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Commentary

A case for supporting manufacturing

Summary

The government currently heavily subsidises feature films, with the best known example being the $100 million for the Hobbit. Yet it refuses to take any action to support, let alone subsidise manufacturing despite calls from both employers and unions in the sector, and from opposition political parties. This commentary compares the case for supporting manufacturing with the case for supporting feature films and argues for some consistency.

The case for the importance of manufacturing has been strongly made by visiting international expert Göran Roos whose analysis has been welcomed by both unions and employers. New Zealand manufacturing is a major exporter, though its employment has been falling as a percentage of the workforce over a long period, and its exports have been badly hit by the financial crisis and the high dollar. Each $1 of manufacturing output creates a further $1.40 output in the rest of the economy. It creates 1.7 jobs in rest of the economy for every one it employs itself. The average wage in manufacturing is 94 percent of the overall average wage.

For the feature film sector, one job is created in the rest of the economy for every one in film, which is at the low end of manufacturing. Nonetheless there are likely to be other benefits through tourism, spill-over of knowledge to other firms, and new products. A high percentage of these firms export and undertake research and development. However the employment in the industry has substantial turnover due to employees being hired on a short term basis, and most is through contractors with an estimated 5,900 workers on average in 2010 in production and post-production, of whom only 1,700 were employees. Average incomes are very high but the spread of incomes is very unequal. In the wider motion picture and video sector, new hires get only 40 to 70 percent of existing staff. For example in 2009, the median earnings of continuing staff was $30,000 but that of new hires only $13,530.

Certainly the feature film industry has much potential for innovation and export earnings. It is also a harbour for employment practices that would be devastating to decent working conditions if they spread further. Many parts of the manufacturing sector also have high potential and many beneficial effects on the rest of the economy. Among them is large employment potential with many well paid, secure jobs. It is very difficult to see why one is preferred for heavy subsidies over the other.

The government currently heavily subsidises feature films, with the best known example being the $100 million for the Hobbit. Yet it refuses to take any action to support, let alone subsidise manufacturing despite calls from both employers and unions in the sector, and from opposition political parties who are concerned enough about its future to have instituted an inquiry into manufacturing. Minister of Economic Development Steven Joyce has responded by saying the government's employment law changes (shades of the Warner Brother law changes), controlling ACC's costs (resulting in deteriorating access to accident compensation) and reforming the Resource Management Act are enough support[1]. In effect he is saying workers in those industries, and the public by limiting its say on the environment, should pay the cost. Even putting aside the imposition of costs in this way, it is hardly convincing that these moves are sufficient to assist an important sector that has been in long term decline. This commentary compares the case for supporting manufacturing with the case for supporting feature films. I am not arguing that financial support for the film industry should be dropped – though clearly the law changes that stripped thousands of workers of minimum employment conditions should not be part of that "support". I am arguing for some consistency.

The case for the importance of manufacturing has been strongly made by visiting international expert Göran Roos[2] whose analysis has been welcomed by both unions and employers. He says that manufacturing remains important because

- It is the biggest spender on applied research and innovation, benefitting the rest of the economy.
- It is the key driver of productivity improvements, benefiting the rest of the economy.
- It makes up the biggest share of world trade and hence is critical for export earnings.
- It is the largest driver of high value services so is critical for the high end of the service economy.
- Each manufacturing job generates on average 2 to 5 jobs elsewhere in the economy.
- Each dollar of turnover in manufacturing generates $1.74 turnover in the rest of the economy.

These numbers are international ones. I look at New Zealand figures below.

He does warn that the high value services that increasingly accompany modern manufactured products (such as advice on their installation and effective use) "demand specialised skills and create few jobs, so their contribution to aggregate employment is bound to remain limited". Nonetheless, manufacturing remains an important job creator both within its own sector and in the rest of the economy, and a driver of productivity improvements which should increase exports and – given a fair wages system – drive higher incomes for employees.

