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Commentary

Hectic year ahead

Summary

Whatever you might think the economy will do in 2014, it's going to be a hectic year. I hope it will bring a real challenge to the primacy of neoliberal ideology – the idea that private 'markets' know best and government should be small enough to drown in a bathtub. It is important to remember that the main effect of neoliberalism in New Zealand has been a radical change in who benefits from the economy and not the promised faster economic growth.

So has this changed with what bank economists have called a "rock star" economy? Has neoliberalism and good government policy over the last five years finally paid off? Hardly. The Global Financial Crisis which hit the New Zealand economy along with almost all others was a direct result of neoliberalism.

It is easy to be a rock star if the rest of the world has laryngitis. New Zealand currently has the fifth highest GDP growth rate in the OECD – but is 13th in unemployment (6.2 percent). The problem with the rising growth rate is that it is based on luck (both bad and good) and short-sighted housing policies.

The bad luck (which is to greatly understate it) is the Canterbury earthquakes which are adding around 1 percentage point to GDP growth through the rebuild. The boost of course won't last.

The good luck is commodity prices, particularly for dairy but also for other commodities. They are at exceptional levels, driven largely by China, and cannot be counted on to last.

Construction is starting to boom, with the Canterbury rebuild being a major contributor but housing construction in Auckland becoming another. The housing shortage in Auckland could have been managed much better: in 2009/10 we were urging the Government to assist house building as a stimulus measure using the then very under-utilised construction industry. If that had been done, we are unlikely to be facing the current situation in Auckland.

So the 'rock star' economy may also be a one-hit wonder. And internationally, Europe and the US are still trying to recover from the crisis, facing financial systems which recent research says have grown so large they are damaging the economy. The impact on millions of people has been devastating. There is lots to be done. Let's hope the election brings some new analysis and real solutions.

Whatever you might think the economy will do in 2014, it's going to be a hectic year. There are still questions about how widespread the growing activity in the New Zealand economy will be, but there is little doubt that the Christchurch rebuild will be accelerating, house building in Auckland will be ramping up, and the dairy industry will be pumping up production while prices are high. There is the General Election which will bring heightened rhetoric and high levels of activity from political party activists.

I hope it will bring a real challenge to the primacy of neoliberal ideology – the idea that private 'markets' know best and government should be small enough to drown in a bathtub. Such a challenge would bring near-hysterical responses from the business groups which have been the main beneficiaries of these policies – the representatives of the few percent of the population who have done very well over the last 30 years while the majority of household did little more than stand still or saw falls in their incomes and living standards. It is important to remember that the main effect of neoliberalism in New Zealand has been distributional – a radical change in who benefits from the economy – and not the promised faster economic growth. New Zealand's GDP per person has fallen further and further behind the rest of the OECD over this period.

So has this changed with what bank economists have called a "rock star" economy? Has neoliberalism and good government policy over the last five years finally paid off? That is the underlying political message.

The first thing to remember is that the Global Financial Crisis which hit the New Zealand economy along with almost all others, was a direct result of neoliberalism. Financial regulation was greatly reduced in the US, Europe, New Zealand and elsewhere, and then what was left was insufficiently enforced. We were told it would bring "innovation" and stability. Instead it brought high risk and crisis. In New Zealand, many productive industries paying good wages were destroyed in the opening of the economy without any strategy to replace them. The result we see in increased reliance on agriculture, finance and low-paying service industries. It opened up a 30-40 percent wage advantage to Australia which one or two years of growth rates even a percentage point or so greater than Australia will barely dent. To credit these kinds of policies with current growth is wilful blindness. I cover some of the international and financial aspects below.

As to the present, I have been saying that it is easy to be a rock star if the rest of the world has laryngitis. New Zealand currently has the fifth highest GDP growth rate in the OECD – but is 13th in unemployment (6.2 percent). The problem with the rising growth rate is that it is based on luck (both bad and good) and short-sighted housing policies.

The bad luck (which is to greatly understate it) is of course the Canterbury earthquakes which did little to dent GDP when they happened but are adding around 1 percentage point to GDP growth through the reconstruction. The boost to GDP growth will of course not last. Imagine the economic activity generated by the rebuild as a hill: we are going up one side as it ramps up, increasing growth rates in the process. When we get to the top, rebuild activity will level out at a high rate, but because it is no longer rising, GDP growth rates will no longer benefit from it and – all else equal – will fall. When we start going down the other side as a result of the rebuild tailing off – in three or four years or longer – it will subtract from GDP growth rates. We should be thinking about how to deal with this well in advance.

The good luck is commodity prices, particularly for milk powder but also for logs and some other commodities. They are at exceptional levels, driven largely by China. Though there is reason to believe that food prices will be higher in the long run than they have been historically, that doesn't mean we will continue to see these levels. China's economic growth is slowing somewhat and its demand for some commodities is likely to slow somewhat with it. There are even risks of a domestic debt crisis in

China, which would create a major shock to commodity exporters like Australia and ourselves, but so far it is being managed by the Chinese authorities. But the other reason to expect prices to fall is that such high prices are likely to bring other producers into the market. Keith Woodford, Professor of Agribusiness at Lincoln University for example thinks that "it is easily conceivable that within five years the US will overtake New Zealand as the nation exporting the most dairy products"[1]. (He therefore thinks we would have limited gains from getting access to the US dairy market through the TPPA.) In any case, our increasing reliance on a relatively small number of commodity exports is a longer term risk to the economy, and in the short run is throttling the manufacture of higher value products which use dairy products and logs as inputs.

