NEW ZEALAND COUNCIL OF TRADE UNIONS
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Commentary

More evidence of growing income gaps: Inequality rising

Summary

The report on household incomes, inequality and hardship prepared each year by the Ministry of Social Development was released this month. It showed that income inequality rose again in the year to June 2011, and is now at its highest level ever in New Zealand. It also showed that the median (middle) household income fell by 3.0 percent over the year. This is the first time the median household income has fallen since the early 1990s. The changes in income were not evenly spread: the top third of households by income saw increasing incomes. The bottom two-thirds had falling incomes – some falling steeply.

Another report on inequality was released by Treasury in June. It shows extremely high inequality in market income (that is before taxes and tax credits like Working for Families). Their estimates of inequality in disposable income (after tax) are even higher than those shown by the MSD study. However the report confirms that the tax system plays a very significant role in reducing income inequality. It also looks at "final income" – income including the benefits of public services – and shows that this lowers inequality further. However it is the tax system (including Working for Families) that plays the biggest role.

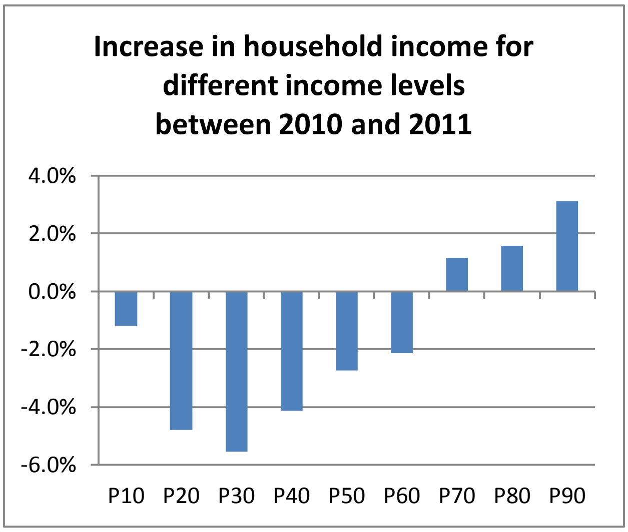
The reports also show that market income for the lowest income 50 percent of households was no greater in 2010 after taking account of inflation than it was in 1988. There were modest increases for the next 40 percent but large increases for the highest income tenth of households, which received 30 percent of all market income in 2010.

The report on household incomes prepared each year by the Ministry of Social Development, which looks at trends in inequality and hardship[1], was released this month. It showed that income inequality rose again in the year to June 2011, and is now at its highest level ever in New Zealand. It also showed falling household incomes in that year. The report, one of New Zealand's most valuable ongoing pieces of research, justifiably received widespread publicity. However another report on inequality by Treasury, has not received publicity. Together they indicate that not only is inequality rising in New Zealand, but confirm that New Zealand is one of the most unequal countries in the OECD.

[1] "Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2011", prepared by Bryan Perry, Ministry of Social Development, August 2012. Available at http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html. It uses data from Statistics New Zealand's Household Economic Survey. Note that though the data is for the year ended June 2011, on average surveyed households are reporting their income for around December 2010.

The Household Incomes Report – Ministry of Social Development

The MSD study looks mainly at household income after inflation, taxes and benefits including tax credits such as Working for Families ("real disposable income"), and adjusts it for the number of adults and children in the household ("equivalised"). That is what I'm reporting here. The incomes in the 2011 survey are after the Global Financial Crisis (GFC) had taken effect in New Zealand, and most of them were after the 2010 tax cuts. The survey shows that the median (middle) household income fell by 3.0 percent over the year. This is the first time the median household income has fallen since the early 1990s. However the *average* household income rose 1.1 percent because high incomes rose. At the same time income for the bottom two-thirds of households fell, mainly from lower employment income.



The graph shows the story. The "P" values mark the income boundaries between tenths of New Zealand households – for example, the lowest tenth in order of income, all have incomes below the P10 level, the highest income tenth all have incomes above the P90 level. The top third of households by income (marked by P70, P80 and P90) saw increasing incomes between the 2010 and 2011 surveys. The bottom two-thirds had falling incomes – some falling steeply. Thirty percent of households fall below the P30 mark and this fell 5.6 percent.

It is not simple to relate these "equivalised" incomes to "in the hand" dollar household incomes. In 2011, P30 was $23,800. The median disposable income (that is after taxes etc) of a two parent family with three or more children was $64,100 before equivalising and $25,300 after equivalising – close to the P30 mark. Similarly, the median disposable income of a sole parent with one child was $37,400 before equivalising and $24,300 after equivalising. Such families are likely to have experienced similar falls in income.

The result of these income changes is a widening of income inequality. High incomes had actually fallen the previous year because of the fall in investment income (profits and interest payments) at the height of the GFC, leading to a fall in income inequality in 2010. However the rise in 2011 more than cancelled that out. The Gini coefficient is a widely used measure of inequality which ranges from 0 (for complete equality) to 100 (if all income was in one household). The Gini coefficient fell from 32.3 in 2009 to 30.9 in 2010, but rose steeply to 33.3 in 2011 – the highest recorded in New Zealand. The MSD study says we can't tell yet if this is a trend, but it is certainly a steep rise. Even a small increase in the Gini represents a significant increase in inequality. It was at 26.0 in 1982 – a low figure – but had risen to 32.0 by 1996, the steepest rise in the OECD at a time of rapidly growing inequality throughout the OECD countries. It levelled out and fell slightly (to a low of 31.7) in the 2000s, mainly due to Working for Families, but has now begun to rise again.

