NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 154 (February 2014)

Commentary

How unequal is New Zealand?

Summary

Inequality will be a big issue in the election, as it should be. Income inequality means that many people are missing out on a fair share of the income the economy generates. That's exactly what has happened over the years beginning in the 1980s. To understand the current position, it is crucial to understand how we got there.

The main effect of Rogernomics and Ruthenasia was not faster economic growth, its stated objective, but redistribution from the poor to the rich. We went from being a country among those with lowest inequality in the OECD to being in the highest third now.

The share of the income generated by the economy that goes to wage and salary earners fell steeply from 60% of income in 1981 to 46% in 2002. In other words employees lost almost a quarter of their share of income. For beneficiaries, the sharp cuts in income in 1991 were only the start: they have fallen further and further behind wages, and in 2011 were among the lowest as a proportion of wages in the OECD. And that was with weakly growing wages. Market incomes for the lowest income half of New Zealand's households were virtually unchanged in real terms between 1988 and 2010 despite working more hours.

Most other countries opened their economies during the 1980s and 1990s but there were big differences in how they responded. The Scandinavian countries for example maintained strong social welfare systems (though some have since weakened them), high levels of unionisation, and active government policies to ensure high value industries replaced those lost.

Labour-led governments during the 2000s stopped the deterioration but did not appreciably turn it around. Working For Families, accommodation supplements and income-related rents helped, but New Zealand remains a high-inequality country.

Since the Global Financial Crisis began in 2008 and National came to power, the statistics show no discernible change in income inequality, but recently corrected data show there was a big jump in child poverty. However the unchanged inequality is partly because the wealthy received falling interest and dividends which are now reversing. The income share of the top 1% rose in the year to March 2012. High income statistics omit capital gains and trust income.

On top of this there were the tax changes made by the current Government, favouring high incomes. Bill English has been claiming that they weren't regressive because taxpayers earning over $100,000 a year are paying an increased proportion of taxes. He forgets to tell us their share of incomes rose even more: from 19% of income in 2011 to 27% in 2014.

Whether inequality is going up or down a little is missing the most crucial point. It is unacceptably high due to bad policies now and in the past. They can and should be reversed. There are much better alternatives.

Inequality will be a big issue in the election, as it should be. Labour and the Greens are both raising it as an issue, and now National is starting to respond saying things haven't got worse under them. Some people are saying inequality is worsening, others are saying there is no evidence for that. Confusion has increased from the revelation this week that the Government has been quoting figures that are wrong. What *is* the situation? This month I try to sort through the evidence.

We shouldn't forget what growing income inequality means. It means that many people are missing out on a fair share of the income generated in the economy is going. Some may even lose while others gain hugely. That's exactly what happened over the years beginning in the 1980s, where I will start. To understand the current position, it is crucial to understand how we got there.

It's important to say that by starting in the 1980s I don't mean to say that everything was roses before that. Far from it. But the changes made many crucial things worse rather than better. The economic outcomes of the neoliberal experiment – Rogernomics and Ruthenasia – were weak and disappointing in economic terms, but even what growth there was in the economy was unfairly shared. The main effect was not faster economic growth, its stated objective, but redistribution from the poor to the rich.

We got here as a result of past decisions

The 'Rogernomics' policies of the 1984-1990 Labour Government radically restructured New Zealand industry by opening the economy (reducing tariffs and eliminating import controls), moving to a floating exchange rate, removing constraints on the financial sector, commercialising and then privatising many public services and agencies, and changes to the tax system that made it significantly less progressive (harder on low incomes, easier on high incomes) including introducing GST. Some of the tax changes (particularly the introduction of GST) were partly compensated for in the short run by allowing increases in wages, but the overall effect was that before tax many people lost well paying jobs and found jobs only in lower paid occupations with rising unemployment. Corporatisation and the booming (and then in 1987 busting) financial and speculative corporate sector led to rapid rises in investment income (including much from capital gains) and in top management incomes. The changes to the tax system meant that after tax, those rapidly growing 'market income' inequalities were not reduced nearly as much as previously.

When National came to power in late 1990 it deepened these radical changes still further, making the overall impact one of the deepest in the OECD. It slashed benefits and introduced the Employment Contracts Act which halved the level of unionisation, all but destroyed collective bargaining except at firm level (and even that was much reduced), accelerated privatisation, continued the opening of the economy, and locked many of these changes in through international trade agreements.

