



NEW ZEALAND COUNCIL OF TRADE UNIONS  
*Te Kauae Kaimahi*

## **CTU Monthly Economic Bulletin**

**No. 107 (October 2009)**

### **Seeking Alternatives**

Discussion on an Alternative Economic Strategy was launched at the CTU Biennial Conference last week. It will be considered by affiliates over the next 6 months, with the intention to finalise it in June 2010. There were two papers provided to the Biennial Conference – a short discussion paper and a longer background paper with much more detail. Both are available on the CTU web site (<http://union.org.nz/news/2009/ctu-launches-conversation-towards-a-fairer-economy>).

The strategy originally arose from requests from affiliates for proposals on an alternative political economy. But it is particularly timely. The global financial and economic crisis has illustrated the recklessness of deregulated capitalism and demands rethinking of economic assumptions, ideas and policies. And for many people in New Zealand and the world, the economy simply does not work for them, whether it is massive inequalities, unacceptable levels of poverty, in New Zealand and around the world, unfair wage systems, or unsustainable demands on our environment.

This is a major crisis in historical terms – the worst financial crisis since the 1930s Depression. It grew out of international policies of domestic and international deregulation and particularly the excessive influence of deregulated finance capital in the economy.

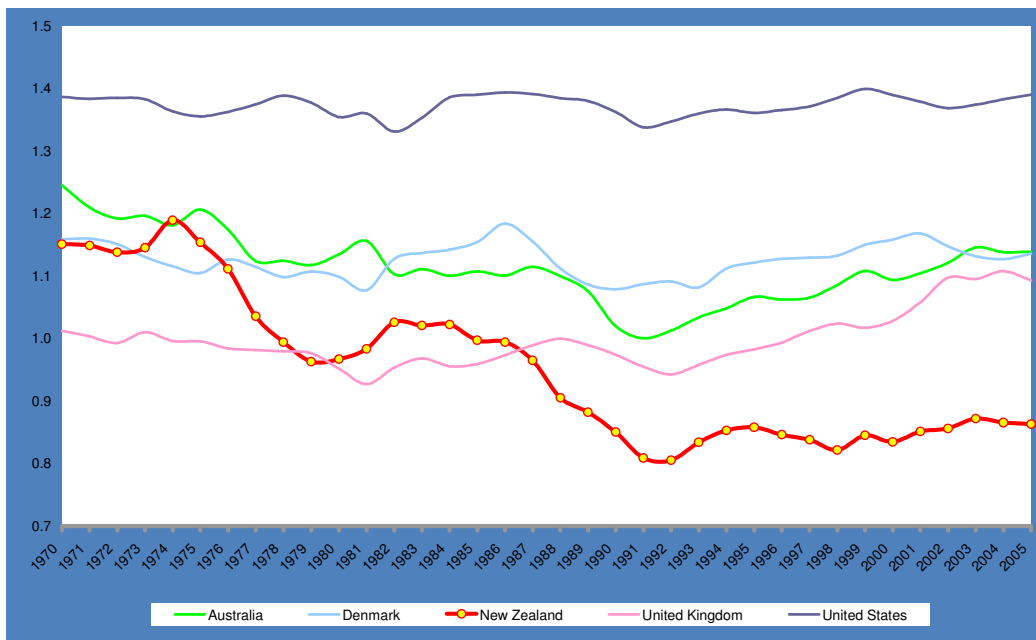
The equivalent of almost two months output of the world economy has been lost – US\$8 trillion. To the extent it has not been as bad as feared, it is because of government stimulus programmes totalling US\$5.5 trillion so far in the US, Europe and Asia, which will leave all the governments affected deeply in debt, and workers paying for it. Despite US\$1.9 trillion spent internationally to bail out banks, many are back to their old ways and we are still not sure the financial system is stable.

