NZCTU
Te Kauae Kaimahi

Economic Bulletin

October/November 2023

NEW ZEALAND COUNCIL OF TRADE UNIONS
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Welcome to the October/November edition of the Economic Bulletin. In this edition, we publish the CTU President Richard Wagstaff's address to the 2023 Biennial Conference. Richard sets the gains won by the New Zealand trade union movement in recent years against the changing political context. Richard also reflects on the enduring power of neoliberal ideas in this country, and the importance of developing and promoting a forceful trade union alternative if we are to build a worker-centric New Zealand.

In our regular updates, we examine the quarterly figures for employment, wages, inflation, and GDP. Overall, this data paints a darkening picture for working people. Although wage growth has remained strong and inflation is coming down, with the jobs market weakening workers' bargaining power and job security will start to diminish. We also look at the latest data on migration, balance of payments, consumer activity, business confidence, and housing. Finally, we discuss the audited Crown accounts, which were released just prior to the election. They show that government has the capacity to address the challenges we face in housing, health, and child poverty; the only real question is whether it has the will. For the most recent economic forecasts, please see the August/September Bulletin. A new round of forecasts will be discussed in the December edition of the Bulletin.

At the time of writing, the new coalition government was yet to be formed. However, we know that the incoming government's priorities will likely include the repealing of the Fair Pay Agreements Act, the reinstatement of 90-day trials, and cuts to public services. The CTU has written about these policies here and here. We will be using the Economic Bulletin to explore and expose the consequences of these policies, including their impact on wages, job security, housing, and child poverty.

As always, please get in touch if you have any feedback or suggestions for areas of future investigation.

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Contents

President's Address to the NZCTU Te Kauae Kaimahi 2023 Biennial Conference

Delegates, it's so good for us to finally meet face to face, after being denied repeatedly by the pandemic. Last time we met – virtually – we had many "irons in the fire": Fair Pay Agreements legislation, pay equity claims, collective bargaining, screen industry protections, contractor reform, recruitment efforts, and more. We had a real sense of momentum.

You'd have to be living under a rock not to notice the growing activism and confidence of the New Zealand trade union movement in recent years – whether it be in collective bargaining, organising for better health and safety, or demanding the voice of workers be heard. Unions have been fighting for, and winning, a better deal for members, day in, day out, and doing so with strong public support. We've shown up on the job, on the street, and in the media; we have stood our ground and gotten results.

Trade unions in the public sector have secured numerous pay equity settlements. After embedding the amendment to the Equal Pay Act at the end of Labour's first term, trade unions were able negotiate and settle many important and significant pay equity settlements for workers in education and health – righting a wrong of gender-based pay discrimination. We want to extend these settlements to the private sector, and to extend pay equity beyond gender, to cover ethnic pay gaps as well.

Trade unions also made an enormous effort in helping to save lives and protect workers during the COVID-19 pandemic. I'm talking about an estimated 20,000 lives saved, according to a recent study, thanks to the collective action we took as a nation. Trade unions played a special role in this, protecting the rights and safety of both essential workers and those who had to stay at home. This incredible result has been swept under the carpet in our media this year. Meanwhile, we have been bombarded with news of the threat of the impending recession that never happened.

This is no accident. Minimising our world-leading COVID performance serves to minimise and diminish the work of essential workers – the bus drivers, security workers, cleaners, health workers, and public servants, the supermarket workers, border workers, and others. The very people who put themselves in harm's way and kept things going for the rest of us in 2020 and 2021. It also minimises and undervalues the role of the state, and the value of public services to the country. It's part of an attempt to reshape the COVID narrative and take us back to a situation in which the interests of business come first.

We also got Fair Pay Agreements over the line, with the passing of the FPA Act in 2022. This was a long time coming – a wooden stake to the heart of the remnants of the 1991 Employment Contracts Act that was designed to demolish industry bargaining and the New Zealand trade union movement. Affiliates have successfully initiated half-a-dozen FPAs across bus workers, supermarkets, hospitality workers, cleaners, security guards, and early childhood educators, with more pending.

The key to FPAs is that they establish industry minimum standards for wages and conditions. Industry minimum standards are common practice in many of the countries we like to compare ourselves to – countries that have better paying jobs, more successful businesses, and higher levels of productivity. We need look no further than Australia's modern awards system for an example. But unlike the Australian system, the FPA process involves workers and employers negotiating in the first instance; only if they can't reach agreement does it go to a third party to set the rate.

And it's this step, delegates, that BusinessNZ, the National Party, and the ACT Party really object to. Why, though? Why wouldn't employers want the chance to negotiate a settlement, rather than going straight to a third party to fix the rates and conditions? It seems out of step with other industrial processes, where employers and trade unions almost always prefer to reach agreement through negotiation.

I think this resistance comes from the fact that many employers, and their advocates in parliament, simply can't tolerate the idea of workers coming together collectively.

I have been the lead advocate in the bus-sector FPA, and I went to the workers' meeting in Christchurch to talk about our claims and the FPA process. We had over

400 people in the room. Many were union members and were used to this kind of meeting. But during the meeting, it became clear that many others, especially migrant workers, couldn't believe what they were hearing. They couldn't believe they had the right to challenge their boss or be part of negotiating better pay and conditions. And it's this very thing that many employers seem unable to support or tolerate. They can't stand collective bargaining and trade union organisation getting anywhere near 'their' workers. They fear that workers will discover their collective consciousness *as workers* – their trade union consciousness. They can't stand the idea that workers will realise they are not alone, that together they have strength, that in their union, they can find a voice.

As a result, not only have we had to endure a lengthy disinformation campaign against FPAs; it has also been argued that FPAs were in breach of international labour law at the ILO. BusinessNZ insisted on putting the matter before the ILO Committee on the Application of Standards in 2022, in the hope of getting a ruling to block the passage of the legislation. But the ILO Committee didn't hesitate to rule that FPAs were entirely in keeping with human rights and good employment practice.

Out of touch?

New Zealand likes to think of itself as a fair-minded, liberal, democratic country. And in many respects, we are. But when it comes to industrial relations and attitudes to collective worker organisation, we have fallen behind many of our peers, and by some measure.

The attacks on FPAs are but one example. Just recently, New Zealand signed a Free Trade Agreement with the European Union, and they said to us, "if you want to trade with us, then you have to uphold fundamental democratic rights and standards – and that means signing up to the ILO fundamental conventions, especially Convention 87 – Freedom of Association and Protection of the Right to Organise". Yet Convention 87 remains unsigned.

How did we get here? Why are we in this place where we don't, as a country, promote fundamental workers' rights as a priority? It's worth recalling that New Zealand was a founding member of the ILO in 1919. And when the ILO made one of its most important declarations in 1944 – the Declaration of Philadelphia – New Zealand was right at the centre of the action, with Walter Nash acting as President of the Philadelphia Conference.

The Declaration of Philadelphia is annexed to the ILO constitution and is an integral part of the institution to this day. According to the ILO, "the Philadelphia Declaration is as relevant and binding today as when it was signed many decades ago". It recognises that labour is not a commodity; that freedom of expression and of association are essential to sustained progress; that poverty anywhere constitutes a danger to prosperity everywhere; and that all human beings have the right to economic security and equal opportunity.

However, by the 1990s the National government was claiming that the ILO was old-fashioned and out of touch with the modern economy – out of touch with their vision of individual employment agreements and a flexiblised labour market. Try telling that to the European Union and to other countries that have a proud record of upholding and promoting the ILO fundamental conventions. I think it's more accurate to say that New Zealand has gotten out of touch.

Missed opportunities

Delegates, employer resistance is one thing, but we also have to face up to the fact that the Labour government did not move far or fast enough to advance workers interests in the last couple of years. We had hoped to negotiate and settle FPAs in several industries before the election – but this wasn't possible because the government simply took too long to get the Act in place. We had a working group report on FPAs out by the end of 2018, and yet FPAs didn't become law until October 2022.