The results were that between 1988 and 2001, inequality of after-tax income for households rose steeply, and (depending on the measure used) particularly steeply between 1988 and 1994. According to the authoritative Ministry of Social Development report "Household Incomes in New Zealand" by Bryan Perry[1], for the 24 OECD nations for which data is available, New Zealand had the greatest

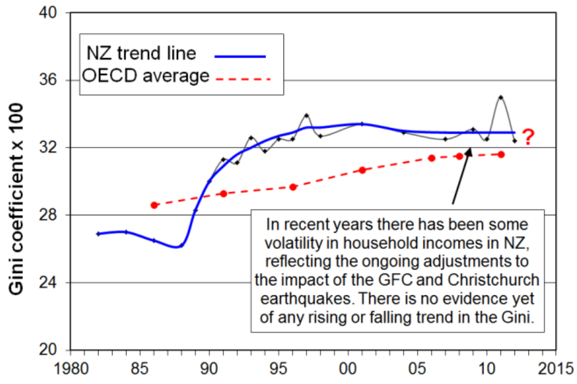


Figure 1 The rise in inequality in New Zealand (measured by the Gini coefficient), compared with rising inequality in the OECD. Source: February 2014 revision of Perry (2013)

increase in inequality from the mid 1980s to around the year 2004 (measured by the Gini coefficient which is zero if everyone has the same income, and 1 if one person gets all the income). We went from being a country among those (like the Scandinavian countries) with lowest inequality in the OECD to being in the highest third now. We are not worse in the rankings because inequality in other countries has worsened too (see Figure 1).

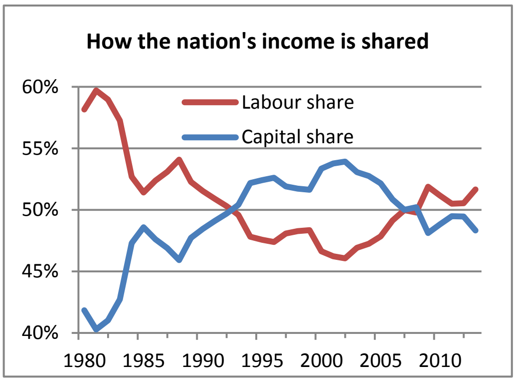


Figure 2 Source: calculated from the National Accounts (GDP Income), Statistics New Zealand

Over the same period, the share of the income generated in the economy that goes to wage and salary earners (the Labour Share) fell steeply from 60% of income in 1981 to 46% in 2002. In other words employees lost almost a quarter of their share of income (Figure 2). In 2008 it had the third lowest labour share among 32 countries in the OECD[2] (greater only than Mexico and the Slovak Republic).

For beneficiaries, the sharp cuts in income in the "Mother of all Budgets" in 1991 were only the start: they have been tied to CPI inflation ever since and so have fallen further and further behind wages (Figure 3[3]). According to an OECD comparison of 21 member countries[4], in the 1960s New Zealand had among the highest benefit levels in the OECD compared to average wages, but it was one of the few that fell between 1960 and 2005 – and fell the most. By 2011 (the latest date available), New Zealand had at or near the lowest benefits compared to average wages among 33 OECD members: for example it ranked 32 or 33 (last) for a two-earner couple with two children.

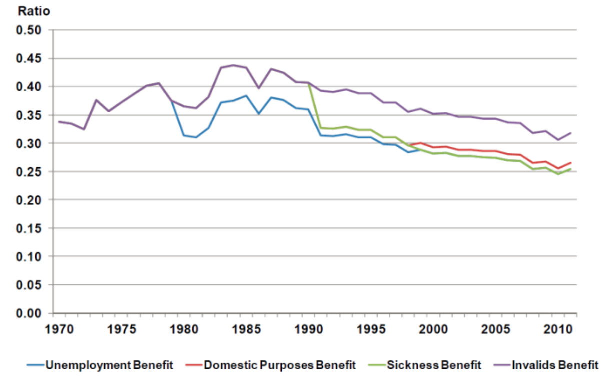


Figure 3 Ratio of benefit payments to net average wage payments Source: Treasury (2013).

