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Te Kauae Kaimahi

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Commentary

This is a rather long commentary, but the last for the year, so you will have plenty of time to read it! All the best for the new year. Have a good break and come back refreshed. Our next Bulletin will be on 31 January 2013.

Deep concerns about the Trans Pacific Partnership Agreement

Summary

The fifteenth round of negotiations of the Trans Pacific Partnership Agreement (TPPA) will take place in Auckland over the next few days (3-12 December). It is under negotiation between New Zealand, the US and nine other countries. Japan and Thailand have also shown interest but would join in the face of strong opposition in large sections of their societies.

While sometimes described as a "Free Trade Agreement", it is much more than a trade agreement. Trade is only a small part of it. Powerful US farming interests have made it clear that they will oppose New Zealand agricultural access every step of the way. Its proponents describe it as intruding "deep into domestic policy space". To the extent it is about trade, it is much more about supply chains, more commonly known as international outsourcing. Encouraging supply chains is economically and socially high-risk; encouraging them while reducing employment and welfare protections, and without strategies to replace lost jobs with good quality new ones is a recipe for disaster as our last three decades have shown.

The TPPA is a hugely complex proposal, and getting more so as time goes on with (mainly) the US putting more and more on the table. Some of the more important areas include State Owned Enterprises, Investment, Intellectual Property, Financial Services, public insurance services and postal services, temporary entry for work, pro-market regulation, Transparency, Government Procurement, biosecurity and other border controls, Labour rights, Environment, Competition, and Disputes. It will impact directly on health, medicine prices, food labelling, and many other aspects of our lives. The primary country making demands in most of these areas is the US, and if you bear in mind that its government is driven by the wishes of its corporations to break open markets such as through supply chains, its aims are easier to understand.

The fifteenth round of negotiations of the Trans Pacific Partnership Agreement (TPPA) will take place in Auckland over the next few days (3-12 December). I will be observing them (to the extent they can be observed through closed doors) along with other unionists from New Zealand, Australia, Japan and the US, and many local and international allies with a wide range of concerns. This is a good time to outline the concerns around the agreement. If you are interested in more information or activity, there will be much going on around the country over the next two weeks. See http://www.itsourfuture.org.nz/.

What is the TPPA?

The TPPA is under negotiation between New Zealand, the US and nine other countries: Australia, Brunei, Canada, Chile, Malaysia, Mexico, Peru, Singapore, and Viet Nam. The governments of Japan and, very recently, Thailand have also shown interest but would join in the face of strong opposition in large sections of their societies. While sometimes described as a “Free Trade Agreement”, it is much more than a trade agreement. Trade is only a small part of it. Its proponents describe it as intruding “deep into domestic policy space”. You will see what that means below. To the extent it is about trade, it is much more about supply chains, more commonly known as international outsourcing. The CTU, while being open to the possibility it might bring some gains in trade, is concerned that it will stop future New Zealand governments from carrying out a wide range of policies that are in the interests of working people and most New Zealanders. Similar agreements the US has signed impose policies that New Zealand voters have repeatedly voted down and would oppose if they had the choice.

What is its significance?

New Zealand has signed a number of similar agreements, but this proposal is heavy with global political significance. It was evident in the US Presidential election campaign that it has become the single most important instrument for the US in countering growing Chinese influence in the Asia-Pacific region. While the US would like to see it eventually cover the entire region and sees it as modelling its form of capitalism, there are central aspects of it that China – and many other Asian countries – will never sign up to. In response, an alternative, less demanding and even larger agreement, the Regional Comprehensive Economic Partnership (RCEP), is now about to begin negotiation. It includes China, India, Japan, ASEAN, Australia and New Zealand – but not the US. There are therefore huge geopolitical stakes in the TPPA negotiations that go beyond even its controversial content. As a number of New Zealand and Australian experts have warned, both countries will have to take great care not to compromise their good relationships with China. The more the US offers – and it will offer very little – the more compromised we will be seen to be.

Goods Trade

The “holy grail” for New Zealand governments has been to get greater access for our agricultural exports to the large US market. But powerful US farming interests have made it clear that they will oppose that every step of the way. As well as opposing dairy exports directly, they are lobbying to weaken Fonterra – which could leave dairy farmers with greater sales but lower returns. Australian exporters were very disappointed at the results of their 2005 free trade agreement with the US. They got no access for sugar. Beef, dairy, lamb and wine access were delayed for 12-17 years. US farm subsidies continue. Most independent economic studies found the agreement would have negative effects for Australia. Surveys show businesses feel they are getting little benefit. It would be naive to believe New Zealand can do any better. As leading US economist Joseph Stiglitz put it: “One can’t think that New Zealand would ever get anything that it cares about.” When New Zealand's agriculture interests were opposed to those the American agricultural lobby, “you’ll lose.”[1]

Even New Zealand negotiators have – behind closed doors – warned of the improbability of significant gains. Former Chief New Zealand negotiator, Mark Sinclair was quoted in a US document released by Wikileaks as telling US Embassy representatives: “there is a public perception that getting into the

[1] “Clinton’s economist warns NZ off US trade deal”, by Anthony Hubbard, *Sunday Star-Times*, 9 March 2008, p.A13.

