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Commentary

Economics of the Living Wage

Summary

The Living Wage campaign has made some important advances. As well as some private sector employers, the Auckland, Hamilton and Wellington City Councils are all considering adopting the Living Wage.

But is it affordable? The standard Stage 1 economics claim will be "wages will rise when productivity rises. Raising wages without raising productivity will just lead to inflation and no-one will be better off". Actually, it would be great if workers were paid for their increases in productivity. They haven't been. The average wage in the private sector would have been 30 percent higher at $31.85 in March 2011 if it had kept up with the labour productivity increases since 1989. Instead it was $23.43.

But a poorly performing wages system is only part of the picture. While the conventional view is that higher productivity leads to higher wages, there is also a variety of evidence for the converse: that raising wages can lead to rises in productivity.

UK and US studies of living wage employers support this. Costs rise very little, if at all. There is little effect on employment. This is supported by broader research. Higher wages, if employers respond positively, lead to better motivated employees who put more effort and thought into their work, raising productivity and efficiency. Employers are encouraged to invest more in labour-saving equipment and methods, raising productivity. If wage rises are widespread, the increased spending creates greater demand for employers' products, encouraging them to invest in their firms, raising productivity and employment.

Finally, low incomes create big social costs as well as hardship. We all pay for the problems in health, education, crime, child poverty, debt and gambling that low incomes make much more prevalent.

The Living Wage campaign brings community pressure on government and employers to face up to these problems and create a virtuous cycle of better pay, higher productivity, and a thriving economy.

In February, Living Wage Aotearoa New Zealand announced an estimate of the Living Wage[1]. Research by the Family Centre Social Policy Research Unit estimated it at $18.40 per hour. It's based on a two-child family with two adults both working at this rate, one half time, the other full time. It takes into

[1] Details are at http://www.livingwagenz.org.nz/ along with much more about the Living Wage campaign.

account Working for Families, accommodation supplements and tax. See Economic Bulletin 143 for more details.

Since then, the campaign has made some important advances. As well as some private sector employers, the Auckland, Hamilton and Wellington City Councils are all considering adopting the Living Wage. For example, Wellington as part of its annual planning process agreed to support in principle "becoming a Living Wage Council and a Living Wage Capital", made provision for $250,000 in the 2013/14 annual plan, and set in place a process to work with stakeholders to develop a "Living Wage Framework" and report back in November. Some of the material below was provided in oral submissions to the Wellington council. For a case made to the Auckland council by Living Wage Aotearoa New Zealand see "The costs and benefits of a Living Wage for Auckland City Council" on Living Wage Aotearoa New Zealand's web site.

Why is a living wage important? As the Campaign says: "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." After years of growing income inequality, high levels of child poverty, and with New Zealanders working some of the longest hours in the OECD, the Living Wage addresses a need that goes beyond a minimum wage and beyond rising just above a poverty line. It is not asking for luxury – indeed it could still be criticised for being too low – but it is establishing one of the benchmarks for a decent and socially sustainable society.

The inevitable question arises: is it affordable?

The standard Stage 1 economics claim will be "wages will rise when productivity rises. Raising wages without raising productivity will just lead to inflation and no-one will be better off". Actually, it would be great if workers were paid for their increases in productivity. They haven't been. The average wage in the private sector would have been 30 percent higher at $31.85 in March 2011 if it had kept up with the labour productivity increases since 1989. Instead it was $23.43. Government measures like the minimum wage, collective bargaining by unions supported by much better than current legislation, and social movements like the Living Wage campaign are needed to ensure fair wages are paid.

But a poorly performing wages system is only part of the picture. While the conventional view is that higher productivity leads to higher wages, there is also a variety of evidence for the converse: that raising wages can lead to rises in productivity.

UK studies

Two specific studies of the Living Wage in the UK illustrate that. The first studied cleaners at Queen Mary, a college of the University of London, in 2008[2]. The study was led by Professor Jane Wills, a professor of human geography at the University. The institution had not only moved to pay its cleaners the London Living Wage, but brought cleaning in-house, ending an outsourced contracting arrangement. As well as cleaners showing higher levels of morale and job satisfaction, saying they worked more productively, and completing a broader range of tasks, the employer was also very satisfied. "While the real and estimated costs for the service had risen slightly above those involved in the past, these

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[2] "The business case for the living wage: The story of the cleaning service at Queen Mary, University of London", by Jane Wills, January 2009, available at http://www.geog.qmul.ac.uk/docs/staff/8041.pdf.

increases were marginal and the Chief Administrative Officer declared himself to be 'perfectly happy' with the cost rises so far." The authors concluded: "The research has revealed that the move to be a living wage employer and bring the cleaning service in-house has stimulated improvements in job quality, productivity and service delivery, with very little increase in costs."

