NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 145 (April 2013)

Commentary

The Budget, austerity, and the alternatives

Summary

The government has so far given us few clues as to what will be in the Budget on 16 May. There will be an "operating allowance" for "new spending" of $800 million, but as usual with this Government, most of that will be used by increased health and education spending. Health is rumoured to be in for a 2.5 percent increase which is less than previous years and is again likely to be inadequate to cover rising costs. We will be told how the proceeds from the asset sales (the ethereal "Future Investment Fund") will be used for capital investment. With both the value and the feasibility of asset sales in increasing doubt, it will be interesting to see how this is managed.

The direction the Government is following adds up to more than housekeeping and minor technical changes. Treasury Secretary Gabriel Makhlouf recently made the spine-chilling statement that "The public service is changing the way it does business to a degree not seen since the 1980s." Some of that may actually be "back to the 1980s" but some is also making it more difficult for the government to regulate. Bill English has also said that spending will be reduced to 30 percent of GDP by 2015 – significantly below what was in previous forecasts, and a level only reached previously this century during times when growth was vigorous and unemployment low.

Reductions in spending when unemployment remains high and there are many signs of continuing hardship in the community might be "austerity lite" but it is the wrong thing to do. Austerity is increasingly being discredited as a way to get out of the current and ongoing international recession, with prominent economists being forced to admit their previous forecasting was in error, and austerity clearly making things worse in many countries.

There are alternative ways of running the economy that look after people and at the same time build a platform for future diversity in the economy. New Zealand's relatively low public debt levels leave room to do this.

The government has so far given us few clues as to what will be in the Budget on 16 May. The Prime Minister has announced there will be $158 million over four years for his Tourism portfolio and there have been smaller announcements. There will be an "operating allowance" for "new spending" (which in fact includes many adjustments for population growth and the like) of $800 million, but as usual with this Government, most of that will be used by increased health and education spending. Health is rumoured to be in for a 2.5 percent increase which is less than previous years and is again likely to be inadequate to cover rising costs but I will be analysing that more fully in a separate paper. The Budget Policy Statement said that the Budget would detail how the proceeds from the asset sales (the ethereal

"Future Investment Fund") would be used for capital investment. With both the value and the feasibility of asset sales in increasing doubt, it will be interesting to see how this is managed.

The Minister of Finance, in his regular pre-Budget speech to the Wellington Chamber of Commerce, said there would be no big surprises, and the Budget would focus on getting back to surplus in the following financial year (2014/15), "keeping up with" economic reforms to make the economy "more competitive", "improving" public services (further restructuring?) and the Christchurch reconstruction. The Christchurch reconstruction will cost $10 billion more than the last estimate, with about $2 billion of this a cost to the government and the possibility of further increases.

The direction the Government is following adds up to more than housekeeping and minor technical changes. In a recent speech[1], Treasury Secretary Gabriel Makhlouf made a comment that will send a shiver down the spine of anyone who experienced the effect on public services of the radical changes of the 1980s and 1990s from either the inside or outside. He said "let me be clear from the start: this reform isn't a 'new curtains and a lick of paint' spruce-up, it's a 'knock down walls, re-wire and put in new plumbing' transformation…. The public service is changing the way it does business to a degree not seen since the 1980s." I'll return to whether it really is all that, but though Makhlouf denies it, there is a strong strand of "less government" and more privatisation of state functions running through it.

The smaller government theme was confirmed by English in his speech: "by 2015, government spending as a proportion of the economy is forecast to fall to about 30 per cent of GDP, from more than 35 per cent of GDP in 2011." Part of this is bravado – spending as a percentage of GDP was high in 2011 because of the shrunken economy, high spending on the Canterbury earthquake, and continuing spending driven by the recession. A level of 30 percent in 2015 however is significantly lower than the 30.8 percent forecast in the Half Yearly Economic and Fiscal Update, and is about the 30.2 percent it was at in 2006 (it rose to 31.2 percent in 2007 and fell to 30.7 percent in 2008 before rocketing in the face of the Global Financial Crisis). But in 2006 – and it was even lower at around 29 percent in the four years before that – the country was at the end of four or five years of rapid growth with unemployment at just 3.6 percent in June 2006, falling to 3.3 percent in December 2007.

Continuing hardship – wrong time to cut spending

But now the government is rapidly lowering its spending while we still have high levels of unemployment – double those when government spending was last at this rate – and growth rates very dependent on the Christchurch rebuild and record high dairy prices. As well as high unemployment, there is continuing evidence of hardship in the community. The *Dominion Post* recently reported[2] Family Budgeting Services Federation chief executive Raewyn Fox as saying that "the number of people seeking financial advice had jumped by about 60 per cent in the past two years and was still rising. 'We've seen the biggest increase since we started keeping records and we think it's only the tip of the iceberg.' A new group of people were also seeking advice – homeowners who had not previously run into financial trouble. Many had enough money to ride out the recession, but as the economy stuttered along they were burning through their reserves. Often the pinch hit when someone lost a job; other times rising living costs simply made paying off a mortgage unaffordable". Dale McFarlane of the Salvation Army's

[1] "Stewardship of the Public Service: Serving New Zealand's Needs and Changing the Way We Do Business", Gabriel Makhlouf, 15 April 2013, available at http://www.treasury.govt.nz/releases/publications/media-speeches/speeches/stewardshippublicservice/

[2] "Cashflow stress hits one in two Kiwis", by Ben Heather and Rob Stock, *Dominion Post*, 26 April 2013, p.A1.