But it wasn't just the lack of speed that was a problem. The government also backed down on the New Zealand Income Insurance Scheme (NZIIS). The NZIIS was going to be a game-changer policy that would forever improve the lives of workers in New Zealand. It promised to deliver workers who lose their job through redundancy, illness, or disability 80% of their salary for up to seven months. This would prevent workers from suffering the wage scarring that often comes with job loss and help to improve skills matching in the New Zealand economy. We managed to get tripartite support for the NZIIS, with BusinessNZ's Kirk Hope even going on record in the media to say that we "can't afford not to do [it]". But in a challenging economic context, the government lost its nerve.

There was also the failure to make meaningful progress on the crucial issue of tax reform. Despite the recommendation of the Tax Working Group to implement a capital gains tax (CGT), in 2019 we got a commitment from Jacinda Ardern that CGT would be off the table so long as she was Prime Minister. And if that wasn't enough of a disappointment, we had to relive the experience in 2023 – with Prime Minister Chris Hipkins ruling out a wealth tax under his administration. Let's be clear, without a fundamental reset of our tax system, gross inequality will continue to undermine our communities, our public services, and our way of life in New Zealand.

The government also failed to move on contractor reform and Holidays Act reform. They failed to complete a pay equity settlement for care and support workers. And then there was the public services cuts that were announced in the run-up to the election, including to WorkSafe, our health and safety regulator.

I suggest, delegates, that momentum for political change in support of New Zealand workers was lost a lot longer than two weeks ago.

A longer view

If we step back and consider the wider political context, we see that for the past few decades, despite its numerous failures, neoliberalism has continued to prevail as the common sense in New Zealand – no matter who is in government. We continue to be fixated with delivering the objectives of small government, low tax, low debt, and individualised employment relationships, and appear to have an enduring belief in trickledown economics.

Delegates, many of you will remember the brutal experience of raw neoliberalism in the 1980s and '90s, when we were constantly told “There Is No Alternative”. You could be forgiven for thinking there still isn't any alternative to the status quo, when both major parties continue to fight over who is the most “responsible” economic manager.

But there is an alternative – a trade union alternative. It's an alternative where working people – with good, stable, well-paying jobs – are the priority. It's an alternative that supports collective bargaining at both the firm and sectoral level. It's an alternative where whole industries and their workforces are supported to transition to a high-wage, low-emissions economy. It's an alternative that sees the New Zealand government stand up for workers' rights, proudly adopt ILO fundamental conventions, and where heads of state stand on picket lines with striking workers like they do in other countries. It's an alternative that is reflected in our Conference Resolution.

Getting to this trade union alternative starts now, at this conference. It starts with pushing back against those who would take us in the opposite direction – which is exactly what the incoming government is intent on doing. The incoming government's 100-day plan is likely to include repealing the Fair Pay Agreements Act and extending 90-day trials to all businesses. We know that they want to hand out huge tax cuts to landlords and property speculators, and to pay for that by further cutting the public services we all rely upon. And we know they want to roll back the progress that has been made on honouring Te Tiriti o Waitangi.

The incoming government has a plan to “get us back on track” – and we know what that track is: it's one where workers' and unions are undermined, where wages are low, where labour is compliant, where beneficiaries are demonised, where essential services are cut, and where inequality is allowed to flourish.

The New Zealand trade union movement will not sit on its hands while these attacks on working people and our communities are unleashed. We were forged in adversity as a trade union movement. We have always had the courage to call out what is wrong, even when no one else will. We have the organisation, in the CTU, of over 30 proud trade unions and sector groups, whose purpose is to organise industrially and politically.

We've been here before, and we know what to expect. We will expose the incoming government's policies for what they are.

But more importantly, we need to take a longer view. Simply defeating the incoming government's agenda won't be enough. We also need to build a broad base of support for the trade union alternative. Unless we can make our agenda politically popular, we will struggle to get enduring parliamentary support for a worker-centric New Zealand.

This won't be easy, because our ideas threaten the big and the powerful. Our adversaries are well funded, and no doubt their government will enjoy a honeymoon – a temporary honeymoon, because it won't take long before the true nature of getting "back on track" is felt by working people.

The New Zealand trade union movement has reach, and we know that influential conversations happen in the workplace. All of you, as trade union leaders, are crucial to making this happen. We have great workplace leaders – our workplace delegates – who we can support to take this alternative vision out into the workplace. But we also need to take our message beyond the workplace – into communities, the media, social media, and anywhere else where we can talk about a better life for working people in New Zealand. We need to keep alive a longer-term vision for working people in New Zealand.

Let's use this conference to reflect on our predicament, and to plan for a better future. Let's use this conference to build an alternative to the narrow, conservative policies that keep failing New Zealand, our people, and our planet. Let's accept our responsibility and seize this opportunity to devise a way forward that is truly inspiring for working people, their communities, and those who wish to represent us politically. Only by doing that can we really say we are "shaping our futures". Only then can we say *anga whakamua*.

Tēnā koutou, tēnā koutou, tēnā koutou katoa.

Richard Wagstaff
President, New Zealand Council of Trade Unions Te Kauae Kaimahi
25 October 2023

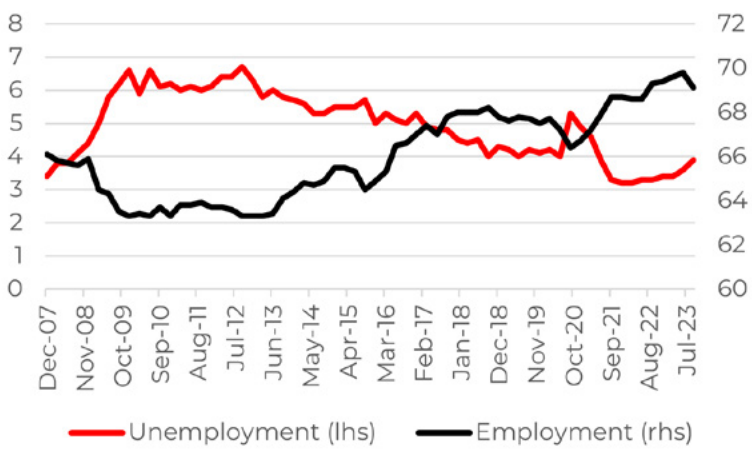
Employment

Employment

The employment statistics for the September 2023 quarter showed a softening of the jobs market. Unemployment ticked up from 3.6% to 3.9% and underutilisation increased from 9.9% to 10.4%. In real terms, that means approximately 118,000 people are unemployed (up 8,000 from June 2023) and 114,000 people are underemployed (up 7,000 from June 2023).

For men, unemployment and underutilisation both rose 0.4 points to 3.8% and 8.6% respectively. For women, the increase was smaller, though was starting from a higher base, with unemployment rising 0.2 points to 4.1% and underutilisation rising 0.3 points to 12.2%.

Figure 1: Employment and unemployment (%), 2007–23.



Source: Stats NZ.

Importantly, while unemployment and underutilisation have both increased, the employment rate and the labour force participation rate have both fallen. Employment is down 0.7 points to 69.1% and labour force participation is down 0.4 points to 72%.

In the June quarter, we saw a small uptick in unemployment and underutilisation, but this looked to be largely driven by an increase in people who were previously not in the labour force deciding to look for employment, rather than rising job losses. By contrast, a slowing labour market in the September quarter has driven some workers out of the labour market altogether. The increase in unemployment in September appears to be caused a range of factors, including the potential workforce growing faster than the number of jobs.

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 over-represented in precarious work. For Māori, unemployment increased 1.6

points to 8.7% while underutilisation increased 2.5 points to 18.1%. For Pasifika, unemployment increased 1.9 points to 8.1% and underutilisation increased 2.7 points to 15.8%. By contrast, for Pākehā workers, unemployment rose 0.2 points to 3.1% and underutilisation rose 0.3 points to 9.2%, while for the Asian workforce, unemployment rose 0.1 points to 3.2% and underutilisation fell 0.1 points to 8.6%.

The NEET rate (people aged 15–24 who are not in employment, education, or training) increased slightly, from 10.7% to 11.1%, though this change is within the margin of error. In real terms this represents approximately 72,900 people. Again, when times get tougher in the labour market, the NEET rate is one of the first indictors of change.