United States will be an 'el Dorado' for New Zealand's commercial sector. However, the reality is quite different since the United States is already quite open to New Zealand trade and investment. He underscored that New Zealand needs to manage expectations…".

The entry of Canada to the negotiations will make the job even more difficult, because it protects its dairy industry too, and if Japan joins, the opposition to agricultural access will be even tougher. New Zealand will have little support: most of the other negotiating countries already have agreements with the US and the US is refusing to re-open them.

We also need to think about whether even greater reliance on agricultural – and particularly dairy – exports is good for New Zealand. We are already heavily reliant on relatively low-value dairy exports such as milk powder. It provides relatively little employment and makes the economy vulnerable to the rise and fall of dairy prices. The current high dairy prices and export volumes are part of the reason for the high New Zealand dollar, creating difficulties for other exporters such as manufacturers which can provide many good jobs.

Supply chains, offshoring, outsourcing

In "managing expectations", negotiators are increasingly saying that the gains that they will make will be in the "supply chain" rather than significant opening of the US market. The chief business publicist for the TPPA in New Zealand, Stephen Jacobi, says the TPPA must "reflect the offshoring and outsourcing which is so much part of modern business models"[2]. Multinational corporations increasingly produce across national boundaries. Design of a product occurs in one country, the parts or raw materials are acquired from a number of other countries, the product is assembled in a further country and it is marketed in many others. An iPhone for example is designed by Apple in California, parts are sourced from many countries including Japan and Malaysia, it is assembled in China by a Taiwanese company, Foxconn, and it is then sold around the world[3]. New Zealand companies like Fisher and Paykel, Rakon and many clothing producers do the same. These corporations therefore want to remove any obstacles to the movement of these designs, parts, and products from country to country. They want protection of their designs. They want safety and environmental requirements to be the same across countries – ideally so that a tube of toothpaste manufactured to say Vietnamese standards is accepted in all countries they sell it to. Those standards can cover food quality and safety, food additives, packaging requirements, consumer information, and much more. I come back to this below.

However these supply chains have also been highly controversial as they seek lowest cost production. Jobs disappear in one country to reappear at lower wages and conditions in another. Foxconn for example, whose workers assemble Apple products, has notoriously poor working conditions, and its workers receive $US10 or less in wages out of a $US600 iPhone. Supply chains have been identified by even conservative organisations such as the International Monetary Fund (IMF) as one of the drivers behind increasing inequality in developed countries like New Zealand[4]. The IMF says "recent work assigns greater importance to the role of trade, particularly to offshoring and soaring production within multinational firms". The OECD finds that increased imports from low-income countries increases income inequalities in countries with weaker employment protection legislation[5]. Encouraging supply

[2] "TPP - A New Zealand business perspective", Stephen Jacobi, 10 November 2011, available here.
[3] "Apple set to expand presence in China", by Zhang Yuwei, *China Daily*, 31 March 2012, available here.
[4] "World Economic Outlook", September 2011, International Monetary Fund, p.41-46.
[5] "Divided we stand: why inequality keeps rising", OECD, 2011, p.29.

chains is economically and socially high-risk; encouraging them while reducing employment and welfare protections, and without strategies to replace lost jobs with good quality new ones is a recipe for disaster as our last three decades have shown. Otherwise they have the potential to drain the economy of profits, jobs, corporate taxes, and the reservoirs of knowledge needed to develop and sustain high value sectors such as manufacturing.

Further, what little we get in agricultural access we will have to pay for elsewhere in the TPPA. Due to previous rounds of opening the economy, New Zealand no longer has options such as tariffs, local production requirements and subsidies which could be used to support development of, for example, high-value manufacturing. The value-added content of New Zealand's exports has been declining over the past 35 years[6]. The likely price we will pay in the TPPA will be to cut off further options for more balanced development of our economy and our society.

What else is at risk?

The TPPA is a hugely complex proposal, and getting more so as time goes on with (mainly) the US putting more and more on the table. Some of the more important areas include State Owned Enterprises, Investment, Intellectual Property, Services including Financial Services, public insurance services and postal services, temporary entry for work, pro-market regulation, Transparency, Government Procurement, biosecurity and other border controls, Labour rights, Environment, Competition, and Disputes. It will impact directly on health, medicine prices, food labelling, and many other aspects of our lives. The primary country making demands in most of these areas is the US, and if you bear in mind that its government is driven by the wishes of its corporations to break open markets such as through supply chains, it is easier to understand why. I don't have room to explain all of these, but here is a sample.

State Owned Enterprises

This is a new area for such agreements, though Singapore was forced to sign an earlier (and probably weaker) version in its "free trade" agreement with the US so we can learn something from that and from the demands we hear from corporate lobbyists. The definition of "State Owned Enterprise" is not clear – indeed negotiators are still trying to understand the US demands – but it is certainly wider than what we call "SOEs": electricity companies like Genesis, Mighty River and Meridian, Solid Energy, KiwiRail, New Zealand Post (including KiwiBank) and so on. It is likely to include any publicly owned operation, or one that has government backing, that potentially competes with a US corporation in the New Zealand or US markets. So it could also potentially include ACC, EQC, Housing New Zealand, Pharmac, the New Zealand Blood Service, Health Benefits Ltd, Zespri, Radio New Zealand, TVNZ, and even schools, tertiary education institutions and hospitals. Local government operations such as water and waste services, electricity network companies, airports, ports, and event managers are also potentially covered. Commercial competition could occur with any of them.