The United Nations estimates that “between 73 and 103 million more people will remain poor or fall into poverty” as a result of the crisis, mainly in East and South Asia. The economies of the richest countries, those in the OECD, are expected to contract by 4.1 percent in 2009 and unemployment is expected to be at 8.3 percent at the end of 2009 and reach 9.8 percent in 2010.

The economic theories which justify the approach to managing an economy which encourages these trends are commonly known as “neoliberalism”. They suited the interests of the large corporations which wanted to expand internationally and the finance sector which funded them. Neoliberalism has at its heart the belief that unregulated markets will produce optimal results for an economy, and that there is little role for government other than to set and enforce the rules that allow the market to function. But contrary to what we are told, there are always alternatives.

Looking at New Zealand – it is almost exactly 25 years since the 1984 Labour government was elected and brought neoliberal policies to New Zealand. It was unsuccessful even in its own terms, but hugely destructive of society. Despite enormous pain during the late 1980s and 1990s, there have been weak gains.

**Real GDP per capita as ratio of OECD average**



Growth in the economy has been weak compared to other OECD countries, such as Australia, as illustrated in the above graph. This is a symptom of weak productivity growth. Companies have relied on low wages rather than investing to increase productivity, which would in turn allow increases in wages. All this means that there are insufficient parts of the economy which can compete internationally. Exports are hindered by an exchange rate driven by international capital movements rather than the real economy. The economy has been very successful at attracting foreign investment, but it is often low quality. Our international liabilities are at unsustainable levels which drive a constantly high current account deficit creating yet more debt which there is insufficient saving in New Zealand to cover.

Worse, though, have been the effects on working people and beneficiaries. We looked at wages in the September Economic Bulletin. Wages have only

just kept up with rising prices. They fell in real terms in the early 1980s and never really recovered. Working people's incomes have missed out on the substantial productivity increases that have occurred since 1980.

This has helped drive the fastest rising inequality in the 1990s in the OECD, and unacceptable levels of poverty. Poverty peaked in 1994, when one measure showed 26 percent of the population in poverty and 36 percent of children. In 2008 up to 18 percent of the population could still be described as living in poverty and 22 percent of children. Income related rents and Working for Families made a difference for people with paid work but not for low income households whose main source of income is from an income-tested benefit or New Zealand Superannuation. These measures stopped inequality growing rather than reversing the trend.

There are a large number of policy proposals in the Background paper. Many are still sketchy and all are up for debate. They are based on principles (detailed in the Background paper) of Fairness, Participation, Security, Improving living standards, and Sustainability; and a three-pillar framework of Sustainable economic development; Decent work and a good life; and Voice: real participation in workplace, economic and community decision-making. Some examples:

- Government support of firms, with conditions such as employment creation; export or import substitution potential; and industry standard employment agreements
- Buy back Telecom's physical network and begin to buy back the electricity system
- Stabilise the exchange rate through management of international capital flows and currency controls in cooperation with other nations
- Finance for local investment through Kiwi bonds, and the NZ Super Fund.
- A new internationalism: emphasising the need for cooperation rather than always a market approach (such as in trade agreements)
- Introduce a 45% tax rate for incomes over \$150,000
- A capital gains tax exempting primary homes
- A Green New Deal
- Flexisecurity – combining employment security with employer and worker flexibility and providing 90% income replacement on job loss for the first year and active labour market policies for those out of work
- The right for workers to require a Pay and Employment Equity workplace assessment
- Low interest funding for new housing through the Reserve Bank in the short term and in the longer run, creating a National Housing Strategy
- 6% compulsory employer Kiwisaver contributions (phased in over 4 years)
- Improved worker participation and depth and diversity of the news media

We hope that these papers provide a useful framework for a healthy and informed debate that will help take the union movement, and progressive forces within New Zealand, forward to a better society.

## NZIER Consensus Forecasts<sup>1</sup>

These consensus forecasts were published on 22 September 2009.

