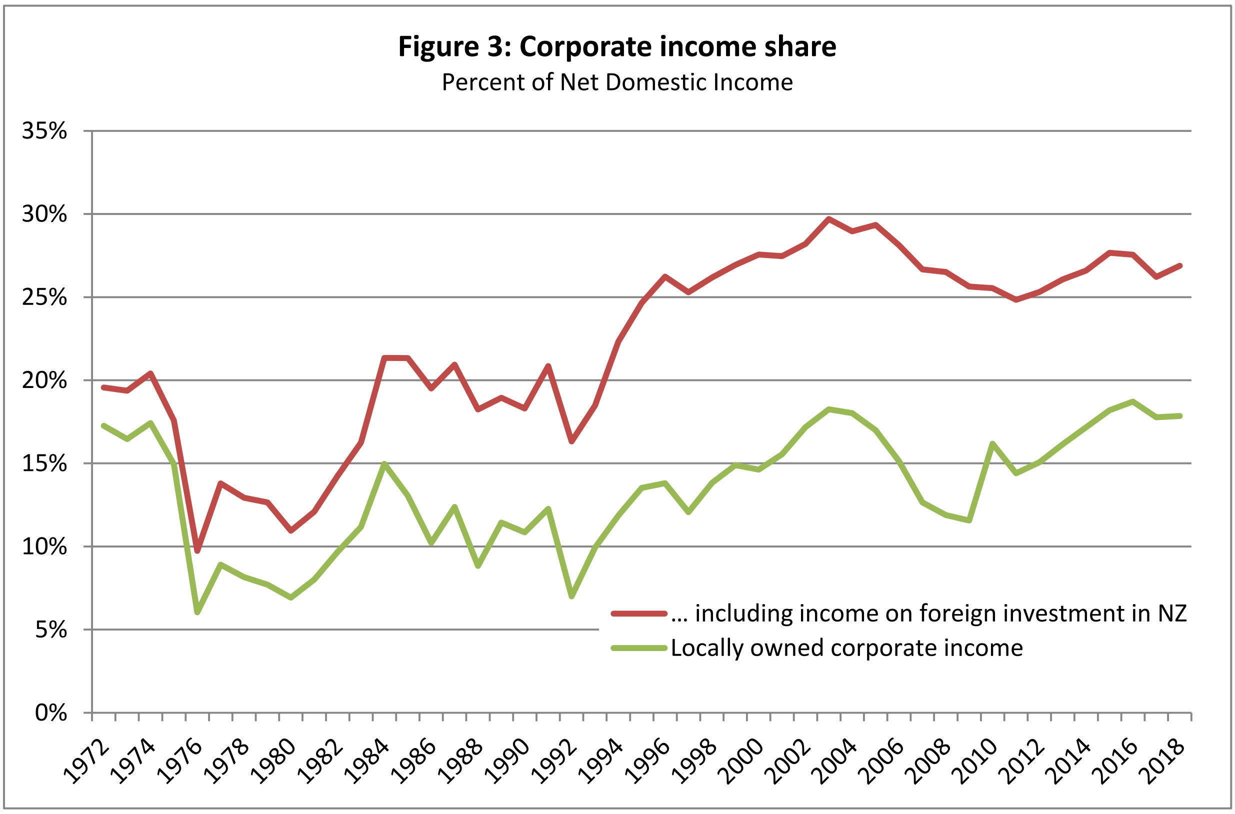
Self-employed

Incomes of the self-employed have risen from 12.2 percent to 13.7 percent of NDI over the 2009 to 2018 period, probably helped by rising farming incomes and rents, but their trend is flat or falling as figure 2 below shows.



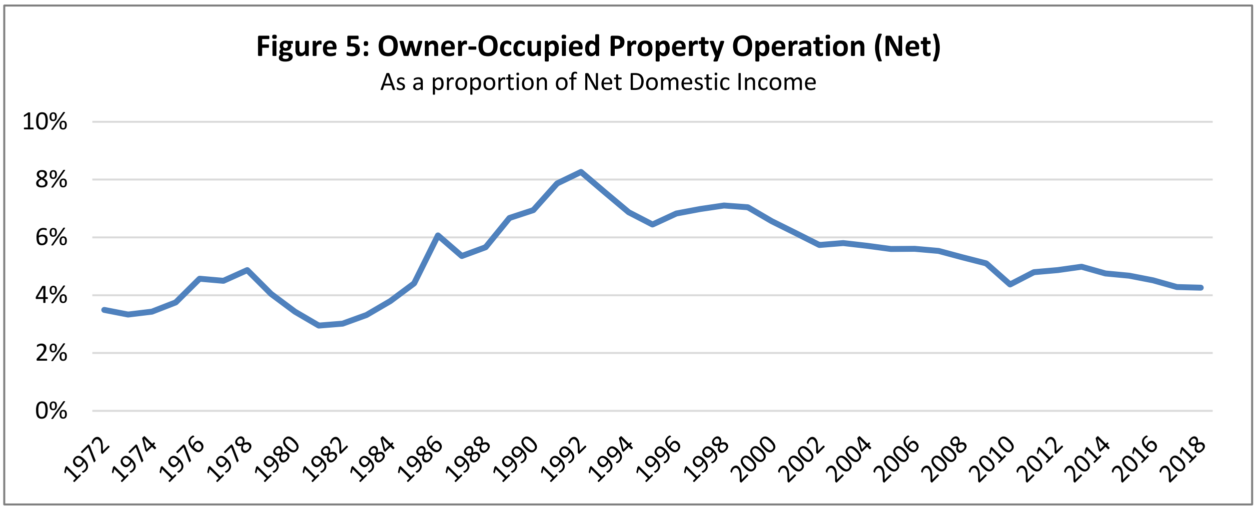
Corporate profits

The largest beneficiary of the change in income shares over this period was corporate profits, which for locally owned companies I estimate have risen from 11.6 percent to 17.9 percent of NDI over the 2009 to 2018 period. Together with profits, interest payments and other investment income going to overseas investors the corporate sector's profits is taking a steeply increasing portion of income: see figure 3.

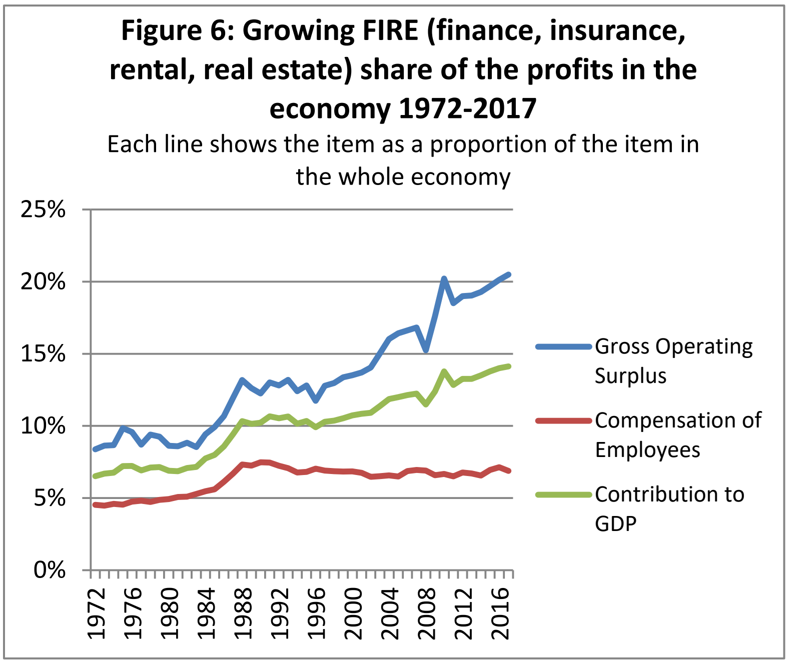


Housing and finance

The rising cost of housing is not easy to see in the national income accounts, which directly record only the "imputed" income of owners of owner-occupied houses – the rent they save by owning a home. It peaked in the early 1990s as a proportion of NDI and has been falling since then (figure 5). Capital gains, which have been large in this period, are not recorded in national income.



However part of the actual cost of housing – rents, letting fees, interest payments, real estate agent fees and so on – is shown in the rapid expansion of the profits of the "FIRE" sector: the Financial and Insurance Services and the Rental, Hiring and Real Estate Services industries. See figure 6. Its profits rose from 8.4 percent of total profits in the economy in 1972, to 15.2 percent in 2008, to 20.5 percent in 2017 (latest available).