The fall relative to average wages was despite feeble wage rises in an environment which all but eliminated the most effective forms of collective bargaining, high unemployment and the competition of low wage countries to which production was being moved. Labour productivity in the private sector rose 48 percent between 1989 and 2011, but the real average hourly wage rose just 14 percent: in dollar terms, it rose from $21.49 to $24.43 in 2011 in March 2011 dollars, but if it had risen as fast as labour productivity it would have been $31.85 in 2011.

But about two-thirds of workers earn below the average wage. Just between 1998 and 2013, median (middle) earnings fell from 88% to 83% of the average wage[5].

Market incomes (that is before taxes and benefits) for half of New Zealand's households – those with the lowest incomes – were virtually unchanged in real terms between 1988 and 2010 (Figure 4[6]). This is despite households working many more hours: between 1988 and 2007, among two-parent families

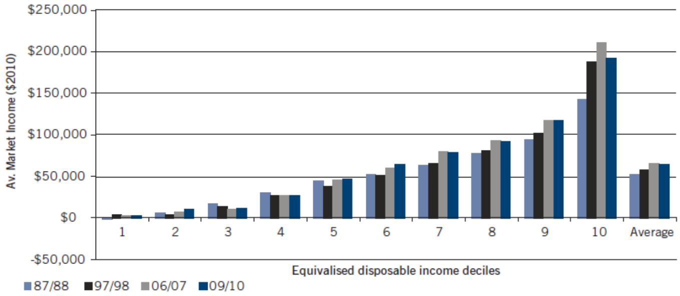


Figure 4 Average household market income by decile ($2010): From 1988-2010, the poorest half of household market incomes didn't rise in real terms. Source: Aziz et al (2012).

with at least one working full time, the proportion with both working full time rose from 28% to 43%.

International trend – but different policies

Virtually all countries were opening their economies during this period. And virtually all developed countries experienced increasing inequality, falling labour share, stagnating incomes for low and middle income households, and wages falling behind productivity growth . Guy Standing, the author of the book "The Precariat: The New Dangerous Class" about the increasing proportion of people working precariously, was in New Zealand this week. He said that globalisation had resulted in a quadrupling of the number of people in the world's labour force – but that the new workers are in countries with one-fiftieth the incomes of those in the developed countries. This has been taken advantage of, often ruthlessly, by employers. The impact is inevitable.

However there was a major difference in how countries responded. For example the Scandinavian countries, and to a lesser extent much of the continental European Union, maintained a strong social welfare system, high levels of unionisation, and active government policies to ensure new, higher value industries replaced those put out of business by opening the economy. Australia underpinned its wage system with its minimum rate award system. Some of those countries, including Sweden, have since weakened their welfare systems and many European governments, some under pressure from international agencies including the IMF and European Union, are now further weakening many of these protections, although it is from a much higher level than New Zealand's present state.

In New Zealand, the slashing of social protections came on top of industry closures with no strategy or government support to replace them with something better. We were left with increasing reliance on primary industry – minimally processed agricultural produce, logs and fishing – and industries which based their competitiveness on low wages.

Many of these matters were investigated in detail in a study by Stillman, Le, Gibson, Hyslop and Mare (2012)[7]. They conclude:

> Controlling for changes in household composition, demographics, qualifications, and employment rates does not explain the increase in poverty that occurred in the 1980s. Taken in conjunction with previous work by Gibson and Harris (1996), Dalziel (2002) and Stillman et al. (2011), these results suggest that the structural reforms undertaken in the 1980s led to permanent changes in the distribution of resources across households in New Zealand, in particular a reduction in resources for the poorest households.

The statistics show that Labour-led governments during the 2000s stopped the deterioration but did not appreciably turn it around. Working for Families, accommodation supplements and income-related state house rents all had an impact in reducing child poverty, in effect substituting for a failing wages system, though poverty levels of children in households depending on benefits are still far too high. Two in five poor children (40%) come from households where at least one adult is in full-time employment or self-employed according to the Household Incomes report – but this is down from around one in two before the introduction of Working for Families in 2004.

Over the 2000s, there was a slight drop in inequality (see Figure 1) and a larger drop in child poverty by some measures, but the crucial point is this: income inequality is still substantially higher than it was in the early 1980s and before. New Zealand remains a high-inequality country.

