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Commentary

Have economists (and politicians) learned anything?

Five years since the Lehman Brothers collapse

Summary

This month is the fifth anniversary of the September 2008 collapse of US investment bank, Lehman Brothers. By allowing it to collapse the US government was attempting to signal that investors could not count on government bailouts and that the government would rely on the market to fix the problem itself. Instead it signalled the seriousness of the growing financial crisis and the start of some of the largest bailouts in history.

One estimate is that as a result of the crisis, by the beginning of this year the US economy had lost over US$7 trillion in output or US$20,000 per US resident and will probably lose another US$4 trillion before even approaching full employment. In Europe, leading economist Joseph Stiglitz wrote in March: "While Europe's leaders shy away from the word, the reality is that much of the European Union is in depression." An analysis of austerity measures in developing countries found that "fiscal contraction is most severe in the developing world".

While Australia was one of the few countries in the OECD not to go into recession as a result of well-designed government stimulus policies, New Zealand's GDP per capita has only just got back to where it was in 2008 and unemployment has been higher than Australia for the longest period recorded. If our GDP per capita had continued to grow at its historical rate, it would be 11 percent higher than it is now, a total loss of almost 6 months output per person since the beginning of 2008.

These are huge economic losses and enormous social consequences.

Have economists and politicians learned anything from this disaster? This commentary looks at some of the ideas that have ruled conventional economics which have been severely shaken by these events – and the response to them, or lack of it, in New Zealand and internationally. They include the areas of finance, monetary policy, the role of government, and inequality. But some lessons have not even begun to be learned. The dangers of climate change remain neglected and barely addressed. And there are backwoodsmen designing international commercial treaties – like the TPPA – who have learned none of these lessons.

This month is the fifth anniversary of the September 2008 collapse of US investment bank, Lehman Brothers. By allowing it to collapse the US government was attempting to signal that investors could not count on government bailouts and that the government would rely on the market to fix the problem itself. Instead it signalled the seriousness of the growing financial crisis and the start of some of the largest bailouts in history.

One estimate is that as a result of the crisis, by the beginning of this year the US economy had lost over US$7 trillion in output or US$20,000 per US resident and will probably lose another US$4 trillion before even approaching full employment[1]. While there are some signs of improvement in its economy, it is still operating at well below capacity with unemployment at 7.6 percent, held back by punishing cuts in government spending forced by the mad-as-a-hatter Tea Party thinking which dominates the Republican Party. The IMF (International Monetary Fund) Chief Economist Olivier Blanchard stated in April that without this 'fiscal contraction', "growth [in the US] would probably be between 1.5 and 2 percent higher than it is this year"[2]. Instead it was at 1.6 percent in the year to June according to the OECD.

Through tightly linked international financial markets the US collapse rapidly infected Europe, triggering banking collapses in the U.K. and other countries and severe economic downturns almost everywhere. Leading economist Joseph Stiglitz wrote in March: "While Europe's leaders shy away from the word, the reality is that much of the European Union is in depression. The loss of output in Italy since the beginning of the crisis is as great as it was in the 1930s. The youth unemployment rate in Greece now exceeds 60 percent, and the figure for Spain is above 50 percent."[3]

Financial Times economics columnist Martin Wolf wrote just a week ago[4] about the Eurozone (the bloc of countries using the Euro currency): "Its unemployment is 12 per cent. Its gross domestic product in the second quarter was 3 per cent below its pre-crisis peak and 13 per cent below its pre-crisis trend. In the most recent quarter, Spain's GDP was 7.5 per cent below its pre-crisis peak; Portugal's, 7.6 per cent; Ireland's, 8.4 per cent; Italy's, 8.8 per cent; and Greece's, 23.4 per cent. None of these countries is enjoying a strong recovery. The latest unemployment rate is 12 per cent in Italy; 13.8 per cent in Ireland; 16.5 per cent in Portugal; 26.3 per cent in Spain; and 27.9 per cent in Greece. These would be higher without emigration. Ireland's plight is a warning: it has long since restored its competitiveness and is running a large current account surplus. Yet its GDP has stagnated for four years." Neither is the U.K. a model, with stuttering economic growth, 7.7 percent unemployment and its financial sector still deeply damaged from bank collapses and numerous scandals.

An analysis of austerity measures in developing countries[5] – often overlooked in the coverage of this broad and deep crisis – found that "fiscal contraction is most severe in the developing world. Overall, 68 developing countries are projected to cut public spending by 3.7% of GDP, on average, in the third phase of the crisis (2013-15) compared to 26 high-income countries, which are expected to contract by 2.2% of GDP, on average… In terms of population, austerity will be affecting 5.8 billion people or 80 percent of

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[1] "Timothy Geithner Saved Wall Street, Not the Economy", by Dean Baker, Huffington Post 2 February 2013, http://www.huffingtonpost.com/dean-baker/timothy-geithner-saved-wa_b_2568358.html.

[2] Peter Bakvis, ITUC, Washington, email 17 April 2013, quoting Blanchard in answer to question at news conference.

[3] "Citizens in Europe are rejecting austerity policies as deeply misguided", J. Stiglitz, 6 March 2013, The Guardian. http://www.theguardian.com/business/economics-blog/2013/mar/06/citizens-europe-reject-austerity-misguided

[4] "Germany's strange parallel universe", by Martin Wolf, Financial Times 24 September 2013. http://www.ft.com/intl/cms/s/0/b3faf9b0-2489-11e3-8905-00144feab7de.html

[5] "The Age of Austerity: A Review of Public Expenditures and Adjustment Measures in 181 Countries", by I. Ortiz, and M. Cummins (2013). New York and Geneva: Initiative for Policy Dialogue and The South Centre. http://policydialogue.org/files/publications/Age_of_Austerity_Ortiz_and_Cummins.pdf.

the global population in 2013; this is expected to increase to 6.3 billion or 90 percent of persons worldwide by 2015".