Roos quotes Harvard economics professor Dani Rodrik (always worth listening to) as saying: "Without a vibrant manufacturing base, societies tend to divide between rich and poor – those who have access to steady, well-paying jobs, and those whose jobs are less secure and lives more precarious." Even the OECD, which would in the past have considered manufacturing a sunset sector, had an article in a recent issue of its magazine "OECD Observer" which concluded: "Manufacturing remains central to OECD economies, in terms of productivity and income growth, and for innovation."

In Roos' view, "the role of government in a small economy is by necessity and justifiably more interventionist". He advocates using measures like government procurement to assist the growth of manufacturing – something the current government is turning its back on with plans announced to sign up to the Agreement on Government Procurement in the World Trade Organisation, and almost

[1] "Opposition parties determined to manufacture a crisis", Steven Joyce, 12 October 2012.
[2] See for example http://tinyurl.com/8s8ueej.

certainly even stricter provisions in the Trans Pacific Partnership Agreement (TPPA), currently under negotiation. Adding to existing agreements, these will make it difficult or impossible to use procurement to assist local industry in any significant way. Roos also lists government support through venture capital funds, various kinds of assistance or incentives for Research and Development, training, public research, business incubators, assistance with accessing and sharing information, policies to support clustering, use of regulation and standards for technology development, subsidies and tax incentives. These are a much richer set than what the Government has in mind. Roos' views also contrast starkly with Government plans for employment relations. He says that while there will always be disputes between employees and employers over the share of the added value of firms (pay vs profits), high value manufacturing can only succeed if employees are knowledgeable, loyal, and there is low turnover. Employers should take the view: "My responsibility as an employer is to make you the employee more employable during your tenure with me".

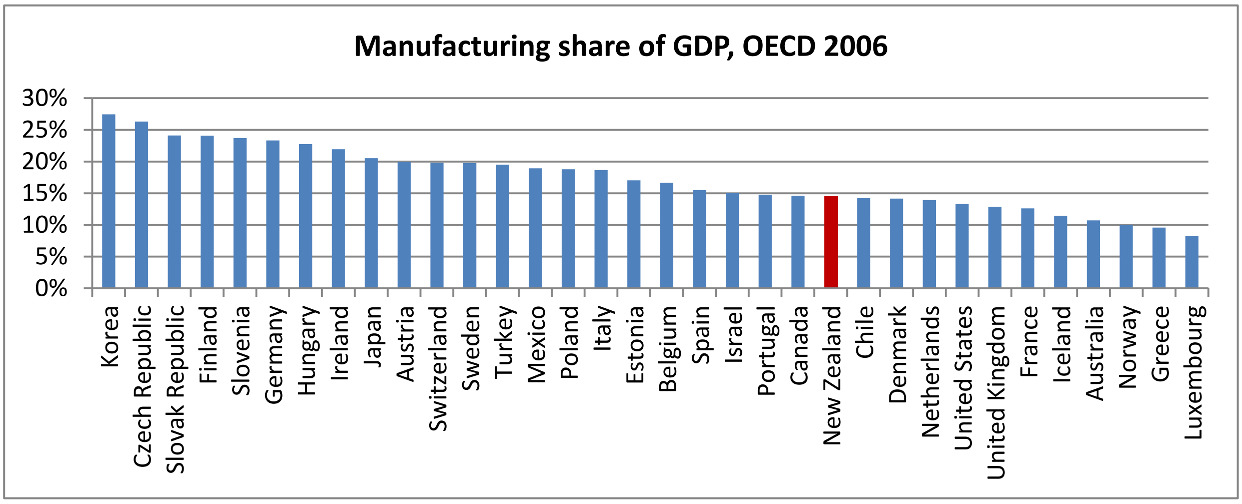
In both Australia's and New Zealand's case, manufacturing is also important to diversify exports. Australia is highly dependent on mining exports and New Zealand on agricultural exports. There is concern in both countries that the volume of exports and the high prices being received from these sectors is a significant factor driving the longer term level of the exchange rates of the two countries, making it difficult for other sectors – such as manufacturing – to succeed. In addition, neither mining nor agriculture provides nearly enough jobs keep the population in work, and both are in highly volatile sectors whose prices are very subject to demand. Diversification as well as expansion of exports is crucial for both countries. This will not happen without deliberate policies to assist it.

