NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Commentary

Post-Budget blues

Summary

It's not only New Zealand's high unemployment rate (still in the longest recorded stretch that it has been higher than Australia) – it's a whole series of social and longer term problems that were not addressed in the Budget.

The Budget's main claim to success was progress towards a surplus next year, but the margin is wafer thin, and in any case the urgency to reach it is not as great as made out. There is room to do things other than cut expenditure but the Government is using its spin on the fiscal situation as a cover for its desire to reduce the size of government.

Meanwhile other long term issues go unaddressed. The lip-service paid to the problem of poverty was shameful. The annual cost of the poverty package is less than the long-run loss of income from the partial privatisation programme which represents a transfer of wealth and income to the small minority who can most easily afford to buy the shares.

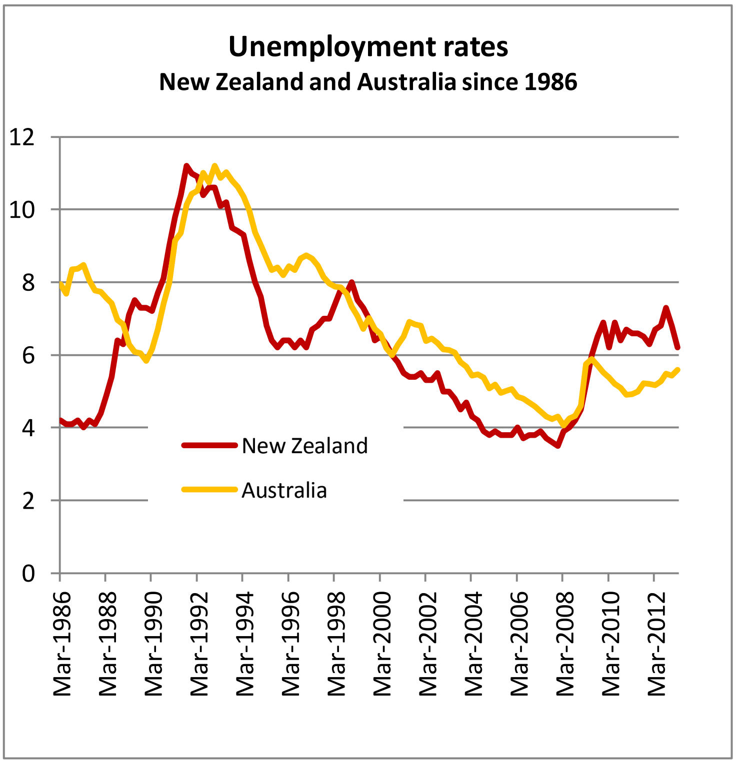
Both Labour and the Greens are focusing on the failure of the Government to rebalance the economy. They are talking about the most urgent debt problem, which is not government debt but international debt, owed largely by the private sector. At December 2012 it stood at $253 billion (121 percent of GDP), or $142 billion (68 percent of GDP) in net terms, with overseas investment in companies on top of that, and forecast to grow. It is hard to see that the Government is doing anything substantial to address this.

In Health, funding was around $240 million short of what was needed. Coming on top of previous shortfalls, casualties include primary and preventative health, which have the greatest potential to address health problems before they become debilitating to the sufferer and costly to the government. There are many major problems such as in residential care.

There are similar patterns of neglect of long term issues in retirement incomes, housing, public services, climate change, and more. This was a Budget focused on a deficit that is not as urgent as it is made out to be, on reducing government functions and spending for their own sake, and on the next election. It was not a Budget giving hope for the future.

I described my pre-Budget commentary how the cure for the deficit could be worse than the disease. As one UK commentary put it reflecting on a recent International Labour Organisation report on youth unemployment, “it's not the deficit that will haunt our children: it's unemployment”. But it's not only New Zealand's high unemployment rate (still in the longest recorded stretch that it has been higher than Australia) – it's a whole series of social and longer term problems that are not being addressed. The

Greens and Labour are rightly talking about the lack of attention to "rebalancing" the economy towards paying off the huge international debt, but there is a lot of other rebalancing being left undone.



The Budget's main claim to success was progress towards a surplus next year (financial year 2014/15). After several months of the government books running ahead of forecast with both lower expenses and higher revenue than expected, the margin is surprisingly still wafer thin. The forecast surplus in the Operating Balance Before Gains and Losses (OBEGAL) is $75 million – as close to zero as any forecaster can get in a $73 billion budget.