A second UK study, conducted by the consultancy firm London Economics for the Greater London Authority which promotes the Living Wage, showed "significantly lower rates of staff turnover" leading to "substantial cost savings on recruitment and induction training", lower rates of absenteeism and sick leave, enhanced quality of work, and widespread efficient work reorganisation. This was alongside significantly boosted worker morale and motivation and reputational benefits for the employers. It found "evidence of little or no impact on business performance of London Living Wage implementation. All London Living Wage employers reported no change in sales/turnover. Half of employers also saw no change in their profits, with two seeing a slight decrease and one a slight increase. The majority also experienced no change in prices or output."[3]

US studies

There are other studies of local governments that have adopted the Living Wage in the US that tell a similar story. There are now many which have adopted living wage policies. A 2006 review by the Economic Policy Institute (EPI) of research on living wage ordinances in local government and other publicly owned employers such as airports reported there were over 120 such communities at that time[4]. Its conclusions from over 30 studies both favourable and unfavourable to the living wage, include the following (quoted from their report):

Living wage laws have small to moderate effects on municipal budgets.

- A detailed survey of 20 cities found that the actual budgetary effect of living wage laws had been consistently overestimated by city administrators; actual costs tended to be less than one-tenth of 1 percent of the overall budget…
- Multiple studies have shown that the bidding for municipal contracts remained competitive or even improved as a result of living wage ordinances.

Living wage laws benefit working families with few or no negative effects.

- Recent studies using original surveys in both Los Angeles and Boston have shown that the workers affected were mostly adults and mostly working full time. Both the Boston and Los Angeles studies also showed that most living wage workers were in households struggling to meet a basic-needs budget.
- In Baltimore and Boston, empirical studies have found no evidence of diminished employment. In Los Angeles, surveys of workers and firms show that job losses affected just 1 percent of workers getting a raise. Two studies of San Francisco living wage policies found employment increased among airport workers and home health care workers.

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[3] "An independent study of the business benefits of implementing a Living Wage policy in London: Final Report for GLA Economics", prepared by London Economics, February 2009, available at http://legacy.london.gov.uk/mayor/economic_unit/docs/living-wage-benefits-report.pdf.

[4] "The economic impact of local living wages", by Jeff Thompson and Jeff Chapman, EPI Briefing Paper, February 2006, available at http://www.epi.org/publication/bp170/.

- An exception to the general conclusion of research on living wages is a series of studies by David Neumark and Scott Adams that estimate relatively large wage gains and employment losses. The method of these studies has been severely criticized, and the findings discredited by many researchers.

Living wages laws have raised productivity and decreased [labour] turnover among affected firms.

- Multiple studies of Baltimore, Boston, Los Angeles, and San Francisco have shown that firms enjoy lower turnover among employees as a result of the living wage ordinance.
- A study of home-care workers in San Francisco found that turnover fell by 57% following implementation of a living wage policy. A study of the Los Angeles ordinance found that absenteeism declined, and the decrease in turnover offset 16% of the total cost of the living wage ordinance. A study of the San Francisco airport found that annual turnover among security screeners fell from 95% to 19%, as their hourly wage rose from $6.45 to $10.00 an hour.

Broader findings

This research on the living wage reflects broader research findings, some of which have been covered in previous Economic Bulletins[5]. Benefits arise at three levels.

Firstly, higher wages and fair treatment lead to better motivated employees who put more effort and thought into their work, raising productivity and efficiency. Staff turnover also falls, reducing employers' recruitment and training costs. There is a long-standing literature on this idea of an "efficiency wage", but a 2008 survey by Swiss and US researchers Fehr, Goete and Zehnder reviewed more recent evidence, particularly from behavioural economics showing that employees put in more effort, beyond the minimum required, when they were treated in ways they considered fair, including their pay level[6].

It is significant that when I spoke about such research findings to a meeting of business representatives organised by the Wellington Mayor, Celia Wade-Brown, the employers there who had adopted the living wage said that these were the effects they saw too. They are not simply theory.

