NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 224 (November 2020)

Thanks to everyone for your support and feedback. My contract finishes soon and Craig Renney – the 'chipper Georgie' and finder of $5 billion hole[1] – takes up the Bulletin writing from next January.

Labour, Houses, and the Reserve Bank

Summary

What a wild ride the last year has been.

I look back to my first Bulletin in January – I had NO IDEA – and that wasn't just that I was coming out of tax and in to labour market things. It is trite to say that Covid has changed everything but in some ways, it hasn't changed anything.

Unemployment and underemployment is still structurally female, Māori and Pasifika. House prices are still rising; the cost of living for low income people is still higher than for high income people and the labour share of GDP resumes its downward fall.

So with this in mind as a final (from me) bumper issue[2] this month's Bulletin is in three parts:

- Discussion of the Labour Market Statistics and GDP (Income) that came out this month;
- Discussion of interest rates, the Reserve Bank and house prices; and
- The usual indicators.

How much do employees keep from what they produce?

The GDP (Income) data came out last week. From that we get information on things like household savings but also information on how much of the income, earned by the people and capital in the country, went to those of us earning wages.

Short answer – not enough.

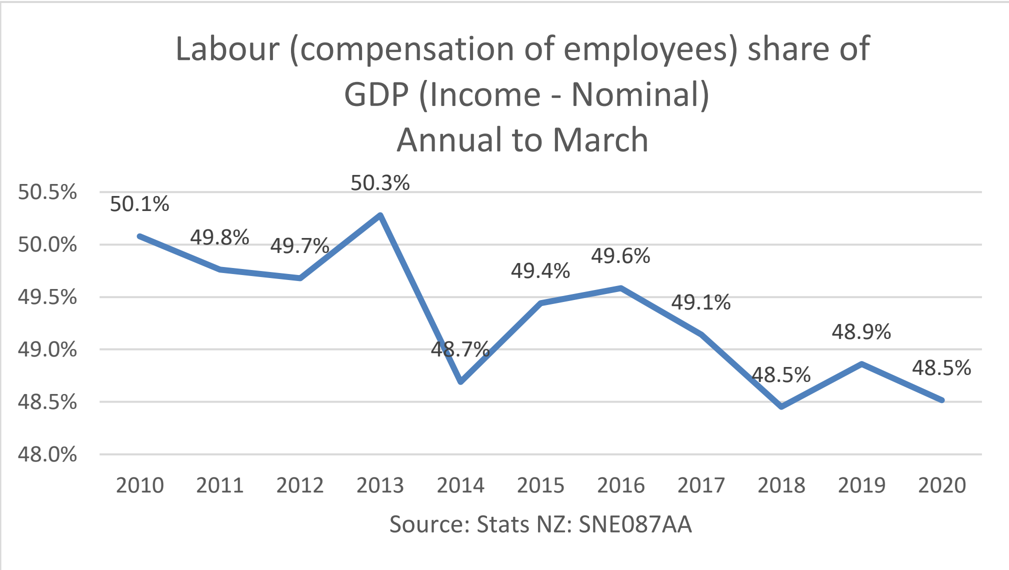
[1] https://www.stuff.co.nz/national/politics/300139041/election-2020-labour-connect-the-data-analysis-tool-that-boosted-jacinda-arderns-campaign

[2] But lot's of graphs and pictures – so, I hope, a reasonably easy read.

Long answer – not as much as was previously the case and its proportion is falling again.

The measure used by the CTU compares the amount received by employees to the amount received by businesses before they pay employees – ie the total return or value added. As the calculation is only to March 2020 it has yet to substantively feature the effect of the wage subsidy or any possible reduction in income from businesses from the lockdown period.

Also, any return to self-employed labour remains in the denominator.



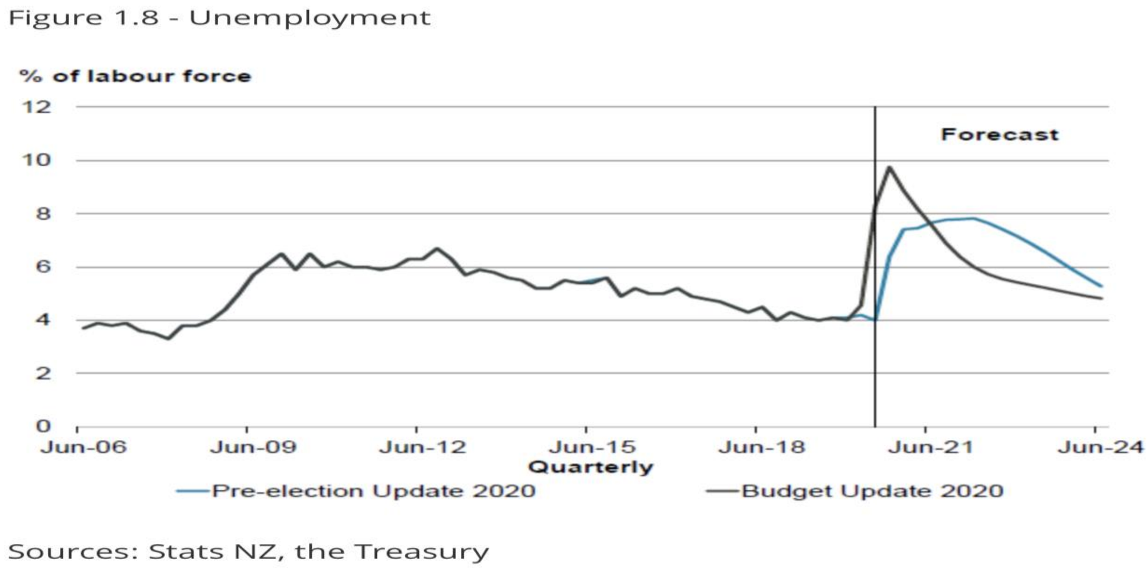
What about unemployment?

For those of you who have been following along, the June 2020 labour market statistics showed a *reduction* in unemployment but a rise in those wanting more, or facing barriers to, paid work – underutilisation. Namely 4% unemployment and 12% underutilisation.

The 4% unemployment was as much a feature of only counting people 'actively seeking work' during a period where we were locked down as much as the application of the wage subsidy – so I was hanging out for this month's figures.

At Budget time, Treasury was expecting unemployment to peak in the September quarter at just under 10%[3] and just before the election were looking at unemployment peaking in March 22 at 7.8%. That is a lower peak but a longer period at those levels.

[3] https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2020-html#section-4 Figure 1.3

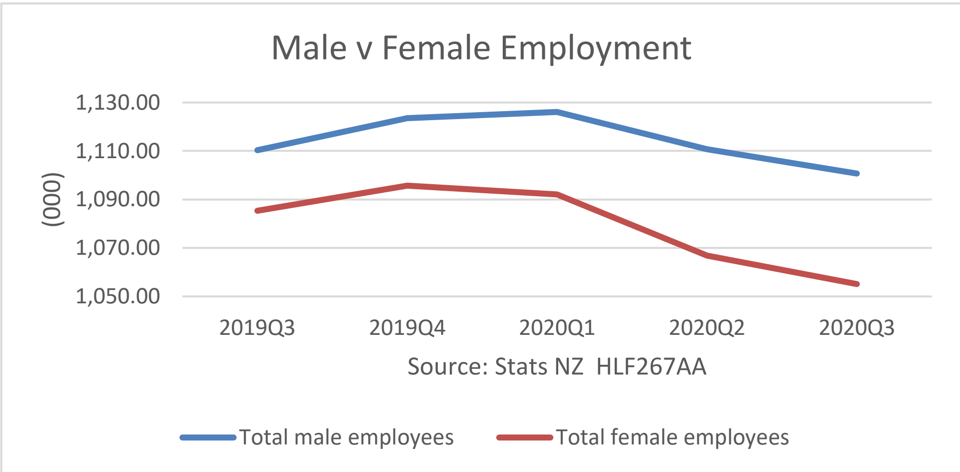


Not exactly a good thing – lower levels but for longer.

So all things considered, the actual results – 5.3% unemployment; 13.2% underutilisation – are really not bad. This is the same as was the case in 2016 - 7 years after the Global Financial Crisis. Although it is not clear if globally, we are coming out of the pandemic recession – or going into it once the global government support comes off.

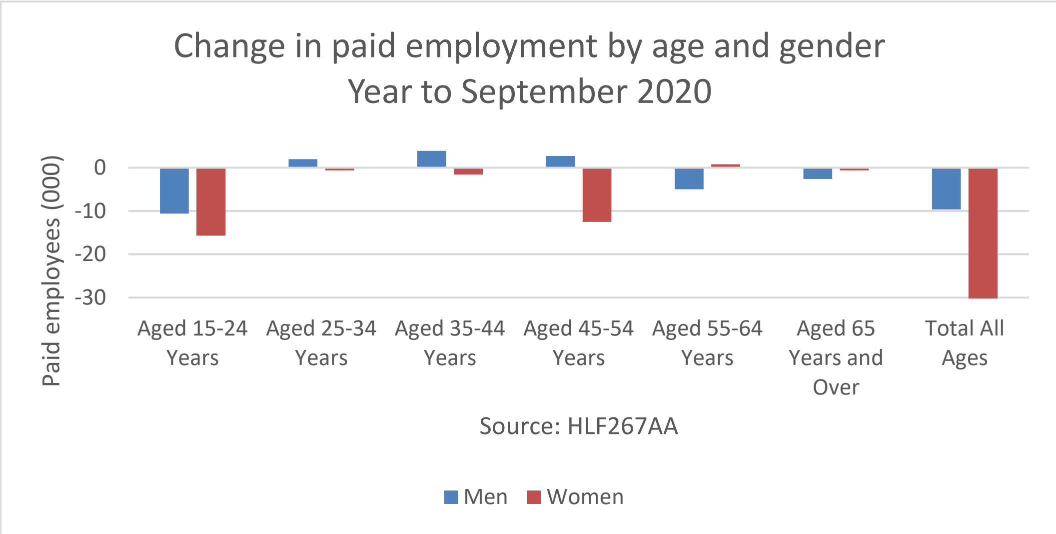
But as always – it is what is going on under the hood – how those figures are made up that tells the story.