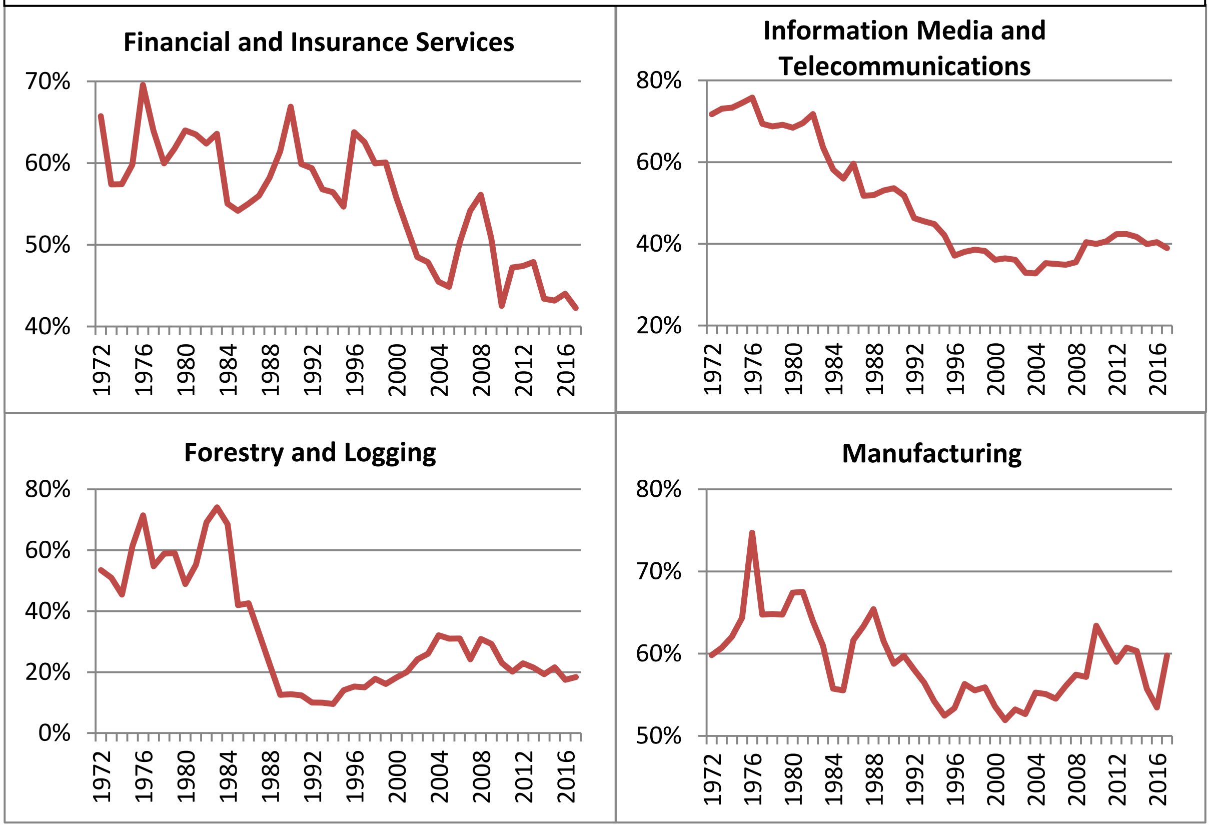
Industry shares

This contrasts with Agriculture which has shrunk from 19.5 percent to 6.8 percent of profits and Manufacturing from 19.9 percent to 8.3 percent of profits from 1972 to 2017. Services other than FIRE rose from 39.4 percent of the profits to 51.6 percent of profits.

The proportion of all wages and salaries paid in Manufacturing halved from 25.7 percent of all wages and salaries in 1972 to 12.6 percent in 2017, while FIRE wages and salaries rose much more slowly than that sector's profits: from 4.5 percent of total wages and salaries to 6.9 percent, the result of a plummeting labour share of income, especially in Financial and Insurance Services (figure 7; real estate is dominated by commission agents and self-employed and has a very small – and falling – wage and salary share). Technology likely played a significant part in this.

Between 2009 and 2017, the labour income share fell in every industry except mining (which has a very low labour share because of its high capital intensity), Food, Beverage and Tobacco Manufacturing (which had a bad year for profits in 2017, but the labour income share had been falling before that year), Professional, Scientific and Technical Services (which unusually among the industries has had a rising labour income share since about 2000) and Arts and Recreation Services.

Figure 7: Labour income shares of Gross domestic income in four industries, 1972-2017



Top salaries

High salaries are taking an increasing proportion of total wage and salary income. I estimate from IRD tax data[1] for wages and salaries that the top 0.1 percent of wage and salary earners (the one in a thousand with highest incomes) had annual salaries of $491,000 or more in 2016 (latest available). Their salary incomes rose from 0.8 percentage points of the 57.0 percent labour income share in 1994 (earliest available) to 1.1 percentage points of the 59.5 percent labour income share in 2016. The average salary among the top 0.1 percent has risen from 13 times the average for all wage and salary earners in 1994 to 16 times in 2009 to 17 times in 2016 (rising from 1.3 percent of all wage and salary income to 1.7 percent).

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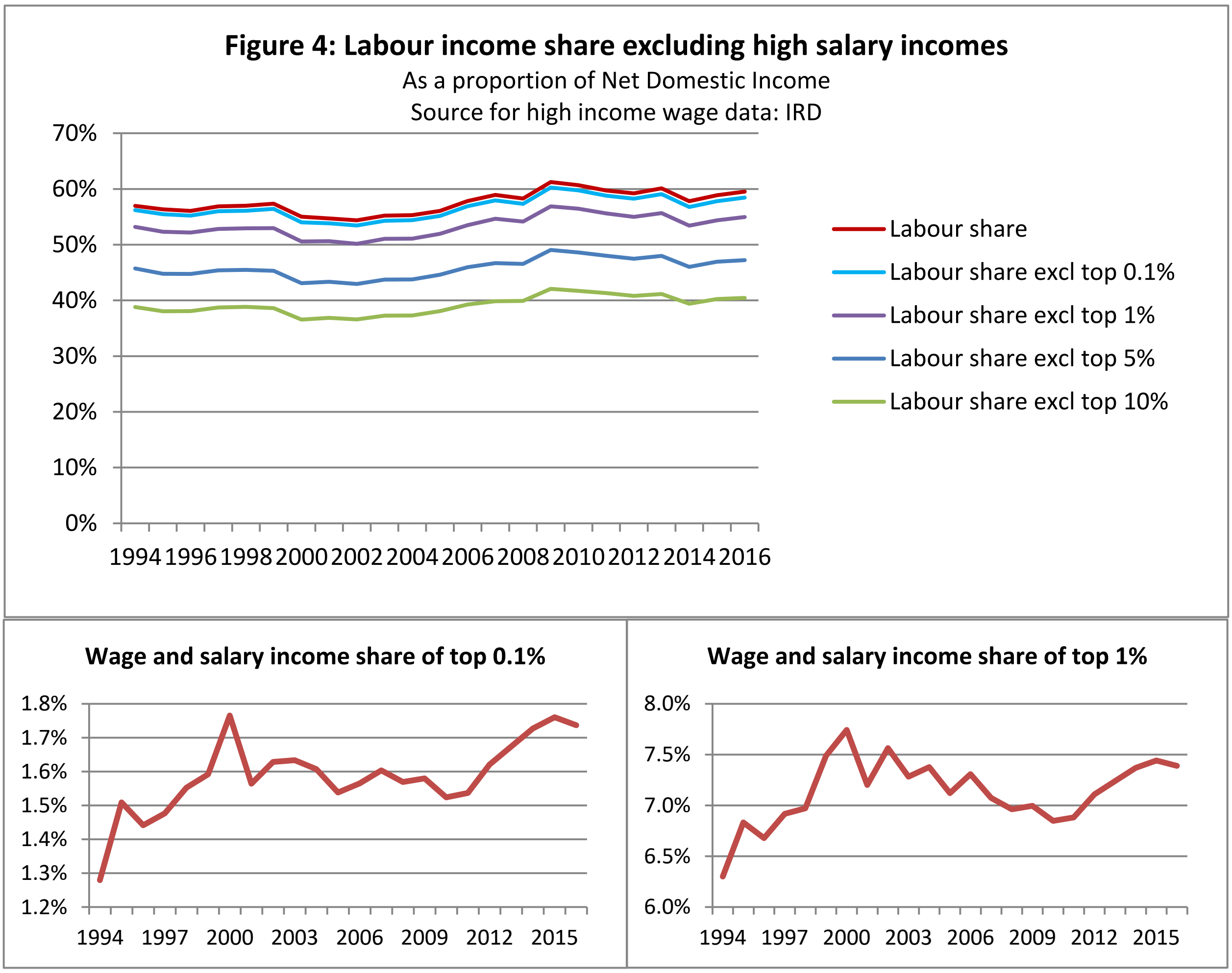
[1] The IRD data is available at https://www.ird.govt.nz/aboutir/external-stats/revenue-refunds/wage-distribution-individ-customers/. 2016 data is provisional. I estimate the minimum income and the income share for the Top 0.1% and Top 1% by assuming a Pareto distribution of top incomes where these cannot be calculated directly from the data. Note that the tax data does not include employer superannuation contributions and other additional employment benefits that are included in Compensation of Employees in the National Accounts which is used to calculate the labour income share. However totals for the two are very similar. It is also important to remember that the tax data includes income for people who worked only part of the year, which increases the numbers apparently on lower incomes and reduces the numbers on higher incomes. The proportions reported here must therefore be regarded as approximate.

