

CTU Monthly Economic Bulletin

No. 108 (November 2009)

It pays to be union

There is considerable evidence that union members get better pay than nonunionists because of their coverage by collective agreements.

One survey of over a thousand studies of the economic effects of unions and collective bargaining in 2002 found that "Union members and other workers covered by collective agreements in industrial as well as in developing countries do, on average, get a wage markup over their nonunionized (or uncovered) counterparts." The survey found other benefits as well: for example collective bargaining and high union density reduced income inequality.¹

The Economic Policy Institute in the US publishes an annual report on "The State of Working America". In its latest report, it estimated the average "Union premium" to be US\$1.50 or 14.1 percent in 2007.²

In Australia, a 2007 study of the individual employment agreements imposed by the Howard Government ("Australian Workplace Agreements") showed that workers on collective agreements received on average A\$3.49 or 13.5 percent an hour more (A\$29.35 compared to A\$25.86)³.

So what about New Zealand?

The Victoria University Industrial Relations Centre collects and analyses the collective employment agreements in force in New Zealand. It recently

¹ "Unions and collective bargaining: Economic effects in a global environment.", by T. Aidt and Z Tzannatos, World Bank, Washington DC, 2002.

² See Table 3.32 from "The State of Working America 2008/2009", by Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, An Economic Policy Institute Book. Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2009. Tables and other material from the book are available at <u>http://www.stateofworkingamerica.org</u>.

³ "Australia at Work: The Benchmark Report", by Brigid van Wanrooy, Sarah Oxenbridge, John Buchanan, and Michelle Jakubauskas, Workplace Research Centre, University of Sydney, September 2007.

released its analysis for the year ended June 2009⁴. As always it provides a wealth of information, but we focus here on wage increases.

It shows that the average annual wage increase in the year to June for those on collectives was 3.8 percent. Compare this with the increase measured by Statistics New Zealand's Labour Cost Index (LCI) for salary and ordinary time wage rates: only 2.9 percent. This is not because unions happen to be most active in sectors which give bigger rises in any case: if sectors were covered in the same proportions as the LCI, the average increase for collectives would be well over 4 percent.

The advantage to being in a collective agreement is not only "on average", but in every sector in which there is collective bargaining, with apparently one exception. The exception is an odd one: education. Education is one of the most heavily unionised and collectivised sectors. It is therefore likely that the difference in recorded increases (4.0 percent according to the LCI and 3.7 percent according to Victoria University) is a result of the way annual increases are calculated in each case, rather than a real difference.

In the long run, the advantage of collectives remains. Over the 19 years that Victoria University have been analysing collective agreements, the average annual increase has been 2.4 percent. The LCI has increased only 2.1 percent on average over the 18 years it has been calculated. After taking inflation into account, the LCI fell by 0.1 percent on average annually during that time. Collective agreements rose on average by 0.2 percent more than inflation – small, but at least positive. They kept up with inflation whereas in general, wage and salary rates did not.

Another way to look at it is in terms of the increases received over the year.

	Decrease	Nil	Below 2%	2 to 2.9%	3 to 4.9%	5% or more	Total getting increase
Collectives	0%	0%	18%	18%	48%	16%	100%
All	0%	44%	4%	6%	28%	17%	55%

Spread of annual wage changes in year to June 2009 Percent getting each wage change

(Note: "All" comes from the LCI, where the boundaries for the various increases are slightly different: "Not more than 2 percent", "More than 2 but not more than 3 percent", "More than 3 but not more than 5 percent", and "More than 5 percent", respectively.)

