NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

# CTU Monthly Economic Bulletin

No. 139 (September 2012)

## *Commentary*

### Collective employment agreements: what pay increases and who benefits?


***Summary***

The Industrial Relations Centre at Victoria University collects information on collective employment agreements which it reports on each year. Its 2012 report shows slower wage growth in collectives than the previous year – 2.0 percent compared to 2.6 percent – but similar to employees in general. This is unusual because pay increases in collectives over the last 20 years have been markedly higher than employees in general have received. From 1992 to 2012, despite harsh law discouraging collectives and unions for almost half the period (a time when few employees, and particularly few government employees, did well), a wage of $10 in 1992 would have grown to $17.60 at the rate of collective agreement pay increases but only $15.30 at the general rate for all employees. In addition, employees in general miss out on pay increases much more often than those on collectives.

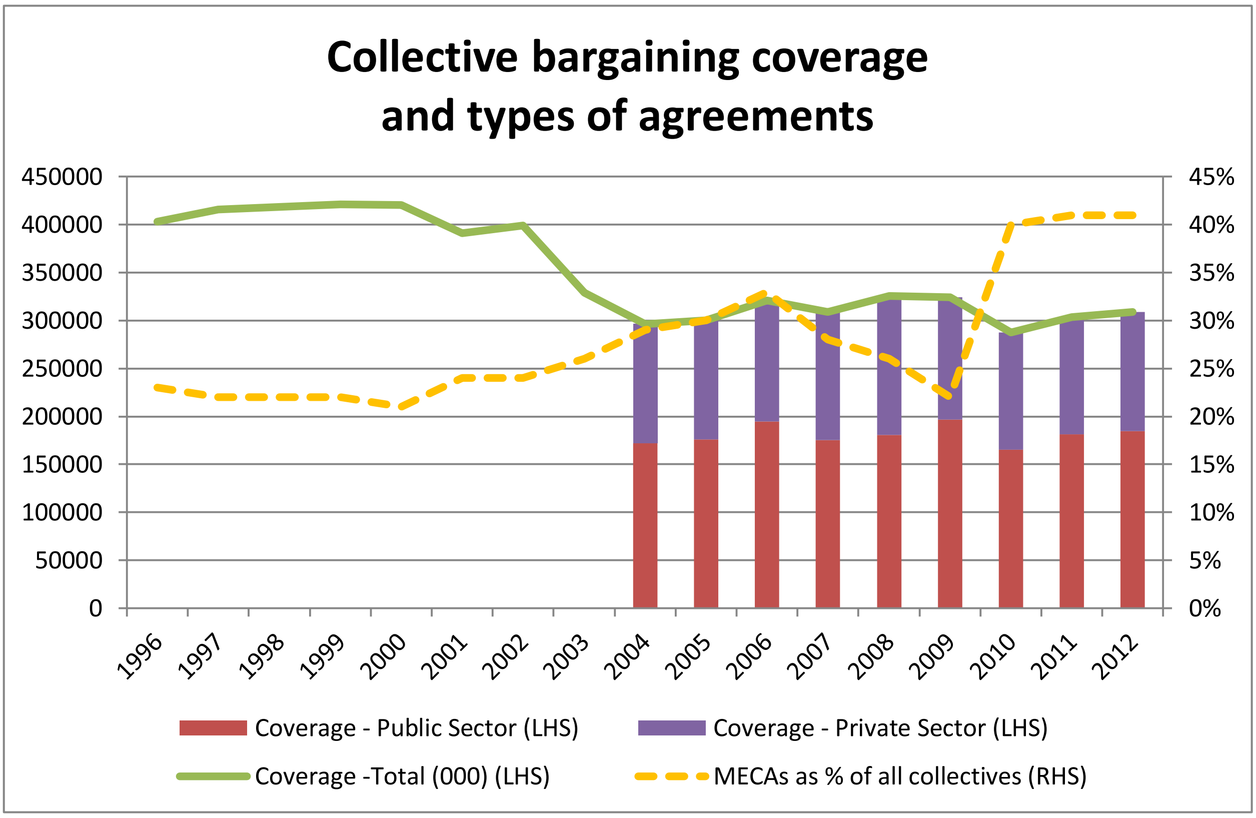
In the year to June 2012, 308,900 employees were covered by collective agreements, an increase of 5,200 or 1.7 percent over the year from 303,700 in 2011. Because the number of employees in the labour force increased by only 0.4 percent over that period, cover increased as a proportion of wage and salary earners. Coverage has risen faster than the number of employees since 2010 when it was at its lowest point ever with 287,300 covered by collectives (though this may have been partly because of not all collectives being supplied to IRC). Compare this to union membership which in March 2012 was 379,185. That is 20.4 percent of employees, and was down from 20.9 percent in 2011 with a fall of about 5,500 members.