The current situation

The evidence from the Household Incomes report is that since the Global Financial Crisis began in 2008 and National came to power, no discernible change in inequality has occurred as measured by the Gini coefficient. It has in fact bounced up and down over that period, but the trend line is flat. However revised figures released in the last week, following the discovery two months ago that there was an error made by Treasury and Statistics New Zealand in the underlying data, shows a sizeable increase in child poverty occurred in 2009 as a result of the Global Financial Crisis. The number in households with disposable incomes below 60% of the median household disposable income increased from 210,000 to 245,000. It fell back to 220,000 by 2012 but was still 10,000 higher than in 2007. After housing costs are taken into account, the rise was 30,000 from 270,000 to 300,000, falling back to 285,000 in 2012, still considerably higher than the 240,000 in 2007.

There are a number of reasons why we need to be cautious about the finding of 'no discernible increase in inequality'. Firstly, high incomes were hit by the Global Financial Crisis which reduced dividends and interest rates, reducing a significant part of the incomes of the wealthy. That is now rising again and the fall must be seen as a temporary state of affairs. Secondly, some insurance payments from the Canterbury earthquakes are included as income, again giving a temporary boost to even relatively low income households.

Thirdly, there is a permanent distortion in the income attributed to high income households. Capital gains are not captured by the Household Economic Survey which is used for most of these analyses, and because it is not taxed, it is not included in tax records which are used to get data on very high income individuals. High income individuals tend to be under-represented in surveys because their numbers are so tiny. Further, many high income households make use of trusts to hold their assets and collect their income. Statistics New Zealand estimates that the incomes of households whose main income dividends, interest and so on from capital or property would almost double if trust income was included. Again, that is not included in these data (either in the survey or in the tax records). So income from high income households and individuals is likely to be significantly underestimated. This will distort its comparison both to lower income households in New Zealand and to high income households in other countries which have capital gains taxes.

On top of this there are of course the tax changes made by the current Government, particularly in 2010. On the face of it they were clearly regressive, favouring those on higher incomes. We calculated that on the change in income taxes alone, the tax cuts between December 2008 and December 2010 meant that a person on $30,000 a year would be paying $16.15 less tax a week in December 2010 than in December 2008, whereas someone on $150,000 would be paying $151.73 less. So the different in their take home pay increased by over $135 a week. On top of that, the increase in GST was loaded against low income households.

Bill English claims that "the tax system has become more progressive since the Government's tax changes in 2010… Only 6 percent of taxpayers earn over $100,000 a year. They pay around 37 percent of total income tax. Three years ago they paid around 29 percent of total income tax."

What he fails to tell us is that those earning over $100,000 have also increased their share of taxable income over that period. Their share has gone up from 19% of income in 2011 to a Treasury estimate of 27% in 2014. In dollar terms, their total taxable incomes have risen by 52% from $23,416 million to $35,594 million while their taxes have risen by only 41% from $6,942 million to $9,767 million. This of course ignores any increase hidden in trusts or in capital gains from booming property and share prices. But for the income they declare, their effective tax rate has fallen from 29.6% in 2011 to 27.4% in 2014 (2.2 percentage points). The effective tax rate of those under $100,000 has fallen from 17.6% to 16.9% over the same period (only 0.7 percentage points – one third the fall of those $100,000 or more).

Tax data for the year to March 2012, recently released to me, shows an uptick in the share of taxable income of the top 1% from 8.5% to 9.1% from the previous year – the first significant rise since 2005 apart from a small blip in the year to March 2009. Their tax share remained almost flat however. The top 1% had annual incomes of at least $190,000 in that year.

In conclusion

Even International Monetary Fund researchers now recognise that inequality is bad. In a new research paper[8] published this week, some of its leading researchers state there is a "tentative consensus in the literature that inequality can undermine progress in health and education, cause investment-reducing political and economic instability, and undercut the social consensus required to adjust in the face of shocks, and thus that it tends to reduce the pace and durability of growth". They find few economic penalties for putting it right: "redistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth".

There are signs that inequality is on the rise again in New Zealand, though the evidence is mixed so far.

But in fact whether inequality is going up a little or down a little is missing the most crucial issue. We have reached this state where inequality, poverty and all the bad outcomes that flow from them are unacceptably high. They are damaging to society and indeed the economy. They arise from poor and too often disastrously bad policy now and in the past. They can be reversed and should be. There are much better alternatives.