All workers on collectives got an increase, whereas only 55 percent of workers in general got one. The pattern for 2009 is reasonably typical, except for those getting a large increase (5% or more). The pattern of a higher proportion of all workers getting a large increase than those on a collective has grown only since about 2002. For example in the year ended June 2001, 11 percent of those on collectives received a rise of 5 percent or more. Only 9 percent of all

⁴ "Employment Agreements: Bargaining Trends and Employment Law Update 2008/2009", by Stephen Blumenfeld, Sue Ryall and Peter Kiely, Industrial Relations Centre, Victoria University of Wellington, October 2009.

workers got such a rise that year. But it is true in general that within the much smaller proportion of all workers who received any pay rise, a higher proportion got high pay rises than among workers on collectives. Managers constitute 22 percent of paid employees according to the LCI's technical notes and it is well known that some of them receive much high pay rises than average, and they are less likely to be unionised.

So there is no doubt that for most workers, it pays to join a union and sign up to a collective.

Public Sector pay

A note about the public sector. Collective bargaining density (the proportion of employees covered by a collective employment agreement) is much higher in the public sector than the private sector: 49 percent compared to 9 percent according to Victoria University. Despite government criticism of salary levels in the public sector, the evidence is different. Private sector wage rate increases have been higher both in 2009 and on average since 1991. Private sector increases for those on collectives were 3.9 percent in 2009, while "core" central government collective salary rates rose only 3.7 percent. What did rise faster were pay rates in government trading enterprises (4.4 percent), and core local government (5.8 percent). The trading entities make their own decisions on the basis of their market position and profit requirements. Local government pay rates are out of central government hands. The picture painted by the LCI is slightly different but still shows that it is not "public service" employees in the ministries and departments of central government who are receiving wage rate rises greater than the private sector, but those in health, education, crown entities, trading entities and local government.

The Brash report: a sad lack of imagination

The 2025 Taskforce on achieving income parity with Australia, headed by Don Brash, released its first report as this Bulletin was finalised. Doubtless much more will be said, but it is exceptionally difficult to understand how "more of the same" will see New Zealand do any better. Especially when "the same" is the 1984 to mid 1990s "the same" (Brash in his press conference obviously felt the National-led government of the 1990s lost its way). Over this period we grew record levels of child poverty, income inequality grew the fastest in the OECD, real wages fell, international liabilities mounted, and according to the report's own data, GDP per capita continued to slide relative to Australia while it ushered in lower increases in labour productivity both in terms of our recent history and compared to Australia. Brash defended this by saving that it at least stopped the slide (GDP per capita reached bottom relative to the rest of the OECD about 1993). So how will more of the same start us speeding towards Australian incomes? Specious and selective arguments are used to justify the Taskforce's political preferences. For example consider this in regard to their drive towards smaller government. Of the 24 OECD countries with a larger GDP per capita than New Zealand in 2007 and 2008, 14 have higher government spending as a proportion of GDP. For example Finland and Denmark are similar sized economies to New Zealand but larger

government expenditure – in 2008, Finland 48.4 percent and Denmark 51.3 percent of GDP. Clearly it is a whole economic and social environment that leads to success, not just picking a few ideologically favoured aspects.

This is the last Economic Bulletin for the year. The next issue will be on 31 January. Best wishes for a good break and a fulfilling new year. Special good wishes and thanks to Gemma Habens who does the bulk of the work on the rest of the Bulletin, and has just completed her exams with colours flying.

Bill Rosenberg

NZIER Consensus Forecasts⁵

These consensus forecasts were published on 22 September 2009.

March Year Percent Change	2009/2010	2010/2011	2011/2012
GDP	-1.3	2.7	3.4
CPI	1.9	1.8	1.9
Private Sector Wages ⁶	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 2.0 percent for the year to October 2009.
- **Unemployment** was sitting at 6.5 percent in September 2009. Maori unemployment was 14.2 percent, Pacific unemployment was 12.3 percent, Asian unemployment was 8.5 percent and European/Pakeha unemployment was 4.5 percent. Youth unemployment (15-19 year olds) was 25.1 percent. In September 2009, 60,660 people were on unemployment benefits.
- The total number of people in **employment** decreased in the year to September by 1.8 percent to a total of 2,154,000.
- 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 September 2009, were up 5.1 percent in annual terms

⁵ 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.