Overall, this data suggests that we are waving good-bye to the record-low levels of unemployment and underutilisation achieved in 2021 and 2022. As discussed in the August/September Bulletin, most economic forecasters are expecting unemployment to rise to somewhere between 5–5.5% over the next year-and-a-half. It is worth recalling that one of the explicit aims of the Reserve Bank's interest rate hikes is to drive up the rate of unemployment and thereby decrease workers' bargaining power for wages. In real terms, this means putting tens-of-thousands more New Zealanders – disproportionately Māori and Pasifika – out of work, forcing these people to rely on a social security system that doesn't provide sufficient income.

Social welfare

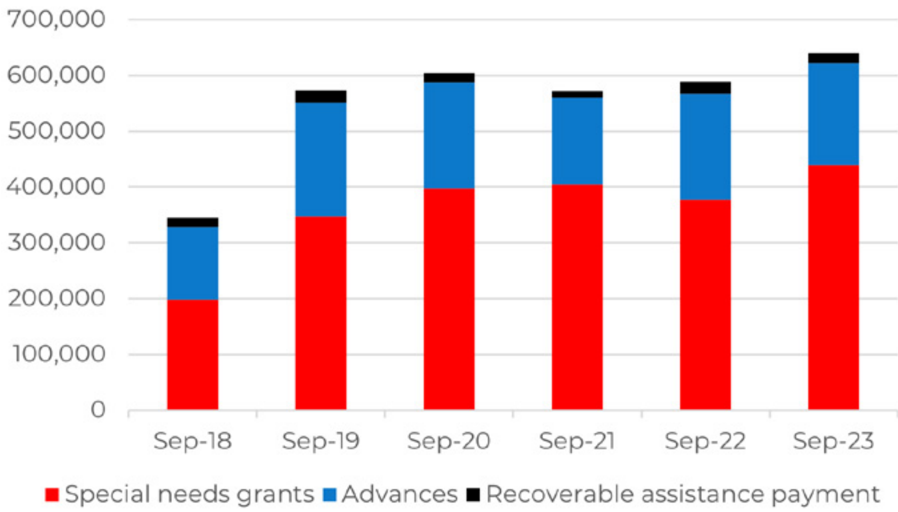
The Ministry of Social Development's quarterly benefit statistics show that, at the end of September 2023, 362,094 people were receiving a main benefit. This is up 3% from the June quarter, and 4.7% compared to September 2022. Of these, 181,509 people were receiving Jobseeker Support, with 104,610 people classified as 'work ready' and 76,902 classified as 'health condition or disability'.

The number of people receiving Jobseeker Support – Work Ready was up 5.4% from the June quarter, and 5.7% annually. Overall, of those receiving either Jobseeker Support – Work Ready or Jobseeker Support – Health Condition and Disability, 57.9% had been receiving the benefit for one year or more. Many of these people may be in work, just at levels of income so low that they still qualify for the payment of the benefit.

Of total Jobseeker recipients, 56.5% were male, 42.7% female, and 0.7% gender diverse. By ethnic group, 49.2% were Pākehā, 40.9% were Māori, 12.4% were Pacific Peoples, 6% were Asian, and 5.9% were other ethnicities. The proportion of the working-age population receiving Jobseeker Support increased marginally in all regions that MSD reports on, when compared to September 2022. This is another indicator that it is becoming increasingly difficult for some workers to find jobs.

Northland and the Bay of Plenty recorded the highest proportion of the working-age population receiving Jobseeker Support, at 10.2% and 8% respectively. Waikato, Taranaki, and East Coast all have Jobseeker-recipient levels of over 6.5%. By contrast, only 5.8% of the working-age population were receiving Jobseeker Support in Auckland, 4.7% in Wellington, and 4.4% in Canterbury. Southern recorded the lowest proportion of working-age population receiving Jobseeker Support, at 3.7%. All up, 6,177 people were issued with a benefit sanction in the September quarter, an increase of 9.2% from this time last year.

Figure 2: Number of hardship payments, September quarter 2018–23.



Source: MSD.

There were 639,648 hardship assistance payments, up 8.7% compared to last year. Of this, there were 439,953 special needs grants – which provide one-off payments to help people meet immediate needs. This is an increase of 6.8% from the June quarter and 16.8% from the same time last year. Over three-quarters of these grants were for food. This reflects the pressure that the rising cost of living has been putting on low-income households. It also highlights the importance of breaking up the supermarket duopoly, which is one of the main drivers of high food prices in New Zealand.

Broadly speaking, this round of benefit data contributes to the picture of a weakening jobs market, which is straining under the weight of the Reserve Bank's aggressive interest rate hikes and record-high migration over the past year-and-a-half (discussed further below).

Union membership

For the September 2023 quarter, total union membership was estimated to be 453,700, or 19.9% of the workforce. Estimated union membership has sat around this level since

2016, when this data series began. This estimate comes from the household labour force survey; and is likely an overestimation of total trade union strength, as it may include people who belong to other kinds of unions.

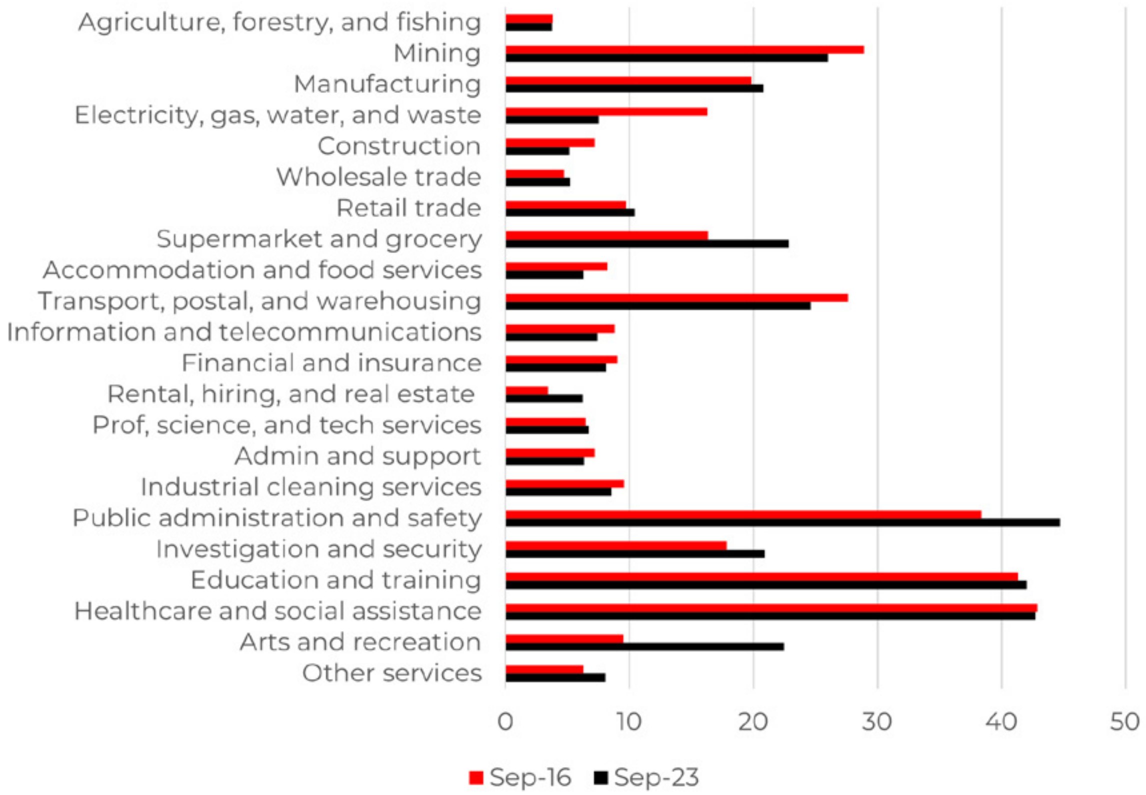
Of those stating union membership, an estimated 16.2% of male workers were unionised, compared to 23.9% of female workers. All up, women accounted for an estimated 59.2% of the unionised workforce for the September 2023 quarter. These ratios have been steady since 2016.

Of the major ethnic groups in New Zealand, Māori and Pasifika workers are the most unionised. Approximately 23.9% of the Māori workforce and 24.8% of the Pasifika workforce were estimated to be union members, compared to 19.3% of the European workforce and 16.9% of the Asian workforce. Compared to September 2016, unionisation rates have fallen risen an estimated 1.1% for the Asian workforce and 1% for the Pasifika workforce; they have remained more-or-less steady for the Māori and European workforces.

