NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Commentary

This year I plan to have two or three guest commentaries. The first one is from Charles Waldegrave who with Peter King, both of the Family Centre Social Policy Research Unit, carried out the research that gave us the Living Wage figure of $18.40 per hour, announced earlier this month. He tells us how it was calculated. You can read full details at http://www.livingwagenz.org.nz.

Calculating the Living Wage
by Charles Waldegrave

Summary

In order to calculate a Living Wage (LW), a household unit of two adults and two children was chosen. It was also assumed that one adult would be working full-time and the other half-time. The LW is set at an hourly rate for a full time market wage that in conjunction with the other adult's half time wage is sufficient to provide the level of after-tax income required to meet the household's reasonable needs. A transparent budget with standard itemised costs for the household was produced. Independent New Zealand databases drawn on included the annual Food Cost Survey carried out by the University of Otago's Department of Human Nutrition, the Ministry of Business, Innovation and Employment's Rent Bond database and Statistics New Zealand's Household Economic Survey. The calculations showed that a total gross annual income from 1.5 market incomes of $57,432 was required to meet the estimate for the required household after-tax income of $53,976. This in turn produced an hourly rate of $18.41. In order to avoid creating a sense of 'false precision', this was rounded down a cent to $18.40.

Thursday 14 February saw the launch of the Living Wage figure of $18.40 an hour as part of the on-going campaign for a Living Wage. It attracted considerable media attention and on the whole was well received. There were positive editorials in both the Dominion Post and the New Zealand Herald.

The actual figure that is arrived at for the Living Wage has to be robust and credible for the campaign not to be derailed. Peter King and I at the Family Centre Social Policy Research Unit (FCSPRU) in Lower Hutt were commissioned to investigate and define a Living Wage for New Zealand[1]. We had to clarify what the LW needed to be able to afford and calculate an hourly gross figure that would cover those

[1] King, P. and Waldegrave, C. (2012) *Report of an Investigation into Defining a Living Wage for New Zealand,* Wellington: The Living Wage Campaign, available at http://www.livingwagenz.org.nz.

modest but essential costs. In short, we needed to develop an empirical basis for the figure that eventually turned out to be $18.40 and a transparent account of the modest budget it would pay for.

What is a Living Wage?

The definition of the LW adopted by Living Wage Aotearoa New Zealand is as follows:

> *A living wage is the income necessary to provide workers and their families with the basic necessities of life. A living wage will enable workers to live with dignity and to participate as active citizens in society.*

It is the second sentence that distinguishes the LW from the 'poverty' or 'income hardship' threshold. Participation refers to more than survival on the basic necessities, because it involves the ability to participate socially and even consider the future like a modest insurance policy. It embraces small but important things like being able to pay for children to enjoy a school trip, having a computer in the home and being able to mix with friends recreationally, albeit modestly.

In order to calculate a LW, a household unit of two adults and two children was chosen because this is a common New Zealand family size and it is the minimum average sized 'family' required to ensure population replacement. It was considered a LW should at least be sufficient to support such a unit. The household is assumed to have two income earners, one working full time and the other half time. There are good grounds for assuming two incomes because the Statistics New Zealand Household Labour Force Survey (HLFS) results for June 2012 show that in 68.5 percent of households with two adults and two dependent children, both adults were income earners.

People live in households, but are paid in the market as individuals regardless of their household obligations. A living wage really has to be an individual market wage. Thus the position we adopted is that the LW is set at an hourly rate for a full time market wage, and that it in conjunction with the other adult's half time wage is sufficient to provide the level of after-tax income to meet the household's reasonable needs.

Calculating the Living Wage

We began by interviewing five focus groups of working people on modest incomes. Three were run in the Wellington area and two in Auckland, with an average of eight members in each. They were invited to estimate for a household of two adults and two children a list of standard household expenditure items that were much the same as Statistics New Zealand use in their Household Economic Survey to estimate household costs. Estimates were asked for each budget item for a family to be able to not simply survive, but be able to participate in society. The results showed that the groups produced estimates that were considerably higher than what might in the end be agreed as a defendable and achievable level for the LW. The items that particularly bulked up the estimates were for savings, recreational activities and child care, indicating aspirations workers have for security, and the cost of leisure.