Construction is starting to boom, with the Canterbury rebuild being a major contributor but housing construction in Auckland becoming another. While building consent numbers for housing are still a long way from their peak in 2004 (21,300 in calendar year 2013 compared to 31,400 in 2004) they are accelerating and approaching their 2007 levels. Housing has become a hot political issue and rapidly rising house prices threaten to once again drive the Reserve Bank in raising interest rates. Housing is becoming one of the largest contributors to CPI increases through rising rents and construction costs (though neither interest rates nor used house prices are part of the standard CPI so it does not fully reflect rising housing costs).

It could have been managed much better: in 2009 and 2010 we were urging the Government to assist house building as a stimulus measure using the then very depressed and under-utilised construction industry. In an economy with lots of spare capacity, Reserve Bank finance could have catalysed added construction with near-zero risk of inflationary consequences. If that had been done, we are unlikely to be facing the situation we find in Auckland. We are urging the Reserve Bank to focus on the housing market using policies other than interest rate rises to deal with the rising prices rather than penalise the whole economy. Loan-to-value ratio limits are an example of this, but have been badly mishandled by the Government and Reserve Bank in not adequately looking after first home buyers. Other policies that directly limit the banks' lending for housing and limit their use of overseas funds – which will become increasingly attractive to them again if our interest rates rise faster than international rates – could also be effective if properly targeted.

So the 'rock star' economy may also be a one-hit wonder. Treasury and other forecasts are for GDP growth to return to very moderate rates by 2016 (2.0 to 2.5 percent) and fall further. Unemployment is forecast to fall only slowly (Treasury says still 5.2 percent in 2017 – that's 130,000 people compared to 150,000 now). Real wages (that is, after taking account of CPI inflation) are forecast to grow at a rate that will reduce the wage share of the economy's income between 2013 and 2017 – Treasury thinks they will not rise as fast as labour productivity.

While a lot has changed since the onset of the global financial crisis, it won't increase the vitality of the economy in the longer run. The Government can hardly claim credit for the drivers of the current growth rates.

Internationally we are not yet out of the crisis, though there are some signs of progress. Among the countries using the Euro currency, unemployment in September still averaged a desperate 12.1 percent according to the OECD. They were still in recession, their economies having shrunk 0.4 percent over the year. Greece had an unemployment rate of 27.3 percent, Spain 26.6 percent, Portugal 16.0 percent, Ireland 12.8 percent and Italy 12.3 percent. The European Union as a whole still had 10.9 percent unemployment with GDP growth only at 0.1 percent.

In the US, boosted by an enormous "quantitative easing" programme, GDP is starting to grow again (at 2.0 percent in September) and unemployment is falling (7.2 percent). Growth is being held back by cuts in government spending forced by the Republican dominated Congress. The quantitative easing programme is helping – though it is hugely benefiting the financial sector and adding to inequality rather than reducing it. Inequality is on the rise with 95 percent of income gains since 2009 going to the richest 1 percent of the population. It is remarkable that their unemployment is 'only' 1 percentage point higher than ours despite their economy being much harder hit. But we should be under no illusion: it is huge government intervention, not further deregulatory policies, that is bringing the US out of the crisis

The austerity programmes in Europe have been extraordinarily damaging. Greece has lost about a quarter of its pre-recession national income – a collapse comparable to the 1930's depression in the US according to US economist Mark Weisbrot. Countries in the Euro area cannot devalue their currencies so they have cut wages and government spending much more savagely instead. The effects of the austerity programmes have gone straight to people's living standards and lives. Labour rights, collective bargaining and social protections are all under attack. It is not only in the Euro area though: in the U.K., the New Economics Foundation found that "Workers on low and middle incomes are experiencing the biggest decline in their living standards since reliable records began in the mid-19th century"[2].

Some economists are now admitting that even if austerity worked (and it is not working) it would not be enough to rescue these countries from their high levels of debt. Earlier this month, the conservative *Economist* magazine reported findings of economists Carmen Reinhart and Kenneth Rogoff of Harvard University[3] (yes, the same ones who made that awful mistake in a spreadsheet leading to a mistaken 'finding' that government debt over a magical figure of 90 percent of GDP led to falls in economic growth – but as the *Economist* said their figures were presumably triple-checked this time). They looked at the 100 most severe financial crashes of the last 200 years and concluded that "financial repression" – higher inflation, debt write-downs and management of international capital flows – was necessary. The IMF is warning that rather than inflation, the danger is deflation (which would make the debt situation even more difficult to manage) and is urging higher inflation and further "unconventional" monetary policies. Quite clearly, none of these remedies are taken from the standard neoliberal policy handbook because there are no answers there.