The US wants these operations to compete purely on commercial terms. That means they should not receive capital (such as loans or equity) from the government except on commercial terms; they should not receive funding that their commercial competitors may not receive; and their objectives should be purely commercial rather than incorporating social, environmental or economic development goals. The implications of this are enormous: if allowed in this form, it would force commercialisation or

[6] 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.

privatisation of substantial parts of our public services. Indeed Singapore, which has large government-owned operations, promised the US to progressively reduce its asset ownership. The rules could also block plans of both the Greens and Labour to use the SOEs as a nursery for commercialising innovative ideas as electricity SOEs and Christchurch's Orion have done.

The ultimate target of these provisions, which the US says are crucial to it, is China. China's economy is still heavily dominated by state-owned entities, and many US businesses and unions are concerned that when operating in the US, they are competing unfairly with the help of government assistance. US corporations operating in China would like to weaken the local competition. Clearly however China is never going to enter into an agreement like this (short of a Rogernomics type counter-revolution there) so it effectively excludes China from the TPPA. However other TPPA countries, including Viet Nam, Malaysia and Singapore, have large publicly owned sectors, and countries like New Zealand will also suffer "collateral damage". The US, in typical style, will be requiring exemptions for its own state owned enterprises such as General Motors, Chrysler and AIG (nationalised during the financial crisis), US Post, Amtrak, mortgage providers Fannie Mae and Freddie Mac, and for those owned by its states. There is significant resistance in the negotiations to this proposal, but the stance of the New Zealand government is unknown.

Investment

New Zealand has controls on overseas ownership of land and fishing quota, though they are often criticised for being too weak. There are few controls to ensure that New Zealand gets benefits from overseas business takeovers such as Haier's recent acquisition of Fisher and Paykel, and the privatisations and private equity buyouts that have occurred over the last two decades. The US has long listed these few controls as "barriers" and will be trying to weaken or remove them. Labour's plans to institute controls on ownership of strategic assets would be ruled out.

Even more dangerous however are the provisions the US is insisting on for "Investor State Dispute Settlement" (ISDS). Standard US investment agreements give overseas investors the right to sue governments if their profits or asset values are threatened. The dispute is heard, usually in private before a panel chosen by the parties to the dispute. The panel members are usually lawyers specialising in international trade who often have appeared before other panels representing clients, creating constant concerns about conflicts of interest. The number of such cases is now growing exponentially, with some lawyers reportedly offering "fee for results" (no fees unless they win) which is sure to encourage corporations even further as the cases cost millions of dollars to run. While New Zealand already has similar provisions in existing agreements (such as with China and Hong Kong) the litigious nature of US investors increases the risks of the TPPA enormously.

In North and South America, such panels have awarded corporations hundreds of millions of dollars against governments and forced changes in legislation. For example the Mexican government was ordered to pay US$15.6 million to the US Metalclad Corporation after the company was ordered to close a toxic waste dump threatening local water supplies. Recently, tobacco multinational Philip Morris filed actions against Australia's and Uruguay's tobacco control policies, demanding compensation and change to the policies. A total of US$327m has been awarded against NAFTA countries (US, Canada and Mexico) to date, and US$430 million (plus interest) against Argentina for actions taken during its financial crisis. Many of the cases involve investors resisting environmental law changes or enforcement.

Cases could also be taken against governments for strengthening or enforcing labour and human rights. Labour issues have been raised in a number of investor claims, including one against Egypt regarding its minimum wage laws, and though we are not aware of any rulings on these, they are clearly admissible as claims. A case by mining companies against South African laws designed to empower the black majority has led the South African government to declare that it will not accept ISDS in future agreements. Australia has taken a similar position for different reasons: its Productivity Commission advised it that there was no evidence of benefits to Australia and large potential costs. The New Zealand government appears to support ISDS on the grounds that some New Zealand companies have asked for it, but there are other ways, such as insurance, to provide that protection, and it is unjustifiable for a government to risk so much to privilege a few investors.

What is at stake is the willingness of future governments to legislate or act in the interests of New Zealanders if an overseas investor's profitability could be threatened. Governments frequently need to take action to prevent the costs, social or environmental effects of business activities being worn by neighbours or the wider community.

Investment provisions are also likely to remove or limit the right of governments to regulate financial movements in and out of the country, or to impose international financial transaction taxes. These are vital tools in preventing or moderating financial crises and managing the exchange rate.

Government Procurement

A powerful way to support economic development and social progress is to use the buying power of government to support local products. It can also be used to require good employment practices and to pay a Living Wage, as well as other non-commercial objectives such as good environmental practices. Already some agreements (with Australia and Singapore for example), require the New Zealand government to offer contracts over a certain size to firms in other countries on the same basis as New Zealand firms. It is not clear how they constrain the use of non-commercial conditions. The TPPA is likely to extend greatly the number of countries the government (and possibly local government) would have to offer contracts to on an equal basis, and this in turn makes it very difficult to attach non-commercial conditions even if they are not banned outright.

