



NEW ZEALAND COUNCIL OF TRADE UNIONS

Te Kauae Kaimahi

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Commentary

Unmaking four myths

Summary

There are always some myths doing the rounds that serve various interests. I look at four.

Myth 1: Lots of jobs are being created, all over New Zealand

Actually, at June 2013, though New Zealand had the fifth fastest GDP growth in the OECD, it had only the 12th lowest unemployment rate at 6.4 percent. The peak number of jobs before the GFC was in 2008. This year is the first time it got back to that value with just 19,800 more in the year to June, but the working age population increased by 190,900 in the same period. During the year, employment fell in seven of the twelve regions. Essentially the employment growth is due to Canterbury where it increased 16,800 though the working age population fell 2,500. Auckland employment rose 20,100, but its working age population increased 50,500.

Myth 2: Australia's hit the ropes

True, at 5.6 percent in September, Australia's unemployment is higher than the 5.5 percent a year before and the 2012 low of 5.0 percent. But it is still 0.8 percentage points below New Zealand. Australian GDP growth in the year to June was 2.6 percent and 0.6 percent in the last three months. New Zealand's figures were 2.7 and 0.6 percent. Its mining is facing falling prices, but is only 10 percent of the Australian economy. In August, Australia's Reserve Bank forecast similar growth to New Zealand in the next two years but a stronger long term outlook.

Myth 3: The 90-day trials create employment for disadvantaged groups

The Government's poor job creation record makes this increasingly difficult for it to justify. Evaluations of the trials have been poorly designed or focused on employer views. New data released by MBIE shows that the trials are being used heavily for managers and workers with vocational qualifications – hardly 'disadvantaged' groups – but not disproportionately for young workers or Māori. We strongly disagree that it does give workers an advantage (it strips them of basic rights) but the Government can hardly claim it is 'benefiting' those groups. More likely it is being used on a discriminatory basis.

Myth 4: The huge increase in exports to China is a result of the Free Trade Agreement

That confuses coincidence with cause. China was booming when the FTA came into effect, importing all the commodities it could buy. Australia's exports grew as fast as New Zealand's without an FTA, in fact taking off several years earlier. The Sanlu scandal led to a huge demand for imported dairy products and Fonterra was in an ideal position to supply them. The fall in tariffs negotiated in the FTA was not nearly enough to explain the huge rise in exports. For milk powder the fall has been greatly slowed by China taking 'safeguard' measures and for logs tariffs were always zero. The two commodities make up over half of our exports to China.

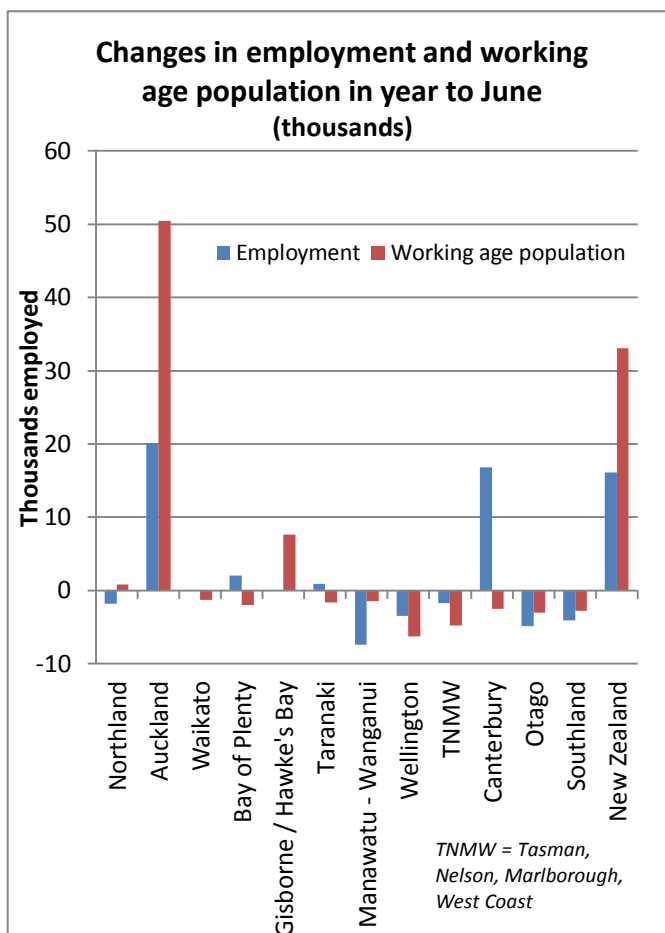
Time to have a go at some myths that are doing the rounds.