The study for the first time looks at income mobility – to what extent people move up (or down) the income ladder as they age. The Government's standard response to the high inequality in New Zealand is to say that as long as there is good income mobility, inequality doesn't matter. The finding is that New Zealand's income mobility over the period studied is similar to that in European Union countries, Canada and Australia. Is this reassuring? If New Zealand's income inequality is particularly high, we would need higher income mobility to compensate for it. The period over which mobility was measured is also important: it was over the seven years, 2002 to 2009. Over most of this time, unemployment was falling (to some of the lowest rates in the OECD), employment participation was high, and it was the period when Working for Families was introduced. It should have been a relatively good time for income mobility. What was mobility like before and after this period? And even at this level of income mobility, 45 percent of people who started in the lowest 20 percent of incomes were still there or had returned to it seven years later.

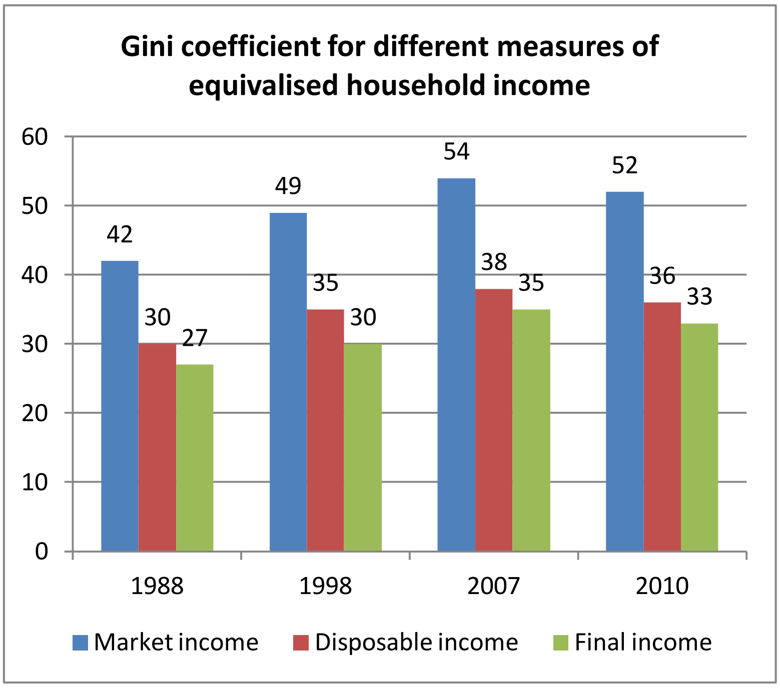
The effect of taxes and government services on income inequality - Treasury

The Treasury study was reported in a paper presented to the New Zealand Association of Economists annual conference at the end of June[2]. While the MSD paper looks mainly at disposable income (income after taxes and benefits including tax credits such as Working for Families), this research also looks at "market income" (income before taxes etc), and what is called "final income". Final income is disposable income plus the benefits of government services and after deducting indirect taxes such as GST. Because the income tax system is largely progressive (it taxes higher incomes at a higher rate), market income inequality is higher than disposable income inequality. Because more government services tend to go to low income households, disposable income inequality is higher than final income inequality. It shows the importance of government services to low income families.

This study updates previous studies going back to 1988. It shows that market income inequality in New Zealand is extremely high. Further, its Gini coefficients for disposable income are even higher than those shown by the MSD study. However it shows that the tax system plays a very significant role in reducing income inequality. Final income inequality is lower again, but it is the tax system (including Working for Families) that plays the biggest role. Unfortunately the final year of the study is 2010, so we do not see the effects of the income tax cuts and increase in GST in October 2010, and only the start of the GFC.