Hope Centre in Wellington said there were an increasing number of "white collar" clients requiring food parcels. "It is the wage earners that are now becoming the new poor." They were reacting to a survey by financial research company Canstar which found that nearly half of New Zealanders are surviving from one pay day to the next.

There certainly were structural imbalances in the economy in the mid-2000s, but they are still there, and the symptoms have been addressed temporarily by a deep recession and luck.

Unemployment has not even been superficially addressed. Rather, the government is forcing more people into the workforce through its welfare policies (described by the Treasury Secretary as "a very good example of focusing on medium term outcomes"). In June 2006 there were 39,752 working age people on the Unemployment Benefit (and the number fell to 17,465 in May 2008); there were 48,872 in March 2013. There were 280,299 working age people on all benefits (except New Zealand Superannuation and Veterans benefit) in June 2006 and reached a low of 254,547 in May 2008; there were 309,112 in March 2013. The message is clear: reduce unemployment and you will reduce people's need for benefits. Instead the government is doing it upside down. As Bill English admitted in January according to the *New Zealand Herald*[3], he "believed the recent rise in unemployment numbers was because of work-testing requirements". The Government's welfare policies are increasing unemployment rather than reducing it – and making it harder for beneficiaries as well as others seeking work, depressing wages along the way.

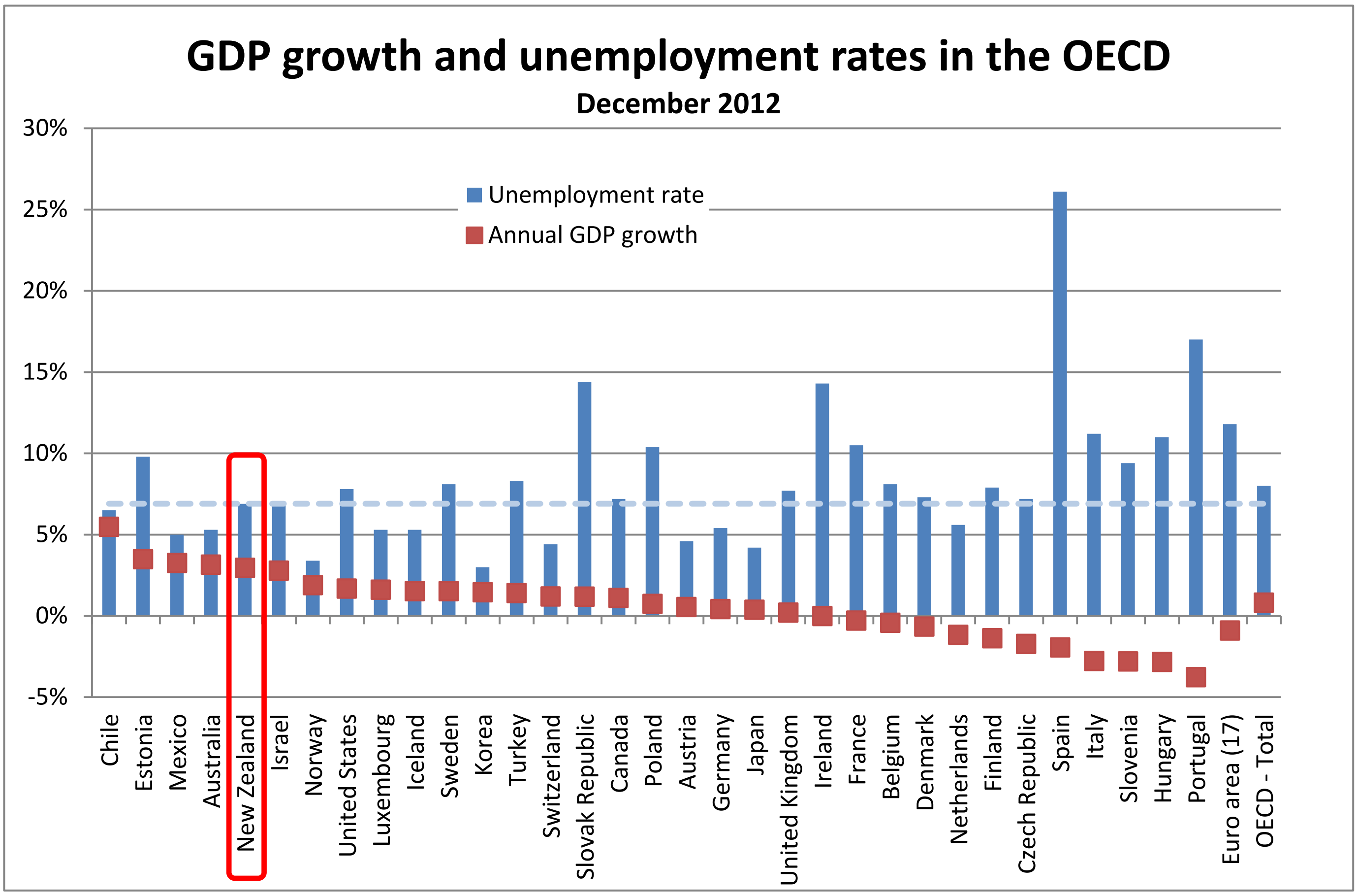
Bad record on jobs

The Reserve Bank has repeatedly pointed out the constraining effect of government fiscal (taxation and spending) policies on the economy, just as we did at the time of the 2012 Budget. That is equivalent to taking 3.2 percent of GDP out of the economy over the next four years, and another aggravator of unemployment. The stimulus it did give during the recession was almost entirely tax cuts, overwhelmingly on higher incomes, in contrast to other countries like Australia where there was much better balance between tax cuts and additional spending – which also made for a much more effective stimulus. The Government is tightening up too fast, while the effects of the recession on people are still very evident. It is exceeding even its own forecasts for lowering spending.