Secondly, higher wages encourage employers to invest more in productivity-raising equipment and methods. There have been numerous studies internationally of the effect of rises in the minimum wage, including in New Zealand, showing little, if any, effect on employment. The outgoing chairman of the US President's Council of Economic Advisers, Alan Krueger, was a pioneer in this research. Why does raising the minimum wage have little employment effect? Part of the answer is because employers respond by raising productivity through investment, reducing waste, and reorganising work. For example, a 2011 study by Tetyana Zelenska of significant increases in the minimum wage in the US tracked store-level payroll records for individual employees in fast-service restaurant chains in Georgia and Alabama. It

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[5] For example Bulletin 131: Inequality, unions and wage-led growth, at http://union.org.nz/economicbulletin131.

[6] A behavioral account of the labor market: the role of fairness concerns", by Fehr, E., Goette, L., & Zehnder, C., December 2008, Discussion Paper No. 3901, Institute for the Study of Labor (IZA), Zurich. Retrieved from http://ideas.repec.org/p/zur/iewwpx/394.html.

found no negative effect on employment and identified twenty-three different cost-saving measures taken by the firms[7].

Maurice Altman, Professor of Economics at Victoria University, gives the example of the two competing chains in the US, Wal-Mart and Costco. Citing a 2007 article he says that "Costco pays employers much higher wages and greater benefits that does Wal-Mart. For example, on average, Costco, the fourth-largest U.S. retailer, paid fulltime employees an average hourly wage of $17, whereas Wal-Mart, the world's largest retailer, paid $9.68, in the recent past. But in Costco labour turnover was 50 percent lower than in Wal-Mart and productivity was higher. However, Costco shareholders have not lost out from the better treatment of its employees as Costco's returns have been better than that of Standard and Poor's 500 average returns and better than Wal-Mart's."[8]

Thirdly, if wage rises are widespread, and particularly during times like the present when there are underused resources in the economy, the increased spending creates greater demand for goods and services in the community, encouraging employers to invest in their firms, raising productivity and employment[9].

A vital aspect of being an accredited Living Wage employer is that it should use its purchasing power to require its contractors to pay the living wage too. This is a step some of the Councils seem reluctant to take. Clearly, it is a way to broaden the increased demand for goods and services in our community. But it is also important in order to avoid perverse side effects: if contractors can in effect bid against internal provision of services by a Living Wage city council (for example) on price, based on low wages, then there will be an incentive for Council managers to favour contracting out over in-house provision, eroding the benefits of the living wage. Applying it to contractors can also help raise the standard of contractors more broadly, not only in their contracts to the Council.

Finally, low incomes create big social costs as well as hardship. We all pay for the problems in health, education, crime, child poverty, debt and gambling that low incomes make much more prevalent. For example, low income is associated with low birth weights, which in turn can lead to health and educational problems, creating another cycle of poverty. We could ask: "is it sustainable not to pay at least a Living Wage?"

The Living Wage campaign brings community pressure on government and employers to face up to these problems and create a virtuous cycle of better pay, higher productivity, and a thriving economy.

Bill Rosenberg

[7] "Channels of Adjustment in Labor Markets: The 2007-2009 Federal Minimum Wage Increase", by Tetyana Zelenska, 2011, Economics Dissertations, Georgia State University, Paper 70, http://digitalarchive.gsu.edu/econ_diss/70.

[8] "The Living Wage, Economic Efficiency, and Socio-Economic Wellbeing in a Competitive Market Economy", by Maurice Altman, *Forum for Social Economics*, 8 September 2011, pp. 1-17, doi:10.1007/s12143-011-9095-8.

[9] See for example "The productivity and investment effects of wage-led growth", Storm, S., & Naastepad, C. W. M. (2011), *International Journal of Labour Research*, 3(2), 189–217.