While Australia was one of the few countries in the OECD not to go into recession as a result of well-designed government stimulus policies, New Zealand's GDP per capita has only just got back to where it was in 2008, and unemployment at 6.4 percent has been higher than Australia for the longest stretch since it began being surveyed in 1986. If GDP per capita had continued to grow at its historical rate, it would be 11 percent higher than it is now, a total loss of almost 6 months output per person since the beginning of 2008.

These are huge economic losses and enormous social consequences. Have economists, and politicians who in Keynes words "believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist", learned anything from this disaster?

Below I list some of the ideas that have ruled conventional economics which have been severely shaken by these events – and the response to them, or lack of it, in New Zealand and internationally. For each one I must be brief because the list is long though still incomplete. The Global Financial Crisis should have been a life-changing event for economics. With some notable exceptions, we have yet to see it.

Finance

The crisis was triggered by a financial meltdown with cascading company collapses. In its theories and models of the economy ('macro-economics') the workings of the finance sector were treated as largely irrelevant by conventional economics: finance would flow, interest rates get set, risks would be managed by 'the market'. Only at the 'micro' level – the effect on individual firms, households or sectors – was finance seen as warranting attention. We have been reminded (to put it mildly) that the finance sector can have a major effect on the real economy.

From a position that assumed rather simplistically that more finance was good, no matter what its form, some researchers have suggested (as most people suspected) that countries can have "too much finance"[6], and that different types of finance have important implications for stability[7].

If you thought that the finance sector might be sorry…

From "Plutocrats Feeling Persecuted", by Paul Krugman, *New York Times*, 26 September 2013.

For those who don't recall, A.I.G. is a giant insurance company that played a crucial role in creating the global economic crisis, exploiting loopholes in financial regulation to sell vast numbers of debt guarantees that it had no way to honour. Five years ago, U.S. authorities, fearing that A.I.G.'s collapse might destabilize the whole financial system, stepped in with a huge bailout. But even the policy makers felt ill used — for example, Ben Bernanke, the chairman of the Federal Reserve, later testified that no other episode in the crisis made him so angry.

And it got worse. For a time, A.I.G. was essentially a ward of the federal government, which owned the bulk of its stock, yet it continued paying large executive bonuses. There was, understandably, much public furore.

So here's what [A.I.G. Chief executive] Mr. Benmosche did in an interview with *The Wall Street Journal*: He compared the uproar over bonuses to lynchings in the Deep South — the real kind, involving murder — and declared that the bonus backlash was "just as bad and just as wrong."

[6] E.g. "Too Much Finance?", by J.-L. Arcand, E. Berkes and U. Panizza (2012) IMF Working Paper No. WP/12/161. https://www.imf.org/external/pubs/cat/longres.cfm?sk=26011.0

This has led to international and national moves back to tighter regulation of the finance sector. Tighter capital requirements, preventing commercial banks from speculating with their customers funds (separating financial dealing from convention banking), taking action to prevent banks becoming 'too big to fail' or 'too intertwined to fail', and financial transaction taxes have been extensively debated.

Unfortunately the finance sector has proved far too powerful and reform so far has barely touched the fundamental weaknesses that need addressing. Banks in the US for example are back to most of their old ways; the crisis has led to banks getting bigger rather than smaller; the tight international integration and rapid financial flows which enabled the crisis to spread faster than any disease has not been touched and indeed attempts are being made to 'liberalise' it further in the World Trade Organisation and through agreements like the TPPA.

The finance sector internationally is resisting greater supervision, further regulation, and more control of the often frenetic domestic and international financial markets. Yet their disconnection from the real needs of society and the economy and potential for damaging them has not lessened. When the US average share holding lasts just 22 seconds[8], and the New Zealand dollar is the tenth most traded currency in the world the disconnection seems clear[9]. We would be foolish to believe that risk has now been properly controlled, or that another of these hugely damaging catastrophes could not occur again.

Here in New Zealand, the Reserve Bank has tightened its control of bank borrowing and lending in the interests of financial stability, but there are still many areas of vulnerability. There is a comfortable myth that regulatory standards here and in Australia saved us. But former Reserve Bank of Australia governor, Ian Macfarlane (and other Australian observers) didn't agree, speculating that the reason for the situation might be the lack of competition between the four big Australian banks which own the big four here, and paradoxically the lack of savings in Australia to invest in the high risk US markets. But, he said, "they would have if they could have"[10]. The same circumstances apply here, and when we look at how close the banks here came to being unable to renew their international borrowing during the crisis due to their heavy reliance on foreign-sourced short term money, their large-scale tax evasion, their control by their Australian parents, and the lack of regulatory restraint on dealing it's hard to escape his conclusion. Much more must be done here and internationally to prevent another such crash.

Underlying the belief of conventional economics in the ability of financial markets to stabilise themselves was their belief that humans behave rationally, maximising their individual returns, looking far ahead and using all information available. I studied psychology for my doctorate – a science which spends a large part of its effort in explaining why humans do *not* apparently behave rationally – so

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[7] "The Lessons of the North Atlantic Crisis for Economic Theory and Policy", by Joseph Stiglitz. (2013). International Monetary Fund. http://blog-imfdirect.imf.org/2013/05/03/the-lessons-of-the-north-atlantic-crisis-for-economic-theory-and-policy

[8] "How long does the average share holding last? Just 22 seconds", by Paul Farrow, The Telegraph, 18 January 2012, http://www.telegraph.co.uk/finance/personalfinance/investing/9021946/How-long-does-the-average-share-holding-last-Just-22-seconds.html

[9] Bank for International Settlements, Triennial Central Bank Survey, April 2013, p.13. http://www.bis.org/publ/rpfx13fx.pdf.

