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Commentary

Challenges for the incoming Government

Summary

We won't know for a while which parties will make up the new New Zealand Government. Whoever it is will face the same challenges.

The most likely shocks to New Zealand's economy are from the international economy and from a crash in the housing market. There are still many concerns in Europe, the US, even China, and Australia. Another financial crisis is not impossible. We need to reduce New Zealand international debt (almost all private, mainly the banks: more affordable housing would help) increase saving, be ready to control international financial flows, and increase exports.

New Zealand's economic growth has been moderate though better than many OECD countries, but it is much lower than during the 2000s, especially per person. There is little left after population growth for improved living standards. Productivity growth is abysmal, which is bad for future wage growth. Rapid growth in the workforce and low wages encourages lazy, command-and-control management practices with insufficient investment and too little commitment to staff training and employee engagement. We need better management and employment laws to raise productivity and ensure employees share the benefits.

Despite record high export prices, goods and services exports are at the lowest level relative to the size of the economy since 1990. The largest contributors to economic growth since it resumed in 2010 have been the professions, the "FIRE economy" – finance, insurance, real estate – construction, and retail, accommodation and food services (driven by tourism). They are a mixture of low wage, poor productivity performance and increased risk through unaffordable housing and record household debt. The imbalances in the economy are even worse when we consider the continued high level of inequality and poverty.

Government debt is low. Lowering it further is not a high priority. National's policy of reducing government spending as a proportion of GDP squeezes public services. It is irresponsible and dishonest fiscal management to pretend to increase services without sufficiently funding them. Its surpluses were at the expense of social deficits. The current economic, social and environmental imbalances will fester unless significantly more revenue is provided.

We also need a framework to be prepared for the future of work: industry policies to replace shrinking industries with better ones, employment policies that give people a say over their future and ensure they share the benefits, and a capable state much better at supporting people through change and providing the public services they need for healthy, fulfilled lives.

We won't know for a while which parties will make up the new New Zealand Government following the election last weekend. Whoever it is will face the same challenges. Here are some largely economic challenges that are of concern to working people.

The International economy

The most likely shocks to New Zealand's economy are from the international economy and from a crash in the housing market. How is the international economy doing?

While there is slow improvement in Europe, parts of it are still in a state of grave depression with unemployment in Greece at over 20 percent, in Spain 18 percent and an average of 9.5 percent in the countries with the Euro currency. The slow recovery reflects large, unresolved problems within the European Union, particularly among the Euro countries, which cannot be resolved without movement from Germany. The increasingly chaotic situation in the U.K. over the Brexit negotiations is a concern in its own right, with the uncertainty likely to depress investment and employment, but is itself a symptom of the problems in the European Union which is determined to make an example of the U.K. to deter other "exit" tendencies. The OECD forecasts GDP growth in the Euro area for 2017 to be only 1.8 percent and the U.K. 1.6 percent.

The US is doing somewhat better, with GDP growth forecast at 2.4 percent in 2017, but there are large uncertainties due to the erratic policies (if they can be called that) and bellicose international behaviour of the Trump administration alongside a dysfunctional Congress. In these circumstances both the performance of the US economy and the threat of war will be continuing concerns.

China's GDP growth continues to slow gradually but at around 6.9 percent it is still a driver of international growth. There are concerns about its property market and high debt levels. Its government is moving the economy from an export-led to a more domestic focus, and towards reduced carbon emissions. This has changed its raw material use (with implications for Australia as well as New Zealand) and it is taking more control of the products it imports. We are exposed to China both directly and through Australia.

Australia is having to adjust to reduced demand and prices for its mining exports. It needs to increase its manufacturing capacity to provide jobs, but it has been run down over a long period, crowded out by mining. Its GDP growth in the last year was 1.8 percent but similar to New Zealand's in the June quarter at 0.8 percent. Unemployment is higher at 5.6 percent but I calculate that their average hourly wages are still 15 percent ahead of New Zealand's in purchasing power terms – and 26 percent ahead taking into account their compulsory employer superannuation contributions.

Finally, the financial system which gave us the Global Financial Crisis has not been fixed. The Trump administration is threatening to unravel the partial progress that was made. Another financially-driven crisis cannot be ruled out (see for example http://tinyurl.com/ydy7hd4o).

We need to: reduce New Zealand's still high international debt which is overwhelmingly private debt, mainly bank debt. Resolving the unaffordability of housing would be a big step in that direction. Develop new ways to control big currency and capital flows to reduce our vulnerability to financial crises and help manage the value and volatility of the dollar. Encourage domestic saving such as through an enhanced Kiwisaver scheme. Encourage high value exports with the help of active industrial policies.

How has the New Zealand economy responded?

The New Zealand economy grew 2.7 percent in the year to June – the same as June 2016 but slower than two years ago. There are signs that growth may have peaked with tourism and immigration levelling off (though perilous to forecast) and construction activity reducing in the last quarter despite

huge continuing need. Unemployment at 4.8 percent (128,000 people) and the wider measure of people needing work, "underutilisation" at 11.8 percent (327,000 people) are falling only slowly. This suggests there is still spare capacity in the economy, which Government policy could help take up through less restrictive spending and debt policies, with little risk of inflation.

While the headline economic growth looks respectable compared to other OECD countries, it is well below the average 3.8 percent annual growth during the 2000s before the country went into recession. Since 2011, when the recession from the Global Financial Crisis had ended, it has averaged only 2.6 percent. Worse, per person in New Zealand, GDP growth was only 0.6 percent in the last year, half the average of 1.2 percent since 2011 and less than a quarter the average 2.6 percent per capita growth during the 2000s. Most of the economic growth just keeps up with the rapidly growing population (a 2.1 percent rise in the year to June) leaving little for improving living standards. There is markedly slower per capita growth than the 2000s even after taking account of income going to overseas investors, changing prices for imports and exports and the income from earthquake insurance claims. In many ways the economy has not fully recovered.

Another sign of that is abysmal productivity growth. Statistics New Zealand's official measure showed an actual fall in labour productivity in the latest year it is available, to March 2016. Another measure, GDP per hour worked, shows a fall in the last quarter (seasonally adjusted) and zero growth in the last year. It has barely changed since 2012. Business and economists berated the 2000s Governments for a productivity slowdown over that period (though it turned out that it slowed over the whole OECD) but this is far worse.

Why worry about productivity growth? Because it is the basis for higher wages and improving living standards, and it can help reduce our environmental impact by using resources more efficiently. However it won't pass through into wages without good employment laws that counter the power of employers to hold on to the proceeds from the productivity gains. Current weak wage growth is due partly to weak productivity performance but also partly to lack of industry standards for fair wages and conditions, and laws that give employers the ability to walk away from collective bargaining. Tax revenues show rising company profits.

Economic growth has been highly dependent on more people – high net immigration, people working more hours (especially people on low incomes) and more couples with children who are both working.

This combination of more people and low wages encourages lazy, command-and-control management practices with low investment in new plant and equipment, too little commitment to staff training and fear of employee engagement. While GDP grew 17.5 percent from June 2008 to June 2017, investment in plant, machinery and equipment grew only 13.0 percent, and business investment 15.6 percent. It has grown more quickly recently, but much is for buildings and vehicles. Meanwhile housing investment grew 43.0 percent, yet even this was too slow to meet the needs of the growing population.

Rebalancing the economy?

The sluggish economic growth has been despite record terms of trade which would normally mean boom times because it means high prices are being received for New Zealand exports relative to what we pay for imports. The terms of trade were last this high in 1973. This opportunity has been wasted. New Zealand's goods and services exports were 27 percent of GDP over the year to June. The last time it was that low was in 1990. Worse, the average quality of exports is reducing. Some of New Zealand's

most valuable exports, 'elaborately transformed' manufactured goods, have been falling as a proportion of exports. It peaked in 2005 at almost a quarter of exports – 23 percent. In the June 2017 year they were only 14 percent of exports.