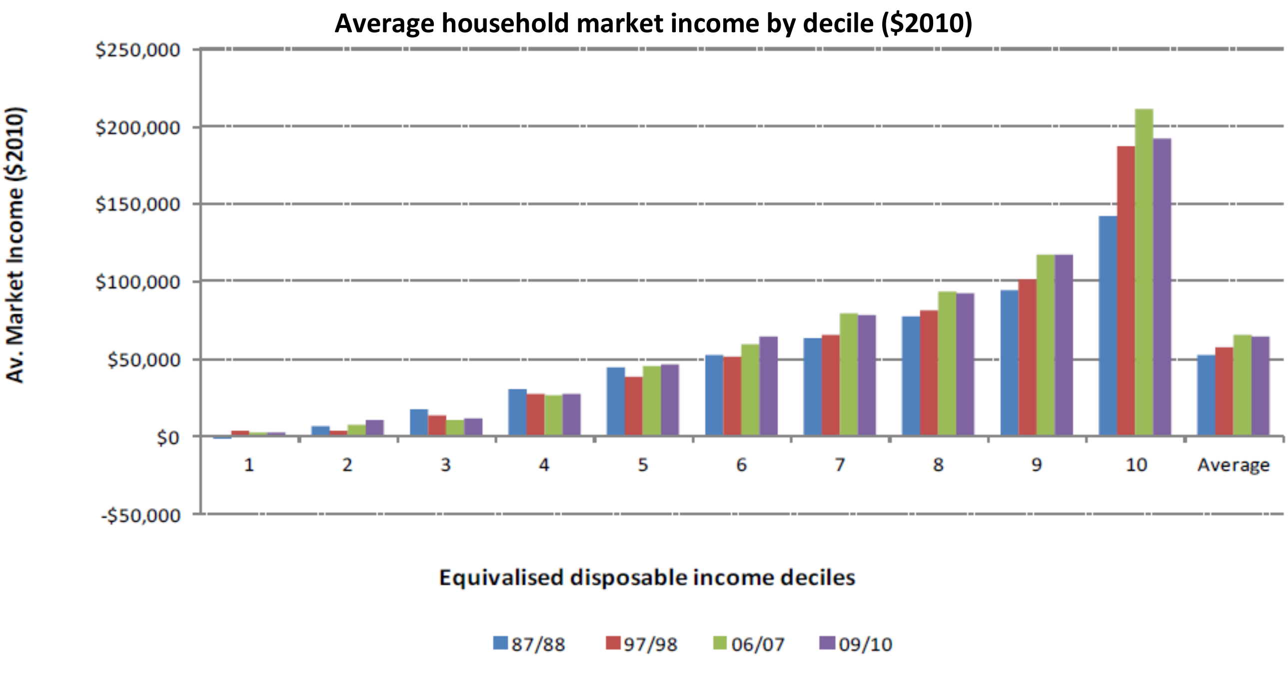
[2] "Fiscal Incidence in New Zealand: The Distributional Effect of Government Expenditure and Taxation on Household Income, 1988 to 2010", by Omar A. Aziz, Matthew Gibbons, Chris Ball and Emma Gorman, Treasury, June 2012. Available at http://www.nzae.org.nz/wp-content/uploads/2012/07/Aziz_Fiscal-Incidence-NZAE-2012-Conference-Paper.pdf.

The graph shows the Gini coefficients for the different forms of income over the years. Looking first at market income (in blue), the Gini coefficient rose from a high 42 in 1988 to an exceptionally high 54 by 2007. It fell to 52 in 2010. As have seen, that was largely because high income households were receiving less investment income as a result of the GFC. The MSD study shows that that reversed in 2011 and inequality increased by quite a leap. Even 52 – let alone 54 – is a very high value. According to OECD data[3], the highest market income inequality in the late 2000s was in Chile with a Gini of 50. It appears however that there is something different in the way the OECD is doing its calculations – it shows New Zealand at 40 for market income and 32 for disposable income in 2009. But what Treasury has found is very high rates of market income inequality, reflecting low wages and low benefit levels.



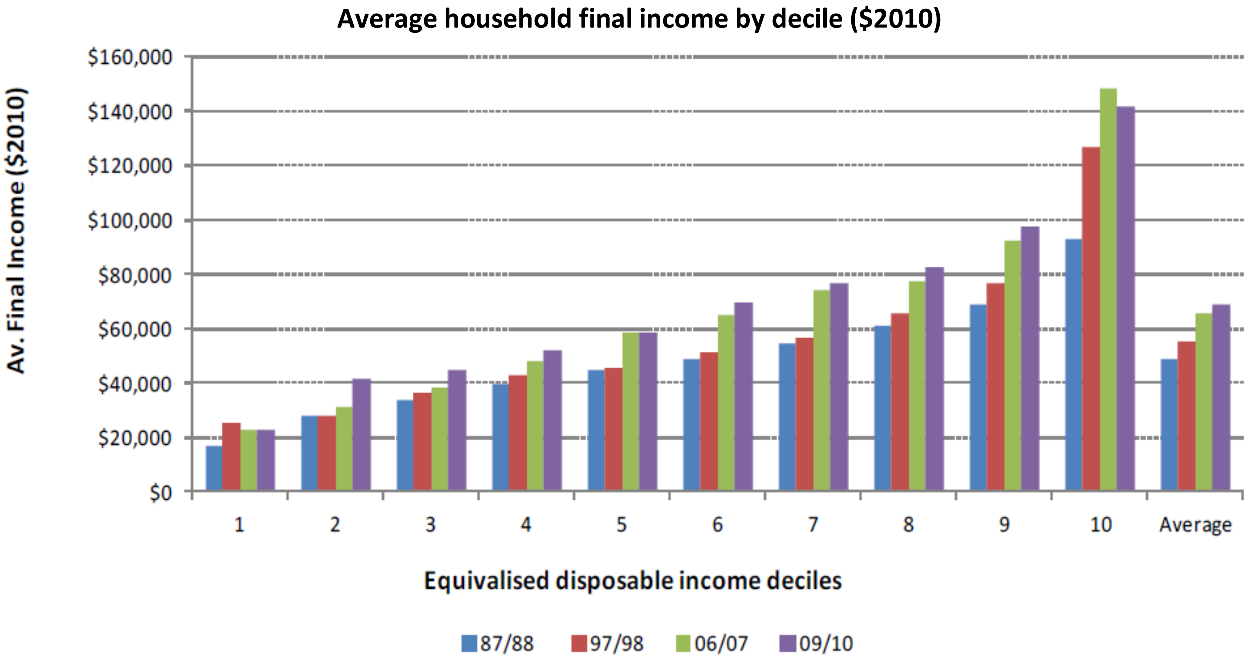
Looking at the 2010 figures, we see that the Gini coefficient falls by 16 to 36 as a result of the income tax system (in red), but by only another 3 points, to 33, as a result of government services (in green). That picture is reasonably consistent through the years, though the total reduction in 1988 was only 15 (compared to 19 in other years) – but because of the lower market income inequality, less work needed to be done to reduce it.