[10] "Saved by dumb luck", by Alan Kohler, *Business Spectator*, 2 March 2009, http://www.businessspectator.com.au/bs.nsf/Article/Foundational-fluke-$pd20090302-PR559, accessed 6 March 2009.

always found this absurd. The application of psychology to economics ('behavioural economics') is making some impression on these beliefs but has a long way to go. Information will always be scarce and unequally distributed, and humans make mistakes and follow herds or 'rules of thumb' when information is scarce or too complicated. The crisis made this crystal clear. Regulation will always be needed in these circumstances – but is resisted by the finance sector and old thinking at every step.

Monetary policy

The conventional place of monetary policy is for one purpose: controlling inflation. One instrument – setting short term interest rates – is supposed to be all that is needed to do this. The expansion of money supply beyond what the real economy's output justifies would always be inflationary and could have no effect on the real economy in any case because our rational humans would anticipate the need to tighten the supply in future. Therefore monetary policy is best left to a technocratic authority (the Reserve Bank) to act independently from the political authorities (Government) who control taxation and government spending.

Yet all that unravelled in the crisis and on looking back at what led to it. IMF research for example showed that the high interest rates resulting from this kind of monetary policy in small open economies like New Zealand led to capital flowing in (potentially destabilising in itself) and an over-valued exchange rate which harmed exporters[11]. Rapidly rising house prices were a crucial ingredient in the crisis in several countries, but using a single short term interest rate to control them risks damage to the rest of the economy. So we need policies in addition to the interest rate such as the rediscovered 'macroprudential tools' like loan-to-value ratios for mortgages, which are useful for both financial stability and anti-inflationary purposes.

But most spectacularly, the use of 'quantitative easing' (a huge increase in the money supply) to keep banks afloat has been used in the US as the main anti-recessionary policy with some success – and little inflation. Both macroprudential policies and quantitative easing are designed to impact on the real economy, so the need for the monetary authorities (the Reserve Bank) to work much more closely with the fiscal authorities (Treasury and Government) becomes obvious. The autonomy of the Reserve Bank will increasingly be called into question. Quantitative easing – like the bank bailouts – is being used primarily to "save Wall Street, not the economy" in the words of economist Dean Baker. It is helping the US economy along the way, but it could have been more effective if used in other ways. Whatever the case, it is hard now to take quantitative easing off the agenda for other much more worthy purposes.

The role of government

Conventionally, economists said that governments borrowing to spend during a recession in order to stimulate the economy would be self-defeating and inflationary. That rational human would know that sometime in the future the government would have to raise taxes to repay the rising debt and so would hold back their spending in anticipation. It was much better for governments to 'get their house in order' by getting back to surplus and paying off debt as quickly as possible through expenditure cuts and (less desirably because they disincentivised investment and work) tax rises. That would let the private sector get on with the job of investing and getting the economy moving again. This philosophy is at the

[11] "What Caused the Global Financial Crisis - Evidence on the Drivers of Financial Imbalances 1999 – 2007", by O. Merrouche and E. Nier (2010). IMF Working Paper 10/265, http://www.imf.org/external/pubs/cat/longres.cfm?sk=24370.0

heart of 'neoliberalism' – the idea that government is best as small as possible and that the private sector is always more efficient and works best when it is deregulated and left to get on with it.

In fact the countries, such as the U.K. and Greece, which have followed this advice have got into much deeper recession. The power of government spending is particularly high when an economy has high private debt levels. Households and business with high debt levels will at some point stop spending in order to pay off debt. Other firms suffer as demand for their products evaporates. People lose jobs, further depressing demand. The government is then the only institution that can break this downward spiral into depression. It can fund its spending by borrowing – or by credit from the Reserve Bank – that only a government has the standing to do. (See Economic Bulletin 122 for explanation of why a government is not like a household.)

The IMF has, with some honesty, revised earlier estimates of the effect on the economy of the expansion (or contraction) of government spending. It found they were significant[12].

It has also found that they are not neutral in the effects on people. Low income people are hit hardest by contractions – especially by cuts in spending and services[13].

That other symbol of neoliberalism, privatisation, has also taken a severe blow. The US and UK governments nationalised insurance companies, banks and car manufacturers to prevent a more severe crash. The picture of a sturdy, independent private sector with its willingness to take losses on the chin proved a myth as the finance sector put out its hand and accepted, ungraciously, the huge government hand-outs and guarantees that are now threatening the stability of governments and the livelihoods of millions of blameless people. The reliance of the most powerful elements of the private sector on government has rarely been clearer. The implication that with reliance must come accountability has yet to be addressed. Such firms must accept a much higher degree of public oversight including in their regulation and their governance.

Inequality

Conventionally, economics swore it had nothing useful to say about inequality. That was an 'ethical' issue which had nothing to do with the efficiency or productivity of an economy. As recently as last year, Treasury organised a series of lectures on this theme. That the policies they were recommending led to a concentration of wealth and income was not an issue for economists to worry about.