In fact you can argue it was already well in surplus – the Operating Balance (including gains and losses – i.e. revaluations of assets) is already well in surplus, with the help of the performance of the New Zealand Superannuation ("Cullen") Fund and ACC's investment fund, and accounting games played by ACC to put a value on outstanding claims it owes. The year 2014/15 will be the third in a row that the Operating Balance has been in surplus if the forecasts prove correct. You could also argue that it *won't* be in surplus even in 2014/15: from a cash point of view, including capital needs, the Government is running a deficit out to the forecast horizon of 2016/17 – meaning more net borrowing, so net Core Crown debt will continue to rise (though it will be falling as a proportion of GDP). So the "surplus" in 2014/15 – if it occurs – will be a political rather than fiscal marker. Given the relatively low government debt ("relatively modest" according to even the hawkish IMF country inspectors) there is room to do things other than cut expenditure. It is increasingly clear that the Government is using its spin on the fiscal situation as a cover for its desire to reduce the size of government.

What is being left undone? It's difficult to know where to begin, but here are just some examples.

Poverty

Child poverty was the spectre at the rather miserable feast. The lip-service paid in the Budget was shameful.

Its $33 million a year ($100 million over three years) to insulate 46,000 homes was a cut of almost three-quarters in the $340 million programme that insulated 230,000 homes over four years ending this year.

The $5 million per year ($21 million over four years) programme to fight rheumatic fever is essential given New Zealand has one of the highest rates in the developed world – but an evaluation of the first 18 months of the programme, commissioned by the Ministry of Health[1], released in April, showed that it

[1] "Implementation and Formative Evaluation of the Rheumatic Fever Prevention Programme – Final Report", Litmus Ltd, February 2013, available at http://www.health.govt.nz/publication/implementation-and-formative-evaluation-rheumatic-fever-prevention-programme.

is not dealing with the causes of the problem which lie in poverty, overcrowded, damp and cold housing, and inadequate access to medical care.

A trial of housing "Warrants of Fitness" – only on state housing – is a step in the right direction but its real test will be applying it to the private sector where housing standards are lowest. I will watch with interest to see whether the Government takes the next step in the face of property investor opposition.

> *I sit on a man's back, choking him and making him carry me, and yet assure myself and others that I am very sorry for him and wish to ease his lot by all possible means – except by getting off his back.*
>
> **Leo Tolstoy**

A change in procedures in the Ministry of Social Development to buy whiteware in bulk and then on-sell the appliances to beneficiaries using repayable grants (loans) sounds suspiciously like the Labour/Greens proposal for the electricity market (only half joking!) but again hardly touches the root of the problem. Another $1.5 million for Budgeting Services, and investigation of provision of low or no-interest loans for low-income borrowers both treat symptoms rather than causes.

Most of these are simply dressing up other policies as anti-poverty measures. Each may be useful in its own way, but together they are far from taking the problem seriously. The post-Budget announcement of $1.9 million a year for a corporate-led food in schools programme is again a low-budget, high profile nod in the right direction without addressing causes. The estimated $105 million spent on marketing and selling 49 percent of Mighty Energy would have paid for over 50 years of this programme.

The annual cost of the whole package is less than the forecast long-run annual net loss of income from the partial privatisation programme which Treasury estimates will rise to $49 million in the year to June 2017 and which represents a transfer of wealth and income to the small minority who can most easily afford to buy the shares.

Rebalancing the economy

Both Labour and the Greens are focusing on the failure of the Government to rebalance the economy. They are talking about the most urgent debt problem, which is not government debt. It is the international debt, owed largely by the private sector to overseas investors. At December 2012 it stood at $253 billion (121 percent of GDP), of which 52 percent was owed by Banks and 21 percent owed by the government. Adding on overseas investment in New Zealand companies gives a total liability of $324 billion or 155 percent of GDP. Taking account of overseas assets owned by New Zealand residents (individuals and corporates), the net values are still frightening: $142 billion of debt (68 percent of GDP) and $150 billion in liabilities (72 percent of GDP). The Government owes just 8 percent of that net liability and the banks 72 percent. These figures are very high by international standards and the critical issue is that they are forecast to get worse rather than better.