Another interesting aspect of this report is the light it sheds on income changes over the period 1988-2010. As the graph below shows, the market income for the lowest income 50 percent of households was no greater in 2010 after inflation than it was in 1988. There were modest increases for the next 40 percent (deciles 6-9 in the graph) but large increases for the highest income tenth of the population,



decile 10. Decile 10 received 32 percent of all market income in 2007 and 30 percent in 2010. There is a similar picture for household disposable income, which shows small increases for the lowest 50 percent of households, stronger increases for the next 40 percent and again very large increases for the top 10 percent.

"Final income" (including public services) shows a somewhat fairer spread of increases, but the largest is still at the top of the income ladder.



The public services included in the calculation of final income are mainly health and education, and there are problems in measuring even these. There is also a complex picture as to who benefits. Older people tend to benefit more from health services for example and because many are in low income households depending largely on New Zealand Superannuation, the benefits tend to be weighted towards lower income households. On the other hand, the benefits of community and preventative health care tend to be more evenly spread. In education, school children tend to be in lower income households because their parents are in general younger adults who tend to have lower incomes. But tertiary students have older parents who are more likely to be reaching the peak of their income earning, so the benefits tend to go to higher income households. Of course much of this depends on assumptions about how services are valued, and who the benefits go to, so needs to be treated with considerable caution.

Nonetheless these latest studies demonstrate again the high and growing income inequality in New Zealand, the failure of the market to provide decent incomes for very many families and a majority of households, the continuing importance of the income tax system for redistribution of income, and the value of public services.

Bill Rosenberg

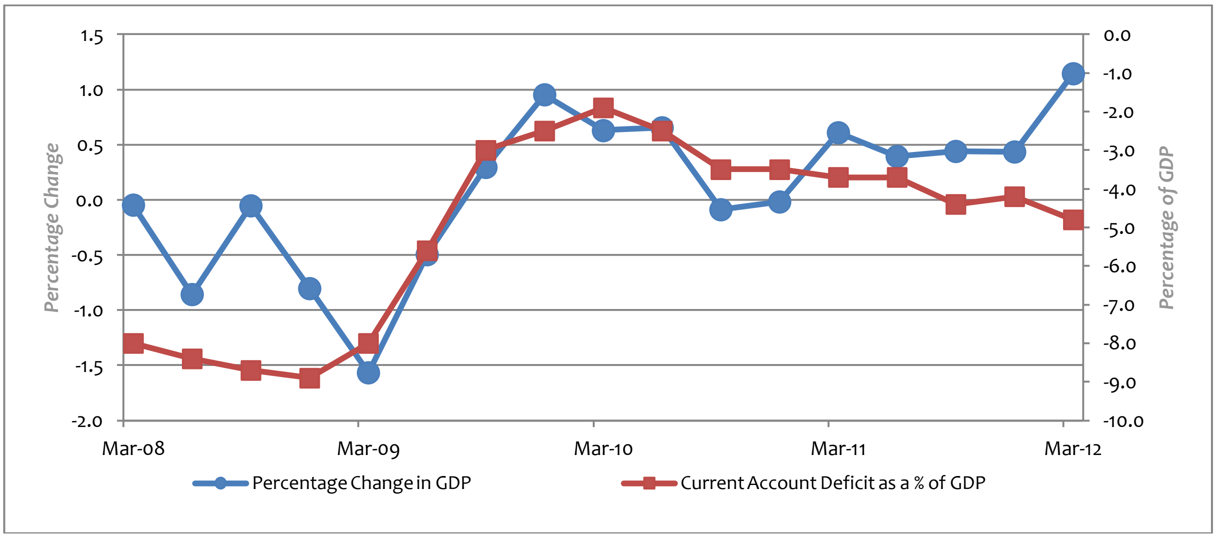
Forecast

★ This [NZIER forecast] was published on 18 June 2012. Figures in *red italics* are actuals rather than forecasts.

Annual Percentage Change (March Year)	**2011-12**	**2012-13**	**2013-14**
GDP	*1.7*	2.1	3.1
CPI	*1.6*	2.1	2.4
Private Sector Wages	*3.8*	3.2	3.1
Employment	*0.9*	1.3	2.2
Unemployment	*6.7*	6.2	5.5

A ★ indicates information that has been updated since the last bulletin.