The crisis led to the popular realisation that the 'one percent' had cornered far too much power, income and wealth, and too often was using it irresponsibly. In policy circles particularly within the OECD, IMF and ILO this led to a re-examination of the economics of inequality. They found many links. Inequality is likely to have contributed to the financial crisis by households with stagnant or falling incomes increasing their debt to unsustainable levels; in small open economies that is likely to have led to increased current account deficits and international debt; economies with high levels of inequality had shorter periods of economic growth; the loss of demand due to lower incomes among wage and salary

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[12] "Growth Forecast Errors and Fiscal Multipliers", by O. J. Blanchard and D. Leigh, D. (2013). IMF Working Paper 13/1. https://www.imf.org/external/pubs/cat/longres.aspx?sk=40200.0

[13] E.g. "Distributional Consequences of Fiscal Consolidation and the Role of Fiscal Policy: What Do the Data Say?", by J. Woo, E. Bova, T. Kinda and Y.S. Zhang (2013). IMF Working Paper 13/195. https://www.imf.org/external/pubs/cat/longres.aspx?sk=40942.0

earners leads to lower economic and productivity growth rates. Health researchers Wilkinson and Pickett found links between inequality and a large range of social and health problems. On the other hand, inequality is exacerbated by the increased internationalisation of production, offshoring and the growth of supply chains, by financial globalisation, lower employee bargaining power and employment protection, increased part time work and changes in the taxation system. Most of these inequality-increasing policies were prescribed by the OECD, IMF and orthodox economists.

International agencies are now, at least in theory, saying policies should address growing inequality – but there is a large gap between the findings of the research departments of the IMF, OECD and European Commission and what they actually put pressure on countries to adopt. Here in New Zealand, Treasury has adopted a 'Living Standards' framework which includes not only economic growth but sustainability, managing risks, social infrastructure and 'increasing equity' as criteria. We have yet to see its practical effects. Current privatisation, regulatory, tax, labour and welfare policies tend to increase inequality rather than reduce it.

In another significant change, the IMF's research department produced a paper under the name of its chief economist[14] recommending more centralised collective bargaining, something it has opposed for most of existence, and inconsistently, still opposes when dealing with indebted countries. This is a major move away from the constant push to 'flexible', individual contracting model that has been the standard, inequality-heightening prescription.

There are many other lessons being learned which space does not allow me to touch on. They include the need to control international financial movements, the dangers of private international debt, the great advantages of a country having its own currency and the policy failures of the Euro, the revival of interest in manufacturing in the high income economies, and a new-found aversion to tax havens.

But some lessons have not even begun to be learned. The dangers of climate change remain neglected and barely addressed. And there are backwoodsmen designing international commercial treaties – like the TPPA – who have learned none of these lessons and are still pushing for minimal financial regulation, outlawing the policy tools needed for controlling dangerous international financial flows, and undermining the ability of government to carry out its role when markets increase inequality, fail to develop sustainable industries and good, safe jobs, or fail to do their job of producing products efficiently and for the needs of society.

Bill Rosenberg

[14] "Labor Market Policies and IMF Advice in Advanced Economies During the Great Recession", O. Blanchard, F. Jaumotte, and P. Loungani (2013). IMF Staff Discussion Note No. SDN/13/02, https://www.imf.org/external/pubs/cat/longres.aspx?sk=40412

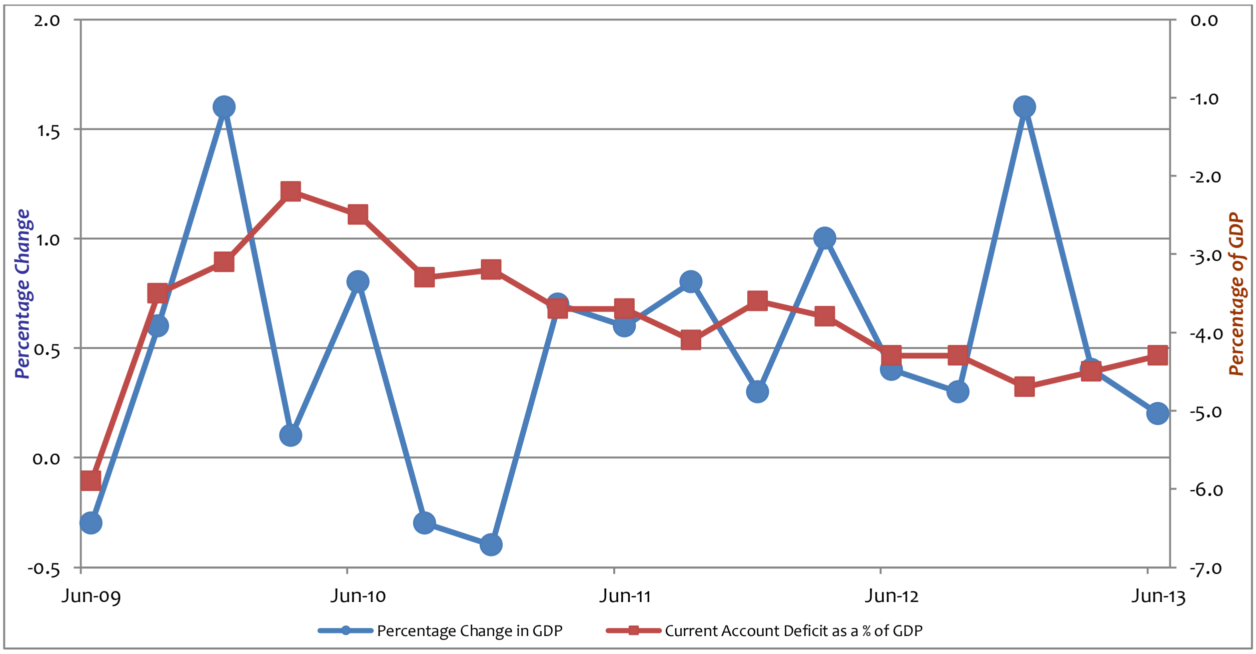
Forecast

★ This NZIER forecast was released on 16 September 2013.