Services

One of most important areas of negotiations is in financial services – the activities of banks, insurance companies, investment funds and other powerful financial corporations. This raises many problems similar to those described under investment. Policies a future Reserve Bank may need in order to deal with broader objectives such as employment and the value of the exchange rate may be in jeopardy. In addition, US corporations want to reduce restrictions on their marketing of "new financial products" – yet the global financial crises which was triggered by financial products whose risks nobody fully understood shows the intense dangers in this kind of deregulation. New Zealand is one of the relatively few countries which signed up to a similar agreement in the WTO under the General Agreement on Trade in Services (GATS), yet the US wants to go even further in the TPPA. Again, government support will be a target, and KiwiBank will be worried that any capital provided by the government to support its growth will be outlawed as a subsidy. Strengthening the regulation of our financial sector may be made more difficult in future.

The US Government has stated that it has three main objectives in other services negotiations[7]. Firstly, it wants to break further into express delivery markets, in many cases threatening markets of the local post office. Part of this is a push to exempt imports of under US$200 from taxes, duties and formal customs procedures. This would be a blow to local retailers who are trying to reduce GST-free imports, but could in addition make biosecurity, drug detection and other border control more difficult. Secondly they want to strip any government support from "government insurance cooperatives" which potentially could include EQC, ACC and local government mutual insurance providers. Thirdly, the US wants "free flow of data across borders" which has privacy and consumer protection implications, and would prevent countries from requiring that data centres that companies use must be within the country, raising other security concerns and creating difficulties for local suppliers of such facilities.

In previous services negotiations, water services and education have been on the table. We do not know to what extent they have been raised under the TPPA.

Intellectual property, medicines and consumer rights

Intellectual property rights – copyright, patents, trademarks and similar – are another crucial area for the US. Its huge pharmaceutical, music and information technology corporations are pushing very hard to extend their monopoly rights and the US is unlikely to settle the TPPA without them.

In medicines, the big brand-name pharmaceutical companies have in their sights our medicines buying agency Pharmac, which has been very successful in keeping down medicine prices, and is about to expand into medical devices. They want it to stop its tough bargaining which forces down prices, to extend the length of their patents, and delay the competition from low cost "generic" medicine manufacturers. Generic manufacturers make medicines at much lower cost after patents expire. While originally wanting to take away Pharmac's powers to control the government-funded medicine market, "Big Pharma" is now trying more subtle means. They want to force Pharmac to consult with them and open its decision making to commercial pressures and challenge, all in the name of "transparency", rather than continue to rely on panels of independent expert clinicians. John Key said this week that it would not be a "good look" if New Zealand made concessions that undermined the status of Pharmac, but there are many ways to weaken Pharmac that would be difficult to "see".

But intellectual property goes much further than this, and here, New Zealand is playing a progressive role, resisting US demands. Intellectual property is a balance between on the one hand giving a monopoly right (a trade restriction) on the use of new ideas to encourage creativity and the development of commercial products, and on the other hand society's interest in as wide as possible manufacture and use and low cost of these products. Intellectual property law experts and even conservative economists oppose the extensions of copyright, patents and other protections that these large companies are demanding, saying research shows no evidence of additional benefits to society, but clear evidence of additional costs – and unearned profits to these companies. Since New Zealand is much more a consumer than a generator of intellectual property, it is in our interests to oppose longer monopolies on its use.

There is now a broad coalition in New Zealand concerned about these developments in the TPPA. The Fair Deal campaign is supported by eleven organisations including InternetNZ, an industry group of innovative technology companies NZRise, the Foundation of the Blind, Consumer New Zealand, the

[7] "USTR Identifies Three Priority Areas For TPP Services Chapter", *Inside U.S. Trade*, 26 October 2012.

Library Association (LIANZA), New Zealand artists in the Creative Freedom Foundation, and TradeMe. Internationally, Consumers International considers that the TPPA endangers the eight consumer rights including satisfaction of basic needs, safety, choice, right to be heard, and a healthy environment. A prominent US group, the Electronic Frontier Foundation, says the proposals will lead to the removal of legitimate internet content, internet service providers being forced to act as "copyright cops", blocked access to legitimate websites, and "shackles on digital content", including for librarians, archives, scientists, educators and people with disabilities.

Labour

The Warner Brothers employment law change, passed because the corporation threatened to stop the production of the Hobbit in New Zealand, removed internationally recognised labour rights from film production workers. Under a proposed chapter of the TPPA, the parties to the agreement would promise not to reduce labour rights to obtain trade and investment advantage if it breached fundamental labour rights. However New Zealand has signed up to stronger pledges in other similar agreements and the government ignored them in making the Warner Brothers law changes. Unless this labour chapter is stronger, enforceable and clear as to the countries' obligations, it will be little more than decoration. The US is supporting a weak enforceability but it appears that it is almost on its own, and New Zealand is opposing even that. Enforceable labour provisions are important, but even a strong chapter would not outweigh all the other concerns for workers about this agreement.

Transparency and regulation

As mentioned above, multinationals want control over rules affecting their products as they are designed, assembled, manufactured and marketed around the region. This is mainly being attacked through a "Regulatory Coherence" chapter and provisions on "transparency" in parts of the agreement which govern the rules countries may use for biosecurity, for food and safety standards, and many other public purposes but which are regarded in trade language as "technical barriers to trade". The TPPA will be requiring countries to consult with interested corporations when making these rules and to give them opportunities to appeal against rules they don't like. Countries will be required to have procedures that review all regulatory changes and test whether their benefits outweigh their costs. How this is measured will be vitally important: many important social and environmental benefits are very hard to measure. In all, commercial interests will be given a much greater say in the safety and quality of goods and services we use.