Bill Rosenberg

---

[1] Perry, B. (2013). *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2012*. Wellington, New Zealand: Ministry of Social Development. Retrieved from http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html. Note that a Treasury and Statistics New Zealand data error which was discovered in December and only announced this week (see http://www.treasury.govt.nz/publications/media-speeches/media/27feb14) has required revisions to this analysis. Details are at the MSD web page. The 2013 report needs to be read with these changes in mind.

[2] OECD – Real Unit Labour Cost, 2012. Data for Turkey is not available and in previous years it was lower than New Zealand which would make New Zealand fourth-lowest.

[3] New Zealand Treasury. (2013). *Working-Age (Non-NZS) Welfare* (Draft Paper for the Long-Term Fiscal External Panel). Wellington, New Zealand: The Treasury. Retrieved from http://www.treasury.govt.nz/government/longterm/externalpanel/session3

[4] See the spreadsheets at http://www.oecd.org/els/benefitsandwagesstatistics.htm, accessed 20 February 2014, when data was available until 2011.

[5] New Zealand Income Survey, Statistics New Zealand.

[6] Aziz, O., Gibbons, M., Ball, C., & Gorman, E. (2012). The Effect on Household Income of Government Taxation and Expenditure in 1988, 1998, 2007 and 2010. *Policy Quarterly*, *8*(1), 29–38.

[7] Steven Stillman, Trinh Le, John Gibson, Dean Hyslop, and David C. Maré, (February 2012). "The Relationship between Individual Labour Market Outcomes, Household Income and Expenditure, and Inequality and Poverty in New Zealand from 1983 to 2003", Motu Working Paper 12-02.

[8] Ostry, J. D., Berg, A., & Charalambos G., T. (2014). *Redistribution, Inequality, and Growth* (Staff Discussion Note No. SDN/14//02). Washington DC, USA: International Monetary Fund. Retrieved from http://www.imf.org/external/pubs/cat/longres.aspx?sk=41291.0

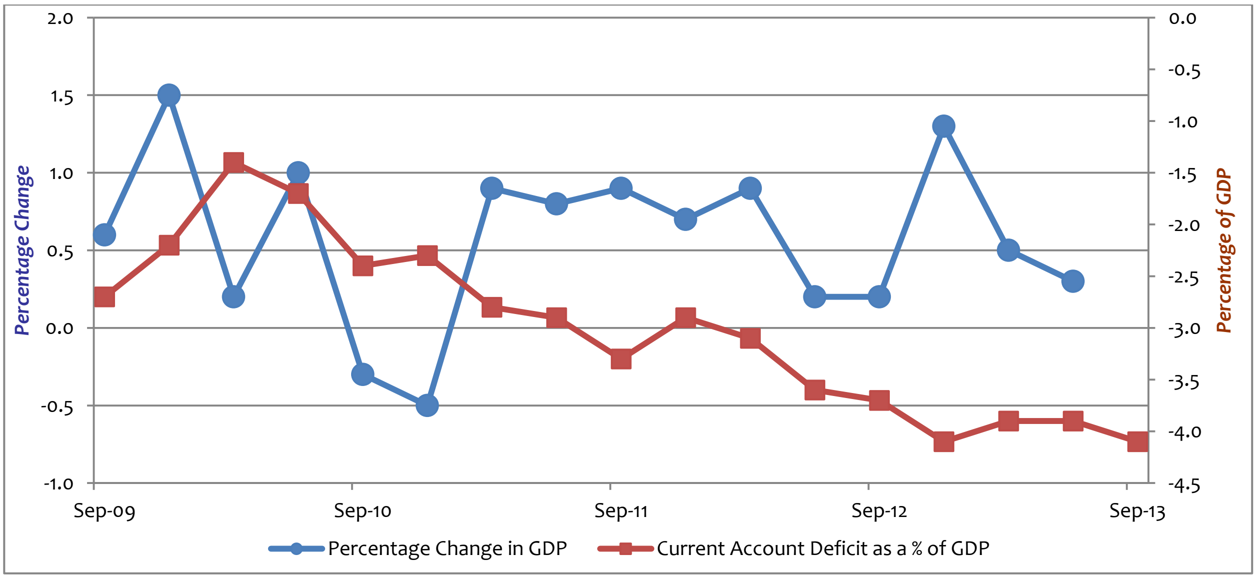
Forecast

- 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.