This was reinforced in economic modelling carried out by the two countries' Productivity Commissions in their recent study of closer economic integration between Australia and New Zealand. They modelled the effect 10 percent growth in Asia would have on the two economies. We are frequently told that high growth rates in Asia are our greatest hope for increased exports and growth in our own economies. In fact what it found was that 10 percent growth in Asia would lead to near-zero growth in Australia and New Zealand – around 0.1 percent. Why? Exports of mining and agricultural products to Asia would expand due to the growing Asian economies. But our exports to the rest of the world – and some of our exports to Asia – would be knocked out by increased competition from growing Asian production. Most of the exports knocked out would be manufactured goods. While the assumptions of such models need careful examination, this indicates that, left to market forces, growth in Asia will leave us no better off and in fact even more reliant on predominantly low value-added agricultural commodities.

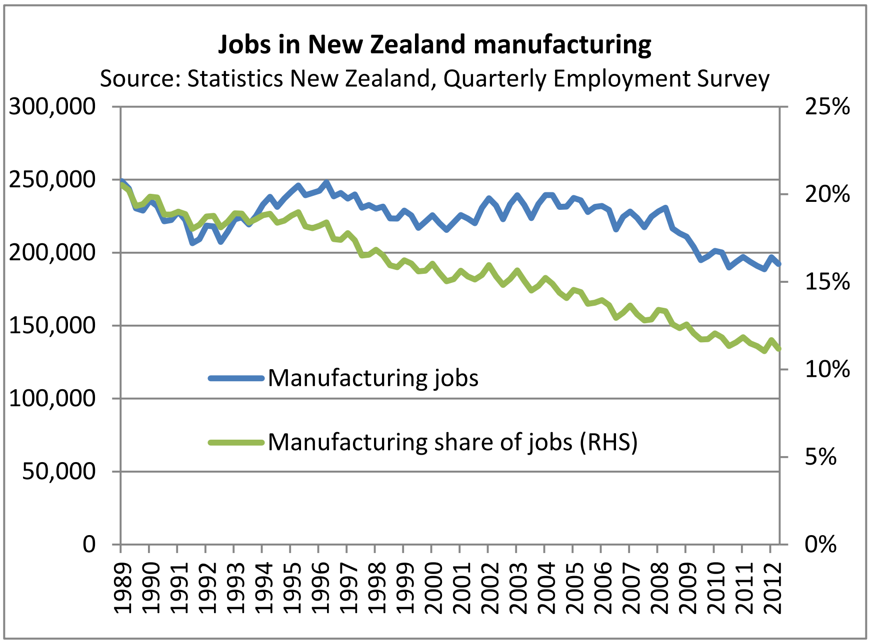
Is our manufacturing sector a basket case with no hope of resuscitation? Perhaps surprisingly, it is not, given it was rapidly opened to overseas competition with little support through the transition. Nor was there any policy to assist replacement high productivity industries. Dani Rodrik has shown more successful countries "nudged" their economies towards such industries when they removed tariffs and other protection. Instead one New Zealand study showed that "the value-added content of New Zealand's exports has been declining over the past 35 years"[3].

[3] Ralph Lattimore, Przemyslaw Kowalski, and Gary Hawke, "New Zealand's Patterns of Comparative Advantage". NZ Trade Consortium Working Paper. New Zealand Institute of Economic Research, July 2009.

OECD figures show that New Zealand, while having a lower manufacturing share in the economy than most other OECD countries in 2006 (12th lowest – latest comparison available), had a larger share than Australia, the U.K. or the US, and about the same as Denmark and Canada, but well below Sweden, Switzerland, Austria, Germany and Finland. New Zealand is closer to the middle in our share of employment – 15th out 33 – suggesting our manufacturing may have lower labour productivity than in countries in which manufacturing has a similar GDP share. However manufacturing is a much smaller part of the economy than it was in 1985 according to the same data: 14.5 percent of the economy compared to 20.8 percent. Its employment has fallen from 20.5 percent of the workforce in 1990 to 14.4 percent in 2006 and 13.8 percent in 2008.