Myth 1: Lots of jobs are being created, all over New Zealand

The Government says it is doing great on job creation (though Bill English admitted at the beginning of the year that their welfare policies would “temporarily raise the unemployment rate”) and that jobs aren’t just been created in Canterbury. True?

At June 2013, New Zealand was the fifth fastest growing economy in the OECD in terms of GDP growth. However it had only the 12th lowest unemployment rate at 6.4 percent: the economic growth is not producing sufficient jobs, and employment growth is not keeping up with growth in the potential workforce. We are in the longest stretch – 17 quarters – since unemployment began being measured by the Household Labour Force Survey where unemployment is higher than Australia (more of this below). Usually New Zealand has lower unemployment.

But what of jobs and employment? The latest data is for the June quarter (there’ll be new data out on Wednesday). The peak number of jobs in a June quarter before the GFC was 1,732,300 in June 2008. June this year is the first time it has reached that value again with 1,752,100 jobs, just 19,800 more. Yet the working age population (defined by Statistics New Zealand as those 15 years and over) increased by almost ten times that – 190,900 people or 5.7 percent – in the same period. Similarly, the number of people in employment (some of whom have more than one job) only passed its 2008 pre-GFC peak in 2011, and has barely changed since then. The number in employment in June was 52,200 more than 2008, about a quarter of the increase in the working age population. Employment growth in the year to June at 16,100 was less than half the growth in working age population of 33,100.



And despite what the Minister of Employment, Steven Joyce says, employment growth is very uneven around the country. Employment fell in seven of the twelve regions in the year to June. The exceptions were Auckland, Bay of Plenty, Taranaki, Gisborne/Hawkes Bay (where it was static) and Canterbury. All but three regions had falling working age populations. Essentially the employment growth is due to Canterbury where it increased 16,800 despite the working age population reducing by 2,500. Auckland had 20,100 more people in employment, but a working age population increase of 50,500. Its increased employment was virtually equal to the net loss of employment in the rest of the country.

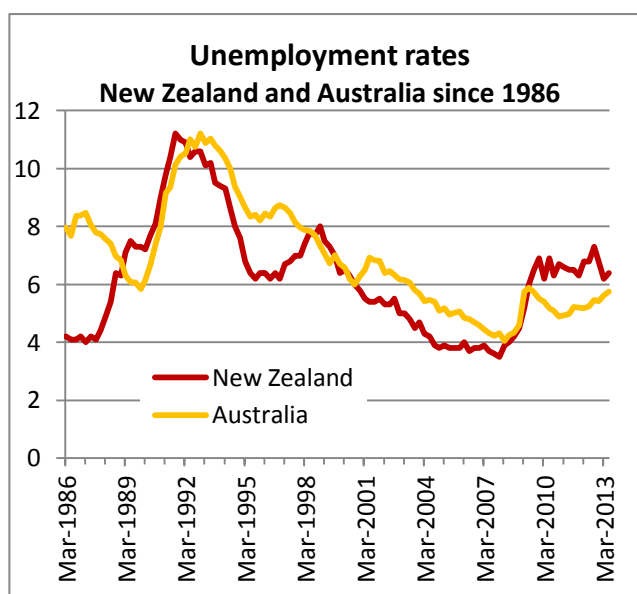
Let’s hope Wednesday’s figures are better. But the Government needs to do much better too.

Myth 2: Australia's hit the ropes

There's a degree of quiet gloating in some circles that Australia's economy isn't doing as well as it had. Somehow that seems to justify poor policy in this country – 'they'll have to do what we did to get on track'. Unfortunately what 'we' did relied heavily on a disastrous earthquake and the good luck of rising commodity prices. More of that below. Such thinking also forgets the bigger picture that since the 1980s, Australia has outclassed New Zealand economic and employment policy on just about every measure including incomes, wages and productivity, leading to them being over one third richer than us. A recent feature in the Dominion Post business pages was even entirely based on a wrong Australian unemployment figure: they began the story, "Australia's unemployment rate, at 6.8 per cent, is now higher than New Zealand's". It was in fact 5.8 percent (the latest, September, is 5.6 percent). But other journalists have repeated the figure.

True, Australia's unemployment is higher than the 5.5 percent a year before and the 2012 low of 5.0 percent that April. Jobs will be harder to find, which is a reason more New Zealanders are returning. But it is still 0.8 percentage points below New Zealand's 6.4 percent.

Australia's GDP growth in the year to June was 2.6 percent, and 0.6 percent in the last three months. New Zealand's figures were 2.7 percent and 0.2 percent respectively. Australian mining grew 8.1 percent in the year, though 'only' 0.6 percent in the last three months. Some parts of mining have been shrinking, especially oil and gas



extraction and mining exploration, but as a whole it is scarcely tanking. What is happening though is that many of the prices the mining industry is receiving for its products are falling steeply. That is leading to less exploration and if prices continue to fall, reductions in investment which affects employment.