Economy



- [Gross Domestic Product] was up 1.1 percent in the March 2012 quarter, and GDP growth for the year to March 2012 was 1.7 percent. The quarterly rise was well above expectations, and is not expected to be repeated. Primary industries rose 2.4 percent in the quarter, with agriculture increasing 2.3 percent in the quarter and 7.5 percent in the year, driven by higher milk production. However primary industries fell 0.5 percent for the year, largely because of a fall in output from mining, which was down 12.7 percent for the year. Goods-producing industries rose 1.0 percent in the quarter, the first increase since December 2010, leaving the sector 11.6 percent below its December 2007 peak. It fell 0.6 percent for the year. Manufacturing increased 1.8 percent in the quarter but electricity, gas, water and waste services fell 0.7 percent and construction 0.1 percent. Food, beverage and tobacco manufacturing rose 3.2 percent and metal manufacturing rose 6.1 percent but petroleum, chemical, polymer, and rubber product manufacturing fell 1.4 percent, and transport equipment, machinery, and equipment product manufacturing was down 1.5 percent. Manufacturing had its first annual rise (3.1 percent) since

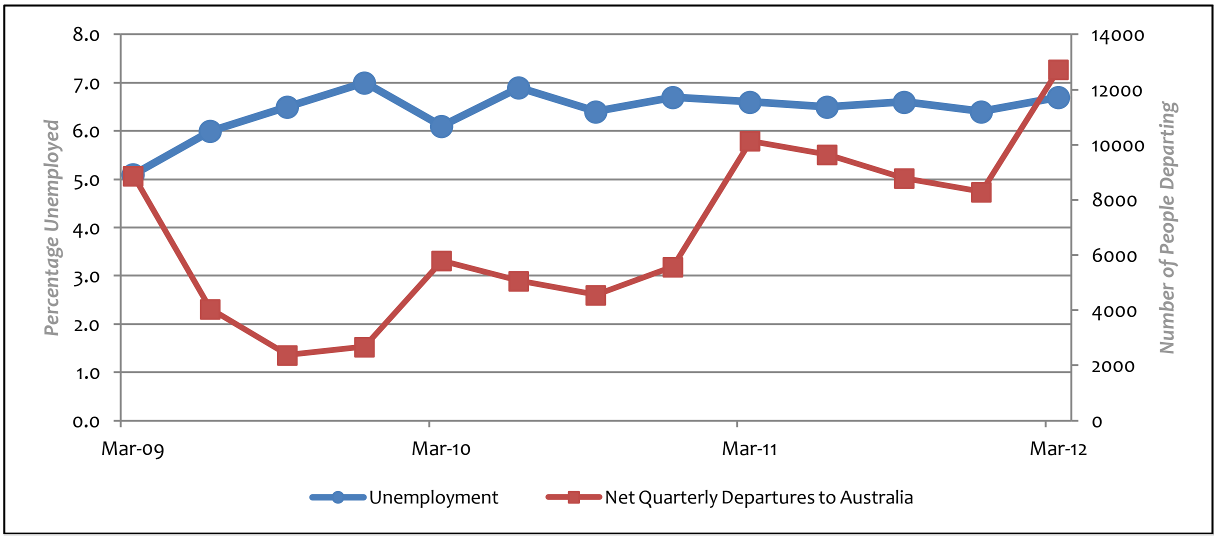
March 2008. Construction fell 8.1 percent in the year and is 25.0 percent below the December 2007 peak and at December 2003 levels. Services rose 0.4 percent in the quarter and 2.2 percent for the year. Household consumption expenditure rose only 0.1 percent in the quarter, including a 0.5 percent fall in purchases of non-durable goods. However it rose 2.2 percent for the year. Investment (gross fixed capital formation) rose 1.7 percent in the quarter, but is still 16.8 percent lower than its December 2007 peak. Investment in residential buildings fell 0.6 percent for the quarter and 11.9 percent for the year. However business investment rose 2.1 percent for the quarter and 2.4 percent for the year.