The country's liabilities are fed by the Current Account Balance – the difference between what is paid overseas and what is received from overseas. The deficit is largely driven by the interest and dividends on the liabilities (that is, on overseas investment in New Zealand) – so it is a case of borrowing to service the liabilities. Treasury forecasts are for the Current Account Balance, which fell because of falling imports and company profits during the height of the recession, to grow from 4.4 percent of GDP in the year to June 2012, to 6.5 percent of GDP in the year to June 2017. That would add over $50 billion to the existing liabilities over the next four years. The liabilities will also grow because assets got a temporary boost (last estimated at $17.9 billion) from reinsurance claims from the Christchurch earthquakes. These are now being spent – and some is spent overseas.

The risk we run with these high liabilities is that – particularly for debt owed by the banks – if problems occur with repayments, the government and therefore you and me, might have to get involved and bail them out. New Zealand policy making also gets increasingly dominated by the fear of what overseas investors might do if policies do not suit them.

To address it we need to improve the quality of the investment of our own savings, increase those savings, and increase exports while reducing imports. That will be difficult without managing down the high exchange rate and addressing the diversion of savings into over-priced housing such as through a capital gains tax excluding the primary home. For sustainability, the move to exporting needs to be done in a way that isn't based on low wages or on increasing our reliance on a relatively small number of commodity exports. As the Greens and Labour point out, it is hard to see that the Government is doing anything substantial to address these issues.

Health

I do an annual analysis of the Health Vote in the Budget. This year Health was around $240 million short of what is needed to cover rising costs (prices, population growth, ageing of the population) and the new or expanded services announced by the Government. On top of past years of shortfalls, that means continuing pressure on public health services, but perhaps even more concerning in the long run is the way it skirts around addressing longstanding health problems in favour of quick fixes. The issues I mentioned above underlying poverty are one example. Professor Don Matheson of the Centre for Public Health Research at Massey University, who has long experience in health policy including being a former Deputy Director-General of Health, has investigated the deficit reduction process in the Capital and Coast District Health Board (DHB), in response to these pressures. He concluded that contributions from within the DHB to cutting the deficit "appear to have been made in response to the financial situation without any prior analysis of different strategic options to tackle the deficit, which limited thinking about the system as a whole"[2]. The DHB "became increasingly focused on the Minister of Health's targets" with negative consequences for both equity and efficiency. We shouldn't see this as isolated to the Capital and Coast DHB – this behaviour is encouraged by the rules, targets and financial pressures the DHBs are under.

One of the casualties is primary and preventative health. While the Minister has a few targets in these areas, this is the part of the health system that has by far the greatest potential to address health problems before they become debilitating to the sufferer and costly to the government. Yet the focus is on hospitals (almost literally the ambulance at the bottom of the cliff) and DHBs appear to starve the funding they provide to community services in order to keep the hospitals running. For example the Newtown Union Health Service and the Hutt Union and Community Health Service whose patients include refugees, state and council housing residents have experienced severe funding cuts resulting in staffing and service reductions which will rebound on the wider health system. The much broader problem of support to people in the community (often keeping them out of hospital) and in residential care goes largely unaddressed, and indeed is deteriorating as DHBs reduce the level of funding. There

[2] "From Great to Good; how a leading New Zealand DHB lost its ability to focus on equity during a period of economic constraint", Don Matheson, 22 February 2013, p.15, available at http://www.hiirc.org.nz/page/38148/.

are growing concerns from providers, clinicians, caregivers, health professional associations, unions and independent observers at the low wages and lack of training in residential care services[3], which provide essential care to elderly and disabled people and potentially reduce the use of costly hospital services.

And more…

Then there is the refusal of the Government to face up to the retirement income needs of the ageing population. While we can debate whether we should raise taxes, raise the entitlement age for New Zealand superannuation or expand Kiwisaver – or raise wages – to meet these needs, we cannot do nothing. Yet the Government is doing worse than nothing. Its most recent changes to Kiwisaver including the introduction of the Employer Superannuation Contribution Tax have resulted in employer contributions falling from $83.4 million in March 2013 to $58.4 million in April 2013, for many workers a net loss of savings. And the 2013 Budget announced a further two years delay in resuming contributions to the New Zealand Superannuation Fund, until 2020/21.