However mining is only about 10 percent of the economy. The Reserve Bank of Australia in its August outlook described strong export growth but weak domestic demand. It is forecasting 2.25 average GDP growth in the year to December 2013 and 2.25 to 3.25 percent growth in the year to December 2014 with an outlook for growth rates to increase. Compare this to the New Zealand Reserve Bank's September forecast of an average 2.5 percent GDP growth in the year to December 2013 and 2.9 percent in 2014, with falling outlook. There will be some more difficult times in Australia, but it is not as if Australia will be falling behind us or going into recession.

In any case, we are very dependent on the Australian economy. It is our biggest export market (though being challenged by China) and our biggest market for manufactured exports. A falling Australian dollar relative to ours (the exchange rate is now historically high at around A\$0.87 to the New Zealand dollar) will present an increasing problem for those exports, and in particular further trouble for manufacturers and manufacturing jobs. In addition, if Australians stop buying, that hits our exporters too. We're very reliant on a strong Australian economy.

It's just as well the myth-makers are wrong.

Myth 3: The 90-day trials create employment for disadvantaged groups

The Government continues to hold up 90-day trials as employment creators, especially for disadvantaged groups of workers. Given the poor job creation record (see above) despite the economic growth that is occurring, this is increasingly difficult for them to justify. They sometimes refer back to a 2011 report by the New Zealand Institute for Economic Research which I showed was deeply flawed soon after it was published (see <http://union.org.nz/news/2011/90-day-research-fatally-flawed-0>). They ignore the findings of a Department of Labour evaluation which noted that “the international literature suggests that exemptions to employment protection legislation, such as the trial period legislation, increase both hiring and firing but have an unclear overall impact on unemployment”. Though that evaluation consisted largely of asking employers what they thought about the trials producing predictable results, it did show many failings which have also been ignored (see the July 2010 CTU Economic Bulletin <http://union.org.nz/policy/economicbulletin115>). Further monitoring by MBIE has focussed on employer views rather than rigorously measuring employment effects or asking affected employees what they thought.

Recently, however, MBIE released a two-page publication called “Trial periods at a glance” (see <http://www.dol.govt.nz/publication-view.asp?!D=452>). Though it used some of that earlier material, it also used the results of Statistics New Zealand’s Survey of Working Life for the year to December 2012, which enables more detailed analysis. The survey is somewhat problematic regarding 90-day trials. People who had been in their job for more than 5 years said they’d been hired on a 90-day trial – although the trials didn’t start until 2009. So there was some confusion in answering the question.

But bearing that in mind, what MBIE’s analysis shows is not consistent with Government PR. The data presented shows that trials were used nearly equally by age group and little differently for Māori from other workers, but disproportionately for migrants, Pacific and Asian workers. They were used heavily for people with qualifications (mainly vocational) and managers: “By occupation, technicians and trades workers (46 percent), sales workers (44 percent), and managers (43 percent) were most likely to have started on a trial period. Professionals were the least likely...”

If it was to be used to ‘advantage’ disadvantaged groups, it is clearly missing the main marks – young people and Māori in particular. We strongly disagree that it does give them an advantage (it strips people of basic rights making them vulnerable to exploitation) but the Government can hardly claim it is ‘benefiting’ those groups disproportionately if it is not being used for them disproportionately. In that light, it seems probable that it is being used for migrants, Pacific and Asian workers on a discriminatory basis. Further, managers and people with vocational qualifications hardly meet the criterion of ‘disadvantaged’. So it is missing the mark by a long way.

The data also suggests that people with less bargaining power are more likely to be put on a trial period: people on lower wages, and “people on individual employment agreements were much more likely to have started on a trial period (41 percent) than those on collective agreements (24 percent). This may be due to certain collectives having provisions that would prevent employers from offering trial periods, or that contain existing probation and performance management systems.”

MBIE estimates that 11,200 employers have dismissed at least one employee during or at the end of a trial period – so at least 11,200 employees have been dismissed. This is bad law that has not been properly evaluated but which has hurt thousands of workers.

Myth 4: The huge increase in exports to China is a result of the Free Trade Agreement

Since the start of the New Zealand-China Free Trade Agreement (FTA) in October 2008, exports to China (and imports from it) have rocketed. By value, they increased 270 percent – from \$2.2 billion in the year to September 2008, to \$8.3 billion in the year to September 2013. Milk powder exports to China increased 908 percent, logs 800 percent and meat 874 percent. Surely that must be due to the FTA?