⁶ As measured by Statistics New Zealand's Quarterly Employment Survey.

(4.4 percent in the private sector and 5.9 percent in the public sector). The average hourly wage is now \$25.42 (\$23.55 in the private sector and \$32.07 in the public sector). The female rate of pay is \$23.59 which is 87.4 percent of the male wage of \$26.98. The Labour Cost Index (LCI) shows that ordinary time wages went up by 2.1 percent in the September 2009 year (1.9 percent in the private sector and 2.9 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 4.8 percent.

• On 28 October the Reserve Bank left the **official cash rate** unchanged at 2.5 percent for the fourth consecutive review.

Food Prices

In the month of October 2009, the food price index dropped by 1.5 percent, the third monthly fall in a row. For largely seasonal reasons fruit and vegetable prices fell 4.6 percent for the month of October, following an 8.4 percent fall in September and a 3.3 percent fall in August. Meat poultry and fish also saw a sizeable monthly fall of 3.2 percent. From October 2008 to October 2009 food prices increased 2.0 percent. Leading this annual change were grocery foods (up 2.7 percent), non-alcoholic food and beverages (up 9.8 percent), and ready to eat meals (up 3.0 percent), whilst fruit and vegetables prices were down 6.0 percent.

Employment and Unemployment

Statistics New Zealand's Household Labour Force Survey for the September 2009 guarter reported that the unemployment rate had climbed to 6.5 percent and the seasonally adjusted number of people unemployed has risen to 150,000 (a 53.1 percent increase since the same period of last year). The unemployment rate for 15-19 year olds is 25.1 percent, and for 20-24 year olds is 10.9 percent. Maori unemployment is 14.2 percent, Pacific unemployment is 12.3 percent, Asian unemployment is 8.5 percent and European/Pakeha unemployment is 4.5 percent. Some regions are disproportionally affected by unemployment with Gisborne/Hawkes Bay (10.0 percent) and Northland (9.3 percent) having the highest rates of unemployment, whilst Southland (3.7 percent) and Taranaki (3.8 percent) have the lowest rates. The total number of hours worked dropped by 3.1 percent for the year to September 2009. There were 254,000 jobless people at September – a 41.8 percent increase over the year and 11.1 percent of the workforce. The number of people that reported they were underemployed in the survey has risen 49 percent since September 2008 to 122,100 (and 79 percent for males, though the increase in numbers is evenly split between the sexes). The seasonally adjusted total number of people in employment decreased in the year to September by 1.8 percent to a total of 2,154,000 and those in full time employment decreased by 2.5 percent to 1,657,000. While New Zealand has been one of the least hard hit by the recession, its ranking in unemployment among OECD countries has fallen from 4th equal lowest in September 2006 to 5th in 2007, 8th equal in 2008, and 10th lowest in September 2009.

On a more positive note, Seek announced that from July 2009 to October 2009 the number of advertised positions increased 12.2 percent. However, Seek also said that New Zealand was experiencing a soft labour market with more applications being received than roles advertised.

Quarterly Employment Survey

The Quarterly Employment Survey showed that ordinary hourly earnings (excluding overtime) were up 5.1 percent between the September 2009 and September 2008 quarters. This is up on the 4.5 percent recorded in the June 2009 year. In the private sector ordinary hourly wages increased 4.4 percent for the year to September 2009 and 5.9 percent in the public sector. Average ordinary time earnings are now \$25.42 per hour (\$32.07 in the public sector and \$23.55 in the private sector). Seasonally adjusted paid hours decreased 3.0 percent between September 2008 and September 2009. Since September 2008, the total number of filled jobs has decreased 2.5 percent to 1,663,200 and this has been led by a 12.2 percent decrease of manufacturing jobs (to 194,800), an 8.3 percent decrease in food and accommodation jobs (to 120,000), an 8.1 percent decrease in wholesale trade (to 95,100), a 5.5 percent decline in retails jobs (to 177,900) and a 4.8 percent decline in construction (to 123,900). On the other hand, Professional, scientific, technical, administration and support services rose 10.1 percent to 213,800.