Multi-employer collective agreements (MECAs) are increasing as a proportion of all collective agreements (the rest are single-employer collective agreements). In 2012, 41 percent of employees on collectives notified to the IRC were on MECAs, a similar proportion to 2010 and 2011, but almost twice the 22 percent in 2009. Multi-employer bargaining is however concentrated in the public sector, with 65 percent of core government employees covered by a MECA, up from only 33 percent in 2009. In the health sector, 83 percent of employees on collectives are in a MECA.


The Industrial Relations Centre (IRC) at Victoria University collects information on collective agreements which it presents around the country each year in July and August along with an employment law update. Its 2012 report shows slower wage growth in collectives than the previous year (but a similar increase to employees in general) and a small increase in numbers covered but a declining proportion of the workforce. Here are some key points on who they cover and the pay increases they brought.

**Coverage**

In the year to June 2012, 308,900 employees were covered by collective agreements, an increase of 5,200 or 1.7 percent over the year from 303,700 in 2011. Because the number of employees in the labour force increased by only 0.4 percent over that period, cover increased as a proportion of wage and salary earners. However bear in mind that cover recorded by the IRC depends on unions telling them about their collective agreements as they are settled, so they warn that these coverage figures may be underestimates. With this caution in mind, coverage has risen faster than the number of employees since 2010 when it was at its lowest point ever with 287,300 covered by collectives. Compare this to union membership which in March 2012 was 379,185 according to the Department of Labour. That is 20.4 percent of employees, and was down from 20.9 percent in 2011 with a fall of about 5,500 members.




Multi-employer collective agreements (MECAs) are increasing as a proportion of all collective agreements (the rest being single-employer collective agreements). In 2012, 41 percent of employees on collectives notified to the IRC were on MECAs, a similar proportion to 2010 and 2011, but almost twice the 22 percent in 2009. The change is mainly due to teacher agreements being reclassified. Multi-employer bargaining is however concentrated in the public sector, with 65 percent of core government employees covered by a MECA, up from only 33 percent in 2009. There has also been an amalgamation of a number of health sector agreements into MECAs, and 83 percent of health sector employees on collectives are now in a MECA.

Collective bargaining in general is becoming concentrated in the public sector. The IRC notes that only about 20 percent of New Zealand's employees are in the public sector but there are just under 50 percent more employees in the public sector than in the private sector who are covered by collective agreements. It estimates that 60 percent of employees covered by collectives are in the public sector.

**Pay**

The 857 collectives on which the IRC can calculate wage movements cover 205,395 employees in 2012. They can't calculate wage increases for some agreements for example because they don't cover wages, the preceding agreement had expired for too long, there had been a major restructuring of the agreement, or there was no preceding agreement from which to calculate an increase. The increases are measured by the minimum adult rate in the agreement, and so don't reflect changes that might occur in the structure of higher pay rates, nor the rises individual employees get such as through moving up scales. The collectives reflect their coverage, so 56 percent of these employees are in the public service (education accounts for 35 percent alone). So the average pay outcomes overall heavily reflect what has been happening in the public sector rather than being representative of the whole labour force. However they are also broken down into sectors and industries to give better comparisons.

The average annualised wage increase in the year to June 2012 was 2 percent compared to 2.6 percent in 2011. In 2010, the average increase was 4.2 percent, the highest the IRC had ever reported (they started in 1991). The best official statistic to compare this with is the Labour Cost Index (LCI), which measures wage and salary increases "for a fixed quantity and quality of labour input. Service increments, merit promotions, and increases (or decreases) relating to performance of the individual employee are not shown in the index." It includes increases resulting from collective bargaining.

The LCI showed a 2.0 percent increase over the same period, but only 1.6 percent for the central government sector, 2.4 percent in local government and 2.1 percent for the private sector. By comparison, the collectives increased 1.4 percent in the core government sector, 4.4 percent in the government trading sector, 2.5 percent in core local government and 2.7 percent in local government trading. Wages in the private sector agreements rose 2.6 percent.