The more notable movements in unionisation rates are by age and industry. Since 2016, the union workforce has gotten younger. In the September 2023 quarter, people aged 15–34 made up an estimated 29.1% of the total unionised workforce, up 4.7% from 2016; people aged 35–54 made up 41.7%, down 5.5%; and people aged 55+ made up 29.3%, up 0.8%.

Finally, as Figure 3 shows, since 2016 unionisation rates have lifted notably in the supermarket and grocery industry (up 6.5 points to 22.8%), public administration and safety (up 6.4 points to 44.7%), and arts and recreation (up 12.9 points to 22.4%). By contrast, unionisation rates have halved in electricity, gas, water, and waste services, down 8.8 points to 7.5%. Figure 3 also shows that the bulk of the union workforce is in public administration and safety, education and training, and healthcare and social assistance – together, these sectors accounted for an estimated 63.2% of total union membership in the September 2023 quarter.

Figure 3: Union membership as percentage of total workforce, by industry.



Source: Stats NZ.

Wages and prices

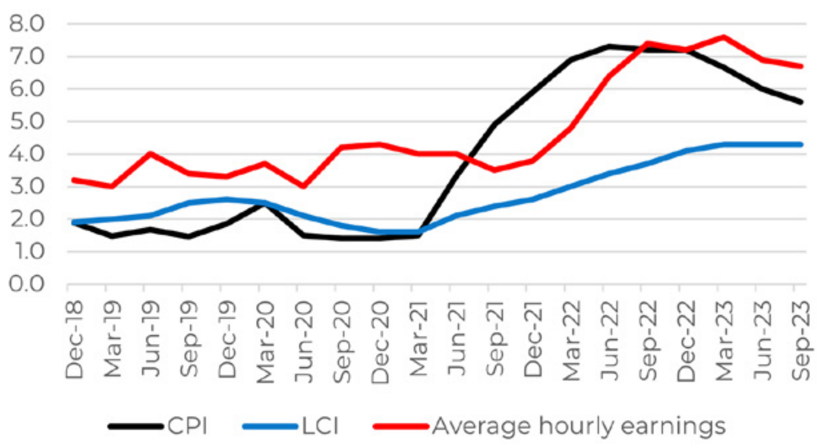
Wages

For the September quarter, the labour cost index (LCI), which measures the price for a fixed quality and quantity of labour, increased 4.3% annually. This is the same rate of change as in the March and June quarters. For the past two years, wage growth, as measured by the LCI, has been strongest in the private sector. The September 2023 quarter saw a reversal of this trend, with wages growing 5.4% in the public sector compared to 4.1% in the private sector. This is partly a consequence of collective bargaining rounds being completed.

Measured by the LCI, wage growth has been relatively broad based. The annual increase was 2.9% in agriculture, forestry and fishing; 5.2% in mining; 4.3% in manufacturing; 4.9% in electricity, gas, water, and waste services; 4% in construction; 4% in wholesale trade; 4.4% in retail trade and accommodation; 6.5% in transport, postal, and warehousing; 2.6% in information media and telecommunications; 3.2% in financial and insurance services; 2.8% in rental, hiring, and real estate services; 3.4% in professional, science, tech, admin, and support services; 4.5% in public administration and safety; 5.6% in education and training; 5.8% in healthcare and social assistance; and 3.9% 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 upskilling, promotions, and switching jobs, average ordinary time hourly earnings increased by 6.7% for the year, to $40.40. While strong, this shows a continued moderation of wage growth from the high of 7.6% recorded in March 2023.

Figure 4: Wages and inflation, annual percentage increase, 2018–23.



Source: Stats NZ.

Average hourly earnings have now matched or outstripped inflation for the past five quarters, as shown in Figure 4. This means that, on average, most New Zealand workers have seen their real wages grow modestly for more than a year. The private sector has seen the biggest gains, with average wages increasing 7.1% for the year to September 2023; by contrast, public sector average hourly earnings have increased by 5.4%, although were starting from a higher level. In real terms, average hourly private sector wages have increased by $2.55 to $38.64 while public sector wages have increased by $2.41 to $47.17. For men, average hourly wages have increased $2.49 (6.2%) to $42.63, while women have seen an average increase of $2.51 (7.1%) to $37.86.

Measured by average total hourly earnings, most industries have experienced real wage growth (wages have increased more than the rate of inflation). Wages have increased 9.2% in electricity, gas, water, and waste services, 8.5% in construction, 8.3% in wholesale trade, 6.6% in retail trade, 7.1% in accommodation and food services, 6.7% in transport, postal, and warehousing, 6.1% in finance and insurance, 6.7% in public administration and safety, 9.4% in education and training, and 6.7% in healthcare and social assistance. Wage growth has been below inflation in the other industries, growing 3.4% in forestry and mining, 4.3% in information media and telecommunications, 3% in rental, hiring and real estate services, 5.2% in professional, science, tech, admin, and support services, and 5.3% in arts, recreation, and other services.

Central bank interest rates

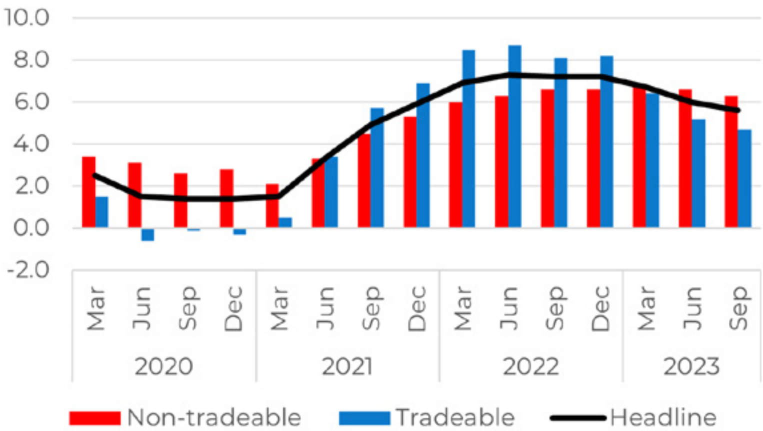
The Official Cash Rate (OCR) remains unchanged since our last Bulletin, at 5.5%. However, the Monetary Policy Committee – the arm of the Reserve Bank that sets the OCR – took a slightly more aggressive stance in its October announcement, noting that "interest rates may need to remain at a restrictive level for a more sustained period of time" to return inflation to the target range of 1–3% per annum. For mortgage holders, this means that interest rates are likely to remain high through 2024. Higher-for-longer rates will also weaken the jobs market.

Inflation is widely forecast to fall back within the Reserve Bank's target range by the end of 2024 or early 2025, as discussed in the previous Bulletin. However, there is every chance that recent geopolitical turbulence will drive oil prices higher again, which will affect inflation – and, as a consequence, interest and mortgage rates – in New Zealand.

Consumer prices

Annual inflation continued to cool in the September 2023 quarter, down to 5.6%. Annual tradeable inflation (goods and services that are imported or are exposed to international competition) was 4.7%, while annual non-tradeable inflation (goods and services that do not face foreign competition) was 6.3%. As Figure 5 shows, tradeable inflation led the way in 2021 and 2022, but has been outstripped by non-tradeable inflation in 2023. This suggests that, while higher inflation was initially imported, it became embedded to a degree in domestic price-setting.

Figure 5: Annual consumer price inflation (%), 2020–23.



Source: Stats NZ.

While annual inflation was down, the quarterly data saw an uptick, moving from 1.1% in the June quarter to 1.8% in the September quarter. This was driven by higher oil prices globally – with petrol accounting for 36% of overall inflation this quarter. Despite this bump, the longer-run trend has inflation falling steadily.

The largest contributors to quarterly inflation by group were:

- Transport, down 53.8% – petrol rose 36%, passenger transport services rose 5.6% (driven mostly by higher domestic air fares), and new cars rose 4.3%. This group accounted for 53.8% of total quarterly CPI (1.0 percentage points of the 1.8).
- Housing and household utilities, up 1.7% – rates and services were the biggest driver, increasing 9.4%; the cost of renting rose 1.2% and the cost of purchasing new housing 0.6%. This group accounted for 25.6% of total quarterly CPI (0.5 percentage points of the 1.8).
- Food, up 0.9% – fruit and vegetables rose 0.9% in price, grocery food rose 0.2%, and restaurant and ready-to-eat meals rose 1.7%. Food accounted for 8.4% of total quarterly CPI (0.2 percentage points of the 1.8).