Labour Cost Index

The Labour Cost Index (LCI) for salaries and ordinary time wage rates rose 2.1 percent between the September 2008 quarter and the September 2009 quarter. This was the lowest rise in almost seven years, and down on the 3.9 percent increase recorded at the same time last year. Ordinary salary and wage rates increased 2.9 percent for the public sector and 1.9 percent for the private sector. In the year to the September 2009 quarter, there was a 4.8 percent mean increase (down from 6.1 percent in the September 2008 year) and a 4.0 median increase (down from the 4.4 percent recorded in the September 2008 year) for the 47 percent of salary and ordinary time wages who saw a pay rise. For the September 2009 quarter, the 15 percent of salary and ordinary time wages that saw an increase gained on average 3.8 percent (down from 5.0 percent in the September 2008 quarter) and a 3.7 median increase (down from the 4.0 percent in September 2008 quarter). Unlike the QES, the LCI corrects for changes in composition in industries, which may have been affected significantly by the fallout of the recession.

EMA (Employers and Manufacturers Association) Annual Wage Survey

The EMA's Wage and Salary Survey results were released this month. They claimed that 22 percent of 215 occupations had seen a pay cut this year compared to the previous year. The EMA also say that 9 percent received no pay rise at all. For those who did receive a pay increase the average was 2.5 percent although the EMA state that it was most common for the increase to be below 1 percent. Higher wage increases, the EMA say, were due to agreements that pre-dated the economic downturn. In terms of people leaving

employment, 16 percent were due to redundancy (over a two-fold increase since 2008) and 19 percent (up from just 2 percent in 2008) were due to fixed-term contracts expiring.

Household Economic Survey

Statistic New Zealand's 2008/09 Household Economic Survey considers data on personal income, living standards and housing costs. It showed that median annual household incomes were up 8.5 percent to \$63,867, that average annual household incomes were up 5.6 percent to \$78,876 and that average annual personal incomes (in the form of annual wage and salaries) were up 9.2 percent to \$43,161. The ratio of household income spent on housing costs declined slightly to an average of 15.3 percent from an average of 16.1 in the 2007/08 year. This fall is largely due to reduced interest rates that have seen the costs of servicing a mortgage fall. However, at the same time the median expenditure on rent has gone up by 9.5 per cent to \$241 per week since the 2007/08 year: an increase that hits low and middle-income families the hardest. This showed up in that 19.3 percent of renters (or 102,100 households) spent more than 40 per cent of their household income on housing as opposed to the 6.3 percent of homeowners (68,200 households) that fell into this category. The survey also showed that just over one in four households in New Zealand paid at least a guarter of their income to housing (either rent or mortgage) in 2008/09.

2009 Social Report

Some highlights from the Ministry of Social Development's 2009 Social Report are that life expectancies, qualification levels and the proportion of people on low incomes has improved in the past decade. The report also notes the progress that has been made in improving the incomes of low to middle income households as a result of the Working for Families package. However, for economic measures, such as income inequality, market income per person and the percentage of the population relying on low income, New Zealand still sits below the OECD average. New Zealand also performs badly on obesity measures, suicides, road casualties and assault mortality.

Government Accounts

The Treasury's financial statement for the three months ending 30 September 2009 showed that tax revenue was \$11.7 billion, \$1.1 billion less than forecasted in the Budget Economic Fiscal Update (BEFU). This was led by corporate tax returns that were \$0.9 billion below forecast. The Operating Balance Excluding Gains and Losses (OBEGAL) was a deficit of \$2.02 billion and \$0.9 billion more than forecasted. There was a \$0.2 billion deficit in the total Crown operating balance, which was \$0.4 billion lower than forecast at \$3.3 billion. Gross debt was \$48.5 billion (26.9 percent of GDP), which was \$1.4 billion more than the BEFU forecast of \$47.1 billion. Net debt was \$21.3 billion (11.8 percent of GDP) and \$0.4 billion more than forecast. On the other hand, the NZS Fund (\$1.4 billion) and ACC (\$0.7 billion) made higher than expected

investment returns, helping the operating balance, and beginning the reversal of the ACC's growth in liabilities which the Government has given as the reason for cutbacks in ACC coverage, increases in levies.

