Te Kauae Kaimahi

Monthly Economic Bulletin

July 2023

NEW ZEALAND COUNCIL OF TRADE UNIONS
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Monthly Economic Bulletin

July 2023

Welcome to the July edition of the Economic Bulletin. In this month's Bulletin, we cost National's current policy proposals for the next Parliament and compare this with the funding available in future budgets. We show that the size of National's current commitments exceeds the available funding in the operating allowances by $3.3bn–$5.2bn. This spending creates a fiscal gap that would need to be filled with additional revenue, additional borrowing, asset sales, or additional spending cuts above what has already been announced. In short, there is a significant fiscal gap between National's promises and its current ability to deliver.

In our regular updates, we discuss the employment and inflation statistics for the June quarter, which show that New Zealand's labour market remains strong, wage growth has been broad based, and consumer inflation has fallen faster than expected. We also discuss the latest migration, trade, consumer confidence, and housing data, and take a look at the government's accounts.

As always, we welcome your feedback and any suggestions for areas of future investigation.

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National's numbers need scrutiny

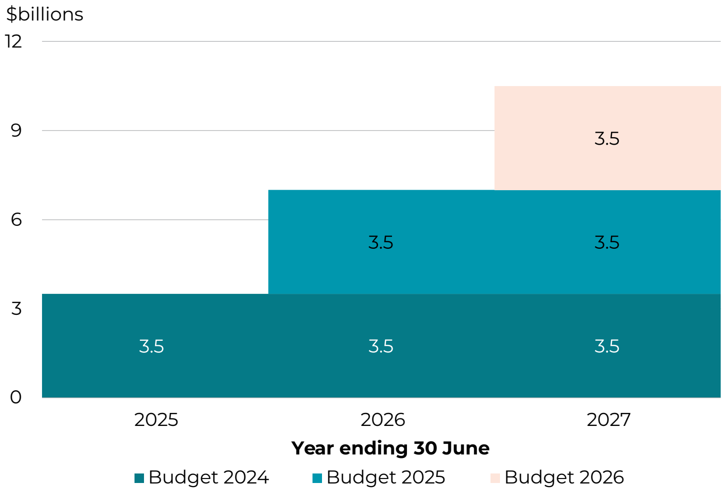
Recent polls suggest National could occupy the Treasury benches after 14 October. We are just over two months to the election, and eight weeks away from early voting. A fully costed fiscal plan is central to the credibility of any potential government – especially an Opposition. Despite repeated requests, National has yet to produce one or even the outline of one.

Labour released its fiscal plan in 2017 on 19 July. John Key produced his in 2008 on 4 August, well before elections in those years. Yet little analysis has been made of National's current spending programme, nor how their promises would be afforded. The only consistent message to come from Mr. Luxon and Ms. Willis is that a plan is coming and that it adds up.

The CTU has tried to fill that information gap for New Zealanders. This is, by definition, a partial analysis, but we have used information provided by both National and Treasury to draw up the basics of their plan. What this demonstrates should concern those who use public services, or whose families rely on them. There is a significant fiscal gap between their promises and their current ability to deliver.

Currently, there is $21bn of new spending planned across the next Parliament. Of that, Treasury estimates that around $16.8bn will be needed just to keep the lights on – that is just paying to keep the current system running. That doesn't account for population change, demographics, or new technologies like new medicines or any emergencies. That leaves $4.2bn in money available for potential investment, which is very likely to be an overestimate of what is available.

Figure 1: *Operating allowances, 2024–26.*

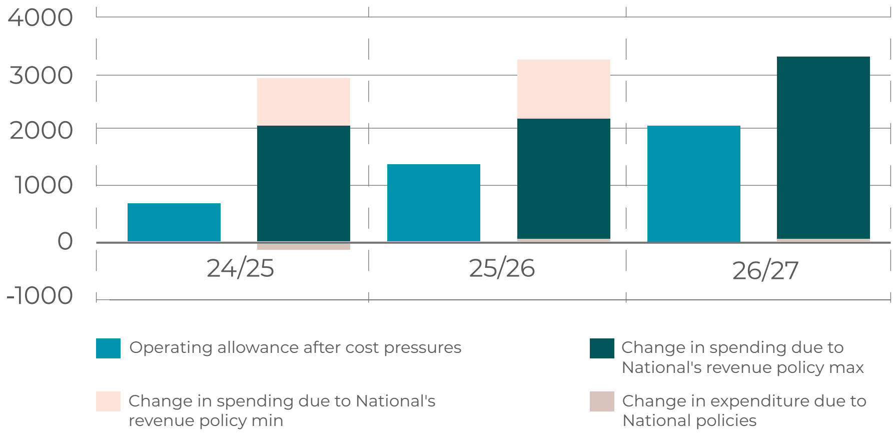


Source: *Treasury.*

The problem that National has is that it is spending money faster than it can generate it. National has currently spent $2 for every $1 that is available. Our analysis of National's spending commitments has identified anywhere between $7.5bn and $9.4bn of promised new spending. The difference comes from changing the possible dates of the different tax changes National has promised to deliver. The earlier they come in, the more expensive they are.

The size of the gap between spending and revenue – between $3.3bn and $5.2bn – would mean cuts to public services year after year. This isn't simply money that can be found from a few contractors or by letting go of a few comms staff. It means fewer staff, delivering fewer public goods. At a time when health, education, and policing are already stretched, and when we are recovering from Cyclone Gabrielle and an existing $210bn public infrastructure gap, this can't be achieved lightly.

Figure 2: *Fiscal costs of National's costed policies compared to available funding.*



Source: *CTU calculations.*

To generate our figure, we have used the numbers provided by National in their costings. The problem is that many of their biggest policy announcements have no costings at all. So that means the true gap might be billions higher than this. This gap also assumes no new real investment in health or education, nor any new investment in the last two Budgets of the next term. It assumes no more spending on the campaign trail this election, nor any spending for potential coalition partners.

In short, it's not a credible fiscal plan. Their funding gap will likely grow and grow. This will necessitate bigger and bigger cuts. Cuts of that size get harder and harder to deliver. It's an unpleasant circle of pain, with the main losers being those who depend upon public services. Which is everyone.

Each day is adding to the uncertainty. The CTU's analysis was completed before National's recent announcement of its huge and potentially under-costed transport projects. And before their proposed use of overseas government money and its inevitable interest repayments. Given the confident statements that National has made about their spending plans and economic management, they should be honest about how this will all be paid for.

National can end this uncertainty by doing what previous oppositions – and, to their credit – what ACT and the Greens have already done this election. National should produce a fully costed and audited fiscal plan. That plan should show what will be cut from government spending, when, and how. New Zealanders deserve that clarity from the Leader of the Opposition.

The CTU has conducted this analysis because working people should know what kind of government National would lead, and the likely impact that cuts of this scale would have on essential public services – everything from care to public transport to state housing. Right now, National has a substantial fiscal gap that has to be overcome – one that is likely to get worse as the election season gets underway. Right now, it's a fiscal challenge measured in the billions.

Employment

Employment

The employment statistics for the June 2023 quarter showed a slight softening of what is still a very strong labour market. Unemployment ticked up from 3.4% to 3.6% and underutilisation increased from 9% to 9.8%. In real terms, that means 109,000 people are unemployed and 105,000 people underemployed. New Zealand's unemployment rate is the same as Australia and among the lowest in the OECD. For men, unemployment rose 0.2 points to 3.4% and underutilisation rose 0.7 points to 8.1%. For women, unemployment rose 0.1 points to 3.8%, but there was a larger jump in underutilisation, up 0.8 points to 11.7%.