The table below shows the top six private sector contributors to GDP growth between 2010 and 2016, accounting for over half of the growth.[1]

The top six contributors to GDP growth 2010 to 2016			
	Contribution to GDP growth	**Low wage?**	**Poor productivity growth?**
	Average proportion of annual growth	Rank out of 16 industries, 2017 (16 = lowest wage)[1]	Average annual labour productivity growth 2010-2015 (overall average was 0.9%)
Professional, Scientific and Technical Services	12%	6	0.7%
Retail Trade, Accommodation and Food Services	12%	16	Retail 3.3%, A&F 0.8%
Rental, Hiring and Real Estate Services	9%	8	1.1%
Construction	9%	13	0.4%
Owner-occupied property operation	7%		
Financial and Insurance Services	7%	2	-0.2%

Finance and the Professions and technical services are well paid[2] but have very poor productivity growth according to Statistics New Zealand (2010 to 2015).

Retail, accommodation and food services are at the heart of the booming tourism sector (along with transport) but pay the lowest wages among all the industries. Retail productivity growth was strong over the period, but Accommodation and food services' was very weak. Construction had fourth lowest wage levels of any industry and showed very weak productivity growth.

Owner-occupied property operation is the rent home-owners save by owning their own house (so has no labour or productivity associated with it).

That leaves Rental and real estate as the only one of the top six with both reasonable wages and productivity performance yet (along with finance) it is assisting and benefiting from soaring house prices and rents which are far beyond affordability for many families.

The growth of Finance and Real estate increases the risks of a domestic financial crisis. They thrive on increasingly unaffordable housing and increase income and wealth inequality. Together with Owner-occupied property operation they make up the "FIRE" economy: Finance, Insurance and Real Estate. They have accounted for almost a quarter of the growth of the economy over this period. Adding in Construction they made up almost a third of the growth.

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[1] Methodology as described in Robjohns, J. (2007). Contributions to growth rates under annual chain-linking. *Economic & Labour Market Review*, 1(6), 53–56. Retrieved from http://www.ons.gov.uk/ons/rel/elmr/economic-and-labour-market-review/no--6--june-2007/methods-explained--contributions-to-growth-under-annual-chain-linking.pdf. 2010 allows for recovery from the Global Financial Crisis and 2016 is the most recent date for which this calculation is possible (March years).

[2] Pay is ranked by the average hourly wages for 16 industries from Statistics New Zealand's Labour Market Statistics (Income) survey for 2017. Selecting a different year makes little difference in ranking. Administrative Services is included in the given average wage for Professional Scientific and Technical, reducing it.

Despite this, housing is unaffordable and construction, which actually contracted in the last three months, is not keeping up with unmet housing need let alone the increasing population. Housing consents are below the level per head of population in the first half of the 2000s, and half the level of the 1974[1]. In June, household debt was at a record level at 168 percent of disposable household income.

Next behind the top six contributors to growth is Information media and telecommunications which has had spectacular productivity growth and third highest wages.

Agriculture, comes in at 10th among the private sector. It has reasonable productivity performance but second lowest wage rates.

Manufacturing which could be a major source of productivity growth for the economy, contributed slightly less than Information media and telecommunications to GDP growth with poor productivity performance and relatively low wages. It is dominated by food processing whose productivity actually fell between 2010 and 2015. It has been held back by the high exchange rate and the international downturn in international trade in manufacturing following the Global Financial Crisis.

In short, the economy's growth is dominated by areas that will take us no closer to a high productivity, high value products and high wages. Only part of Retail, accommodation and food services among the top six contributors to GDP growth is an export industry. This type of growth is a symptom of investor's infatuation with real estate and finance which heightens economic, financial and social risks.

The economy is even more out of balance when income and wealth inequality are considered. Research summarised in the August *Bulletin* showed increasing inequality among wage and salary earners and the self-employed. Household incomes after taxes, Working for Families and benefits show inequality at similar levels to the early 2000s, rising after a dip in the mid 2000s[2]. It is notably worse after housing costs but that is not the only contributor. Levels of material hardship and poverty among children remain far too high. While the increases in Working for Families and accommodation supplements promised by both National and Labour will help and are welcome (Labour's more than National's) they still leave many low-income families in poverty – 150,000 receive no help from National's package (see the June *Bulletin*). The increased levels must be maintained: National's package only restores half of what it has stealthily taken away from Working for Families since 2010 though higher abatement rates and fixed thresholds; Treasury forecasts show the effects of the new package gradually weakening. Much more remains much to be done. Wealth inequality is increased by unaffordable house prices.

Government finances

Government debt is very low by international comparators. It is higher than before the Global Financial Crisis and earthquakes but low also in historical terms. Lowering it should not be a high priority: there is too much to do. A much greater risk is private overseas debt.

Government spending has been reduced as a proportion of the economy's total income at the expense of growing social deficits in health, housing, education and social support. Treasury analysis (of the

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[1] Statistics New Zealand: see http://tinyurl.com/jj7dbcq, updated with InfoShare series BLD113AA and DPE056AA.
[2] See Perry, B. (2016). Household Incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2015. Wellington, New Zealand: Ministry of Social Development. Available at https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/. E.g. Tables D.7 and D.8.

"fiscal impulse") shows Government policies have been a brake on economic growth. They have possibly contributed to continued high unemployment.

National's policy of reducing government spending as a proportion of GDP while the cost of New Zealand Super increases, squeezes all other public services. Its pretence that cutting funding in real terms (such as in health) is met by efficiencies rather than deteriorating services conflicts with the reality that many New Zealanders face. It is irresponsible and dishonest fiscal management to pretend to increase services without sufficiently funding them. The current economic, social and environmental imbalances will fester unless significantly more revenue is provided.

We need to: restore and improve funding to social services including health, education, housing and social welfare. Resume contributions to the New Zealand Super Fund. There are strong cases for more spending on research and development to bring it rapidly up to the OECD average level, more support for the development of productive industry, for conservation, combating and mitigating the effects of climate change, as well as the infrastructure backlog.

Looking ahead: the future of work

Globalisation, developing technology, climate change, the aging population and other major trends are changing our industries, jobs and workplaces. Sometimes it is for the good, with less arduous, more interesting jobs and higher incomes; sometimes it is not, bringing job loss, insecurity, income loss, greater employer power, and destruction of working conditions.

We cannot predict the exact form these changes will take but we need a framework that helps people through change and takes advantage of opportunities to as far as possible ensure that changes are for the best and benefits are equally shared. We need three sets of policies to create that framework:

Industry policies which assist the development of new, more productive industries. These are useful anyway to move New Zealand's economy away from the low productivity, low wage, risky industries that dominate it. The state can encourage the development of new industry with its purchasing policies, venture capital funding and other methods. When we know that an industry is on its way out such policies can work to create replacement industries that offer good jobs. Such policies are increasingly popular overseas (such as in the U.K.) and have always been used in some countries including the US. National's industry policies favouring convention centres, tourism and irrigation are a poor substitute.

Employment relations which ensures working people are treated well through change and ensures they share the proceeds of higher productivity in their workplaces with higher incomes. It needs to address the imbalance of bargaining power between employers and employees. That needs strengthened collective bargaining, eliminating the power of employers to walk away from single and multi-employer negotiations, and industry standard agreements that set basic pay and conditions for an industry, preventing competition on the basis of lower wages creating a race to the bottom.

A capable state which helps working people through change with much improved income support when they lose their jobs, help with career planning, opportunities for real retraining for a new career, help with job searching and relocation assistance if needed. More generally it needs to provide the lifelong education and training needed for a changing workplace, the capacity and will to regulate new industries (like Uber) and sound public services for healthy, fulfilled lives.