In housing, the Government is repeating what National did in the 1990s – running down state housing by restricting its availability and shifting responsibility, funding and possibly assets to private (we hope non-profit) providers. This is risky in terms of quality, of access by the most disadvantaged tenants, and in quantity. It is foolhardy while we have very poor quality private rental housing and a housing shortage with rocketing prices in Auckland and Christchurch. It is creating problems for the future.

The public service is being run down in both visible ways (redundancies) and less visible ways – such as through the constant stream of tenders for outsourcing government functions, including policy advice, I see coming through the government tenders system. This leads to short term thinking, poor advice, loss of institutional memory and experience, and eventually higher costs in consultancies and contractors. A future government will have to fix it – and doubtless be criticised for apparently increasing the size of the public service.

The Emissions Trading Scheme is now totally ineffectual. The Government sees this as a virtue, reducing costs. But we could reduce costs in any number of areas if we were willing to forget about the future consequences. It is hardly a morally sustainable position.

There are more examples. This was a Budget focused on a deficit that is not nearly as urgent as it is made out to be, on reducing government functions and spending not out of necessity but for their own sake, and on the next election. It was not a Budget giving hope for the future.

Bill Rosenberg

[3] E.g. "Caring counts: Report of the Inquiry into the Aged Care Workforce", Human Rights Commission, May 2012, available at http://www.hrc.co.nz/eeo/caring-counts-report-of-the-inquiry-into-the-aged-care-workforce; "Disability carers face training woes", Sunday Star Times, 17 June 2012, p.A9, available at http://www.stuff.co.nz/national/health/7116635/Disability-carers-face-training-woes.

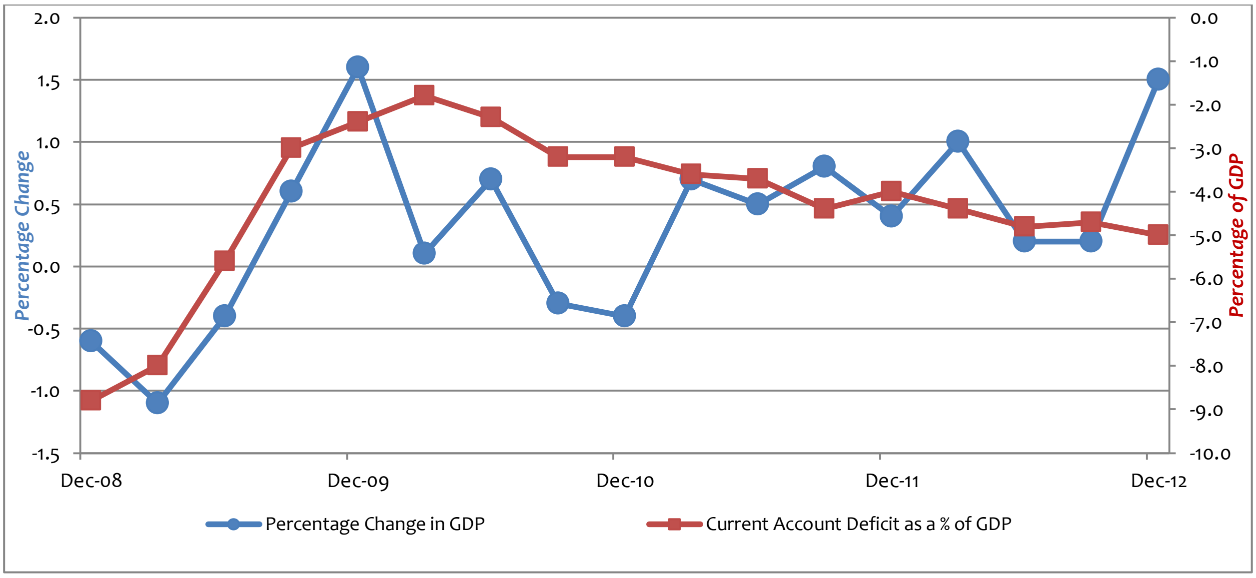
Forecast

★ 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	3.1	2.7	3.2
Employment	0.3	2.1	1.8
Unemployment rate	6.2	6.4	5.9