Annual Percentage Change (March Year)	**2013-14**	**2014-15**	**2015-16**
GDP	2.6	3.0	2.3
CPI	1.7	2.2	2.4
Private Sector Wages	2.6	3.1	3.2
Employment	2.1	2.0	1.2
Unemployment rate	6.0	5.5	5.3

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

Economy



★ Growth in New Zealand's economy slowed further in the June 2013 quarter, with Gross Domestic Product growth at 0.2 percent, affected by the drought, compared to quarterly increases of 0.4 percent in March and 1.6 percent in December (both revised up 0.1 percentage point). Growth for the year ended March 2013 was 2.7 percent. The largest quarterly rises by industry were in Construction (2.3 percent), Retail Trade and Accommodation (2.1 percent) and Professional, scientific, technical, administration, and support (2.6 percent). However, Agriculture, forestry and fishing fell 4.8 percent and Electricity, gas, water, and waste services fell 2.4 percent. Manufacturing fell 0.1 percent in the quarter, but excluding Food, beverage and tobacco manufacturing which fell 3.8 percent, it rose by about 2 percent. The result was that

Primary Industries fell 3.7 percent, Goods producing industries rose 0.2 percent and Service industries rose 1.0 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 1.6 percent, again boosted by the Food sector though with strong growth also in Textiles, leather, clothing, and footwear (rising 10.9 percent), and Non-metallic mineral product manufacturing (up 8.3 percent). Printing fell 10.2 percent over the year. Household consumption expenditure rose a strong 1.5 percent in the quarter and 2.2 percent in the year. Expenditure on non-durable goods (such as groceries) did not grow during the quarter, while durables grew a strong 4.0 percent, a similar pattern to that for the year where non-durables rose 0.8 percent while durables rose 5.1 percent. Business investment reversed from the last quarter, rising a strong 5.7 percent in the quarter and 4.2 percent for the year.

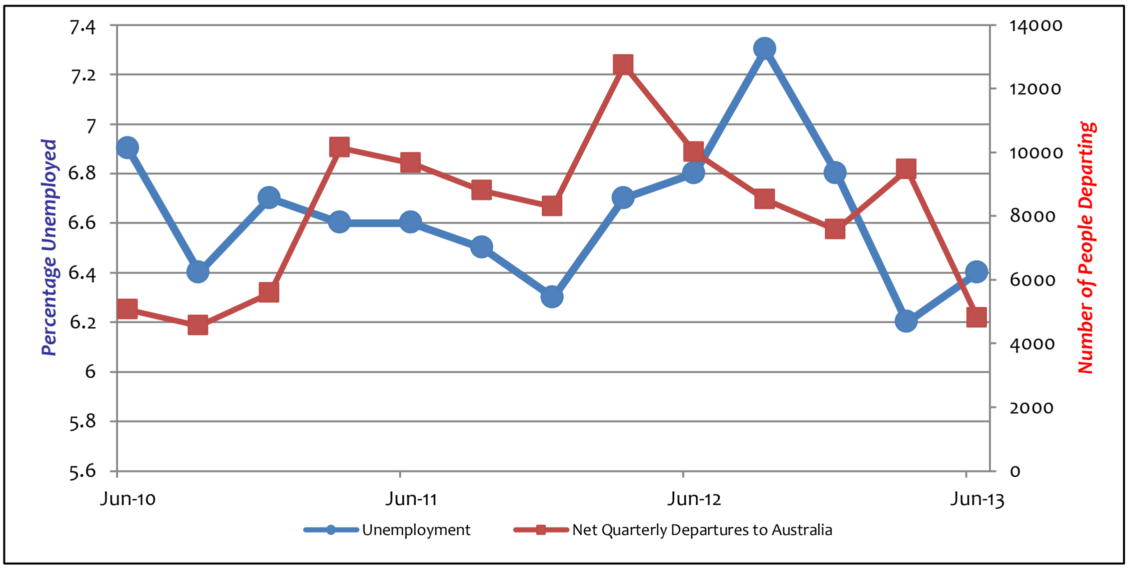
★ New Zealand recorded a Current Account deficit of $2.2 billion for the June 2013 quarter in seasonally adjusted terms, $0.15 billion more than the revised March quarter deficit of $2.0 billion. The increase was driven by reduced exports of goods mainly to falling quantities of dairy and meat exports due to the drought, partly offset by a fall in profits going to foreign owned companies. For the year to June 2013 the deficit was a lower $9.1 billion of 4.3 percent of GDP compared to the revised $9.5 billion in the year to March. That is similar to the deficit on income (virtually all investment income) of $8.8 billion. Annual statistics for the year to March 2013, released this month show that banks are the main driver of the income account. In that year, banks accounted for $6.8 billion of the $9.5 billion deficit on income which in that year was almost equal to the total current account deficit. Banks therefore accounted for 71 percent of the current account deficit and the increase in New Zealand's international liabilities. They sent $7.1 billion overseas and received $0.3 billion in income.

★ The country's Net International Liabilities were $151.3 billion at the end of June 2013 (71.1 percent of GDP) down from $151.6 billion (71.8 percent GDP) at the end of March due to rising overseas share prices, but down as a proportion of GDP from the $149.8 billion (71.9 percent GDP) in June 2012. Of this, $7.8 billion was owed by the government (equivalent to 3.7 percent of GDP) and $108.3 billion by the banks (50.9 percent of GDP). Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes have been re-estimated at $18.7 billion (up from $18.6 billion estimated in March), and at 30 June 2013, $10.5 billion of these claims had been settled, leaving $8.1 billion outstanding. Without these, net international liabilities would have been $159.4 billion or 74.9 percent of GDP. New Zealand's gross international liabilities were $330.9 billion in March, against $179.6 billion in overseas assets. Of those liabilities, 50.9% ($167.7 billion) are in the financial sector, with the next largest sector being manufacturing with 7.2 percent ($23.8 billion). Over a third of the investment is from Australia ($110.0 billion) with the next biggest from the U.K. ($52.9 billion) and the US ($38.8 billion).