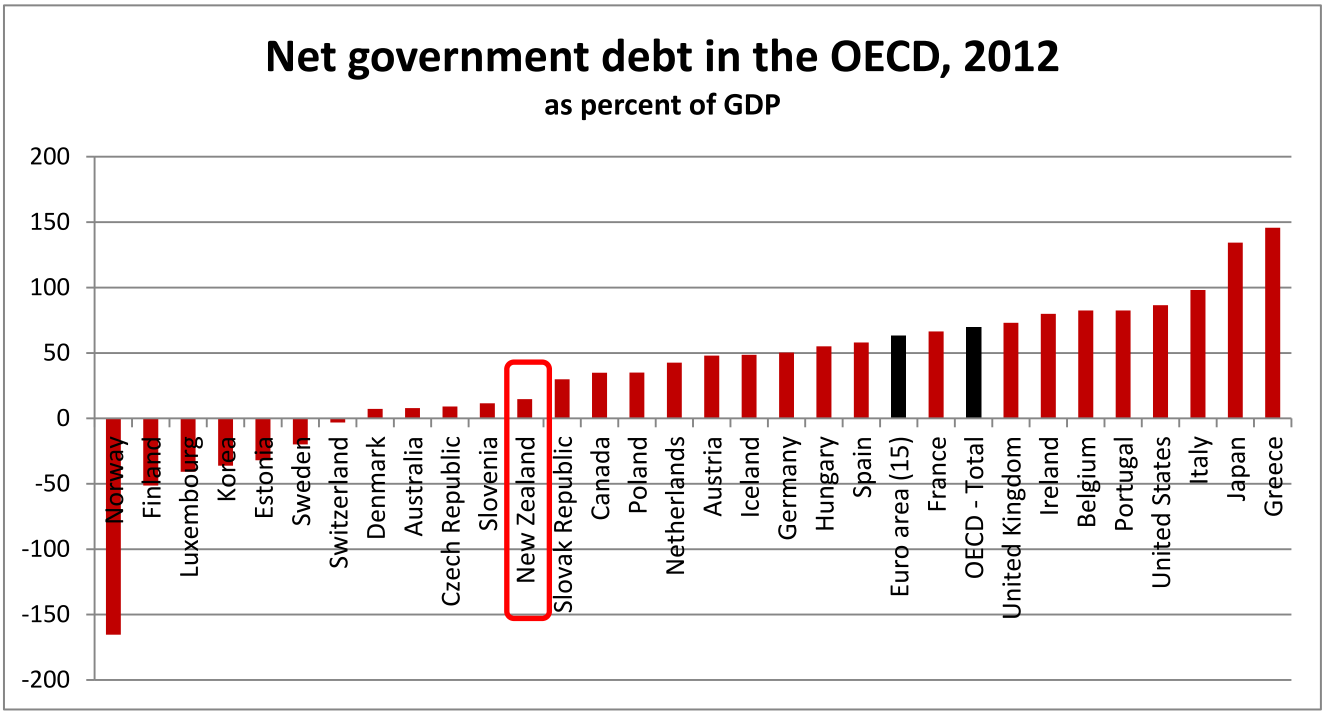
The Government is fond of saying New Zealand came through the recession better than most other countries (mainly because the banks did not bankrupt us) and at the end of 2012 New Zealand's GDP growth rate was 5th highest out of 33 countries in the OECD at 3.0 percent annual growth[4]. Yet our unemployment rate was 14th lowest – about middle of the pack. As the graph on the following page shows, among the ten fastest growing OECD countries only Estonia and the US had worse unemployment rates, and only Estonia among the top five. Norway, Luxembourg, Iceland, Korea, Switzerland, Austria, Germany, Japan, and the Netherlands all had significantly lower unemployment rates – but lower GDP growth rates. Many went through much harsher recessions than New Zealand and the Netherlands was in recession.

[3] "Welfare reform priority for English", by Audrey Young, *New Zealand Herald* 22 January 2013, available at http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10860601.

[4] GDP growth rate compared to the same quarter of previous year, seasonally adjusted. Unemployment rates are harmonised unemployment rates, seasonally adjusted. Greece is omitted because it does not have reliable GDP growth data. Source: OECD.



While the Government does not have in place the kind of ruinous austerity programme that is making things worse in Europe, it is "austerity lite", and fails to take advantage of the room available to continue to stimulate job creation in the economy as a result of New Zealand's favourable government debt situation which was inherited from the previous government. The assessment of the austerity approach to economic crisis is changing rapidly internationally in any case.



Rethinking austerity

There were warnings from the time the brief international rediscovery of government stimulus switched to austerity soon after the Global Financial Crisis hit economies. The effect – if not the intention – of government responses to the crisis was to load the huge debt created by a deregulated financial system onto citizens, many already hit by the loss of houses and savings. The politics changed to suit: suddenly the resulting huge government debts created by taking over the financial system's debt was made out to be the fault of irresponsible governments, short-sighted citizens and bloated public services. Some of those accusations may have been true in a few countries, but they were not the cause of the mountains of government debt they now face. The debt was used as a reason for violent cuts in government expenditure, further rounds of privatisation and in some cases tax hikes. The European Commission and the International Monetary Fund (IMF) forced these programmes, along with cuts in social welfare and attacks on employment rights, on heavily indebted European countries, particularly those nailed to the floor by being part of the Euro area and having no currency of their own. Iceland, with its own currency, was an exception. It refused to pay the debts incurred by the exceptionally irresponsible behaviour of its banks, and has come out of the recession in better condition than most.

