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Comment

All eyes will be on the Budget at the end of May to see whether or not the Government has not only set out a credible plan for fiscal and economic management, but is also responding with sufficient scale and urgency to the deepening recession. Back in February, the response to the global financial crisis was being viewed as primarily about jobs. Now it is being viewed as more about fiscal management. Perhaps this is understandable given the deterioration in government accounts. But in reality this should be a budget all about jobs and boosting the labour market.

We do not know how long this recession will last or how deep it will be. Some are eager to fall upon any 'green shoots' or glimmers of hope. But as *The Economist* magazine says this week 'the worst thing for the world economy is to assume the worst is over' and it warns about the perils of undue optimism.

Unemployment is currently at 4.7 percent. It could well be more like 5.3 percent next week. Treasury forecasts for next year were a rise to 7.2 percent but those figures are being revised for the Budget. And there has been a spate of redundancy announcements in recent weeks. The whole point of the Jobs Summit was to identify actions that could create jobs, retain jobs or support workers in transition. Let's be clear. There have been some positive initiatives such as a small subsidy for reduced working hours. But there is so much more that is needed - scale and urgency is lacking. In fact in the name of reducing government spending the Government is axing jobs.

And the scale of initiatives around jobs is tiny at this stage. There has been $26 million allocated for changes in redundancy support, around $25 million on the nine-day fortnight. Contrast this with $800 million in tax cuts where most went to those on high incomes. I expect the Government to delay the next rounds of tax cuts but giving the bulk of relief to those on high incomes and suggesting spuriously they should donate some of it to charity is surely honeymoon politics at its worst.

This Budget is a major event for the 'National' Government. It is their first one in 10 ten years. They will want to convince the 'markets' (i.e. bank economists mainly), media, business and the general public that they are getting to grips with government spending, debt and underlying economic drivers such as productivity. Having set the scene for an austere Budget, the Government could surprise on the upside. For instance if it has carved out a fair bit of what it calls low quality spending then it might have room for another $1 billion to add to the announced $1.75 billion parameter for new spending. Revenue forecasts will be down, so no doubt on the operating side the Government will be constrained no matter what the 'value for money' exercise has freed up for alternative spending across the four years the Budget will outline.

Yet the Government looks to be pinioned by discredited credit rating agencies. These are the agencies that (for an inflated fee) rated all those subprime-backed collatorised debt obligations as AAA. Just before Lehman's collapsed last September, Standard & Poor's had Lehman's operating groups rated A+. It also had Merrill Lynch rated similarly high, just a notch below Morgan Stanley, and two notches below Goldman Sachs. And back in July 2007 Standard and Poor's said that it takes time for loan pools to show the sustained loss patterns that it needs to see before it can come to the opinion that a downgrade is appropriate. They sure took their time!

There is no question that New Zealand is now in a period of twin-deficits. The current account deficit is nearly 9 percent of GDP and fiscal deficits are rising. But gross public debt is at 25.3 percent whereas the OECD forecasts that by 2010, average gross public debt/GDP in OECD countries will be 100 percent. Ours will certainly go up but not to anything like that level. So surely the key concern, if any, of these credit rating agencies is not gross public debt but the other 'twin' – the current account deficit. This could trend down due to lower imports – but there is a structural problem. About 85 percent of the current account deficit is on the income investment side. That mainly comprises bank borrowing offshore and repatriation of profits to offshore owners of NZ firms. To reduce offshore borrowing by banks we need to build up more domestic savings – yet the Government has attacked KiwiSaver. To reduce the amount of repatriation of profits offshore we need to avoid any more privatisation and perhaps look at greater capital controls – yet the Government is intending to remove or substantially reduce current controls.

We will need to wait and see how the Budget addresses some of these issues. I think there is a risk that the Government will be too conservative about public debt and therefore fail to invest sufficiently during a one in sixty year financial crisis. I also think the composition of public investment is too lopsided towards physical infrastructure and does not include enough on the other forms of capital – human, natural and social.

A number of recent reports including one from the UN Environment Programme (UNEP) argue for government stimulus spending to focus on five key sectors: energy efficiency, public transport, renewable energy, organic agriculture, and the protection of ecological infrastructure. In a speech on 9th March, Lord Stern said that the two great challenges of the 21st century are the battle against poverty and the management of climate change. He argued that these combine with the current crisis in the financial markets to create three challenges for urgent, decisive and concerted action. The investments being promoted are energy efficiency measures for homes and public buildings, boiler replacement programmes, efforts to fit cleaner appliances and lights, and a switch to renewable sources of heat, such as biomass, greater investment in energy research and development, streamlined planning to promote renewable energy projects such as wind farms, and moves to encourage less polluting vehicles.

Home insulation and energy efficiency are on the agenda here. But the scale needs to be considerable to look anything like even a pale green new deal compared with the above agenda.