★ Overseas Merchandise Trade for the month of August 2013 saw higher goods imports lead to a deficit of $1.2 billion ($636 million seasonally adjusted), the largest for any August month. An imported drilling platform boosted imports, but the deficit would still have been the second largest for an August month. Imports rose 9.7 percent to $4.5 billion from the previous August, the largest value for any August month. The trend for exports has been decreasing. The annual deficit was $2.1 billion. The following are in seasonally adjusted terms. By value, exports rose 2.1 percent or $79 million and imports fell 2.5 percent or $109 million compared to July. Exports rose by volume for Logs and Wood (15.2 percent), Fruit (11.1 percent) and Aluminium (304.1 percent). All other major categories fell, led by Meat (12.7 percent) and Dairy (8.5 percent). There was a similar picture by value, though Seafood rose 1.8 percent and Dairy fell only 3.0 percent, helped by rising prices). Exports to China rose 24.8 percent in the year to August, and fell 9.4 percent to Australia and 16.2 percent to Japan. Imports from China rose 6.1 percent in the same period, and fell 8.2 percent from Australia.

- ★ The Performance of Manufacturing Index[1] for August 2013 was 57.5, a fall from a 59.5 in July but the highest August value since the survey began in 2002. The employment sub-index at 54.1 was up from 53.1 in July.
- ★ The Performance of Services Index[1] for August 2013 was 53.2, a significant fall from 58.2 in July. The employment sub-index fell to 50.0 from a revised 51.9 in July.
- The Retail Trade Survey for the three months to June 2013 showed retail sales rose 1.7 percent by volume and 0.9 percent by value in the quarter compared with the March 2013 quarter, seasonally adjusted. By volume, the largest contributors to the increase were food and beverage services, up 4.5 percent, motor vehicle and parts retailing, up 3.0 percent and department stores, up 5.4 percent. There was a 5.0 percent fall in the fuel retailing industry. By value the largest contributors were food and beverage services, up 4.6 percent ($83 million), hardware, building, and garden supplies, up 4.0 percent ($52 million), accommodation up 3.6 percent, motor vehicle and parts retailing, up 2.0 percent ($47 million), and department stores, up 4.6 percent ($44 million). Supermarket and grocery sales were up by 0.9 percent. Fuel retailing was down 7.5 percent ($150 million) and pharmaceutical sales were down by 3.0 percent.
- ★ On 12 September 2013 the Reserve Bank left the Official Cash Rate unchanged at 2.5 percent. The next review will be announced on 31 October 2013.
- ★ The REINZ Housing Price Index increased 2.1 percent in the month of August 2013. The index was up 9.5 percent compared to July 2012. The national median house price rose to $390,000 from $385,000 in July 2013, up $20,000 from August 2012.

Employment



- According to the Household Labour Force Survey the unemployment rate in the June 2013 quarter rose to 6.4 percent from 6.2 percent in the March 2013 quarter. Seasonally adjusted female unemployment at 7.1 percent is higher than for men (5.8 percent). The unemployment rate in Canterbury was 4.4 percent; down from 6.5 percent in June 2012. There were 153,000 people unemployed and the number of jobless people (which includes those discouraged from seeking employment) was 245,400. There were 63,900 people seeking additional hours. Māori unemployment fell from 13.9 percent in March 2013 to 12.8 percent but Pacific unemployment rose from 15.2 percent in March 2013 to 16.3 percent. Youth unemployment (15-19 year olds) was 24.1 percent, and the unemployment rate among 20-24 year olds was 11.1 percent, up slightly from 10.9 percent in the March 2013 quarter. There were 77,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 12.1 percent of people in that age group, down from a revised 12.6 percent in the March 2013 quarter or 80,000 people (seasonally adjusted). The labour force participation rate continued to pick up and at 68.0 percent is up 0.1 percent from the previous quarter but is down by 0.4 percent for the year. The number of unemployed people who have been out of work for more than 6 months was 37,800 (down from 40,900 in March 2013 and down by 7,200 from June 2012). Compared to OECD unemployment rates, New Zealand has fallen from 11th equal position in March 2013 to 12th (out of 34 countries).