The effect of the austerity measures was to put countries (such as the U.K.) back into recession or greatly deepen the recession in others (such as in Greece). Initially, the advice from agencies such as the IMF was schizophrenic: cut spending to pay off your debts, but do it carefully. The spin was "intelligent austerity". The result has been continued high unemployment, recession in many countries (particularly in the Euro area), stuttering recovery overall, and widespread hardship – though not in the financial sector which was largely allowed to go back to its old games.

The first official breaking of ranks was the research department of the IMF which in January published a working paper entitled "Growth Forecast Errors and Fiscal Multipliers" by its chief economist Olivier Blanchard and Daniel Leigh[5]. It found that the government cutbacks ("fiscal consolidation") had had significantly more severe consequences than the IMF and many others had forecast. "We find that, in advanced economies, stronger planned fiscal consolidation has been associated with lower growth than expected, with the relation being particularly strong, both statistically and economically, early in the crisis." Despite the rethinking in its research department, IMF staff in the field are continuing to demand austerity programmes.

The most recent – and headline-grabbing – hole knocked in the evidence for austerity policies largely demolished one of the most widely quoted "findings" used to create urgency in reducing debt. This was from a January 2010 paper by two of the most prominent economists in the US, Carmel Reinhart and Kenneth Rogoff (a former IMF chief economist) called "Growth in a Time of Debt"[6]. It made a case that when countries reached gross public debt levels of more than approximately 90 percent of GDP they had reached a critical point at which GDP growth got dramatically worse. This was used by the political right, especially in the US, to attack stimulus programmes and advocate ever more stringent cuts in government spending and (self-contradictorily) taxes. It was quoted widely, including by the authors, to justify urgency in austerity programmes. A recent investigation of their data by a student and his

[5] "Growth Forecast Errors and Fiscal Multipliers", by O.J. Blanchard and D. Leigh, January 2013. Working Paper No. 13/1. Washington DC, USA: IMF. Available at https://www.imf.org/external/pubs/cat/longres.aspx?sk=40200.0

[6] Working Paper 15639, http://www.nber.org/papers/w15639

supervisors at the University of Massachusetts[7] showed that Reinhart and Rogoff had made elementary mistakes in their calculations. There is no evidence for a sudden dropoff in growth at 90 percent debt levels. There is some evidence for falling growth as debt levels rise but no-one is sure if the growth falls because of rising debt or the debt rises because of falling growth.

Doubtless those favouring austerity will continue to urge it because it fits political programmes to cut government services – as is true here. However the case for austerity is severely weakened, and the case against austerity has been strengthened by events and the terrible hardship it creates.

What can New Zealand do?

So to return to the beginning – there is undoubtedly a wish within the Government to make cuts for their own sake, and it is using the current circumstances to justify that. The reductions the Government wants are not only in services and benefits, but in governmental intervention in the economy. That is the significance of remarks by Gabriel Makhlouf about regulation. He described at length much greater controls that would be put on new laws, regulations and other actions taken by government agencies. They would have to be justified at every step and reviewed regularly. While difficult to argue against in principle, the process is used to stifle regulation – and was part of the intent of the Regulatory Responsibility bill put forward by ACT. One could imagine an army of public servants spending their lives checking regulatory changes under the intense scrutiny of the corporate interests the regulation is intended to control. This is also consistent with "Regulatory Coherence" provisions in the proposed for the Trans Pacific Partnership Agreement (TPPA). Another part of this picture is increasing outsourcing of government services. Changes to public accounting rules currently before Parliament could make this less subject to public scrutiny, and there is now a continuous flow of tenders from public agencies for consultants, contractors, public-private partnerships and other formers of privatisation of previously publicly provided functions, policy advice and evaluation. It leads to the hollowing out of the skills and knowledge of our public services, and a short term outlook with loss of institutional knowledge and experience. On the other hand there is strong irony in other changes Makhlouf heralded: more coordination of government departments, more combined purchasing, presumably bigger departments like MBIE. This is precisely what the reforms of the 1980s and 1990s that Makhlouf mentioned tried to break up in order to allow free rein to entrepreneurial private-sector-like department heads.

Could things be done differently? Of course. The government could be putting more money into assisting people when they face unemployment, with more intensive support for finding jobs, retraining and income replacement. It could be expanding enrolments into tertiary education and industry training, and rather than laying public service staff off, giving them other work that self-evidently needs to be done. It could be expanding programmes that give unemployed people jobs doing tasks that are needed in the community, and helping local government to do more too. It has announced some belated improvements to government procurement procedures that may make it easier for local firms to get government contracts, but it could do much more to buy locally. And it could actively support local industry, especially manufacturing, including by management of the exchange rate. There are always alternatives.