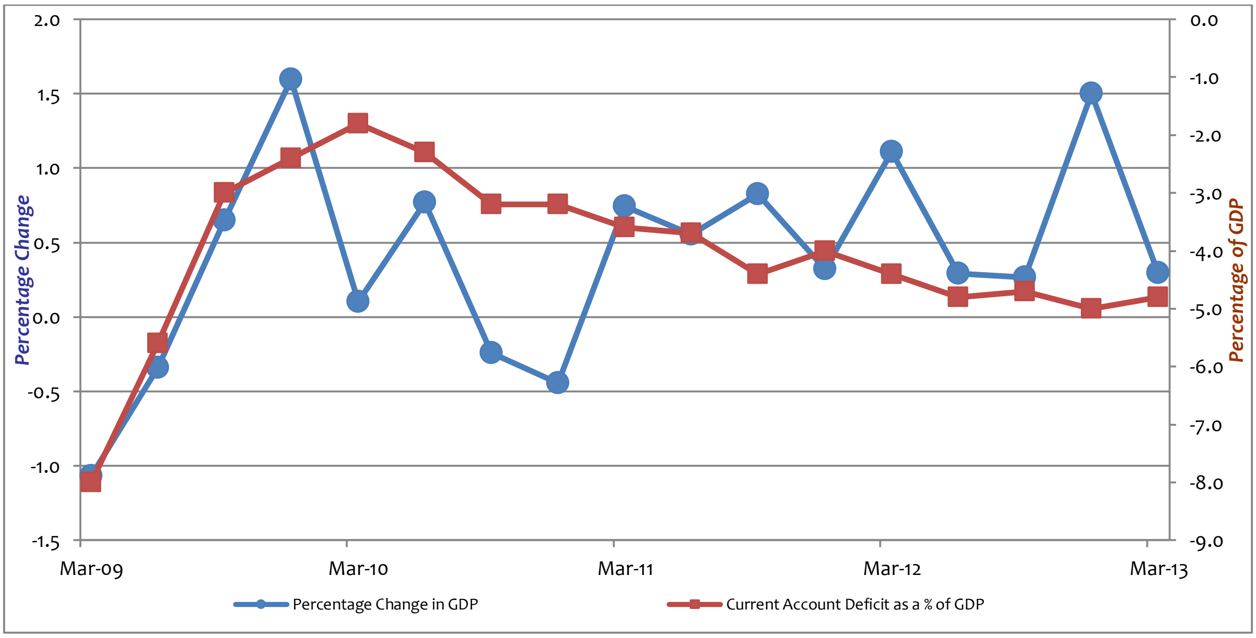
Forecast

★ This NZIER forecast was released on 17 June 2013.

Annual Percentage Change (March Year)	**2013-14**	**2014-15**	**2015-16**
GDP	2.7	3.1	2.3
CPI	1.6	2.1	2.3
Private Sector Wages	2.7	3.1	3.3
Employment	1.8	2.0	1.1
Unemployment rate	6.0	5.5	5.3

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

Economy



★ New Zealand's economy grew more slowly than forecast in the March 2013 quarter, with Gross Domestic Product growth returning to the same level (0.3 percent) as the September 2012 quarter after a December quarter of exceptional growth (1.5 percent). Growth for the year ended March 2013 was 2.5 percent. The largest quarterly rises by industry were in Construction (5.5 percent), Professional, scientific, technical, administration, and support (3.9 percent) and Mining (4.2 percent). However, Agriculture, forestry and fishing fell 4.8 percent, Electricity, gas, water, and waste services fell 4.4 percent, and Information media and telecommunications fell 3.1 percent. Manufacturing grew 0.2 percent in the quarter, but excluding Food, Beverage and tobacco it fell by about 1 percent. The result was that Primary Industries fell 3.0 percent, Goods producing industries rose 1.0 percent and Service industries rose 0.5 percent. Over the year though, Agriculture, forestry and fishing rose 6.5 percent, Mining 4.5 percent, Construction 10.8 percent, Retail trade and accommodation 3.1 percent, Professional, scientific, technical, administration, and support 3.4 percent, and Health care and social assistance 3.6 percent. The only falls over the year were Electricity, gas, water, and waste services (3.4 percent), Information media and telecommunications (1.1 percent) and Arts, recreation, and other services (1.1 percent). Over the year, Manufacturing rose 1.5 percent, again boosted by the Food sector though with strong growth also in Textiles, leather, clothing, and footwear (rising 10.6 percent), and Non-metallic mineral product manufacturing (up 8.5 percent). Printing fell 10.4 percent over the year. Household consumption expenditure rose a 0.4 percent in the quarter and 2.4 percent in the year. Expenditure on non-durable goods (such as groceries) rose more strongly at 1.0 percent for the quarter, and durables 0.4 percent, the reverse of the position for the year where non-durables rose 0.9 percent while durables rose 4.0 percent. Business investment fell 2.2 percent in the quarter and 1.2 percent for the year.