The share going to the top 1 percent, who had annual salaries of $209,000 or more in 2016, rose from 3.8 percentage points of the labour income share in 1994 to 4.5 percentage points in 2016 (see figure 4). Their average salaries grew from 6.3 times average wage and salary incomes in 1994 to 7.0 times in 2009 to 7.4 times in 2016. Most of these people will be business executives or highly paid professionals, and arguably this is at least partly income from capital rather than from labour because of their degree of control of their employer, and should be discounted from the labour income share. Many will be receiving additional income through the likes of bonus shares and the dividends on shareholdings.



Bill Rosenberg

Information

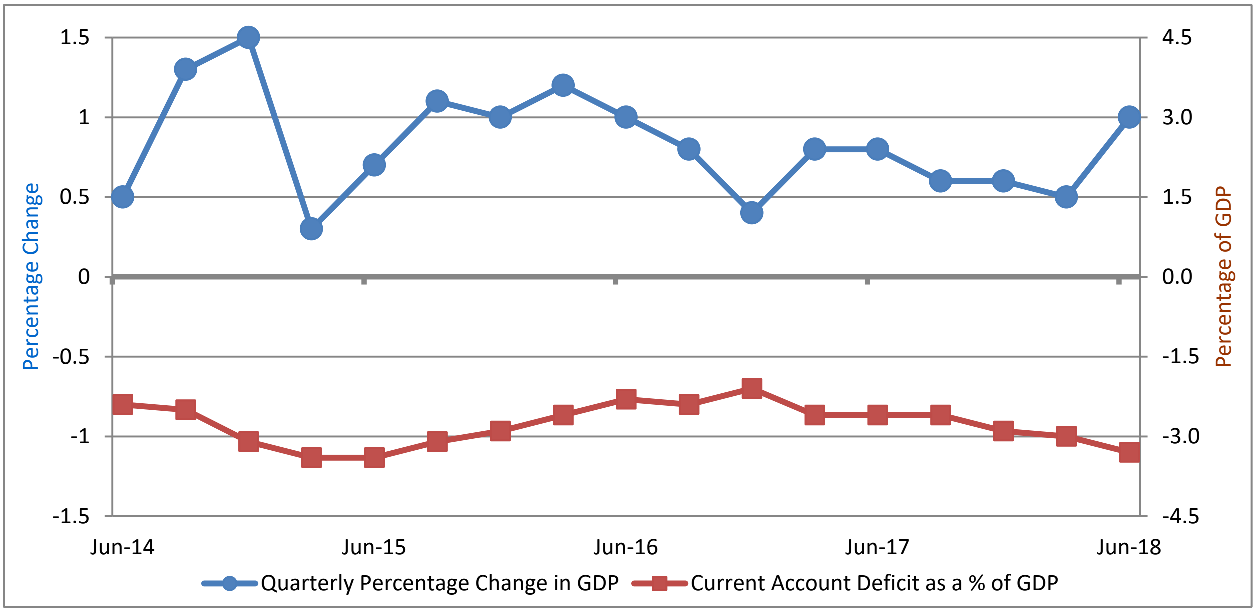
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This NZIER consensus forecast was released on 10 September 2018.

Annual Percentage Change (March Year)	2018-19	2019-20	2020-21	2021-22
GDP	2.8	3.1	2.9	2.7
CPI	1.9	1.8	2.0	1.9
Private Sector average hourly wage	2.7	3.0	3.5	2.9
Employment	2.0	1.7	1.6	1.5
Unemployment rate (% of labour force)	4.4	4.3	4.2	4.1

Economy



- Growth in New Zealand's measured economy in the three months to June 2018 was strong, and higher than Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 1.0 percent, up from 0.5 percent in the previous quarter. Average growth for the year ended June 2018 was 2.7 percent (and 2.8 percent compared to the same quarter last year). Growth in GDP per person continues to be weak with a rapidly growing population (though population growth is showing signs of slowing): GDP per person was 0.5 percent in the June quarter (though up from 0.0 percent the previous quarter, and the highest for two years), and up 0.7 percent over the year. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.4 percent a year. Since 2011 it has averaged 1.5 percent per year. 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 0.4 percent over the quarter and rose 1.1 percent over the year to June.

- I estimate that labour productivity, measured by production per hour worked in the economy, fell 1.6 percent in the year to June compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It fell 0.4% in the quarter, seasonally adjusted.

- Business investment fell by 0.2 percent compared to the previous quarter, dominated by a fall in investment in Plant, machinery and equipment, which fell 1.3 percent following rises of 1.6 percent and 6.4 percent in the previous two quarters. Compared to the same quarter the previous year, growth was strong however at 5.1 percent, driven by Plant, machinery and equipment (up 7.2 percent) and Other (than building) construction (up 7.5 percent). Investment in housing rose 0.5 percent in the quarter following a 0.7 percent fall and 0.4 percent rise in the previous two quarters. It grew 3.0 percent year on year. Household consumption grew 1.0 percent in the June quarter in real terms, after being unchanged in the previous quarter, and it rose 3.0 percent over the same quarter in the previous year. Inflation in the economy as a whole, shown by the GDP deflator (a price index for expenditure on the economy's production, reflecting largely the revenue employers are getting for their products) rose 1.9 percent compared to the same quarter the previous year, and 0.2 percent in the most recent quarter.

- By industry, the largest contributors to growth in the latest quarter were Agriculture, forestry and fishing (up 4.1 percent), Electricity, gas, water and waste services (up 3.7 percent), Wholesale Trade (up 1.7 percent), Retail trade and accommodation (up 1.5 percent), Transport, postal and warehousing (up 1.8 percent), Rental, hiring, and real estate services (up 0.9 percent), and Arts, recreation, and other services (up 3.5 percent). There was a contraction in Mining (down 19.9 percent). Year-on-year, the biggest rises were in Transport, postal and warehousing (up 5.1 percent), Retail trade and accommodation (up 4.9 percent), Wholesale trade (up 4.4 percent), Professional, scientific, technical, administrative and support services (up 4.4 percent), Health care and social assistance (up 4.2 percent), Public Administration and safety (up 3.6 percent), and Information media and telecommunications (up 3.6 percent). Mining contracted by 5.8 percent.

- New Zealand recorded a Current Account deficit of $2.7 billion in seasonally adjusted terms for the June 2018 quarter, following a record $3.2 billion deficit for the previous quarter. There was a deficit in goods trade ($1.4 billion, seasonally adjusted) following a $1.7 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $95 million in goods and services (compared to a $0.4 billion deficit in the previous quarter) including a $1.5 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was a slight improvement at a deficit of $2.5 billion from a $2.6 billion deficit in the previous quarter (seasonal adjustment not available). For the year to June 2018, the current account deficit was $9.5 billion or 3.3 percent of GDP compared to an $8.5 billion deficit in the year to March (3.0 percent of GDP). The deficit on investment income was $10.9 billion for the year.

- The country's Net International Liabilities were $157.9 billion at the end of June 2018, up from $156.2 billion at the end of the previous quarter and $154.9 billion a year before. The June net liabilities were equivalent to 54.6 percent of GDP, unchanged from the previous quarter and down from 56.5 percent a year before. Net international liabilities would take 1.97 years of goods and services exports to pay off, down from 1.99 years a year before. However gross liabilities would take 5.28 years of goods and services exports to pay off. The rise in net liabilities over the quarter was due to a net $3.3 billion valuation increase offset by a $1.7 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $154.5 billion. New Zealand's international debt was $298.0 billion (other than shares; equivalent to 103.0 percent of GDP), of which 29.7 percent is due within 12 months, compared to $147.0 billion in financial assets (50.8 percent of GDP), leaving a net debt of $151.0 billion (52.2 percent of GDP). Of the net debt, $1.5 billion was owed by the government including the Reserve Bank, and $114.8 billion by the banks (39.7 percent of GDP), which owed $160.2 billion gross.