First of all, women's employment has fallen faster than men's employment over the last year.[4]

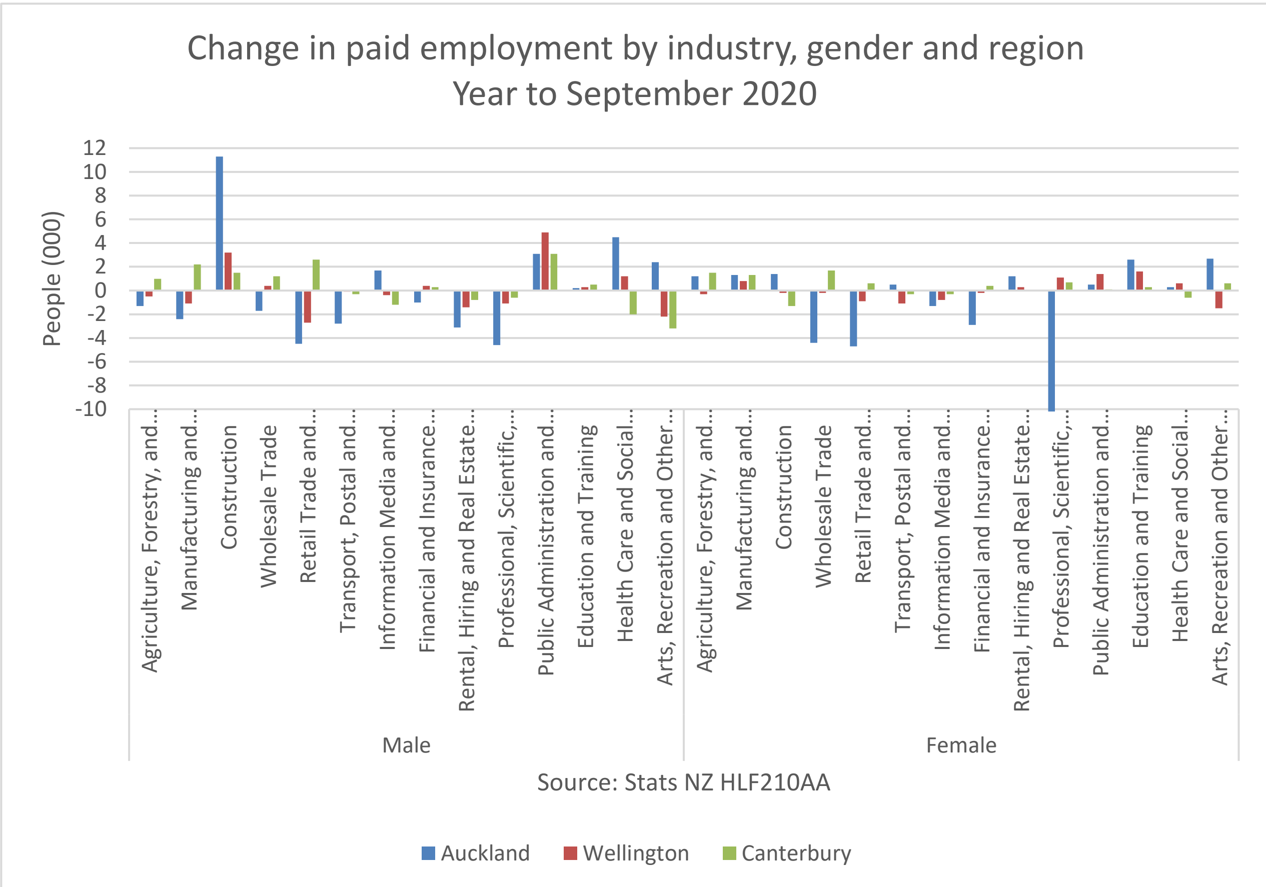


[4] This graph does look less extreme that the one I produced in the August bulletin. This is because Stats NZ have recalibrated the information from the Household Labour Force Survey and not a mistake I made – which was my first thought.

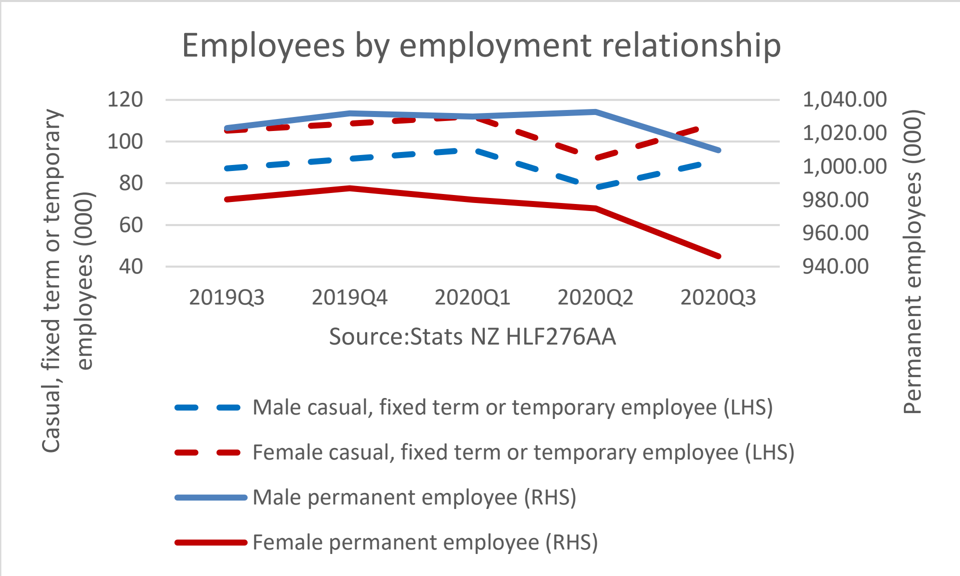
And this has impacted older women and young people disproportionately…



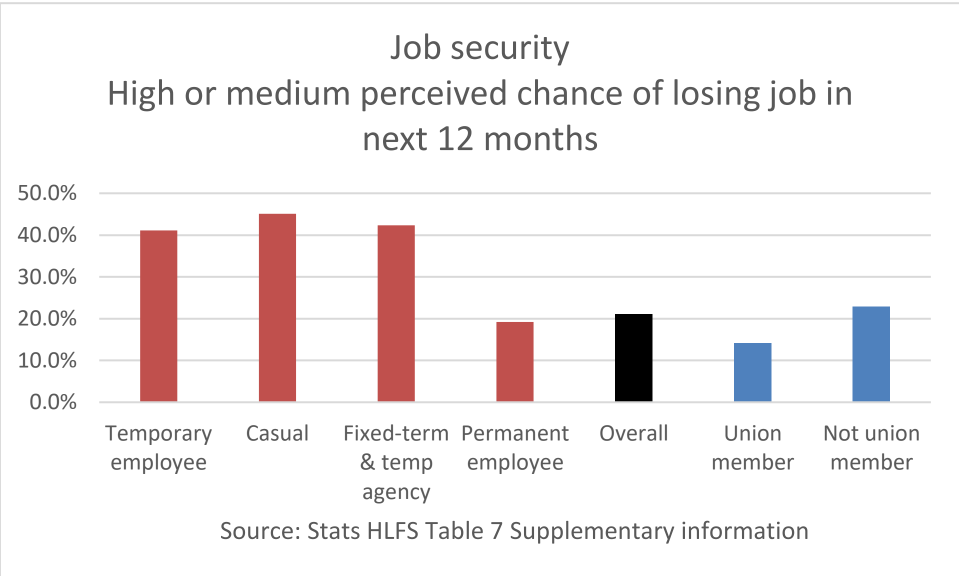
…with the primary impact being in Auckland for women.



However, since June, the fall in part time and casual work seems to be reversing but with a drop in both male and female permanent employment.