The largest contributors to annual inflation by group were:

- Food, up 8.8% – driven by a 12.1% rise in the cost of grocery food and an 8.9% rise in the cost of restaurant and ready-to-eat meals. Food accounted for 28.5% of total annual CPI (1.6 percentage points of the 5.6).
- Housing and household utilities, up 5.3% – the cost of new housing rose 5%, rent 4.4%, and rates and services 9.6%. This group accounted for 26.2% of total annual CPI (1.5 percentage points of the 5.6).
- Transport, up 4.6% – vehicle purchases increased 5.2% in price, petrol increased 3.7%, and passenger transport services increased 6.5% (driven largely by

domestic air fares). This group accounted for 11.4% of total annual CPI (0.7 percentage points of the 5.6).

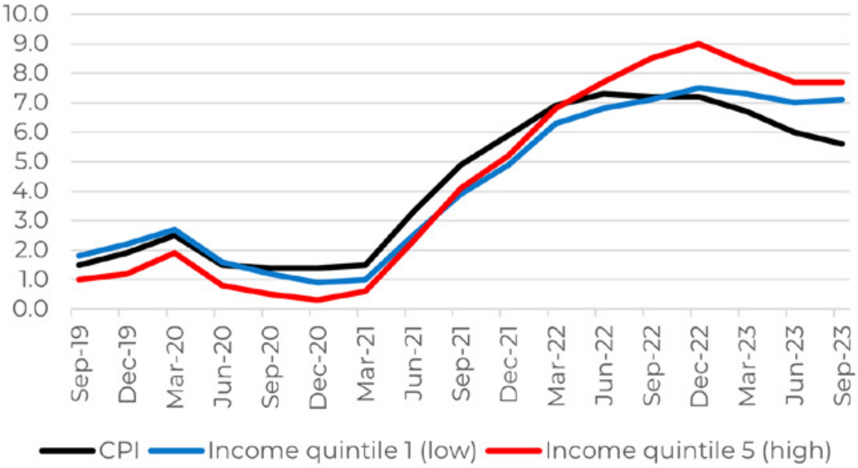
- Recreation and culture, up 6.1% – the cost of accommodation increased 8.5%, while the cost of recreational equipment and supplies rose 6.7%, with pet-related produces driving this increase, up 12%. The recreation and culture group accounted for 9.4% of total annual CPI (0.5 percentage points of the 5.6).
- Alcohol and tobacco, 7.4% – the price of beer increased 5.8%, wine 4.4%, and spirits 9.5%, while the cost of cigarettes increased 9%. This group accounts for 9.2% of total annual CPI (0.5 percentage points of the 5.6).

Household living costs

The household living-costs price indexes (HLCPI) detail changes in the cost of living for different household groups. An important difference between the HLCPI and the consumers price index 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 September 2023 quarter show that actual inflation experienced by all households has been 7.4% (compared to CPI of 5.6%). Against the long-run trend, 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 levels of 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. Annual inflation was 7.1% for households in the lowest income quintile, 7.4% for Māori households, and 6.7% for both beneficiaries and superannuitants.

Figure 6: Annual household living costs inflation (%), 2019–23.



Source: Stats NZ.

While high-income households have experienced a higher rate of inflation over the past year, 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. Since 2008, the cost of living has increased 53% for superannuitants, 50% for low-income households, 49% for beneficiaries, and 47% for Māori. By contrast, high-income households have only experienced a 41% increase in the cost of living over this period.

Food prices

Food prices rose 0.1% after seasonal adjustment in September. The price of fruit rose 0.8%, while the price of vegetables fell 1.2%. The meat, poultry, and fish group, and grocery food, both registered no change in price. For the year ended September 2023, the food price index (FPI) increased 8%, well down from the 12.5% recorded for the year ending June 2023. Readers will note that the FPI figures differ from those given in the CPI. This is because the CPI is a selected basket of goods while the FPI covers all food items.

Figure 7: Annual food price inflation (%), 2020–23.

Source: Stats NZ.

The biggest price hikes have been in grocery food, which increased 10.7% annually and accounted for 42.8% of the overall FPI. Bread increased 10.6% in price, breakfast cereals 12.2%, pasta 10.8%, and eggs 54.6%. However, fresh milk fell 1.1% in price. Restaurant and ready-to-eat meals have been the next biggest contributor, up 8.3% in price for the year and accounting for 27.6% of the overall FPI. Meat, poultry, and fish rose 6.9% in price, accounting for 12.1% of the overall FPI. Fruit increased 6.4% in price, while vegetables actually fell 1.1% for the year – together, the fruit and vegetables group accounted for only 2.5% of the overall increase in the FPI.

Rent prices

Rent price inflation has continued to pick up pace. For the year ending September 2023, the rental price index increased 7.2% on the flow measure and 4.2% 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.

The flow measure usually increases at a faster rate than the stock measure because landlords have more leverage to set higher prices for new tenants than existing tenants and new rentals are more likely to be of higher quality. In Auckland, rental price inflation is particularly high, with the cost of new tenancies increasing 9.4% annually. A breakdown of rental price increases by region is provided in Table 1.

Table 1: Rental price indexes – annual percentage change.

	Jun 23	Jul 23	Aug 23	Sep 23
New Zealand, flow	3.5%	4.1%	6.2%	7.2%
Auckland, flow	7.3%	7.1%	8.3%	9.4%
Wellington, flow	-0.5%	2.5%	4.8%	4.4%
Rest of North Island, flow	2.8%	5.1%	4.9%	6.4%
Canterbury, flow	4.7%	6.2%	8.7%	4.7%
Rest of South Island, flow	7.4%	6.1%	7.1%	7.5%
New Zealand, stock	3.9%	4.1%	4.1%	4.2%

Source: Stats NZ.

We discussed the drivers of rent price inflation in the previous Bulletin. Contrary to National and ACT's claims that the removal of interest deductibility for landlords, the extension of the bright-line test, and the introduction of the healthy homes standards are responsible for runaway rent prices, the real driver is the lack of supply, which gives landlords the power to hike rents in line with wages. The CTU will keep a close eye on rental price inflation over the next year, to see if the reinstatement of interest deductibility and the reduction of the bright-line test actually does anything to help renters out – we suspect it won't. There are already reports that investors are coming flooding back into the housing market in the wake of the election; this will drive property prices up and further limit the supply of affordable housing.

Fuel prices

The price of fuel went back up in September and the first half of October. Rising prices are the result of the ending of the temporary 25c/litre petrol levy cut and higher oil prices globally. For the week ending 27 October, MBIE's weekly fuel-price monitoring had regular petrol at $3.01 per litre. Premium petrol was at $3.18 per litre and diesel was at $2.40 per litre. Globally, oil prices are hovering around US$85 per barrel. Regional escalation of the conflict in the Occupied Palestinian Territories and Israel could see oil prices go higher.

Economy

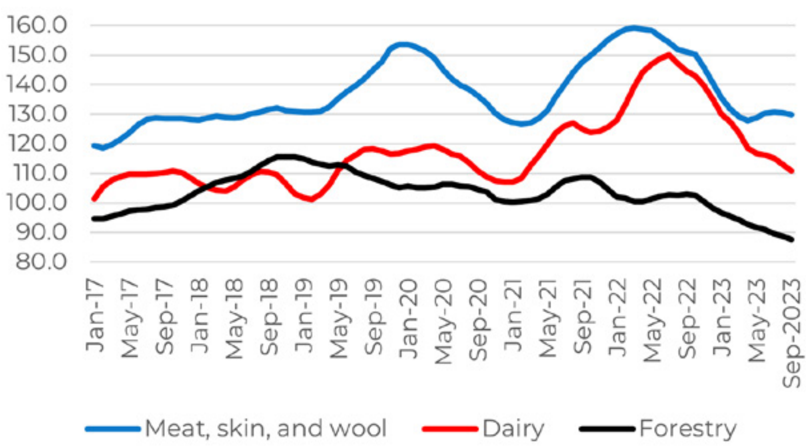
Gross domestic product

GDP was estimated to have increased 0.9% in the June 2023 quarter. However, per-capita growth was only 0.2% for the quarter – an indication that the expansion in the headline figure was somewhat driven by migration. In the past year, New Zealand's population has grown by around 110,000 people. This has made the economy bigger, but it has also put further pressure on housing and infrastructure and is contributing to a weakening jobs market.