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

Economy



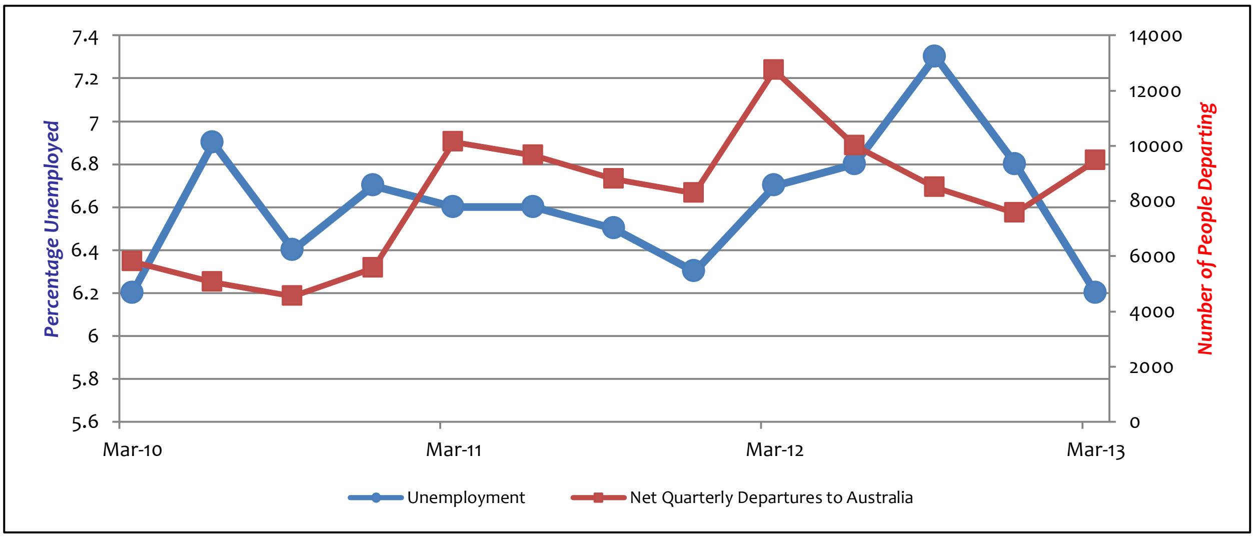
- New Zealand's economy grew much faster than forecast in the December 2012 quarter, after growth slowed more than forecast in the September 2012 quarter. Gross Domestic Product rose 1.5 percent in the three months ended December, following the 0.2 percent rise in the previous quarter. Growth for the 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 April 2013, Overseas Merchandise Trade recorded a seasonally adjusted $242 million deficit, following a revised $164 million surplus in March. The following are also in seasonally adjusted terms unless otherwise stated. By value, exports fell 8.6 percent or $347 million and imports rose 1.5 percent or $60 million compared to March. Exports fell by volume

in all the leading categories except Logs and Wood which rose 15.4 percent. By value, Mechanical Machinery and Equipment, and Wine rose while all other categories fell. Imports rose in value for all but Petroleum and Products (which rose steeply in the previous month), and for Mechanical Machinery and Equipment. Exports to China rose 28.6 percent in the year to April, and fell 7.8 percent to Australia. Imports from China rose 3.0 percent in the same period, and fell 1.7 percent to Australia. China is New Zealand's largest import source. The top six export destinations accounted for 60 percent of our exports in the year to April, compared to 58 percent the year before – Australia, China, US, Japan, South Korea and the U.K. Imports were more diverse, with the top six accounting for 56 percent compared to 55 percent the year before. They were China, Australia, the US, Japan, Germany and Malaysia.

