NEW ZEALAND COUNCIL OF TRADE UNIONS
*Te Kauae Kaimahi*

# CTU Monthly Economic Bulletin

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## Comment

This is my 100th Bulletin. It is not quite my last. Our new economist takes over in May. I have found over the years that unionists value a statistical update that focuses on the measures that matter to them. Of course statistics can be misused. And sometimes a statistic can be accurate but still mislead without other details to round out the story. For instance, China has surpassed the USA as the world's largest emitter of greenhouse gases but per capita emissions in the USA are 6 times that of China. And one I often remind people of is that while it is true that in New Zealand, 97 percent of enterprises employ 19 or fewer people, the other 3 percent of enterprises employ 69 percent of the workforce and 68 percent of enterprises employ no-one at all. It is also relevant that around 96 percent of Australian firms employ fewer than 20 workers.

Some statistics are confronting their use-by date. Huge efforts go into collecting statistics on gross domestic product (GDP) when we would get a much better reading of how we are faring from a Genuine Progress Indicator or GPI. I know that many of you use statistics such as the consumer price index and wage movements in your day-to-day work and that is part of putting forward good arguments alongside good organisation. I have had some help along the way with statistics but the little rave up in the comment section has been my regular attempt to say something about the economy from a worker perspective.

In the 1984-99 period in New Zealand, those advocating the prevailing neo-liberal prescription ridiculed the perspective of those that did not accept their market-led blueprint. Just like the economists of recent years that supported financial market deregulation despite rising leverage and massive systemic risk, there was an arrogance and certainty constantly supported by almost all media comment, academic 'research' and institutional practice. Once again we have seen the shallowness of this prescription. And once again those that suffer most have little voice.

In contrast, the CTU has been arguing for a much stronger voice for workers. While valuable at an enterprise and industry/sector level it is also essential on a much broader basis as we debate the best ways to build a high wage, high skill and high value economy. Increasingly we need to put forward an alternative political economy that puts people and the planet first. We are a

very small country and do not even get to attend the G20. But we should still have big ideas and join the debates on the way forward. Communism may be dead at least as a popular movement but there are few fans of global finance capitalism. The alternative is not yet an 'ism'. But it includes among other things a recognition that market outcomes are often distorted and unfair, that an economic return does not count for more than social progress or environmental protection, and the 'race to the bottom' logic of what counts for much of global trade is absurd. Sustainable development on a global scale looks like a tall order. But for me, the advocacy of a green new deal and the call to join the dots between poverty, global financial reform, trade and climate change represents the most positive alternative on offer.

One of the tragedies in the current global financial crisis is that the $billions governments argued they could not afford for public housing, health and environmental projects are largely being used to shore up toxic debt. For example, the American Insurance Group (AIG) has received $US173 billion from taxpayers. But from the first tranche of US$85 billion a huge $US49.5 billion has been used by AIG to pay off counterparties from their credit default swaps. And who are those counterparties? Well they are Goldman Sachs, Merrill Lynch, Barclays and co. Get the picture?

So those that argued for less government now argue for more. Those that said developing countries should adopt a blueprint of deregulation including finance are now starting to acknowledge that this is wrong. Almost everyone accepts that greater regulation and supervision is required. Of course, some are saying that it is government involvement (e.g. to require greater access to housing in USA) and regulation (e.g. the post-Enron mark to market requirements of the new International Financial Reporting Standards - meaning the market values of many assets unlikely to be realised in the near term are marked down) that are the real culprits. But the IMF now blames policymakers for "a general belief in light-touch regulation based on the assumption that financial market discipline would root out reckless behaviour and that financial innovation was spreading risk, not concentrating it. Both these assumptions proved wrong, and the result was a massive asset price bubble." Andrew Haldane, the Bank of England's executive director for financial stability, says failures were due to "disaster myopia" (the tendency to underestimate risks), a lack of awareness of "network externalities" (spill-overs from one institution to the others) and "misaligned incentives" (the upside to employees and the downside to shareholders and taxpayers). What a change in tune. But how far the G20 will go this week is a real test. If it simply a weak signal on some minor regulation then we have even more cause for concern. What is required is a major overhaul based on genuine oversight and a completely new set of international financial institutions – not simply a rules-based set of proposals.