Bill Rosenberg

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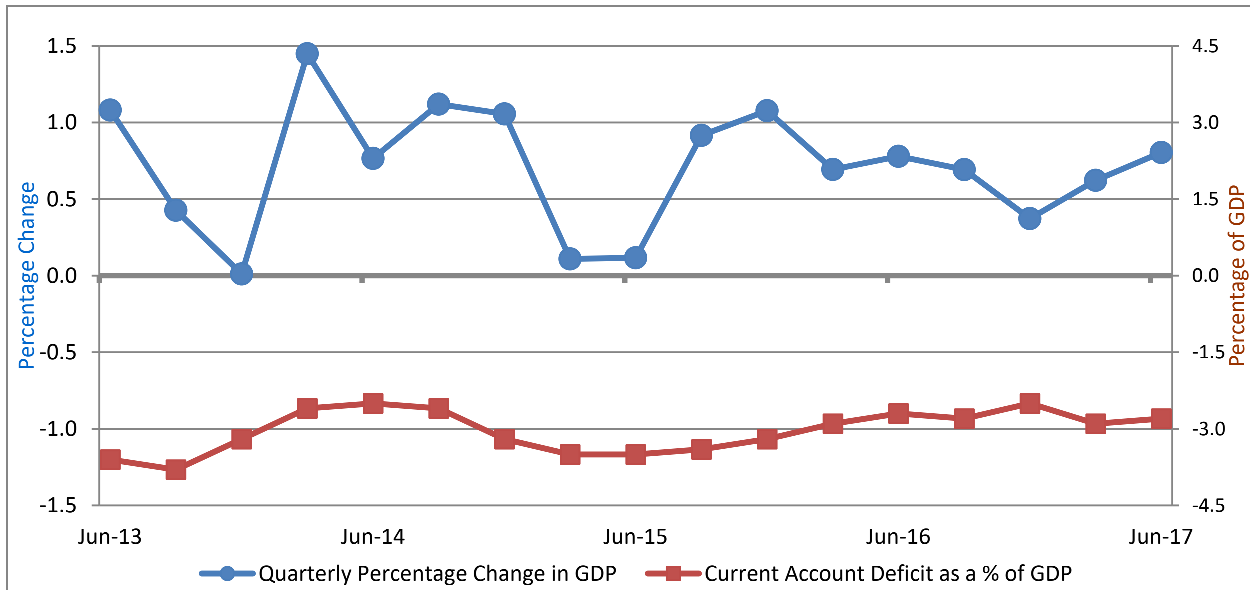
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 11 September 2017.

Annual Percentage Change (March Year)	**2017-18**	**2018-19**	**2019-20**	**2020-21**
GDP	2.9	3.4	2.9	2.4
CPI	1.1	1.9	2.0	2.0
Private Sector average hourly wage	2.2	2.9	3.2	3.1
Employment	2.2	2.0	1.5	1.4
Unemployment rate (% of labour force)	4.7	4.6	4.6	4.6

Economy



★ Growth in New Zealand's economy in the three months to June 2017 was close to Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 0.8 percent, compared to 0.6 percent in the previous quarter. Average growth for the year ended June 2017 was 2.7 percent (and 2.5 percent between June quarters). However growth in GDP per person continues to be weak with a rapidly growing population: GDP per person rose only 0.3 percent in the June quarter, and 0.6 percent over the year, worse even than recent performance. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.6 percent a year. Since 2012 it has averaged 1.2 percent. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, grew somewhat more strongly: it rose by 0.9 percent over the quarter and 1.8 percent over the year to June. Its average performance has also been lower than the 2000s. I estimate[1] that labour productivity measured by production per hour worked in the economy was unchanged in the year to June compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It is little different in June 2017 than it was in June 2013. It fell 0.1 percent in the June quarter in seasonally adjusted terms. Business investment in the three months fell by 0.4 percent compared to the March quarter though the annual growth was strong at 3.6 percent, driven by construction, transport equipment and intangible fixed assets. Investment in housing fell 1.0 percent in the quarter following a 1.3 percent fall in the previous quarter. However it grew 10.3 percent year on year. Household consumption growth weakened to 0.9 percent in the June quarter in real terms, after rising 1.2 percent in the previous quarter, and rose a strong 4.0 percent over the same quarter in the previous year. Inflation in the economy as a whole is higher than CPI with the GDP deflator (a

[1] Because of the changes to the Household Labour Force Survey, there is a break in the hours-worked series in June. I estimated the increase for June 2016 using a recent Statistics New Zealand estimate that the changes in the survey created a jump in the series by 50,000 people or 2,550,000 actual hours worked per week: see Anand-Kumar, V., Penny, R., & Gordon, M. (2017). *Investigation on the impact of the 2016 redevelopment on the Household Labour Force time series.* Wellington, New Zealand: Statistics New Zealand, p.11. Available at http://on-cue.co.nz/Vinyak%20Anand-Kumar.pdf

price index for expenditure on the economy's production) rising 2.8 percent from the June quarter last year, but it fell 0.8 percent in the June 2017 quarter.

★ By industry, the largest contributors to growth in the latest quarter were Manufacturing (up 1.8 percent), Retail trade and accommodation (up 2.8 percent), Transport, postal and warehousing (up 3.5 percent), Rental, hiring and real estate services (up 0.5 percent), Professional, scientific, technical, administrative and support services (up 1.1 percent) and Public Administration and Safety (up 1.6 percent). They were offset by falls in Mining (down 5.2 percent) and Construction (down 1.1 percent). Compared with the June quarter last year, the biggest rises were in Retail trade and accommodation (up 6.6 percent), Professional, scientific, technical, administrative and support services (up 5.1 percent), Public administration and safety (up 4.7 percent), Transport, postal and warehousing (up 4.5 percent), Arts, recreation and other services (up 4.1 percent), Health care and social assistance (up 3.7 percent), and Wholesale trade (up 3.5 percent). They were offset by falls in Mining (down 8.4 percent), Agriculture, forestry and fishing (down 0.9 percent) and Construction (down 0.1 percent).

★ New Zealand recorded a Current Account deficit of $1.6 billion in seasonally adjusted terms for the June 2017 quarter (but an actual deficit of $618 million) following a $2.8 billion deficit for the March quarter. There was another deficit in the goods trade ($446 million, seasonally adjusted) following a $1.1 billion deficit in the March quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $834 million in goods and services (compared to an unusual $138 million deficit in March) including a record $1.3 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) improved to $1.9 billion from $2.3 billion in March (seasonal adjustment not available). For the year to June 2017, the current account deficit was $7.5 billion or 2.8 percent of GDP compared to a $7.7 billion deficit in the year to March (2.9 percent of GDP). The deficit on investment income was $8.0 billion for the year.