Meanwhile I expect to see the temperature rise in the coming months over the wages issue. No doubt some attempt will be made to lock unions into a ‘jobs versus wage increase’ straitjacket. We should start off by acknowledging that there are constraints. Lower inflation, employment insecurity, employer affordability, and cuts in government spending will all impact in some way on many wage negotiations. The minimum wage rose by 4.2 percent this month so that is a pointer for some. BNZ forecasts for quarterly employment survey wages indicate a fall from 5.1 percent annual increase for the December 2008 year to more like 2.7 percent for the December 2009 year. There are many good arguments for decent wage increases this year. For households, jobs matter but so do hours of work, wage levels and the social wage. And it is security of earnings via the labour market at the heart of any decisions about household savings or spending. In other words, the economy will not be stimulated by a wage freeze! There are still skill shortages out there. Last month, Business NZ, disclosed that 38 per cent of employers are finding it difficult to attract qualified candidates to fulfil roles in their organisations. Unions are used to those employers that are reluctant to share the gains but eager to share the pain. Nevertheless there will be many genuine employers trying to find ways to offer a reasonable increase this year. They know that prices still matter – and that applies to the price of labour as well.

In the long run we know that wages have to rise in this country. If wages fall even further behind Australia during the recession then how can the Government argue that it is strengthening the economy as part of its response? And if the goal is to catch up with Australia by 2025 as this Government has promised, then that means on average New Zealand wages have to grow by nearly 2 percent more than Australian wages each year until 2025 (to close the 30 percent gap over 15 years assuming Australian wages rise by 3 percent per year requires New Zealand wages to rise by 4.82 percent per year). Each year this task is delayed, the gap grows. I expect that the rate of increase in wages that we have seen since 2005 will moderate. But we should still campaign for and expect reasonable increases. And some groups have waited two years to bargain or have a good case for a significant increase. Jobs are vitally important at this time. But they need to be good jobs and we should reject a ‘jobs or wage increase’ framework for wage bargaining this year.

Well that’s me done folks. Thank you for putting up with my ramblings over the last 9-and-a-bit years. I am still an economist and still with CTU – but Bill Rosenberg is the new CTU Economist and he will take over this Bulletin.

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

Economic Snapshot
The Consumer Price Index increased by 3.0 percent for the year to March 2009. Food prices rose 0.5 percent in March 2009, and increased 8.6 percent over the past 12 months. The unemployment figure is at a five year high and was revised by Statistics NZ to 4.7 percent, from the 4.6 percent that was originally reported for the fourth quarter for 2008. 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 next update on unemployment figures is on 7 May. In February 2009, nearly 35,000 people were on unemployment benefit. The number of people in employment increased in the December quarter by 21,000 (0.9 percent), to a total of 2,191,000. Most of this increase can be attributed to a 3.5 percent rise in part time employment. GDP decreased by 0.9 percent in the December 2008 quarter, the fourth consecutive decline, which means annual economic growth is at 0.2 percent. The minimum wage is $12.50 an hour and $10.00 an hour for new entrants aged 16 or 17 in their first 3 months or 200 hours, whichever ends first. 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 received a pay rise in the 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 was reduced from 3.0 percent to 2.5 percent on 30 April.

Consumer Price Index
From an annual rise of 5.1 percent for the September 2008 year, consumer prices, on an annual basis, could increase by less than 1 percent for the September 2009 year. This will be a significant change across one year if it occurs. Statistics NZ's latest release of the consumer price index (CPI) shows an increase of 0.3 percent for the March quarter. This brings CPI for the year to March 2009 to 3.0 percent. It is the first time since September 2007 that CPI

[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.

has fallen within the Reserve Bank's target range of between 1 and 3 percent. In the March quarter, grocery prices increased 1.4 percent; pushing food prices up 1.2 percent. The CPI would have stayed flat if food prices had remained unchanged for the quarter. Other increases included a 1.8 percent rise in alcoholic beverages and tobacco, driven up by a 4.3 percent increase in the prices for cigarettes and tobacco, (largely as a result of a 5.07 percent increase in excise duty for cigarettes and tobacco on 1 January 2009). The housing and household utilities group rose 0.3 percent, which is the smallest rise since June 2001, whilst the price for new housing was static for the quarter. The transport group recorded a 1.5 percent fall overall, with international air transport, diesel, and petrol falling 16.5 percent, 19.2 percent, and 1.0 percent respectively. However, the price for second-hand cars bucked this trend, increasing by 3.5 percent. Half the annual increase was attributed to an 8.8 percent rise in food prices, led by an 8.9 percent rise in grocery prices. Other upward contributions for the year included a 3.6 increase in the household utilities group, with electricity prices up considerably at 7.5 percent. Decreases were recorded in the transport group, down 2.6 percent, largely as a result of a 9.3 percent annual fall in petrol prices. We have sent out the revised CTU Real Wage Calculator.