Local figures from Statistics New Zealand's Quarterly Employment Survey confirm the trend. Employment fell steeply from 249,000 in March 1989 to 207,300 in September 1992, and with some variation has largely fallen since then. It had a very steep fall at the onset of the Global Financial Crisis. Since September 2009 it has been on a falling trend, no doubt affected by the high exchange rate. However, manufacturing jobs as a proportion of all jobs have fallen for virtually that whole period with only a slight pause in the first half of the 1990s. Similarly, manufactured exports have fallen from 37 percent of goods exports in 2003 to 25 percent in 2012, though they rose from 2003 until 2009 when they fell steeply before partially recovering in 2011 and falling again in the year to June 2012. In each of the last five years (since 2008) the number of manufacturing firms ceasing business has exceeded the creation of new ones, with a net loss of 1,640 enterprises. In



2009, manufacturing contributed $23.8 billion to New Zealand's GDP.

The average wage in manufacturing is a little below the economy average: its average ordinary time hourly wage has been between 90 percent and 95 percent of the overall average since 1989 and is currently about 94 percent of the overall average at $25.27 compared to $26.96.

What is the impact of manufacturing on the rest of the economy? Economic consultant Geoff Butcher kindly provided me with multipliers that give some indication. We have to treat these with caution: they can change with time and economic circumstances (such as the employment situation), they apply to only one industry at a time, and are an approximation of its impact. Dairy and meat manufacturing have been omitted because it is wrong to consider that manufacturing drives the huge farm production that lies behind them. But they indicate that $1 of manufacturing output creates a further $1.40 output in the rest of the economy. It ranges from $0.95 in Motor vehicle and part manufacturing through to $1.90 in Prefabricated building manufacturing. Every $1 million output creates about 9.6 jobs in the economy including manufacturing itself, ranging from 6.9 in Fertilizer, petroleum and other industrial chemical manufacturing to 17.3 in to Clothing and footwear manufacturing. That is 1.7 jobs in the rest of the economy for every one actually employed in manufacturing, with a range from 0.6 in Motor vehicle and part manufacturing to 5.0 in Beverage, malt and tobacco manufacturing.

So how does this compare with film production? An April 2012 Ministry of Economic Development Discussion Paper, "Growth and Dynamics of the New Zealand Screen Industry", looks at some of these issues. When talking about the subsidies to the feature film industry, the Prime Minister and others are fond of quoting a $3 billion figure. That is not just for feature films (the subsidies apply to large budget screen production and New Zealand feature films). It also includes television, commercials and non-broadcast media production, television broadcasting, film and video distribution, and film exhibition. Production and post-production make up less than half of it: in 2011, $1.4 billion out of $3 billion. Feature films are half that again: in 2011, $707 million. Further, this figure is not the valued added to the economy: it doesn't reflect costs of the productions and may include double counting. The study can only provide an estimate of the contribution to GDP (wages, salaries and returns to capital) for the production and post-production sector, and not the feature film subsector. This was $638 million in 2011 – less than half of its gross revenue – and 0.47 percent of GDP. Its value had doubled since 2005.

What about the effect of feature film production on the rest of the economy? The study was unable to estimate it from New Zealand data, but looked at the U.K. film industry. There, additional employment is estimated to be one job created in the rest of the economy for every one in film. This is at the low end of manufacturing, and the study cautions that it may be over-estimated. Nonetheless there are likely to be other benefits through tourism, spill-over of knowledge to other firms, new products, and the benefits of firms and workers grouping together. There is no doubt that the film production taking place in New Zealand is innovative and making sophisticated use of technology, and the skills involved in that can spread to other firms and industries. There is also a high percentage of firms that export, undertake research and development, are changing technology, or are expanding.