★ For the first, time Statistics New Zealand has published regional GDP statistics though they cover only the period 2007 to 2010. Unsurprisingly, Auckland was the region with the largest output, with $66.3 billion of the total $189.7 billion, or 35.0 percent of the economy's GDP in the year to March 2010. The next largest was Wellington with $26.9 billion (14.2 percent of total GDP) and then Canterbury at $23.2 billion (12.2 percent). Canterbury dominates the South Island more than Auckland dominates the country: Canterbury had over half (54.8 percent) of the South Island's $42.4 billion GDP. The South Island had less than a quarter (22.3 percent) of the country's GDP. However in terms of GDP per person, the richest region was Taranaki with an average of $73,223 per person, followed by Wellington with $55,791 per person. Auckland was third with $45,709, not far ahead of Southland at $45,566. (Bear in mind though that these are not the same as individual incomes – they are an average over all people including children and other non-earners, and only about half of the output comes back in wages, the rest goes in company profits, interest and the like.) The poorest region on this measure was Gisborne at $30,450, well under half the richest, and only 70 percent of the average ($43,660). Next came Northland and Hawke's Bay. The poorest part of the South Island was surprisingly Tasman/Nelson at $36,318, with the South Island average $40,994 and the North Island average $44,508. Another surprise is that Auckland was one of the slowest growing regions between 2007 and 2010, growing 7.5 percent with only Northland (7.1 percent) and Hawke's Bay (just 3.2 percent) growing more slowly. Easily fastest growing was Taranaki with 46.9 percent GDP growth over the three years, the next fastest the West Coast (23.8 percent) and Southland (23.3) percent well behind, but growing considerably faster than the national GDP which grew 11.7 percent. Oil, gas and dairying had a strong effect on measured growth. Because the South Island grew faster (14.9 percent) than the North Island (10.8 percent) it lessened the difference in output between the two islands. On the other hand, Auckland fell from 36.3 percent of the national GDP to 35.0 percent over the period. Further releases of regional GDP statistics for the years 2000-07 are being investigated.

★ New Zealand recorded a Current Account deficit of $2.2 billion for the March 2013 quarter in seasonally adjusted terms, $0.3 billion less than the December 2012 quarter. The reduction was driven by increased exports of goods and services due mainly to higher dairy exports and rising overseas visitors' expenditure. Income going to foreign investors was similar to the previous quarter. However in actual dollars (not seasonally adjusted), the deficit is only $0.7 billion, with surpluses in both goods and services trade but a $2.6 billion deficit on investment income. For the year to March 2013 the deficit was $10.1 billion, virtually equal to the negative balance on investment income of $10.2 billion. This deficit is 4.8 percent of GDP, down from the 5.0 percent in the year to December 2012.

- ★ The country's Net International Liabilities were $146.7 billion at the end of March 2013 (69.3 percent of GDP) down from $150.0 billion (71.4 percent GDP) at the end of December 2012 due to rising overseas share prices, but up as a proportion of GDP from the $145.0 billion (70.4 percent GDP) in March 2012. Of this, $12.0 billion was owed by the government (equivalent to 5.7 percent of GDP) and $98.1 billion by the banks (46.4 percent of GDP). Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes have been re-estimated at $18.6 billion (up from $17.9 billion estimated in December), and at 31 March 2013, $9.2 billion of these claims had been settled, leaving $9.5 billion outstanding. Without these, net international liabilities would have been $156.1 billion or 73.8 percent of GDP. New Zealand's gross international liabilities were $324.0 billion in March, against $177.3 billion in overseas assets.

- ★ For the month of May 2013, Overseas Merchandise Trade recorded a seasonally adjusted $317 million deficit, following a revised $264 million deficit in April. The following are also in seasonally adjusted terms unless otherwise stated. By value, exports fell 2.7 percent or $100 million and imports fell 1.2 percent or $48 million compared to April. Exports fell by volume for Meat (18.1 percent), Crude Oil (7.0 percent), Aluminium (a large 56.5 percent) and Wine (10.6 percent). They rose for Dairy (by only 0.2 percent), Logs and Wood (4.4 percent), Fruit (14.1 percent), and Seafood (2.7 percent). By value, all major categories fell except Dairy, Logs and Wood, Fruit, and Electrical machinery and equipment. Imports in major categories rose in value for all but Petroleum and Products, Electrical Machinery and Equipment, and Textiles. Exports to China rose 29.5 percent in the year to May, and fell 8.6 percent to Australia. Imports from China rose 1.6 percent in the same period, and fell 3.6 percent to Australia. China is New Zealand's largest import source and second largest export destination. 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.