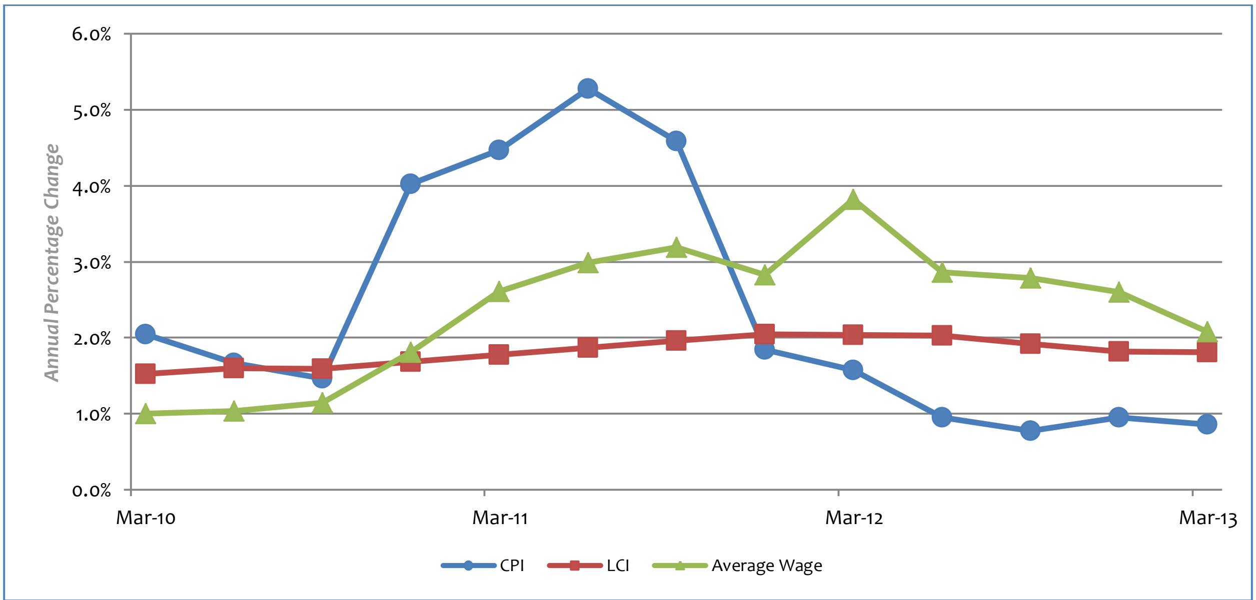
- ★ The Performance of Manufacturing Index[1] for April 2013 was 54.5, a rise from 53.4 in March, which was a fall from February. The employment sub-index fell to 48.0 from 51.5 in March, a rise from the previous month.
- ★ The Performance of Services Index[1] for April 2013 was 56.1, up slightly from 55.6 in March. The employment sub-index fell from 53.1 to 51.3.
- ★ The Retail Trade Survey for the three months to March 2013 showed retail sales rose 0.5 percent by volume and 0.9 percent ($167 million) by value in the quarter compared with the December 2012 quarter, seasonally adjusted. By volume, the largest contributors to the increase were pharmaceutical and other store-based retailing, up 2.2 percent, motor vehicle and parts retailing, up 1.1 percent, and hardware, building, and garden supplies retailing, up 1.2 percent. Liquor (up 4.0 percent) and Non-store and commission-based retailing (up 5.8 percent) also rose strongly. Clothing, footwear, and accessories fell 2.4 percent. Supermarket and grocery store sales rose 0.8 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 0.8 percent in the month of April 2013 to the highest level it has been since the index started in 1992. The index was up 9.8 percent compared to April 2012. The Auckland region index recorded a 0.8 percent fall in the index in the month, ending 14.1 percent higher compared to April 2012. The Christchurch house price index rose 1.9 percent in the month, taking it back to just over its February level, and it was up 12.7 percent over the year to April 2012. The national median house price fell to $390,500 from $400,000 in March 2013, a fall of 2.4 percent, but that was still an increase of 7.0 % in the year to April.

Employment



- According to the Household Labour Force Survey the unemployment rate in the March 2013 quarter fell to 6.2 percent from a revised 6.8 percent in the December 2012 quarter, its lowest value since March 2010. There were 146,000 people unemployed. Maori unemployment was 13.9 percent (the same as in March 2012) and Pacific unemployment was 15.2 percent (down from 16.0 percent in March 2012). Youth unemployment (15-19 year olds) was 25.6 percent, up from 23.4 percent in March 2012, and the unemployment rate among 20-24 year olds was 10.9 percent, down considerably from 15.0 percent in the March 2012 quarter. There were 79,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 12.5 percent of people in that age group, down from 14.0 percent in the December 2012 quarter or 89,000 people (seasonally adjusted). The labour force participation rate partly recovered to 67.8 percent from 67.2 percent over the quarter, but it is still behind the 68.4 percent in September 2012 it had been at for almost two years. Over a quarter of unemployed people (26.3 percent or 40,900) have been out of work for more than 6 months, up from 25.6 percent a year ago, and 10.2 percent or 15,900 have been unemployed for more than a year, down from 11.2 percent a year ago. Compared to OECD unemployment rates, New Zealand has improved to 11th equal position, from 14th position in December (out of 34 countries).
- 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 increased strongly by 6.5 percent in the month of April in seasonally adjusted terms, following a fall in March. Skilled job vacancies rose by 5.4 percent in April, following a fall in March. In the year to April, all vacancies rose 16.2 percent while skilled vacancies rose 11.8 percent
- International Travel and Migration data showed 7,780 permanent and long-term arrivals to New Zealand in April 2013 and 6,210 departures in seasonally adjusted terms, a net gain of 1,570. There was an actual net gain of 4,776 migrants in the year to April. Net migration to Australia in the year to April was 34,073 departures, with 50,237 departures and 16,164 arrivals, the largest number of arrivals from Australia in a decade. For the month of April, the seasonally adjusted net loss to Australia was 1,950, the lowest since September 2010.