Bill Rosenberg

[7] "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff", by Thomas Herndon, Michael Ash and Robert Pollin, 15 April 2013. Available at http://www.peri.umass.edu/236/hash/31e2ff374b6377b2ddec04deaa6388b1/publication/566/

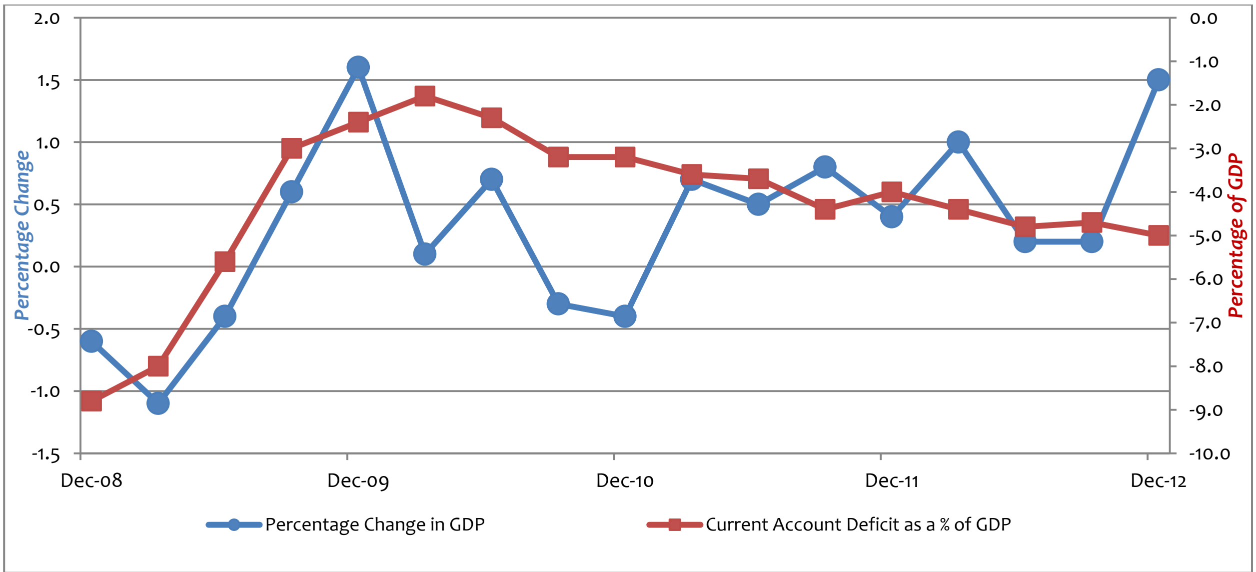
Forecast

★ This NZIER forecast was released on 18 March 2013. Red values are actuals.

Annual Percentage Change (March Year)	**2012-13**	**2013-14**	**2014-15**
GDP	2.0	2.7	2.7
CPI	0.9	1.8	2.3
Private Sector Wages	2.6	2.7	3.2
Employment	-0.7	2.1	1.8
Unemployment rate	6.9	6.4	5.9

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

Economy



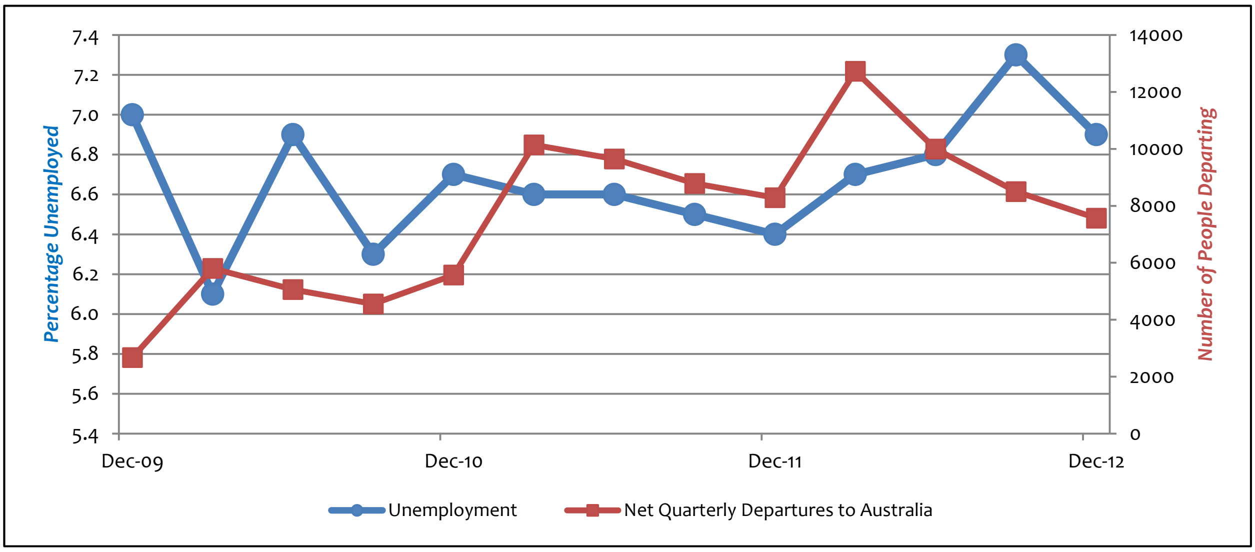
- New Zealand's economy grew much faster than forecast in the December 2012 quarter, after growth slowed more than forecast in the September 2012 quarter. Gross Domestic Product rose 1.5 percent in the three months ended December, following the 0.2 percent rise in the previous quarter. Growth for the year ended December 2012 was 2.5 percent. All industries except manufacturing grew in the quarter, with the largest increases in agriculture, forestry, and fishing (up 2.6 percent), retail trade and accommodation (up 2.3 percent), and wholesale trade (up 2.1 percent). Manufacturing fell 0.5 percent in the quarter, though it rose 1.3 percent for the year. However this was dependent on the continuing rise in food, beverage and tobacco manufacturing. Other manufacturing fell approximately 1.4 percent in the quarter and also fell over the whole year. The largest decreases in the December quarter were in printing (down 4.8 percent), petroleum, chemicals, plastics, and rubber manufacturing (down 8.7 percent), and transport equipment, machinery and equipment manufacturing (down 2.0 percent). On the other hand, textiles, clothing and footwear manufacturing grew by a spectacular 9.7 percent in the quarter and has grown 5.3 percent in the year. Construction rose 1.8 percent in the quarter, and has had five quarters of increasing activity. Household consumption expenditure rose a strong 1.6 percent in the quarter, after being flat in the previous quarter, driven by spending on durable goods including audio-visual equipment, furniture, appliances and used vehicles. However expenditure on non-durable goods (such as groceries) rose only 0.6 percent. Over the year, durable goods expenditure has risen 6.1 percent compared to 1.1 percent for non-durables, perhaps indicating increasing spending as a result of increased house building (expenditure on residential construction which includes alterations rose 10.6 percent in the year) and perhaps that growth in the economy is tilted towards people who can afford more expensive items. Business investment rose strongly at 2.2 percent for the quarter and 5.3 percent for the year, though it has been erratic, with a 4.1 percent fall in the previous quarter.