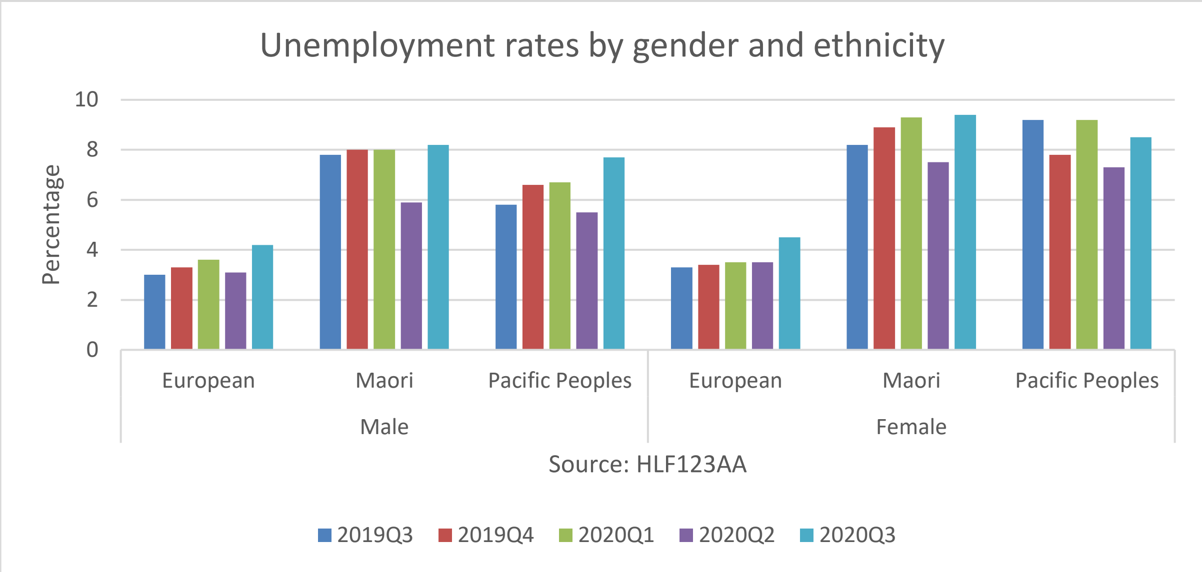


Although it is unclear how permanent the increase will be as perceived job security is much lower for part time and casual work than it is for permanent employees - with the average being about 21%.



Moving now to unemployment and underemployment.

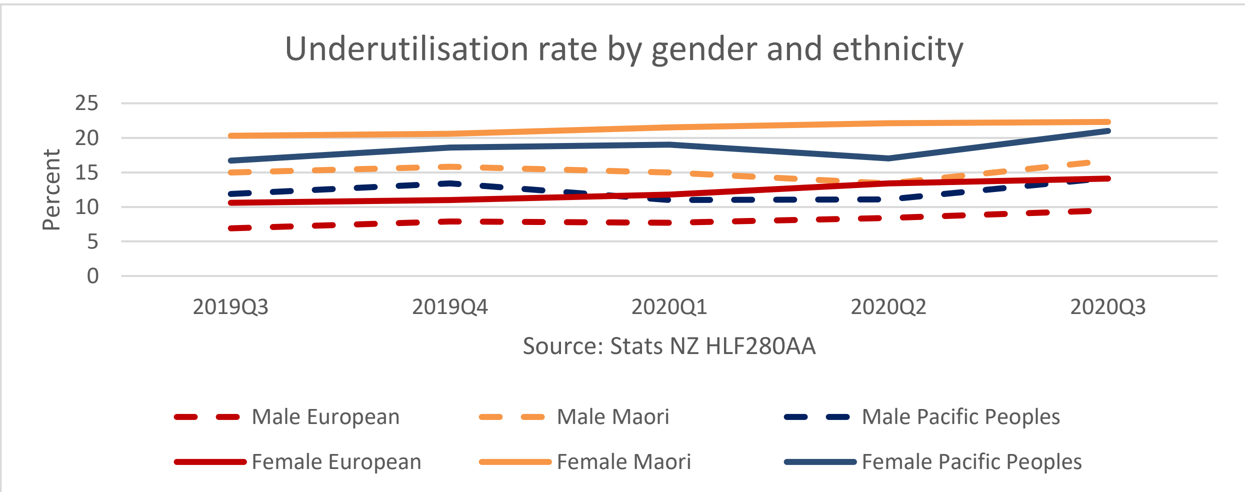
Pākehā men and women have broadly the same levels of unemployment at about 4%, while Māori and Pasifika men and women have double those levels at 8%.

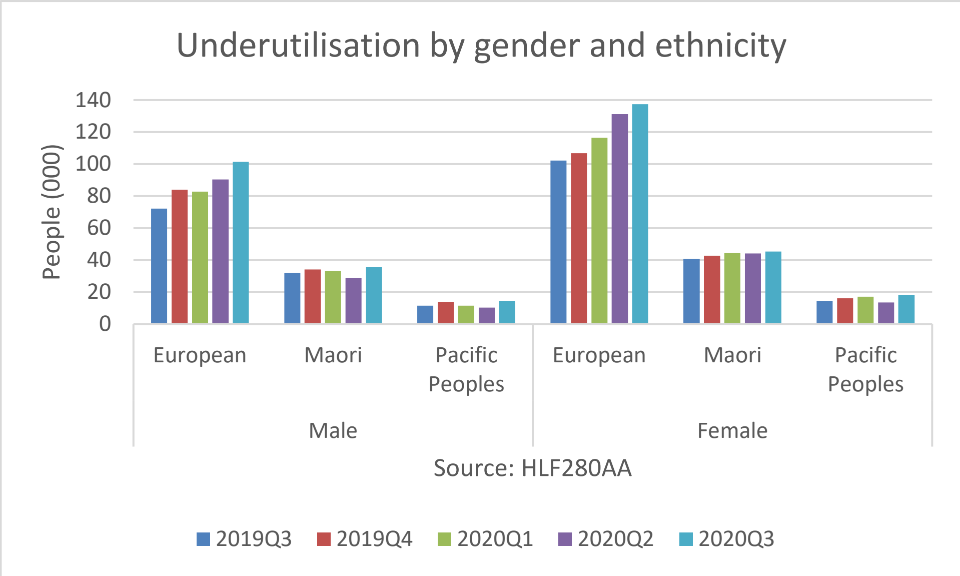


On the face of it while Māori, Pasifika and female unemployment is structurally higher than Pākehā men's unemployment; the increases are much lower than could have been expected given we are currently living with a global pandemic – even with the benefit of the wage subsidy.

But unemployment involves actively looking for paid work and getting none. Other permutations such as not enough paid work or having barriers to taking up employment are not included in the unemployment statistics.

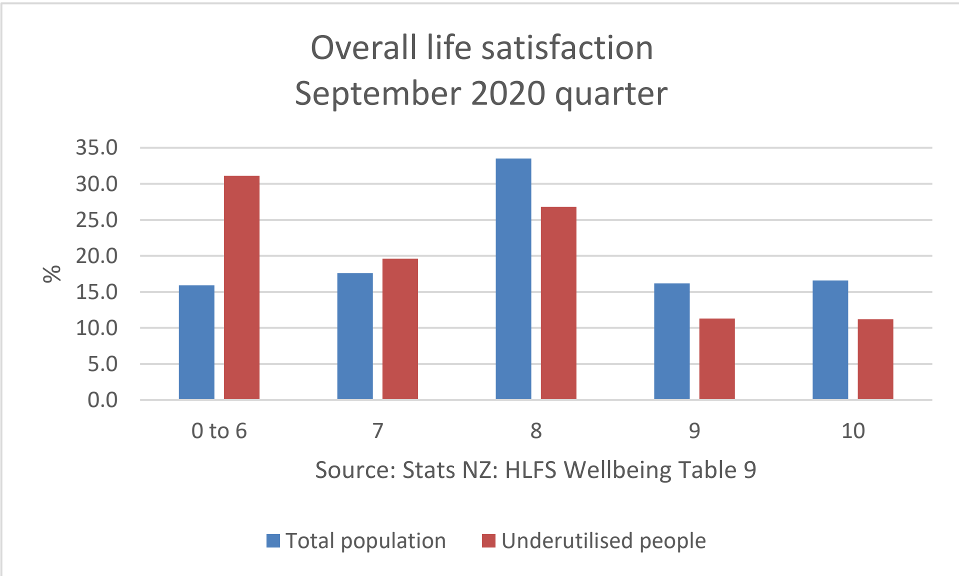
They are, however, included in the underutilisation statistics in addition to the unemployment numbers. In terms of rates, we see Māori women, followed closely by Pasifika women, with Māori and Pasifika men next in line, as having had the structural levels of high underutilisation made worse in the last year.



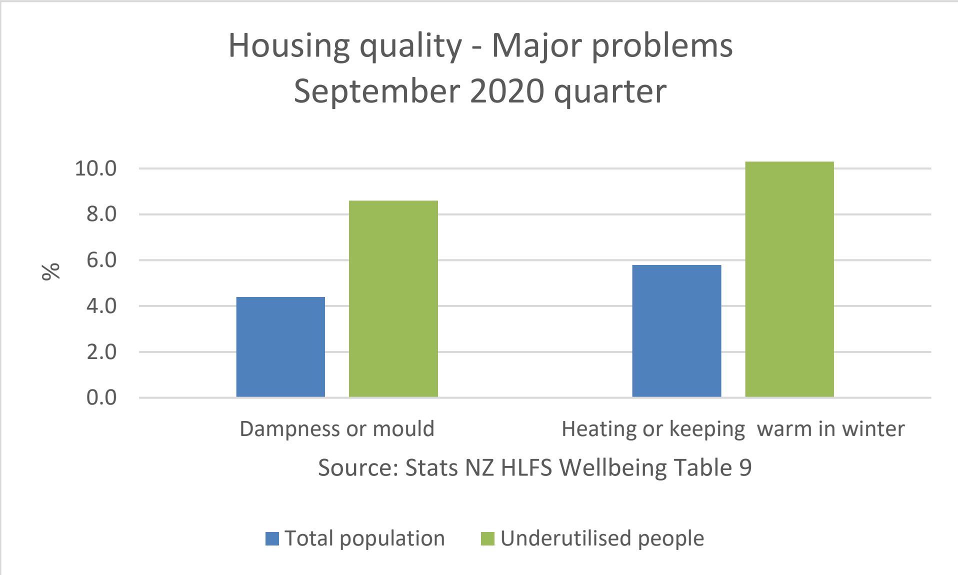


And why all this matters is every number in the graph above is a person. Stats NZ recently published their wellbeing survey. Two in particular caught my eye.