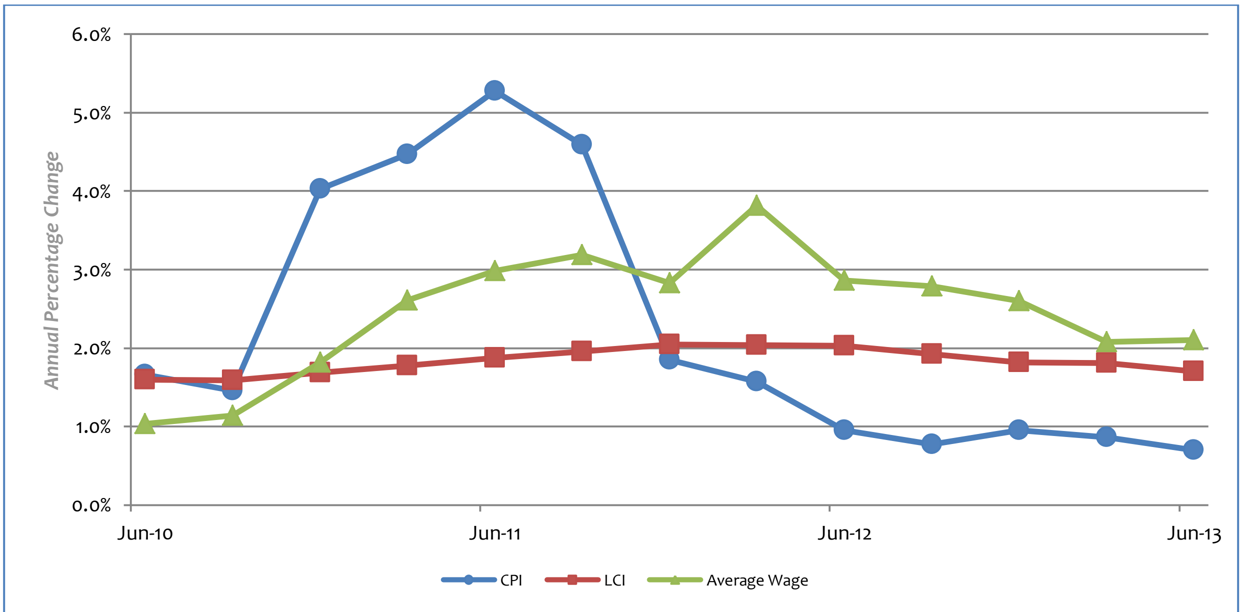
- At the end of June 2013 there were 48,756 working age people on the unemployment benefit, a decrease of 1,184 from June 2012. From July, benefits have been renamed and several are now classified as "Jobseeker" which includes what used to be the unemployment benefit, sickness benefits and some Domestic Purposes benefits. The others are "Sole Parent Support", covering sole parents with youngest child under 14 years old and widows, "Supported Living Payment" including invalids' benefits, and those caring after the "sick or infirm", Youth and other benefits. Data is now available only quarterly (see Unemployment Benefit numbers on the MSD website). Jobseeker numbers will not be available until mid-October.

★ Job Vacancies Online shows, in seasonally adjusted terms that skilled job vacancies fell by 2.1 percent in August, following an increase in July and decrease in June. All job vacancies fell by 3.7 percent, after an increase in July and 2.8 percent fall in June. Over the year to August, skilled vacancies increased by 2.4 percent. All vacancies increased by 6.3 percent.

★ International Travel and Migration data showed 7,910 permanent and long-term arrivals to New Zealand in August 2013 and 5,810 departures in seasonally adjusted terms, a net gain of 2,100. There was an actual net gain of 12,848 migrants in the year to August. Net migration to Australia in the year to August was 27,252 departures, with 44,919 departures and 17,667 arrivals. For the month of August, the seasonally adjusted net loss to Australia was 1,140.

- The New Zealand General Social Survey for 2012 showed that 87 percent of New Zealanders aged 15 years and over were 'satisfied' or 'very satisfied' with their lives overall. An estimated 52 percent of New Zealanders had 'more than enough' or 'enough' money to meet their everyday need for things such as accommodation, food, clothing, and other necessities. So 48 percent didn't! People in families without children were more likely to have more than enough or enough money than people in families with children. About 3 in 5 (62 percent) people who lived in couple-without-children families had more than enough or enough money, compared with 50 percent living in couple-with-children families and 28 percent of one-parent-with-children families.