On the face of it, the two don't look very different in 2012. This is a break from previous years. Going back 20 years to 1992[1], all wages measured by IRC rose at the rate of 2.9 percent per year, while the LCI rose only at a 2.1 percent rate; the private sector collectives rose by 3.1 percent annually while the LCI rose at only 2.1 percent; core government services collectives rose by 3.0 percent per year while the LCI rose only at 2.2 percent; and core local government services rose 2.3 percent per year while the LCI rose at 2.2 percent.

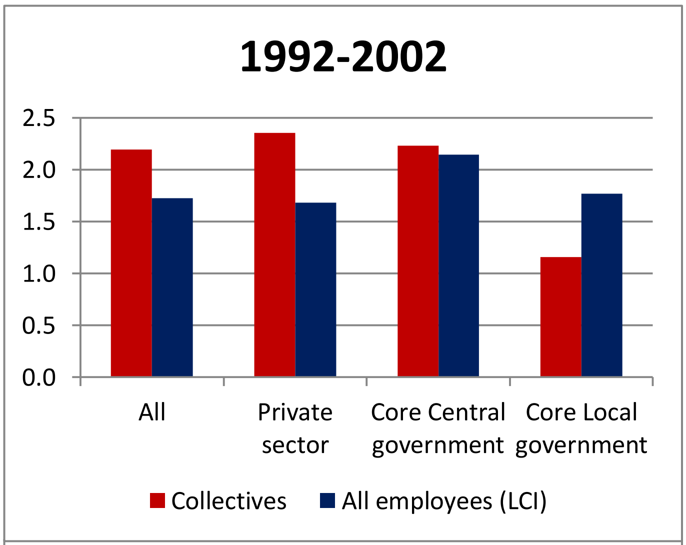
If we only go back 10 years, to 2002, all wages measured by IRC rose at the rate of 3.5 percent per year, while the LCI rose only at a 2.6 percent rate; the private sector collectives rose by 3.8 percent annually while the LCI rose at only 2.5 percent; core government services collectives rose by 3.1 percent per year while the LCI rose only at 2.2 percent; and core local government services rose 3.4 percent per year while the LCI rose at only 2.6 percent. Even during the years 1992-2002, which was mainly covered by

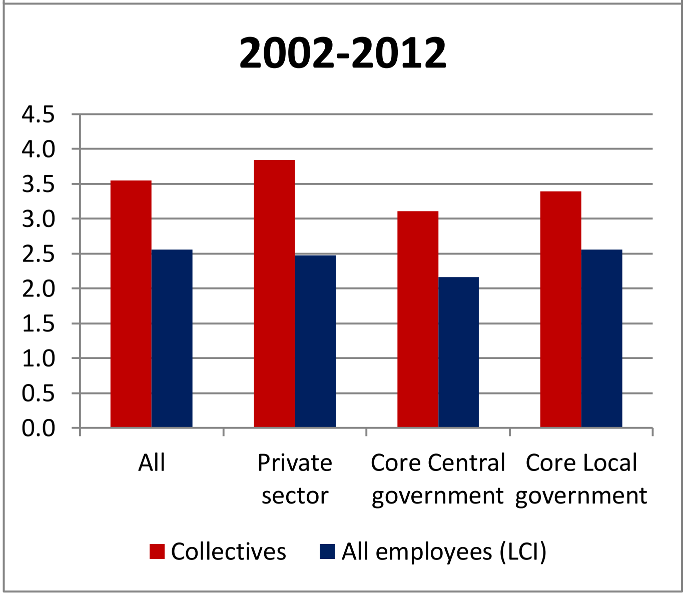
[1] Note that the LCI only goes back to December 2002 while the collectives data is at June each year. The difference is unlikely to be significant over these time periods. There was an anomalous sharp drop in core government rates in the collectives in 1992 and 1993 so these are measured back to only 1994.

the anti-union and anti-collective Employment Contracts Act, collectives did better (see the graph) though government employees suffered.

These are significant differences in pay rises. A $10 wage in 1992 rising at 2.9 percent a year for the next 20 years would be $17.60 in 2012, but rising at 2.1 percent would be only $15.30. A $10 wage in 2002 rising at 3.5 percent per year for 10 years would be $14.20 in 2012, but rising at 2.6 percent would be only $12.90.