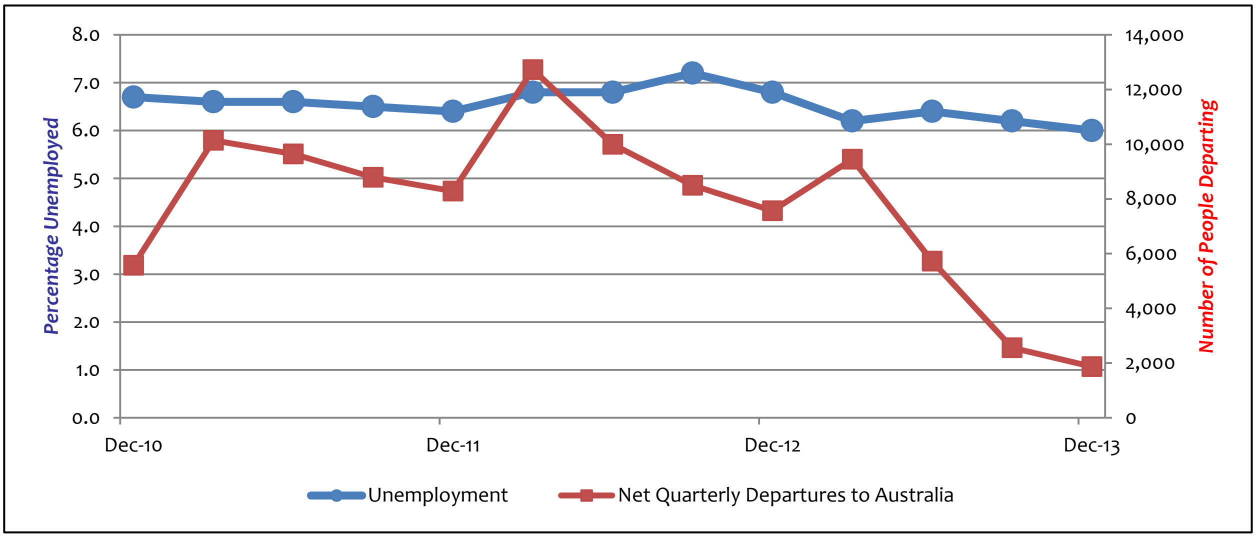
- New Zealand recorded a Current Account deficit of $2.6 billion for the September 2013 quarter in seasonally adjusted terms, $0.35 billion more than the June quarter deficit of $2.2 billion. The increase was driven by an increased deficit on goods trade with exports flat but imports increasing. For 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 January 2014 saw exports of goods rising 22 percent while imports rose 3.5 percent from the previous year, creating a trade surplus for the month of $306 million. In seasonally adjusted terms, exports fell 0.6 percent or $26 million over the month influenced by falls in dairy products, crude oil and aluminium. Meat and fruit had the strongest rises. Seasonally adjusted imports fell 5.4 percent or $230 million, creating a trade surplus of $320 million, higher than the $116 million in December. Exports to China rose 53.5 percent in the year to January and fell 7.9 percent to Australia. China has been New Zealand's largest export destination for the last year, replacing Australia, and imported over double what Australia imported from New Zealand in the month of January. Our top six export destinations accounted for 61.2 percent of our exports in the year, compared to 59.9 percent in the previous year. Imports from China rose 7.7 percent in the same period, and fell 12.5 percent from Australia. China is New Zealand's largest source of imports.