While these figures do mean more people are unemployed or underutilised than last quarter, the data suggests that this increase has been caused by people who were previously not in the labour force deciding to look for employment, rather than rising job losses. The labour force participation rate increased 0.4 points to 72.4%, and the employment rate rose 0.3 points to 69.8% for the quarter. This meant that the labour force increased 34,000 people to 3,036,000 and the number of employed people increased 28,000 to 2,927,000. Annually, there are 113,000 more people in employment now than there were at the end of June 2022 – an increase of 4%. The number of hours worked also increased, up 0.3% for the quarter and 3.1% annually.

Māori and Pasifika unemployment rates are typically the first to increase when the economy starts to soften. This is because the Māori and Pasifika workforces are overrepresented in the precarious jobs that are the first to go in a recession. While the June quarter has shown small increases in the unemployment rate for Māori and Pasifika, this is largely because of the increase in the labour force participation rate noted above. For Māori, unemployment rose 0.8 points to 7.2%, and underutilisation rose 0.7 points to 15.8%. However, labour force participation rose 1.2 points to 70.2% and the employment rate rose 0.5 points to 65.1%. For Pasifika, unemployment increased 0.4 points to 6.1% and underutilisation increased 0.7 points to 13.4%. Again, though, labour force participation increased, up 2.4 points to 69.6%, and employment increased 2 points to 65.3%.

Encouragingly, the NEET rate (people aged 15–24 who are not in employment, education, or training) fell in the June quarter, down 0.5 points to 11.2%. In real terms this represents 72,400 people.

Filled jobs for the June 2023 month increased 0.4% (9,537 jobs) from the previous month to 2,380,000 jobs. By sector, primary industries fell 0.2% (194 jobs), but this was offset by a 0.6% (2,791 jobs) increase in manufacturing and a 0.4% (6,662 jobs) increase in services. On an annual basis, job growth was strongest in accommodation and food services, up 8.6% (12,272 jobs); public administration and safety, up 5.5% (8,303 jobs); education and training, up 4.7% (9,495 jobs); healthcare and social assistance, up 3.7% (9,678 jobs); and manufacturing, up 3.2% (7,601 jobs). Filled jobs increased 3.2% for both men and women for the year.

Overall, these statistics indicate that the New Zealand labour market remains strong. Unemployment is near record lows and employment has reached its highest level since 1986. So far, then, the Reserve Bank's attempt to engineer a recession has not had a significant effect on employment. This may change, with forecasters expecting unemployment to rise somewhere in the range of 5–5.5% over the next two years.

Figure 3: *Unemployment and employment, 2007–23.*

Source: *Stats NZ.*

Social welfare

The Ministry of Social Development's quarterly benefit statistics show that, at the end of June 2023, 351,759 people were receiving a main benefit. This is up by 7,137 people (2.1%) from the same time last year. Of these, 173,130 people were receiving Jobseeker Support, with 99,276 people classified as 'work ready' and 73,851 classified as 'health condition or disability'. The number of people receiving Jobseeker Support – Work Ready was down 810 (0.8%) compared to June 2022. Again, this indicates the ongoing strength of the labour market. Of those on Jobseeker Support, 59.4% had been receiving the benefit for more than one year.

The proportion of the working-age population receiving Jobseeker Support increased marginally in six of the eleven regions that MSD reports on, when compared to June 2022. Northland and the Bay of Plenty had the highest proportion of the working-age population receiving Jobseeker Support, at 9.9% and 7.5% respectively. In Auckland, 5.5% of the working-age population were receiving Jobseeker Support; in Wellington, 4.5%; and in Canterbury, 4.2%. Southern had the lowest proportion of working-age population receiving Jobseeker Support, at 3.5%. There were 411,756 special needs grants – which provide one-off payments to help people meet immediate needs – in the June 2023 quarter, a 23% increase from the June 2022 quarter. This notable increase has likely been caused by the rising cost of living, and in particular food price inflation.

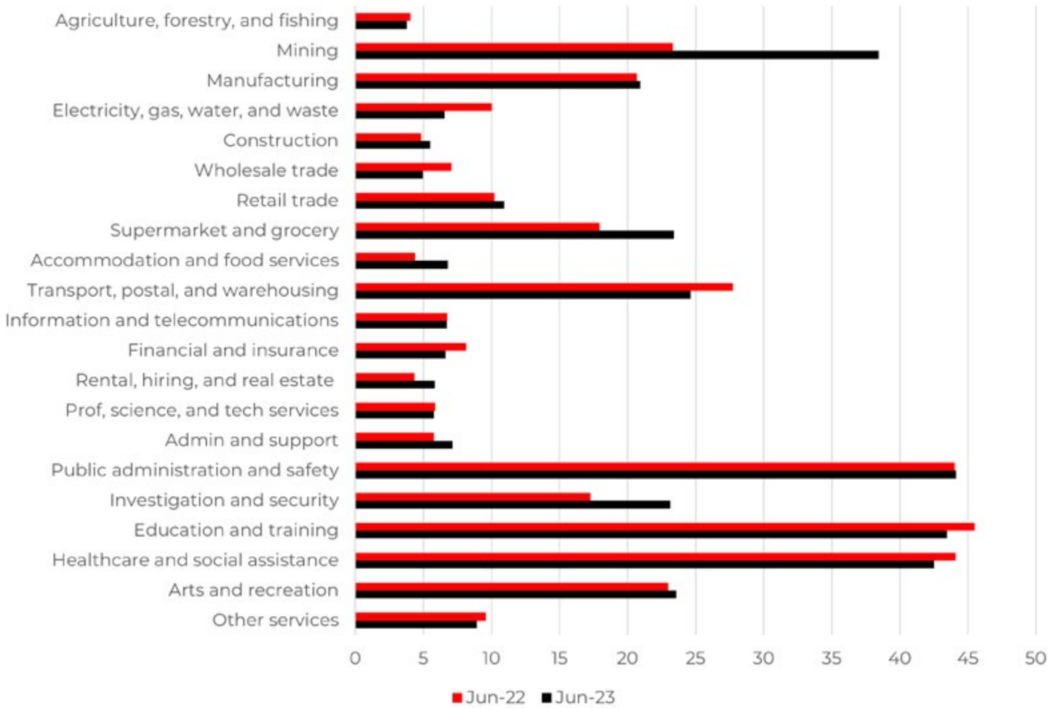
Broadly speaking, the benefit data indicates that the labour market has remained strong over the June 2023 quarter, despite the record-setting pace of interest rate hikes, but that the cost-of-living is driving increasing numbers of households into material hardship.

Union membership

For the June 2023 quarter, total union membership was estimated to be 455,600, or 19.8% of the workforce. Estimated union membership has sat around these levels for most of the past decade, which suggests that trade union strength has stabilised after a period of decline in the 1990s and 2000s. This estimate comes from the Household Labour Force Survey; it is likely an overestimation of total trade union strength, as it may include people who belong to other kinds of unions.

Of those stating union membership, an estimated 16.2% of male workers were unionised compared to 23.5% of female workers. All up, women accounted for an estimated 58.6% of the unionised workforce for the June 2023 quarter, down 1% from this time last year. Approximately 24.1% of the Māori workforce and 22.7% of the Pasifika workforce were estimated to be union members, compared to 19.4% of the European workforce and 17.4% of the Asian workforce. Compared to June 2022, union membership rates have fallen 2.5% in the Pasifika workforce and increased 1.3% in the Asian workforce; they have remained roughly the same for the Māori and European workforces. People aged 15–34 made up 29.2% of the total unionised workforce, up 1.7% from June 2022; people aged 35–54 made up 41.4% of the total, down 2.6%; and people aged 55+ made up 29.3% of the total, up 0.8%. Finally, the graph below breaks down union membership by industry. Public administration and safety, education and training, and healthcare and social assistance are the most union-dense industries, and together accounted for 62.2% of total union membership in the June 2023 quarter.