★ The country's Net International Liabilities were $154.2 billion at the end of June 2017, up from a revised $153.0 billion at the end of March but down from $163.4 billion a year before. The June net liabilities were equivalent to 57.5 percent of GDP, compared to a revised 57.8 percent in March and 64.5 percent a year before. They would take 2.14 years of goods and services exports to pay off, down from 2.31 years a year before. The rise in net liabilities over the quarter was due to $1.1 billion in valuation changes (mainly due to $2.8 billion in market price valuations) plus a $110 million net inflow of investment. Without the valuation changes, the net liabilities would have been $153.1 billion. Statistics New Zealand explains the net inflow of investment as follows: "The $1.2 billion increase in New Zealand's net liability position was driven by a $2.8 billion change in net market price movements. Foreign investors saw the value of their shares in NZX-listed companies increase along with the value of government bonds. Net financial transactions increased the net liability position by $110 million, as foreigners increased their investment in New Zealand more than New Zealand did with the rest of the world. The New Zealand dollar appreciated against most of its trading partners' currencies between 31 March and 30 June 2017. This decreased the value of New Zealand's liabilities by $2.2 billion and decreased the value of our assets by $2.1 billion, resulting in little effect on the net liability position." New Zealand's international debt was $290.9 billion (108.5 percent of GDP), of which 30.4 percent is due within 12 months, compared to $144.9 billion in financial assets (other than shares; 54.1 percent of GDP), leaving a net debt of $145.9

billion (54.4 percent of GDP). Of the net debt, $4.5 billion was owed by the government including the Reserve Bank (equivalent to 1.7 percent of GDP and down from $5.9 billion in March) and $110.3 billion by the banks (41.1 percent of GDP), which owed $157.8 billion gross. Total insurance claims made on overseas reinsurers from the Canterbury earthquakes are estimated at $21.1 billion, and at 30 June 2017, $19.8 billion of these claims had been settled, leaving $1.3 billion outstanding. For the Kaikōura earthquakes, out of an estimated $1.1 billion of claims, $75 million had been settled leaving $991 million outstanding.

- ★ Overseas Merchandise Trade for the month of August saw exports of goods rise in value by 9.0 percent from the same month last year while imports rose 6.5 percent. This created a trade deficit for the month of $1,235 million or 33.5 percent of exports, which is not unusual for August. There was a trade deficit for the year of $3.2 billion or 6.3 percent of exports, similar to the 6.4 percent deficit in the year to the same month in 2016. In seasonally adjusted terms, exports fell 10.3 percent or $492 million over the month (compared to a 6.7 percent rise the previous month) led by falls in Dairy products (down 37.6 percent or $510 million), Meat (down 18.1 percent or $105 million) and Logs, wood and wood articles (down 1.1 percent or $4 million), offset by rises led by Crude oil (up 192.0 percent or $71 million, not seasonally adjusted), Fruit (up 8.3 percent or $19 million), Aluminium (up 11.1 percent or $10 million, not seasonally adjusted), Wine (up 5.9 percent or $8 million), and Seafood (up 6.0 percent or $7 million). Seasonally adjusted imports fell 2.9 percent or $134 million over the previous month, creating a trade deficit of $211 million compared to a $147 million surplus in the previous month. The falling imports were all in smaller categories and the main categories all rose, led by Mechanical machinery and equipment (up 14.8 percent or $95 million, not seasonally adjusted), Petroleum and products (up 7.5 percent or $30 million, not seasonally adjusted), Electrical machinery and equipment (up 7.0 percent or $26 million), and Textiles and textile articles (up 11.5 percent or $23 million, not seasonally adjusted). In the year to August, 21 percent of New Zealand's exports went to China, 17 percent to Australia and 10 percent to the US, and 62 percent went to the top seven countries buying $1 billion or more of New Zealand exports. This was up from 19 percent going to China in the year to August 2016, though 62 percent still went to the top seven destinations. Over the same period, 20 percent of New Zealand's imports came from China (the same as in 2016), 12 percent from Australia and 11 percent from the US, and 64 percent from the top seven countries selling to New Zealand, little changed from a year before.

- The Retail Trade Survey for the three months to June 2017 showed retail sales rose 5.4 percent by volume and 6.7 percent by value compared with the same quarter a year ago. They rose 2.0 percent by volume and 1.6 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Liquor (up 7.4 percent), Accommodation (up 4.9 percent), Food and beverage services (up 4.6 percent) and Specialised food (up 4.2 percent). There were falls in Furniture, floor coverings, houseware, textiles (down 0.7 percent), Pharmaceutical and other store-based retailing (down 0.6 percent) and Non-store and commission-based retailing (which includes online sales, down 0.5 percent). Supermarket and grocery stores, easily the largest single sector, rose 0.2 percent by value and fell 0.1 percent by volume.

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

★ The Performance of Manufacturing Index for August 2017 was 57.9, a rise from 55.5 in the previous month. The employment sub-index was at 56.7, a slight rise from 56.5 in the previous month.

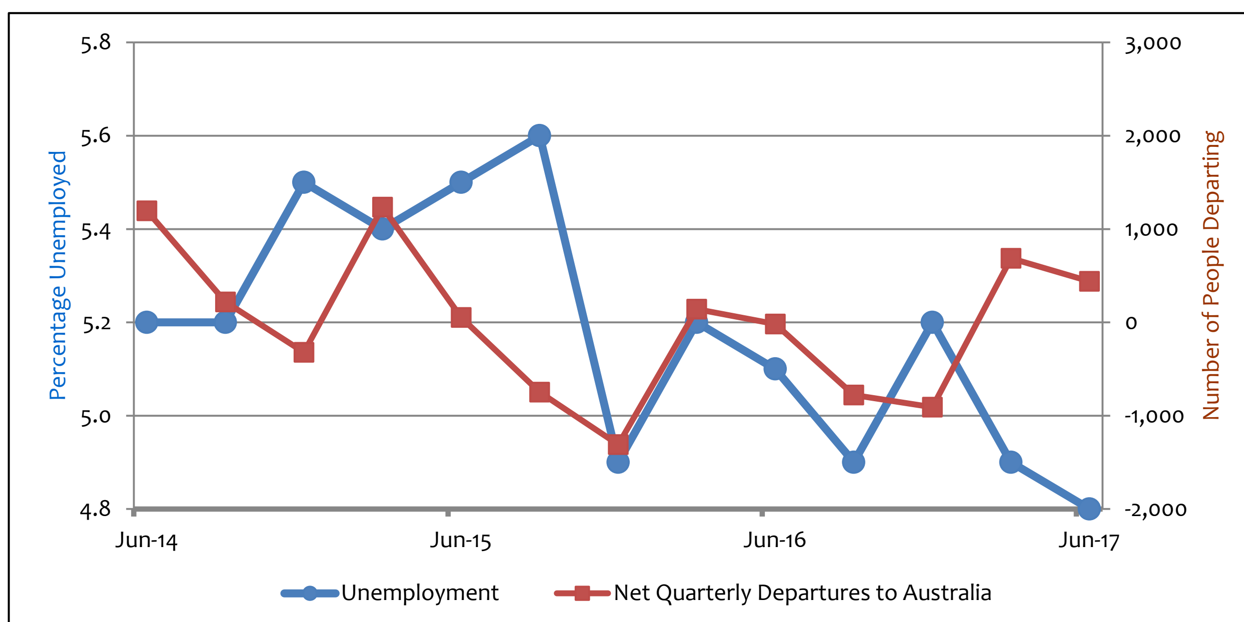
★ The Performance of Services Index for August 2017 was 57.3, a rise from 56.0 the previous month. The employment sub-index was 52.2, down from 55.0 in the previous month.

★ On 28 September 2017 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. The Bank indicated, as it has for many months, that the rate is likely to be in place for a considerable time unless there were unforeseen events: "Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly". It was more relaxed about the international situation: "Global economic growth has continued to improve in recent quarters. However, inflation and wage outcomes remain subdued across the advanced economies, and challenges remain with on-going surplus capacity." It means high unemployment. It commented on low interest rates and record high share prices. "Monetary policy is expected to remain stimulatory in the advanced economies, but less so going forward." It continued to express concerns about the exchange rate, though in somewhat more relaxed terms than previously. Though the trade-weighted exchange index (that is a combination of exchange rates with New Zealand's main trading partners, weighted by our trade with them) had "eased slightly" since the time of the last statement (this may have been because of the election), "A lower New Zealand dollar would help to increase tradables inflation and deliver more balanced growth." GDP growth in New Zealand in the June quarter grew "in line with expectations, following relative weakness in the previous two quarters. While exports recovered, construction was weaker than expected. Growth is projected to maintain its current pace going forward, supported by accommodative monetary policy, population growth, elevated terms of trade, and fiscal stimulus." The Bank considered that house price inflation "continues to moderate", due to its loan-to-value ratio restrictions, "affordability constraints" and tighter lending conditions, and thought that the moderation would continue but there was a risk of price rises resuming "given population growth" and limits to the capacity of the construction sector to build more houses. As it said last time, it considered inflation would be brought to 2 percent "in the medium term". The next OCR announcement will be on 9 November 2017 and will be accompanied by a Monetary Policy Statement.