So this penultimate column is written at a time when New Zealand workers face huge uncertainty and risks to job security, incomes and worker rights. Sure the new Government is working with many organisations including the CTU on some measures to soften the blow for workers of the deepening recession, but I haven't heard them described as 'Labour-lite' recently – have

you? Their tax cuts unashamedly favour those on high incomes. The cuts to KiwiSaver – especially the removal of the employer tax credit – will impact on low income workers and long term savings. The attacks on the public service, ACC, holiday entitlements, appeal rights against dismissal and environmental standards reveal a very sharp edge to this Government. I suspect the Budget will have some positive initiatives such as a deal with the Green Party on home insulation, but so far the Government's reaction to the global financial crisis has been timid and largely misplaced. The two main questions at this time are: "What level of public debt is justified in these extraordinary circumstances and what are the most beneficial areas for public investment? Only the Government can now withstand the debt levels to get us through this crisis while at the same time investing in the infrastructure that can build a strong society as well as economy – that means more than roads. It means people and their skills, it means investing in the reality behind the perception that we are a clean green producer of value-added protein. The Government says that high levels of debt risk a credit downgrade. However BERL today said that the Government should not listen to the same credit rating agencies that were complicit in the favourable ratings for the now toxic collateralised debt obligations.

It looks like the Government is more interested in convincing voters that they inherited not only a global financial crisis – but also a set of government books in a sorry state. In fact they inherited low public debt (below 20 percent of GDP compared with over 37 percent in 1999) and few people on unemployment benefit (fewer than 18,000 in June 2008 compared with over 160,000 in 1999). It was National in opposition that screamed for more tax cuts rather than reducing public debt. Now even their own tax programme looks in doubt. It was a Labour Government that saved for the rainy day.

The Government clearly needs to lift its game. The CTU will continue to support the government on reasonable measures that genuinely support workers during this recession. It is significant that a National-led Government has been willing to work closely with unions on these issues. But it looks like a programme of a 'thousand cuts' is being rolled out. Let's see if the Budget and the development of the post-Summit initiatives can deliver a much more positive prescription than what we have seen so far.

**NZIER Consensus forecasts**[1]

These consensus forecasts were published on 24 March 2009.

| March Year percent change | **2009** | **2010** | **2011** |
|---|---|---|---|
| GDP | -0.9 | -0.6 | 2.7 |
| CPI | 3.0 | 2.3 | 1.8 |
| Wages (QES) | 5.0 | 3.1 | 2.3 |
| Employment | 0.8 | -1.7 | 1.0 |
| Unemployment | 5.0 | 6.8 | 6.7 |

[1] The consensus is made up of the average of forecasts from NZIER, Berl, ANZ- National Bank, ASB Bank, BNZ Bank, First New Zealand Capital, Deutsche Bank, UBS, Westpac, Reserve Bank of New Zealand and Treasury. Because the consensus forecasts are done only every 3 months, some of the more recent forecasts will be more accurate.

## Economic Snapshot

The Consumer Price Index fell by 0.5 percent in the December 2008 quarter, with an annual increase in the year to December of 3.4 percent. The March 2009 CPI update is due on April 17 and it is expected to post another fall. Food prices rose 0.2 percent in February 2009, and increased 8.8 percent over the past 12 months. Unemployment is now standing at 4.6 percent, which is a five year high. Maori unemployment is 9.6 percent, Pacific people's unemployment is at 7.8 percent, and Asian unemployment is at 6.3 percent compared with 3.2 percent for European/Pakeha. The update for the March 09 quarter will be released on 7 May. In February 2009, nearly 35,000 people were on unemployment benefit. However, the number of people in employment actually increased in the December quarter by 21,000 (0.9 percent), to a total of 2,191,000. Most of the increase can be attributed to a 3.5 percent rise in part time employment. As of the 1 April 2009 the minimum wage will be $12.50 an hour (rising from $12.00). Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for December 2008, were up annually by 5.4 percent (5.1 percent in the private sector and 5.3 percent in the public sector). The QES showed that the average hourly wage is now $24.55 ($22.83 in the private sector and $31.06 in the public sector). The female rate of pay is $22.80 which is 87.6 percent of the male wage at $26.02. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.3 percent in the December 2008 year (3.2 percent in the private sector and 3.5 percent in the public sector). For those workers who got an increase in the last year, the median increase was 4.3 percent and the average increase was 5.8 percent. The next update for wage data is on 4 May 2009. The official cash rate reduced from 3.5 percent to 3 percent this month.