Figure 4: *Union membership as percent of total workforce, by industry.*



Source: *Stats NZ.*

Wages and prices

Wages

Nominal wages continued to increase in the June 2023 quarter. Year on year, the labour cost index (LCI), which measures the price for a fixed quality and quantity of labour, increased 4.3%. This is the same rate of change as in the March 2023 quarter, which will likely please the Reserve Bank, which has been trying to restrict wage growth via higher interest rates. Wage growth has continued to be strongest in the private sector, which increased 4.3% for the year, compared to a still-healthy 4.1% increase in the public sector.

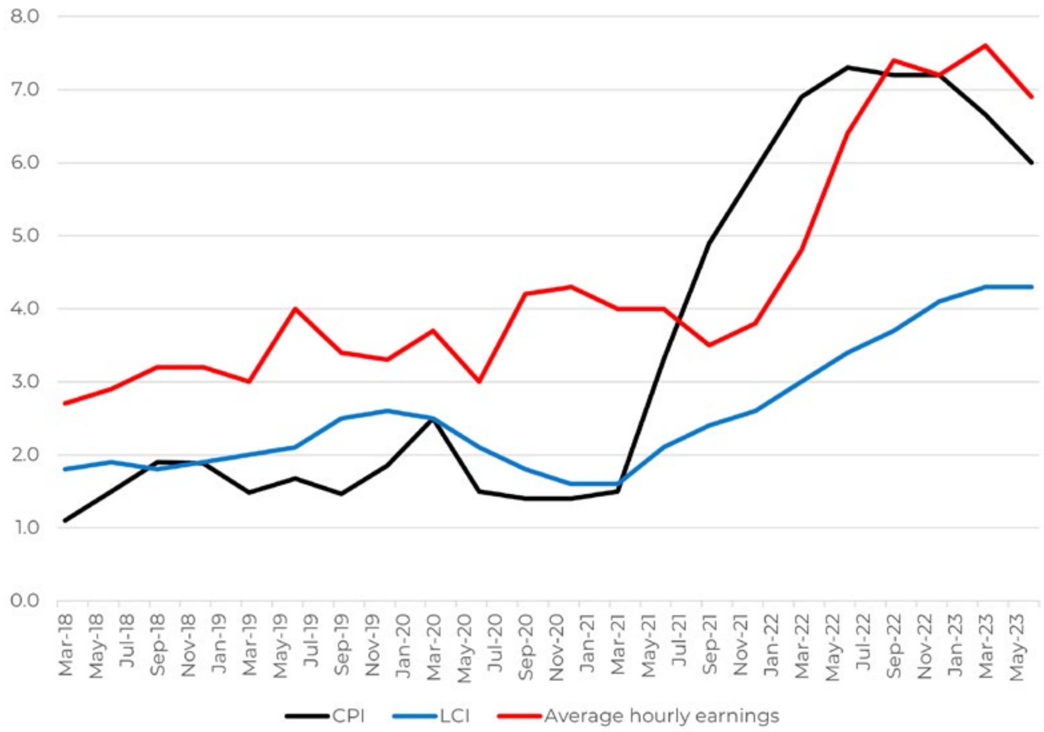
Measured by the LCI, wage growth has been broad based. By industry, the annual increase was 3.3% in agriculture, forestry and fishing; 5.2% in mining; 4.9% in manufacturing; 6.1% in electricity, gas, water, and waste services; 4.1% in construction; 4.4% in wholesale trade; 4.4% in retail trade and accommodation; 6.2% in transport, postal, and warehousing; 3.6% in information media and telecommunications; 4.3% in financial and insurance services; 2.9% in rental, hiring, and real estate services; 3.8% in professional, science, tech, admin, and support services; 3.9% in public administration and safety; 2.8% in education and training; 6.1% in healthcare and social assistance; and 4% in arts, recreation, and other services.

As measured by the quarterly employment survey (QES), which captures the actual income received by workers and includes pay rises from promotions and switching jobs, average ordinary time hourly earnings increased by 6.9% for the year, to $39.53. The rate of growth has cooled since the March 2023 quarter; again, this should please the Reserve Bank. In good news for workers, average hourly earnings have now matched or outstripped inflation for the past four quarters. This means that, on average, most New Zealand workers have seen their real wages grow over the past year.

The private sector has seen the biggest gains, with average wages increasing 7.7% for the year to June 2023; by contrast, public sector average hourly earnings have only increased by 4.1%, although were starting from a higher level. The lower rate of increase in the public sector is partly an artifact of the higher collective agreement coverage there. This means that wage movements in the public sector tend to happen in batches. We should see stronger increases in public sector wages over the next quarter or two, following the completion of collective bargaining in several sectors. In real terms, average private sector wages have increased by $2.72 to $37.88 while public sector wages have increased by $1.82 to $45.94. Average hourly wages for men have increased 7% over the past year to $41.61; by contrast, women have seen an average increase of 6.6%, to $37.13.

Measured by average total hourly earnings, manufacturing (7%), electricity, gas, water, and waste services (10.2%), construction (8.5%), wholesale trade (7.6%), retail trade (8.1%), transport, postal, and warehousing (7.9%), information media and telecommunications (8.4%), education and training (8%), and healthcare and social assistance (8.6%) have all seen real wage growth. By contrast, forestry and mining (5.8%), accommodation and food services (5.8%), finance and insurance services (5.6%), rental, hiring, and real estate services (4.6%), professional, science, tech,

Figure 5: *Wages and inflation, 2018–23.*



Source: *Stats NZ.*

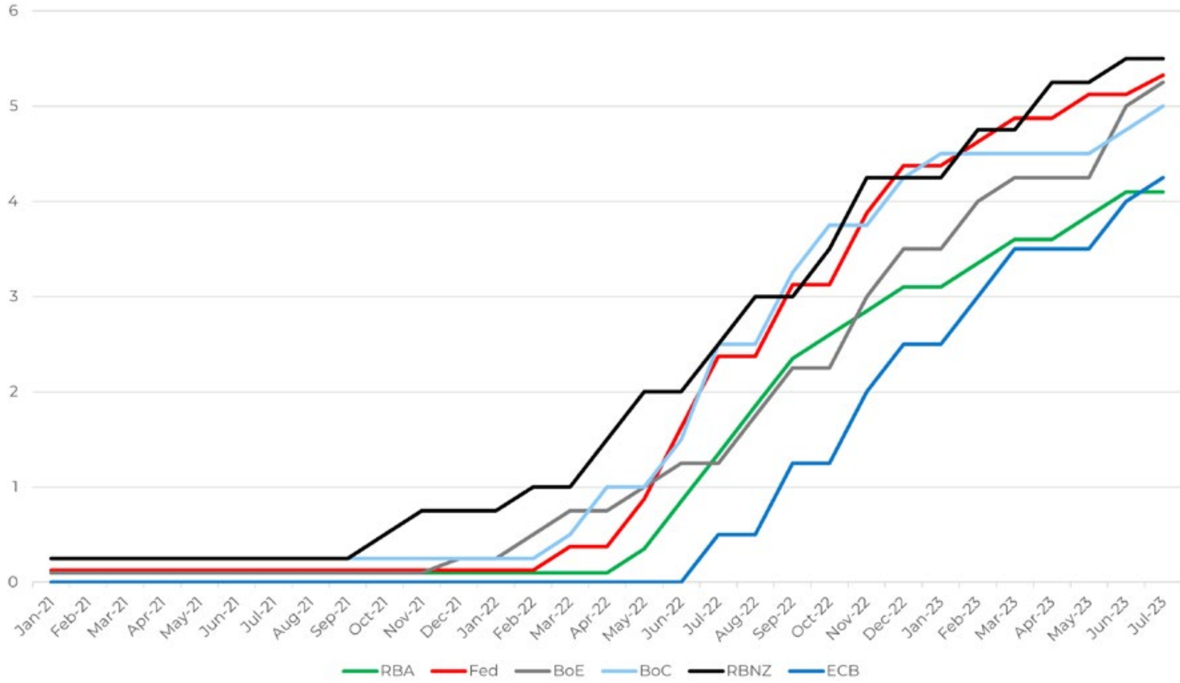
admin, and support services (5.1%), public administration and safety (5.9%), and arts, recreation, and other services (5.6%) have all seen annual wage growth slightly below the inflation rate of 6%.