★ According to REINZ, over the year to August the national median house price rose $40,000 or 8.2 percent to $530,000 and REINZ's house price index rose 0.5 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 1.7 percent seasonally adjusted while the house price index rose 0.5 percent. In Auckland over the year the median price fell 1.2 percent or $10,000 to $840,000 while the house price index fell 2.9 percent. Over the month Auckland's median price rose 0.8 percent seasonally adjusted, and the house price index rose 0.2 percent. Excluding Auckland, over the year the national median price rose $42,000 to $428,000 or 10.9 percent while the house price index rose 7.0 percent. Over the month the median price excluding Auckland was up 2.9 percent on the previous month seasonally adjusted, and the house price index was up 1.1 percent. Three regions had record median prices: Hawke's Bay ($405,000, up 19.1 percent over the year), Manawatu-Wanganui ($285,000, up 18.8 percent) and Southland ($250,000, up 22.0 percent). Median prices

fell in 5 of the 14 regions over the month, seasonally adjusted, and sales fell in 10 of the regions. Over the year, sales fell sharply in all regions except the West Coast, averaging a 20.0 percent fall.

Employment



- According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the June 2017 quarter fell to 4.8 percent or 128,000 people, compared to 4.9 percent in March (131,000 people), seasonally adjusted. It is half as much again than the 3.3 percent it was in December 2007, which would mean 40,000 more people would have jobs. The seasonally adjusted female unemployment rate at 4.9 percent in June was higher than for men (4.7 percent), but came down sharply from 5.7 percent in March while male unemployment rose from 4.2 percent. Māori unemployment was almost static changing from 11.0 percent in June 2016 to 11.1 percent in June 2017, while Pacific people's unemployment rose from 9.1 percent to 10.1 percent over the year (though the changes are not statistically significant). Compared to OECD unemployment rates, New Zealand had 12th lowest (out of 35 countries), one position between than in March.

- **Youth unemployment** for 15-19 year olds was 20.7 percent in June, up from 20.5 percent in March 2017, and up from 18.4 percent in June 2016 (these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not). For Māori 15-19 year olds in June 2017 the unemployment rate was 34.5 percent, a sharp increase from 24.3 percent a year before. For 15-19 year old Pacific Peoples it was 22.8 percent, down sharply from 32.5 percent a year before. For 20-24 year olds, youth unemployment was 8.5 percent, down from 8.7 percent in March and 9.4 percent a year before. For Māori 20-24 year olds in June 2017 the unemployment rate was 16.6 percent, a fall from 17.4 percent a year before. For 20-24 year old Pacific Peoples it was 20.1 percent, up sharply from 12.2 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 8.8 percent, down from 10.4 percent in March but up from 6.8 percent a year before. For Māori 15-19 year olds in June 2017 the rate was 14.6 percent, up from 11.0 percent a year before and for Pacific Peoples it was 10.9 percent, little changed from 11.0 percent a year before. For 20-24 year olds the NEET rate

was 13.2 percent, down from 14.8 percent in March and 14.3 percent a year before. For Māori 20-24 year olds in June the rate was 25.5 percent, little different from 25.0 percent a year before, and for Pacific Peoples it was 26.2 percent, up from 20.4 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (14.7 percent) than those not in education (11.4 percent). There were 74,000 people aged 15-24 years who were not in employment, education, or training (NEET), down from 86,000 in March but up from 71,000 a year before.

- By **region**, in the North Island, unemployment rates rose compared to a year ago in three out of the eight regions none of the changes were statistically significant (that is, the error in the estimates of unemployment means it cannot be ruled out that the rises were in fact zero). In the North Island, Northland has the worst unemployment rate at 7.2 percent (compared to 10.6 percent a year before) while Bay of Plenty is at 6.1 percent (5.1 percent a year before) and Gisborne/Hawke's Bay is at 5.8 percent (from 5.0 percent a year before). Auckland is at 4.5 percent (from 4.7 percent a year before) and Wellington 4.8 percent (from 5.3 percent a year before). The South Island looks better with Tasman/Nelson/Marlborough/West Coast at 3.0 percent showing a statistically significant improvement from 5.9 percent a year before, Canterbury at 3.8 percent (3.2 percent a year before), Otago at 5.0 percent (4.5 percent a year before) and Southland at 4.6 percent (5.0 percent a year before).
- There were 44,600 unemployed people in June 2017 who had been **out of work for more than 6 months** compared to 44,800 a year before. The numbers appear to have increased sharply compared to quarters before June 2016, a possible contributor being a change in the survey questions from that date. This is 36.2 percent of the unemployed compared to 35.5 percent a year before, and is a level that has not previously been reached in a June quarter since 1995. Those out of work for more than a year are 16.9 percent of the unemployed compared to 16.7 percent a year before, the highest in a June quarter since 1998.
- The unemployed were not the only people looking for work: "**underutilisation**" includes the officially unemployed as above, people looking for work who are not immediately available or have not looked for work sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours ("underemployed"). In the June quarter there were a total of 327,000 people looking for work classed as "underutilised", or 11.8 percent of the labour force extended to include these people. Of them, 100,100 were underemployed, 128,000 were officially unemployed, and 98,000 were additional jobless people looking for work. The 11.8 percent underutilisation rate is lower than 12.3 in the previous quarter (seasonally adjusted) or 12.9 percent a year before. It is higher for women at 14.5 percent than for men (9.4 percent).
- The number recorded as **employed** fell by 3,000 between the March and June 2017 quarters (seasonally adjusted). It rose by 76,000 over the year. The employment rate fell from 67.1 percent to 66.7 percent over the three months. It was 61.3 percent for women and 72.3 percent for men. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) fell from 70.6 percent to 70.0 percent, all in seasonally adjusted terms.
- **By industry**, the actual fall in employment of 16,500 since the March quarter was made up of both gains and losses. The biggest gains were of 8,900 in Education and Training, 7,200 in Arts, recreation, and Other services, 5,100 in Professional, scientific, technical, administrative and support services, and 4,200 in Financial and insurance services. The largest falls were of 12,000 in

Agriculture, forestry, and fishing, 10,300 in Construction, 8,400 in Manufacturing and 4,400 in Health care and social assistance. These are not seasonally adjusted.

- In the June 2017 quarter, total **union membership** was estimated at 372,200, a 0.9 percent fall from 375,400 in the March quarter and down 1.9 percent from 379,300 in June 2016. The membership is 18.0 percent of employees (or slightly higher if those who said they didn't know were discounted) compared to 18.1 percent in the March quarter and 19.1 percent a year before. Women make up 57.5 percent of the membership compared to being 49.0 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.1 percent compared to 15.0 percent. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends. Regarding coverage by a **collective employment agreement**, 18.2 percent of employees (376,600, which is larger than the estimated number of union members) said their employment agreement was a collective in June compared to 18.7 percent in March and 20.6 percent (410,300) in June; 67.8 percent (1,401,800) said it was an individual agreement compared to 66.4 percent in March and 62.9 percent in June, and 7.6 percent or 158,000 said they had no agreement (which is illegal), compared to 7.4 percent in March and 8.6 percent in June. A further 6.3 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.4 percent for men and 21.2 percent for women. Again, these figures could be affected by seasonal variations in numbers.