The first was overall life satisfaction. People had to rank their satisfaction on a scale of one to ten. One being very low life satisfaction and ten being the highest possible. People who are unemployed, underemployed or face barriers to paid employment recorded much lower life satisfaction when compared to the total population. And while this is exactly as could be expected, it is good to see it recognised formally.

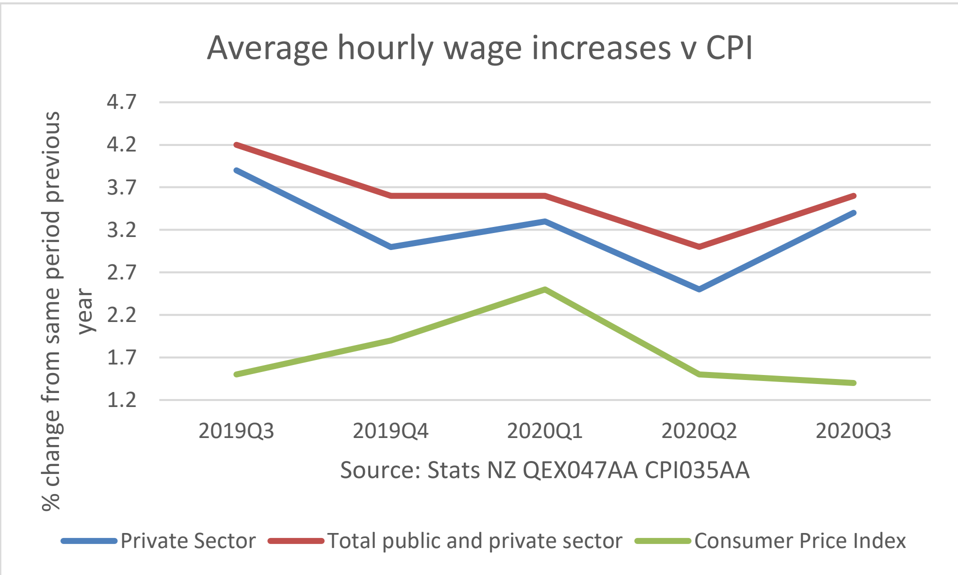


The second was quality of housing. People who were underemployed, unemployed or face barriers to paid employment are twice as likely to have major problems with damp or mouldy homes or with heating or keeping warm in winter.



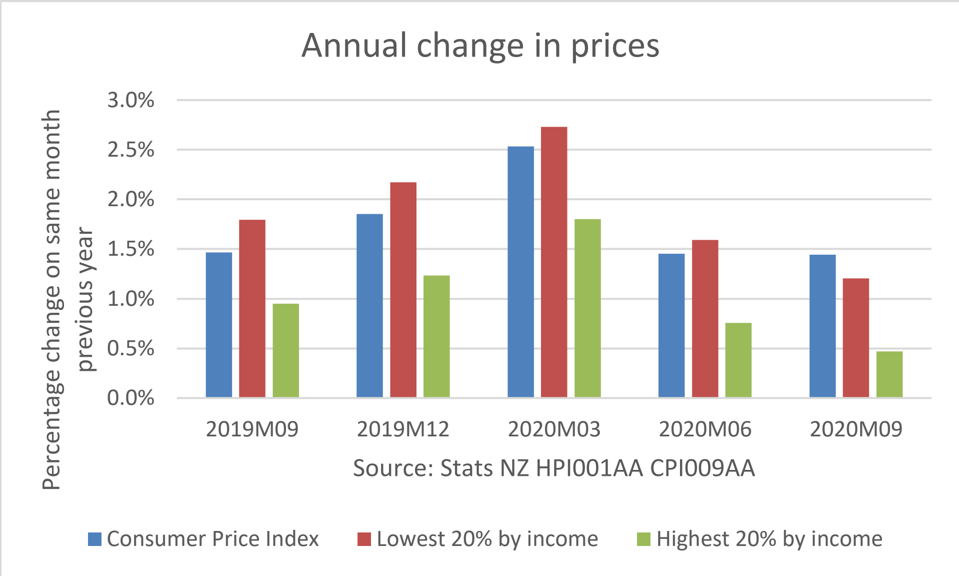
What about wages? How are they doing?

On a simple comparison to the consumer price index, while the increases are lower than this time last year, they are still higher than the CPI.



Although as we have discussed before, the CPI relates to an average basket of goods.

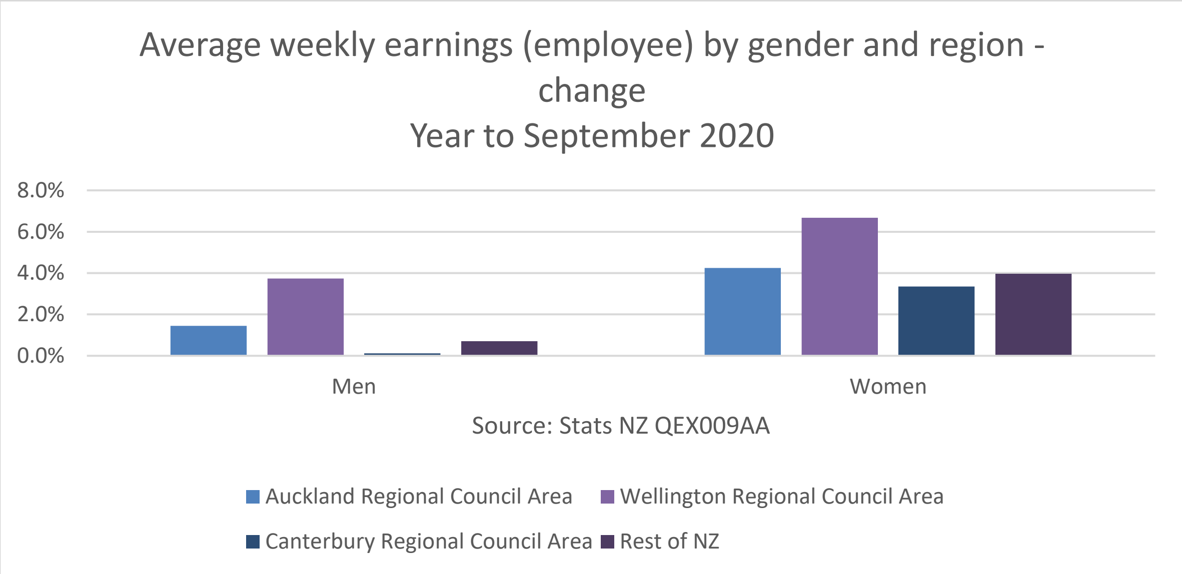
For people with the lowest 20% of incomes in New Zealand; their 'inflation' with the exception of the last quarter is significantly higher than the average. People with the highest 20% of incomes have consistently lower 'inflation' than the lowest income group and the average CPI.