Of course the FTA must have had some effect. It reduced the tariffs that China levies on many New Zealand exports and there have been improvements such as greater cooperation between customs agencies. There have been problems too, notably

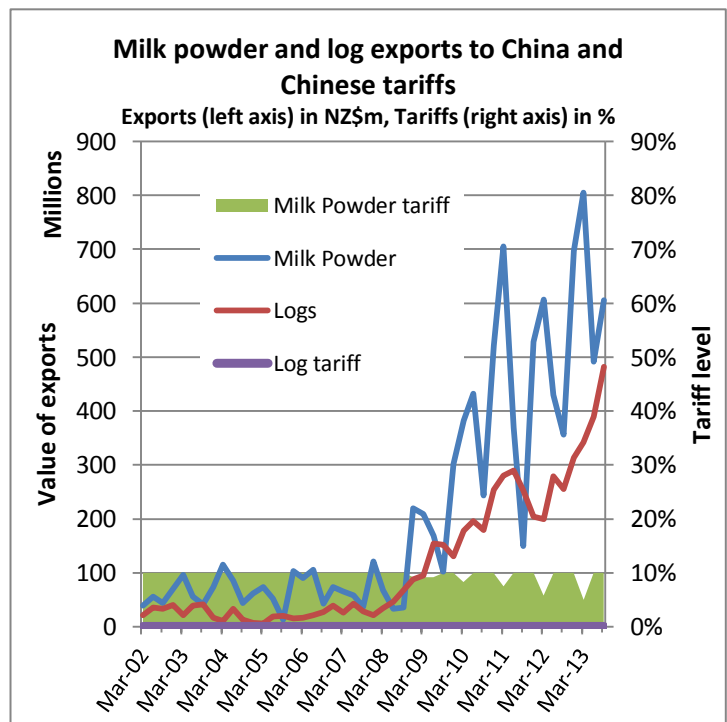
in investment. It is not widely known that the FTA has an investor-state dispute settlement provision like that many people oppose in the TPPA, and the threat of its use is always present.

But to say the huge increase in exports is due to the FTA is to confuse coincidence with cause. The cock crowing in the morning does not cause the sun to rise. At least two other events had major effects on our exports to China.

Firstly China was booming, and sucking in imports – particularly commodities like food, coal and iron ore – from around the world. Australia has no FTA with China but as the graphs shows, its exports to China rose at almost exactly the same rate as New Zealand’s since 2008 (with a fall off only in the last year as China reduced its demand for mining output). In its exports started to rise several years earlier. China was importing because it needed these goods, not because of an FTA.

Secondly, the Sanlu scandal – the dairy products firm in China which was found to be selling dangerously contaminated products – set off a train of events which is still being felt. Chinese customers understandably fled

to what they hoped were safer foreign products. Fonterra with its capacity, reputation and presence in China was ideally placed to supply them, despite its connection with Sanlu. The sudden rise in China’s imports of dairy products in late 2008 was widely ascribed by observers to that rather than the FTA.



The fall in tariffs negotiated in the FTA was not nearly enough to have increased demand that quickly. For milk powder and a number of other dairy products they were only 10 percent to start with. The huge and rapid rise in dairy prices – which can't be attributed to the FTA – meant that even the 10 percent was largely irrelevant in determining demand. But the reductions from that 10 percent for milk powder for example were at less than one percentage point (0.8 percentage points) a year until 2019 – far from anything that would have caused the immediate boom. In fact New Zealand dairy exporters haven't seen much of even those reductions. China has been clamping on 'safeguard' measures, as it is entitled to under an Annex to the FTA. If New Zealand imports exceed a certain level, they can take the tariff back to the original level. The result is that reduced tariffs have been in effect for less than a third of the time since the FTA started (see the green block at the bottom of the last graph).

Low value commodities dominate our exports to China. Milk powder and logs alone make up over 50 percent. Log exports, which have seen the third greatest increase in exports after milk powder and are our second greatest export by value, never had a tariff: it was zero before the FTA came into effect. Their huge increase (which has stifled wood product manufacturing in New Zealand) can't be said to have been a result of the FTA in a significant way. Meat exports have increased almost as quickly as milk powder in proportionate terms but are still only a third of their value, and the increase occurred mainly in nine months to June this year with a fall since then. Meat has benefited from a steeper reduction from a higher tariff (between 12 and 25 percent). But again, the degree of increase and its volatility cannot be explained by tariff reductions alone.

This is not to deny that there have been benefits in improving already good relationships and trust between the two countries. But the question is whether a fully-fledged trade, services and investment agreement was needed to achieve it.