<b>March Year</b> <i>Percent Change</i>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>
GDP	-1.3	2.7	3.4
CPI	1.9	1.8	1.9
Private Sector Wages <sup>2</sup>	2.7	1.7	2.2
Employment	-1.8	0.8	2.2
Unemployment	7.1	7.3	6.7

## Economic Snapshot

- After five quarters of contraction, **GDP** increased by 0.1 percent for the June 2009 quarter. In annual terms GDP declined 1.8 percent.
- The **Consumer Price Index** (CPI) rose by 1.7 percent for the year to September 2009.
- **Food prices** rose 3.3 percent for the year to September 2009.
- **Unemployment** was sitting at 6.0 percent in June 2009. Māori unemployment was 12.6 percent, Pacific people's unemployment 12.8 percent, Asian unemployment 7.8 percent, and European/Pakeha unemployment 4.0 percent. Youth unemployment (15-19 year olds) was 22.9 percent and the unemployment rate for those aged 20 to 24 was 11.5 percent. In September 2009, 60,660 people were on unemployment benefits.
- The number of people in **employment** decreased in the year to June by 0.9 percent to a total of 2,169,000.
- 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 June 2009, were up annually by 4.5 percent (5.8 percent in the private sector and 3.8 percent in the public sector) and down from the 5.3 percent recorded in the March 2009 year. The average hourly wage is now \$25.06 (\$23.25 in the private sector and \$31.85 in the public sector). The female rate of pay is \$23.31 which is 87.9 percent of the male wage of \$26.51. The Labour Cost Index (LCI) shows that ordinary time wages went up by 2.9 percent in the June 2009 year (2.6 percent in the private sector and 3.6 percent in the public sector). For those workers who received a pay rise in the year, the median increase was 4.0 percent and the average increase was 5.2 percent.
- On 28 October the Reserve Bank of NZ left the **official cash rate** unchanged at 2.5 percent for the fourth consecutive review.

<sup>1</sup> 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.

<sup>2</sup> As measured by Statistics New Zealand's Quarterly Employment Survey.

## **Consumer Price Index (CPI)**

Annual CPI increased 1.7 percent in the September 2009 quarter; the lowest figure since August 2004. This follows a 1.9 percent annual increase in the June 2009 quarter and a 3.0 percent increase in the March 2009 quarter. However, in the last 3 months the CPI has increased 1.3 percent alone, fuelled by increases in transport (up 3.1 percent), food (up 1.7 percent) and housing and household utilities (up 0.7 percent). The annual increase was led by rises in food prices (up 5.4 percent) and housing and household utilities (up 2.1 percent). The biggest individual increases were seen in second hand cars (up 12.9 percent), electricity (up 4.5 percent), and local authority payments (up 6.6 percent). The transport sector fell 5.5 percent during the year, the only group out of the 11 covered by the index to record a fall. The most significant individual falls occurred for petrol prices (down 19.0 percent), diesel prices (down 29.9 percent), and international air transport and overseas package holidays (down 15.1 percent and 11.9 percent respectively).

## **Food Prices**

The food price index dropped 0.7 percent in the month of September 2009 following a 0.9 percent fall the previous month. Fruit and vegetables prices fell 8.4 percent in the month (influenced by the warm weather in August), grocery foods fell by 0.1 percent, whilst meat poultry and fish rose 1.8 percent and non-alcoholic beverages were up 1.9 percent. The annual change in food prices now stands at 3.8 percent, the lowest annual figure since June 2007 and down markedly from the 8.4 percent recorded just 2 months prior in July 2009. Vegetable prices are down 14.4 percent for the year, whilst fruit is up 6 percent, grocery foods are up 3.8, meat, poultry and fish are up 7.1 percent, non-alcoholic beverages are up 9.7 percent and restaurant meals and ready-to-eat food are up 3.6 percent.