Food Prices

Food prices increased 8.6 percent for the year to March 2009 and 0.5 percent for the month. In the monthly figures the meat, poultry and fish subgroup increased 1.4 percent, with the prices for fresh chicken rising 3.2 percent, lamb by 5.9 percent, and beef by 1.5 percent. Fruit and vegetable prices were also up by 1.6 percent. Grocery food fell by 0.2 percent and was the only subgroup to record a decrease for the month. This was driven by a 5.7 percent fall in the price of chocolate bars and blocks, a 6.9 percent fall in cheddar cheese, and 5.1 percent fall in yogurt. However, the price for plain biscuits was up by 14.2 percent.

Trade

In March 2009 quarter, NZ's seasonally adjusted trade balance recorded a $65 million deficit; a distinct change compared to previous deficits which have tended to be above $1 billion. The reason for this was a record 12.8 percent drop in seasonally adjusted imports ($1.6 billion) since the December quarter. The drop was a result of diminishing crude oil prices, as well as a fall in the amount of oil imported, and falling imports of passenger motor cars. Exports also dropped by 4.0 percent ($449 million) in the March 2009 quarter largely due to a fall in the price of milk powder, butter and cheese exports, as well as a falls in the price and quantity of crude oil, aluminium and aluminium articles. For the March month there was a surplus trade balance of $324 million. The value of merchandise exports increased 17.7 percent compared to the March 2008 results and is mainly credited to increases in the price for meat exports as well the sale of large aircraft. The increase in the value of exports also corresponded with an increase in the value of imports that increase 6.9 percent. According to the Reserve Bank's Trade Weighted Index (TWI), the New Zealand dollar rose 2.9 percent in March 2009 compared with February 2009.

Manufacturing
The Performance of Manufacturing Index published by Business NZ and BNZ shows that manufacturing is still contracting, but the decline has slowed slightly during March 2009. The index now sits at 40.7 compared to February's result of 38.9[2]. The sectors with the lowest results were machinery and equipment manufacturing at 39.3, metal product manufacturing at 40.0 and petroleum, coal, chemical and associated products at 41.3, whilst the food, beverage and tobacco sector remained steady at 50. Production, new orders, and delivers of raw materials improved slightly from the previous month, but all were still contracting, whilst the results for finished stocks shrank further. Employment intentions are at an all time low for the survey, down from 40 in February to 38.7 in March. In the NZIER Quarterly Business Survey, reported on above, it was reported that the fall in manufacturing performance is being caused by the slowdown in domestic production as much as it is by falling exports.

Business Outlook
New Zealand Institute of Economic Research's (NZIER) quarterly survey of business opinion reported a fairly gloomy picture of businesses "trimming the fat". NZIER also predicted that the recession would be more severe than originally thought. In the survey 47 percent of firms indicated that their own activity had fallen in the March quarter and 38 percent of firms expected falls in the next quarter. General confidence was low as a result of falling demand and sales and 65 percent of firms felt business conditions would continue to slide. In the March quarter, 34 percent of firms had made staff redundant and in addition 36 percent of those surveyed also anticipated they would reduce staff levels in the following quarter. Current labour market conditions led to 42 percent of firms saying they are finding it easy to find staff; a fast turnaround considering the high skill shortages just last year. Conversely, Statistics NZ also released their 2008 Business Operations survey (for the financial year that ended in August 2008) that painted a different picture with 47 percent of businesses staying they found it difficult to fill skilled vacancies.

Work Stoppages
In the year to December 2008, there were 22 work stoppages, all of which were all due to strike action (Statistics NZ did not record any lockouts during the year). These stoppages involved 4,993 workers compared with the year to December 2007, when there was 31 stoppages, involving 4090 workers. There were 4 strikes in manufacturing, 4 in transport, postal and warehousing, 3 in health care and social assistance and 11 in all other industries combined.

Government Accounts
The Treasury accounts for the eight months ending February 2009 show continued deterioration. The tax revenue and receipts were $1.8 billion less than the Pre-Election Update (PREFU); a greater variance than the January performance, which showed a difference of $0.5 billion to PREFU. However, the Treasury states this shortfall is due to the short month of February and expects that the variance will reduce in the March accounts and that revenue

[2] A figure under 50 shows the manufacturing business is contracting; above 50 shows firms are growing. The index is an early indicator of business activity

will track more in line with the December update from here on. The lower revenue has taken the operating balance before gains and losses to $0.1 billion which is down on the PREFU by $1.8 billion and down on the December update by $1.2 billion. The operating deficit including gains and losses is $8.4 billion, $11.6 billion less than was forecast in the PREFU. ACC's $2.9 billion insurance liability, the Government Superfund's $2.4 billion net pension liability, as well as lower tax revenue, are singled out for this growing deficit. Gross debt is now at $45.4 billion, which is equivalent to 25.3 percent of GDP. Net debt continues to run lower than the forecast at $3.3 billion partly as a result of increased in the Governments financial assets.