Openness

The "transparency" being planned for corporations contrasts starkly with the transparency being offered to the people of the countries negotiating this deal. It is impossible to fully understand the implications of what is being negotiated without seeing the detail of the draft texts of the agreement. Yet this access is being denied. What we know is from leaks and from texts from similar agreements that the US and others are parties to. Yet this is a piece of international law far more complex than most domestic legislation which we normally get consulted on before it becomes law. The significance of the TPPA is also much greater than most legislation. It is more like a constitution: it will limit what future elected governments can do, and will be very difficult to change, requiring the agreement of all TPPA governments. Yet in New Zealand it can be ratified by Cabinet (the Executive) without Parliamentary approval. The only time we will see the text before that point is after it has been signed off, when it will be sent to a select committee which will have 20 sitting days to comment on it and no power to change it. Submitters will have to scrutinise a telephone-directory sized document in that time. Parliament does not get a binding vote on the agreement itself, only on enabling legislation if it is required, and often it is not.

CTU policy is that we oppose the TPPA unless it is shown to be in the national interest. There is little sign at present that it will be. We will not stand by and allow New Zealand's sovereignty – our right to make rules that benefit the people of New Zealand – to be surrendered.

For more details on CTU activities on the TPPA, see our web site at http://union.org.nz/TPPA.