★ Overseas Merchandise Trade for the month of October 2018 saw exports of goods rise in value by 6.6 percent from the same month last year while imports rose 14.1 percent. This contributed to a trade deficit for the month of $1,295 million or 26.7 percent of exports, following a record $1,596 million deficit in the previous month. October typically shows a large deficit: in October 2016 the deficit was 20.3 percent of exports. There was a trade deficit for the year of $5.9 billion or 10.1 percent of exports. In seasonally adjusted terms, exports fell 6.4 percent or $329 million over the month (compared to a 7.7 percent rise the previous month) with falls led by Crude oil (down 12.6 percent or $9 million, not seasonally adjusted), and Aluminium (down 8.5 percent or $10 million, not seasonally adjusted), offset by rises led by Dairy (up 4.1 percent or $45 million), Meat (up 11.2 percent or $69 million), Mechanical machinery and equipment (up 4.1 percent or $6 million) and Wine (up 3.5 percent or $5 million). Seasonally adjusted imports fell 4.6 percent or $266 million over the previous month, leaving a trade deficit of $722 million following a $657 million deficit in the previous month. The falling imports were led by Petroleum and products (down 15.0 percent or $111 million, not seasonally adjusted), offset by rises led by Mechanical machinery and equipment (up 20.2 percent or $146 million), Textiles (up 17.7 percent or $42 million), Plastics and plastic articles (up 13.3 percent or $25 million), and Electrical machinery and equipment (up 6.0 percent or $27 million). In the year to October, 23.6 percent of New Zealand's exports went to China, 15.8 percent to Australia, 9.6 percent to the US, and 60.7 percent went to the top six countries buying New Zealand exports. This compares with 21.8 percent going to China in the previous year, and 60.4 percent going to the top six destinations. Over the same period, 19.5 percent of New Zealand's imports came from China (compared to 19.5 percent in the previous year), 11.4 percent from Australia, 10.6 percent from the US, and 58.0 percent from the top six countries selling to New Zealand, compared to 59.7 percent a year before. There were trade surpluses with China ($1.2 billion) and Australia ($1.8 billion) but deficits with most other major trading partners.

★ The Retail Trade Survey for the three months to September 2018 showed retail sales rose 2.7 percent by volume and 4.0 percent by value compared with the same quarter a year ago. They were static by volume and rose 0.6 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Department stores and Fuel (both up 7.0

percent), Non-store and commission-based retailing (which includes online retailing, up 2.3 percent), and Clothing, footwear, and accessories (up 2.1 percent). Supermarkets and grocery stores sales (easily the largest single category, with 21.5 percent of sales over the year), rose 0.3 percent. Sales fell in six categories, led by Food and beverage services (down 2.4 percent), Pharmaceutical and other store-based retailing (down 2.2 percent), and Motor vehicles and parts (down 1.7 percent).

★ The Performance of Manufacturing Index for October 2018 was 53.5, a rise from 51.9 in the previous month. The employment sub-index was at 52.4, a rise from 50.9 in the previous month.

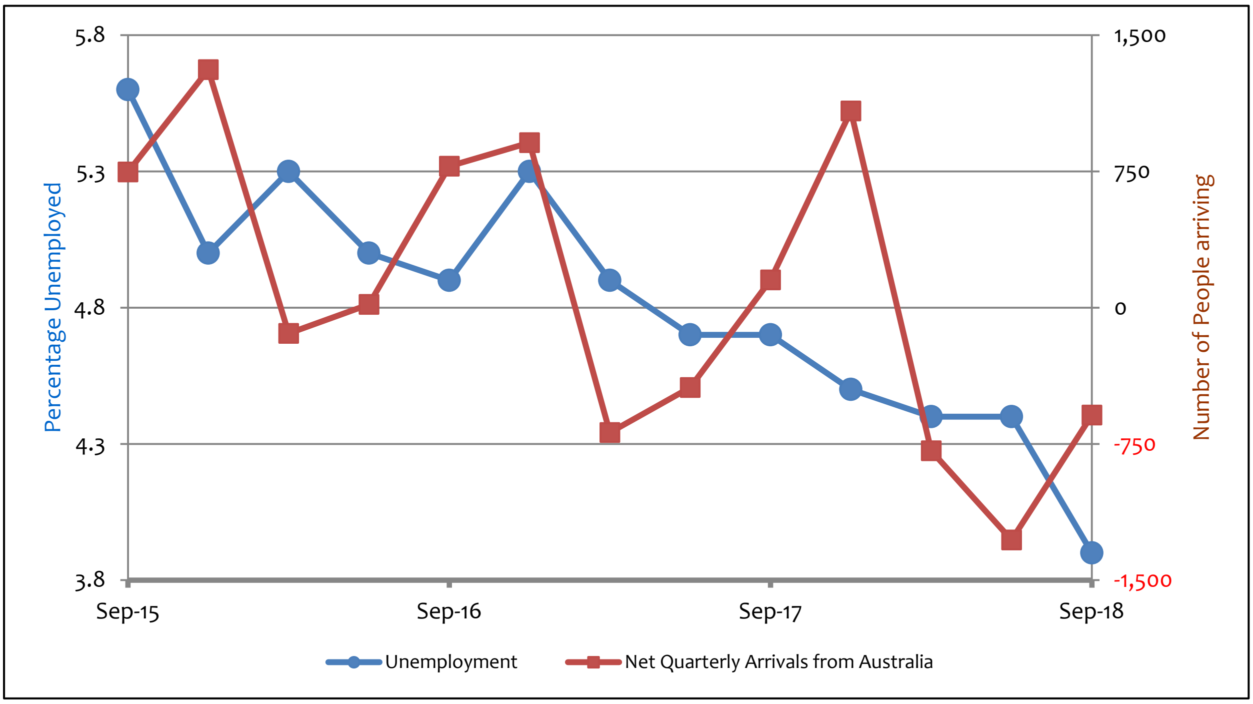
★ The Performance of Services Index for October 2018 was 55.4, up from 54.2 the previous month. The employment sub-index was up sharply at 54.0 from 49.7 the previous month.

For these 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.

★ On 8 November 2018 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. The Governor maintained the Bank's previous expectation that the OCR will remain "at this level through 2019 and into 2020." Commenting on the unexpectedly high GDP growth in the June quarter, he said that it "was partly due to temporary factors, and business surveys continue to suggest growth will be soft in the near term." Despite the business confidence surveys, the Bank's Monetary Policy Statement reported on its visits to businesses that "Most of the firms suggested that activity had remained robust over the past year. Investment intentions were generally strong, despite some uncertainty around government policy, with many firms noting that increasing labour costs would encourage capital investment." The Bank's view is still that "Employment is around its maximum sustainable level. However, core consumer price inflation remains below our 2 percent target mid-point, necessitating continued supportive monetary policy." It expects GDP growth to pick up over 2019. "Monetary stimulus and population growth underpin household spending and business investment. Government spending on infrastructure and housing also supports domestic demand. The level of the New Zealand dollar exchange rate will support export earnings." The Governor's statement concluded, as it did last time: "We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation." The next OCR announcement will be on 13 February 2019.

★ According to REINZ, over the year to October the national median house price rose $32,000 or 6.0 percent to $562,000 and REINZ's house price index rose 3.8 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 1.0 percent seasonally adjusted while the house price index rose 0.5 percent. In Auckland over the year the median price was up $15,000 or 1.8 percent to $865,000 while the house price index rose 0.4 percent. Over the month, Auckland's median price was up 0.4 percent seasonally adjusted, and the house price index fell 0.1 percent. Excluding Auckland, over the year the national median price rose $39,250 to $479,250 or 8.9 percent while the house price index rose 7.9 percent. Over the month the median price excluding Auckland was up 1.2 percent seasonally adjusted, and the house price index rose 1.1 percent. There were record median prices in Taranaki (up 8.6 percent over the year to $380,000), Hawke's Bay (up 17.4 percent to $464,123), Manawatu/Whanganui (up 20.2 percent to $344,000), Canterbury (up 3.3 percent to $465,000) and Otago (up 18.2 percent to $480,000). Median prices fell over the year in Marlborough (down 9.3 percent to $381,000) and West Coast (down 26.7 percent to $165,000). Seasonally adjusted median prices fell over the month in Northland (down 1.5 percent), Waikato (down 0.4 percent), Gisborne (down 14.1 percent), Nelson/Marlborough/Tasman (down 6.5 percent) and West Coast (down 5.3 percent). Sales fell in just 3 of REINZ's 14 regions over the month, seasonally adjusted, while over the year, sales also fell in 3 regions, averaging a rise of 15.5 percent.

Employment



★ According to the Household Labour Force Survey (HLFS) the seasonally adjusted **unemployment** rate in the September 2018 quarter fell sharply to 3.9 percent or 109,000 people, the lowest it has been since 2008, compared to 4.4 percent three months before (122,000 people). If it were the 3.3 percent it was in December 2007, 17,500 more people would have jobs. The seasonally adjusted female unemployment rate fell to 4.0 percent from 4.6 percent three months before, little higher higher than for men (3.9 percent) whose unemployment rate fell from 4.2 percent. Māori unemployment fell from 9.9 percent a year before to 8.5 percent in September 2018, while Pacific people's unemployment fell from 9.4 percent to 6.2 percent over the year. Compared to OECD unemployment rates, New Zealand rose from 14th to 9th equal lowest (out of 35 countries). However New Zealand remained the third-highest employment rate for 15-64 year olds at 78.2 percent.