Underlying this is implacable resistance by the financial sector to the required reforms. We still have banks and other institutions 'too big to fail' or 'too connected to each other to fail'. The failure of one would have such a destructive effect on the rest of the financial sector and then the economy that governments would feel they had little choice but to bail them out. The consequences would be as described above, or worse if they come on top of current debt levels. Internationally, the banks are still mixing speculative trading with the 'boring' lower-profit banking we need to be sure of the stability of the institutions. There have been some reforms to these rules in the US, but not nearly enough. Financial institutions are still paying absurd bonuses to the heads of failed institutions. JPMorgan for example, fined US$2.6 billion for its part in Bernard Madoff's Ponzi scheme, and a total of US$13 billion for its activities leading up to the Global Financial Crisis, far from sacking its chief executive and chairman, Jamie Dimon, paid him US$20 million in 2013, a 74 percent increase. In New Zealand the Reserve Bank has taken some useful measures to reduce risks, but many remain.

My holiday reading included two research papers[4] on the theme "Too much finance?" These were not from the habitual (often correct) critics of deregulation and neoliberalism but from researchers in the two main international monetary institutions: the Bank of International Settlements (BIS – the international organisation for central banks such as the Reserve Bank of New Zealand) and the International Monetary Fund. Apparently independently, they came to the conclusion that there could be "too much finance". After a certain point, the size of the financial sector relative to the size of the economy is a drag on economic growth. It comes as little surprise that countries like the US, Iceland, Ireland, the U.K., Spain, and Portugal figured high in the list of those well over the critical point, but New Zealand is there too. The BIS report (p.4) estimates that for New Zealand the growth in the size of the financial sector since the early 1990s "created a drag of nearly one half of 1 percentage point on trend productivity growth". This is a huge drag given annual productivity growth as they measured it (GDP per worker) averaged just 1.1 percent over the period.

So not only has financial deregulation led to crises but it has harmed the economy in other ways. New Zealand banks are not blameless either when it comes to risky "innovation". The Global Financial Crisis exposed their excessive short-term borrowing on the international money markets, forcing the Reserve Bank make funding available to ensure they didn't run out of money (frozen international money markets meant they couldn't refinance their borrowing). Recently there has been exposure of the banks selling farmers a form of derivative (interest rate swaps) which left some with mountainous interest bills after the global financial crisis, causing some to lose their farms or even commit suicide[5].

There is lots to be done. Let's hope the election brings some new analysis and real solutions.

Bill Rosenberg

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[1] Keith Woodford. (2013, November 17). US dairy no longer a trade lure. *Sunday Star Times*, p. D16. Wellington, New Zealand.

[2] Morris, N. (2013, December 9). The poorest pay the price for austerity: Workers face biggest fall in living standards since Victorian era. *The Independent*. UK. Retrieved from http://www.independent.co.uk/news/uk/politics/the-poorest-pay-the-price-for-austerity-workers-face-biggest-fall-in-living-standards-since-victorian-era-8991842.html

[3] This time is worse. (2014, January 11). *The Economist*. Retrieved from http://www.economist.com/node/21593418; Carmen M. Reinhart, & Kenneth Rogoff. (2013). Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten (Working Paper No. WP 13/266). Washington DC, USA: International Monetary Fund. Retrieved from https://www.imf.org/external/pubs/cat/longres.aspx?sk=41173

[4] Cecchetti, S. G., & Kharroubi, E. (2012). *Reassessing the impact of finance on growth* (Working Paper No. 381) (p. 22). Bank for International Settlements. Retrieved from http://www.bis.org/publ/work381.htm and Arcand, J.-L., Berkes, E., & Panizza, U. (2012). *Too Much Finance?* (Working Paper No. WP/12/161) (p. 49). Washington DC, USA: International Monetary Fund. Retrieved from https://www.imf.org/external/pubs/cat/longres.cfm?sk=26011.0

[5] Stock, R. (2013, December 22). ANZ says it's too late for swaps compensation. *Sunday Star Times*, p. D5. Wellington, New Zealand.