A LW like other income thresholds needs to be modest. It is a minimal figure for participating in society, rather than an average or larger amount. Another way of estimating the budget items constituting necessary expenditure is to use independent data sources. With the higher than expected estimates from the focus groups, this second approach was the one used for deriving the LW.

The following independent data sources were used to estimate budget items:

- The annual Food Cost Survey carried out by the University of Otago's Department of Human Nutrition was used to estimate a basic weekly food cost for a 2 adults/2 children family that would meet their nutritional needs.
- The Ministry of Business, Innovation and Employment's (MBIE's) average lower quartile national rent figures were used to estimate weekly housing costs.
- The Statistics New Zealand's Household Economic Survey average expenditure figures for income deciles 1-5 (the lower 50 percent of New Zealand household incomes) were used to estimate the remaining itemised costs apart from childcare.
- 10 hours were allowed for childcare costs, given one adult worked 20 hours a week and 3 and 4 year olds have access to 20 hours free early childhood education.
- Saving through Kiwi Saver at the minimum level of two percent of gross income was assumed.

The sum of the costs of the budget items provided a benchmark for the required household after-tax income that was needed to cover those costs.

Having identified a necessary level of disposable, after-tax income, the next step was to calculate the before-tax market wages for two individuals necessary to provide that after-tax household income. The calculation took into account the effects of income tax, Working for Families tax credits, Kiwi Saver deductions from wages, and financial support provided by the state through childcare support and the Accommodation Supplement. A spreadsheet was developed to enable gross (before-tax) income levels to be calculated for a range of disposable (after-tax) income levels.

The calculations showed that a total gross annual income from 1.5 market incomes of $57,432 was required to meet the estimate for the required household income of $53,976. This in turn produced an hourly rate of $18.41 as the table on the next page demonstrates. In other words, two adults, one working 40 hours a week and the other working 20 hours, each at $18.41 an hour, will, if they are careful, be able to meet their essential costs and participate modestly in society without going into debt.

The result of the investigation has led to a LW figure of $18.41. However, in order to avoid creating a sense of 'false precision' when setting the final LW benchmark, the broader research group decided to apply only one decimal place (rather than two) leading to the figure of 18.4. Thus the hourly rate of $18.41 was rounded down a cent to $18.40 for the final LW benchmark.

The household after-tax income of $53,976 is 76.78 percent of median (the middle) after-tax household income and 63.78 percent of average after-tax household income for households with two adults and two children. This is where one would expect a living wage to sit: close to half way between the poverty line (60 percent of median after-tax household income) and the median.

Some final thoughts

The estimates have considerable evidence to support them with the expenditure figures for Household Expenditure Survey income deciles 1-5, the Otago University Food Cost Survey estimates, the Ministry of Business, Innovation and Employment's average lower quartile national rent figures and accurate childcare costs. A LW is designed to meet the needs of a typical family. It can never meet the needs of all families, so smaller families will have a little surplus and larger families more stringent living. It is simply a way of estimating a fair hourly rate that would enable most people to participate modestly in society.

Weekly costs and wage calculation for a 2 Adults/2 Children "Living Wage" family

Calculated from Household Economic Survey, University of Otago Food Cost Survey, MBIE housing rents, Kiwisaver contribution and childcare costs.

Expenditure category	**$ Costs**
Food	226
Clothing and footwear	18
Actual rentals for housing	275
Household energy	46
Household contents and services	33
Health	14
Transport	121
Communication	29
Recreation and culture	78
Education	37
Miscellaneous goods and services	64
Other expenditure[2]	66
Childcare	31
Weekly	**1,038**
Annually	**53,976**
Total Gross required from 1.5 incomes	57,432
Hourly rate for fulltime worker	**18.41**

The final value of $18.40 benchmark has been set with two qualifications. Firstly, regional variations in rent complicate matters considerably, with Auckland having far higher rents than the rest of the country. Average rents in Auckland are currently $163 more a week than the national average. A national figure for the LW is required, so the differences in Auckland would seem to have to be made up through increases in Accommodation Supplement entitlements. The evidence presented in the Report provides a strong case for that.