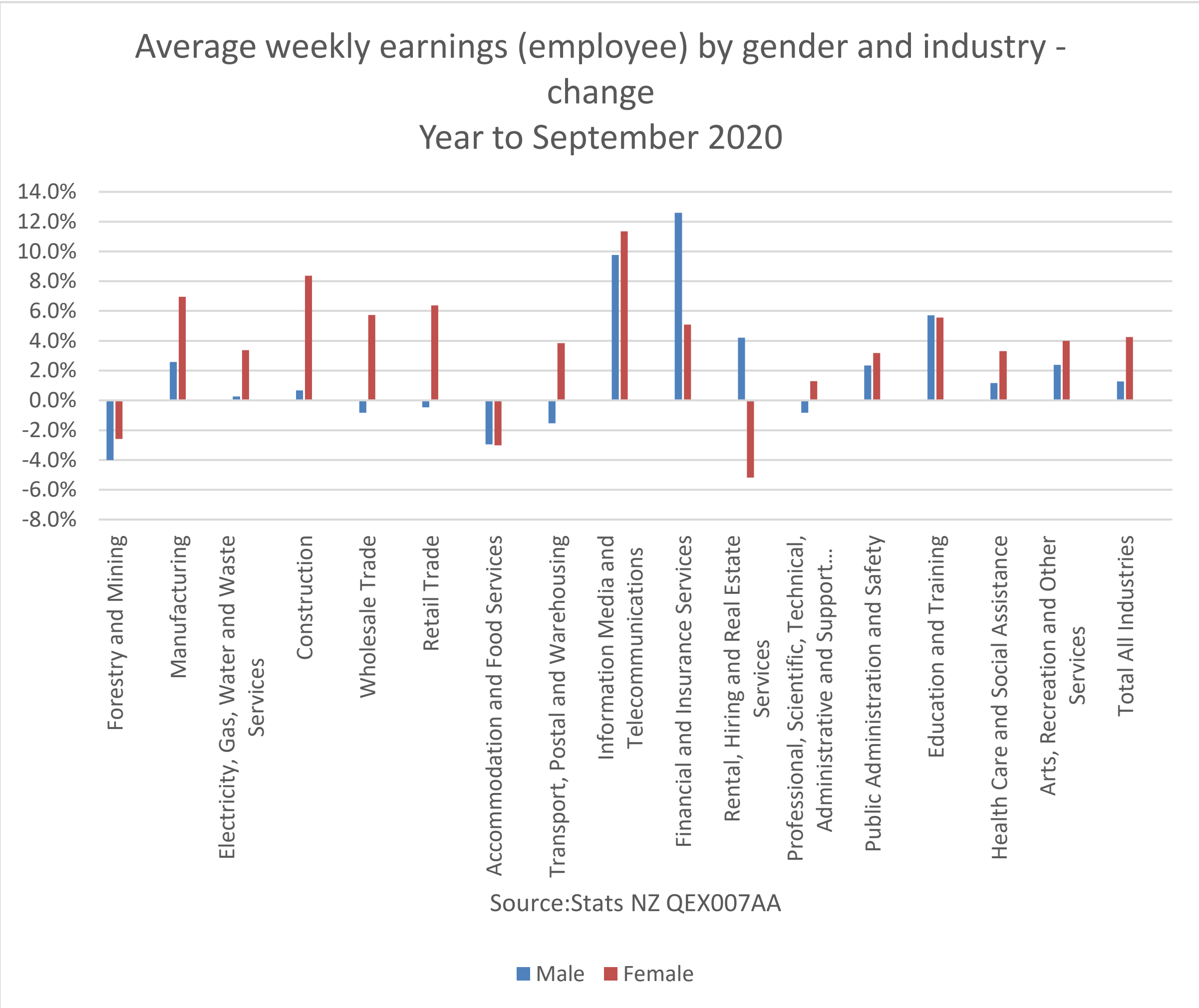
Housing is a key driver of this difference. With high rents being a disproportionate expense for the lowest incomes and low interest rates being a greater feature of high-income people's expenditure – this helps explain a lot of the difference.

Allowing for the different types of 'inflation' this means that the effect of the higher wages in raising living standards has been less for those with lower incomes, compared to their living costs, than people with higher incomes.

But there seem to be some positives from a gender and ethnic perspective. Weekly earnings received by women have increased by region…

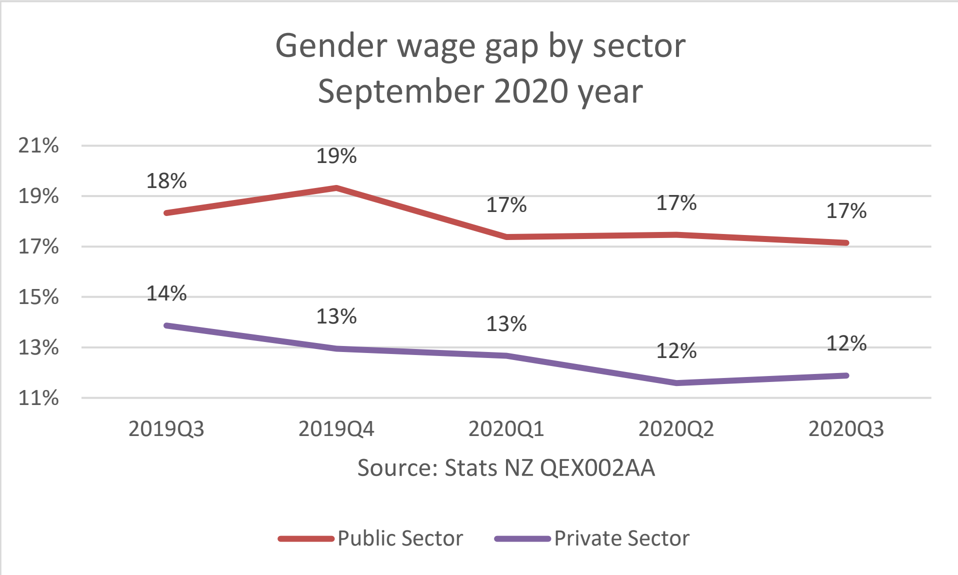


and by industry.



Except these numbers reflect the incomes of the people still in work. If low paid women have been removed from the calculation – as appears to be the case from the previous discussion on unemployment and underutilisation – it isn't the positive story as it may appear and simply a function of how averaging works.[5]

And for completeness, particularly in light of Jennifer Laulala's plea to address the ethnic and gender pay gap in the Ministry of Justice - here is the most recent gender wage gap by sector [6]. Although it has fallen since this time last year in both the public and private sector; it is unclear how much of this is driven by the reduction in the number of low paid women from the calculation.



So what to do all about it?

While the wage subsidy has done its job in supporting the economy and employment generally – it is time for targeting. When the Prime Minister was recently asked about the gender and ethnic

[5] For example, if there are two people in paid work one who earns $1000 and another who earns $100 – the average wage is $550. If the low paid person loses their job – the average becomes $1000. While there has been an increase of 82% in the average wage – no one is better off and in fact the low paid person is worse off as they now have no income.

[6] https://www.nzherald.co.nz/nz/politics/why-have-we-been-forgotten-prime-minister-urged-to-take-action-on-gender-pay-gap-for-maori-and-pasifika-women/F4FL5VONZ7UM7C2EKNTVMMMSOI/

disparities in the unemployment and under-utilisation figures she said that her hope was that the *flexiwage* scheme would be of use in reducing the disparities.[7]

Now there is a lot to like about the *flexiwage* scheme[8]. It is a subsidy for employers to help with training and mentoring a new staff member who comes from WINZ. For the employee to be eligible they need to be on a main benefit - JobSeeker, Sole Parent, Supported Living - or WINZ are helping them find a job.

And in terms of targeting those on a benefit – potentially long term – it is a great initiative.

For women though, if they have a partner who earns the fulltime minimum wage, they are not eligible for a main benefit. They may have been eligible for the Covid Income Relief Payment but if Māori or Pasifika they were twice as likely to have their application declined than Pākehā.[9]

So then the other eligibility criterion of having 'asked [WINZ] for help with getting or keeping a job' becomes all the more important.   If the flexiwage scheme is going to have an impact on the structural nature of un, and under, employment for Māori, Pasifika, and women this criterion needs to be extensively promoted.

What's the deal with the Reserve Bank and House Prices?

As discussed in the February Bulletin, the Reserve Bank currently has a joint mandate – inflation based on the consumer price index to be within 1 to 3% within the medium term and maximum sustainable employment. [10]

Maximum sustainable employment while ostensibly a new measure had been conveniently interpreted to mean the *Non-Inflationary Rate of Unemployment* – or *NAIRU* – which they call full employment – also known as 4% unemployment or 111,000 people, seasonally adjusted as at December 2019, actively seeking paid employment and getting none. Plus of course the 90,000 who wanted more paid work and the 84,000 who want a job but face barriers to employment.

That's right – *full employment*.[11]

The Reserve Bank's main tool for keeping down inflation and holding up employment is interest rates. In the days when we had higher interest rates it was able to reduce them through cutting

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[7] https://www.stuff.co.nz/business/industries/123302797/prime-minister-pledges-311m-to-help-workers-made-unemployed-due-to-covid19-get-into-jobs

[8] https://www.workandincome.govt.nz/products/a-z-benefits/flexi-wage.html

[9] https://www.rnz.co.nz/news/te-manu-korihi/429746/unfair-outcomes-for-maori-seeking-covid-income-support

[10] https://www.union.org.nz/wp-content/uploads/2020/03/CTU-Economic-Bulletin-217-February-2020.pdf

[11] In other words, this kind of monetary policy requires 110,000 people to be unemployed – if one finds a job it requires another to lose theirs. So cut out the punitive rhetoric of people on benefits not wanting jobs and pay them proper compensation for taking on unemployment in the public interest. Or change the policy!

the OCR. This is the rate that the Reserve Bank pays on settlement balances Banks hold with the Reserve Bank.

When they got to an OCR of 0.25% but with falling inflation and employment, they needed another tool. Here is where the *Large-Scale Asset Purchase Programme* (*LSAP*) also known as *Quantitative Easing* comes in. The Reserve Bank buys bonds held by Banks and pays for it with an increase to the Bank's settlement account with the Reserve Banks. This is money creation and is also known as *printing money*.

The effect of the Reserve Bank providing extra demand for the bonds is that the bonds' yields fall which in turn lowers the prevailing interest rate in the market.

How this is supposed to help is by[12]:

- Lowering the exchange rate as New Zealand dollar denominated bonds become less valuable with a lower interest rate as people are less likely to want New Zealand dollars. A lower exchange rate should help New Zealand exporting businesses who, with sales in foreign currencies, could effectively charge higher NZD prices or at least receive more NZD for same amount of foreign currency and therefore be able to take on (or at least not lay off) staff.

- Lowering the 'hurdle rate' for business investment, making it more likely businesses expand/not fall over and take on (or at least not lay off staff).