- New Zealand recorded a Current Account deficit of $2.8bn for the March 2012 quarter in seasonally adjusted terms, $624m worse than the December 2011 quarter. For the year to March the deficit was $9.7bn (4.8 percent of GDP) compared with $7.2bn (3.7 percent of GDP) for the year ended March 2011. The annual deficit is mainly due to profits and interest going to overseas investors (a $10.8bn deficit, not seasonally adjusted, resulting from $16.1bn going overseas less $5.3bn coming in from New Zealand investments abroad) plus a deficit in services trade ($1.3bn). This is partially offset by a positive balance on goods trade of $2.7bn.
- The country's Net International Liabilities were $143.2bn at the end of March 2012 – 70.9 percent of GDP compared with $146.3bn or 72.9 percent of GDP in December 2012, and $133.3bn or 68.0 percent of GDP in March 2011. Reinsurance claims owed but not yet paid for the Canterbury earthquakes totalled $11.9bn at the end of March, compared to a revised $13.1bn at the end of December 2011. These have been falling since June 2011 when they stood at $15.0bn. Without them, international liabilities would be $155.1bn. Total claims from all Canterbury earthquakes were estimated to be $15.7 billion, of which a total of $3.8 billion had been settled with overseas reinsurers. In March, the Government had net international liabilities of $3.8bn, $272 million more than the previous quarter, the first time it had had net international liabilities since December 2005.
- ★ For the month of July 2012, Overseas Merchandise Trade recorded a seasonally adjusted $126 million surplus – 3.1 percent of the value of exports. Exports fell by 0.4 percent or $16 million in the month and imports fell by 1.5 percent or $60 million compared to June. The fall in exports was led by logs, wood, and wood articles, which were down 19.5 percent in value ($63m) and 23.2 percent in volume. Crude oil (down 12.2 percent, $24m) and Fish (down 3.7 percent, $4m) were also down in value, while milk powder, butter and cheese (up 20.5 percent, $215m) and electrical machinery and equipment (up 3 percent, $3m) rose in value. Among imported goods, the value of 'petroleum and products' was down 23.2 percent ($170 million), following an 18.2 percent decrease in the month of June 2012, and the value of machinery and equipment was down 6 percent ($33 million). In contrast, the value of textiles and textile articles was up 19.4 percent ($30 million) and the value of plastic and plastic articles was up 3.1 percent ($5 million).
- ★ The Performance of Manufacturing Index for July 2012 decreased to 49.4[1], a slight decrease from 50.0 in June. The employment sub-index also decreased to 47.7 from 48.7 in June.
- ★ The Performance of Services Index for July 2012 was 53.1[1], a slight decrease from 53.9 in June. The employment sub-index showed a slight decrease to 52.5 in the month of July from 52.6 in June.
- ★ The Retail Trade Survey for the three months to June 2012 showed retail sales rose 1.3 percent by volume and 1.1 percent ($195 million) by value in the June quarter compared with the March

quarter. Motor-vehicle parts and sales volumes increased 7.3 percent, the largest since recordings began in 1995, but they tend to show an unreliable seasonal pattern. Supermarket sales volumes increased 0.3 percent, following a record fall of 3.9 percent In the March quarter. Volumes for core retailing, which excludes vehicle-related industries, rose 0.9 percent, following a record decrease of 1.4 percent in March 2012 quarter. Retail sales were up 4.8 percent in both volume and value (to $17.0bn) compared to the June quarter in 2011.

- On 26 July 2012 the Reserve Bank left the Official Cash Rate unchanged at 2.50 percent. The next review will be announced on 13 September 2012 which will also include a Monetary Policy Statement.
- The REINZ Housing Price Index recorded a 0.7 percent decrease in July 2012 after a 0.3 percent rise for the month of June. The median house price fell to $361,000 from a record high of $372,000 in June. The House Price Index was up 5.2 percent in the 12 months to July 2012.