**Comparing average annual wage and salary increases between employees on collectives and all employees.**




The average never tells the full story of course. I don't have the data to compare the distribution of wages and salaries in the collectivised and non-collectivised sectors but one significant difference is that employees on collectives almost all get a pay rise each year. According to the survey done for the LCI, in the three months to June 2012, 43 percent of employees had not received a wage or salary increase in the previous year. The number was as high as 56 percent in late 2009, 58 percent in 1999, and in the early 1990s was up to 69 percent, with further employees receiving pay cuts. However for people on collectives, even in those dark days of the early 1990s, around 30 percent – less than half of the proportion in the work force generally – received no increase or pay cuts. Since 1997 there has never been a year when employees on collectives have received a pay cut and since 2003, the number receiving no increase has been in single figures apart from 2012 when it was at 11 percent.

So on the face of it, not only do employees on collectives receive higher pay increases, but they receive them more consistently. During the global financial crisis, some of the increases kept on coming through via collective agreements because they were multiple year agreements. The lower increases this year are very likely a reflection of agreements now coming through that were negotiated in 2009 and 2010 or later under harsh economic conditions. In the year to June 2012, 48 percent of employees on collectives received an increase of 0.1 to 1.9 percent. Only 11 percent received that low an increased in 2007, and 13 percent in 2008. What is not taken account for these overall measures though is that the balance of industries that the collective agreements are in differs from the economy as a whole. You need to look more closely at the industries and sectors to get a better comparison, though there may well be other factors such as size of employer that also affect these differences.

There is a lot more detail in the report on provisions for leave, superannuation, redundancy, occupational health and safety, employment relationship problems, human rights, training and development, and more. The work the IRC does is a valuable and unique contribution to our knowledge of how collective bargaining and unions work. Support them by making sure your collective is in their collection.

**Bill Rosenberg**

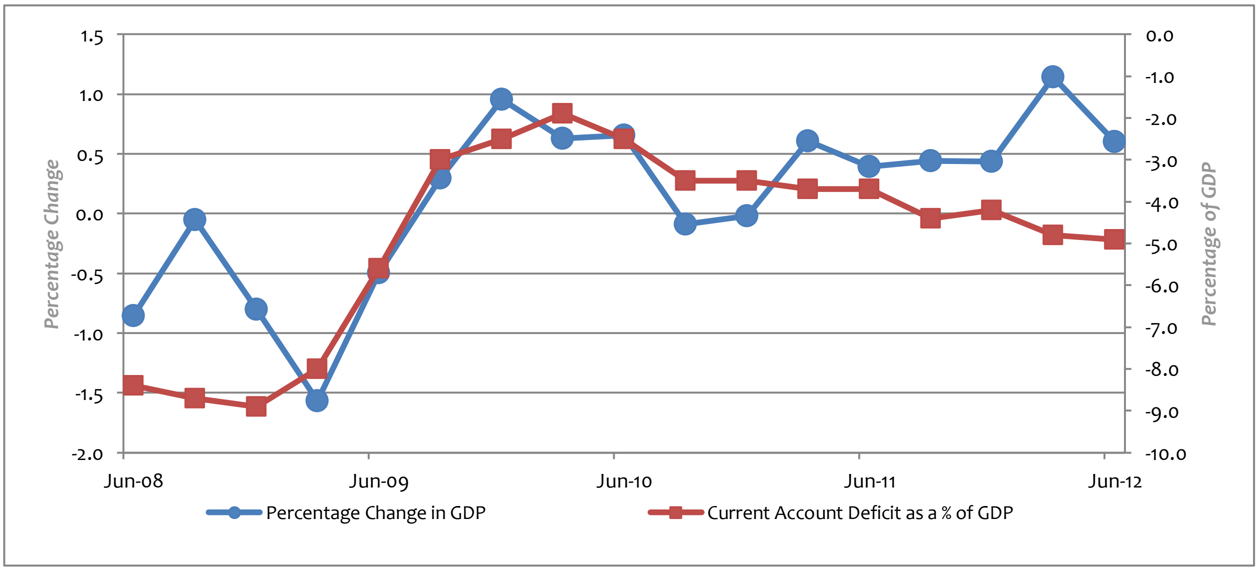
## Forecast

★ This [NZIER forecast]() was released on 17 September 2012.