## **Labour Cost Index**

The Labour Cost Index (LCI) showed that salary and ordinary time wage rates increased by 2.9 percent from the June 2008 quarter to the June 2009 quarter, which is a fall from the 3.6 percent recorded for the year to June 2008. The public sector saw a 3.6 percent increase and the private sector a 2.6 percent increase. The LCI reported that non-wage costs increased by 2.6 percent for the year, for which the primary driver was a 30.8 percent increase in the cost of superannuation. This was primarily due to the changes in the Kiwisaver scheme. However, the non-wage cost rise was down compared to the 8.3 percent increase recorded in June 2007 and the 4.3 percent increase recorded in June 2008. The costs of workplace accident insurance (covered by levies paid by employers to ACC) reduced by 2.5 percent for the June 2009 quarter compared to the June 2008 quarter.

## **NZ Income Survey**

Wage and salaries have increased in the latest New Zealand Income Survey

for the year to June 2009. The median hourly rate for wage and salary earners was \$19.47, a rise of 3.8 percent compared to the June 2008 quarter.<sup>3</sup> The average hourly rate reported was \$22.96, an increase of 2.7 percent over the year, but is significantly lower than the quarterly employment survey's (QES) \$25.09 which is considered more accurate. (The NZ Income Survey differs from the QES in that it asks householders directly about their incomes rather than using employers' data). Māori workers show a notably lower hourly rate than all wage and salary earners, with a median of \$18.31, and also recorded a lower increase than other earners of only 1.7 percent for the year. Pacific peoples' median hourly rate is even lower at \$16.96, but they did receive a higher annual increase of 6.0 percent. Wage and salary average weekly income has risen from \$447 to \$455 since June 2008 (although this 1.8 percent increase still sits below annual inflation of 1.9 percent for the June 2009 year). However, total median weekly income from all sources has barely changed over the year – from \$536 to \$538 – dragged down by falling income from self-employment and investment. For Māori weekly wage and salary earnings fell 1.5 percent, from \$398 in 2008 to \$392 in 2009, and for Pacific peoples' weekly wages and salary earnings fell 4.3 percent from \$375 to \$359. This appears to show an increasing stress on incomes as a result of lowered hours of work and unemployment. The survey also shows that for those who are out of work, over half appear to have no income at all.

### **Unemployment Benefit**

The number of people collecting employment benefits at the end of September 2009 was 60,660, up from 50,850 at the end of June 2009. These most recent figures represent an increase of 37,000 beneficiaries since the same time in 2008 (a 161 percent increase). Of current beneficiary recipients, 73 percent are male, 34.5 percent are Māori, 10.7 percent are Pacific Islanders, 8.3 percent had dependent children (6 years or under), and 88 percent have been on the unemployment benefit for less than 1 year. The number on the benefit for more than a year has bottomed out and begun to rise again – from 11.1 percent of all those on the unemployment benefit in June to 12.3 percent in September. There was a fall of 90 on the unemployment benefit in the week ended 2 October, according to a media statement from the Minister of Social Development and Employment, but the number was expected to resume rising. Two other benefit types have seen marked rises since last year: domestic purposes beneficiaries (up 9.3 percent to 107,658) and sickness beneficiaries (up 17.0 percent to 56,384).

### **Government Accounts**

The Treasury's end of year financial statement to June 2009 showed a \$10.5 billion deficit in the total Crown operating balance, following a \$2.4 billion surplus at the end of the 2008 financial year. This deficit compares to the \$3.1 billion surplus that was originally forecasted in the 2008 budget and \$9.3

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<sup>3</sup> The median rate shows the wage which half earn below and half earn above, and is more representative than the average which is skewed upward by a relatively small number of high earners.