Retail Sales

Retail sales rose slightly in March by 0.2 percent, after a series of falls in the previous months. However, over the longer term there has been a downward trend, which have seen sales drop by 3.4 percent since December 2007. This slide has accelerated since mid 2008 with no sign of any upward effect from tax cuts. Supermarket and grocery stores sales continued to grow, up 1.0 percent in the month, whilst there were marked declines in recreational goods retailing, down 4.9 percent, and accommodation, down 4.2 percent. In the vehicle-related sector there was a notable increase in fuel sales, up 6.47 percent, but car sales continued to shrink, down another 3.2 percent.

Migration

There were 1,000 fewer permanent and long-term departures from NZ, including 800 less people departing to Australia in the March 2009 year when compared to March 2008. The seasonally adjusted figures show that there were 1,700 more arrivals than departures for the month and 7,500 more arrivals than departures for the year to March 2009. In that time there have been 4000 more non-New Zealanders arriving and 1,400 more New Zealanders returning, which is partly offset by 2,500 more people departing on a permanent and long-term basis. There is still a net outflow of people leaving for Australia, now at 33,600 for the year, up slightly from the previous month, but down from the peak of 35,400 in January 2009. Fewer people are coming and going from New Zealand on a short term basis, with the number of visitors decreasing by 4 percent to 2.401 million for the year.

Housing and Property

QV report a 9.3 percent decline in property values for the year to March 2009. This is a further fall from the 8.9 percent figure from the previous month. The sale price for houses has only dropped by 2.7 percent over the year with the average sale now at $378,399, but QV warns this is not an accurate indicator of property values. Auckland is leading this fall, with values dropping 10.1 percent in the last year, whilst property values are starting to stabilise in some provincial areas. Building consent statistics for the month of March 2009 show the trend for the number of new housing units authorised, excluding apartment units, has continued to fall since June 2007. For the year ended March 2009 compared with the year ended March 2008, the value of non-residential building consents rose 6.3 percent while the value of residential building consents fell 26 percent.

Research and Development

Statistics NZ research and development (R&D) survey for 2008 showed that R&D spending had increased by 17 percent to $2.1 billion since 2006. The business sector conducted over $900 million worth of R&D, with manufacturing, health, environment, and information and communication services also making substantial investments. The Government sector funded 43 percent of R&D whilst business funded 40 percent. Statistics NZ, in conjunction with Ministry of Research, Science and Technology (MoRST), will release the full results of the 2008 survey in June 2009.

OECD Report

The 2009 OECD *Economic Survey of New Zealand* was published this month. It contains a number of policy recommendations that the CTU has commented on in a critical media statement that was released on 16 April. The following picks out some of the main points from report. The report is written in the context of the global economic slowdown, stating that NZ has been badly affected by both the downturn and a number of domestic imbalances. Top of the domestic imbalances is that our economy is one of the most indebted in OECD, making NZ particularly vulnerable. Household debt is a major concern, with average indebtedness levels at 160 percent of disposable income. And in addition, Government debt is expected to deteriorate, although the Government books are still in a much better shape than most other OECD countries. Improving productivity is still deemed one of the most important challenges for NZ, especially in meeting the goal of closing the income gap with other OECD nations. For example, the report says that to close the income gap with Australia by 2025, we would need to increase GDP by 3.3 percent a year, which is significantly higher than the 2.1 percent a year we have achieved in the past decade.

World Economy

The International Monetary Fund (IMF) released two reports this month, *The Global Financial Stability Report* and *The World Economic Outlook*. They forecast that the world economy will contract by 1.3 percent this year and 2010 will bring a slight turnaround with modest growth of 1.9 percent. Most countries have been punished by the collapse in global trade, with advanced economies declining by 7.5 percent in the last quarter of 2008 and emerging economies experiencing a 4.0 percent decline during this same time period. While the IMF predict that GDP will shrink by -2.0 percent in New Zealand and Australia by -1.4 percent, its forecasts for other countries are much worse: Singapore's GDP is forecast to drop by 10.0 percent, Ireland down 8.0 percent, Japan down 6.2 percent, Germany down 5.6 percent and the UK down 4.1 percent. All of New Zealand's major trading partners, except China, which is expected to rise 6.5 percent, (compared with 13.0 percent in 2007 and 9.0 percent in 2008), are predicted to contract. In response to these reports the International Trade Union Confederation warned that the number of people unemployed across the world could hit 50 million.

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