- Increase the value of other assets with the effect that their owners feel richer and spend more – aka the wealth effect – aka *trickle down.*

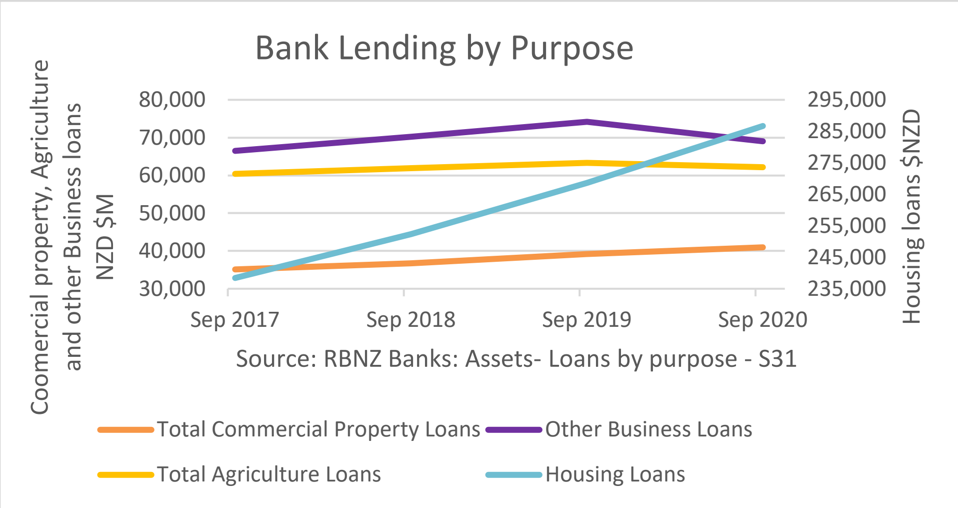
All of which assume that the Banks will pass the lower interest rates on to businesses and households.

What has actually happened is this:

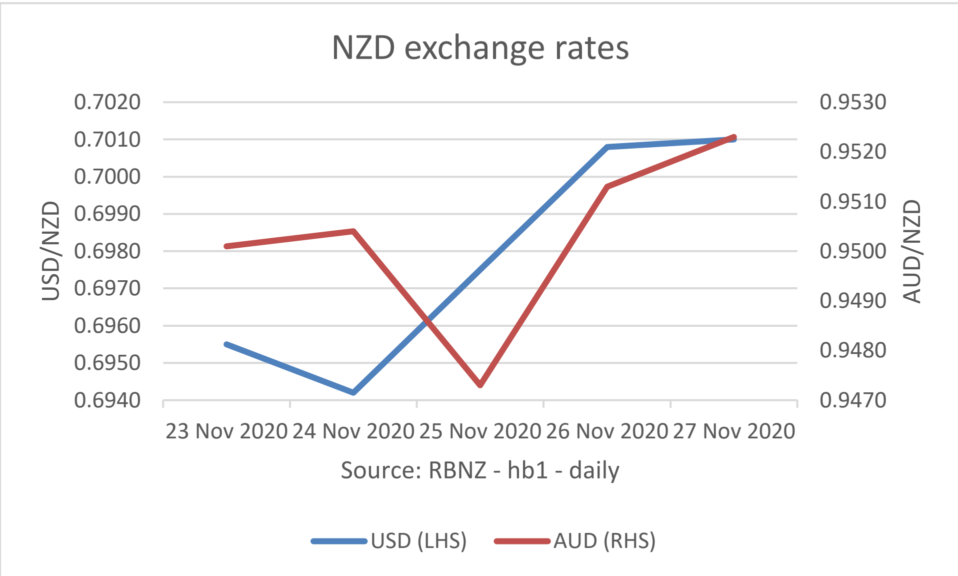
- Housing loans have continued to climb,
- commercial property loans are up,
- agriculture loans have plateaued, and
- other business loans have fallen.

All of which makes sense as with the current business uncertainty and rising house prices – residential loans are a much better bet than lending to business.

[12] For a more fulsome explanation Chapter 6 https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/monetary-policy-handbook/Monetary-Policy-Handbook.pdf?revision=4922a7fe-d539-4cab-a0d6-9bd47fb152fa



While the exchange rate might be a channel for keeping investment and employment up – although with New Zealand doing a better job in its Covid response than most countries and every else doing QE – there may not be much happening in that area. Having said that, the markets took the effect of Minister Robertson's letter – discussed below – to mean that interest rates would not fall further, and the exchange rate strengthened.

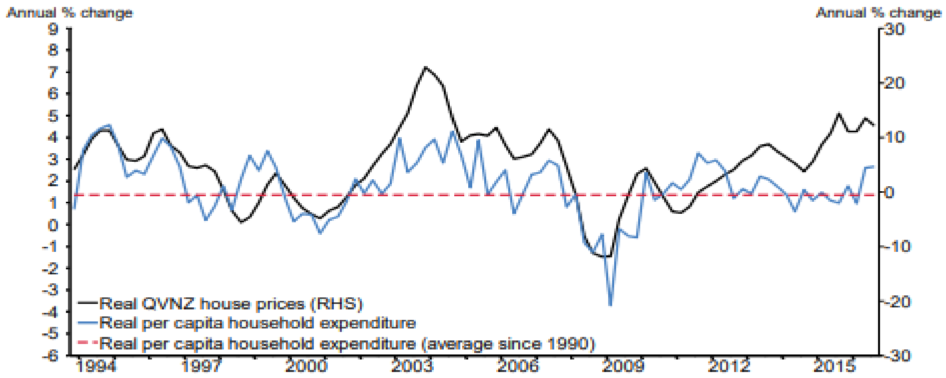


Business loans are falling – but maybe they would fall by more with higher interest rates?

But the stellar performer is housing loans and house prices.

A 2017 research note by Martin Wong at the Reserve Bank[13] found a 1% increase in consumption for every 10% increase in house prices with a weaker correlation post 2005.[14] That is, the increase in house prices is not a 'bug – it's a feature'.[15]

Figure 3: Consumption and house price growth



Source: Statistics New Zealand, Quotable Value New Zealand (QVNZ).

However, the graph ends in 2016. What is the current effect of house prices on demand?

While it is not easy to directly correlate the two – what we do know from the most recent Treasury Economic Update[16] is:

> Total electronic card spending in October was up 2.9% on the same month last year and retail card spending was up 8.2%. Spending at restaurants, cafes and takeaways was up 8.8% compared to October 2019. This is the second highest spend in this industry in over 20 years.

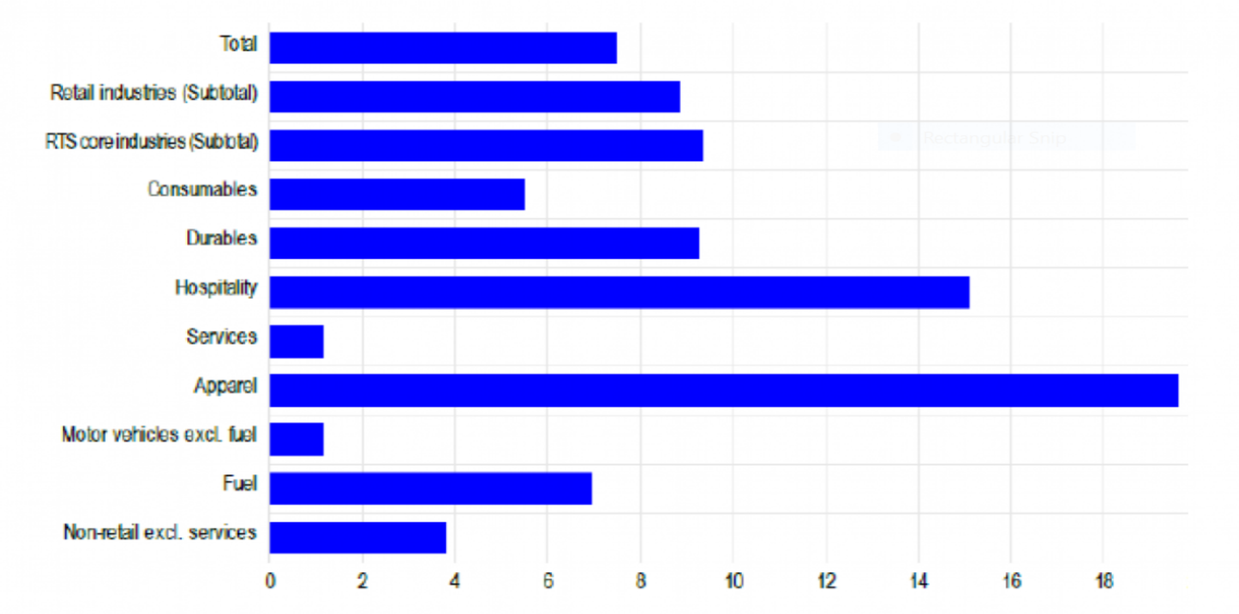
[13] https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Analytical%20notes/2017/an2017-03.pdf?revision=5c0378fd-d843-4a6f-b6a0-a73a665d8b2f

[14] Page 5

[15] https://thekaka.substack.com/p/q-and-a-who-is-to-blame-for-the-housing

[16] https://www.treasury.govt.nz/publications/weu/weekly-economic-update-13-november-2020-html

Figure 4: Card spending (monthly % change)



So yes – as much as we might not like it – there does seem to be a correlation between house prices, consumer spending – and higher than expected levels of employment.

Which makes the Minister of Finance's announcement that he had written to the Governor of the Reserve Bank to perhaps think about considering factoring in house prices when setting monetary policy quite interesting.[17]

Unless there is a further mechanism for increasing consumption – it could be that employment is traded off for house prices.