What is the employment in the industry like? In production and post-production, the average number of employees was consistently under 2,000 (1,500 in 2011), though with substantial turnover due to employees being hired on a short term basis. However much of the employment in the industry is through contractors (and that was the intent of the Warner Brothers amendment to the Employment Relations Act). The study estimates that in 2010 there were 5,900 workers on average, of whom only 1,700 were employees with the rights that status gives them. Contractors ("individuals or businesses providing services to production companies on contract") make up 80 percent of all business in the production and post-production sector, many of which exist only for the duration of a project.

Average salaries in production and post-production are very high: estimated at $75,000 in 2011. However in the wider Motion Picture and Video Activities sector (the only level at which the following analysis is available), there is large gap between average and median earnings. This is an indicator of very unequal distribution of incomes. In 2009 (the most recent full year available), the average annual earnings were $38,550 and the median almost $11,000 less at $27,820. Another indication of these earnings disparities is that newly hired staff earn only 40 to 70 percent of existing staff. For example in 2009, the median earnings of continuing staff was $30,000 but that of new hires only $13,530. Averages were $40,240 for continuing staff and $25,230 for new hires, again showing big inequalities in earnings. In this wider sector, employees "earn incomes significantly below the average over the whole workforce. This reflects the working practices and structural conditions in this wider sector including film exhibition and video distribution. Most employment is intermittent from project to project on fixed term contracts and unpredictable periods of unemployment occur regularly".

Certainly the feature film industry has much potential for innovation and export earnings. It is also a harbour for employment practices that would be devastating to decent working conditions if they spread further. Many parts of the manufacturing sector also have high potential and many beneficial effects on the rest of the economy. Among them is large employment potential with many well paid, secure jobs. It is very difficult to see why one is preferred for active support over the other.