Secondly, the calculation of the hourly rate necessary to produce that level of disposable income is based on existing tax rates and income support entitlements such as Working for Families tax credits, Childcare support and the Accommodation Supplement. If any of these changed, the necessary hourly rate would change as well – either up or down. Clearly, then, the State already plays a significant role in mediating between market pay and disposable income through various transfers. It could be encouraged to extend this role by providing more of the conditions necessary to achieve a living wage.

[2] This figure is reduced from the original HES figure of $96 which is mostly comprised of mortgage interest, and does not apply to our target families. Instead, the $66 is comprised of the estimated $56 for Exceptional emergencies identified by the focus groups and an allowance of $10 for non-mortgage interest payments. Other saving in addition to KiwiSaver is also allowed for here.

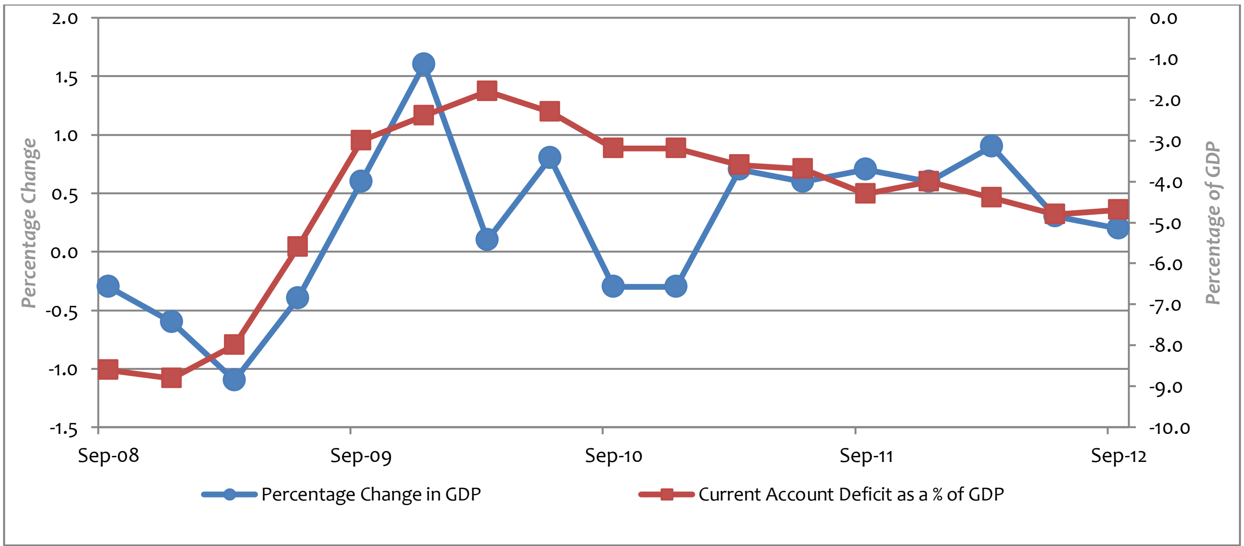
Forecast

- This NZIER forecast was released on 17 December 2012.

Annual Percentage Change (March Year)	**2012-13**	**2013-14**	**2014-15**
GDP	2.3	2.8	2.5
CPI	1.4	2.1	2.4
Private Sector Wages	3.1	3.2	3.3
Employment	0.3	1.8	1.3
Unemployment	6.9	6.3	5.9