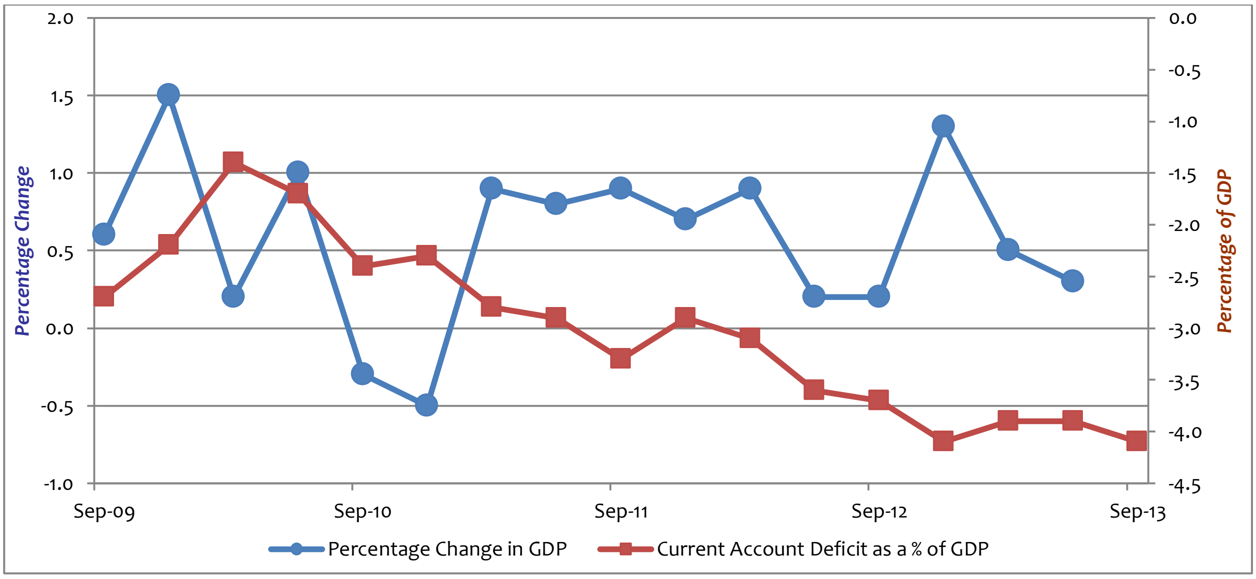
Forecast

★ This NZIER forecast was released on 16 December 2013.

Annual Percentage Change (March Year)	**2013-14**	**2014-15**	**2015-16**	**2016-17**
GDP	2.8	3.1	2.5	2.1
CPI	1.6	2.2	2.4	2.3
Private Sector average wage	2.8	3.0	3.2	3.1
Employment	2.8	2.0	1.4	0.9
Unemployment rate	5.9	5.4	5.2	5.3

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

Economy



★ Growth in New Zealand's economy increased significantly in the September 2013 quarter, with Gross Domestic Product growth at 1.4 percent, showing recovery from the drought earlier in the year, compared to quarterly increases of 0.3 percent in June and 0.5 percent in March (both revised upwards by 0.1 percentage point). Growth for the year ended September 2013 was 2.6 percent. The September 2013 quarter was 3.5 percent up on the same quarter in 2012. The largest quarterly rises by industry were in Agriculture, forestry, and fishing with a huge 13.9 percent increase, Information media and telecommunications (2.2 percent) and Health care and social assistance (2.0 percent). However, there were falls led by Mining (4.8 percent) and Construction (1.0 percent). Manufacturing rose 1.5 percent. The result was that Primary Industries rose 9.6 percent, Goods producing industries rose 0.4 percent and Service industries rose 0.4 percent. Over the year though (comparing the September quarters), Forestry and fishing rose 15.3 percent, Construction 9.5 percent, Furniture and other manufacturing 9.3 percent, Non-metallic mineral product manufacturing 8.2 percent and Wood and paper products manufacturing 7.4 percent. Agriculture rose 4.6 percent and Health care and social assistance 5.4 percent. On the other hand there were falls over the year in Electricity, gas, water, and waste services (down 5.4 percent), Transport equipment, machinery and equipment manufacturing (down 3.3%), Printing (down 2.6 percent) and Textile, leather, clothing, and footwear manufacturing (down 0.6 percent). Over the year, Manufacturing rose 2.2 percent, and this was not mainly due to the dominant Food sector as it has been for some time. Food, beverage, and tobacco manufacturing rose only 0.3 percent in the year though that was affected by a bad June quarter when it fell 4.1 percent, bouncing back to grow strongly at 1.3 percent in the latest quarter when Manufacturing as a whole grew 1.5 percent. Household consumption expenditure rose a strong 2.0 percent in real terms in the quarter and 3.7 percent in the year. Expenditure on non-durable goods (such as groceries) fell 0.3 percent in real terms during the quarter and rose only 1.4 percent during the year while durables rose a strong 1.4 percent in the quarter and boomed at 8.8 percent over the year. Business investment rose 0.9 percent in the quarter and a strong 10.0 percent in the year.

★ New Zealand recorded a Current Account deficit of $2.6 billion for the September 2013 quarter in seasonally adjusted terms, $0.35 billion more than the June quarter deficit of $2.2 billion. The increase was driven by an increased deficit on goods trade with exports flat but imports increasing. For the year to September 2013 the deficit was $8.8 billion or 4.1 percent of GDP compared to the revised $8.2 billion in the year to June. That is similar to the deficit on income (virtually all investment income) of $9.0 billion.