Bill Rosenberg

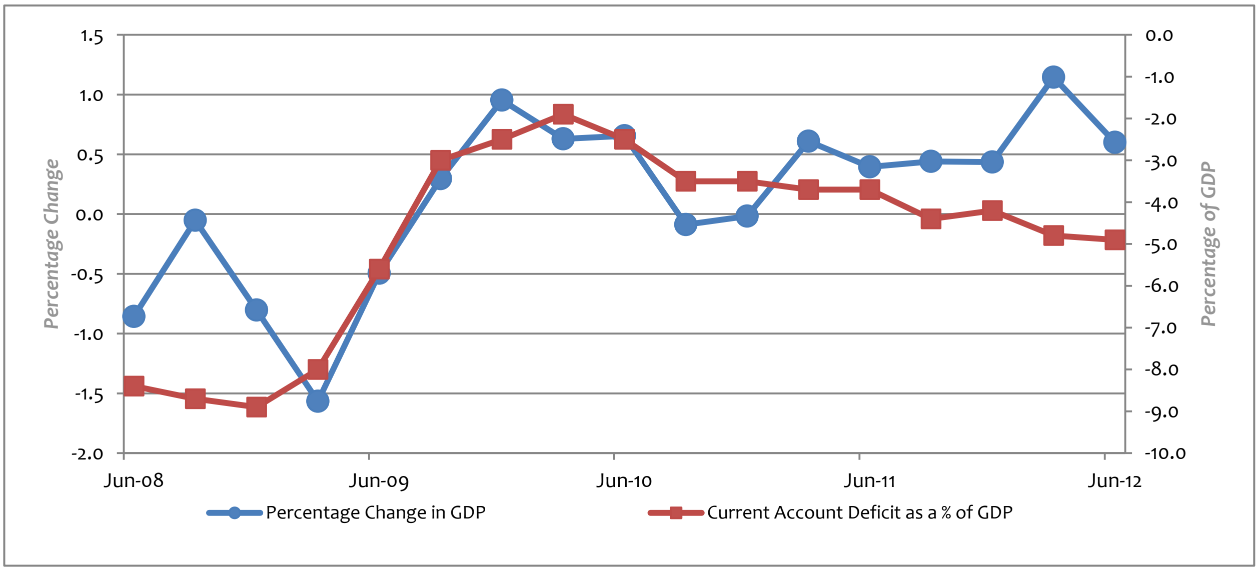
Forecast

- 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 September 2012, Overseas Merchandise Trade recorded a seasonally adjusted $82 million deficit, following a revised $126 million deficit in August. Exports increased 6.3 percent or $239 million in the month and imports increased 5.0 percent or $196 million compared to August. The rise in exports was led by meat and edible offal, which was up 6.5 percent in value ($31 million) and 10.5 percent in volume. Mechanical machinery and equipment (up 9.4 percent, $13 million), crude oil (up 6.3 percent, $8 million), and wine (up 6.5 percent, $7 million) were also up in value, while milk powder, butter, and cheese (down 18.9 percent, $199 million) and aluminium articles (down 9.8 percent, $9 million) fell in value. Among imported goods, the value of petroleum products was up 15.4 percent ($122 million), following a revised 25.7 percent rise ($136 million) in the month of August. By comparison, the value of imported mechanical machinery and equipment was down 7.2 percent ($36 million), and the

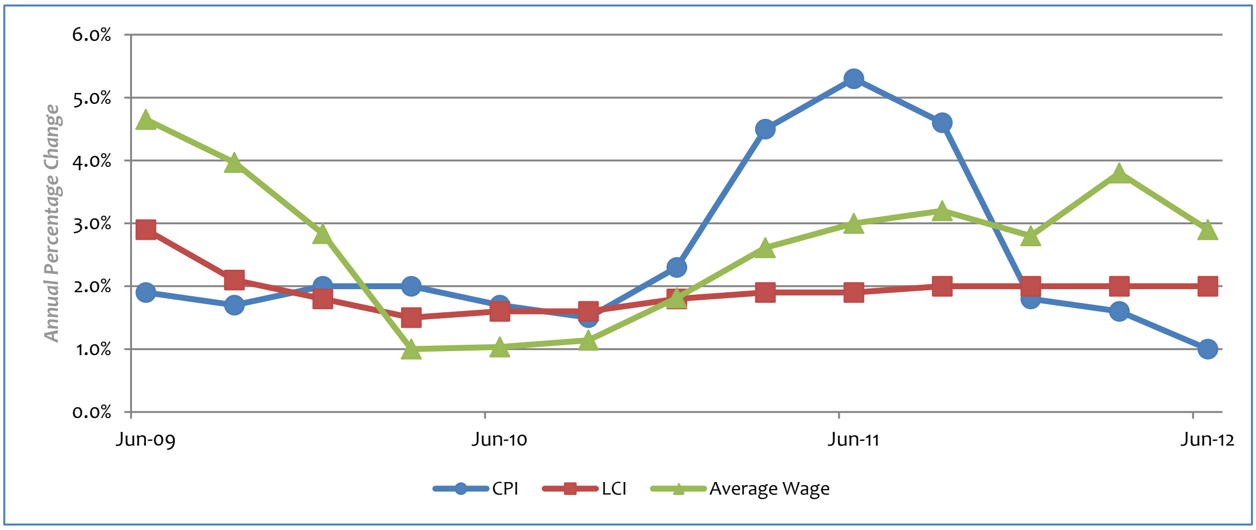
value of textiles and textile articles was down 5.3 percent ($10 million). The value of exports to Australia in the month of September 2012 was down 8.3 percent ($75 million) compared to September 2011, and down 3.4 percent year on year.

- The Performance of Manufacturing Index[1] for September 2012 was 48.2, an increase from 47.4 in August. The employment sub-index also increased to 49.2 from 45.5 in August, the largest monthly increase since July 2009.
- The Performance of Services Index[1] for September 2012 was 49.6, a decrease from 50.0 in August. The employment sub-index increased to 48.5 in the month of September from 46.4 in August.
- 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 2.5 percent. The next review will be announced on 6 December 2012.
- The REINZ Housing Price Index recorded a 0.6 percent rise in September 2012, a new record high, following a 1.3 percent increase in August. The national median house price increased to 371,000 from 370,000 in August, an increase of 0.3 percent. The House Price Index was up 5.0 percent compared to September 2011.