But that other mechanism could be something as simple as increasing benefits[18], raising wages in the public sector or bringing forward the commitment to paying the living wage to contractors in the public sector.

Because the more that stimulus is targeted at the lower income people; the more likely it will be spent rather than saved.

All without increasing house prices. Double duty indeed.

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[17] https://www.beehive.govt.nz/sites/default/files/2020-11/Letter%20to%20RBNZ%20Governor.pdf
[18] https://www.cpag.org.nz/news/?m=202011

As always, I welcome feedback to andreab@nzctu.org.nz. I am still here until mid-December.

Kia Kaha

Andrea

The NZIER consensus forecast was released on 14 September 2020

Annual Percentage Change (March Year)	2019/20	2020/21	2021/22	2022/23
GDP	1.7	-7.2	6.7	3.5
CPI	2.5	0.4	0.9	1.6
Private Sector average hourly wage	3.4	1.8	1.4	1.9
Employment	1.5	-5.2	3.1	2.8
Unemployment rate (% of labour force)	4.2	7.8	6.8	5.8

Economic Indicators – November 2020

As I prepare these indicators, I am reminded that the reason I started was to show that even though employment was down and income support from the Government was up; rents, house and share prices were also all down.

This was the outcome with the Global Financial Crisis and is what could be expected normally when there is as large a shock to the world's economy as there has been with a global pandemic.

But other than for a brief moment, in March and April, this has proved not to be the case. While unemployment – as discussed in the commentary – has not been as high as expected; the capital markets have increased more than anyone could have expected.

This month the total number of people receiving income support from the Government has reduced by over 3,000 predominately because of the decline in numbers of people on the Covid Income Relief Payment. The wage subsidy has now run its course.

Rent and Food continue to increase faster – or much faster in the case of rent – than the Consumer Price Index. Rent and food price rises continue to be the reason for the Household Living Cost Price Index for low income to exceed that of high-income people. Also high income people are benefiting from very low interest rates which are much less of a part of expenditure than for low income people.

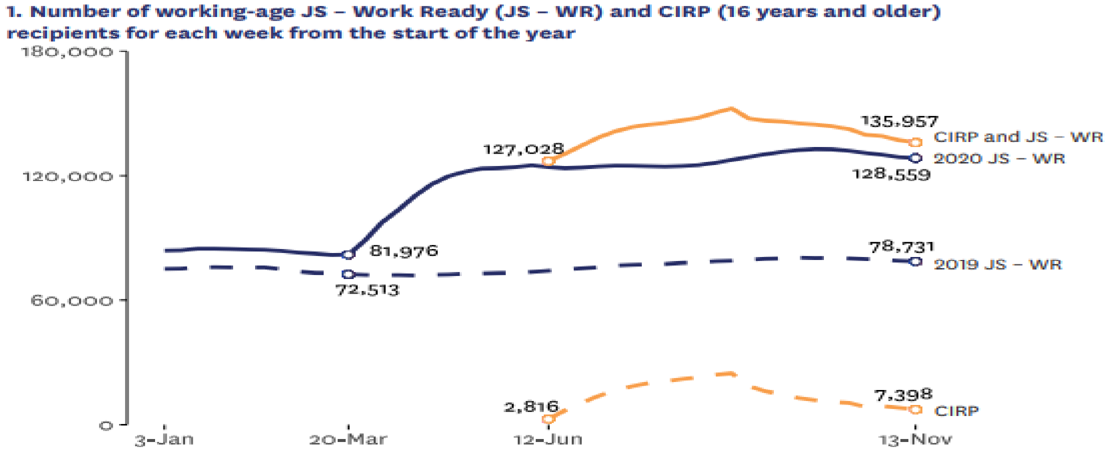
And while the Bond market has fallen slightly, house prices and share prices continue to be at record levels.

1) Jobseeker Support and Covid-19 Income Relief Payment[19]

As at 13 November there were 135,937 people on the Jobseeker Support – work ready and Covid Income Relief Payment. In addition, there were 74,806 people on Jobseeker Support – Health Condition and Disability. This gives a total of 210,743 people.

This is a reduction of 3,945 people from last month of which 3,119 people have gone off the Covid Income Relief Payment. It is unclear how many of those people have gone into paid employment and how many have simply had the payment come to an end.

[19] https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/statistics/benefit/2020/income-support-and-wage-subsidy-weekly-update/income-support-weekly-update-13-november-2020.pdf



2) Wage Subsidy

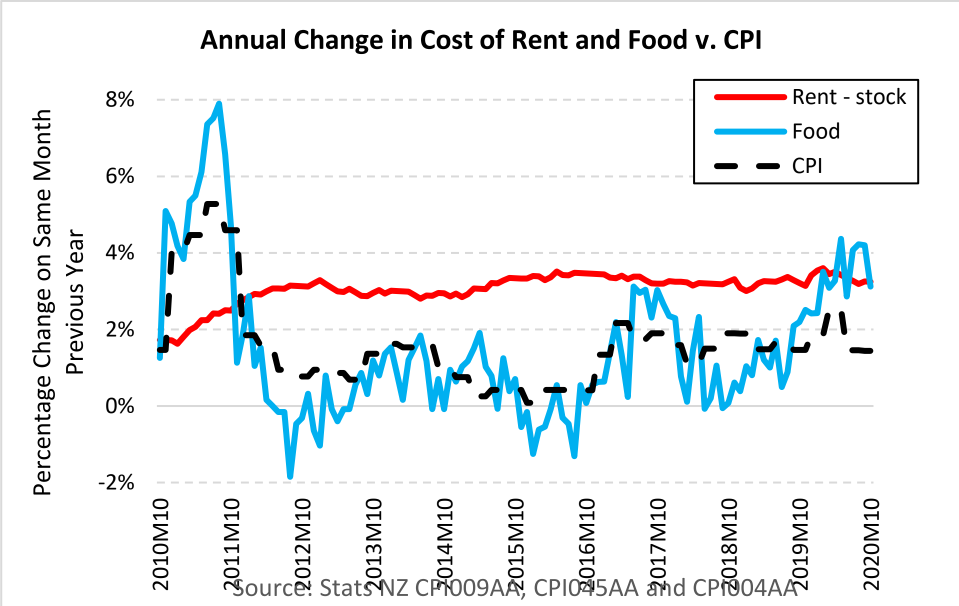
From a peak of 1.7 million jobs – there are now no jobs being supported by the wage subsidy.

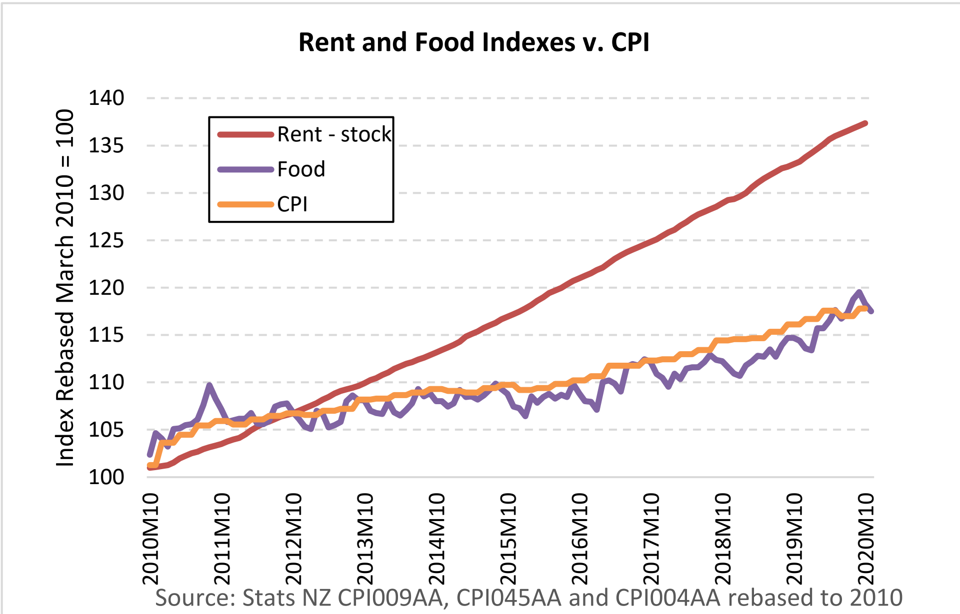
3) **Rent, Food and CPI**.

Rent – stock – is up 0.2% for the month of October and up 3.2% for the year to October 2020. Food has declined by .66% in the month but increased by 2.7% in the year. In the last year the cumulative impact of price rises for food over the last ten years exceeded the cumulative effect of general price rises.