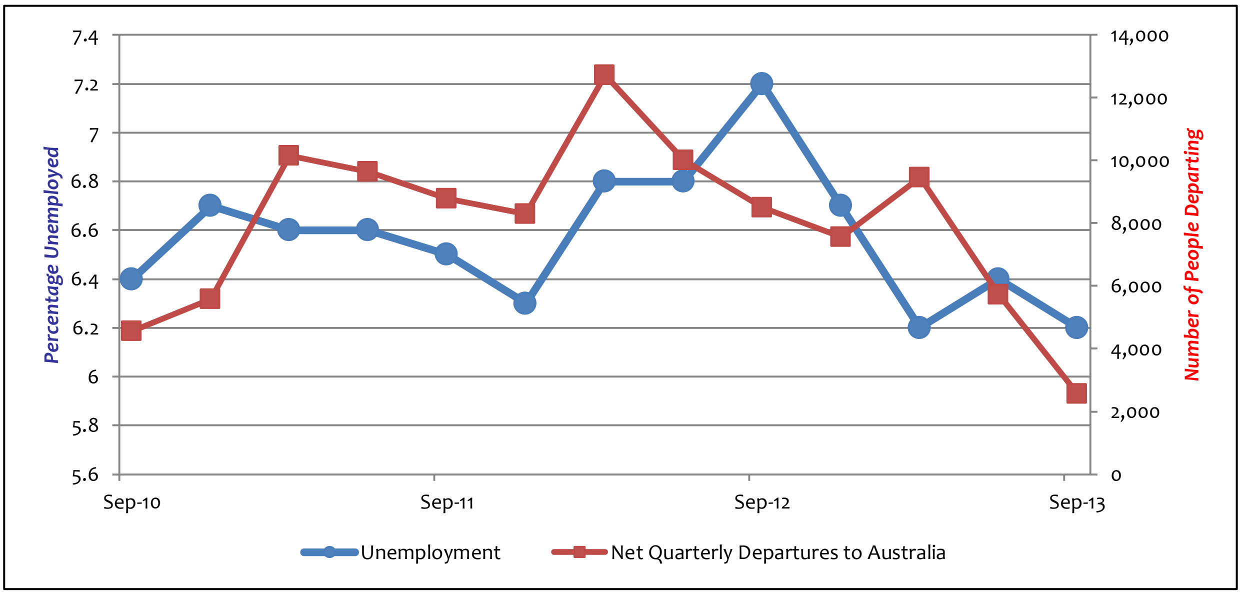
★ The country's Net International Liabilities were $150.1 billion at the end of September 2013 (69.5 percent of GDP) down from a revised $151.6 billion (71.2 percent GDP) at the end of June, and from the $150.1 billion (71.4 percent GDP) in September 2012. The fall in net liabilities in the quarter was due mainly to rising overseas prices of shares and other securities (worth $3.1 billion) but also included an outflow of foreign investment in New Zealand of $1.8 billion including outflows on bank deposits and repayment of bank funding from overseas. Of the net liabilities, $12.2 billion was owed by the government (equivalent to 5.6 percent of GDP) and $101.6 billion by the banks (47.0 percent of GDP). Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes are estimated at $18.7 billion, and at 30 September 2013, $12.0 billion of these claims had been settled, leaving $6.7 billion outstanding. Without these, net international liabilities would have been $156.9 billion or 72.6 percent of GDP. New Zealand's gross international liabilities were $324.0 billion in September, against $173.9 billion in overseas assets.

★ Overseas Merchandise Trade for the month of December 2013 saw exports of goods rising 16 percent while imports rose 19 percent creating a trade surplus for the month of $523 million. In seasonally adjusted terms, exports fell 2.7 percent or $123 million over the month influenced by a fall in crude oil exports (which had risen in September). Seasonally adjusted imports rose 5.4 percent or $218 million, creating a trade surplus of $140 million, significantly lower than the $481 million in November. Exports were strongly boosted by milk powder, butter and cheese, up $611 million or 48 percent on November with quantities up 5.5 percent. However in seasonally adjusted terms, all main categories of exports fell in value with the exception of logs and wood, seafood, and wine. In quantities, meat, logs and wood, fruit, seafood and wine rose. Exports to China rose 45.2 percent in the year to December and fell 7.8 percent to Australia.

China has been New Zealand's largest export destination for the last year, replacing Australia. Our top six export destinations accounted for 60.4 percent of our exports in the year, compared to 59.0 percent in the previous year. Imports from China rose 7.1 percent in the same period, and fell 10.6 percent from Australia. China is New Zealand's largest source of imports.

- The Performance of Manufacturing Index[1] for December 2013 was 56.4, a fall from 57.0 in November. The employment sub-index at 55.2 was up from 53.5 in November.
- The Performance of Services Index[1] for December 2013 was 57.5, a rise from 56.4 in November. The employment sub-index fell to 52.6 from 54.3 in November.
- The Retail Trade Survey for the three months to September 2013 showed retail sales rose 0.3 percent by volume and 0.6 percent by value in the quarter compared with the June 2013 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Hardware, building and garden supplies, Furniture, floor coverings, houseware and textile goods, and Non-store and commission based retailing. Clothing, footwear and accessories, Accommodation, and Department stores were the largest negative contributions. Non-store and commission-based retailing which includes online purchases rose 7.4 percent in volume in the quarter and 23.3 percent in the year, and 6.5 percent in value in the quarter and 20.6 percent in the year, all seasonally adjusted. At the other extreme, Clothing, footwear and accessories fell 6.8 percent in volume in the quarter and 7.5 percent over the year, and 7.3 percent in value over the quarter and 9.3 percent over the year, again seasonally adjusted. Supermarket and grocery sales were down 0.1 percent by volume over the quarter and up 1.7 percent over the year, and up by 0.6 by value over the quarter and 3.1 percent over the year.
- On 30 January 2014 the Reserve Bank left the Official Cash Rate unchanged at 2.5 percent. The next review will be announced on 13 March 2014 and will accompany a Monetary Policy Statement.
- The REINZ Housing Price Index fell 1.0 percent in the month of December 2013. Auckland fell 3.4 percent, Christchurch rose 0.5 percent reaching a new high, and Wellington fell 5.3 percent. The index was up 9.2 percent compared to December 2012. For the year, Auckland rose 14.4 percent, Christchurch 7.2 percent and Wellington 2.0 percent. The national median house price rose from $425,000 to $427,000 in December 2013, up $2,000 or 0.5 percent from November 2013 and a new record high. It is $38,000 or 9.8 percent higher than a year ago. Auckland accounted for 67 percent of the increase and Canterbury/Westland 15 percent, together accounting for 81 percent of the annual increase. There 430 or 14.3 percent fewer sales under $400,000 compared to December 2012, but a rise of 146 or 55 percent in the $1 million plus range and 215 or 23 percent in the 600,000 to $999,999 range. Under $400,000 houses accounted for 44.9 percent of sales in 2013 but 51.9 percent in 2012.