## Economic Growth

Economic growth decreased by 0.9 percent in the December 2008 quarter, the fourth consecutive quarterly decline with GDP contracting 0.5 percent in the September quarter, 0.2 percent in the June quarter, and 0.3 percent in the March quarter. The manufacturing industry has been driving the decline, down 3.8 percent in the quarter and down 7.3 percent in the year, as has construction, down 4.4 percent for the quarter and 13.5 percent in the year. Household expenditure remained flat, but spending on consumer durables fell 1.4 percent, whilst spending on services increased by 0.5 percent in the quarter. On an annual basis, the economy grew by 0.2 percent over the year to December 2008 compared with the December 2007 year.

## Food Prices

Food prices rose 0.2 percent in the February 2009 and were up 8.8 percent in the year to February 2009. The most significant increases over the year were in the fruit and vegetables subgroup (up 12.1 percent) with meat, poultry and fish (up 11.0 percent) and grocery food (up 9.1 percent). Within these subgroups, the most significant upward contributions came from higher prices for ready-to-eat food (up 6.5 percent), bread (up 15.8 percent), restaurant meals (up 5.5 percent), and cakes and biscuits (up 13.9 percent). The most significant downward contributions for the year came from lower prices for

lettuce (down 7.5 percent), kumara (down 30.8 percent), and butter (down 13.1 percent).

**Retail Sales**
According to BNZ January retail sales fell 1.1 percent for the month and 4.0 percent compared with the January 2008 year. The monthly figure was dominated by a fall in the automotive sector which has seen an 11 percent slump in car sales and a 2.6 percent fall in fuel sales, despite rising fuel prices in January. Statistics NZ reports the biggest fall in spending last year was in appliance retailing sales (down 6.6 percent), whilst the greatest increases were recorded in supermarket and grocery store sales (up 1.7 percent), and recreational goods retailing (up 5.2 percent).

**Manufacturing**
The Economic Survey of Manufacturing reported that the volume of manufacturing sales fell 5.4 percent in the December 2008 quarter, the fourth consecutive quarterly fall. Although the volume of sales was down, increased prices for dairy products, fertilisers and chemicals, and transport equipment helped keep the overall sales value flat over the quarter. Despite volumes being down 6 percent, the meat and dairy product manufacturing industry had the largest increase in sales values, up $326 million. Commodity Price Index also shows that the commodity prices of beef and lamb have increased by 3.5 percent in the year to January, bucking the downward trend of most other commodities. Declines in the manufacturing industry are also reported in the Performance of Manufacturing Index (PMI), which showed a contraction to 38.6[2] in February 2009. Employment fell to its lowest level at 39.5, with production, new orders, and deliveries for raw materials all slipping backwards. In the February month the Australian PMI also fell to a historic low of 31.7.

**Productivity**
Labour productivity in the measured sector[3] was up 2 percent for the March 2008 year. Labour input (estimated paid hours) was up 1.6 percent, meaning the total output (real GDP) rose by 3.6 percent. The 2 percent growth in labour productivity in 2008 can be attributed to capital deepening of 1.1 percent (i.e. an increase of capital input relative to labour input) and multifactor productivity that increased 0.9 percent. Since 2000, labour productivity has averaged at 1.3 percent annually, compared to an average of 2.6 percent per annum in the 1990s. Much of the difference is due to increasing labour force participation rates, characterised by strong employment growth and low unemployment, for most of the 2000-2008 period.