| **Annual Percentage Change** (March Year) | **2012-13** | **2013-14** | **2014-15** |
|---|---|---|---|
| GDP | 2.4 | 2.9 | 2.4 |
| CPI | 1.8 | 2.4 | 2.6 |
| Private Sector Wages | 2.8 | 3.2 | 3.4 |
| Employment | 1.4 | 2.0 | 1.1 |
| Unemployment | 6.4 | 5.7 | 5.4 |

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

## Economy




★ New Zealand's economic growth slowed less than forecast in the June 2012 quarter amid strong agricultural output and construction. Gross Domestic Product rose 0.6 percent in the 3 months ended June 30, more strongly than the Reserve Bank's 0.4 percent estimate. GDP growth for the year to June 2012 was 2.6 percent. Primary industries rose 3.6 percent in the quarter, with agriculture increasing 4.7 percent in the quarter and 6.8 percent in the year. Agricultural production is now at the highest level since the series commenced in June 1987. Primary industries increased 3.1 percent for the year, which was led by increased activity in agriculture, forestry, and fishing. However growth in primary industries was depressed by mining, where activity was 3.5 percent lower in the year ended June 2012. Goods producing industries increased 0.9 percent in the quarter following a 1.0 percent rise in the March quarter. Manufacturing increased 0.8 percent in the quarter, but electricity, gas, water and waste services fell 2.4 percent. Food, beverage and tobacco manufacturing rose 0.6 percent and textile and apparel manufacturing rose 3.5 percent but wood and paper products manufacturing fell 1.3 percent and metal manufacturing fell 0.6 percent. Manufacturing activity increased 2.5 percent from the June 2011 quarter. Construction was up 3.3 percent in the June 2012 quarter but down 4.8 percent for the year and remains 22.4 percent below its December 2007 peak. However heavy and civil construction is at its highest level since the series began in June 1987. Services rose 0.7 percent in the quarter and 2.2 percent for the year. Household consumption rose just 0.2 percent in the quarter, with flat spending on non-durable goods and services. However household expenditure rose 2.5 percent for the year amid increased spending on durables (up 6.5 percent). Investment in fixed assets rose 3.1 percent in the quarter, but remains considerably lower (14.2 percent) than its December 2007 peak. Investment in residential buildings increased 5.7 percent for the quarter but showed a decline of 3.8 percent for the year. Business investment rose 2.8 percent following a 2.0 percent rise in the March 2012 quarter.

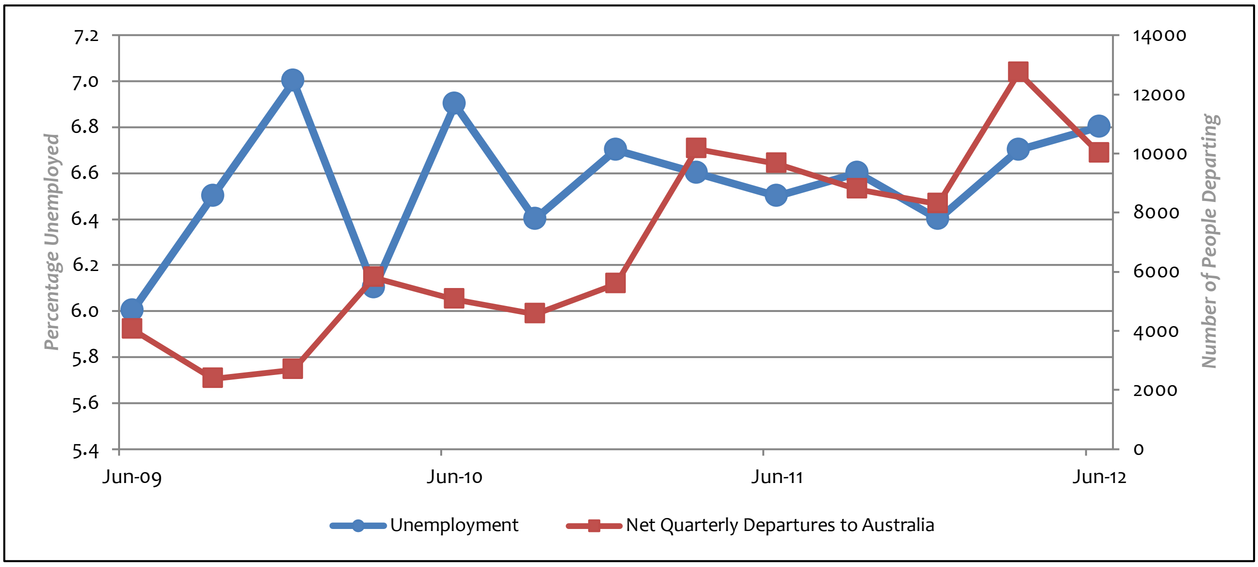
★ New Zealand recorded a Current Account deficit of $2.9 billion for the June 2012 quarter in seasonally adjusted terms, $0.3 billion worse than the March 2012 quarter. For the year to June 2012 the deficit was $10.1 billion (4.9 percent of GDP), up from $7.4 billion (3.8 percent of GDP) for the year ended June 2011. This deficit was mainly comprised of a negative balance on income (mainly from foreign investment in New Zealand) of $10.9 billion and services of $0.8 billion. This was partly offset by a positive balance on goods trade of $2.0 billion.