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

Economy



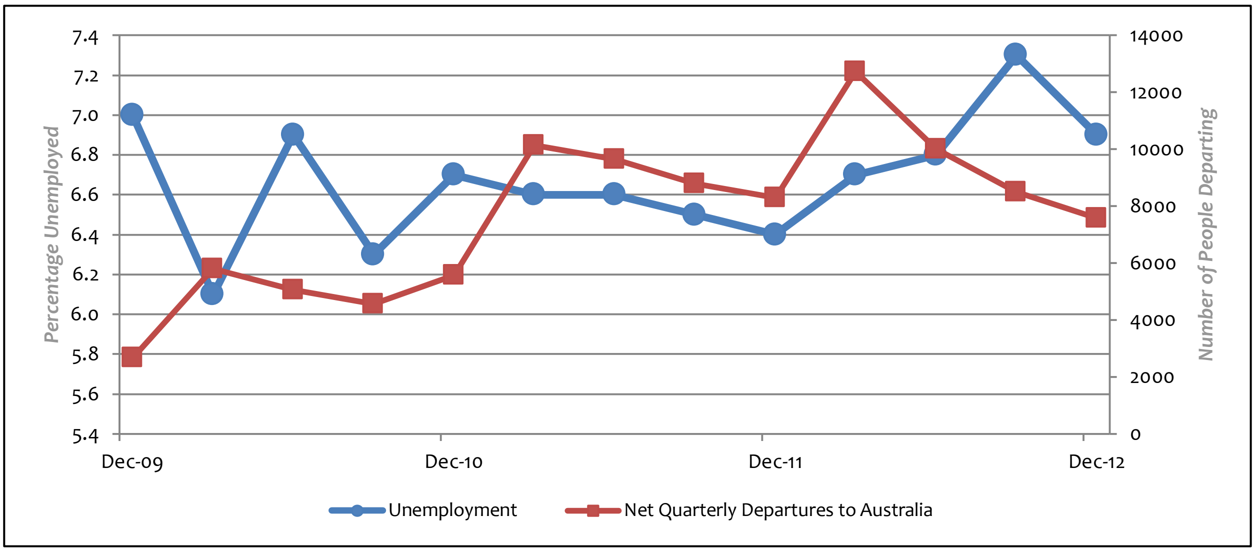
- New Zealand's economic growth slowed more than forecast in the September 2012 quarter amid a drop in manufacturing and farm output. Gross Domestic Product rose 0.2 percent in the three months ended September, in line with the Reserve Bank's 0.2 percent forecast but short of the 0.4 percent growth economists surveyed by Bloomberg were expecting. GDP growth for the year to September 2012 remained positive, up 2.5 percent. Primary industries declined 3.2 percent in the quarter, driven by agriculture, which decreased 2.8 percent. However primary industries increased 14.4 percent for the year with agriculture up 23.3 percent, but mining down 2.4 percent. Goods producing industries increased 1.2 percent in the quarter following a 0.8 percent increase in the June quarter, driven by a 4.5 percent increase in construction activity and a 4.4 percent increase in electricity, gas, water, and waste services, but fell 0.1 percent in the year. Construction activity remains 14 percent below its December 2007 peak. Manufacturing activity decreased 1.1 percent in the September 2012 quarter, which was also 1.5 percent lower than the same quarter in 2011. However manufacturing rose by 0.6 percent comparing the full year to September 2012 with the year to September 2011. The decrease in the most recent quarter was primarily driven by an 8.0 percent fall in metal manufacturing. Activity in services industries was flat in the September quarter, following a revised 0.5 percent increase in the June quarter, but up 1.7 percent for the year with the largest rises in professional, scientific, technical, administration, and support services (up 4.6 percent) and retail trade and accommodation (up 4.7 percent). Household consumption expenditure was also flat in the quarter, following a revised 0.4 percent increase in the June quarter. However, for the year ended the September quarter, household expenditure was up 2.4 percent amid increased spending on durables (up 7.0 percent) and non-durable goods (1.7 percent). Investment in fixed assets decreased 1.8 percent following a 3.1 percent increase in the June 2012 quarter, but remains considerably lower (13 percent) than its December 2007 peak. Investment in residential buildings rose 7.4 percent in the quarter, driven by activity in Canterbury and the upper North Island. Business investment fell 4.7 percent in the quarter, with investment in plant, machinery, and equipment down 17.6 percent, following a revised 3.2 percent rise in the June 2012 quarter. Significant revisions to GDP estimates showed that the recession in New Zealand in 2008 was not as deep as originally thought, and that the country went into a second recession (a "double dip") in late 2010.