- New Zealand recorded a Current Account deficit of $2.7 billion for the December 2012 quarter in seasonally adjusted terms, $0.1 billion higher than the September 2012 quarter. The increase was driven by falling exports of goods and services due mainly to lower dairy and oil exports, falling overseas visitors' expenditure, and increased income going to foreign investors, particularly from larger dividends from overseas owned companies or shares. Of the $2.7 billion deficit in the quarter, $2.5 billion is from the deficit on investment income. For the year to December 2012 the deficit was $9.9 billion, equal to the negative balance on investment income of $9.9 billion. This deficit is 5.0 percent of GDP and the first time it has hit this level (considered to ring warning bells) since 2009 when it was falling as a result of reduced imports and profits during the global financial crisis. Prior to 2009 it had been above 5 percent since 2004.
- The country's Net International Liabilities were $150.0 billion at the end of December 2012 (71.7 percent of GDP) up from a revised $147.8 billion (70.7 percent GDP) at the end of September 2012, and $147.9 billion (72.3 percent GDP) in December 2011. Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes have been re-estimated at $17.9 billion, and at 31 December 2012, $8.0 billion of these claims had been settled, leaving $9.9 billion outstanding. Without these, net international liabilities would have been $159.9 billion or 76.4 percent of GDP. New Zealand's gross international liabilities were $324.1 billion in December, against $174.1 billion in overseas assets. Of the net liabilities, $142.2 billion was net debt (the remainder being largely shareholdings in companies), and 7.2 percent or $10.8 billion of that net debt was owed by the government, made up of $52.5 billion in debt (borrowing) and $41.7 billion in overseas assets (lending). Of the remaining net debt, 71.9 percent or $102.3 billion was owed by the banks. Of the debt, half (49.9 percent) is owed to related parties – either to the owner or a subsidiary of the borrower. In the case of the banks, $62.8 billion of the $131.8 billion debt they use to fund lending comes from related parties. That could be regarded as a source of stability – the lender has a stake in their stability and profitability – or a source of risk – the lender (such as the Australian parents of the four largest banks) could force its subsidiary to rapidly repay funds if it has financial problems of its own, as has occurred in Europe during the current financial turmoil.
- ★ For the month of March 2013, Overseas Merchandise Trade recorded a seasonally adjusted $189 million surplus, following a revised $127 million surplus in February. The following are also in seasonally adjusted terms unless otherwise stated. By value, exports rose 0.8 percent or $34 million and imports fell 0.7 percent or $29 million compared to February. Exports rose strongly

by volume in all the leading categories except Dairy which fell 16.5 percent and Seafood which fell 2.5 percent. By value, Fruit and Electrical machinery and equipment also fell. Imports rose in value for Petroleum and products, and for Mechanical machinery and equipment, but fell in all other main categories. Exports to China rose 25.1 percent in the year to March, and fell 8.7 percent to Australia. In March, China was New Zealand's largest export destination for the first time, pushing out Australia. The top six export destinations accounted for 60 percent of our exports in the year to March, compared to 58 percent the year before – Australia, China, US, Japan, South Korea and the U.K. However China was second largest importer, behind Australia, for the month, but ahead of Australia for the year.