Central bank interest rates

The Official Cash Rate remains unchanged since our last Bulletin, at 5.5%. The Reserve Bank has signalled that it is unlikely to raise rates further if inflation falls at a satisfactory pace. Both the Reserve Bank and the Treasury are expecting inflation to fall relatively swiftly over the next year, coming below 3% by the third quarter of 2024. We discussed these forecasts in the June Bulletin. However, some private banks are predicting a further rate hike this year, as they expect core inflation (a measure that strips out volatile items such as food and energy from the consumers price index) will prove 'sticky'.

Globally, central banks have continued to tighten interest rates. The US Federal Reserve, the European Central Bank, and the Bank of England all raised rates in the past two weeks. This will act to restrict growth in the global economy over the next year. However, according to the IMF, global growth prospects, while still weak by historical standards, have improved somewhat since its last set of forecasts in April. This is because inflation has started to come down faster than expected in some countries and interest rate hikes have thus far not caused unemployment to increase significantly. This has improved the prospects for what the economic commentariat call a 'soft landing' – the moderation of inflation without significant job losses.

__Figure 6:__ Central bank interest rates, 2021–23 (Australia, USA, UK, Canada, New Zealand, Eurozone).



***Source:** Bank for International Settlements.*

Consumer prices

Inflation continued to moderate in the June 2023 quarter, down to 6% annually. Although this is still high by recent historical standards, the quarterly data show that inflation is falling rapidly. After its high of 2.2% in September 2022, quarterly inflation has fallen for three successive quarters, reaching 1.1% for the June 2023 quarter.

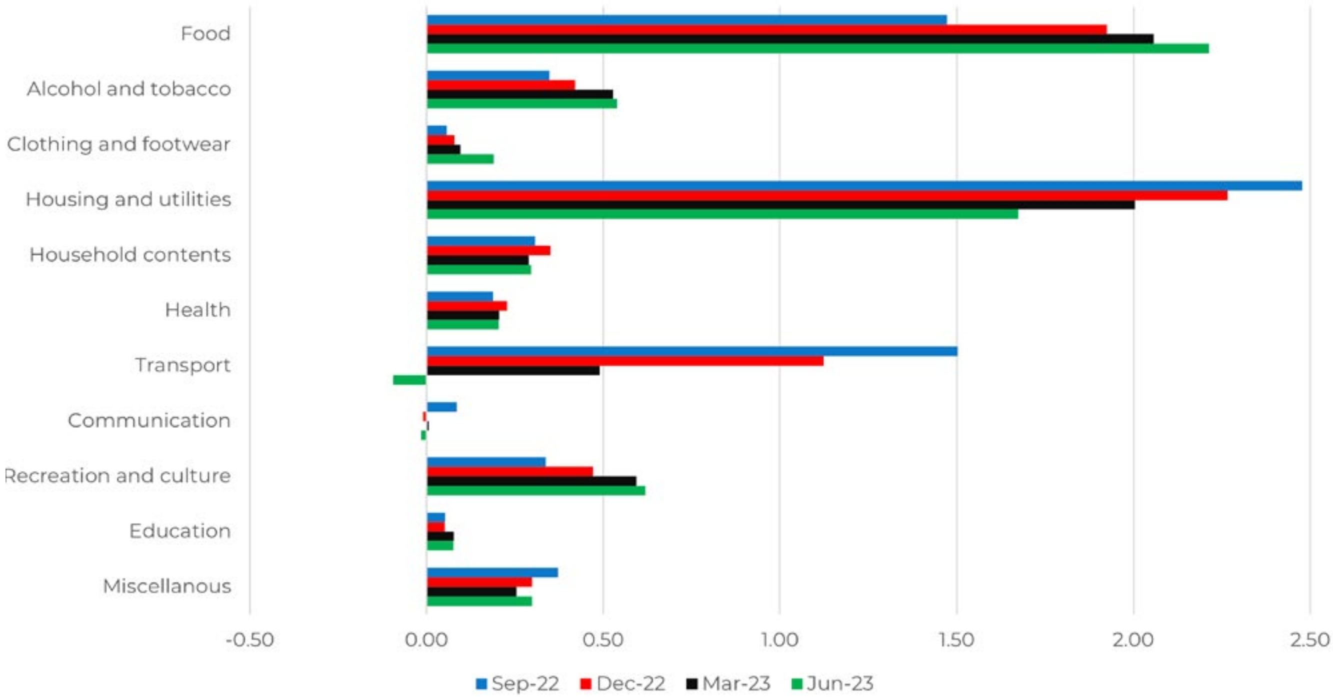
As the graph below shows, food price inflation and the rising cost of building materials continue to be the largest drivers of overall inflation. Together, they account for around two thirds of the increase in the CPI over the past two years.

The largest contributors to quarterly CPI by group were:

- Food, up 2.2% – the cost of fruit and vegetables fell 0.2% in the June quarter, but this was offset by a 2.7% rise in the cost of grocery food and a 1.8% rise in the cost of meat, poultry, and fish. Food accounts for 39.7% of total quarterly CPI (0.44 percentage points of the 1.1).
- Housing and household utilities, up 1.2% – the cost of renting and the cost of purchasing new housing both rose 1.1% for the quarter, while the cost of property maintenance rose 1.7% and the cost of household energy rose 2.7%. This group accounts for 32.8% of total quarterly CPI (0.36 percentage points of the 1.1).
- Clothing and footwear, up 3% – the cost of clothing rose 3.5% for the quarter, while the cost of footwear rose 1.2%. This group accounts for 10.8% of total quarterly CPI (0.12 percentage points of the 1.1).

- Transport, down 1.9% – some relief from rising prices was provided by the transport group, driven by a fall in the cost of petrol and other fuels and a 7.8% fall in the cost of passenger transport services. All up, this group accounts for -25.1% of total quarterly CPI (-0.28 percentage points of the 1.1).