Employment

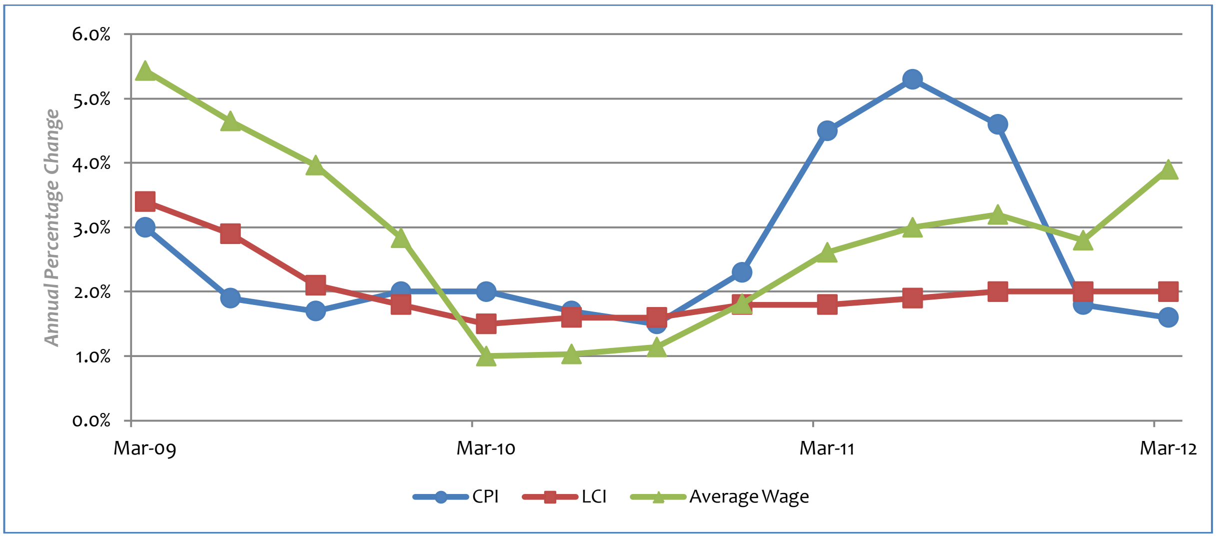


- According to the Household Labour Force Survey the unemployment rate in the June 2012 quarter was 6.8 percent, up 0.1 percentage point from 6.7 percent in the March 2012 quarter. The labour force participation rate was 68.4 – down 0.3 percentage points on March. There were 162,000 people unemployed; Maori unemployment was 12.8 percent (up from 12.6 percent in June 2011), Asian unemployment was 8.2 percent (up from 6.5 percent a year before), Pacific unemployment was 14.9 percent (up from 13.7 percent the previous June), and European/Pakeha unemployment was 5.2 percent (down from 5.3 percent a year before). Youth unemployment (15-19 year olds) was 23.6 percent (down from 27.6 percent the previous June) but for 20-24 year olds was up at 12.1 percent compared to 11.2 percent a year previously. There were 84,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 13.1 percent of people in that age group. Compared to unemployment rates in the OECD, New Zealand has slipped from 12th to 14th position (out of 35 countries) since March 2012.
- At the end of July 2012 there were 50,379 working age people on an Unemployment Benefit, a rise of 757, or 1.5 percent, from 49,662 in June. This follows a 0.8 percent rise in the number of

working age people on the unemployment benefit in the month of June 2012. (Quarterly figures on Unemployment Benefit numbers are available from the MSD website.)

- In July 2012, Job Vacancies Online increased 0.7 percent for all vacancies, following a 4.5 percent decrease in June. However skilled job vacancies decreased by 1.5 percent in seasonally adjusted terms, following a 2.1 percent decrease in June.
- International Travel and Migration figures show 6,640 permanent and long-term arrivals to New Zealand in July 2012 and 7,300 departures in seasonally adjusted terms, a net loss of 660. There was a net loss of 3,799 migrants in the year to July 2012. Net migration to Australia in the year to July 2012 was 39,849 departures. There was an increase of 5,697 permanent and long-term departures from New Zealand nationally for the year to July 2012 compared to the year to July 2011, the increase more than accounted for by Australia.