Bill Rosenberg

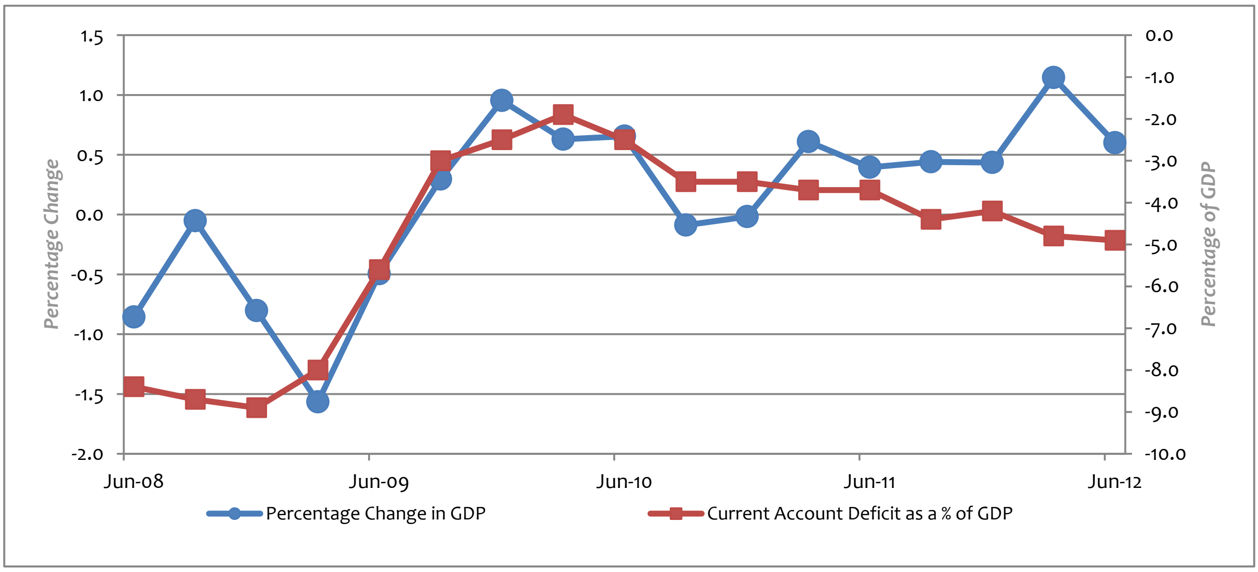
Forecast

- 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

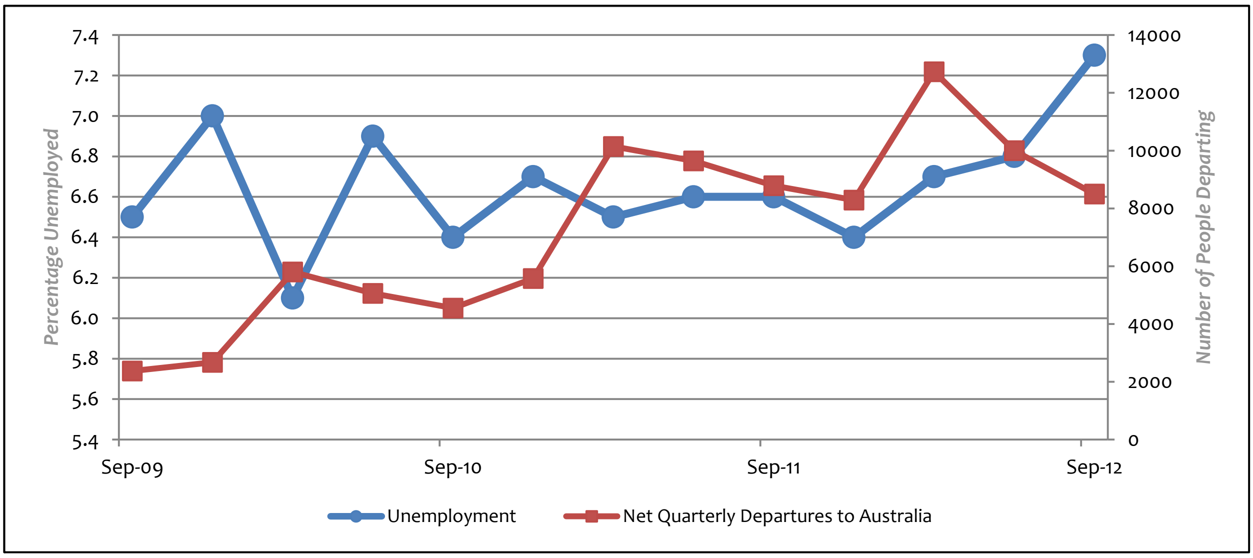


- New Zealand's economic growth slowed less than forecast in the June 2012 quarter amid strong agricultural output and construction. Gross Domestic Product rose 0.6 percent in the 3 months ended June 30, more strongly than the Reserve Bank's 0.4 percent estimate. GDP growth for the year to June 2012 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.

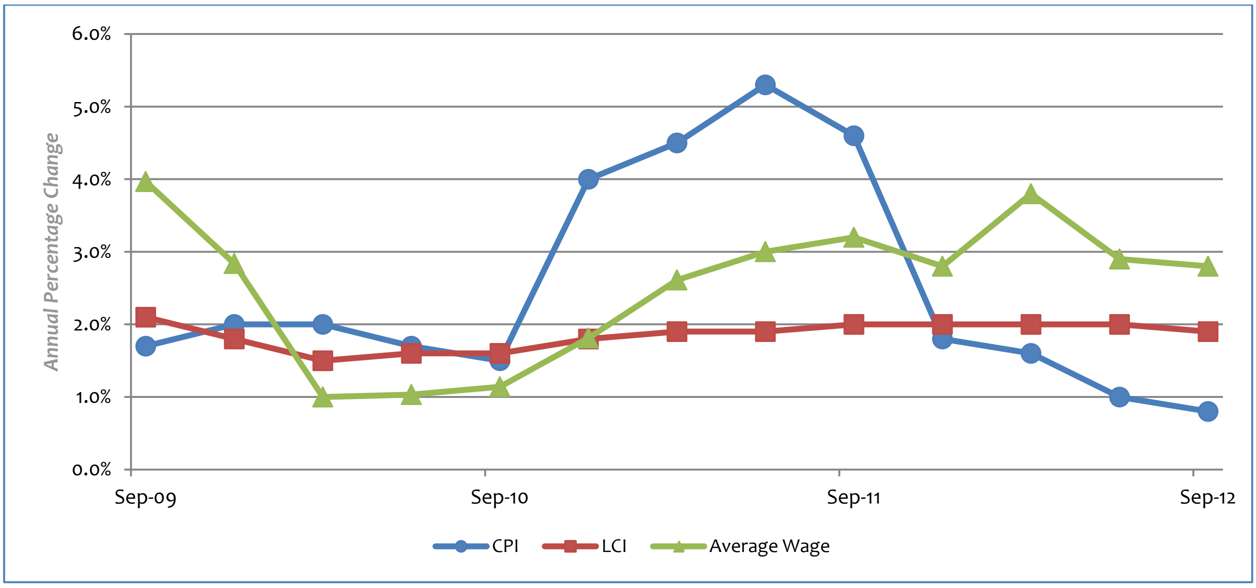
- For the month of October 2012, Overseas Merchandise Trade recorded a seasonally adjusted $313 million deficit, following a revised $93 million deficit in September. Exports decreased 13.7 percent or $544 million and imports decreased 8 percent or $324 million compared to September. The fall in exports was led by milk powder, butter, and cheese, which was down 14.9 percent in value ($131 million) and 16.9 percent in volume. Aluminium and aluminium articles (down 47.1 percent, $38 million), fruit (down 14.6 percent, $20 million), and meat and edible offal (down 8 percent, $39 million) were also down in value, while logs, wood, and wood articles (up 10 percent, $25 million) rose in value. Among imported goods, the value of petroleum products was down 15.6 percent ($118 million), following a revised 13.4 percent increase in the month of September and a 25.7 percent rise in August. By comparison, the value of imported electrical machinery and equipment was up 10.3 percent ($33 million), and the value of mechanical machinery and equipment was up 5.5 percent ($26 million), which could be an encouraging sign of increased investment. The value of exports to Australia in the month of October 2012 was down 4.6 percent ($44 million) compared to September, and down 4.5 percent year on the year.
- The Performance of Manufacturing Index[1] for October 2012 was 50.5, an increase from a revised 48.5 in September. The employment sub-index decreased slightly to 49.1 from 49.4 in September.
- The Performance of Services Index[1] for October 2012 was 57.4, a large increase from 49.9 in September. The employment sub-index increased to 52.1 in the month of October from 48.6 in September.
- The Retail Trade Survey for the three months to September 2012 showed retail sales fell 0.4 percent by volume and 0.8 percent ($139 million) by value in the September quarter compared with the June quarter, seasonally adjusted. The volume of supermarket and grocery store sales fell 1.5 percent and this has been on a falling trend since December 2011. The sales value of both recreational goods and electronic goods decreased 4.4 percent, while the value of commission-based retailing rose 5.3 percent. The sales volume of hardware, building, and garden supplies increased 4.2 percent, strengthened by sales in Canterbury. Volume for core retailing, which excludes vehicle-related industries, decreased 0.3 percent, following a 0.9 percent rise in June quarter. Retail sales were up 2.3 percent in volume and 2.1 percent in value (to $16.9 billion) compared to the September 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 1.5 percent increase in October, a new record high following a 0.6 percent rise in September. The house price index was up 6.9 percent compared to October 2011. The Auckland region recorded a 5.3 percent increase in the month, and a 14.4 percent increase in the year to October 2012. The national median house price increased to $380,000 from $371,000 in September, an increase of 2.4 percent.