★ **Youth unemployment** for 15-19 year olds was 14.7 percent in September, down from 19.7 percent three months before, and from 19.3 percent a year before (these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not; small differences may not be statistically significant). For Māori 15-19 year olds in September 2018, the unemployment rate was 23.0 percent, compared to 23.7 percent a year before. For 15-19 year old Pacific Peoples it was 16.3 percent, down from 30.1 percent a year before. For 20-24 year olds, youth unemployment was 6.4 percent, down from 7.7 percent three months before, and from 9.4 percent a year before. For Māori 20-24 year olds the unemployment rate was 8.9 percent, down from 13.2 percent a year before. For 20-24 year old Pacific Peoples it was 6.1 percent, down from 15.2 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 7.6 percent, down from 7.3 percent three months before but up from

7.3 percent a year before. For Māori 15-19 year olds the rate was 11.9 percent, up from 10.4 percent a year before and for Pacific Peoples it was 6.2 percent, down from 10.2 percent a year before. For 20-24 year olds the NEET rate was 12.3 percent, down from 14.0 percent three months before and down from 14.8 percent a year before. For Māori 20-24 year olds the NEET rate was 20.2 percent, lower than the 25.3 percent a year before, and for Pacific Peoples it was 18.9 percent, down from 30.0 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (10.9 percent) than those not in education (8.1 percent). There were 68,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, down from 73,000 three months before, and from 76,000 a year before.

★ By **region**, in the North Island unemployment rates fell compared to a year ago in all of the eight regions. Northland had the worst regional unemployment rate at 6.2 percent but this was down from 6.6 percent a year before. All other North Island regions had unemployment rates under 5 percent, and Auckland at 3.7 percent (down from 4.6 percent a year before), Waikato at 3.4 percent, Bay of Plenty at 3.5 percent and Manawatu-Whanganui at 3.6 percent, all were under 4 percent. The South Island was more mixed, and its advantage in unemployment is being threatened by the North Island, with average unemployment in the South being 3.7 percent compared to 3.9 percent in the North. The only region in the country to see increased unemployment was Tasman/Nelson/Marlborough/West Coast where it rose to 3.9 percent from 2.2 percent a year before. Canterbury at 3.5 percent was down from 3.6 percent a year before, Otago at 3.8 percent was down from 3.9 percent a year before, and Southland at 4.3 percent was down from 5.2 percent a year before.

★ There were 36,200 unemployed people in September 2018 who had been **out of work for more than 6 months** compared to 42,900 a year before. This is 34.3 percent of the unemployed compared to 34.9 percent a year before, but is still at a much higher level than most of the 2000s. Those out of work for more than a year are 15.4 percent of the unemployed compared to 15.0 percent a year before. After rising until last year, the proportion of long-term unemployed appears to have peaked and is edging downward.

★ 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 for work sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours ("underemployed"). In the September quarter there were a total of 326,000 people looking for work classed as "underutilised", or 11.3 percent of the labour force extended to include these people, in seasonally adjusted terms. Of them, 111,000 were underemployed, 109,000 were officially unemployed, and 106,000 were additional jobless people looking for work. The 11.3 percent underutilisation rate is down on the previous quarter (seasonally adjusted 12.0 percent) and 12.1 percent percent a year before. It is higher for women at 13.7 percent than for men (9.1 percent).

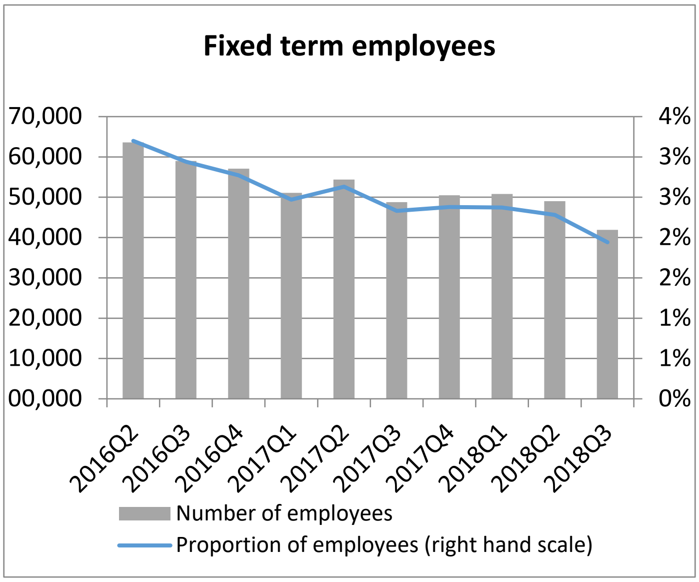
★ The number recorded as **employed** rose by 30,000 over the three months to September 2018 (seasonally adjusted). It rose by 73,000 over the year. The employment rate rose to 68.3 percent over the three months. It was 63.6 percent for women and 73.2 percent for men. Similarly the participation rate (the proportion of the working age population – those aged 15 years and over – either in jobs or officially unemployed) rose from 70.9 percent to 71.1 percent, all in seasonally adjusted terms.

★ **By industry**, the actual rise in employment of 24,400 in the three months to the September 2018 quarter (not seasonally adjusted) was made up of both gains and losses. The biggest gains were of 13,400 in Retail Trade and Accommodation, 11,500 in Health Care and Social Assistance, 8,900 in Arts, Recreation and Other Services, and 2,900 in Construction. These were offset by falls of 10,100 in Manufacturing, 6,600 in Professional, Scientific, Technical, Administrative and Support Services, 5,000 in Education and Training, and 3,800 in Information Media and Telecommunications. Over the year, the biggest contributors to the 73,200 additional jobs were 27,800 in Health Care and Social Assistance, 20,500 in Retail Trade and Accommodation, 11,900 in Professional, Scientific, Technical, Administrative and Support Services, and 8,900 in Arts, Recreation and Other Services. These annual increases were offset by falls over the year led by 8,200 in Agriculture, Forestry and Fishing, 3,300 in Construction, and 1,200 in Manufacturing.

★ In the September quarter, total **union membership** was estimated at 411,500, a 0.6 percent fall from 413,700 in the previous quarter but up a strong 7.9 percent from 381,500 a year before. The membership is 19.1 percent of employees compared to 19.3 percent three months before and 18.2 percent a year before. Women make up 59.2 percent of the membership compared to being 49.8 percent of all employees. As a result, the proportion of female employees who are in unions is higher than for males: 22.6 percent compared to 15.5 percent. The increase in numbers was greater for females (up 8.9 percent over the year) than males (up 6.4 percent) so the pay equity settlement is a strong factor (see the industry breakdown below), but not the only one. All age groups except 45-54 year olds increased union membership over the year, though some fell in the quarter: 15-24 year olds were up 4.0 percent in the year but fell 12.9 percent in the quarter, 25-34 up 26.1 percent in the year and up 7.2 percent in the quarter, 35-44 up 5.9 percent in the year and 4.6 percent in the quarter, 45-54 down 3.8 percent in the year and down 4.7 percent in the quarter, 55-64 year olds were up 8.1 percent in the year but down 1.3 percent in the quarter, and 65+ were up 15.6 percent in the year but down 4.2 percent in the quarter. Most of these changes were driven by female membership. By industry, the strong union membership growth mainly came from Health Care and Social Assistance which increased 13,300 or 13.7 percent in the year, and Public Administration and Safety, which increased 8,200 or 16.4 percent, but there were also good increases in Agriculture Forestry and Fishing, up 1,100 or 46 percent, Retail, up 1,800 or 11 percent, Transport Postal and Warehousing Construction, up 1,500 or 6.4 percent, Information Media and Telecommunications up 1,100 or 41 percent, Financial and Insurance Services up 1,200 or 22 percent, Administrative and Support Services up 1,300 or 41 percent (but be careful about the accuracy given small numbers in these industries). However numbers and density fell by small amounts (probably not statistically significant) in a number of industries. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.

★ In the September 2018 quarter, total **collective employment agreement** coverage was estimated at 410,000 employees, which makes 19.0 percent of employees who said their employment agreement was a collective compared to 19.2 percent three months before and 18.1 percent (378,000) a year before. An estimated 69.1 percent (1,490,900) said they were on an individual agreement compared to 68.8 percent three months before and 68.5 percent a year before, and 5.6 percent or 119,900 said they had no agreement (which is illegal), compared to 5.7 percent three months before and 6.9 percent a year before. A further 6.3 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.8 percent for men and 22.2 percent for women. All age groups except 45-54 year olds experienced increases in membership of collective agreements over the year, though some fell during the quarter. Those aged 15-24 rose 7.3 percent in the year and fell 15.2 percent in the quarter, 24-34 years rose 26.4 percent in the year and 6.5 percent in the quarter, 35-44 rose 3.6 percent in the year and 2.3 percent in the quarter, 45-54 fell 0.6 percent in the year and fell 2.7 percent in the quarter, 55-64 year olds rose 7.2 percent in the year but fell 0.7 percent in the quarter, and members 65+ rose 15.7 percent in the year and 4.6 percent in the quarter. By industry, collective membership grew by 13,500 or 16.8 percent in Health Care and Social Assistance, 4,100 or 18 percent in Retail, 2,600 or 11 percent in Transport Postal and Warehousing, 2,600 or 5.2 percent in Public Administration and Safety, and some strong percentage increases in other industries (but also some falls). As with union membership, numbers and density fell by small amounts (probably not statistically significant) in a number of industries, the most notable being Wholesale Trade (down 1,000 or 14.7 percent).