Employment

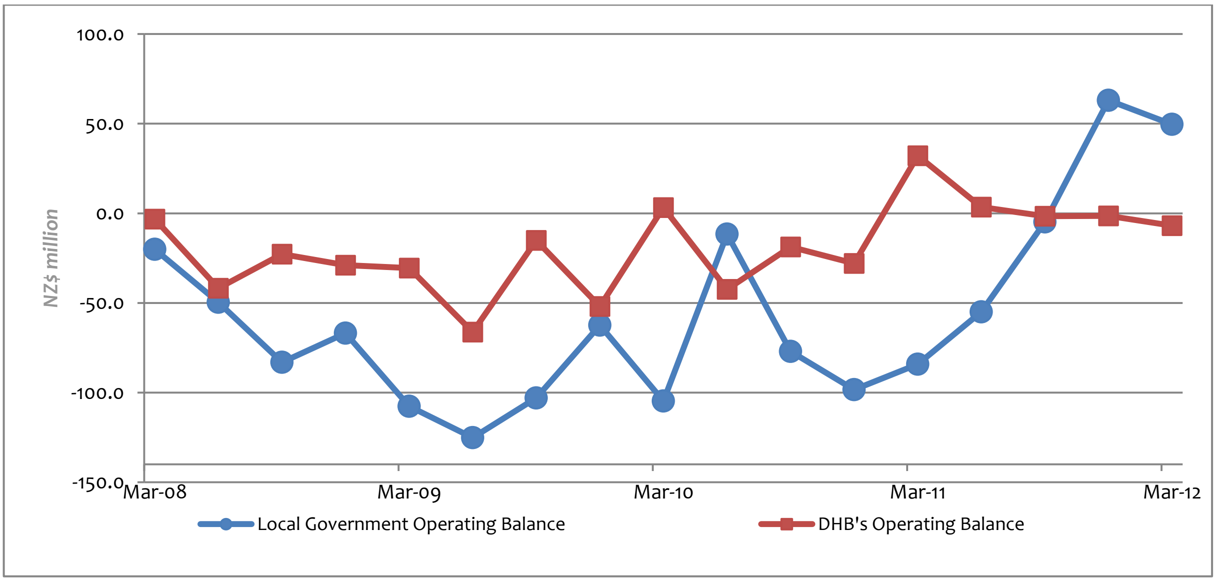
- According to the Household Labour Force Survey the unemployment rate in the June 2012 quarter was 6.8 percent, up 0.1 percentage point from 6.7 percent in the March 2012 quarter. The labour force participation rate was 68.4 – down 0.3 percentage points on March. There were 162,000 people unemployed; 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 September 2012 there were 50,390 working age people on the Unemployment Benefit, an increase of 107 (0.2 percent) from 50,283 in August. (Quarterly figures on Unemployment Benefit numbers are available from the MSD website.)
- ★ Job Vacancies Online showed that all job vacancies fell 4.5 percent in the month of September 2012, in seasonally adjusted terms, following a revised 2.3 percent increase in August 2012. Skilled job vacancies decreased 5.4 percent, following a revised 3.7 percent increase in August.
- ★ International Travel and Migration figures show 7,180 permanent and long-term arrivals to New Zealand in September 2012 and 7,090 departures in seasonally adjusted terms, a net gain of 90. There was a net loss of 3,280 migrants in the year to September 2012. Net migration to Australia in the year to September 2012 was 39,520 departures, with 53,729 departures and 14,209 arrivals. There was a net increase of 2,881 permanent and long-term departures from New Zealand nationally for the year to September 2012 compared to the year to September 2011.