Employment

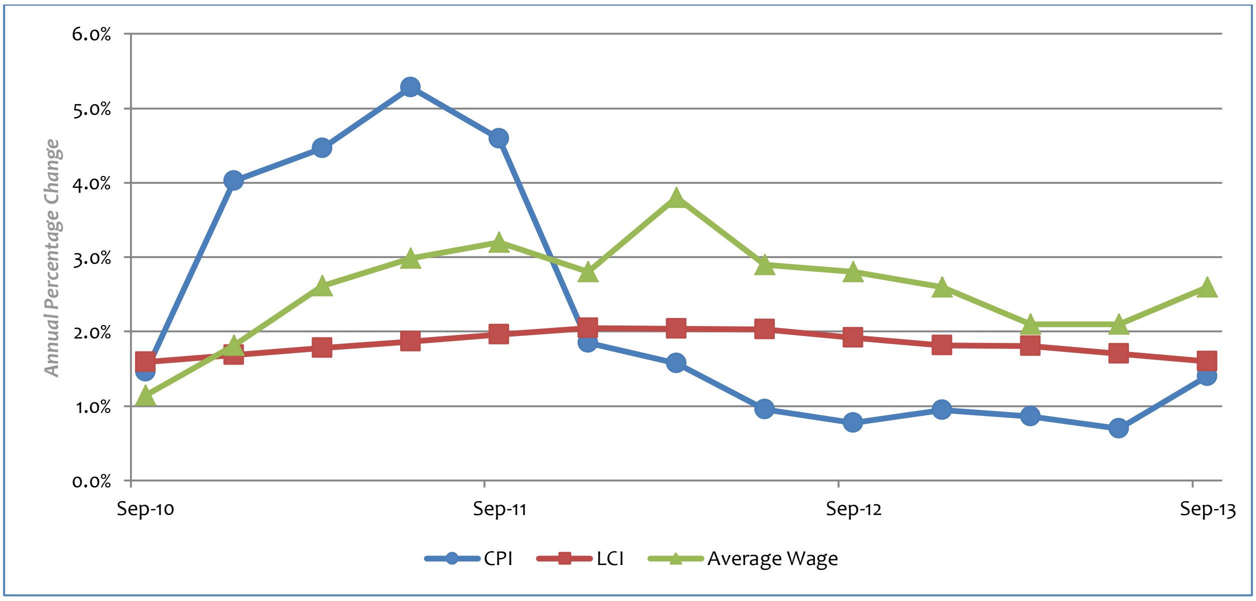


- According to the Household Labour Force Survey the unemployment rate in the September 2013 quarter fell to 6.2 percent from 6.4 percent in the June 2013 quarter. Seasonally adjusted female unemployment at 6.6 percent was higher than for men (5.8 percent). The unemployment rate in Canterbury was 4.2 percent; down from 5.2 percent in September 2012. There were 150,000 people unemployed and the number of jobless people (which includes those discouraged from seeking employment) was 257,900. There were 72.600 people seeking additional hours. Māori unemployment fell from 15.1 percent in September 2012 to 12.2 percent but Pacific unemployment rose from 15.6 percent in September 2012 to 15.7 percent. Youth unemployment (15-19 year olds) was 23.4 percent, down from 25.5 percent in September 2012, and the unemployment rate among 20-24 year olds was 12.0 percent, down from 12.8 percent in the September 2012 quarter. There were 72,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 11.4 percent of people in that age group, down from a revised 12.1 percent in the June 2013 quarter or 77,000 people (seasonally adjusted). The labour force participation rate at 68.6 percent is up 0.5 percentage points from the previous quarter and up 0.2 percentage points for the year. There are 44,000 unemployed people who have been out of work for more than 6 months (up from 37,900 in June 2013 and down from 54,500 in September 2012). Compared to OECD unemployment rates, New Zealand has fallen from 12th position in June 2013 to 13th (out of 34 countries).

- ★ From July 2013, 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 December 2013 there were 130,225 working age people on the Jobseeker benefit, an increase of 3,755 from September 2013 and a reduction of 7,145 from December 2012. Of those at December 2013, 71,373 were classified as ‘Work Ready’, and 58,852 were classified as ‘Health Condition or Disability’. A total of 321,869 were on ‘main’ benefits, 17,475 more than September 2013 but 17,226 fewer than December 2012. It was 35,693 more than in December 2008.