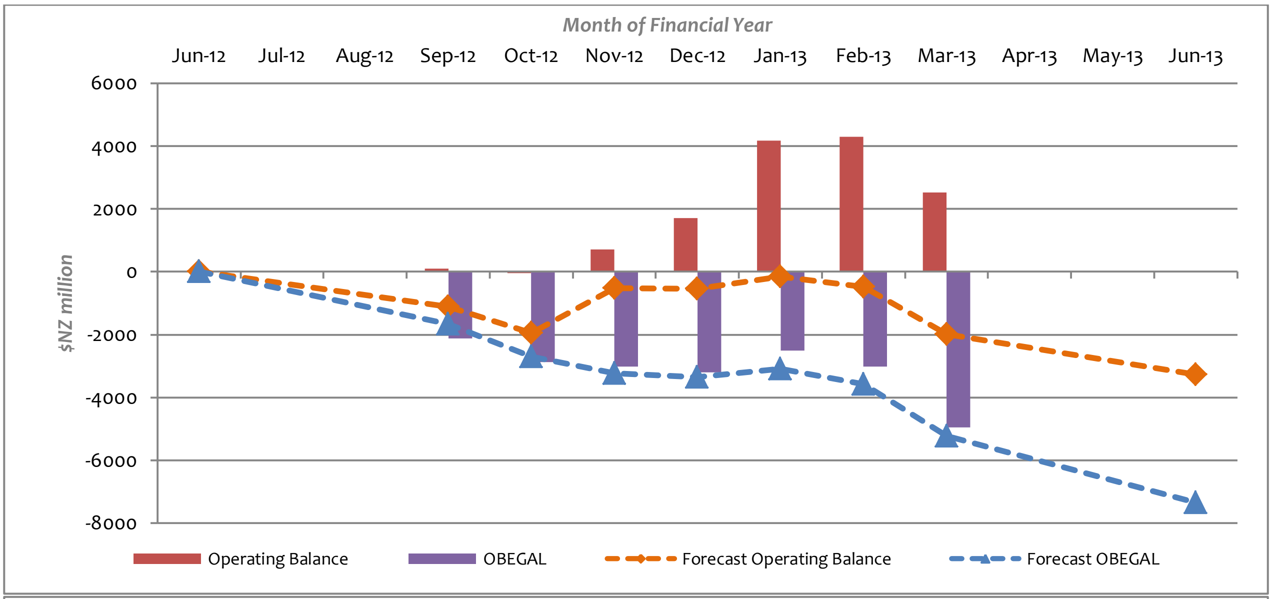
Wages and prices

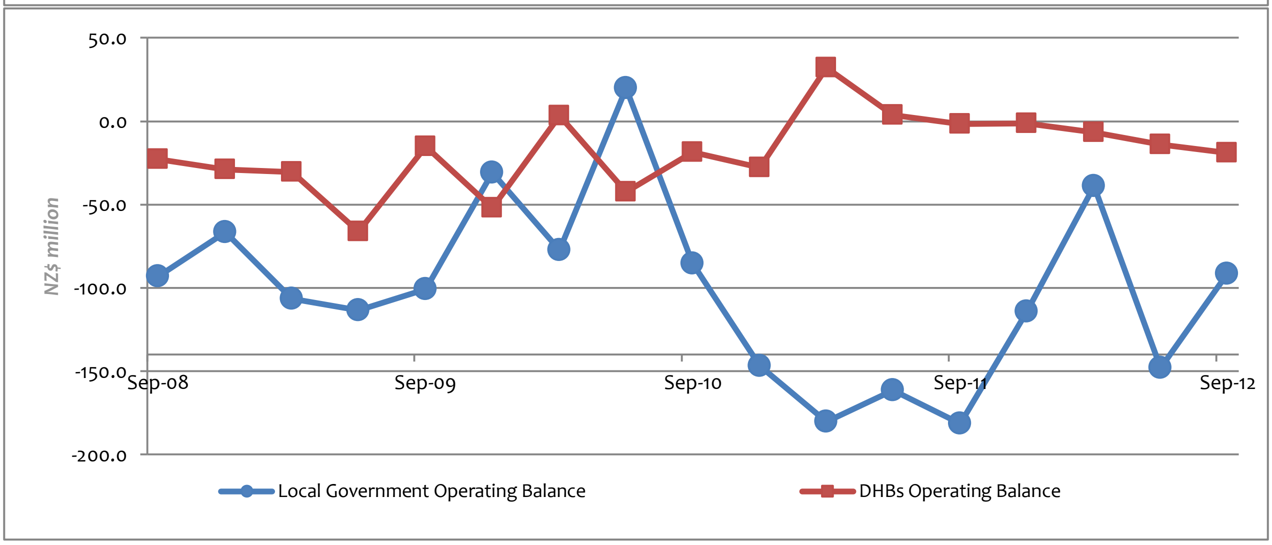


- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to March 2013, following a 0.5 percent rise in each of the last three quarters. The LCI increased 1.8 percent in the year to March. It increased 0.4 percent in both the public and private sectors in the three months to March. Over the year to March it rose 1.5 percent in the public sector and 1.8 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 2.9 percent.
- The March 2013 Quarterly Employment Survey found the average hourly wage for ordinary-time work was $27.48, up 0.8 percent on the December 2012 quarter and up 2.1 percent over the year. The average ordinary-time wage was $25.42 in the private sector (up 1.0 percent in the quarter and up 2.3 percent in the year) and $35.24 in the public sector (up 1.6 percent in the quarter and 1.4 percent in the year). Female workers (at $25.38) earned 13.2 percent less than male workers (at $29.24) for ordinary time hourly earnings, a pay gap which has increased from 12.9 percent a year before, and 12.5 percent in March 2011.
- 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 rose 0.2 percent in the month of April 2013, following a fall of 1.3 percent in March. Food prices fell 0.1 percent in the year to April. In April compared with March, fruit and vegetable prices rose 1.0 percent; meat, poultry, and fish prices were unchanged overall; grocery food prices rose 0.2 percent; non-alcoholic beverage prices rose 0.3 percent; and restaurant meals and ready-to-eat food prices also remained unchanged overall.

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand, for the nine months to 31 March 2013, government tax revenue was up $535 million (1.3 percent) on the revised forecast in the December 2012 Half Year Economic and Fiscal Update (HYEFU). Tax from source deductions (i.e. PAYE) was $187 million above