Meanwhile, the figures for the March 2023 quarter have been revised upwards, from -0.1% to 0.0%. This revision means that New Zealand did not, in fact, experience a "technical recession" (two consecutive quarters of negative growth) in late 2022 and early 2023. The apparent existence of this technical recession fed the pre-election media narrative that the New Zealand economy was in the doldrums, or even in some kind of crisis. While journalists often fixate on the movements of high-profile indicators like GDP, this upward revision of the March figures is a good reminder that we need to consider a wider range of data to develop a useful understanding of what is happening in the New Zealand economy.

Turning to growth by sector, services, which makes up about two thirds of the economy, expanded 1% for the June quarter, while the goods-producing sector expanded 0.7%. However, the primary sector continued to drive in reverse, contracting 1.9%. In the services sector, all industries grew except for wholesale trade (-0.5%) and retail trade and accommodation (-1.0%). The strongest growth was posted in public administration and safety (2.8%), arts, recreation, and other (2.3%), professional, scientific, and technical (2.1%), and education and training (2.0%).

Figure 8: ANZ commodity price index, 2017–23.



Source: Reserve Bank.

In the goods-producing sector, manufacturing posted its first quarterly growth in over a year, up 0.9%. Electricity, gas, water, and waste services also expanded, up 3.1% for the quarter. However, activity in construction has continued to weaken, contracting 0.2% off the back of a 0.3% contraction in the March quarter.

For primary industries, mining has continued its upswing, growing 2.7% in the June quarter; mining has now posted four quarters of solid growth. However, mining makes up a very small proportion of the primary sector, and this growth was more than offset by a 2.3% contraction in agriculture, forestry, and fishing – which has shrunk in five of the last six quarters. The primary sector has been hit by falling diary, meat, and timber prices globally, as shown in Figure 8; at the same time, farmers have had to deal with sharply rising interest rates on their debts.

Expenditure on GDP rose 1.3% for the June quarter, driven primarily by stronger export earnings, up 5% for the quarter, and central government expenditure, up 2% for the quarter. Imports fell 2% and gross capital formation fell 4.3%. Gross fixed capital formation, however, increased 0.8%, with business investment (which includes all investment except for residential buildings) up 2.5%. A full breakdown of quarterly movements in expenditure is provided in Table 2.

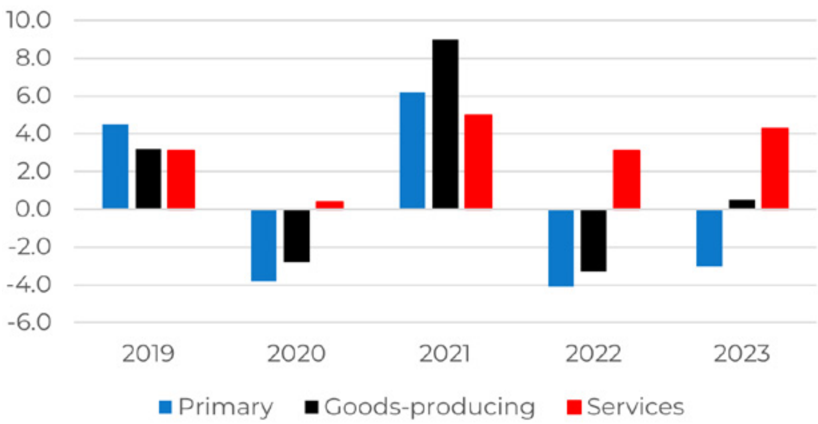
Table 2: Expenditure on GDP – quarterly percentage change.

	Sep 22	Dec 22	Mar 23	Jun 23
Private consumption	0.2%	0.3%	1.5%	0.4%
Central government	-0.3%	-3.0%	-0.3%	2.0%
Local government	1.4%	1.3%	2.5%	1.6%
Gross fixed capital formation	4.2%	-0.9%	1.3%	0.8%
Gross capital formation	-2.5%	0.9%	-2.5%	-4.3%
Exports	11.6%	-1.8%	-1.7%	5.0%
Exports less imports	1.8%	1.8%	-0.1%	-2.0%
Total expenditure on GDP	1.5%	-0.7%	-0.2%	1.3%

Source: Stats NZ.

For the year ending June 2023, the New Zealand economy is estimated to be 3.2% larger than the year ending June 2022. However, the economy only expanded 2.2% on a per capita basis. Additionally, this growth was very uneven. While services grew by 4.3% for the year, the goods-producing sector only grew by 0.5%, with a significant 5.5% contraction in manufacturing balanced by a 7.2% expansion in construction and a 3.4% expansion in electricity, gas, water, and waste services. Meanwhile, the primary sector shrank by 3% for the year, with mining activity flat compared to the year ending June 2022, and agriculture, forestry, and fishing contracting by 3.1%.

Figure 9: Annual growth by industry, 2019–23 (year ended June).



Source: Stats NZ.

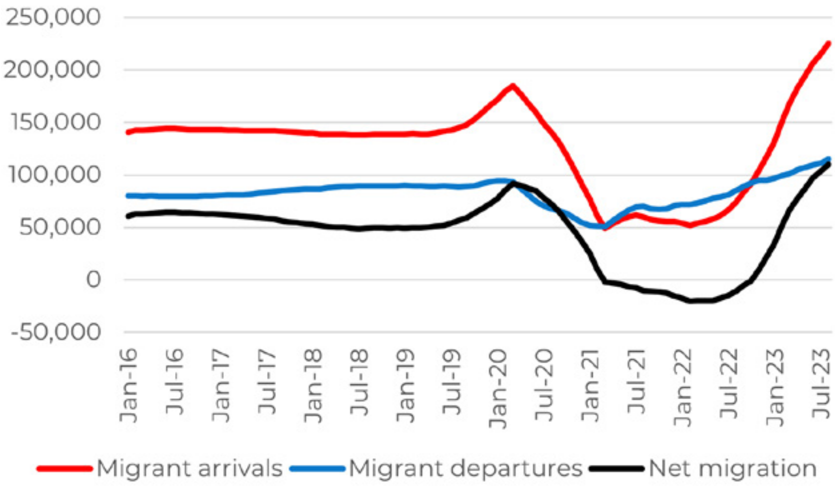
Migration

Estimated international migration for the year ending August 2023 was the highest on record. All up, there was an estimated 225,400 migrant arrivals, which is significantly above the pre-COVID average of 119,700, and up 204% from the previous year. Migrant departures were also up, estimated to be 115,100, a 36% increase from the previous year. This produced a record estimated net migration gain of 110,200 people. This equates to a 2.1% increase in the New Zealand population. The net migration surge has been driven by citizens of India, with an estimated 38,197 net arrivals, the Philippines, with an estimated 30,350 net arrivals, and China, with an estimated 19,876 net arrivals.

In the absence of significant investment in housing and infrastructure to accommodate this population growth, the surge in migration will further stress the housing market and New Zealand's public services. Thus far, government has not been making the level of investment that is required.

By contrast, there was an estimated net loss of 42,600 New Zealand 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 4,600 per year through 2015–2019, and 25,400 per year through 2002–2014). Many New Zealand citizens are moving to Australia, drawn by higher wages, better terms and conditions, and better-quality housing. For the year ended March 2023, there were a total of 38,400 migrant departures from New Zealand to Australia.

Figure 10: International migration, 2016–23.



Source: Stats NZ.