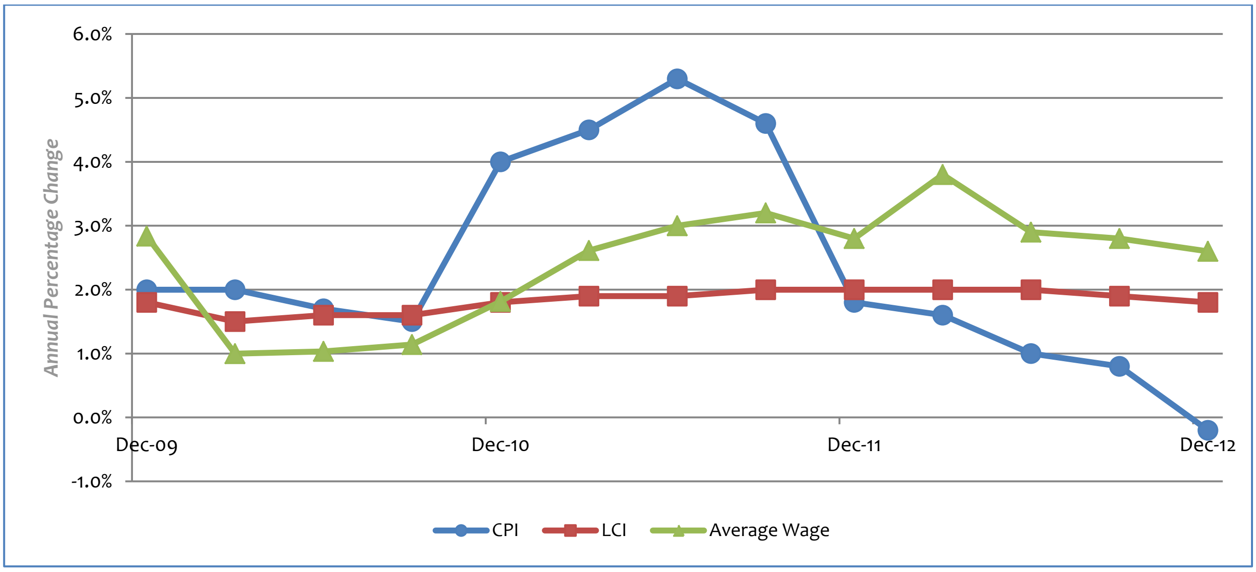
- ★ The Performance of Manufacturing Index[1] for March 2013 was 53.4, a fall from 56.0 in February. The employment sub-index rose to 51.5 from 50.3 in February.
- ★ The Performance of Services Index[1] for March 2013 was 55.4, little different from a revised 55.5 in February. The employment sub-index also rose, from 52.9 to 53.3.
- o 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 24 April 2013 the Reserve Bank left the Official Cash Rate unchanged at 2.5 percent. The next review will be announced on 13 June 2013.
- ★ The REINZ Housing Price Index rose 2.4 percent in the month of March 2013 to the highest level it has been since the index started in 1992. The index was up 8.6 percent compared to March 2012. The Auckland region index recorded a 4.7 percent increase in the month, ending 16.1 percent higher compared to March 2012. The Christchurch house price index fell 1.9 percent in the month, but was up 7.2 percent over the year to March 2012. The national median house price rose to $400,000 from $382,000 in February 2013, an increase of 4.7 percent, and again the highest it has been.

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 March 2013 there were 48,756 working age people on the unemployment benefit, a decrease of 4,723 from March 2012. Data is now available only quarterly (see Unemployment Benefit numbers on the MSD website).
- ★ Job Vacancies Online showed that all job vacancies decreased 1.2 percent in the month of March 2013 in seasonally adjusted terms, following a 2.9 percent fall in February. Skilled job vacancies fell by 1.5 percent in March, following a 2.2 percent fall in February. In the year to March, all vacancies rose 2.6 percent while skilled vacancies fell 1.1 percent
- ★ International Travel and Migration data showed 7,670 permanent and long-term arrivals to New Zealand in March 2013 and 6,460 departures in seasonally adjusted terms, a net gain of 1,220. There was an actual net gain of 2,542 migrants in the year to March. Net migration to Australia in the year to March was 35,518 departures, with 51,273 departures and 15,755 arrivals. For the month of March, the seasonally adjusted net loss to Australia was 2,200.