Wages

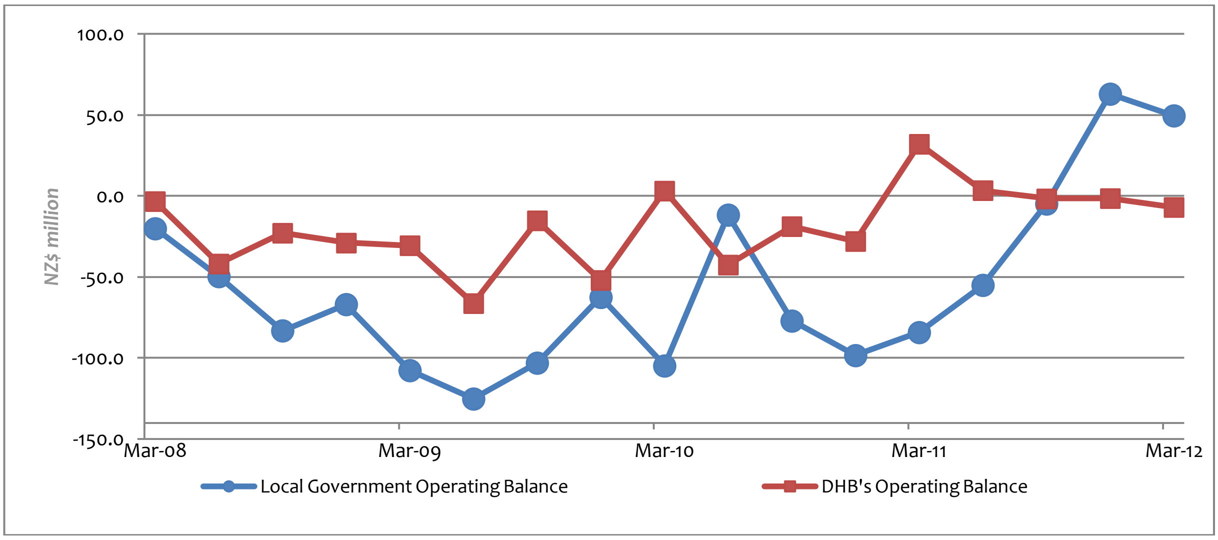


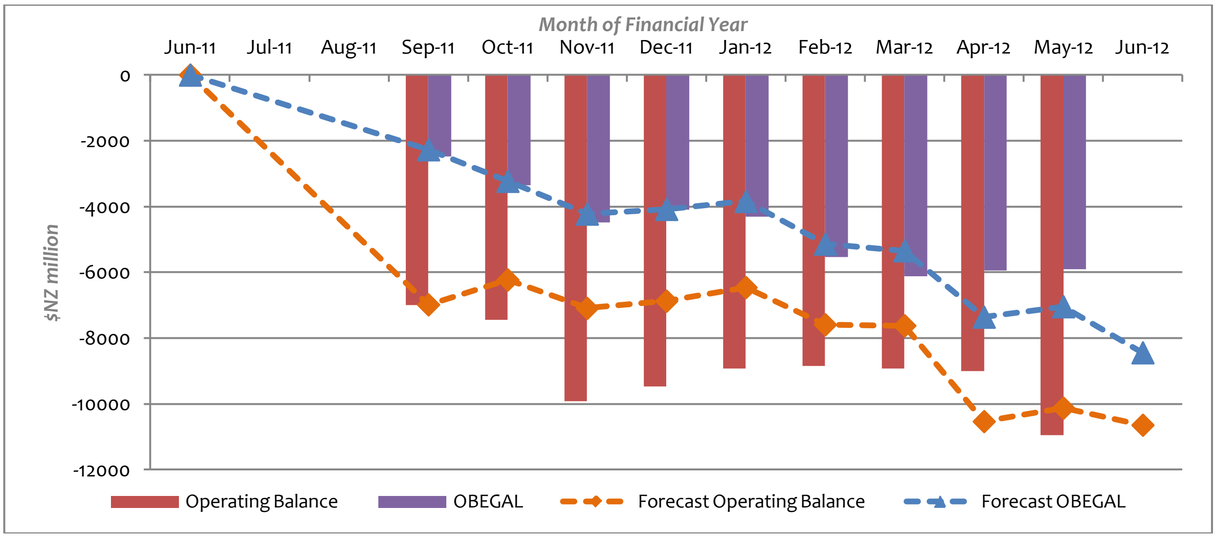
- The Labour Cost Index (Wage and Salary Rates) (LCI) rose 0.5 percent in the 3 months to June 2012 and 2.0 percent for the year to June 2012 for salary and ordinary wage rates. This modest increase means that wages and salaries have remained flat (adjusting for inflation) compared to 6 months ago, and are 2.5 percent behind where they were in March 2009. The LCI rose 0.3 percent for those in the public sector in the 3 months to June 2012 and 0.5 percent for those in the private sector. For the 56 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 3.0 percent.
- The March 2012 Quarterly Employment Survey found the average hourly earnings for ordinary-time work was $26.96, up 0.1 percent on the March 2012 quarter and 2.9 percent over the year. The average ordinary-time wage was $24.90 in the private sector (up 0.2 percent in the quarter and 2.9 percent in the year) and $34.27 in the public sector (down 1.4 percent in the quarter and up 3.1 percent in the year). Female workers (at $24.98) earned 12.8 percent less than male workers (at $28.66) for average ordinary time hourly earnings.
- The Consumer Price Index for the June 2012 quarter rose 0.3 percent and 1.0 percent for the year to June. This was the smallest annual change since a 0.5 percent increase for the year to December 1999 quarter. For the quarter, the largest contributor to the increase was a 4.5

percent rise in electricity prices. Vegetable prices also rose 11 percent as a result of higher prices for tomatoes (98 percent rise). Food and education prices each rose 0.1 percent , while communication prices fell 2.5 percent, and recreation and culture prices fell 0.3 percent.

- The Food Price Index rose by 0.2 percent in the month of July 2012 compared to June 2012, and food prices decreased 1.8 percent in the year between July 2011 and July 2012. In July compared with June, Fruit and Vegetable prices rose 4.4 percent (following a 9 percent rise between May and June 2012), Non-alcoholic Beverages prices rose 0.1 percent, Restaurant Meals and Ready-to-eat food prices fell 0.1 percent, Meat, Poultry and Fish fell 0.2 percent, and Grocery food prices fell 0.6 percent.

Public Sector





- According to Treasury's Financial Statements of the Government of New Zealand for the eleven months ended May 2012, Government revenue was up $689m (1.3 percent) on the forecast in the 2012 Budget Economic and Fiscal Update (BEFU). The difference to forecast was mainly due to tax revenue being $667m (1.3 percent) above forecast, including corporate tax up $389m and GST up $192m on forecast. Expenditure was $431m (0.7 percent) lower than forecast. As a result, the operating balance before gains and losses (OBEGAL) was $1.1bn better than forecast, showing a deficit of $5.9bn. The operating deficit was $10.9bn, $820m above forecast, largely due to a further $1.1b in actuarial losses on ACC's liabilities for outstanding claims as a result of a decrease in the discount rate. The Government's net debt is 24.6 percent of GDP, 0.5 percentage points better than forecast in the BEFU. The next government financial statement will be for the year ended 30 June 2012, and this is expected in October. The next monthly financial statement is expected to be for the period ended September 2012, and available in November.

- District Health Boards recorded an operating deficit of $6.9m for the March 2012 quarter compared to a deficit of $1.4m for the December 2011 quarter. Employment costs were $1.3bn, up 0.7 percent for the March 2012 quarter, compared to total expenses of $3.4bn, down 0.6 percent. Further information is on the Ministry of Health web site.
- Local Government recorded a 0.3 percent increase in operating income and a 1.0 percent rise in operating expenditure for the March 2012 quarter compared to December, resulting in an operating surplus for the quarter of $49.6m, compared to a surplus of $63.0m in the December quarter, all in seasonally adjusted terms. Without seasonal adjustment, their surplus for the March quarter was $90.6m, compared to a $37.7m deficit in the March 2011 quarter.

Notes

1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

This bulletin is available online at http://www.union.org.nz/economicbulletin138.
For further information contact Bill Rosenberg.