Figure 7: *Percentage point contribution to CPI by group, 2022–23.*



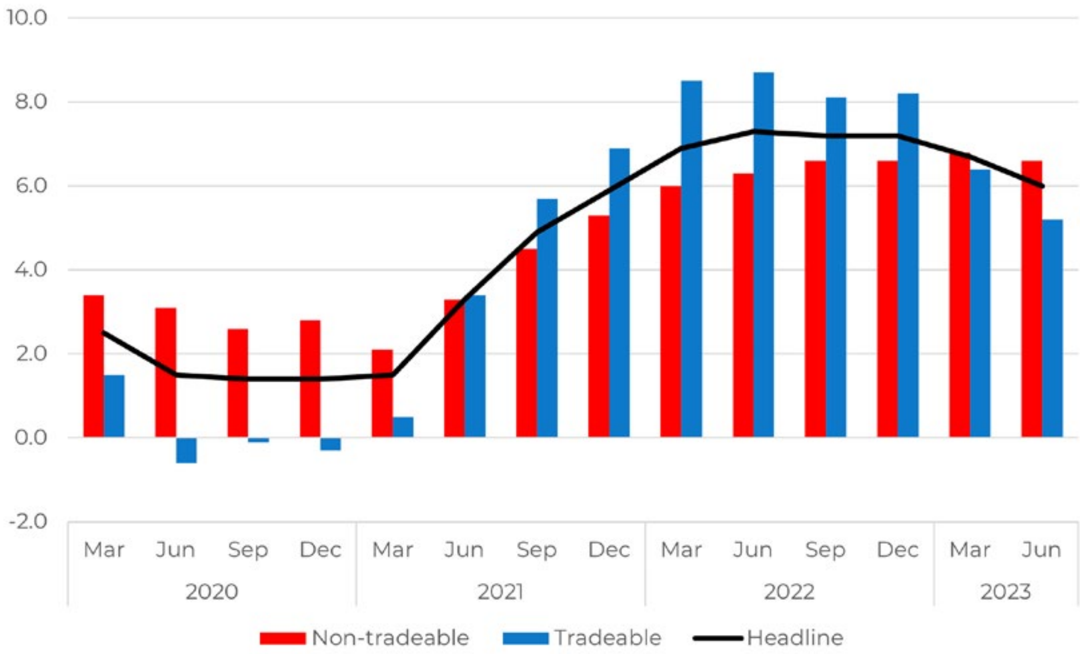
Source: *Stats NZ.*

The largest contributors to annual CPI by group were:

- Food, up 12.3% – driven by a 21.1% increase in the cost of fruit and vegetables, a 13.2% rise in the cost of grocery food, and a 10.6% rise in the cost of meat, poultry, and fish. Food accounts for 36.9% of total annual CPI (2.21 percentage points of the 6).
- Housing and household utilities, up 6% – driven in large part by the increase in the cost of building materials. This group accounts for 27.9% of total annual CPI (1.67 percentage points of the 6).
- Recreation and culture, up 7.3% – the cost of accommodation increased 14.1% overall, while the cost of recreational equipment and supplies rose 9.1%. The recreation and culture group accounts for 10.3% of total annual CPI (0.62 percentage points of the 6).
- Alcohol and tobacco, 7.6% – beer is up 5.3%, wine 6.5%, and spirits 10.4%, while the cost of cigarettes increased 8.5%. This group accounts for 9% of total annual CPI (0.54 percentage points of the 6).

Inflation has largely been imported over the past two years – that is, rising prices globally have fed through into rising prices domestically. One way of tracking this is in the difference between tradeables inflation (goods and services that are imported or are exposed to international competition) and non-tradeables inflation (goods and services that do not face foreign competition). As the graph below shows, tradeables inflation has outstripped non-tradeables inflation over much of the past two years. However, the last two quarters have seen this trend shift. This suggests that, while higher inflation has ultimately been imported, it has become embedded to a degree in domestic price-setting.

Figure 8: *Annual CPI, tradeable and non-tradeable, 2020–23.*



Source: *Stats NZ.*

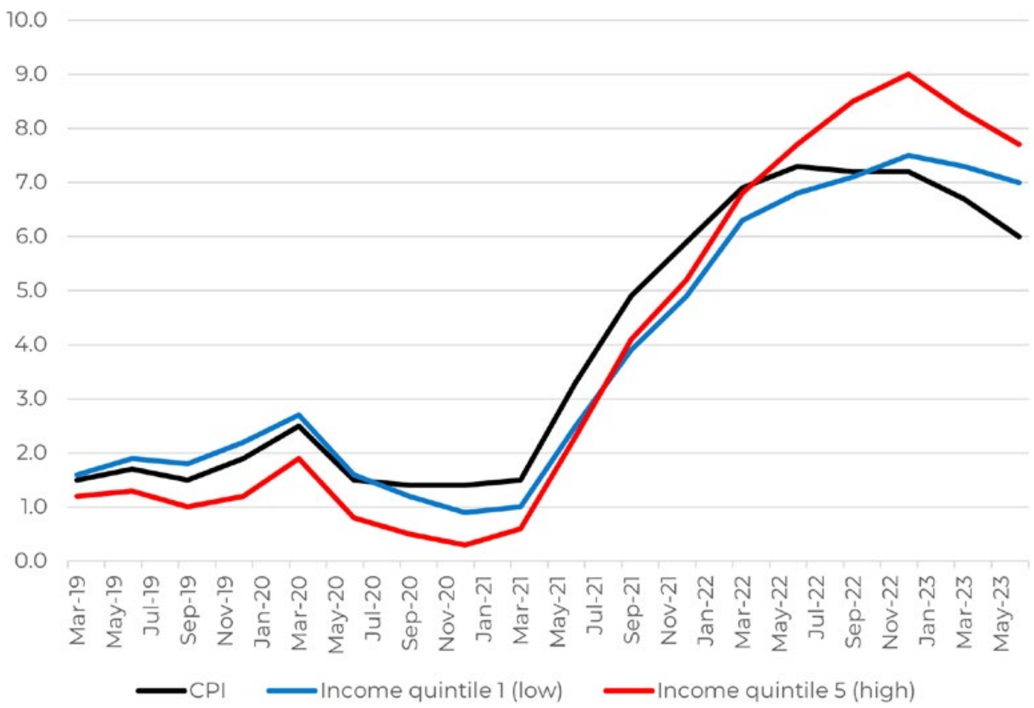
Household living costs

The Household Living-Costs Price Indexes (HLCPI) detail changes in the cost of living for different household groups. One important difference between the HLCPI and the CPI is that the former includes interest payments that households make on debt (such as mortgages). The HLCPI therefore provide a more accurate picture of actual changes in the cost of living for different households than the CPI does.

Figures for the June 2023 quarter show that actual inflation experienced by all households has been 7.2% (compared to CPI of 6%). Households in the highest income quintile have experienced the sharpest increase in the cost of living, at 7.7%. This is likely because these households have higher mortgage debt and have therefore had to spend a greater proportion of their income on servicing that debt as the Reserve Bank has increased interest rates. By contrast, annual inflation has been 7% for households in the lowest income quintile, 7.1% for Māori households, 6.8% for superannuitants, and 6.5% for beneficiaries.

However, over the long run it has been superannuitants, beneficiaries, and low-income households who have faced the most consistent increase in the cost of living. Over the past 15 years, the cost of living has increased 49% for superannuitants, 46.8% for beneficiaries, 46.5% for low-income households, and 43.5% for Māori. By contrast, high-income households have only experienced a 37.2% increase.