billion deficit that was forecast in the May 2009 budget. The majority of the loss in revenue was due to the lower corporate and individual tax receipts as a result of the recession on top of an estimated \$3.0 billion loss due to tax cuts. These falls in tax revenue were offset by the recognition of \$1.4 billion from tax that banks are expected to be made to repay as the result of the High Court ruling against the BNZ. Increased spending has occurred in areas such as welfare and social security (up \$1.4 billion), unemployment benefits (up \$0.1 billion), provision for payments under the retail deposit guarantee scheme (\$0.8 billion), as well as a \$2.8 billion operating deficit in the NZ Super Fund. The Operating Balance Excluding Gains and Losses (OBEGAL) stood at a deficit of \$3.9 billion, \$5.2 billion less than the surplus forecasted in the 2008 budget and \$1 billion worse than expected in the May Budget. The cash deficit was \$8.6 billion. Gross debt was \$43.4 billion (or 24.1% of GDP). Net debt, which excludes the New Zealand Super Fund and advances such as student loans, was \$17.1 billion or 9.5 percent of GDP, a rise of \$6.9 billion and higher than the \$15.5 billion forecast in May. As of 30 June 2009, the Crown's net worth stood at \$99.5 billion, down from \$105.5 billion a year before and the first decline since 1999. \$5.8 billion of the decline was due to an increase in the ACC claims liability, about which Treasury notes, "actuarial valuations on large, long term liabilities such as the ACC claims liability are particularly sensitive to underlying assumptions such as discount rates and inflation rates. A small change in these assumptions could have a significant effect on the value of the liability and the operating balance."

## **Trade**

For the September 2009 quarter, the seasonally adjusted trade balance was a \$104 million deficit (1.1 percent of exports). This followed relatively small deficits in the June 2009 quarter (\$262 million) and the March 2009 quarter (\$38 million). The seasonally adjusted value of imports fell by 8.1 percent for the quarter to \$9.5 billion. Corresponding export values were \$9.4 billion for the quarter, a fall of 6.8 percent, the third consecutive quarter of declines. This fall affected 9 out of the 10 commodity groups, with meat exports reporting the largest fall of 18.3 percent. Crude oil was the only commodity group to increase exports which increased 40.2 percent for the quarter.

## **Manufacturing Sector**

The Performance of Manufacturing Index (PMI) for September 2009 showed expansion for the first time since April 2008, rising 2.9 points from the 48.7<sup>4</sup> recorded in August to 51.7. The employment index also showed expansion this month (51.2); the best result since January 2008. Food manufacturing (60.1) improved and petroleum, coal and chemical products (55.5) were also up. Machinery and equipment manufacture (49.1) showed some improvement, although it was still in contraction, whilst metal product manufacture (48.0) remained more or less stable. Elsewhere, Australia's PMI was 52.0 and the USA's was 52.6.

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<sup>4</sup> A figure under 50 shows the sector is contracting; above 50 shows that it is growing. The index is an early indicator of business activity

## **Service Sector**

The Performance of Services Index (PSI) for September 2009 improved for the third month in a row with an index of 53.2<sup>4</sup> up from 51.3 last month. New orders and activity/sales both improved (up to 58.6 and 58.0 respectively). Employment fell slightly after some steady improvements in previous months, to 48.0 from 49.3 last month. All regions recorded expansion apart from Otago and Southland, which dropped back to 45.6. As for the different sectors, the best result came from wholesale trade (60.8), followed by health and community services (56.8), and retail trade (54.8). Accommodation, cafes and restaurants posted a sharp contraction compared to the previous month dropping from 61.8 to 40.9 and property and business services (47.9) also went from expansion to contraction.

## **Migration**

On a seasonally adjusted basis there was a net gain of 1,800 permanent and long-term (PLT) migrants in September 2009 and a net gain for the year to September 2009 of 17,000 compared to a gain of 4,400 in the previous year. This annual increase has come about as a result of 12,100 fewer PLT departures leaving NZ (down to 70,066) as well as a small increase in the number of arrivals, (up by 600 to 87,209). The International Migration and Travel Survey also reported that visitor arrivals to NZ were up 9 percent to 172,400 in the September 2009 month compared to September 2008.