Given the higher weight food plays in the consumption of lower income people – as seen in the Household Living Cost Indexes – than higher income people; it is heartening to see the Government's review into competition in the Supermarket Industry.[20]

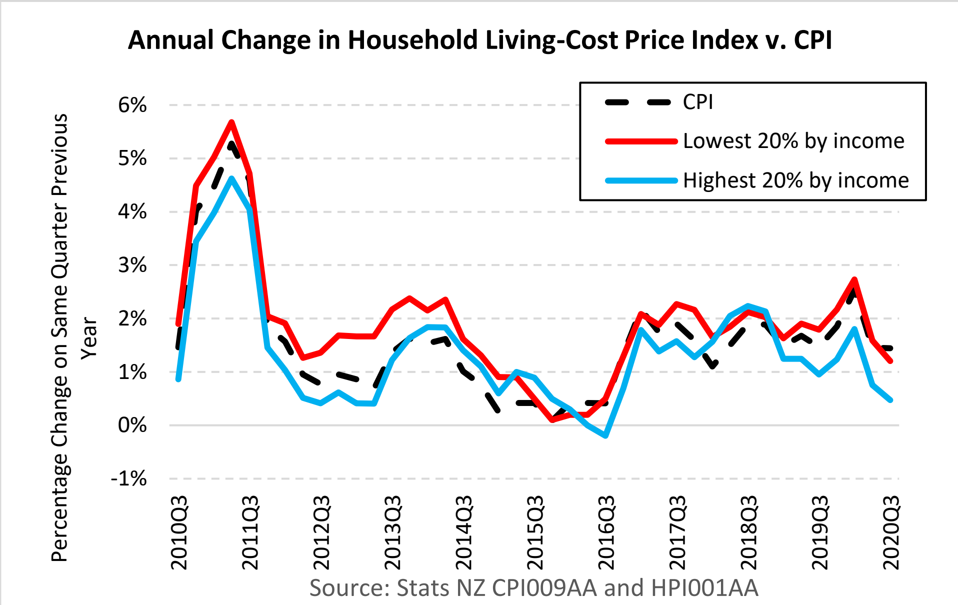
[20] https://www.beehive.govt.nz/release/supermarkets-announced-government%E2%80%99s-second-market-study

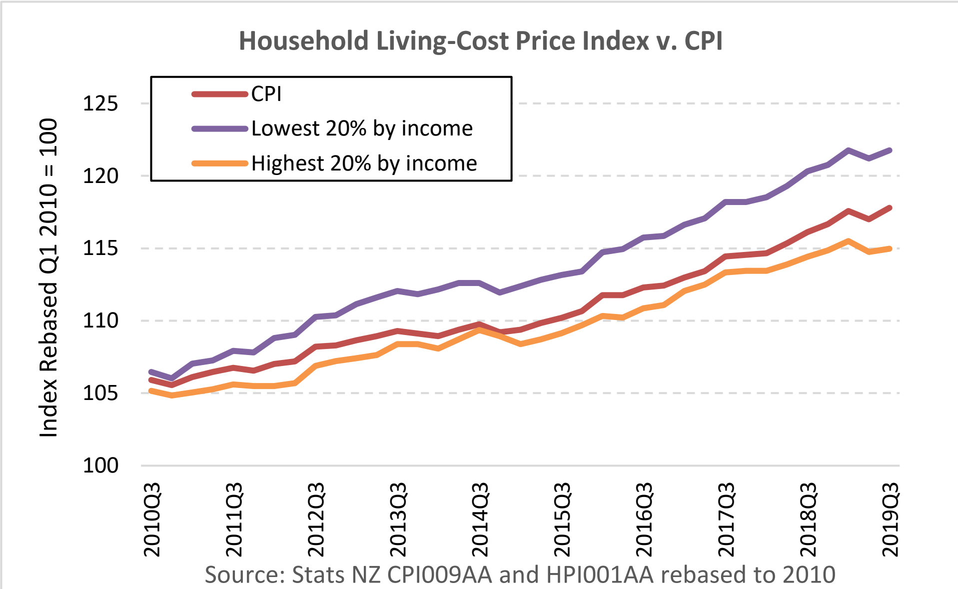




4) Household Living Cost Price Indexes

Continuing the trend, as food and rent have gone up faster than the consumer price index and interest costs have gone down, the cost of living for low income people is much higher than that for high income people. This is both on a ten-year cumulative basis and also in the September 2020 quarter.





5) The sharemarket

As at 23 November, the sharemarket at 12,504 was again higher than its late February 2020 peak of 12,073. [21]

[21] https://www.bloomberg.com/quote/NZSE50FG:IND

6) **Bonds**[22]

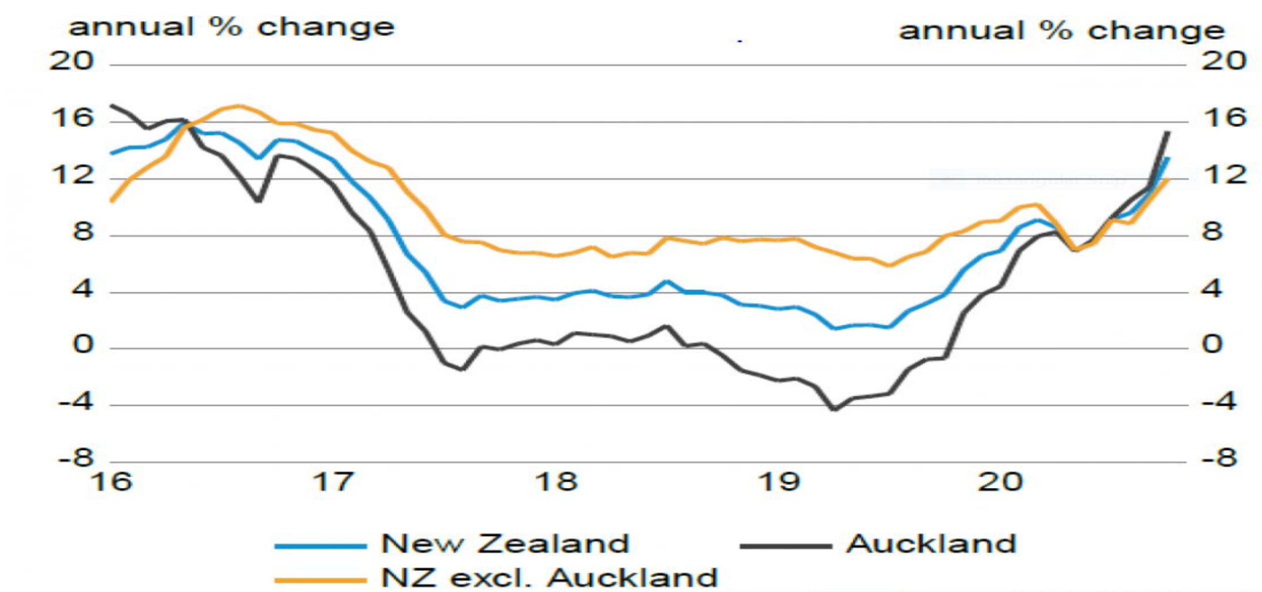
While lower, it is not materially lower than its August peak.

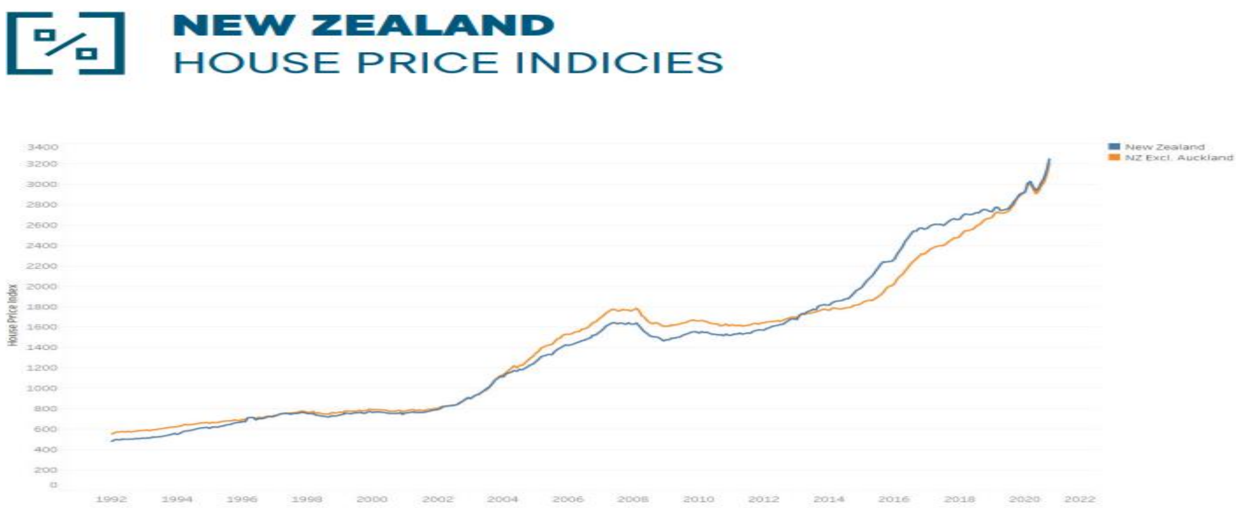
[22] For bonds, usually it is the yields that are tracked rather than the price of the bonds and so it can be difficult to find out what is happening to the price. As a proxy I am looking at the exchange traded fund for New Zealand bonds. https://www.nzx.com/instruments/NZB

7) **House prices**[23]

The brief Lockdown 1.0 price drop is now over and house prices as at October continue to increase steadily. The decline I had hoped for in March continues as a memory.

Figure 5: House Price Indexes





[23] https://www.reinz.co.nz/Media/Default/Statistic%20Documents/2020/October/REINZ%20Monthly%20HPI%20Report%20-%20October%202020.pdf
https://treasury.govt.nz/publications/weu/weekly-economic-update-13-november-2020-html

Notes

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