- [Job Vacancies Online](#) showed a seasonally adjusted rise of 0.2 percent in skilled job vacancies in December, following a 1.3 percent increase in November. All job vacancies rose 0.1 percent after a 1.5 percent increase in November. In the year to December, skilled vacancies increased by 11.7 percent. All vacancies increased by 15.4 percent.
- [International Travel and Migration](#) data showed 8,340 permanent and long-term arrivals to New Zealand in December 2013 and 5,520 departures in seasonally adjusted terms, a net gain of 2,820. There was an actual net gain of 22,468 migrants in the year to December. Net migration to Australia in the year to December was 19,605 departures, with 39,154 departures and 19,549 arrivals. For the month of October, the seasonally adjusted net loss to Australia was 1,080, compared to 3,220 a year before.

Wages and prices

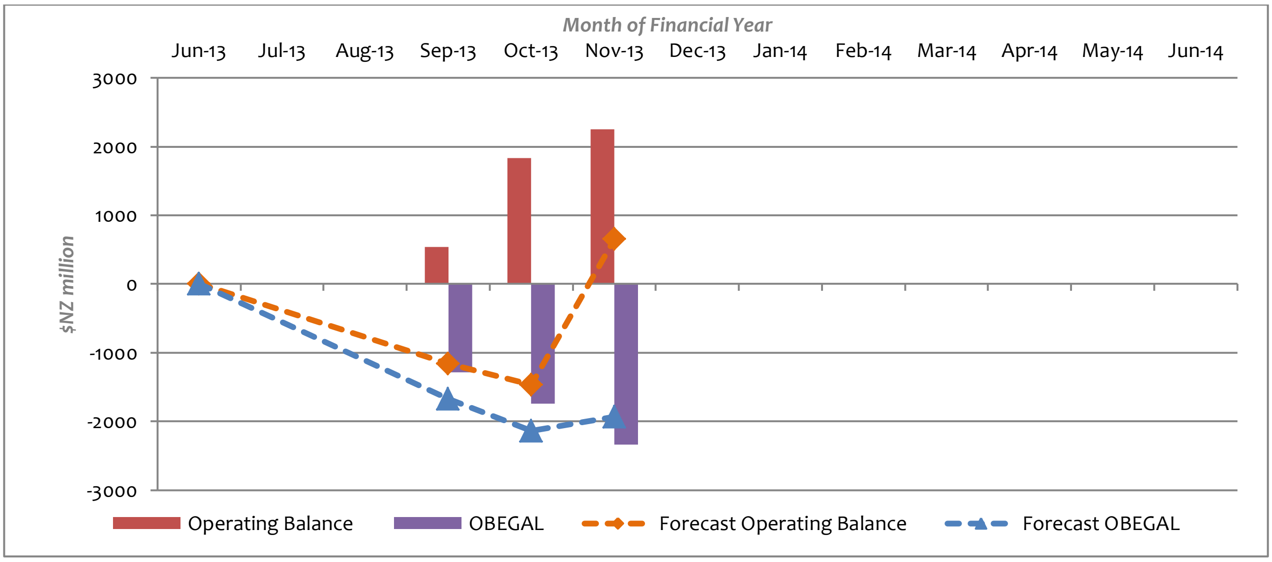


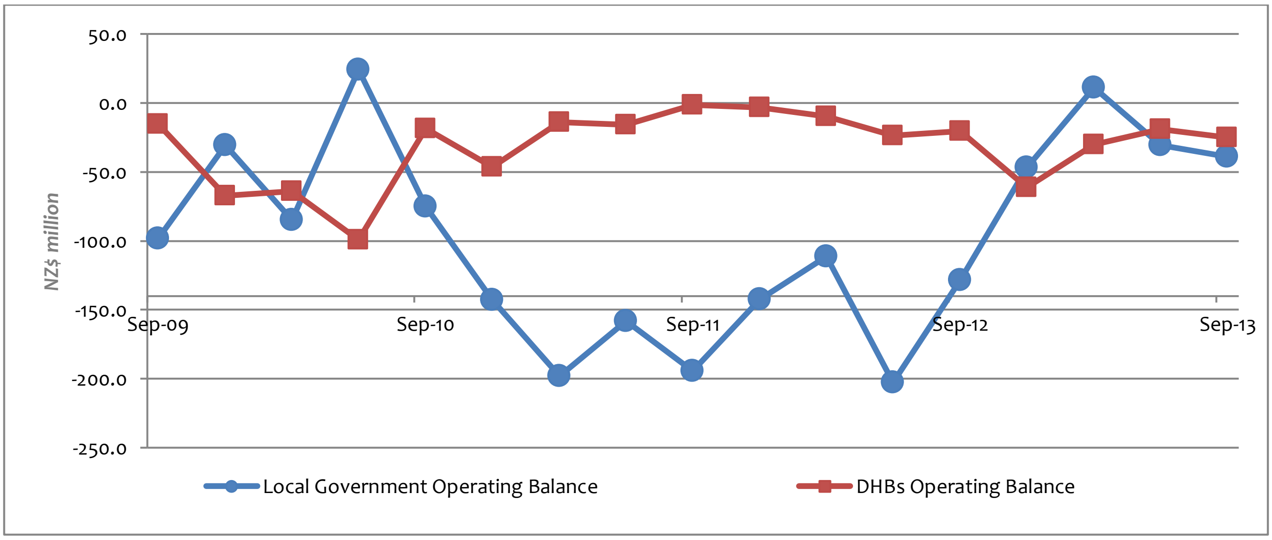
- The [Labour Cost Index](#) (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to September 2013, the same increase as the June quarter. The LCI increased 1.6 percent in the year to September. It increased 0.4 percent in the public sector and 0.4 percent in the private sector in the three months to September. Over the year to September it rose 1.5 percent in the public sector and 1.6 percent in the private sector. For the 54 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.5 percent. The average increase was 3.3 percent.
- The [Quarterly Employment Survey](#) for the three months to September 2013 found the average hourly wage for ordinary-time work was $27.98, up 1.6 percent on the June 2013 quarter and up 2.6 percent over the year. The average ordinary-time wage was $25.91 in the private sector (up 1.6 percent in the quarter and up 2.6 percent in the year) and $35.33 in the public sector (up 1.4 percent in the quarter and up 2.7 percent in the year). Female workers (at $25.82) earned 13.4 percent less than male workers (at $29.83) for ordinary time hourly earnings.
- The [Consumer Price Index](#) rose 0.1 percent in the December 2013 quarter compared with the September quarter and increased 1.6 percent for the year to June. For the quarter, the largest

contributor to the increase was international air fares which rose 12 percent, while housing and household utilities rose 0.5 percent. Over the year, nearly half of the increase came from housing and household utilities which rose 3.2 percent. Inflation in Canterbury for the year was 2.4 percent compared with 1.5 percent in the rest of the country. Housing costs hit particularly hard, rising 5.9 percent for the year compared to 2.5 to 3.0 percent elsewhere.

- The Food Price Index fell by 0.1 percent in the month of December 2013, following a 0.2 percent fall in November. Food prices rose 1.5 percent in the year to December2013. Compared with November, fruit and vegetable prices fell 1.1 percent; meat, poultry, and fish prices rose 0.8 percent; grocery food prices showed no change overall; non-alcoholic beverages fell 2.1 percent; and restaurant meals and ready-to-eat food rose 0.5 percent.