- New Zealand recorded a Current Account deficit of $2.5 billion for the September 2012 quarter in seasonally adjusted terms, $0.3 billion lower than the June 2012 quarter. For the year to September 2012 the deficit was $9.9 billion (4.7 percent of GDP), up from $8.8 billion (4.3 percent of GDP) for the year ended September 2011. This deficit was mainly comprised of a negative balance on income of $10.4 billion from foreign investment in New Zealand, though profits from foreign owned companies fell during the quarter.
- The country's Net International Liabilities were $148.4 billion at the end of September 2012 (71.2 percent of GDP) up from a revised $148.1 billion (71 percent GDP) at the end of June 2012, and $146.5 billion (72.1 percent GDP) in September 2011. Reinsurance claims owed but not yet paid for the Canterbury earthquakes were $11.1 billion at the end of September 2012, compared to a revised $12.4 billion at the end of June 2012. Reinsurance claims related to the Canterbury earthquakes have been falling since June 2011 when they stood at a revised $17.1 billion. Total claims from all Canterbury earthquakes are now estimated to be $17.6 billion. As of 30 September 2012, a total of $6.5 billion had been settled with overseas reinsurers.
- ★ For the month of January 2013, Overseas Merchandise Trade recorded a seasonally adjusted $287 million deficit, following a revised $402 million surplus in December. The following are also in seasonally adjusted terms unless otherwise stated. Exports decreased 15 percent or $629 million and imports increased 1.6 percent or $60 million compared to December. Exports fell by volume in all the leading categories except fruit, and fell in value for dairy (12.2 percent or $125 million), Crude oil (52.4 percent or $90 million, though not seasonally adjusted), and Aluminium (26.4 percent or $24 million). Only fruit had a significant rise (20.4 percent or $16 million). Export values have trended downwards, now being 5.0 percent lower than the most recent peak in November 2011. Imports rose strongly by value in all leading categories but were led by textiles (up 33.4 percent or $48 million) and petroleum and related products (up 22.2 percent or $112 million) though these are not seasonally adjusted and are subject to significant month-to-month changes. Excluding petroleum and its products, imports were down slightly (0.2 percent) by value. Year-on-year, exports were down 10 percent in value or $378 million to $3.3 billion

comparing January 2013 with January 2012, led by milk powder, butter and cheese which fell $208 million or 16 percent. Imports also fell, but by less – 6.0 percent or $234 million over the year, though only by $20 million if "one-off" imports are excluded. Capital and intermediate goods both fell, showing the largest decreases, while consumer goods rose. Exports to Australia showed the largest decrease of any destination (13 percent or $91 million), while exports to China rose 3.1 percent or $19 million.