★ The country's Net International Liabilities were $148.6 billion at the end of June 2012 (72.6 percent of GDP) compared with a revised $145.6 billion (71.9 percent of GDP) in March 2012, and $136.2 billion or 68.9 percent of GDP in June 2011. Reinsurance claims owed but not yet paid for the Canterbury earthquakes were $12.8 billion at the end of June 2012, compared to a revised $14.1 billion at the end of March 2012. Reinsurance claims related to the Canterbury earthquakes have been falling since June 2011 when they stood at a revised $17.3 billion. Without them, international liabilities would be $161.4 billion. Total claims from all Canterbury earthquakes are now estimated to be $17.9 billion. As of 30 June 2012, a total of $5.1 billion had been settled with overseas reinsurers. While government overseas debt rose $3.7 billion in the quarter, so did its overseas assets, leaving a net rise of $1.3 billion to $4.7 billion or 3.2 percent of net liabilities overall. Australia is the largest owner of foreign investment in New Zealand, with one third of total foreign investment followed by the UK and the US. Income flowing to Australian investors doubled between the March 2010 and 2012 years from $4.0 billion to $8.0 billion, coming mainly from profits in companies which rose from $1.8 billion to $5.4 billion.

★ For the month of August 2012, Overseas Merchandise Trade recorded a seasonally adjusted $101 million deficit. Exports fell by 8.0 percent or $330 million in the month and imports fell by 1.3 percent or $50 million compared to July. The fall in exports was led by crude oil, which was down 42.5 percent in value ($94 million) and 36.5 percent in volume. Milk powder, butter, and cheese (down 16.6 percent, $210 million) and electrical machinery and equipment (down 12.7 percent, $12 million) were also down in value, while meat and edible offal (up 7.6 percent, $33 million) and fruit (up 5.9 percent, $8 million) rose in value. Among imported goods, the value of petroleum and products was up 21.1 percent ($112 million), following a 27.8 percent decrease in the month of July 2012, and the value of textiles and textile articles was up 5 percent ($10 million). By comparison, the value of imported mechanical machinery and equipment was down 2 percent ($10 million) and the value of imported plastic articles was down 1.5 percent ($2 million). Exports to Australia were down $172 million or 17 percent.