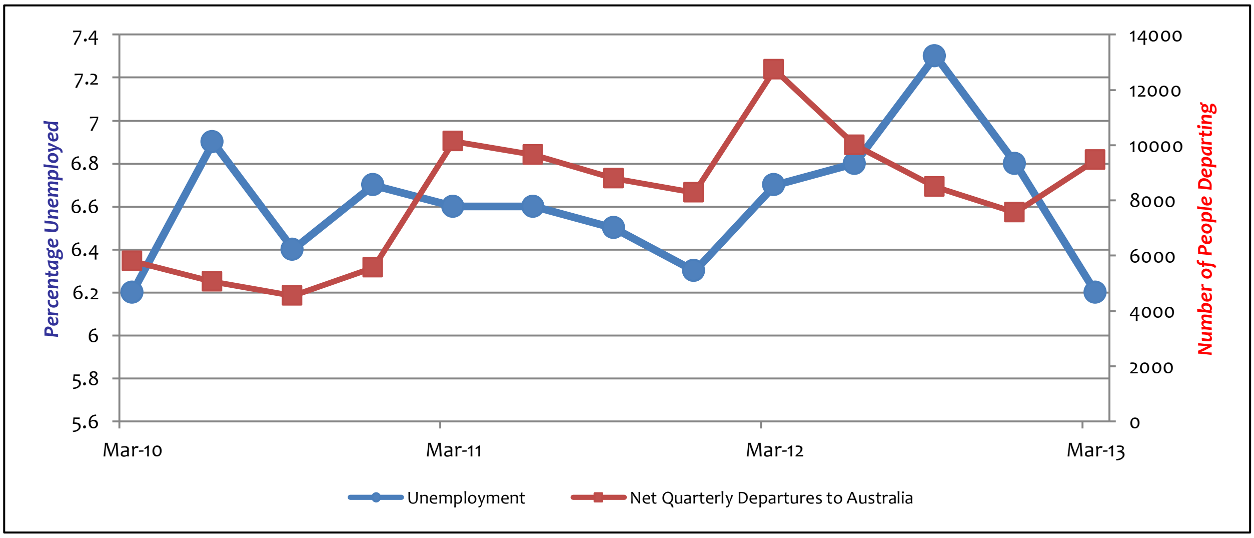
- ★ The Performance of Manufacturing Index[1] for May 2013 was 59.2, a rise from 55.2 in April. The employment sub-index also rose: to 55.3 from 47.5 in April, which was a fall from the previous month.

- ★ The Performance of Services Index[1] for May 2013 was 56.2, static from April. The employment sub-index rose to 53.6 from 51.5 in April, taking it to slightly ahead of the 53.2 in March.

- 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 13 June 2013 the Reserve Bank left the Official Cash Rate unchanged at 2.5 percent. The next review will be announced on 25 July 2013.
- The REINZ Housing Price Index rose 0.7 percent in the month of May 2013 to the highest level it has been since the index started in 1992. The index was up 8.7 percent compared to May 2012. The Auckland regional index recorded a 2.0 percent rise in the month after a fall in the previous month, ending 14.8 percent higher compared to May 2012. The Christchurch house price index rose 1.9 percent in the month, taking it to its highest level recorded, and it was up 13.1 percent over the year compared to May 2012. The national median house price rose to $392,000 from $390,500 in April 2013, a rise of 0.4 percent, still lower than the $400,000 in March 2013, but nevertheless an increase of 6.2 percent in the year to May.