- The Performance of Manufacturing Index[1] for January 2014 was 56.2, a small fall from 56.4 in December and 57.0 in November. The employment sub-index at 51.0, down from 55.0 in December and 53.3 in November.
- The Performance of Services Index[1] for January 2014 was 58.1, a rise from 57.6 in December and 56.5 in November. The employment sub-index rose sharply to 55.2 from 52.8 in December and 54.4 in November.
- The Retail Trade Survey for the three months to December 2013 showed retail sales rose 1.2 percent by volume and 1.2 percent by value in the quarter compared with the September 2013 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Clothing, footwear and accessories, Recreational goods, Electrical and electronic goods, Department stores and Pharmaceuticals. Non-store and commission based retailing and Supermarkets and Grocery stores were the largest negative contributions. This was a reversal for both the Clothing and footwear, and the Non-store and commission-based retailing categories.
- 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 2.4 percent in the month of January 2014. Auckland fell 2.5 percent, Christchurch fell 1.9 percent, and Wellington fell 2.0 percent. The index was up 7.7 percent compared to January 2013. For the year, Auckland rose 14.0 percent, Christchurch rose 10.0 percent and Wellington fell 1.1 percent. The national median house price fell $25,000 (5.8%) from $427,000 to $402,000 in January. It is $32,000 or 8.6 percent higher than a year ago. Auckland accounted for 69 percent of the increase and Canterbury/Westland 10 percent. Together with Waikato/Bay of Plenty which accounted for a further 13%, the three regions accounted for 92 percent of the increase in median prices. There 430 or 15.6 percent fewer sales under $400,000 compared to January 2013, but a rise of 55 or 33 percent in the $1 million plus range and 110 or 15 percent in the 600,000 to $999,999 range. Under $400,000 houses accounted for 49.3 percent of sales in January 2014 but 55.9 percent in January 2013.

Employment



- ★ According to the Household Labour Force Survey the unemployment rate in the December 2013 quarter fell to 6.0 percent from 6.2 percent in the September 2013 quarter. Seasonally adjusted female unemployment at 6.9 percent was higher than for men (5.2 percent). The unemployment rate in Canterbury was 3.4 percent, down from 4.9 percent in December 2012. There were 147,000 people unemployed and the number of jobless people (which includes those discouraged from seeking employment) was 257,100. There were 122,600 people seeking additional hours, a sharp increase from 95,400 a year previously. Māori unemployment fell from 14.8 percent in December 2012 to 12.8 percent and Pacific unemployment fell from 16.0 percent in December 2012 to 13.7 percent. Statistics New Zealand are now providing seasonally adjusted statistics for youth. Youth unemployment (15-19 year olds) was 24.5 percent, up from 23.3 percent in September 2013 but down from 31.8 percent a year before. It was somewhat higher (at 25.6 percent) among those in education than those not (22.6 percent), but almost all the 17,000 increase in employment over the year was among people in education which increased by 13,000. The unemployment rate among 20-24 year olds was 11.2 percent, down from 12.2 percent in the September 2013 and 12.8 percent a year before, and again most of the employment increase was among those in education. There were 72,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 11.3 percent of people in that age group, the same as in September and down from 13.9 percent a year before. The labour force participation rate at 68.9 percent is up 0.3 percentage points from the previous quarter and up 0.7 percentage points for the year. There are 44,600 unemployed people who have been out of work for more than 6 months (up from 44,000 in September 2013 and down from 46,100 in December 2012), and as a proportion of the unemployed they have increased from 28.7 percent to 30.7 percent over the year. Compared to OECD unemployment rates, New Zealand has risen from 13th position in September 2013 to 12th (out of 34 countries).

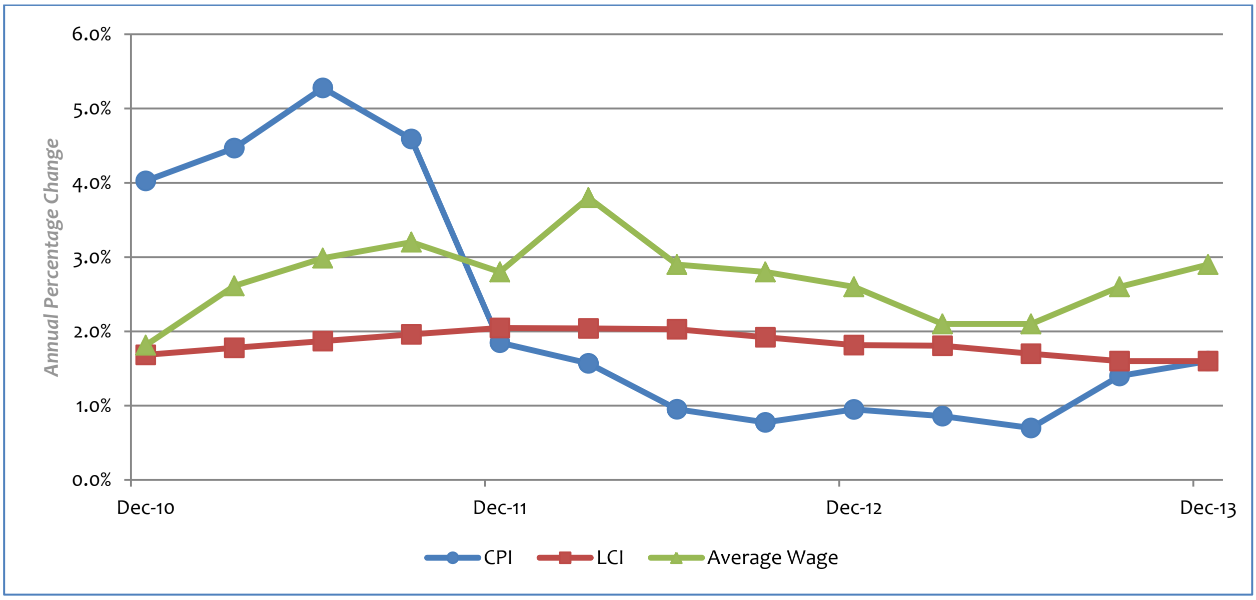
- From July 2013, benefits have been renamed and several are now classified as "Jobseeker" which includes what used to be the unemployment benefit, sickness benefits and some Domestic