- By **employment relationship**, in the June 2017 quarter, 90.6 percent of employees (1,873,000) reported they were permanent, 4.7 percent casual (96,700), 2.6 percent fixed term (54,400), 1.0 percent seasonal (21,100), and 0.4 percent employed through a "temporary agency" (8,100). The proportion reporting they were permanent was up from 90.0 percent (1,862,800) in March and 88.7 percent (1,762,900) in June. Women were slightly less likely to be permanent employees: 89.3 percent of women were permanent compared to 91.8 percent of men in June. Instead, women were more likely to be casual (5.4 percent of them compared to 4.0 percent of men) or fixed term (2.6 percent of women compared to 1.8 percent of men). However more men were in seasonal work than women – 1.3 percent of men (14,100) compared to 1.0 percent of women (6,900). Of the temp agency employees, 3,900 were men and 4,200 women. Employment relationships may have seasonal variations, so we should be cautious about seeing trends in quarterly comparisons. In addition, small differences may not be statistically significant.

- By **duration of employment (job tenure)**, in the June 2017 quarter, 23.2 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.5 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 17.3 percent had been in their job for at least five but less than ten years, and 25.9 percent had been in their jobs for 10 years or more. Women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 27.8 percent of men had been in their jobs for more than 10 years, but only 23.8 percent of women. Age is a significant factor as would be expected: 55.0 percent people aged 15 to 24 had been in their jobs for less than a year, and 31.0 percent of 25-34 year olds, but only 13.5 percent of 45-54 year olds and 10.4 percent of 55-64 year olds. Small differences may not be statistically significant.

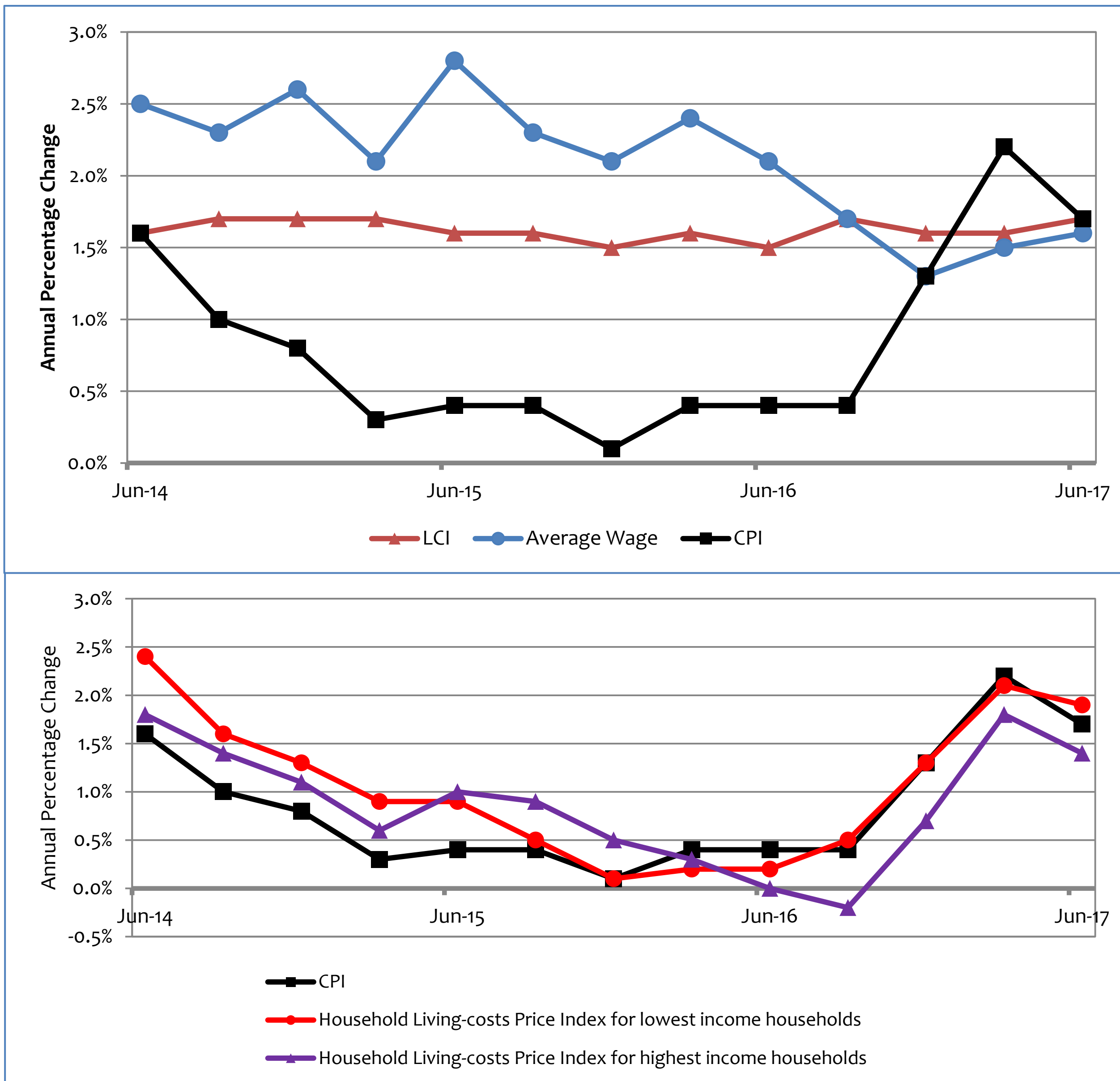
- The Ministry of Social Development reports that at the end of June 2017 there were 118,776 working age people on the Jobseeker benefit, 822 more than a year before but a fall of 629 from

119,405 in March. At June 2017, 63,029 were classified as 'Work Ready', and 55,747 were classified as 'Health Condition or Disability'. A total of 276,331 were on 'main' benefits, 3,846 fewer than a year before, mainly due to 4,791 fewer on Sole Parent Support, and 1,905 fewer than March, mainly because of 1,581 fewer on Sole Parent Support. Of the 49,147 benefits cancelled during the three months to June, 20,540 or 41.8 percent of the people obtained work, 10.8 percent transferred to another benefit and 5.3 percent became full time students.

★ Job Vacancies Online for August 2017 showed the seasonally adjusted number of job vacancies rose by 1.6 percent in the month and rose 10.4 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Northland rose 28.1 percent (but fell 1.0 percent over the month), Auckland rose 5.4 percent (and rose 1.3 percent over the month), Waikato rose 25.8 percent (7.8 percent), Bay of Plenty rose 11.9 percent (5.0 percent), Gisborne-Hawkes Bay rose 21.0 percent (11.2 percent), Manawatu-Whanganui-Taranaki rose 14.3 percent (down 0.5 percent), Wellington rose 13.3 percent (up 3.2 percent), Marlborough-Nelson-West Coast rose 27.9 percent (1.2 percent), Canterbury rose 8.2 percent (3.4 percent) and Otago-Southland rose 24.1 percent (0.1 percent). By industry, the fastest annual increases were in Education and training (up 23.8 percent), Construction and engineering (up 20.8 percent), and "Other" (up 18.9 percent). However Healthcare and medical fell 6.6 percent and IT fell 2.9 percent. Over the month, Education and Training rose 15.2 percent and Hospitality and tourism rose 8.0 percent but Healthcare and medical fell 7.7 percent. By occupation, all categories rose over the year, the fastest rises being for Machinery Drivers (up 26.7 percent), Labourers (up 24.2 percent), Technicians and Trades workers (up 9.7 percent), Managers and Professionals (both up 8.5 percent) and Sales (up 8.2 percent). Over the month, vacancies rose in all but two of the eight occupational groups, led by Managers (up 6.9 percent), Machinery Drivers (up 3.9 percent) and Clerical and Admin (up 3.8 percent). However Professionals fell 0.2 percent and Community and Personal Services fell 1.8 percent.