Employment



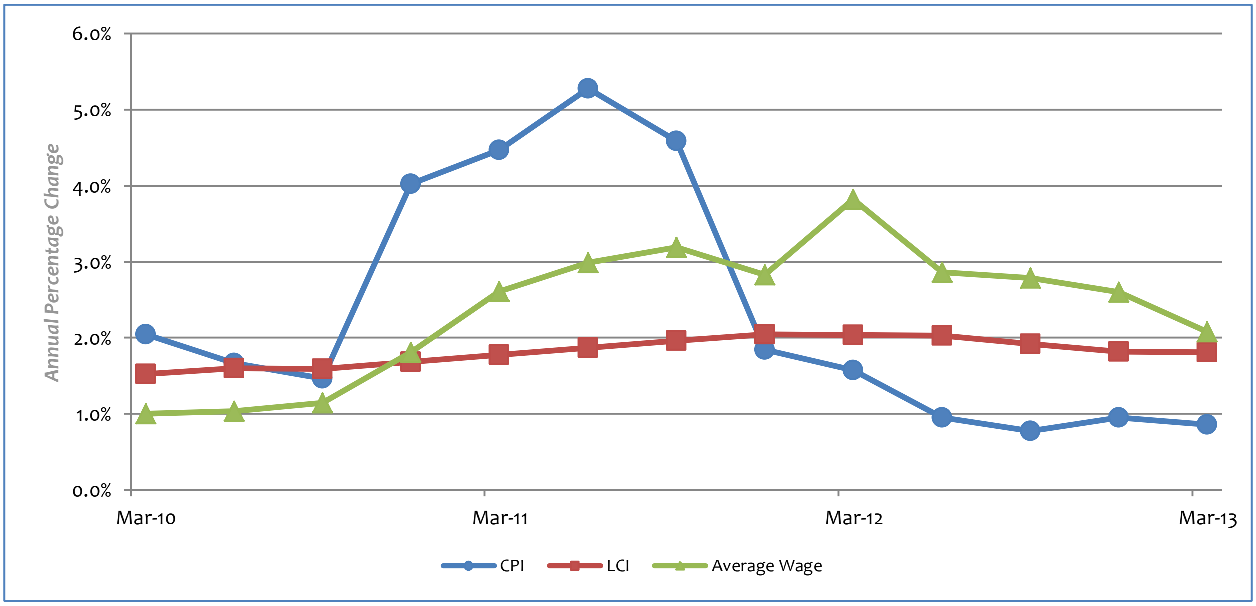
- According to the Household Labour Force Survey the unemployment rate in the March 2013 quarter fell to 6.2 percent from a revised 6.8 percent in the December 2012 quarter, its lowest value since March 2010. There were 146,000 people unemployed. Maori unemployment was 13.9 percent (the same as in March 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 decreased by 0.7 percent in the month of May in seasonally adjusted terms, following a strong rise (revised) of 6.7 percent in April. Skilled job vacancies rose by 2.0 percent in May, following a revised rise of 5.2 percent in April. In the year to May, all vacancies rose 5.5 percent while skilled vacancies rose 3.9 percent

- ★ International Travel and Migration data showed 7,810 permanent and long-term arrivals to New Zealand in May 2013 and 6,060 departures in seasonally adjusted terms, a net gain of 1,740. There was an actual net gain of 6,242 migrants in the year to May. Net migration to Australia in the year to May was 32,862 departures, with 49,331 departures and 16,469 arrivals, the largest number of arrivals from Australia in a May year in a decade. For the month of May, the seasonally adjusted net loss to Australia was 1,880, the lowest since July 2010.