**Trade**
The current account deficit for the year ending in December 2008 was 8.9 percent of GDP or $16.1 billion compared to 8.6 percent of GDP for the year ending September 2008. The December quarter deficit of $3.7 billion was

[2] A PMI reading above 50 points indicates manufacturing activity is expanding; below 50 indicates it is contracting

[3] This excludes government administration and defence, health, education, and commercial and residential property services, which account for approximately 23 percent of the economy.

slightly smaller than the September 2008 quarter deficit of $4.0 billion. But the investment income deficit of $13.6 billion is still a major concern despite it being a lower percentage (84.5 percent) of the overall deficit than in recent times. And net overseas liabilities were up $15.1 billion from December 2007 to $167.7 billion, which is 92.9 percent of GDP. In the month of February 2009, exports were valued at $3.5 billion, down $243 million (6.6 percent) compared with February 2008. The decline in exports was led by milk powder, butter and cheese, crude oil and aluminium and aluminium articles. Import values were 3.0 billion, down $490 million (14.2 percent) from February 2008 primarily due to lower quantities of crude oil imports and a 62.5 percent drop in motor cars. The WTO predicts there will be a 9 percent contraction in global trade volumes in 2009 due to a collapse in global demand.

**Government Accounts**

The treasury accounts are in better shape then was revealed in the December 2008 Update, but are still tracking below forecasts. For the seven months ending January 2009 the December tax revenue and receipts were in line with the December Update but still $0.5 billion below the Pre-Election Update (PREFU) (in December they were approximately $1.0 billion below the PREFU forecast). The lower tax revenue, as well as falls in interest revenue, means that the operating balance before gains and losses (OBEGAL) is $0.6 billion ($0.8 billion lower than forecast in the PREFU and $0.3 billion lower than forecast in the December Update). Much attention has focused on ACC due to an actuarial loss of $3.1 billion as well as the Government Super Fund which has an actuarial loss of $0.9 billion. Gross debt continues to be significantly higher than forecast, reaching $45.4 billion (25.3 percent of GDP), but because financial assets have increased in value net debt is lower than expected at $2.3 billion. Overall, this has led to an operating deficit of $5.5 billion which means an operating balance that is $8.1 billion less than was forecasted in the PREFU. The Treasury expects a further deterioration in the labour market and greater shortfalls in corporate tax revenue payments in the near future. NZIER forecast that the Government operating balance will be -$3.4 billion for 2008/09 (June year), -$3.8 billion for 2009/10 and -$5.4 billion for 2010/11.

**Housing and Property**

Quotable value report an 8.9 percent decrease in property values in the year ending February 2009. However, the average New Zealand sale price for February remained steady at $383,786, falling only 2.0 percent because fewer low value properties were sold. QV report that there are signs of more activity in the housing market due to a lift in interest, listings, and sales. REINZ report the median house price for February was $330,000, up $5,000 on January figures. In February 2009, 1,059 new building consents were issued which was a bit better than expected, but the trend since June 2007 is that the number of building consents per month has fallen by more than 50 percent.

**Migration**

In the year ending February 2009, net migration increased by 6,200, up from 4,600 in the previous year. There were 88,600 permanent and long term arrivals, up 5,300 (6 percent). The net inflow of migrants can be broken down

to 8,100 from United Kingdom, 5,600 from India, 3,600 from the Philippines, 3,000 from Fiji, 3,000 from China, and 2,700 from South Africa. There were a total of 82,400 permanent departures in the year, up 3,800 (5 percent). Migration statistics are still marked by a net outflow of 34,400 to Australia.

**Tax, KiwiSaver, and Benefit Changes**

As of April 1 2009 independent earners on incomes between $24,000 and $44,000 will receive a tax credit of $10 a week. However this excludes beneficiaries, low-middle income families with children, and superannuitants, who could also benefit from tax relief in tougher economic times and would be more likely to spend, rather than save, any additional income. From 1 April there will be a 3.38 percent rise in benefit payments, and the minimum wage will rise to $12.50 an hour (from $12.00) and $10.00 an hour (an increase from $9.60) for new entrants aged 16 or 17 for the first 3 months or 200 hours, whichever ends first. The changes to KiwiSaver as of 1 April include an increase to the minimum employer contribution of at least 2 percent (but this will be the last compulsory increase since the National Government has changed the legislation that would have given workers a 3 percent contribution in 2010 and a 4 percent employer contribution in 2011). Employers will also lose the employer tax credit. Savers will be able to reduce their contributions to 2 percent, (from 4 or 8 percent) if they wish. And the changes mean that although savers have the use of the difference between 2 percent and 4 percent required employee contributions, someone on $50,000 a year will at age 65 end up with savings of $143,263 less than under the current scheme and for someone on $70,000 the reduction in the ‘nest egg’ is $199,679.

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