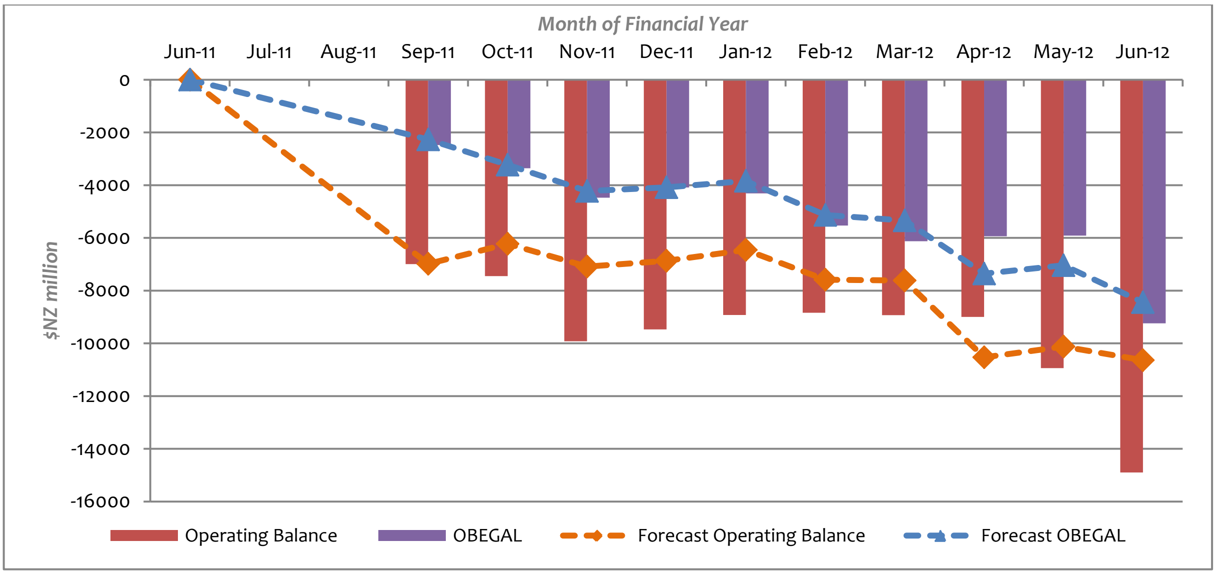
Wages



- 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 rose 0.3 percent in the September 2012 quarter compared with the June quarter and 0.8 percent in the year to September. This represents the smallest annual increase since a 0.5 percent increase in the year to December 1999. For the quarter, the largest contributor to the increase was a 1.1 percent increase in the food group. The miscellaneous goods and services group also rose 1.1 percent, and housing and household utility prices rose 0.8 percent. These increases were countered by lower transportation (down 1.1 percent) and communication prices (down 1.6 percent).
- ★ The Food Price Index fell by 0.9 percent in the month of September 2012 compared with August 2012. Food prices decreased 0.3 percent in the year, following a 0.5 percent decrease in the year to August 2012. In September compared with August, Fruit and vegetable prices fell 2.2 percent; non-alcoholic beverage prices fell by 0.5 percent; meat, poultry, and fish prices rose 0.2 percent; and restaurant meals and ready-to-eat food prices rose 0.2 percent. Over the same period, grocery food prices fell 1.6 percent, their lowest level since September 2010.

Public Sector





- According to Treasury's Financial Statements of the Government of New Zealand, for the year ended 30 June 2012, government tax revenue was up $340 million (0.6 percent) on the forecast in the 2012 Budget Economic and Fiscal Update (BEFU). The difference was mainly due to higher than anticipated business profits raising corporate tax revenue. However, this was partly offset by lower than expected revenue from GST ($100 million, or 0.5 percent). Total revenue was $908 million (1.1 percent) higher than forecast largely due to $0.3 billion more in revenue from SOEs and $0.2 billion in Canterbury earthquake claims. Core government expenses were $557 million (0.8 percent) lower than forecast. The operating balance before gains and losses (OBEGAL) was $799 million (9.5 percent) higher than forecast, showing a deficit of $9.2 billion. The operating balance was a deficit of $14.9 billion, $4.3 billion (40 percent) greater than forecast, and was largely due to actuarial adjustments in the Crown's long-term liabilities (ACC and the Government Superannuation Fund). The Government's net debt was 24.8 percent of GDP, 0.2 percentage points better than the 25.0 percent forecast in the BEFU. The next government financial statement will be for the year to 30 September 2012, and this is expected 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.

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/economicbulletin140.
For further information contact Bill Rosenberg.