Employment



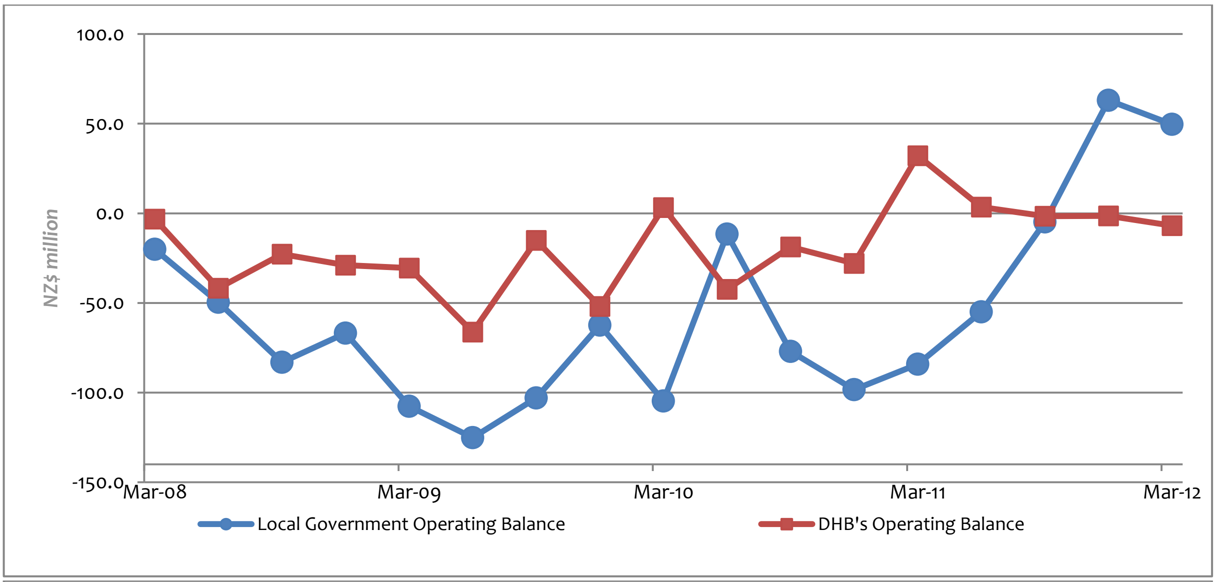
- According to the Household Labour Force Survey the unemployment rate in September 2012 quarter increased to 7.3 percent, from 6.8 percent in the June quarter. This represents the largest increase in the unemployment rate since 1999. There were 175,000 people unemployed (up 7.9 percent from June 2012). Maori unemployment was 15.1 percent (up from 13.1 percent in September 2011), Pacific unemployment was 15.6 percent (up from 14.4 percent the previous September quarter), Asian unemployment was 10.0 percent (up from 7.9 percent a year before), and European/Pakeha unemployment was 5.4 percent (up from 4.9 percent a year before). Youth unemployment (15-19 year olds) was 25.5 percent (up from 23.4 in the previous September quarter), and the unemployment rate among 20-24 year olds was 12.8 percent (up from 12.2 percent in the September 2011 quarter). There were 85,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 13.4 percent of people in that age group. Compared to unemployment rates in the OECD, New Zealand has slipped from 12th to 15th 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. No October figures were available at time of publication, and it appears that monthly figures will no longer be publicly available. It remains to be seen whether the Minister will continue to issue media releases on monthly figures when it suits her. (Quarterly figures on Unemployment Benefit numbers are available from the MSD website.)
- Job Vacancies Online showed that all job vacancies increased 4.7 percent in the month of October 2012, in seasonally adjusted terms, following a 4.5 percent decrease in September 2012. Skilled job vacancies increased 5.6 percent in October, following a revised 5.7 percent decrease in September.
- International Travel and Migration figures showed 7,370 permanent and long-term arrivals to New Zealand in October 2012 and 7,110 departures in seasonally adjusted terms, a net gain of 260. There was a net loss of 2,319 migrants in the year to October 2012. Net migration to Australia in the year to September 2012 was 39,330 departures, with 53,695 departures and 14,365 arrivals. There was a net increase of 2,279 permanent and long-term departures from New Zealand nationally for the year to October 2012 compared with the year to October 2011.