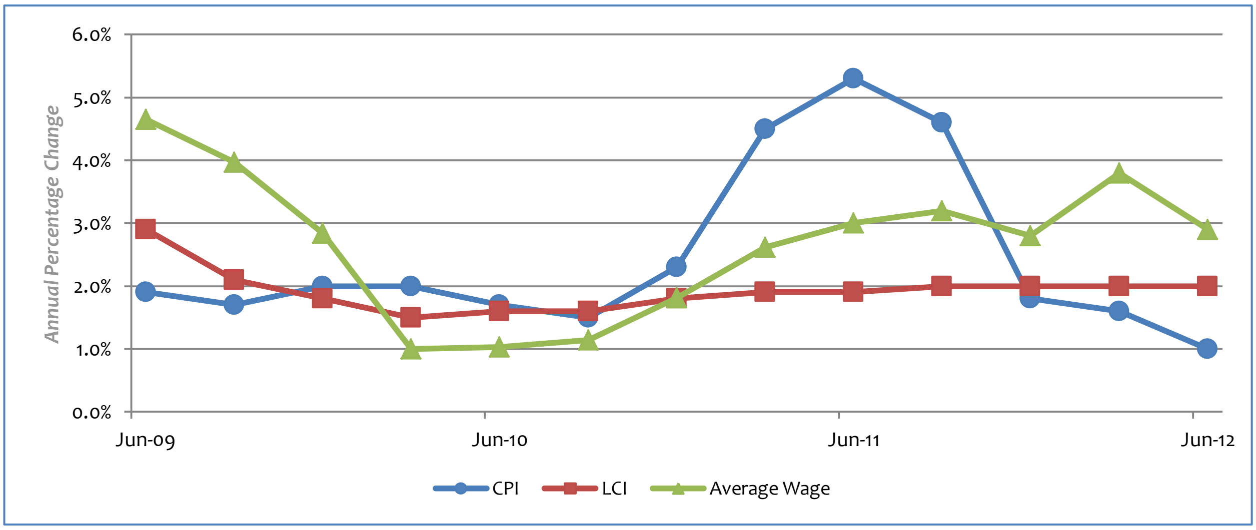
- ★ The Performance of Manufacturing Index for August 2012 was 47.2, a large decrease from 49.4 in July. The employment sub-index also decreased to 45.4 from 47.5 in July.
- ★ The Performance of Services Index for August 2012 was 50.0, a decrease from 52.4 in July. The employment sub-index showed a large decrease to 46.5 in the month of July from 52.3 in July.
- ⭘ 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 13 September 2012 the Reserve Bank left the Official Cash Rate unchanged at 2.50 percent. The next review will be announced on 25 October 2012.
- ★ The REINZ Housing Price Index recorded a 1.3 percent increase in August 2012 after a 0.7 percent fall for the month of July 2012. The national median house price increased to $370,000 from $361,000 in July, an increase of 2.5 percent. The House Price Index was up 6.1 percent in the 12 months to August 2012.