Wages and prices

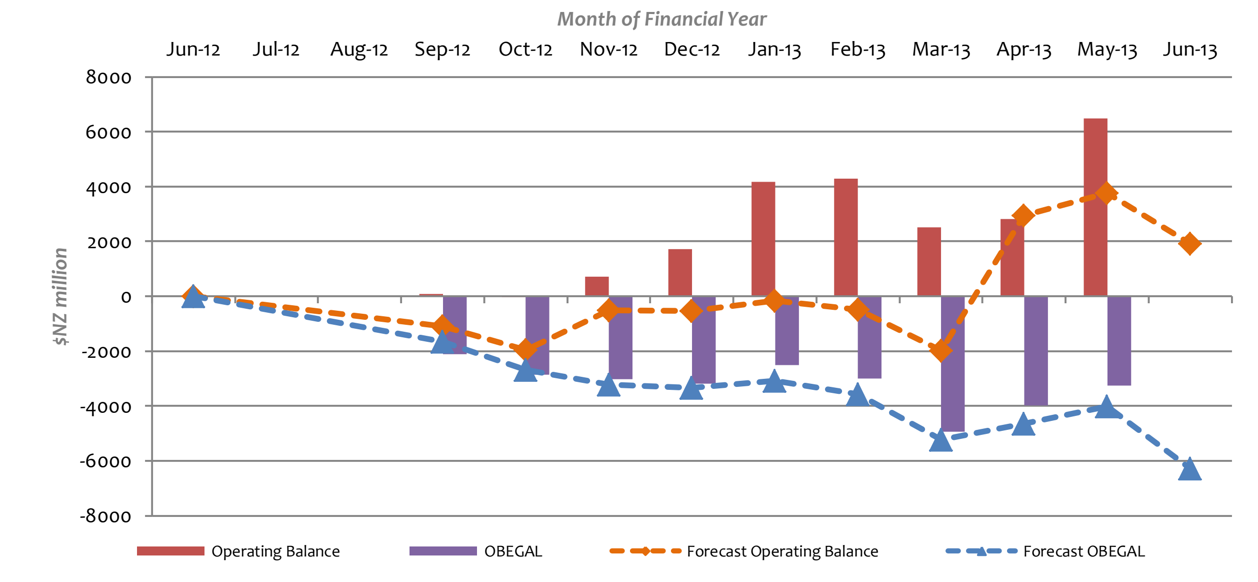


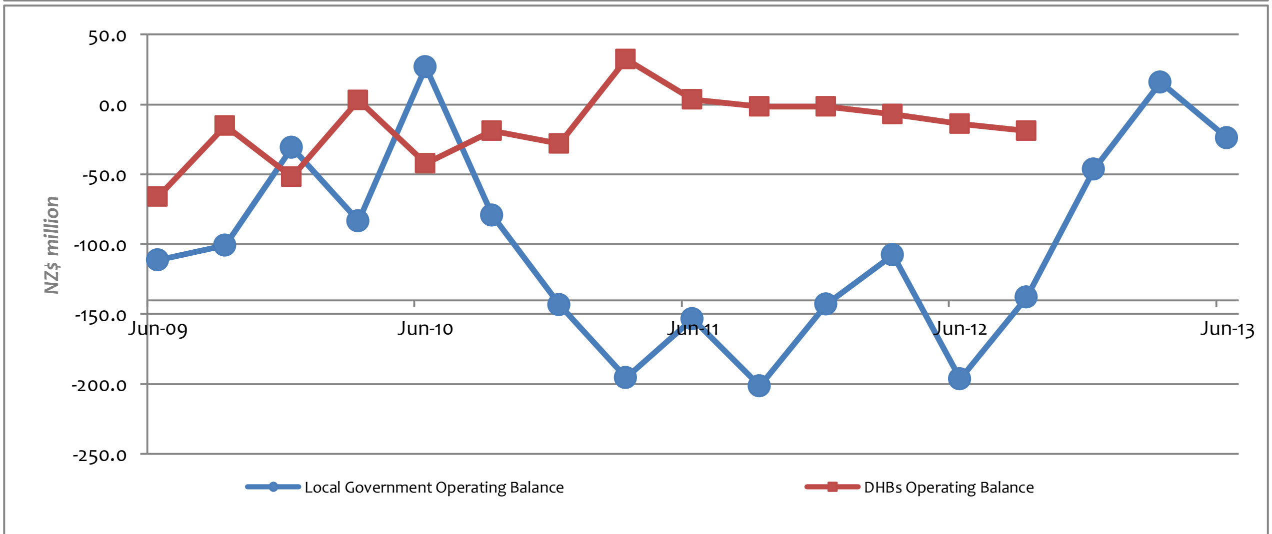
- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to June 2013, the same increase as the March quarter. The LCI increased 1.7 percent in the year to June. It increased 0.3 percent in the public sector and 0.4 percent in the private sector in the three months to June. Over the year to June it rose 1.5 percent in the public sector and 1.7 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 2.7 percent (the lowest since the March 2001 quarter). The average increase was 3.4 percent.

- The June 2013 Quarterly Employment Survey found the average hourly wage for ordinary-time work was $27.53, up 0.2 percent on the March 2013 quarter and up 2.1 percent over the year. The average ordinary-time wage was $25.51 in the private sector (up 0.4 percent in the quarter and up 2.4 percent in the year) and $34.83 in the public sector (down 1.2 percent in the quarter and up 1.6 percent in the year). Female workers (at $25.44) earned 13.2 percent less than male workers (at $29.32) for ordinary time hourly earnings.

- The Consumer Price Index rose 0.2 percent in the June 2013 quarter compared with the March quarter and increased 0.7 percent for the year to June. For the quarter, the largest contributor to the increase was housing and household utilities which rose 1.1 percent including electricity (rising 2.6 percent) and purchase of new housing (1.7 percent). Insurance rose 2.4 percent, with dwelling insurance rising 9.9 percent and health insurance 4.3 percent. Petrol prices fell 2.5 percent and motor vehicle prices fell 1.5 percent.

- ★ The Food Price Index fell 0.5 percent in the month of August 2013, following a 0.5 percent rise in July. Food prices rose 0.3 percent in the year to August 2013. Compared with July, fruit and vegetable prices fell 0.1 percent; meat, poultry, and fish prices fell 1.7 percent; grocery food prices decreased by 0.8 percent; non-alcoholic beverages rose 1.2 percent; and restaurant meals and ready-to-eat food fell 0.1 percent.





- According to Treasury's Financial Statements of the Government of New Zealand for the eleven months to 31 May 2013, government tax revenue was up $502 million (0.9 percent) on the revised forecast in the 2013 Budget Economic and Fiscal Update. Corporate tax was $496 million above forecast and "other individuals" tax was $164 million above forecast while GST was $222 million lower than forecast probably reflecting lower consumption than expected. "Strength in equity markets contributed to the positive variances." Core Crown expenses were $96 million or 0.2 percent lower than forecast. The operating balance before gains and losses (OBEGAL) was $763 million (18.9 percent) better than forecast, at a $3.3 billion deficit. The operating balance was $6.5 billion in surplus, $2.7 billion (72.5 percent) higher than forecast, and continuing to be tossed around by unforecast investment gains by the New Zealand Superannuation Fund ($1.2 billion) and a reversal of last month's rare losses by Accident Compensation Corporation (gaining $0.4 billion). "The turn-around of the actuarial loss was a result of an increase in the discount rate during May and highlights the volatility associated with the valuations of the long-term liabilities." Remember that next time a politician claims there is a crisis in ACC's accounts. The Government's net debt was 26.4 percent of GDP or $55.7 billion, which is below its 26.7 percent forecast, revised in the May Budget. The partial privatisation of Mighty River enters the government's books this month. Because the 48.2 percent non-government shareholders are referred to as "non-controlling minority interests", the entire value of the company remains on the government's balance sheet so its net worth appears to rise by the net proceeds from the sale of $1.643 billion despite the loss of share ownership. Privatisation costs attributed to the sale were $17 million in direct costs and $25 million for the estimated cost of the loyalty bonus share scheme rewarding those wealthy enough to buy shares and hold onto them.

- 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 1.4 percent rise ($28 million) in operating income and static operating expenses (at $781 million) including an increase of 2.8% ($13 million) in employee costs for the June 2013 quarter compared to March. This resulted in an operating deficit of $24.2 million, compared with a revised surplus of $15.9 million in the March 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/economicbulletin150.

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