Public Sector





- According to Treasury's Financial Statements of the Government of New Zealand for the five months to November 2013, core Crown tax revenue was $155 million ahead of the 2013 Budget forecast and total core crown revenue was $514 million or 2.1 percent below the forecast made in the December Half Year Economic and Fiscal Update. Expenses were $14 million (0.0 percent) below forecast. Net debt at 27.6 percent of GDP ($59.6 billion) was below the forecast 27.7 percent. The Operating Balance before Gains and Losses (OBEGAL) was a $2,335 billion deficit, $402 million higher (worse) than forecast. The Operating Balance was a $2,255 million surplus compared to a forecast surplus of $0.7 billion. This was because "continued strength in equity markets saw gains recorded on financial instruments of $2.8 billion, which was $2.0 billion ahead of forecast". The sale of 221 million shares in Air New Zealand are included in this month's accounts. It raised approximately $365 million gross, resulting in a gain on disposal of $46 million after ACC and New Zealand Superannuation Fund effects are removed. Treasury says that the Crown has "recorded an estimated loss on disposal of $370 million" from the Meridian and Air New Zealand sales, which reduces to $358 million taking account of the Crown investment funds' holdings.

- District Health Boards recorded combined deficits of $35.0 million for the five months to November 2013. This is $2.4 million less than the $37.4 million in their plans. The Northern region was $1.2 ahead of plan (it has a large Auckland DHB shortfall almost balanced by a surplus in Counties Manukau), the Midland region was $0.7 million ahead of plan (Waikato DHB dominates the region's $7.9 million deficit with a deficit of $7.4 million), Central region was $2.7 million behind plan (with Capital and Coast the largest contributor to the region's $10.5 million deficit at $4.2 million) and the Southern Region was $3.2 million ahead of plan ($12.5 million of its $19.3 million deficit is from Canterbury DHB). The DHB furthest ahead of plan was Nelson Marlborough by $2.7 million, and Capital and Coast was furthest behind, by $2.2 million. **Note:** the more detailed information on DHB finances which used to be available from Statistics New Zealand is no longer being updated.

- Local Government recorded a 0.3 percent rise ($6.2 million) in operating income and a 0.7 percent increase in operating expenses (at $14.5 million) including a reduction of 1.4% ($6.6 million) in employee costs for the September 2013 quarter compared to June. This resulted in an operating deficit of $38.7 million in the September quarter, compared with a deficit of $30.4 million in the June quarter, and deficits in all previous quarters back to June 2010 other than the March 2013 quarter, all in seasonally adjusted terms.

Notes

1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

This bulletin is available online at http://www.union.org.nz/economicbulletin153.

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