★ By **employment relationship**, in the September 2018 quarter, 91.5 percent of employees (1,974,400) reported they were permanent, 4.4 percent casual (94,800), 1.9 percent fixed term (41,900), 1.1 percent seasonal (24,700), and 0.5 percent employed through a “temporary agency” (10,400). The proportion reporting they were permanent was up from 90.9 percent (1,952,900) three months before and from 90.7 percent (1,898,500) a year before. Women were slightly less likely to be permanent employees: 90.3 percent of women were permanent compared to 92.7 percent of men. Instead, women were more likely to be casual (5.3 percent of them compared to 3.5 percent of men) or fixed term (2.6 percent of women compared to 1.3 percent of men). However more men were in seasonal work than women – 1.4 percent of men compared to 0.9 percent of women. Of the temp agency employees, 4,800 were men and 9,600 women. 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. However, in the two years this data has been available the number and proportion of fixed term employees measured by this survey has fallen reasonably steadily, starting in June 2016 with 63,600 and in September 2018 down to 41,900. The number of Temporary Agency employees has increased in the same period from 6,600 to 10,400, but this has been a bumpy road so it is too early to say there is a trend.



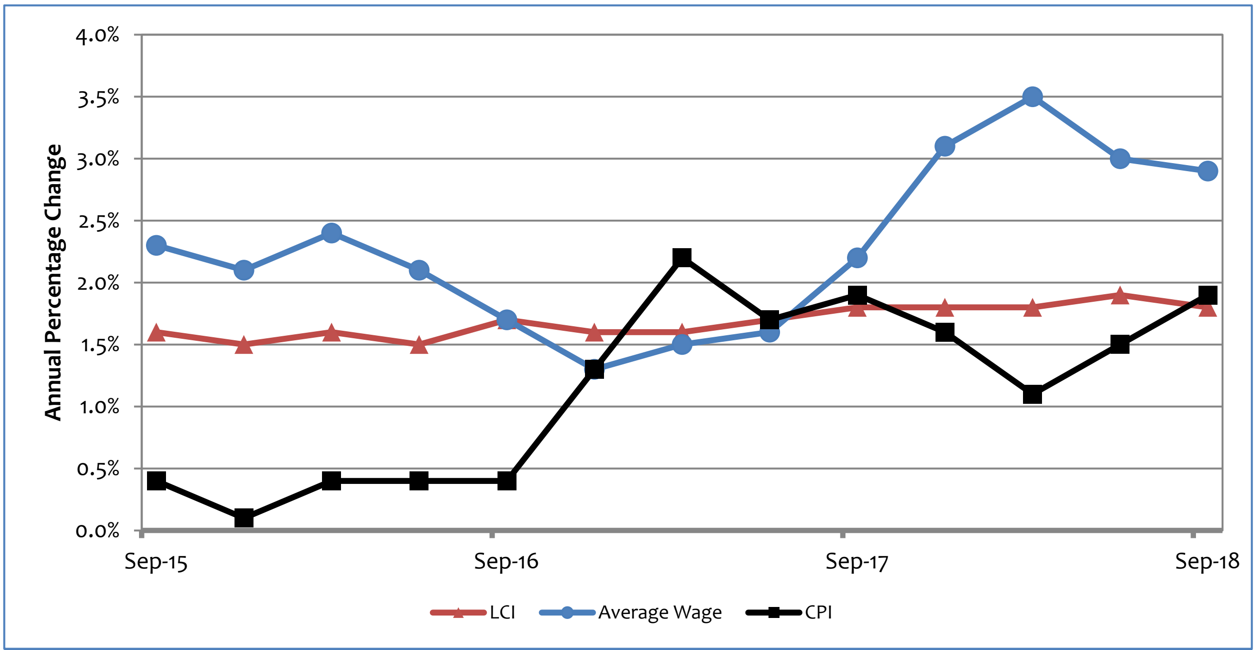
★ By **duration of employment (job tenure)**, in the September 2018 quarter, 23.7 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.7 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 16.2 percent had been in their job for at least five but less than ten years, and 25.4 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, 27.3 percent of men had been in their jobs for more than 10 years, but only 23.7 percent of women. Age is a significant factor as would be expected: 54.4 percent people aged 15 to 24 had been in their jobs for less than a year, and 30.7 percent of 25-34 year olds, but only 14.7 percent of 45-54 year olds and 10.3 percent of 55-64 year olds. Small differences may not be statistically significant.

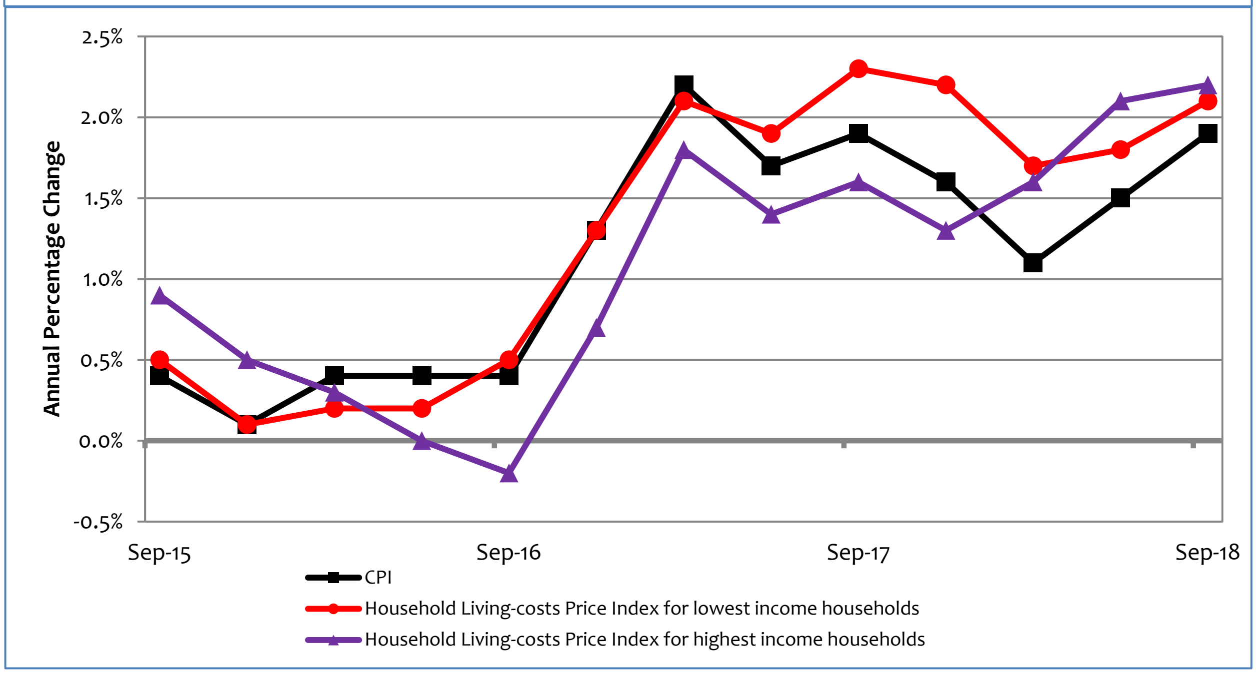
- The Ministry of Social Development reports that at the end of September 2018 there were 129,643 working age people on the Jobseeker benefit, 8,917 more than a year before and 7,130 more than three months before. At that time, 71,409 were classified as 'Work Ready', and 58,234 were classified as 'Health Condition or Disability'. A total of 284,315 were on 'main' benefits, 6,905 more than a year before, with 229 fewer on Supported Living Payments partially counteracting the increase in Jobseeker benefits. There were 7,095 more on main benefits than three months earlier, mainly because of the rise in Jobseeker benefits. Of the 35,835 benefits cancelled during the three months to September, 15,271 or 42.6 percent of the people obtained work, 14.9 percent transferred to another benefit and 6.7 percent became full time students. A further 2,244 (6.3 percent) left on their 52 week reapplication or annual review. A total of 9,504 suffered sanctions (down 22.2 percent), the majority (8,214) on a Jobseeker benefit. Of the people sanctioned, 44.8 percent were Māori, though only 36.3 percent of working-age benefit recipients were Māori.