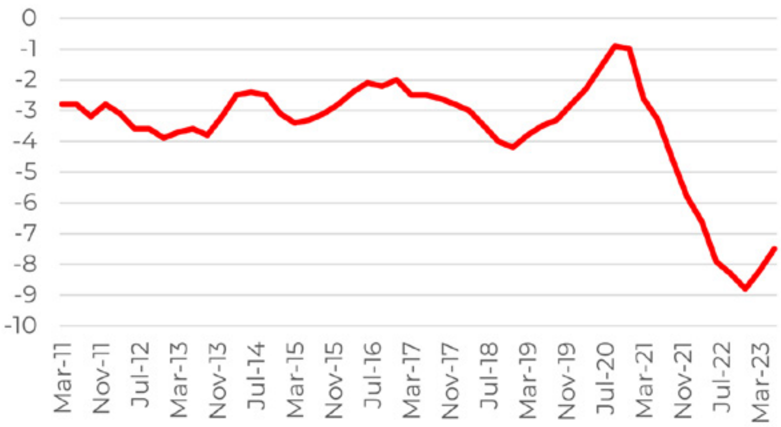
Balance of payments

The balance of payments figures for the June 2023 quarter show that New Zealand's current account deficit has narrowed slightly. The seasonally adjusted current account deficit was $6.7 billion in June, down from $7.8 billion in March. This deficit is driven by New Zealand importing more goods and services than it exports, as well as profits, interest payments, and dividends flowing out of the country to overseas investors.

The narrowing of our current account deficit was due to a 4.4% ($773 million) rise in the value of New Zealand's goods exports, which were estimated to total $18.2 billion for the quarter. This was driven by rising income from dairy products, meat, and fish. Meanwhile, the total value of goods imports decreased 3.7% ($786 million) to an estimated $20.5 billion. This fall was driven by fuel, transport equipment, and consumption goods. In total, the seasonally adjusted goods deficit was $2.3 billion. The services deficit also narrowed somewhat: the value of services exports rose 4.7% ($281 million) to $6.3 billion, while the value of services imports fell 1.3% ($95 million) to $7.5 billion.

For the year ended June 2023, the current account deficit was $29.8 billion – 7.5% of GDP. In nominal terms, this is up $1.2 billion from June 2022, but it is down as a percentage of GDP. It remains close to the record deficit set in December 2022, of $33.5 billion or 8.8% of GDP. Goods imports exceeded goods exports by $12.5 billion, services imports exceeded service exports by $6.1 billion, and primary income outflow exceeded primary income inflow by $11.2 billion.

Figure 11: Annual current account deficit as percentage of GDP, 2011–23.



Source: Stats NZ.

For the year ended June 2023, New Zealand's net international liability position remained steady, at $189.3 billion. This position shows the value of financial claims held by New Zealand residents on non-residents against the financial liabilities of New Zealand residents to non-residents. Our net external debt liability also remained steady, at $181 billion. This means that New Zealand is a net debtor to the rest of the world. The lion's share of this deficit is accounted for by the commercial banks, who collectively recorded a net debt liability of $118 billion to the rest of the world. General government's net debt liability remained steady, at $40.1 billion, while the Reserve Bank recorded a net asset position of $10.1 billion.

Overseas merchandise trade

For the year ending September 2023, total good exports were valued at $70.4 billion, essentially flat from the year ending September 2022. Meanwhile, total goods imports were valued at $85.7 billion, up $2.5 billion from the previous year. This produced a goods trade deficit of $15.3 billion.

Of the major goods New Zealand exports, the value of milk powder, butter, and cheese exports increased 3.3% to $20.3 billion for the year; exports of preparations of milk, cereals, flour, and starch increased 7.7% to $2.5 billion; exports of mechanical machinery and equipment increased 15.7% to $2.4 billion; and exports of wine increased 13.4% to $2.3 billion. However, exports of meat and offal fell considerably, down 12.1% to $8.7 billion; wood exports fell 6.7% to $4.8 billion; and fruit exports fell 4.8% to $3.7 billion.

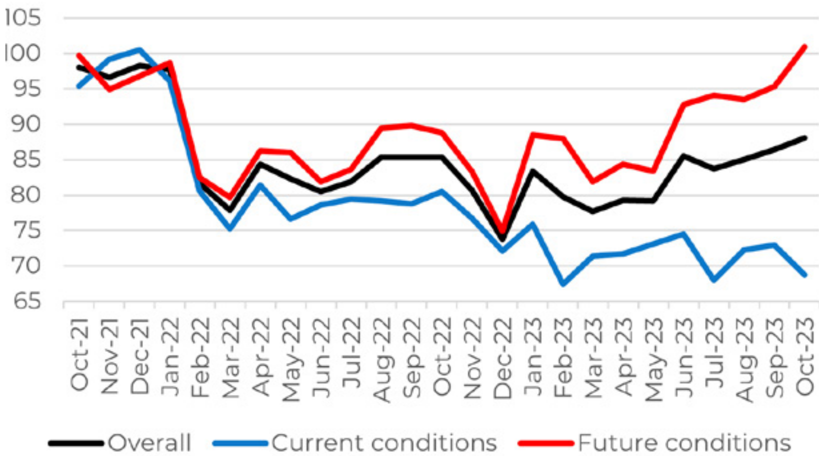
On the import side, for the year ending September 2023, the value of vehicles and part imports increased 11.6% to $12 billion; imports of mechanical machinery and equipment increased 3.6% to $11.5 billion; petrol imports increased 24.4% to $11.3 billion; and imports of electrical machinery and equipment increased 6.4% to $7.6 billion. Imports of aircraft and parts also increased significantly, up 212% to $2 billion. Meanwhile, the value of imports of textiles fell 4.6% to $3.3 billion; imports of plastics fell 13.1% to $2.7 billion; pharmaceuticals imports fell 4.1% to $2.5 billion; imports of iron and steel fell 27.5% to $2.1 billion; and furniture imports fell 12.8% to $1.5 billion.

Compared to the year to September 2022, exports to China fell 5.9% to $19.3 billion, exports to Japan fell 5.9% to $3.9 billion, and exports to South Korea fell 1.2% to $2.5 billion. This was offset by an increase in the value of exports to Australia, up 7.1% to $9 billion, and the United States, up 10.4% to $8.2 billion. On the other side, the value of imports from China fell 8.1% to $18 billion. However, imports from the US increased 20.5% to $8.5 billion, imports from South Korea increased 27.5% to $6.2 billion, and imports from Japan increased 3.6% to $5.5 billion.

Consumer and business confidence

The ANZ-Roy Morgan consumer confidence index for October was 88.1, which is basically flat from the August and September readings. 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. Consumer confidence has been below the 100 mark for two years now.

Figure 12: Consumer Confidence Index.



Source: ANZ.

A net 38% of those surveyed reported it was a bad time to buy a major household item. This question is seen as the leading indicator of consumer confidence and a leading indicator of economic activity. 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 so are pulling back on spending.

A net 25% of those surveyed reported they were worse off financially than one year ago; however, a net 16% expect to be better off financially by this time next year. As Figure 12 shows, there has been a growing divergence between consumer confidence in current and future conditions. While inflation and high interest rates have been contributing to a pessimistic outlook on the current state of the economy, consumers are becoming more optimistic about the outlook one year from now.

Business confidence continued to lift in October and is now in strongly positive territory. This will be partly driven by the election result, with business confidence tending to be higher when a National-led government is in power. ANZ's index had business confidence rising 21 points in October to +23. According to the survey, firms are more confident about "general business conditions" in 12 months' time.

Compared to September, business confidence has lifted significantly across all industries, with retail up 24 points to +38, manufacturing up 30 points to +37, construction up 30 points to +27, and services up 19 points to +20; confidence also lifted in agriculture, up 32 points, but remains in negative territory, at -12. All sectors reported expansionary outlooks; retail saw the biggest jump, with the own activity outlook rising 37 points to +28. Investment intentions also rose across the board and are either positive or neutral in all sectors except agriculture. Finally, employment intentions were negative in retail (-11), agriculture (-8), and construction (-13), but positive in manufacturing (+18) and services (+11).