National Accounts

The National Accounts for the year ending March 2009 were released by Statistics NZ this month. These show that the current price gross domestic product (GDP) for the year to March 2009 increased by 2.0 percent⁷. This is a 10 year low and is down significantly from the 7.7 percent GDP growth recorded in the year to March 2008. Accounting for a large proportion of this year's GDP rise was a 4 percent rise in compensation for employees - the lowest rise since March 2000. Business profits (gross operating surplus - up just 0.3 percent) were the lowest on record since 1975. The result was a small rebalancing in the split between compensation of employees and gross operating surplus from 43:45 percent of GDP respectively to 44:44 percent. Household spending was also curtailed, increasing by 2.7 percent after increasing 4.9 percent in the March 2008 year. For the March 2009 year, final consumption expenditure of central government increased by 8.9 percent and of local government 7.0 percent. Government and business investment in fixed assets (plant, property, and equipment) declined by 3.8 percent with business investment declining 6.0 percent alone. National disposable income (the amount available for spending and saving in New Zealand) rose 1.5 percent – a 17 year low and down markedly on the 7.4 percent rise in the March 2008 year. Net overseas borrowing was \$15.2 billion, or 8.2 percent of GDP, which was the same as the percentage for the March 2008 year. It was the equivalent of 38.9 percent of Gross fixed capital formation, a little higher than the 35.8 percent of 2008 but much higher than the 18.7 percent of five years ago. For the March 2009 year there was a worsening \$2.5 billion deficit in the balance of international trade in goods and services. Imports increased by \$5.4 billion while exports increased by \$6.2 billion. The external current account deficit was \$14.6 billion (or 7.9 percent of GDP).

Producers Price Index

The Producer's Price Index (PPI) for the September 2009 quarter showed output prices shrank by 1.4 percent and input costs shrank by 1.1 percent, indicating prices businesses receive and business costs are both falling. There was a 2.1 percent fall in output prices between the September 2008 and 2009 quarters, led by a 20.9 percent decline in mining, a 9.1 percent decline in electricity, gas and water, an 8.3 percent decline in agriculture, forestry and fishing and a 4.3 percent decline in manufacturing. The biggest individual fall occurred in dairy product manufacturing, down 35.6 percent. Finance and insurance output prices bucked the overall trend, increasing by 27.0 percent continuing a trend over the year of what Statistics New Zealand has described as increasing bank margins. Finance alone increased 41.1 percent for the year. However the sector's output prices fell in the latest

⁷ GDP is normally expressed in constant prices (rather than current prices which measure value-added production according to today's prices) in order to discern whether or not the quantity of final goods and services available to NZ is increasing or not.

quarter, after four quarters of high increases, so the trend may have run its course. For inputs, the change between September 2008 and 2009 was 5.8 percent, with manufacturing down 5.2 percent, transport and storage down 16.3 percent, wholesale trade down 18.7 percent and energy, gas and water down 27.6.

Manufacturing Sector

The Performance of Manufacturing Index (PMI) for October 2009 continued to show signs of expansion despite the PMI dropping to 50.6⁸ from the 51.7 recorded in September 2009. After a positive result in September, the employment index returned to contraction in October (46.5). Food manufacturing (68.5), petroleum, coal and chemical products (57.9) and metal product manufacture (53.1) all expanded, although to varying degrees but the textile manufacturing sector (46.3) contracted after 4 months of expansion. Global PMI hit a 39 month high of 54.4, whilst Australia's PMI was 51.7 and the USA's PMI was 55.7.