- Job Vacancies Online for the three months to September 2018 showed the seasonally adjusted number of job vacancies rose by 1.9 percent in the quarter and rose 8.4 percent over the same quarter a year previously. All the following are seasonally adjusted, though it should be borne in mind that many jobs are still filled by word of mouth, social networks and through recruitment agencies rather than the job advertisements surveyed for these statistics. Over the quarter, highly skilled vacancies rose 2.8 percent while semi-skilled vacancies rose 0.9 percent and unskilled vacancies rose 0.9 percent, but over the year, highly skilled vacancies rose 12.2 percent while semi-skilled vacancies rose 1.8 percent and unskilled vacancies rose 8.8 percent. Over the quarter, vacancies in Gisborne/Hawke's Bay were up 7.0 percent, Northland up 5.5 percent, Manawatu-Whanganui/Taranaki up 4.6 percent, Wellington up 4.1 percent, Waikato up 2.8 percent, Auckland up 2.2 percent, Bay of Plenty up 2.2 percent, Otago/Southland up 1.9 percent, Marlborough/Nelson-Tasman/West Coast up 1.8 percent, and Canterbury was down 2.1 percent. By industry for the quarter, vacancies rose fastest in Health Care and Medical (up 6 percent), and Primary Industries (up 3.8 percent), while they rose slowest in Construction and Engineering (down 0.2 percent) and Sales, Retail, Marketing and Advertising (down 0.1 percent). There was a similar pattern over the year with Health Care and Medical up 32.9 percent, and Primary Industries up 11.2 percent, though Information Technology outpaced Primary Industries, with vacancies growing 14.1 percent. Construction and Engineering vacancies grew only 0.9 percent over the year. By occupation, Professionals' vacancies grew fastest over the quarter at 2.3 percent, followed by Machinery Operators and Drivers at 2.0 percent, while Sales vacancies fell 1.1 percent, as did Technicians and Trades, Community and Personal Services, and Managers. Over the year, the fastest growing vacancies were for Labourers (11.8 percent increase), followed by Professionals (9.6 percent), with Sales growing only 1.6 percent.

- ★ International Travel and Migration statistics showed 10,160 permanent and long-term arrivals to New Zealand in October 2018 and 5,500 departures in seasonally adjusted terms, a net gain of 4,660 which was slightly higher than the 4,630 in the previous month. There was a seasonally adjusted net loss to Australia of 210, compared to a loss of 120 a year before. It was made up of a net loss of 590 New Zealand citizens offset by a net gain of 380 citizens of other countries. There was an actual net gain of 61,751 migrants in the year to October, down from 70,694 in the year to October 2017. Net migration from Australia in the year was 1,879 departures, with 23,830 arrivals and 25,709 departures. However there was a net loss of 6,612 New Zealand citizens to Australia over the year and a net gain of 4,733 from citizens of other countries. In October, 9.5 percent of the arrivals had residence visas, 12.7 percent student visas, 45.5 percent work visas, and 5.0 percent visitors. A further 26.9 percent were New Zealand or Australian citizens.

Wages and prices





★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to September 2018 and increased 1.8 percent in the year. The annual increase was less than the 1.9 percent increase in the CPI and partly reflects the fact that the Care and Support Workers' pay equity increase from 1 July last year has now dropped out of the annual increase, though the minimum wage increase from 1 April 2018 will still be having an influence. The LCI increased 0.5 percent in the public sector and 0.5 percent in the private sector in the three months. Over the year it rose 1.5 percent in the public sector and 1.9 percent in the private sector. During the year, 47 percent of jobs surveyed did not receive a pay rise, and 48 percent of private sector jobs got no rise. For the 53 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.6 percent and the average increase was 3.8 percent. For those jobs in the public sector that received increases during the year, the median increase was 2.3 percent and in the private sector 2.8 percent; the average increase in the public sector was 2.9 percent and in the private sector 4.0 percent. We estimate that over the year, jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those which were not, and were more likely to get a pay rise of any size ranging from less than 2 percent to over 5 percent. Only 48 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 that 99 percent of those on a collective stating pay rates got a pay rise in the year to June 2018.

- ★ The Quarterly Employment Survey for the three months to September 2018 found the average hourly wage for ordinary-time work was $31.34, up 1.1 percent on the previous quarter and up 2.9 percent over the year, significantly more than the 1.9 percent rise in the CPI. Female workers (at $29.25) earned 11.7 percent less than male workers (at $33.13) for ordinary time hourly earnings. This pay deficit has fallen from 13.0 percent two years ago in September 2016. The average ordinary-time wage was $29.38 in the private sector, up 1.4 percent in the quarter and 3.6 percent in the year. In the public sector the average ordinary-time wage was $39.31 which was up 0.7 percent in the quarter and up 1.6 percent in the year. Average total hourly wages (including overtime) ranged from $20.30 in Accommodation and food services and $22.23 in Retail trade, to $43.99 in Finance and insurance services, and $40.14 in Information, media and telecommunications. In Accommodation and food services, 55.6 percent of employee jobs were part time, and in Health care and social assistance 43.4 percent were part time; in Retail trade 39.6 percent were part time; 35.7 percent were also part time in Arts, recreation and other services, 25.3 percent in Professional, scientific, technical, administration and support services, and 33.8 percent in Education and training. Together these six industries made up 81.2 percent of all part time work. (However the QES does not include agriculture or fishing and excludes very small businesses.)

- The Consumer Price Index (CPI) rose 0.9 percent in the September 2018 quarter compared with the June 2018 quarter. It rose 0.8 percent in seasonally adjusted terms. It increased 1.9 percent for the year to September. For the quarter, the largest single upward influence was Transport, with petrol rising 5.5 percent, and sharp rises also in domestic and international air transport. It contributed over a third of the increase in the index (37.5 percent). Close behind was Housing and household utilities (up 1.1 percent) due to above-average rises in the costs of new housing, property maintenance materials, refuse disposal and recycling, and local authority rates, and contributing a third – 32.4 percent – of the rise. Increases in housing costs also came from an increase of 4.4 percent in house insurance and 1.1 percent in contents insurance over the quarter. Food contributed 15.1 percent of the rise, mainly from an 11.1 percent increase in vegetable prices though this was offset by a 10.3 percent fall in fruit prices. Over the year, Housing and household utilities and Transport were neck-and-neck in contributing to the rise, responsible for 41.7 percent and 41.3 percent of the rise respectively. In Housing and household utilities, which rose 3.1 percent overall, rents rose 2.3 percent, purchase of new housing rose 4.1 percent, property maintenance rose 3.7 percent, property rates and related services rose 4.5 percent, and household energy rose 2.4 percent. In addition, house insurance rose 16.0 percent and contents insurance rose 4.3 percent. In Transport, which rose 5.6 percent overall, most of the pain came from petrol, up 18.6 percent and other vehicle fuels and lubricants, up 27.6 percent. Meanwhile vehicle insurance rose 5.6 percent. Rents rose fastest in Wellington (up 3.8 percent for the year) and slowest in Canterbury (up 0.4 percent for the year) and on average 2.3 percent over the whole country; new house prices rose fastest in the North Island outside Auckland and slowest in Canterbury. Not part of the CPI (though in the Household Living Cost Indexes) is interest payments, which were still falling in September (down 0.5 percent in the quarter and 1.2 percent over the year). In seasonally adjusted terms, the CPI rose 0.8 percent over the last three months, Food rose 0.1 percent, Alcoholic beverages and tobacco rose 0.7 percent, Clothing and footwear rose 0.2 percent, Housing and household utilities rose 0.9 percent, Communications fell 1.8 percent, Recreation and culture rose 0.3 percent, and Education fell 0.2 percent. Over the year, in Auckland consumer prices fell 0.1 percent, in Wellington they rose 1.2 percent and they fell 0.8 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 1.8 percent and prices rose 2.0 percent in the rest of the South Island.