Figure 9: *Household living-costs, annual percent change, 2019–23.*



Source: *Stats NZ.*

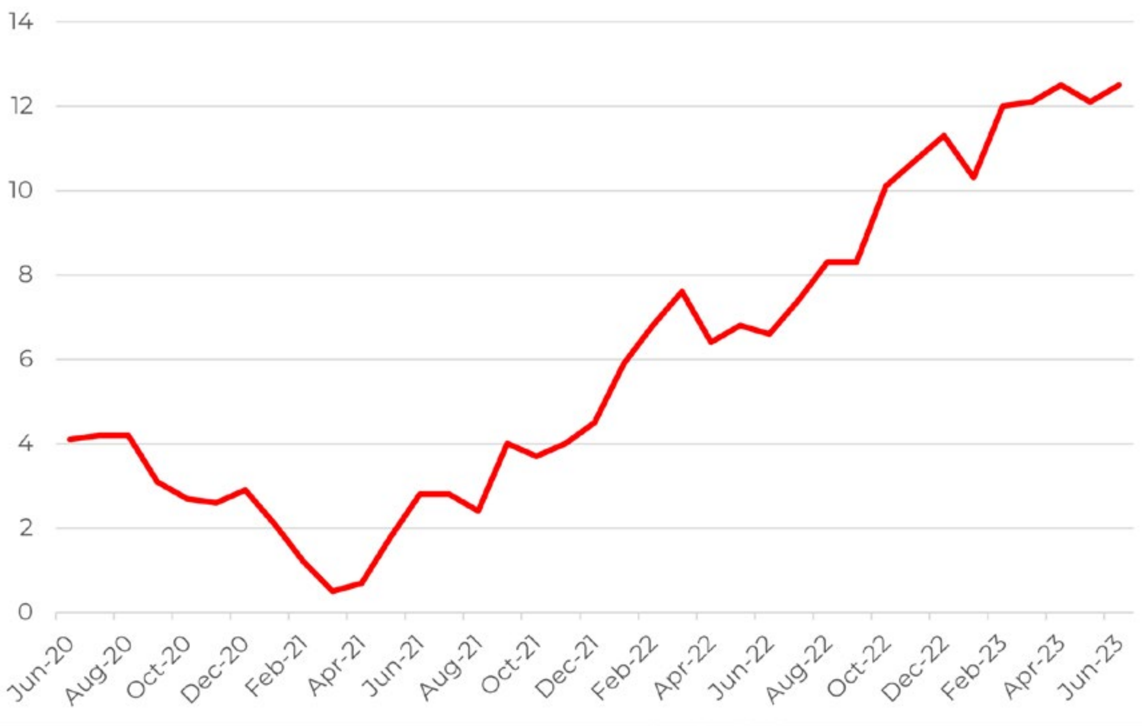
Food prices

For the year ended June 2023, the Food Price Index (FPI) increased 12.5%. Readers will note that this differs from the figure for food price inflation given in the CPI; this is because the CPI is a selected basket of goods while the FPI covers all food and grocery items.

The biggest driver of food price inflation has been grocery food, which increased 12.8% annually and accounts for 49.8% of the overall FPI. Bread rose 12.7% in price, cheese 10.9%, and eggs a colossal 62.4%. Fruit and vegetables are the next biggest contributor, up 22% in price for the year (accounting for 34.7% of the overall FPI). Restaurant and ready-to-eat meals have increased 9.2% in price for the year (accounting for 29% of the overall FPI), while the meat, poultry, and fish group has increased by 11% (accounting for 18.6% of the overall FPI).

Month-on-month, food prices have continued to rise. June saw the largest monthly increase in price since February 2023, up 0.9% after seasonal adjustment. A breakdown of the seasonally adjusted monthly movements is provided in the table below.

Figure 10: *Food price inflation, annual percentage change, 2020–23.*



Source: *Stats NZ.*

Food Price Index, June 2023 – Percentage Change from Previous Month				
	Mar 23	**Apr 23**	**May 23**	**Jun 23**
Fruit and vegetables	-1.1%	-0.5%	-2.5%	2.0%
Meat, poultry, fish	-1.0%	1.1%	1.4%	0.2%
Grocery food	2.3%	1.0%	-0.1%	0.3%
Non-alcoholic beverages	0.2%	-1.0%	4.5%	0.3%
Restaurant and ready-to-eat	0.5%	1.7%	0.8%	1.1%
Total	0.6%	0.7%	0.5%	0.9%

Source: *Stats NZ.*

Rental prices

For the year ending June 2023, the Rent Price Index increased 3.5% on the flow measure and 3.9% on the stock measure. The flow measure captures price changes of new tenancies while the stock measure captures price changes across the whole rental population. This increase on both measures is below the average wage growth recorded in the LCI and QES, discussed above. This is good news for renters, as they get to keep more of their paycheck after housing costs. However, the monthly price increase in the stock measure has been increasing at a faster rate than seen through the second half of 2022. And the very high levels of net migration that New Zealand has experienced over recent months (see below) will likely force rents upwards over the next year.

Long-term, the best way to restrict rent price inflation and ensure working people get to keep more of their paycheck is to build more affordable housing. Significantly increasing the supply of affordable housing should be a priority for the incoming government following the October election.

Rent Price Index, June 2023 – Percentage Change from Previous Month				
	Mar 23	**Apr 23**	**May 23**	**Jun 23**
Flow, NZ	1.5%	0.9%	0.2%	0.1%
Flow, Auckland	1.7%	1.7%	-0.3%	0.5%
Flow, Wellington	0.5%	0.6%	0.0%	-2.6%
Flow, rest of North Island	0.6%	0.9%	0.1%	0.4%
Flow, Canterbury	2.1%	-0.8%	2.0%	1.6%
Flow, rest of South Island	-1.6%	0.1%	1.8%	0.9%
Stock, NZ	0.4%	0.4%	0.3%	0.5%

Source: *Stats NZ.*

Fuel prices

The price of petrol has gone up in July, due to the ending of the 25c/litre petrol levy cut and increased oil prices globally. MBIE's weekly fuel-price monitoring has regular petrol at $2.89 per litre, premium petrol at $3.06 per litre, and diesel at $2.09 per litre for the week ending 30 July. Globally, oil prices are up from US$70 per barrel to around US$80 per barrel.

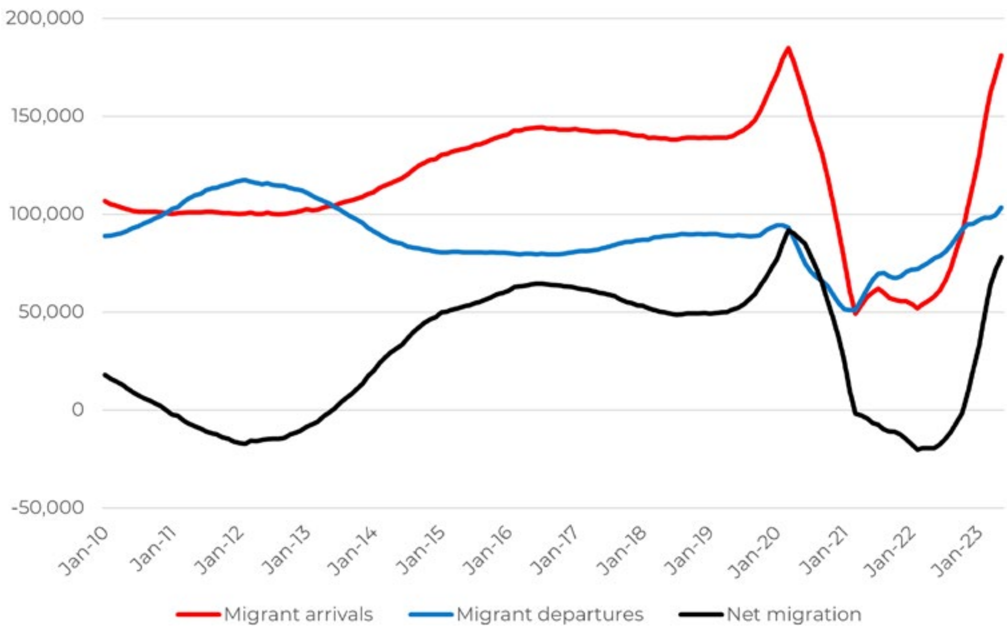
Economy

Migration

International migration for the year ending May 2023 was the second highest on record for an annual period. All up, there were 181,100 migrant arrivals, which is well above the long-run pre-COVID average of 119,200, and just shy of the record of 184,900 set in the year to March 2020. Migrant departures were also up, at 103,300 for the year. This produced an annual net migration gain of 77,800 people.