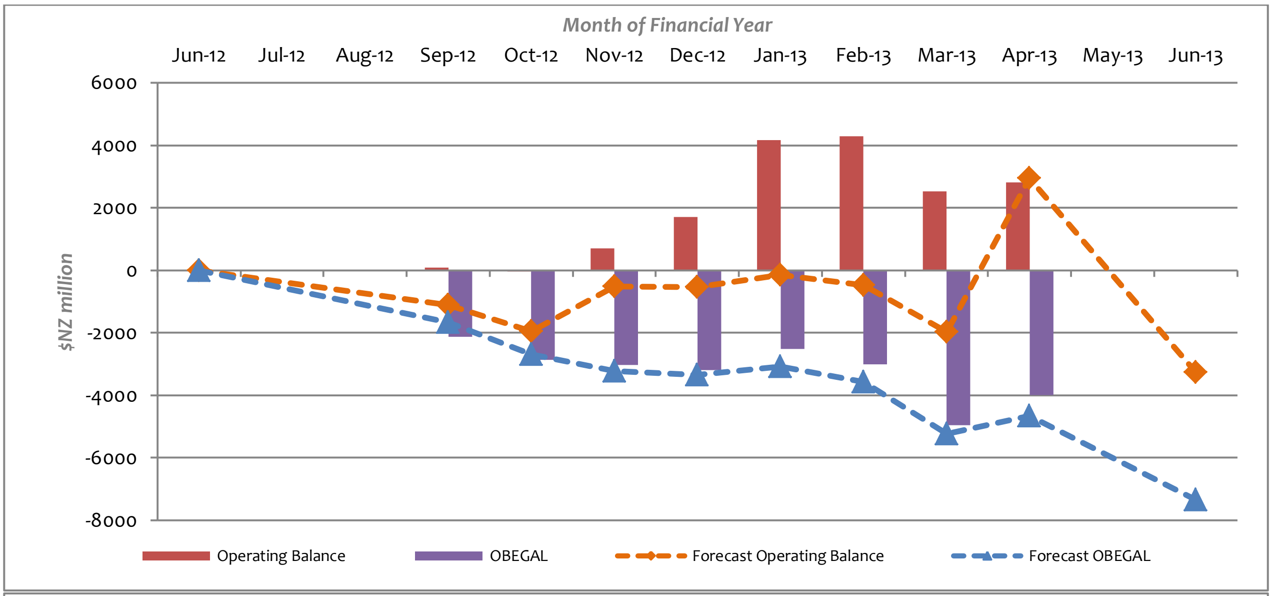
Wages and prices

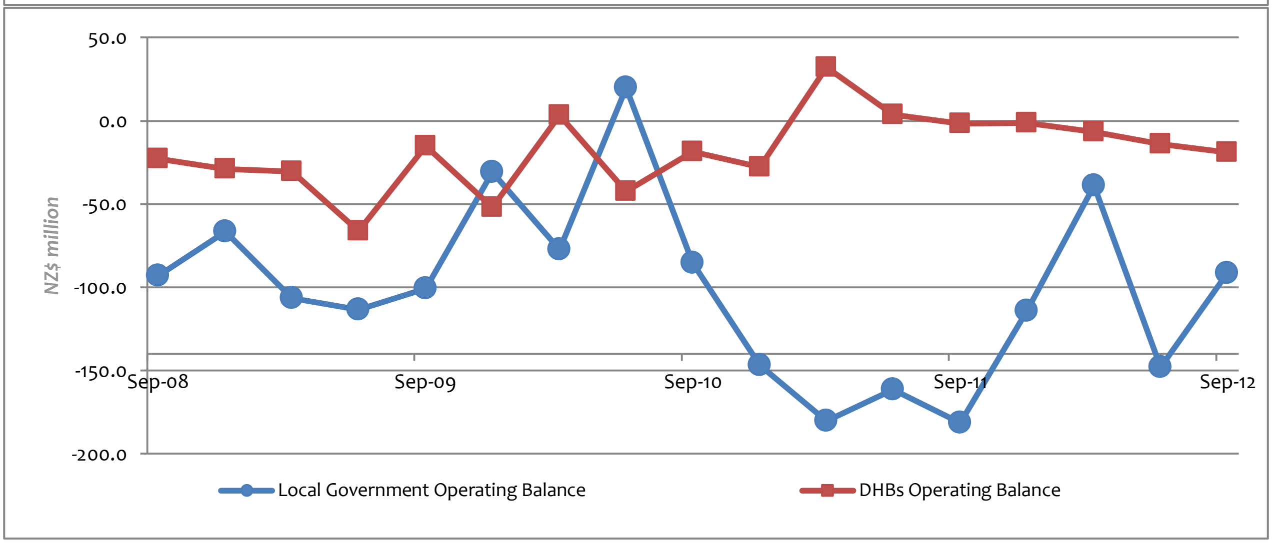


- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to March 2013, following a 0.5 percent rise in each of the last three quarters. The LCI increased 1.8 percent in the year to March. It increased 0.4 percent in both the public and private sectors 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 0.3 percent in the month of May 2013, following a 0.2 percent rise in April. Food prices fell 0.1 percent in the year to May. In May compared with April, fruit and vegetable prices rose 2.1 percent; meat, poultry, and fish prices rose 0.5 percent; grocery food prices rose 0.1 percent; non-alcoholic beverage prices fell 0.9 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 ten months to 30 April 2013, government tax revenue was up $486 million (1.0 percent) on the revised forecast in the 2013 Budget Economic and Fiscal Update. "Just over half of this variance is thought to be the result of higher corporate profitability, partly resulting from continued strength in equity markets." Core Crown expenses were $103 million or 0.2 percent lower than forecast, the biggest contributors being "Ministry of Education expenses $56m below forecast, of which $24m relates to lower than forecast student numbers and lower uptake of demand driven programmes"; and $40 million from Defence, due to deferral of projects, lack of resources, cancellation of activities, and withdrawal of forces from Afghanistan and East Timor. The operating balance before gains and losses (OBEGAL) was $663 million (14.2 percent) better than forecast, at a $4.0 billion deficit. The operating balance was $2.8 billion in surplus, $143 million lower than forecast, and continuing to be tossed around by unforecast investment gains by the New Zealand Superannuation Fund ($0.7 billion) and, for the first time recently, losses by Accident Compensation Corporation ($1.5 billion) due to lower discount rates than forecast. The Government's net debt was 28.7 percent of GDP or $60.1 billion, which is below its 28.9 percent forecast. Note that these forecasts were revised in the May Budget.

- 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 1.7 percent rise ($36.1 million) in operating income and a fall ($47.4 million) in operating expenses including a reduction of $1.1 million in employee costs for the March 2013 quarter compared to December 2012. This resulted in an operating surplus of $90.9 million, compared with a revised surplus of $7.4 million in the December quarter, and deficits in all previous quarters back to June 2010, 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/economicbulletin147.

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