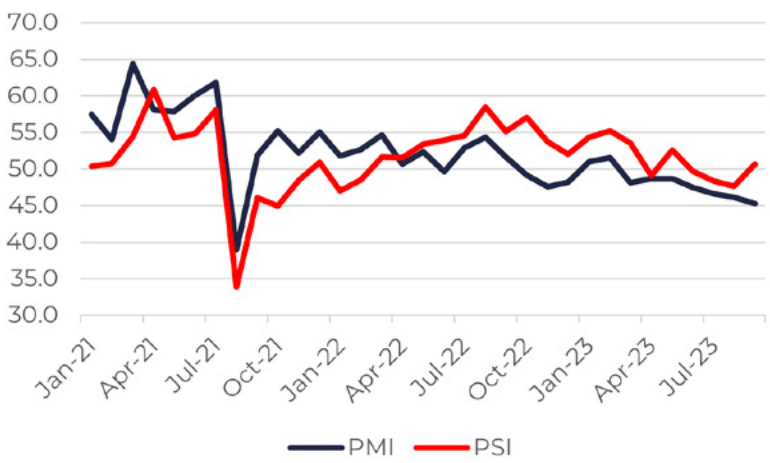
Card spending

Consumer spending weakened somewhat in the September month. The seasonally adjusted total value of all retail electronic card spending fell $55 million (0.8%) compared to the August month. Spending in the core retail industries (which exclude fuel and vehicles) was down $13 million, a 0.2% fall. The largest movements by category were apparel, which fell $9.7 million (2.8%), durables, which fell $20 million (1.2%), and fuel, which fell $6.1 million (1.0%). Falling spending in (relatively) discretionary categories such as durables and clothing is in line with the pessimistic outlook of consumers, who look to be pulling back on spending as higher interest rates bite, rents rise, and the jobs market worsens.

Performance indexes

The manufacturing sector continues to report contraction, according to the BNZ–Business NZ performance of manufacturing index (PMI). The PMI for September was 45.3, down 0.8 points from the August reading. Excluding the COVID lockdown period, this is the lowest the PMI has been since early 2009, when the global financial crisis was in full swing. 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 52.9. Meanwhile, the BNZ–Business NZ performance of services index (PSI) lifted into positive territory, up 3 points to 50.7. The long-term average of the PSI is 53.5. Across both the PMI and the PSI, the proportion of negative comments in the September surveys outweighed the proportion of positive comments, with cost pressures, the uncertainty caused by the election, and declining sales all commonly mentioned problems.

Figure 13: PMI and PSI, 2021–23.



Source: BusinessNZ.

Building consents

For the year ended August 2023, there were 42,110 new residential dwellings consented. This is down 17% from the previous year. This fall in consents indicates that the construction industry is in a downswing. This is driven largely by the Reserve Bank's interest rate hikes. Falling consents are concerning given the record levels of migration New Zealand has experienced over the past year-and-a-half. For decades, our housing and infrastructure development has failed to keep pace with migration-driven population growth. Recent data indicates this isn't changing any time soon.

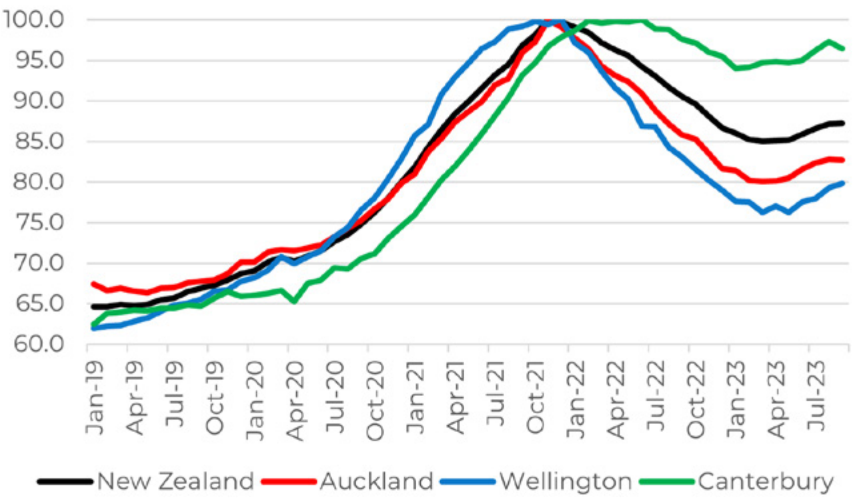
In saying that, there was an overall upsurge in residential construction under the Labour government. When measured per 1,000 residents, there is still more new residential dwellings being built than has been the trend over the past two decades. Based on provisional population estimates, the number of new dwellings consented per 1,000 residents was 8.2 for the year ending August 2023, down from 9.9 for 2022, but above the median of 6.25 over the past two decades.

Real estate

As of August 2023, the REINZ house price index (HPI) was down 3.3% from the same time last year and 15.5% from its late-2021 peak. However, it is still up an annual compound growth rate of 5.7% from the same time five years ago. In other words, the monetary value of housing has, on average, increased by 5.7% each year since 2018.

The national median house price for September 2023 was $785,000. This is down 3.1% annually and 17.1% from its late-2021 peak. Annually, median prices are down in most regions of the country, except for Marlborough (up 25.4%), the West Coast (up 8.3%), and Canterbury (up 0.7%).

Figure 14: House prices relative to their peak, 2019–23.



Source: Reserve Bank.

As Figure 14 shows, however, the housing market is heating back up. This is unsurprising, given the high levels of migration, the switch back to a speculator-friendly government. If property investors do start flooding back into the market, as is reportedly happening already, this will put further pressure on house prices; in turn, as house prices rise and more first-home buyers are forced out of the market, renters' incomes will continue to be squeezed, as we discussed in the previous Bulletin.

Table 3: Median house prices, September 2023.

	Price	Monthly	Annually	From Peak
National	$785,000	2.3%	-3.1%	-15.1%
National excl. Auckland	$700,000	4.5%	-2.1%	-9.7%
Auckland	$1,015,000	1.4%	-2.0%	-21.9%
Wellington	$782,000	2.9%	-4.6%	-21.8%

Source: REINZ.

Government accounts

The audited government accounts for the year ended June 2023 were released by the Treasury just ahead of the election. Total Crown revenue was $153 billion, which is $11.4 billion higher than the year ended June 2022, but $2.5 billion lower than the BEFU (Budget Economic and Fiscal Update) forecast released in May 2023. Three-quarters of Crown revenue comes from the tax take, which was $111.7 billion for the year, up $3.8 billion from 2022, but $2.9 billion below the BEFU forecast. The rising tax take was primarily driven by an increase in source deductions (tax on wages and salaries), which rose $4.9 billion (11.6%) due to the strong labour market and strong wage growth. GST revenue also rose, up $2 billion (7.7%) from 2022, due to high inflation. Meanwhile, corporate tax revenue declined $1.9 billion (9.6%), reflecting lower levels of taxable profits compared to 2022.

Total Crown expenses were $161.8 billion, up $10.9 billion (7.2%) from 2022 and in line with the BEFU forecasts. This increased expenditure was largely driven by high inflation, a higher interest-rate burden on government debt, and the fiscal cost of Cyclone Gabrielle and the Auckland floods. Transfer payments decreased by $5.3 billion overall, due to the ending of COVID-related support payments. On the other side of the ledger, public sector staffing costs increased $3.4 billion, with wages playing catch-up with inflation; insurance expenses increased $2.3 billion; and other operating expenses increased $5.9 billion, with much of this directed to Te Whatu Ora.

Net Crown debt remains extremely low, at 18% of GDP ($71.4 billion). This is $9.5 billion higher than the year to June 2022, but close to the BEFU forecast. Contrary to the election rhetoric about out-of-control government spending and public debt, this is very low by international standards – almost half the size of Australia's net government debt, and a fifth of the UK's.

These accounts are a reminder that government always has choices. New Zealand's tax take is low compared to many other wealthy countries, and our government debt is also low. This means the incoming government has the capacity to raise the financial resources needed to address the fundamental challenges we face in infrastructure, healthcare, and housing, to name a few. The only real question is if it has the will to do so.

Table 4: Audited government accounts, year ended June 2023.

	June 2023	BEFU forecast	June 2022
Tax revenue ($m)	111,712	114,626	107,873
Total revenue ($m)	153,011	155,556	141,627
Total expenses ($m)	161,822	161,924	150,956
Net debt (% of GDP)	18%	18%	17%
OBEGAL* ($m)	-9,446	-6,959	-9,691

** Operating balance before gains and losses*

Source: Treasury.