forecast as a result of "a higher than expected effective tax rate". The reason: "Recent economic data suggests that aggregate labour incomes have been consistent with forecast, but that the composition of the labour force has changed (a decrease in the proportion of low income workers). This change increased the revenue collected because of the progressive nature of the income tax scale." At the same time, other personal tax revenue was up $406 million on forecast "likely the result of solid investment incomes, driven by recent strength in equity markets". Both are signs of growing income inequality. Core Crown expenses were $55 million or 0.1 percent lower than forecast, the biggest contributors being delays in forecast Treaty settlements and international aid programmes, counteracted by provision for $192 million higher than expected costs of wastewater, storm water and freshwater infrastructure related to the earthquakes in Canterbury. The operating balance before gains and losses (OBEGAL) was $273 million (5.2 percent) better than forecast, at a $5.0 billion deficit, and the operating balance was $2.5 billion in surplus, $4.5 billion better than the $2.0 billion deficit forecast, continuing to be greatly helped by unforecast investment gains by the New Zealand Superannuation Fund ($1.7 billion) and Accident Compensation Corporation ($0.7 billion). The Government Superannuation Fund is also contributing significantly now, "favourable revaluations being recorded on Government Superannuation Fund's retirement liability and ACC's outstanding claims liability of $728 million and $622 million above forecast respectively, driven by discount rate movements and favourable payments/claims experience." The Government's net debt was 27.9 percent of GDP or $58.5 billion, which is below its 28.6 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/economicbulletin146.
For further information contact Bill Rosenberg.