Service Sector

The Performance of Services Index (PSI) for October 2009 fell to 49.9⁴ after 3 months of expansion. Employment (50.4) showed slight contraction for the first time since February 2008. Activity/sales dropped from 58.0 in September to 48.4 in October. As for the different sectors in the service industry, the best result came from transport and storage (55.2) and retail trades (53.6), whilst less robust indices were recorded for property and business services (48.7) and accommodation, cafes and restaurants (43.8).

Retail Sales

Seasonally adjusted retail sales values for September 2009 quarter were up 0.5 percent (\$82 million) on the June 2009 quarter and retail volumes were up 0.1 percent for the same time period. The largest increase for the September quarter was recorded in appliance retailing with volumes up 6.5 percent and values up 5.1 percent (\$32 million). Supermarket sales were up 1.1 percent (\$41.0 million) for the quarter and after 6 quarters of decreases motor vehicle retail sales rose 1.9 percent (\$31 million). The largest fall was reported in department stores with sales values falling by 3.2 percent (\$30 million). For the month of September total sales values rose by 0.2 percent (\$10 million), lifted by improved vehicle-related retailing figures (up 0.9 percent or \$12 million for the month). According to BNZ, retail volumes were down 2.8 percent in annual terms, but if the auto industry is excluded then volumes decreased by just -0.2 percent.

Migration

On a seasonally adjusted basis permanent and long-term (PLT) arrivals exceeded departures by 2,100 in the month of October 2009. For the year to

⁸ 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

October 2009 PLT arrivals (86,700) exceeded departures (68,100) by 18,600. This figure is up dramatically from the net gain of 4,600 recorded for the year to October 2008 and is the highest gain since the August 2004 year.

Housing and Property

The Real Estate Institute of New Zealand's (REINZ) Monthly Housing Price Index showed that median house prices in October 2009 increased 5.6 percent since October 2008 to stand at \$355,000. The most dramatic increases in house prices over the year to October occurred in Wellington, up 12.5 percent (to \$415,000), Canterbury/Westland, up 6.2 percent (to \$310,000) and in Auckland up 5.1 percent (to \$455,000). However, 5 of the 12 districts have also experienced drops, with the greatest falls occurring in Northland, down 7.7 percent (to \$310,000) and Southland down 8.9 percent (to \$180,750). The number of sales is up 26.6 percent on the same time last year, although the October figure of 6,091 sales was down slightly on 6,464 sales that occurred in September 2009.

Trade

For the month of October 2009, merchandise export values fell by \$859 million to \$3.0 billion (or 22.4 percent) compared with the month of October 2008. Widespread declines across most export commodities were behind this fall, with the largest declines coming form milk powder, butter, and cheese (down \$318 million or 32.0 percent), crude oil (down \$138 million or 55.2 percent), casein products (down \$45 million or 43.3 percent) and aluminum products (\$42 million or 33.7 percent). A large part of the decline was driven by lower prices for milk and crude oil. For example, the value of whole milk powder exports was down \$126 million (35.1 percent) due to lower prices, though quantities were up 36.4 percent. There were also significant declines in import values in October 2009, down \$1.4 billion (or 28.3 percent) to \$3.5 billion compared to the October 2008. Significant contributors to this fall came from petroleum products (down \$432 million or 49.3 percent), and mechanical machinery and equipment (down \$178 million or 30.7 percent), although most commodities experienced declines. The fall in imports still appears to be driven by low production levels reducing demand for machinery and goods which are used in production. New Zealand's trade balance for October was a deficit of \$487 million or 16.4 percent of exports - but the lowest deficit for an October year since 2002.

And Building consents...

Statistics New Zealand reported there were 1,321 residential building consents, excluding apartments, in the month of October 2009. This is a seasonally adjusted rise of 11.0 percent since the September 2009 and the highest number of consents since June 2008.

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