Bill Rosenberg

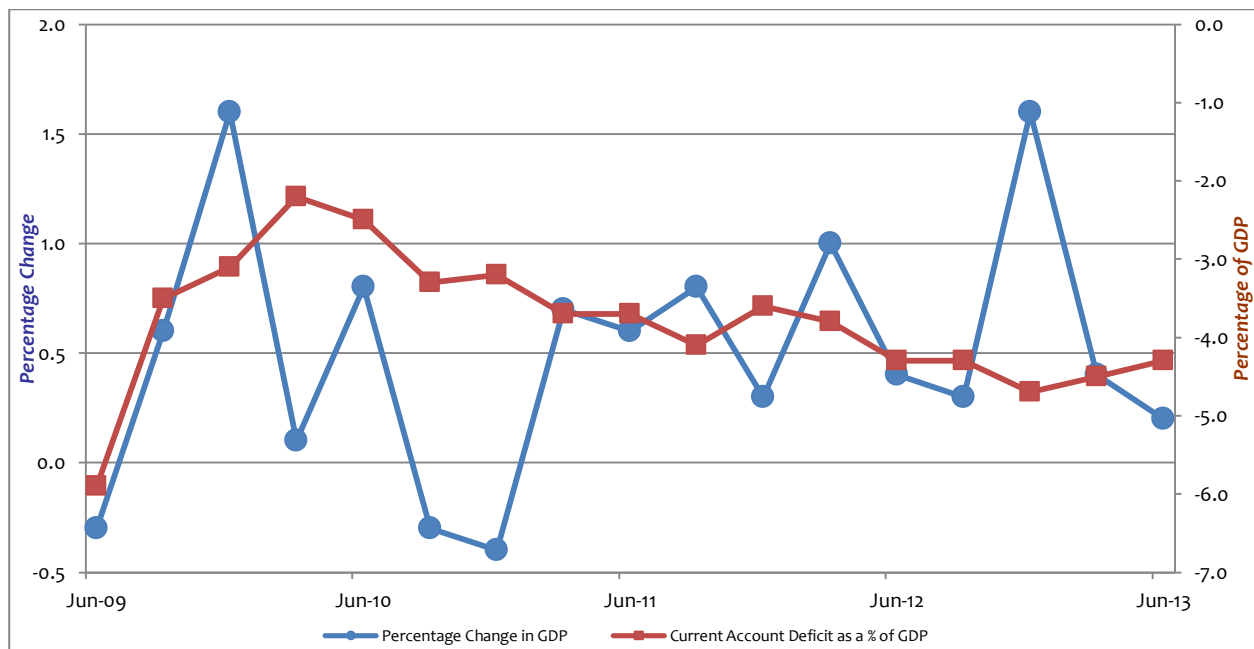
Forecast

- 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



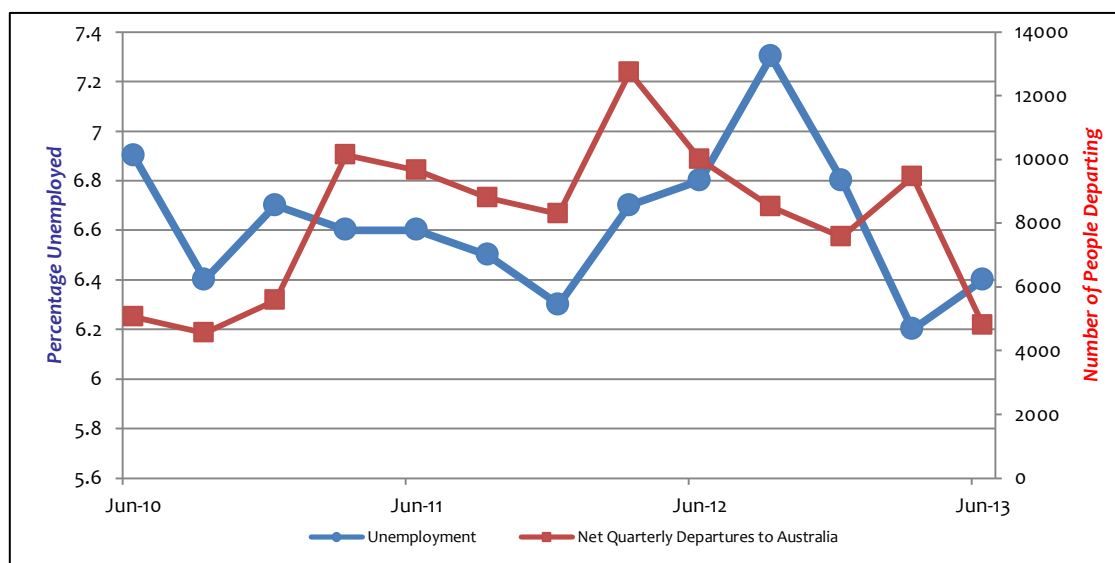
- Growth in New Zealand's economy slowed further in the June 2013 quarter, with [Gross Domestic Product](#) growth at 0.2 percent, affected by the drought, compared to quarterly increases of 0.4 percent in March and 1.6 percent in December (both revised up 0.1 percentage point). Growth for the year ended 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.
- ★ [Annual current account statistics](#) for the year to March 2013, released in September, show that banks accounted for 71.4 percent of the current account deficit in that year, because they generate 45.3 percent of the outward flow of funds but only 5.3 percent of the inward flow. The figure was 75.8 percent in the year to March 2012 and 63.8 percent in 2011.
- 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 September 2013 saw lower goods imports and higher exports lead to a deficit of \$199 million (a \$570 million surplus, seasonally adjusted). Imports fell 1.2 percent or \$48 million to \$4.0 billion from the previous September. Exports rose \$543 million or 17 percent to \$3.8 billion over the same period. They were boosted by record milk powder, butter and cheese which at \$905 million had their highest value for any September month. The annual deficit was \$1.5 billion. The following are in seasonally adjusted terms. By value, exports rose 16.4 percent or \$637 million and imports fell 8.6 percent or \$373 million compared to August. Exports fell by volume for Logs and Wood (4.0 percent) and Aluminium (77.0 percent). All other major categories rose, led by Crude Oil (335.2 percent) and Dairy (21.9 percent). There was a similar picture by value, though wine rose 20.5 percent and Fruit 20.2. Imports rose in value for Electrical machinery and equipment (3.0 percent), Plastic and plastic articles (3.6 percent) and Optical, medical and measuring equipment (7.5 percent) but all other categories fell. Exports to China rose 28.5 percent in the year to September and fell 8.6 percent to Australia. Imports from China rose 7.0 percent in the same period, and fell 7.9 percent from Australia.
- ★ The [Performance of Manufacturing Index](#)¹ for September 2013 was 54.3, a fall from 57.1 in August. The employment sub-index at 48.6 was down from 53.9 in August.
- ★ The [Performance of Services Index](#)¹ for September 2013 was 55.6, a rise from 53.3 in August. The employment sub-index rose to 51.2 from 50.1 in August.
- 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 31 October 2013 the Reserve Bank left the [Official Cash Rate](#) unchanged at 2.5 percent. The next review will be announced on 12 December 2013 and will accompany a Monetary Policy Statement.
- ★ The [REINZ Housing Price Index](#) increased 0.8 percent in the month of September 2013 to reach a new record high. Auckland fell 1.0 percent, Christchurch rose 1.8 percent and Wellington fell 1.9 percent. The index was up 9.8 percent compared to September 2012. For the year, Auckland rose 17.5 percent, Christchurch 11.4 percent and Wellington 0.6 percent. The national median house price rose from \$390,000 to \$400,000 in September 2013, up \$29,000 or 7.8 percent from September 2012.