## **Housing and Property**

The Real Estate Institute of New Zealand's (REINZ) Monthly Housing Price Index showed that house prices have increased by 5.3 percent in the past 12 months, but are still 4.4 percent below the peak that was recorded in November 2007. House prices are rising strongly in the main centres with Auckland up 9.0 percent, Wellington up 8.7 percent, and Christchurch up 10.2 percent compared to September 2008. The number of sales is up 30 percent on the same time last year. The national median house price for the month of September was \$350,000, from \$346,750 in August.

Statistics New Zealand reported there were 1,275 residential building consents, excluding apartments, in the month of September, a seasonally adjusted rise of 2.8 percent since August 2009, a trend 23 percent higher than in March and the highest number since August 2008. For the year however, residential building consents are still down 27 percent.

## **Retail Sales**

Retail sales for August 2009 were up 1.1 percent (\$60 million) on the previous month. The largest increases were recorded in clothing and soft goods (up 6.5 percent), hardware retailing (up 7.2 percent) while only small declines were recorded in a handful of industries including supermarkets and grocery stores (down 0.2 percent or \$3 million) and motor vehicle retailing (down 1.4 percent



or \$7 million). Compared to August 2008, retailing sales are down 1.1 percent, but excluding vehicle-related retailing, sales have increased 2.5 percent.

### **Work Stoppages**

In the year to June 2009, there were 18 work stoppages, composed of 17 full strikes and 1 partial strike. There were no lock outs over this period. Statistics New Zealand said the stoppages concerned 1,551 employees, causing a loss of 1,783 days of work, and costing the workers an estimated average of \$198 in wages. The June 2009 figures compare to 30 work stoppages in the June 2008 year and 35 in the June 2007 year.

### **The Benefits of Industry Training**

A recent study by the Department of Labour found that gaining a qualification at Level 4 or higher improved participants' earnings by 7 percent 48 months after training started when compared to nonparticipants. The greatest improvements in earnings occurred around the time that training ended and again about 12 months later. The impact on average earnings varied considerably by age and sex. The earnings of males aged 15–24 years were 11 percent higher than those of comparable non-participants 48 months after training started but the earnings of males in other age groups improved between 1 and 4 percent. Overall, the earnings of females only improved by 2 percent. Gaining a qualification at Level 3 improved the average earnings of males but not females. The average earnings of males were 2 percent higher than those of comparable nonparticipants 48 months after training started. Gaining a qualification at Level 1 or 2, completing a limited credit programme, or gaining no qualification did not improve average earnings during the 48 months after training started. Employment rates were between 3 and 8 percent higher 24 months after training started for those who completed qualifications or limited credit programmes than for comparable non-participants.

### **The Annual Enterprise Survey**

This survey showed that in the 2008 financial year the total income for all industries operating in NZ was up by 7.1 percent to \$560,763 million and total expenditure was up 10.6 percent to \$513,302. Because expenditure increased faster than income, the surplus before tax was down to \$53,516 million, an 18.3 percent fall from 2007. Expenditure on wages and salaries increased by 8.7 percent, following rises of 6.8 percent in 2007 and 7.7 percent in 2006. Expenditure decreased by 4.1 percent for self-employed workers in 2008. The wholesale sector made the largest contribution to the overall increase in enterprise income, up 9.3 percent or \$6,269 million to \$73,838 million. Income in the mining sector was up 55.4 percent (to a total of \$6,878 million) and saw a 48.7 percent rise in its surplus. The largest deficit before tax was recorded in the finance and insurance services down 39.3 percent from the previous year, as a result of 2.1 percent increase in income (after a 19.5 percent increase in 2007) and 20.9 percent increase in expenditure.

**Errata:**

Please note the following two corrections to the September Bulletin (which have been corrected in the online edition).

- In the commentary, the LCI showed that between **1992** (not 2002) and the present, ordinary time hourly wages and salaries fell by 1 percent.
- Under Economic Snapshot, food prices rose 4.6 percent over the year to **August**, not July.

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