★ International Travel and Migration statistics showed 10,650 permanent and long-term arrivals to New Zealand in August 2017 and 5,160 departures in seasonally adjusted terms, a net gain of 5,490 which was down from 5,750 the previous month. There was an actual net gain of 72,072 migrants in the year to August, down from 72,402 in the year to July. Net migration to Australia in the year to August was 226 arrivals, with 24,973 departures and 25,199 arrivals. However there was a net loss of 4,967 New Zealand citizens to Australia over the year and a net loss of 333 to all countries. For the month, there was a seasonally adjusted net loss to Australia of 120, compared to a gain of 150 a year before. It was made up of a net loss of 550 New Zealand citizens offset by a net gain of 430 citizens of other countries. In August, 12.8 percent of the arrivals had residence visas, 14.6 percent student visas (a significant fall which appears to be largely seasonal), 37.4 percent work visas (up significantly), and 5.6 percent visitors. A further 29.0 percent were New Zealand or Australian citizens.

Wages and prices



- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to June 2017 and increased 1.7 percent in the year, the same as the 1.7 percent increase in the CPI. The LCI increased 0.4 percent in the public sector and 0.4 percent in the private sector in the three months to June. Over the year it rose 1.9 percent in the public sector and 1.6 percent in the private sector. During the year, 43 percent of jobs surveyed did not receive a pay rise, and 46 percent of private sector jobs got no rise. For the 57 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.2 percent and the average increase was 3.0 percent. For those jobs in the public sector that received increases, the median increase was 2.0 percent and in the private sector 2.3 percent; the average increase in the public sector was 2.6 percent and in the private sector 3.2 percent. We estimate that over the year, jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those which were not, and are more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent but are 40 percent less likely to get one of more than 5 percent. Only 48 percent of jobs

that were not on a collective got a pay rise during the year whereas the Centre for Labour, Employment and Work reports 99 percent of those on a collective got a pay rise.

- The Quarterly Employment Survey for the three months to June 2017 found the average hourly wage for ordinary-time work was $30.09, up 0.6 percent on the previous quarter and up just 1.6 percent over the year, less than the 1.7 percent rise in the CPI. Female workers (at $28.03) earned 11.9 percent less than male workers (at $31.82) for ordinary time hourly earnings. The average ordinary-time wage was $28.04 in the private sector (up 0.8 percent in the quarter and just 1.2 percent in the year) and $38.47 in the public sector (down 0.9 percent in the quarter but up 4.1 percent in the year). In June, average total hourly wages (including overtime) ranged from $19.48 in Accommodation and food services and $21.21 in Retail trade, to $42.32 in Finance and insurance services, and $40.91 in Information, media and telecommunications. In Accommodation and food services, 54.7 percent of employee jobs were part time, and in Retail trade, 39.0 percent were part time; 43.2 percent were also part time in Health care and social assistance, 34.8 percent in Arts, recreation and other services, and 32.9 percent in Education and training. Together these five industries made up 67.1 percent of all part time work. (However the QES does not include agriculture or fishing and excludes very small businesses.)
- The Consumer Price Index (CPI) rose 0.0 percent in the June 2017 quarter compared with the March 2017 quarter, and fell 0.1 percent in seasonally adjusted terms. It increased 1.7 percent for the year to June. For the quarter, the largest upward influence was Vegetables (up 19.0 percent), and Food together accounted for 367 percent of the rise. The next largest rises came from Housing and household utilities, which accounted for 580 percent of the rise. All parts of this other than Property rates and related services (which fell 0.1 percent) rose faster than the total rise in CPI. Rents were up 0.4 percent in the three months, new housing up 1.8 percent, property maintenance up 0.9 percent, and household energy up 1.5 percent, mainly due to a 1.5 percent rise in electricity prices. House insurance was up 1.3 percent and contents insurance 0.8 percent. Alcoholic beverages and Tobacco contributed 16 percent of the rise. While transport prices fell 1.3 percent, much of that was due to falling prices of domestic air travel (down 14.5 percent), but petrol prices fell 1.9 percent. Communications fell 1.8 percent, with Telecommunication equipment down 12.5 percent, and Recreation and culture was down 0.7 percent influenced by a 5.4 percent fall in the prices of Audio-visual and computing equipment, an 8.1 percent fall in accommodation services and a 1.4 percent fall in package holiday prices. Newspapers, books, and stationery however rose 3.0 percent. Over the year, Housing and household utilities was easily the biggest driver in the rise, up 3.1 percent and contributing for almost half (44.5 percent) of the increase with new housing up 6.4 percent and all the other components rising faster than overall CPI: Property maintenance (up 2.6 percent), Property rates and services (up 3.2 percent), rents (up 2.1 percent) and Household energy (up 1.8 percent). House insurance was up 7.0 percent, and Real estate services were up 9.5 percent. Professional services were also up 9.4 percent. Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in June (down 0.3 percent in the quarter and 6.4 percent over the year). Other major contributors to the annual increase were Food (up 2.0 percent, accounting for almost a quarter or 22.3 percent of the increase), Cigarettes and tobacco (up 9.8 percent, accounting for 16.0 percent of the increase), and petrol which accounted for a tenth (10.9 percent) of the total, rising 4.5 percent. In seasonally adjusted terms, the CPI fell 0.1 percent from March, Food rose 0.5 percent, Alcoholic beverages and tobacco rose 0.8 percent, Clothing and footwear fell 0.6 percent, Housing and household utilities rose 0.6 percent,

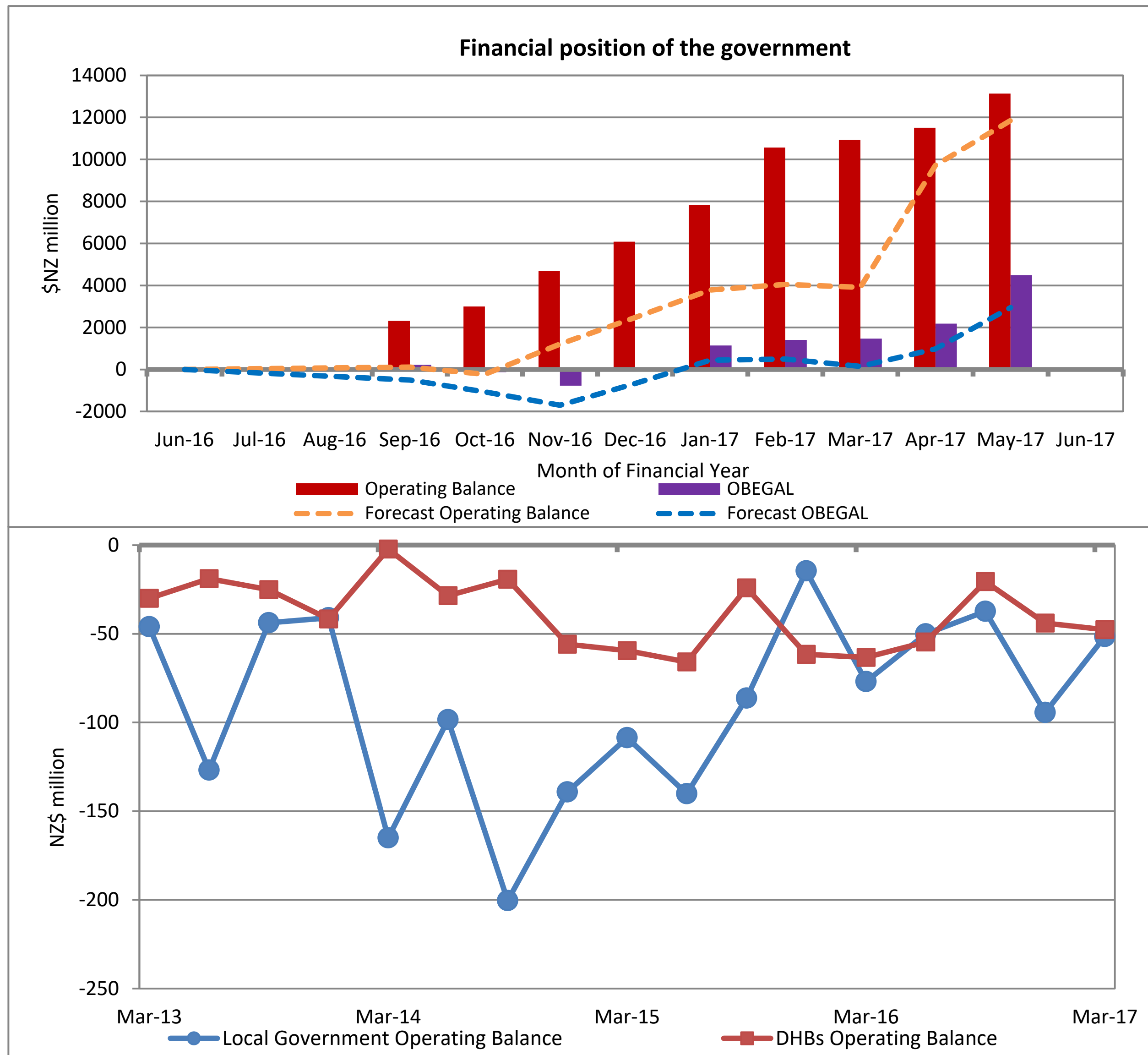
Communications fell 1.7 percent, Recreation and culture fell 0.2 percent, and Education rose 0.7 percent. In Auckland prices rose 2.0 percent, Wellington 1.4 percent and they rose 2.1 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 0.9 percent and it was 1.4 percent in the rest of the South Island. Auckland's housing costs rose 3.8 percent over the year, the fastest in the country; Wellington's rose 2.7 percent, the North Island (outside Auckland and Wellington) rose 3.2 percent, Canterbury's rose 1.1 percent and rest of the South Island rose 2.6 percent, with the national average movement of 3.1 percent exceeded by Auckland and the rest of the North Island (outside Auckland and Wellington).