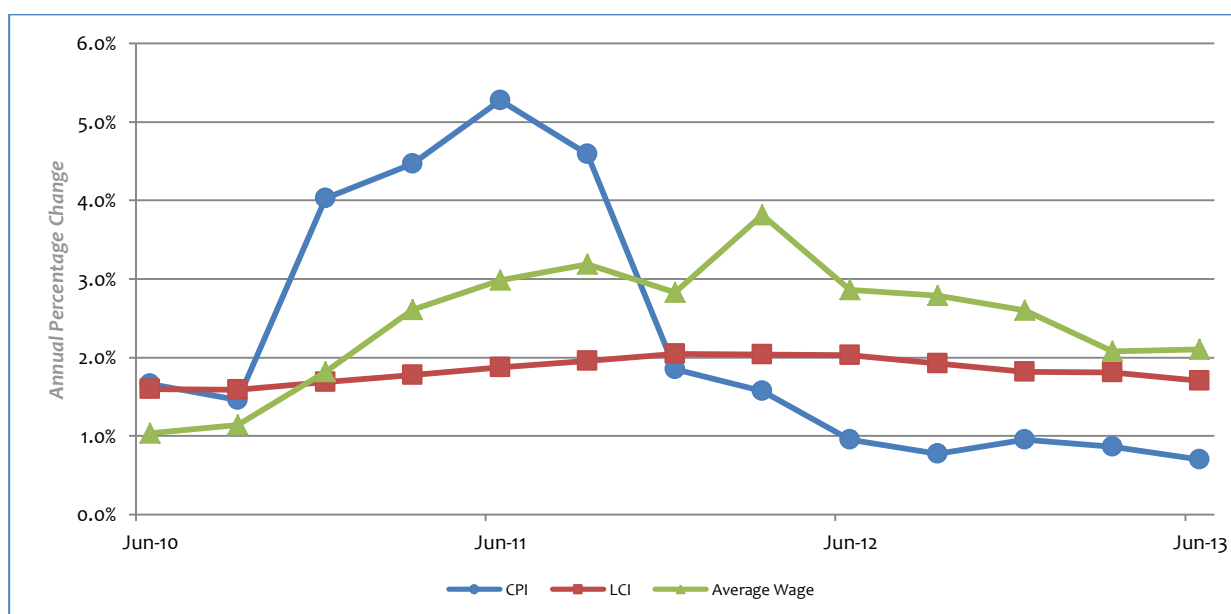
Employment



- 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).
- ★ 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. At the end of September 2013 there were 126,470 working age people on the Jobseeker benefit, a decrease of 2,138 from June 2013 and 9,550 from September 2012. Of those at September 2013, 68,605 were classified as ‘Work Ready’, and 57,865 were classified as ‘Health Condition or Disability’. A total of 304,394 were on ‘main’ benefits, 16,548 less than September 2012 and 34,786 more than in September 2008.

- ★ [Job Vacancies Online](#) shows a seasonally adjusted rise of 3.6 percent in skilled job vacancies in September, following a decrease in August and increase in July. All job vacancies rose 2.6 percent after a fall of 3.7 percent in August and an increase in July. In the year to September, skilled vacancies increased by 10.9 percent. All vacancies increased by 12.8 percent.
- ★ [International Travel and Migration](#) data showed 8,010 permanent and long-term arrivals to New Zealand in September 2013 and 5,270 departures in seasonally adjusted terms, a net gain of 2,740. There was an actual net gain of 15,174 migrants in the year to September. Net migration to Australia in the year to September was 25,303 departures, with 43,411 departures and 18,108 arrivals. For the month of September, the seasonally adjusted net loss to Australia was 790, compared to 3,090 a year before.