# *Employment*



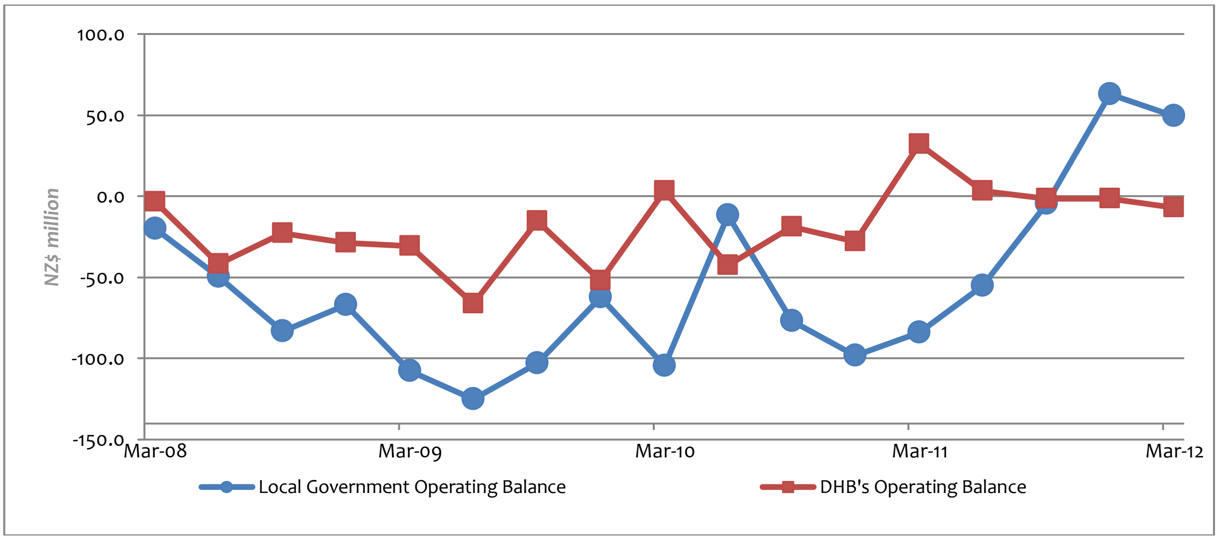

- According to the Household Labour Force Survey the unemployment rate in the June 2012 quarter was 6.8 percent, up 0.1 percentage point from 6.7 percent in the March 2012 quarter. The labour force participation rate was 68.4 – down 0.3 percentage points on March. There were 162,000 people unemployed; 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 August 2012 there were 50,283 working age people on an Unemployment Benefit, a decrease of 96, or 0.2 percent, from 50,379 in July. This follows a 1.5 percent rise in the number of working age people on the unemployment benefit in the month of July 2012. (Quarterly figures on Unemployment Benefit numbers are available from the MSD website.)
- ★ Job Vacancies Online showed, in seasonally adjusted terms, that all job vacancies increased 2.6 percent in the month of August 2012, following a revised 0.8 percent increase in July 2012. Skilled job vacancies increased 4.9 percent, following a 1.5 percent decrease in July.
- ★ International Travel and Migration figures show 6,810 permanent and long-term arrivals to New Zealand in August 2012 and 7,140 departures in seasonally adjusted terms, a net loss of 340. There was a net loss of 4,118 migrants in the year to August 2012. Net migration to Australia in the year to August 2012 was 39,956 departures, the highest level ever recorded. There was an increase of 4,509 permanent and long-term departures from New Zealand nationally for the year to August 2012 compared to the year to August 2011.

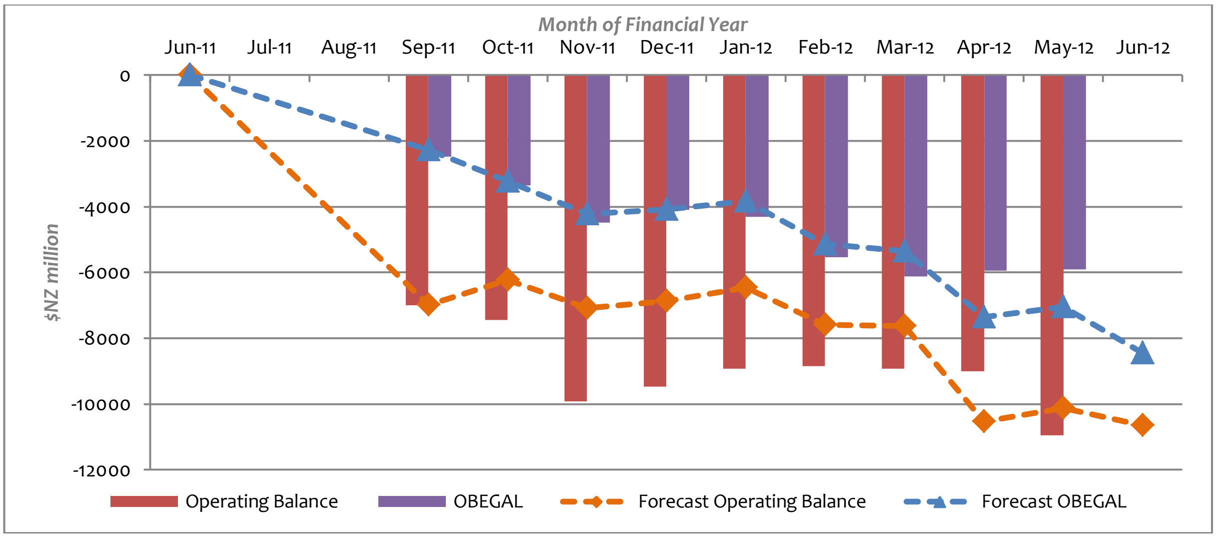
## *Wages*




- 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 June 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 0.1 percent in the month of August 2012 compared with July 2012. Food prices decreased 0.5 percent in the year, following a 1.8 percent decrease in the year to July 2012. In August compared with July, Fruit and Vegetable prices rose 1.5 percent, Non-alcoholic Beverages prices rose 1.3 percent, Meat, Poultry and Fish remained flat, Restaurant Meals and Ready-to-eat food prices fell 0.1 percent, and Grocery food prices fell 0.7 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 7.0 percent increase ($142 million) in operating income and a 11.7 percent rise ($240 million) in operating expenses for the June 2012 quarter compared to March, resulting in an operating deficit of $144.5 million, compared with a revised deficit of $45.9 million in the March quarter, all in seasonally adjusted terms. Without seasonal adjustment, their deficit for the June quarter was $116.6 million, compared with a revised $151.6 million deficit in the June 2011 quarter.

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## *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/economicbulletin139.*
*For further information contact Bill Rosenberg.*