Breaking the net migration figures down, there was a net loss of 30,800 New Zealand citizens, which was offset by a net gain of 108,600 non-citizens. Far more New Zealand citizens are leaving the country now than during the pre-COVID period (the net migration loss of New Zealand citizens averaged 6,200 per year through 2014–2019). Many of the citizens leaving New Zealand are moving to Australia.

Figure 11: *International migration, 2010–23.*



Source: *Stats NZ.*

Overseas merchandise trade

Comparing June 2023 to June 2022, goods exports rose $84 million (1.3%) to $6.3 billion. This was driven by an increase in exports of milk powder, butter, and cheese, which were up $170 million (11%). Of these, cheese exports saw the biggest percentage rise, up 53% ($99 million). Crude oil exports rose $83 million (132%) and iron and steel exports rose $54 million (89%). On the other side of the ledger, exports of meat and offal fell $127 million (13%); fruit fell $105 million (17%); preparations of milk, cereals, flour, and starch fell $74 million (31%); and wood exports fell $49 million (12%).

Overall, imports fell $1.1 billion (14%) to $6.3 billion. This was driven by falls in imports of petrol and diesel, down $374 million (32%); machinery and equipment, down $94 million (9.5%); food residues and fodder, down $93 million (52%); and iron and steel, down $70 million (31%). Meanwhile, imports of vehicles and vehicle parts rose $131 million (15%), and imports of pharmaceuticals rose $13 million (6.8%).

For the year ending June 2023, total good exports were $72.8 billion and total goods imports were $88.8 billion, producing a large trade deficit of $16 billion. Of the major goods New Zealand exports, milk powder, butter, and cheese exports rose $3 billion (16.7%) to $21.3 billion for the year; exports of preparations of milk, cereals, flour, and starch rose $579 million (27.6%) to $2.7 billion; and exports of wine rose $448 million (22.9%) to $2.4 billion. Meat exports fell $313 million (3.3%) to $9.2 billion; wood exports fell $208 million (4%) to $5 billion; and fruit exports fell $323 million (8.1%) to $3.7 billion.

On the import side, for the year ending June 2023, the value of petroleum imports increased $5 billion (71.6%) to $12.2 billion; imports of vehicles and vehicle parts increased $1.4 billion (13.5%) to $11.8 billion; imports of mechanical machinery and equipment increased $841 million (7.8%) to $11.6 billion; and imports of electrical machinery and equipment increased $975 million (14.4%) to $7.7 billion. Imports of plastic fell by $185 million (5.9%) to $2.9 billion; iron and steel imports fell $412 million (15.2%) to $2.3 billion; and fertilizer imports fell $359 million (26%) to $1 billion.

Figure 12: *Quarterly trade balance ($m), 2018–23.*

Source: *Stats NZ.*

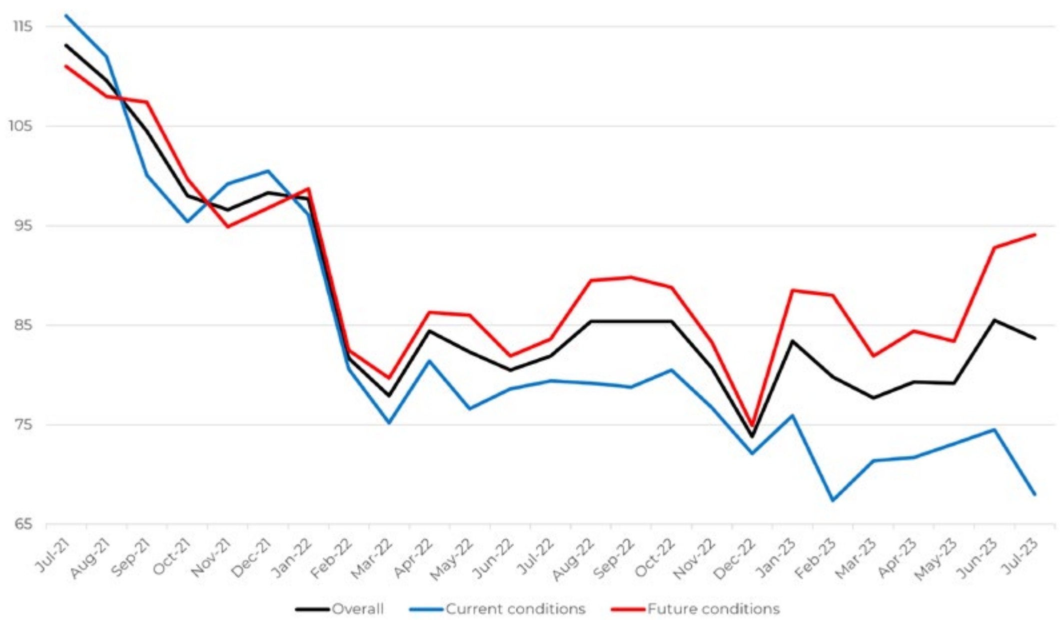
Consumer and business confidence

Consumer confidence remains very low. The ANZ-Roy Morgan Consumer Confidence Index for July was 83.7, down 2 points from June. A score above 100 on the index demonstrates that consumers have confidence in current and future economic conditions; less than 100, and they are pessimistic.

A net 39% of those surveyed reported it was a bad time to buy a major household item, the lowest level since the first lockdown of 2020. This question is seen as the leading indicator of consumer confidence and also a leading indicator of economic growth. When most consumers think it is a bad time to buy a major household item, it suggests that people are concerned with their near-term financial security and are 'battening down the hatches'. This means there is less demand in the economy and therefore less investment and output.

Although confidence in current economic conditions is extremely low, consumers are slightly more optimistic about the future. A net 25% of consumers report that they are financially worse off now than they were a year ago, but a net 11% of consumers expect to be better off financially in 12 months. Inflation expectations over the next two years increased slightly from the June survey, up from 4.3% to 4.7%; however, the overall trend has inflation expectations falling. Finally, in contrast to the beginning of the year, consumers expect that house prices will generally be increasing over the next two years, at a rate of 1.9%.

Figure 13: *ANZ–Roy Morgan Consumer Confidence Index, 2021–23.*



Source: *ANZ.*

In contrast to the ongoing pessimism of consumers, business confidence has been lifting in recent months. While still in negative territory, ANZ's Business Confidence Index rose 5 points in July to -13, its highest level since September 2021. Confidence is stronger in retail (-3.4), manufacturing (-5.3), and services (-12.2), with the outlook much gloomier in construction (-17.1) and agriculture (-44.4). The expected own activity outlook fell back slightly to 0.8 for the July month. While manufacturing (10.5) and services (7.7) both have expansionary outlooks, the outlook is weakly contractionary in agriculture (-3.8) and retail (-5.3) and very contractionary in construction (-26.8).