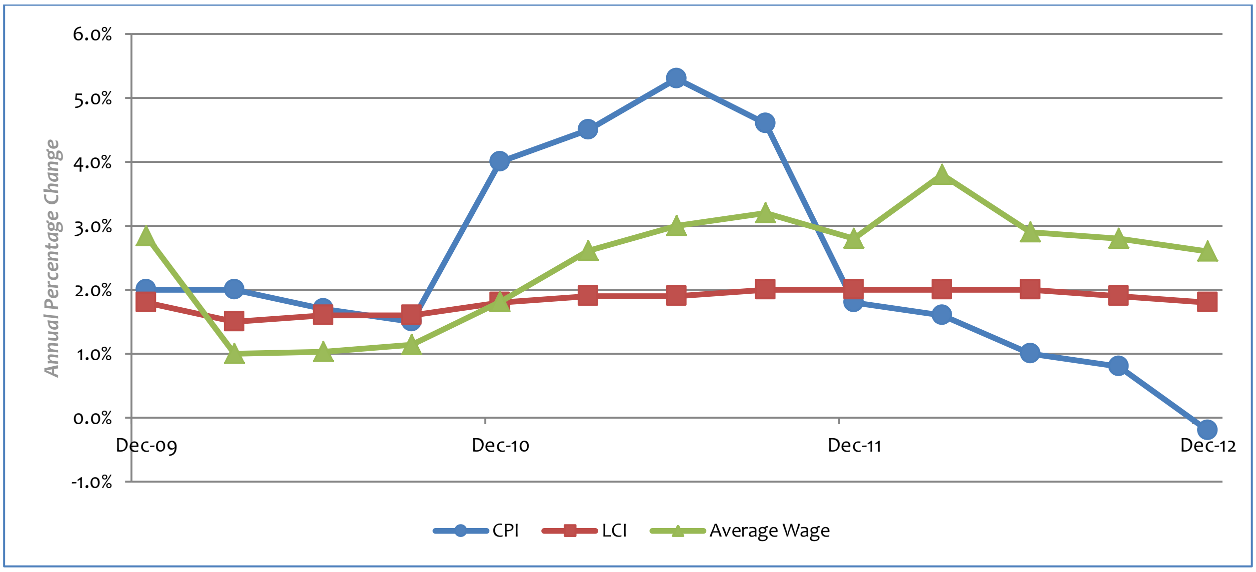
- ★ The Performance of Manufacturing Index[1] for January 2013 was 55.2, a significant increase from 50.4 in December 2012. The employment sub-index however fell to 48.4 from 49.0 in December.
- ★ The Performance of Services Index[1] for January 2013 was 52.6, an increase from 51.5 in December 2012 but still below the 54.2 in November and 57.8 in October. The employment sub-index however fell from 51.6 in December 2012 to 49.9 in January 2013.
- ★ The Retail Trade Survey for the three months to December 2012 showed retail sales rose a strong 2.1 percent by volume and 1.7 percent ($300 million) by value in the December quarter compared with the September quarter, seasonally adjusted. A strong driver was the 4.3 percent rise in hardware, building, and garden supplies, reflecting increasing activity in Canterbury. Accommodation also rose steeply, up 5.9 percent, fuel volumes rose even faster, up 7.7 percent, and department store sales volumes rose 4.5 percent for the quarter. On the other hand supermarket and grocery store sales rose only 0.6 percent reflecting weakness over several quarters, and recreational goods fell 2.9 percent.
- ○ On 31 January 2013 the Reserve Bank left the Official Cash Rate unchanged at 2.5 percent. The next review will be announced on 14 March 2013 which will be accompanied by a Monetary Policy Statement.
- ★ The REINZ Housing Price Index fell 1.0 percent in the month of January 2013. The index was up 7.2 percent compared to January 2012. The Auckland region index recorded a 2.1 percent decrease in the month, but was still 11.8 percent higher compared to January 2012. The Christchurch house price index retreated 4.4 percent from last month's record, but was up 9.9 percent over the year to January 2012. The national median house price fell to $370,000 from $389,900 in December 2012, a decrease of 4.9 percent.