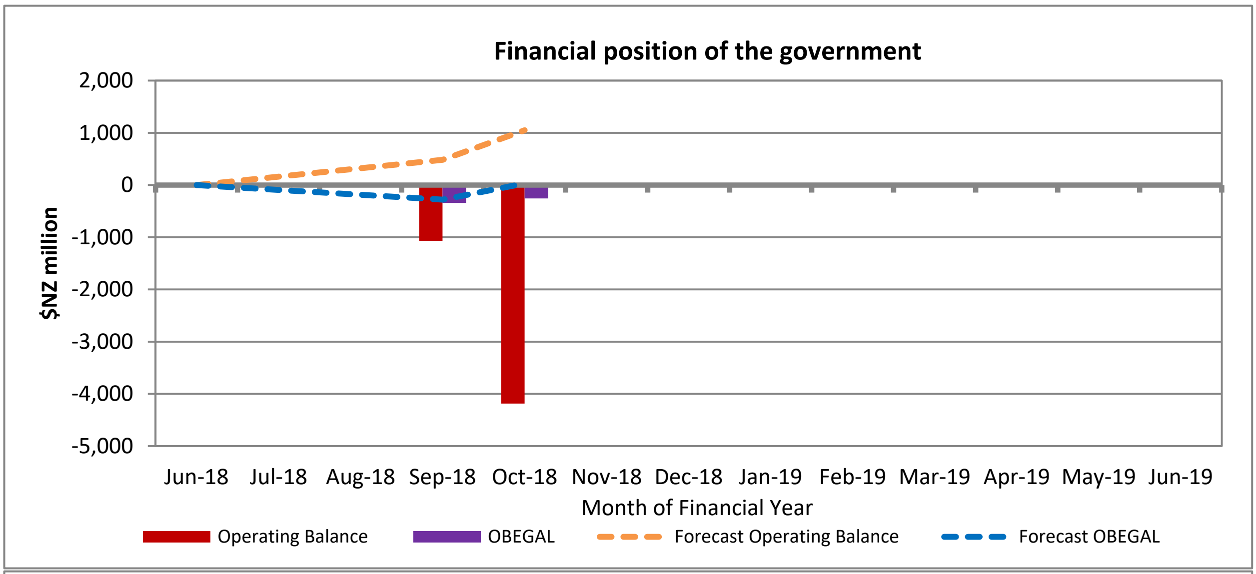
- The Household Living-costs Price Indexes (HLPIs) for the year to September 2018 again, like in the June year, showed lower income households experiencing (slightly) slower price rises than higher income households over the year, though they experienced higher cost rises in the latest three months, which is the normal pattern. By income, the lowest income households saw their living costs rise 2.1 percent over the year while the highest income households living costs rose 2.2 percent. However, by expenditure, the lowest spending households saw their living costs rise 2.2 percent over the year while prices for the highest spending households rose 1.9 percent. The difference in cost increases occurs because different households spend their money on different things. For example, prices for the necessities of housing and food dominate low income households' spending: 54.5 percent of the expenditure of the lowest income one-fifth (quintile) of households went on Food and Housing and household utilities in 2018, compared to being only 32.7 percent of the expenditure of the highest income one-fifth. Over the year, the All households HLPI index rose 2.2 percent, the Beneficiary households index rose 2.4 percent, the Māori households index rose 2.4 percent, and the Superannuitant households index rose 2.2 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.1 percent, quintile 2 rose 2.1 percent, quintile 3 rose 2.2 percent, quintile 4 rose 2.4 percent, and quintile 5 (the highest income) rose 2.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.2 percent, quintile 2 rose 2.4 percent, quintile 3 rose 2.3 percent, quintile 4 rose 2.2 percent, and quintile 5 rose 1.9 percent. Over the September quarter, the All households HLPI index rose 0.9 percent, the Beneficiary households index rose 0.8 percent, the Māori households index rose 0.9 percent, and the Superannuitant households index rose 1.2 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 1.0 percent, quintile 2 rose 0.9 percent, quintile 3 rose 0.9 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.8 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 1.0 percent, quintile 2 rose 1.0 percent, quintile 3 rose 0.9 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.7 percent.

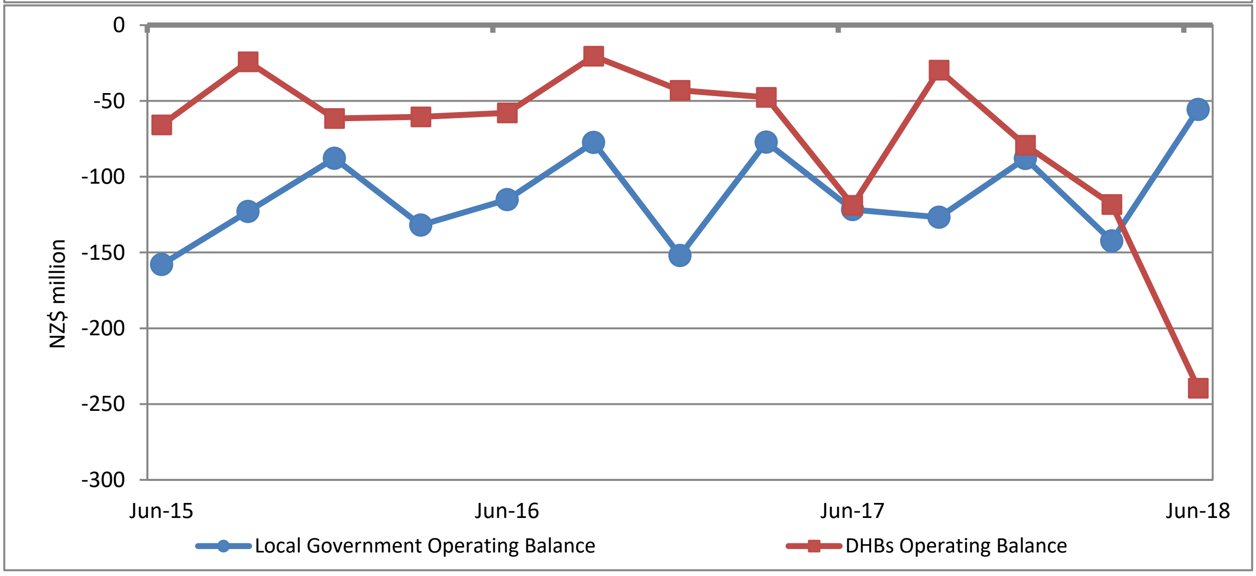
HLPIs show price increases like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by fourteen different types of households. See the commentary in the November 2016 Bulletin for more detail. Weights reflecting the proportion of different products bought by households were updated starting from the December 2017 release.

- ★ The Food Price Index fell 0.6 percent in the month of October 2018 and rose 0.3 percent in seasonally adjusted terms. Food prices rose 0.6 percent in the year to October 2018. Compared with the previous month, fruit and vegetable prices fell 5.4 percent (and were up 0.2 percent seasonally adjusted); meat, poultry, and fish rose 2.4 percent; grocery food prices fell 0.4 percent (and fell 0.3

percent when seasonally adjusted); non-alcoholic beverage prices fell 0.3 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.)

Public Sector





★ According to Treasury's [Financial Statements of the Government of New Zealand] for the four months to 31 October 2018, core Crown tax revenue was $197 million (0.8 percent) higher than forecast in the 2018 Budget Economic and Fiscal Update (BEFU 18). Corporate tax revenue was $0.2 billion below forecast, while PAYE was $0.2 billion or 1.5 percent above forecast due to "higher than forecast employment growth"; and GST was $0.1 billion or 1.7 percent above forecast, "mainly due to stronger-than-forecast residential investment". Overall core Crown revenue was $187 million or 0.7 percent above forecast. Core Crown expenses were $344 million (1.2 percent) above forecast. The resulting $258 million deficit in the Operating Balance before Gains and Losses (OBEGAL) was $287 million more than forecast and the Operating Balance, a $4.2 billion deficit, was $5.2 billion below the forecast $1.0 billion surplus. This was "largely due to unfavourable changes in market rates not forecast, partly offset by favourable foreign currency exchange gains due to the movement in the New Zealand dollar since the forecasts were prepared. In addition to the investment losses, net losses on non-financial instruments of $2.7 billion reduced the operating balance, primarily driven by changes to discount rates used to calculate the ACC outstanding claims liability and the GSF long-term liability. The Emission Trading Scheme also recognised a loss of $0.5 billion due to an increase in the carbon price." Net debt at 21.1 percent of GDP ($61.0 billion) was $1.5 billion lower than forecast. Gross debt at $88.5 billion (30.6 percent of GDP) was $0.9 billion higher than forecast. The Crown's net worth in financial terms was $6.9 billion higher than forecast at $126.1 billion.

- District Health Boards had more full time equivalent staff than planned at the end of June 2018 (99 more: 64,611 compared to 64,812 planned) for the first time in many years. Medical Personnel (doctors) were 151 more than planned and Nursing Personnel were 549 more than planned, but these were offset by shortfalls in Allied Health Personnel (382 short), Management/Administration staff (164 short), and Support Personnel (54 short). Average costs per full time equivalent staff were very close to plan ($96,134 compared to $95,850) with only Medical Personnel costs under plan. The DHBs had accumulated combined deficits of $239.5 million in the twelve months to June (an unaudited full year). This is $96.0 million worse than their plans. The Funder arms were in surplus by $120.9 million, $50.9 million more than the $70.1 million surplus planned, and Provider arms (largely their hospitals) in deficit by $370.2 million, $153.4 million worse than planned. The Northern region was $1.1 million behind plan with a deficit of $29.6 million and two of the four DHBs in deficit. The Midland region was $48.7 million behind plan with a deficit of $67.2 million and all of the five DHBs in deficit including Waikato whose deficit was $37.5 million. Central region was $24.1million behind plan, a combined $54.5 million deficit and all of the six DHBs in deficit. The Southern Region was $22.0 million behind plan with a $88.2 million deficit and three of the five DHBs in deficit, with Canterbury showing a $64.0 million deficit and Southern $21.4 million. In all, just four of the 20 DHBs were in surplus and five were ahead of plan. The DHB furthest ahead of plan was Capital and Coast by $2.8 million though with a deficit of $18.2 million, and Canterbury was furthest behind, by $10.3 million with a deficit of $64.0 million. Capital expenditure across all DHBs was $188.5 million behind plan with $382.7 million spent out of $571.2 million planned.

- Local Government in the June 2018 quarter recorded a 6.5 percent ($159.7 million) rise in operating income in seasonally adjusted terms and a 2.8 percent rise in operating expenditure ($72.9 million) including a 0.1 percent fall in employee costs (down $0.7 million) compared to the previous quarter. This resulted in an operating deficit of $55.7 million in the quarter, compared with a deficit of $142.4 million in the previous 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 all are seasonally adjusted figures which are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin204.

For further information contact Bill Rosenberg.