- The **Household Living-costs Price Indexes** (HLPIs) for the year to June 2017 again showed lower income households experiencing faster price rises than higher income households because of the differences in what they spend their money on. Prices for the necessities of housing and food dominated the rises while relative luxuries of domestic air travel and electronic goods dominated falls. Over the year, the All households HLPI index rose 1.6 percent, the Beneficiary households index rose 2.0 percent, the Māori households index rose 1.8 percent, and the Superannuitant households index rose 1.7 percent. By income quintile, the index for the lowest income households (quintile 1) rose 1.9 percent, quintile 2 rose 1.8 percent, quintile 3 rose 1.4 percent, quintile 4 rose 1.5 percent, and quintile 5 (the highest incomes) rose 1.4 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.0 percent, quintile 2 rose 2.8 percent, quintile 3 rose 1.5 percent, quintile 4 rose 1.5 percent, and quintile 5 rose 1.4 percent. Over the June quarter, the All households HLPI index rose 0.1 percent, the Beneficiary households index rose 0.3 percent, the Māori households index rose 0.1 percent, and the Superannuitant households index rose 0.2 percent. By income quintile, over the year the index for the lowest income households (quintile 1) rose 0.2 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.0 percent, quintile 4 fell 0.1 percent, and quintile 5 fell 0.1 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.2 percent, quintile 2 rose 0.2 percent, quintile 3 fell 0.1 percent, quintile 4 fell 0.1 percent, and quintile 5 rose 0.0 percent.

HLPIs show price increases like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by different types of households. There are fourteen indexes: for "all households", Beneficiary households, Māori households, Superannuitant households, five for households ranked by income (five "income quintiles"), and five for households ranked by expenditure ("expenditure quintiles"). See the commentary in the November 2016 Bulletin for more detail.

- ★ The Food Price Index rose 0.6 percent in the month of August 2017 (and rose 0.2 percent in seasonally adjusted terms). Food prices rose 2.3 percent in the year to August. Compared with the previous month, fruit and vegetable prices rose 3.3 percent (and fell 0.9 percent seasonally adjusted); meat, poultry, and fish prices fell 0.2 percent; grocery food prices rose 0.3 percent (and rose 0.8 percent seasonally adjusted); non-alcoholic beverage prices fell 1.2 percent; and restaurant meals and ready-to-eat food prices rose 0.4 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector



- According to Treasury's Financial Statements of the Government of New Zealand for the eleven months to 31 May 2017, core Crown tax revenue was $1.1 billion (1.6 percent) higher than forecast in the 2017 Budget Economic and Fiscal Update (BEFU 17). Corporate tax was $688 million (7.4 percent) above forecast and GST was $245 million (1.4 percent) above forecast. Overall core Crown revenue was $1.1 billion or 1.5 percent higher than forecast, and $5.4 billion (7.8 percent) higher than the same period last year. Core Crown expenses were $345 million (0.5 percent) below forecast, mainly because "impairment of tax receivables [were] less than forecast". As a result, the Operating Balance before Gains and Losses (OBEGAL) was $4.5 billion in surplus, $1.6 billion (52.6 percent) better than forecast. The Operating Balance was a $13.1 billion surplus, $1.3 billion more than forecast resulting from "lower than expected actuarial gains (mostly reflecting a lower discount rate used to convert future cash into present day dollars), partially off-set by higher than forecast returns on the Crown's investment portfolios." Net debt at 22.4 percent of GDP ($59.3 billion) was $1.2 billion lower than forecast. Gross debt at $87.5 billion (33.0 percent of GDP) was $384 million less than forecast. The Crown's net worth in financial terms was $1.3 billion higher than forecast at $103.8 billion.

- District Health Boards had 75 fewer full time equivalent staff than planned at the end of June 2017 (62,883 compared to 62,959 planned). While all categories of staff were affected except Nursing (which was 472 over plan), the largest shortfalls were in Allied Health Personnel (228 short), Medical Personnel (doctors – 129 short), and Management/Administration staff (128 short). Average costs per full time equivalent staff were close to those planned ($93,900 compared to $93,500). The DHBs had accumulated combined deficits of $117.5 million in the twelve months to June (unaudited full year accounts). This is $58.8 million worse than their plans. The Funder arms were in surplus by $171.9 million, $59.2 million more than planned, and Provider arms (largely their hospitals) in deficit by $284.3 million, $113.4 million worse than planned. The Northern region was $23.0 million behind plan with a deficit of $7.5 million and two of the four DHBs in deficit. The Midland region was $18.7 million behind plan with a deficit of $10.6 million and three of the five DHBs in deficit. Central region was $1.7 million behind plan, a combined $28.3 million deficit and four of the six DHBs in deficit. The Southern Region was $15.4 million behind plan with a $71.1 million deficit and three of the five DHBs in deficit, with Canterbury showing a $51.8 million deficit and Southern $21.8 million. In all, 8 of the 20 DHBs were in surplus but only five ahead of plan. The DHB furthest ahead of plan was Capital and Coast by $2.9 million, and Counties Manukau was furthest behind, by $17.4 million. Capital expenditure across all DHBs was behind plan with $569.8 million spent out of $760.4 million planned.

- ★ Local Government in the June 2017 quarter recorded a 0.5 percent ($11.7 million) increase in operating income in seasonally adjusted terms and a 1.9 percent rise in operating expenditure ($48.5 million) including a 0.2 percent rise in employee costs (up $1.3 million) compared to the March 2017 quarter. This resulted in an operating deficit of $160.9 million in the June quarter, compared with a deficit of $115.4 million in the June 2016 quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin193.

For further information contact Bill Rosenberg.