Employment



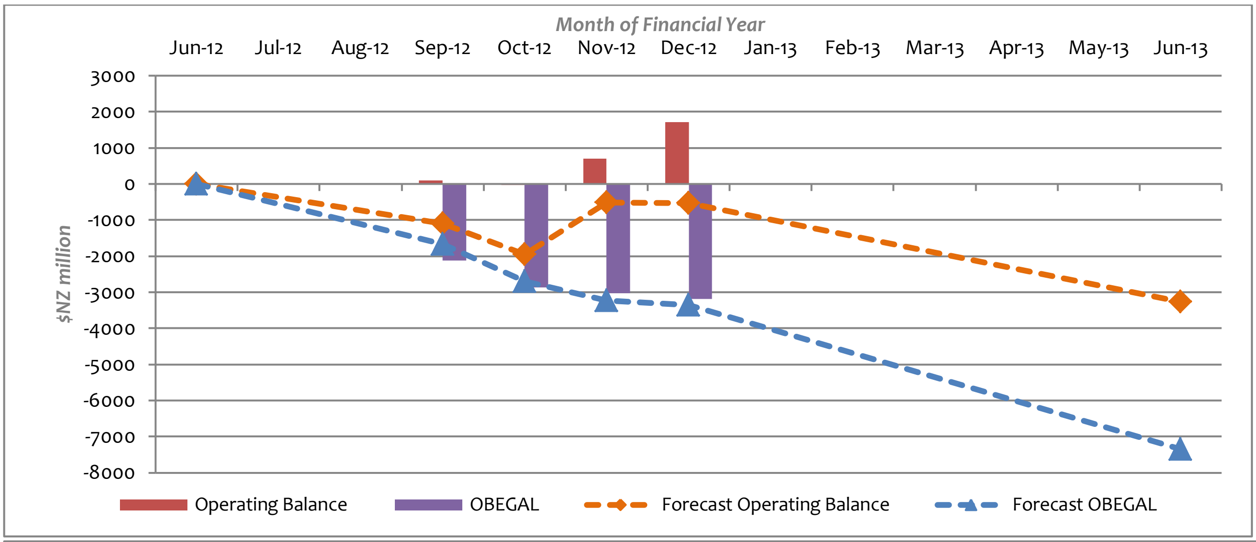
- ★ According to the Household Labour Force Survey the unemployment rate in the December 2012 quarter fell to 6.9 percent from 7.3 percent in the September quarter, but still up from 6.8 percent in the June quarter. There were 163,000 people unemployed. Maori unemployment was 14.8 percent (up from 13.4 percent in December 2011) and Pacific unemployment was 16.0 percent (up steeply from 13.8 percent in December 2011). Youth unemployment (15-19 year olds) was 30.9 percent, up considerably from 24.2 percent in December 2011, and the unemployment rate among 20-24 year olds was 12.4 percent, also up from 11.9 percent in the December 2011 quarter. There were 90,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 14.2 percent of people in that age group, up from 13.4 percent in the September quarter or 85,000 people (seasonally adjusted). There are signs people are giving up looking for scarce work with the labour force participation rate falling 1.2 percentage points over the quarter. Compared to unemployment rates in the OECD, New Zealand has improved slightly to 14th position, from 15th equal position in September (out of 35 countries). Over a quarter of unemployed people (28.7 percent or 46,100) have been out of work for more than 6 months and 12.3 percent or 19,800 for more than a year.
- ○ At the end of December 2012 there were 53,747 working age people on the unemployment benefit, a decrease of 6,217 from December 2011. Data is now available only quarterly (see Unemployment Benefit numbers on the MSD website).
- ★ Job Vacancies Online showed that all job vacancies increased 12.6 percent in the month of January 2013 in seasonally adjusted terms, following a 6.7 percent decrease in December 2012. Skilled job vacancies increased by 10.6 percent in January, following a 6.0 percent decrease in December. In both cases, the trend is still falling.
- ★ International Travel and Migration data showed 7,070 permanent and long-term arrivals to New Zealand in January 2013 and 6,730 departures in seasonally adjusted terms, a net gain of 350. There was a net gain of 675 migrants in the year to January. Net migration to Australia in the year to January 2013 was 37,936 departures, with 53,067 departures and 15,131 arrivals. For the month of January, at 2,620 the seasonally adjusted net loss to Australia was the smallest since February 2011.