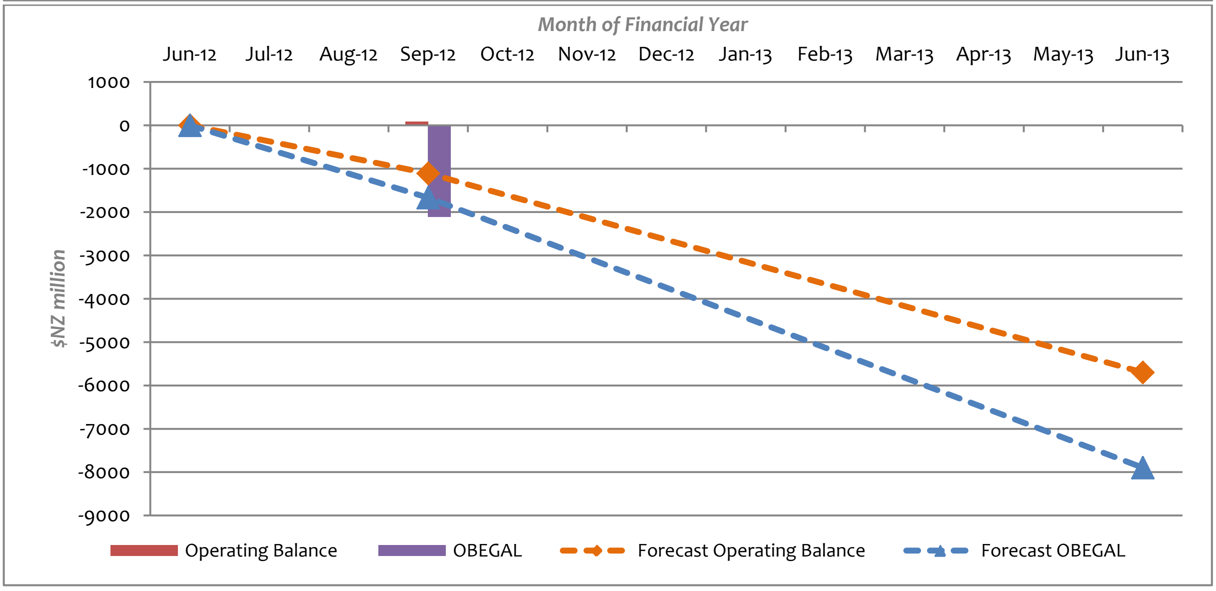
Wages



- The Labour Cost Index (Wage and Salary Rates) (LCI) rose 0.5 percent in the 3 months to September 2012, following a 0.5 percent rise in the 3 months to June. The LCI increased 1.9 percent in the year to September quarter. It increased 0.4 percent for those in the public sector in the 3 months to September 2012 and 0.5 percent in the private sector. Over the year to September it rose 1.4 percent in the public sector and 2.1 percent 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 September 2012 Quarterly Employment Survey found the average hourly earnings for ordinary-time work was $27.27, up 1.1 percent on the June 2012 quarter and 2.8 percent over the year. The average ordinary-time wage was $25.26 in the private sector (up 1.4 percent in the quarter and 3.0 percent in the year) and $34.40 in the public sector (up 0.4 percent in the quarter and 2.6 percent in the year). Female workers (at $25.08) earned 13.9 percent less than male workers (at $29.14) for ordinary time hourly earnings, a pay gap which has increased sharply from 12.6 percent a year before.
- 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 0.6 percent in the month of October 2012 compared with September. Food prices increased 0.3 percent in the year, following a 0.3 decrease in the year to September 2012. In October compared with September, fruit and vegetable prices fell 5.5 percent; restaurant meals and ready-to-eat food prices fell 0.5 percent; meat, poultry, and fish prices rose 0.1 percent; non-alcoholic beverages prices rose 0.5 percent; and grocery food prices rose 0.5 percent.

Public Sector





★ According to Treasury's [Financial Statements of the Government of New Zealand,] for the three months to 30 September 2012, government tax revenue was down $295 million (2.1 percent) on the forecast in the 2012 Budget Economic and Fiscal Update (BEFU). Most sources of tax revenue were below forecast. Weaker than expected wage growth and private consumption led to lower PAYE tax deductions and GST revenue by $166 million, and corporate provisional tax was $103 million below forecast. However an effective increase in the tax rate paid by non-incorporated businesses meant that "other individuals'" tax was $329 million higher than expected. Total revenue was only $215 million (1.4 percent) lower than forecast due to earlier and higher than expected dividend revenue from SOEs of $248 million, offset by $147 million lower interest revenue due to lower interest rates than forecast. Core Crown expenses were $201 million or 1.1 percent lower than forecast, mainly due to underspending in welfare, education and finance costs of $86 million, $63 million and $45 million respectively. However earthquake expenses were $114 million higher than forecast due to land zoning decisions announced after the forecast was made. The operating balance before gains and losses

(OBEGAL) was $449 million (26.9 percent) worse than forecast, at a $2.1 billion deficit, but the operating balance was in surplus to $90 million, $1.2 billion better than forecast, greatly helped by $1.7 billion in unforecast gains on the New Zealand Superannuation Fund and ACC investment portfolios. The Government's net debt was 26.9 percent of GDP, very close to its 27.0 percent forecast.

- 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/economicbulletin141.
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