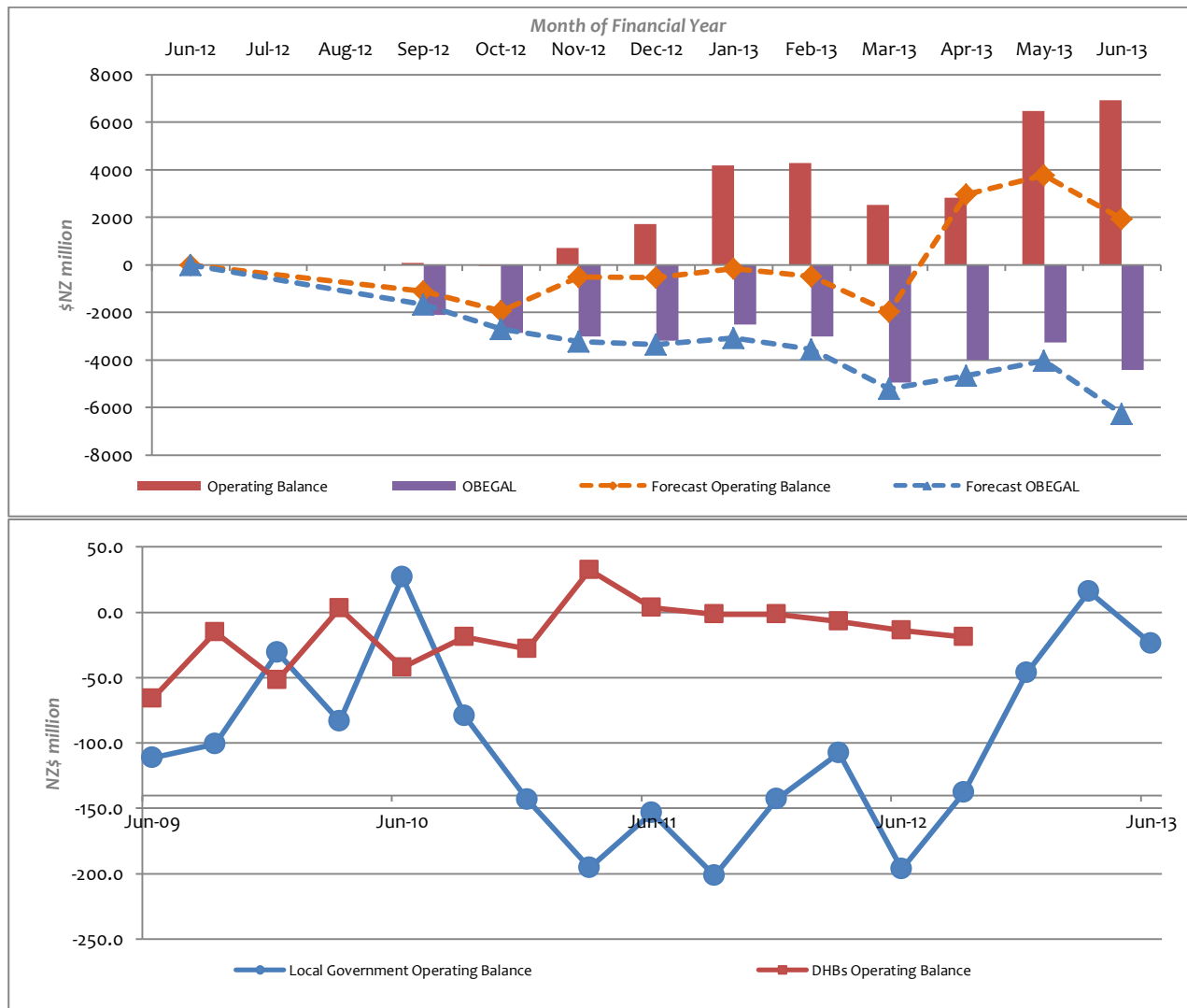
Wages and prices



- 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 0.9 percent in the September 2013 quarter compared with the June quarter and increased 1.4 percent for the year to June. For the quarter, the largest contributor to the increase was food which rose 1.7 percent, transport (up 1.9 percent) arising from increased petrol prices, and housing and household utilities (up 0.9 percent) mainly due to higher local authority rates. Inflation in Canterbury for the year was 2.3 percent compared with 1.1 to 1.3 percent in the rest of the country. It was particularly hard hit with housing costs which rose 7.0 percent for the year compared to 2.3 to 3.1 percent elsewhere.
- ★ The [Food Price Index](#) did not change in the month of September 2013, following a 0.5 percent fall in August. Food prices rose 1.2 percent in the year to September 2013. Compared with August, fruit and vegetable prices fell 4.3 percent; meat, poultry, and fish prices rose 0.9 percent; grocery food prices rose by 0.9 percent; non-alcoholic beverages rose 0.1 percent; and restaurant meals and ready-to-eat food rose 0.3 percent.

Public Sector



- ★ According to Treasury's [Financial Statements of the Government of New Zealand](#) for the year ended June 2013, Core Crown tax revenue at \$58.7 billion was up \$400 million on the forecast in

the 2012 Budget Economic and Fiscal Update, due mainly to growth in the economy leading to a higher tax take. Core Crown expenses at \$70.3 billion were \$3.4 billion lower than forecast. The operating balance before gains and losses (OBEGAL) was \$4.4 billion, \$3.5 billion better than forecast, and less than half that of the previous year (\$9.2 billion) due mainly to lower than expected costs of the Canterbury rebuild and a Kiwirail impairment write-off not needing to be repeated. The operating balance was \$6.9 billion in surplus, the first surplus since 2008 and \$12.6 billion higher than the \$5.7 billion deficit forecast in 2012. As we have noted throughout the financial year, it is tossed around by unforecast investment gains by the New Zealand Superannuation Fund and ACC Fund, and by the vaguaries of estimating ACC's liability for its full funding policy (the GSF does similar things). Treasury comments: "Much of the improvement in the operating balance was owing to gains on the investment portfolios of the NZS Fund and ACC (\$6.2 billion) and favourable changes in discount rates leading to actuarial gains (\$3.6 billion). This contrasts to the year before when equity markets were more subdued and discounts rates decreased, resulting in losses of \$5.7 billion." It estimates (p.22) that a 1 percent increase in the inflation rate can make the Operating Balance look \$6.5 billion worse while a reduction of 1 percent can make it look \$5.7 billion better. A 1 percent increase in the discount rate (related to interest rates) can make the Operating Balance look \$5.3 billion better, while a 1 percent fall in the discount rate makes it look \$6.8 billion worse. You can sense the degree of arbitrariness there is in this accounting, and see why not all deficits necessarily lead to greater indebtedness. That comes from the cash position. The cash deficit was \$5.7 billion, \$4.9 billion less than the previous year, helped by the partial privatisation of Mighty River Power (which will damage the Crown's future cash position). The Government's net debt was 26.3 percent of GDP or \$55.8 billion, and gross debt \$78.0 billion (36.7 percent of GDP), which is lower than 2012.

- [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/economicbulletin151>.

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