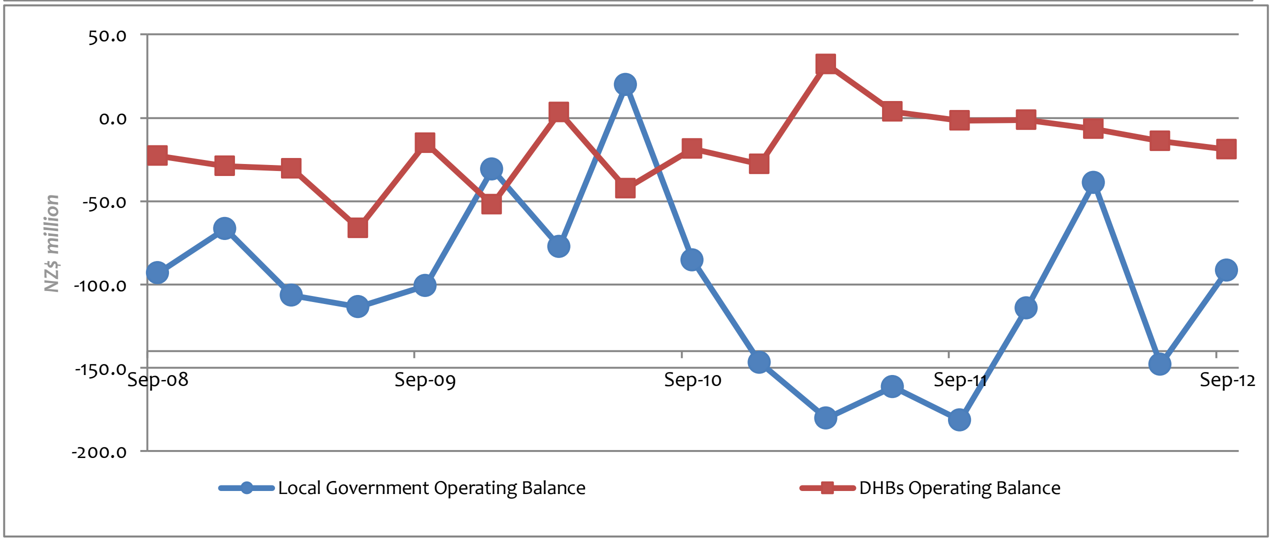
Wages



- ★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the 3 months to December 2012, following a 0.5 percent rise in the 3 months to September. The LCI increased 1.8 percent in the year to December. It increased 0.5 percent in both the public and private sectors in the 3 months to December. Over the year to December it rose 1.5 percent in the public sector and 1.9 percent in the private sector. For the 55 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 December 2012 Quarterly Employment Survey found the average hourly earnings for ordinary-time work was $27.25, down 0.1 percent on the September 2012 quarter and up 2.6 percent over the year. The average ordinary-time wage was $25.17 in the private sector (down 0.4 percent in the quarter and up 2.6 percent in the year) and $34.70 in the public sector (up 0.9 percent in the quarter and 2.6 percent in the year). Female workers (at $25.16) earned 13.4 percent less than male workers (at $29.04) for ordinary time hourly earnings, a pay gap which has increased sharply from 12.9 percent a year before and 12.3 percent in December 2010. The pay gap was reduced from 13.9 percent in the previous (September) quarter, in part because the male average wage fell from $29.14 to $29.04 during the quarter.
- The Consumer Price Index fell 0.2 percent in the December 2012 quarter compared with the September quarter but increased 0.9 percent for the year to December. For the quarter, the largest contributor to the decrease was a 1.8 percent decrease in the food group. The household contents and services group also decreased 1.8 percent, and the communication group fell 2.0 percent. These decreases were countered by higher health (up 1.1 percent), household and household utilities (up 0.6 percent), and transport prices (up 0.6 percent).
- ★ The Food Price Index rose sharply by 1.9 percent in the month of January 2013 compared with December 2012. Food prices increased 0.8 percent in the year, following a 1.0 percent decrease in the year to December 2012. In January compared with December, meat, poultry, and fish prices increased 2.2 percent; fruit and vegetable prices increased 3.5 percent; grocery food prices rose 1.9 percent; non-alcoholic beverage prices rose 2.2 percent; and restaurant meals and ready-to-eat food prices increased by 0.2 percent.

Public Sector





- According to Treasury's Financial Statements of the Government of New Zealand, for the six months to 31 December 2012, government tax revenue was down $31 million (0.1 percent) on the revised forecast in the December 2012 Half Year Economic and Fiscal Update (HYEFU). PAYE and other personal tax was $233 million above forecast but corporate tax was $151 million below forecast. Similarly, total revenue was $37 million (0.1 percent) lower than forecast. Core Crown expenses were $273 million or 0.8 percent lower than forecast, largely because $186 million of forecast Treaty settlements were not completed as expected. The operating balance before gains and losses (OBEGAL) was $158 million (4.7 percent) better than forecast, at a $3.2 billion deficit, but the operating balance was $1.7 billion in surplus, $2.25 billion better than the $541 million deficit forecast, continuing to be greatly helped by unforecast investment gains of $1.3 billion, mainly on the New Zealand Superannuation Fund and ACC investment portfolios. The Government's net debt was 28.4 percent of GDP, just below its 28.9 percent forecast.
- District Health Boards recorded an operating deficit of $18.9m for the September 2012 quarter compared to a deficit of $13.9m for the June 2012 quarter. Total revenue rose to $3.45 billion in September (including $2.92 billion from the Ministry of Health), compared to $3.44 billion in March. Employment costs were $1.28 billion in the three months to September, down from

$1.32 billion for the June 2012 quarter, compared to total expenses of $3.47 billion, up from $3.45 billion in the June quarter. Further information is on the Ministry of Health web site.

- Local Government recorded a 5.9 percent fall ($127 million) in operating income and a 8.0 percent fall ($184 million) in operating expenses for the September 2012 quarter compared to June, resulting in an operating deficit of $91.4 million, compared with a revised deficit of $148.1 million in the June quarter, all in seasonally adjusted terms.

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/economicbulletin143.
For further information contact Bill Rosenberg.