Across the board, investment intentions were low, at -3.3, as were employment intentions, at -1.6. Compared to June, investment intentions rose in retail (up 8.9 points to 7.1) but fell back in manufacturing (down 10.9 points to -5.5) and construction (down 10.1 points to -17.1). Meanwhile, employment intentions lifted significantly in agriculture, up 23.8 points to -4.0, but fell 16.9 points in construction to -14.6. All up, this survey data suggests that economic activity will remain muted over the coming months but is by no means coming to a sudden stop.

Card spending

Consumer spending has been relatively steady over the past couple of months. All up, the seasonally adjusted total value of all retail electronic card spending for June 2023 was $6.65 billion, up $68 million (1%) from May. Spending in the core retail industries (which exclude fuel and vehicles) was virtually unchanged from May, at $5.85 billion. Total retail spending was $124 million (0.7%) higher in the June quarter, compared to the March quarter. Spending on consumables increased $153 million (2%), while spending on durables increased $58 million (1.2%). Spending on apparel declined $35 million (3.4%) and spending on fuel declined $121 million (7.1%). Stats NZ's next retail trade survey, out in late August, will provide more detailed data on consumer spending patterns over the past quarter.

Performance indexes

The manufacturing sector continues to register a contraction, according to the BNZ–Business NZ Performance of Manufacturing Index (PMI). The PMI is down 1.2 points to 47.5 for June 2023, its lowest level since the outbreak of the Delta strain of COVID-19 in August 2021. The PMI provides an indication of the levels of activity in the domestic manufacturing sector. A figure above 50 indicates that manufacturing activity is generally expanding, while a figure under 50 indicates it is generally declining; the long-term average of the index is 53. Compared to May 2023, the important sub-index of production ticked up 1.5 points to 47.5, but employment fell 2.3 points to 47 and new orders fell 6.4 points to 43.8. New Zealand is not alone in having a weak manufacturing outlook, with the US, the Eurozone, the UK, and Australia all registering negative PMIs.

The BNZ–Business NZ Performance of Services Index (PSI) was just in expansion for June 2023, at 50.1. This is down 3.2 points from the May reading of 53.3. Across the key sub-indexes, activity/sales (51.8) and new orders/business (51.3) were in positive territory, though down from their May readings. However, the employment sub-index fell 3.2 points to 49.1.

Across both the PMI and the PSI, the proportion of negative comments outweighed the proportion of positive comments, with cost pressures, inflation, slowing demand, and labour shortages all commonly mentioned problems.

Building consents

For the year ended June 2023, there were 44,529 new residential dwellings consented. This is down 12% from the year ended June 2022. As the graph below shows, residential construction was booming from 2020 through to early 2022, with the seasonally adjusted monthly consents peaking in March 2022 at 5,303. The fall in new consents issued over the past year is an indication that the highly cyclical construction industry is in a downswing.

However, when measured per 1,000 residents, there is still considerably more new residential dwellings being built than has been the trend over the past two decades. Based on provisional population estimates, the number of new dwellings consented per 1,000 residents was 8.7 for the year ending June 2023, down from 9.9 for 2022, but above the median of 6.25 over the past two decades.

Figure 14: *Monthly building consents for new residential dwellings, 2003–23.*

Source: *Stats NZ.*

Real estate

As of June 2023, the REINZ House Price Index was down 9% from the same time last year and 17.7% from its late-2021 peak. The steepest declines have been registered in the north island. The Auckland index is down 10.6% for the year and 22.5% from its peak; Gisborne/Hawke's Bay is down 9.3% for the year and 17.3% from its peak; and Manawatu/Whanganui is down 10.5% for the year and 18% from its peak. The largest fall has been registered in Wellington, which is down 10.5% annually and 25% from its peak. By contrast, Canterbury has only fallen 6.1% annually and 10.1% from its peak, while Otago has fallen 3% annually and 8% from its peak.

According to REINZ, the national median house price for June 2023 was $780,000. This is unchanged from last month, and down 8.2% annually and 15.7% from its peak. Median prices are down in every region of the country, except for the West Coast, where prices have increased by 35.4%. Nationally, sales counts are up 14.6% from this time last year, and 17.4% when excluding Auckland, which suggests that the housing market may be bottoming out.

With higher interest rates, the uncertainty created by the election, and ongoing cost-of-living pressures, the housing market is expected to remain slow. However, ANZ bank is forecasting a slight pick-up in house prices through the second half of the year (somewhere in the region of 3%), due to higher-than-expected migration, a slowdown in construction, and resilient household incomes. Whether or not this happens will depend in part on how fast inflation comes down – and therefore if the Reserve Bank hikes the Official Cash Rate any further.

Median House Price, June 2023 – Percentage Change				
	Price	**Monthly**	**Annually**	**From Peak**
National	$780,000	0.0%	-8.2%	-15.7%
National excl. Auckland	$680,000	-0.7%	-8.1%	-12.3%
Auckland	$1,000,000	0.8%	-12.5%	-23.1%
Wellington	$765,000	-3.3%	-9.8%	-23.5%

Source: *REINZ.*

Government accounts

The interim financial statements of the government for the eleven months ending 31 May 2023 show that net Crown debt remains extremely low, at 18.9% of GDP ($73.3 billion). This is very low by international standards. According to the IMF's data, in Australia net government debt is 32.5% of GDP, in Ireland it is 36.5% of GDP, and in the UK it is 92% of GDP. This suggests that the New Zealand government has ample fiscal resources to support much-needed investment in social and physical infrastructure over the coming years.

Tax revenue was $2.2 billion lower than the BEFU (Budget Economic and Fiscal Update) forecast, at $103.3 billion. The Treasury expects that tax revenue will continue to undershoot the BEFU forecast through to the year-end, due to weaker-than-expected economic activity. Corporate tax revenue was $2 billion lower than forecast, while source deductions revenue (PAYE tax) was slightly higher than forecast, reflecting ongoing strength in the labour market.

Core Crown expenses were $115.1 billion, $0.2 billion below forecast. Spending was lower than expected across social security and welfare, transport and communication, housing and community development, primary services, and education. Meanwhile, the cost of financing Crown debt was $0.2 billion higher than forecast, due to rising interest rates and a slightly higher debt burden.

Comparing the May 2023 accounts to the May 2022 accounts, tax revenue was up by $4.5 billion (4.5%). This growth came from source deductions, up $4.7 billion (12.2%) due to the strong labour market; GST revenue, up $1.7 billion (7.2%) due to inflation; and other direct tax revenue, up $1.1 billion (65.5%) due to increases in deposit interest rates. Meanwhile, corporate tax revenue was down by $1.3 billion (7.3%).

Core Crown expenses have also risen, up $0.7 billion (0.7%) from the same time last year. The composition of expenses has changed over this period, as New Zealand has transitioned to a post-COVID economy. The ending of COVID-19 wage subsidy and resurgence support payments mean expenses were $8.8 billion lower than the same period last year. This was offset by the increased cost of servicing Crown debt (up $3.4 billion), higher levels of expenditure on health (up $1.5 billion), higher levels of superannuation payments (up $1.4 billion due to more recipients and rising payment rates), and higher levels of expenditure on transport (up $1 billion due to the increased cost of repairs and maintenance of state highways and local roads).

Government Accounts for the Eleven Months to May 2023

	May 2023	BEFU forecast	May 2022
Tax revenue ($m)	**103,344**	105,556	98,861
Total revenue ($m)	**113,405**	115,734	107,124
Total expenses ($m)	**115,076**	114,827	113,185
Net debt (% of GDP)	**18.9%**	17.6%	16.5%
OBEGAL* ($m)	**-6,510**	-4,372	-7,553
** OBEGAL = operating balance before gains and losses*			

Source: *Treasury.*