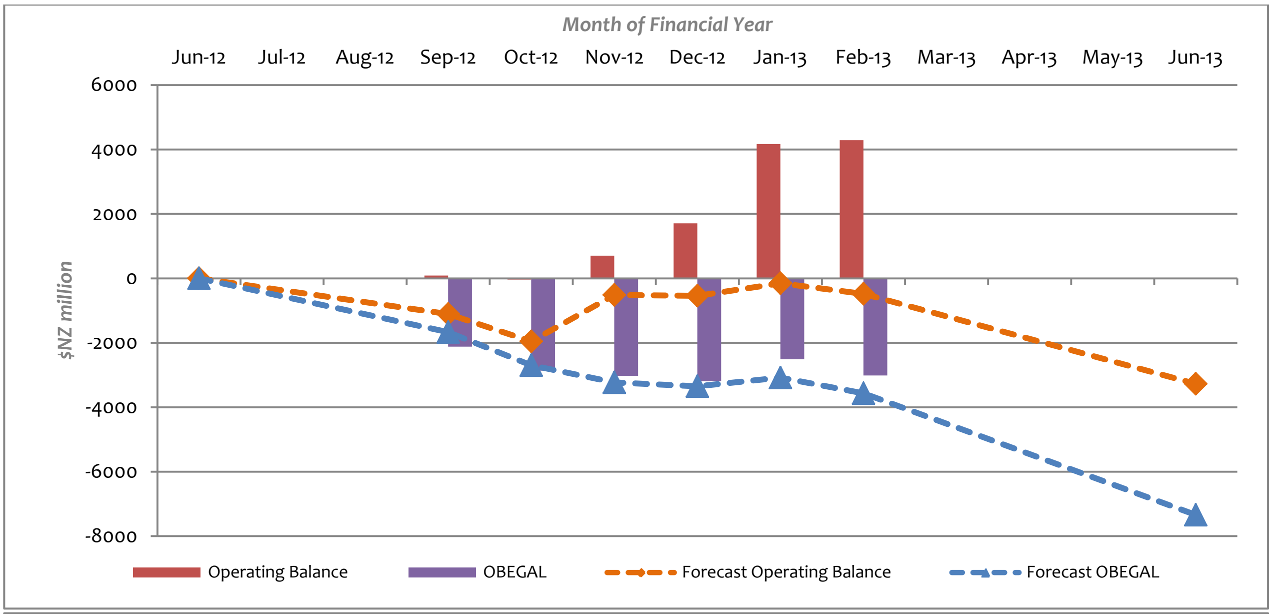
Wages

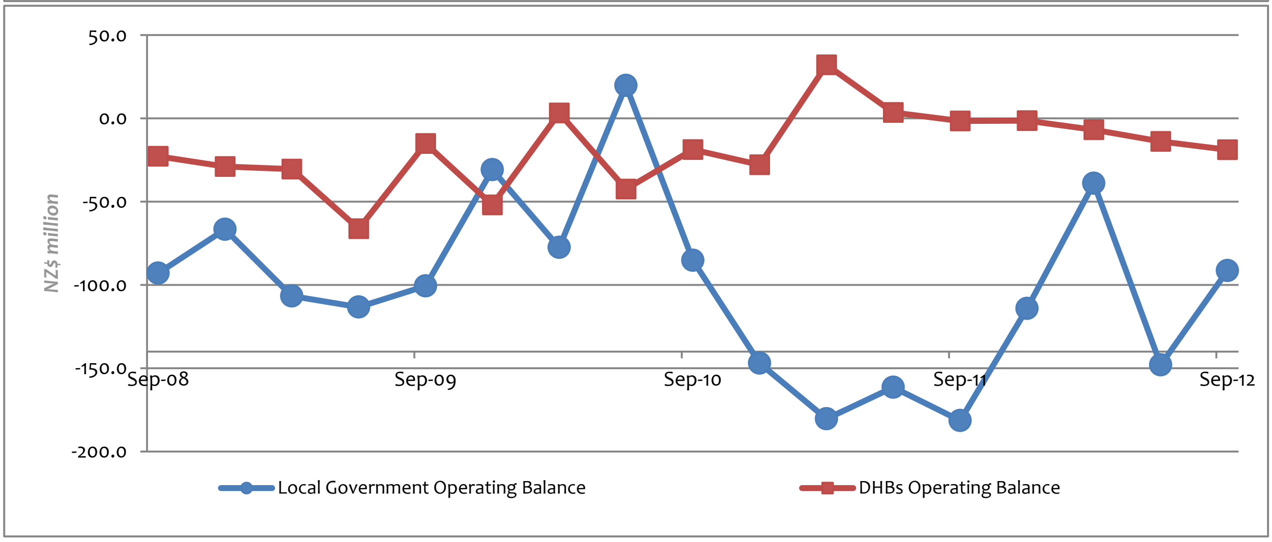


- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the 3 months to December 2012, following a 0.5 percent rise in the 3 months to September. The LCI increased 1.8 percent in the year to December. It increased 0.5 percent in both the public and private sectors in 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 rose 0.4 percent in the March 2013 quarter compared with the December 2012 quarter and increased 0.9 percent for the year to March. For the quarter, the largest contributor to the increase was the alcoholic beverages and tobacco group which rose 4.4 percent as a result of an increase in excise duty for cigarettes and tobacco. Housing and household utilities rose 0.6 percent, resulting from higher prices for house rents, purchase of newly built houses and property maintenance services. Clothing and footwear fell 0.9 percent, household contents and services fell 1.2 percent, transport fell 0.4 percent and communications fell 1.3 percent. Other rises included education (3.5 percent), health (1.2 percent) and food (0.7 percent but see below). The CPI is not seasonally adjusted, so primary, secondary, tertiary and “other” education all showed price zero increases in the previous three quarters, but large increases in the March quarter.

★ The Food Price Index fell 1.3 percent in the month of March 2013, following a fall of 0.3 percent in February. Food prices fell 0.4 percent in the year to March. In March compared with February, meat, poultry, and fish prices fell 0.9 percent; fruit and vegetable prices fell 6.5 percent; grocery food prices fell 0.8 percent; non-alcoholic beverage prices fell 0.8 percent; and restaurant meals and ready-to-eat food prices rose 0.2 percent.

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand, for the eight months to 28 February 2013, government tax revenue was up $719 million (2.0 percent) on the revised forecast in the December 2012 Half Year Economic and Fiscal Update (HYEFU). Tax from source deductions (i.e. PAYE) was $266 million above forecast as a result of "a higher than expected effective tax rate". The reason: "Total labour force earnings were in line with forecast, however the composition of the labour force has changed with a fall in employment concentrated at the lower end of the income scale. Overall, this means the same amount of income was earned by fewer workers, increasing the average tax rate due to the progressive nature of the personal income tax scale." At the same time, other personal tax revenue was up

$326 million on forecast "part of which was from investment income on the back of strong equity markets". Both are signs of growing income inequality. Core Crown expenses were $370 million or 0.8 percent lower than forecast, the biggest contributors being delays in forecast Treaty settlements. The operating balance before gains and losses (OBEGAL) was $556 million (15.6 percent) better than forecast, at a $3.0 billion deficit, and the operating balance was $4.3 billion in surplus, $4.8 billion better than the $481 million deficit forecast, continuing to be greatly helped by unforecast investment gains by the New Zealand Superannuation Fund ($1.5 billion) and Accident Compensation Corporation ($0.6 billion). "In addition, ACC has recorded higher than expected actuarial gains on its outstanding claims liability of $1.5 billion, largely due to favourable changes in the discount rate and claims experience." The Government's net debt was 27.6 percent of GDP or $57.7 billion, which is below its 27.9 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 2.5 percent rise ($49.7 million) in operating income and a fall ($37.1 million) in operating expenses for the December 2012 quarter compared to September, resulting in a small operating surplus of $259,000, compared with a revised deficit of $86.5 million in the September 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/economicbulletin145.
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