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 7.4 percent in skilled job vacancies in January, following a 1.4 percent increase in December. All job vacancies rose 7.5 percent after a 0.2 percent increase in December. In the year to January, skilled vacancies increased by 21.0 percent. All vacancies increased by 21.8 percent. The month showed the strongest rise in vacancies in the last four and half years.

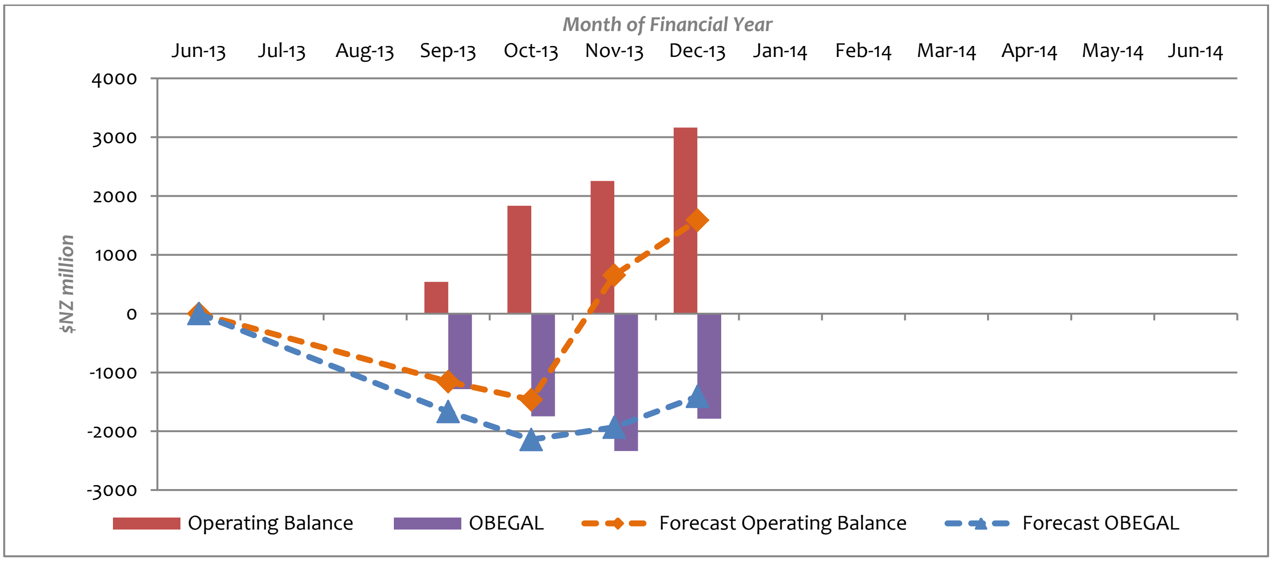
- International Travel and Migration data showed 8,210 permanent and long-term arrivals to New Zealand in January 2014 and 5,120 departures in seasonally adjusted terms, a net gain of 3,090. There was an actual net gain of 25,666 migrants in the year to January. Net migration to Australia in the year to January was 17,064 departures, with 37,193 departures and 20,129 arrivals. For the month of January, the seasonally adjusted net loss to Australia was 880, compared to 2,670 a year before.

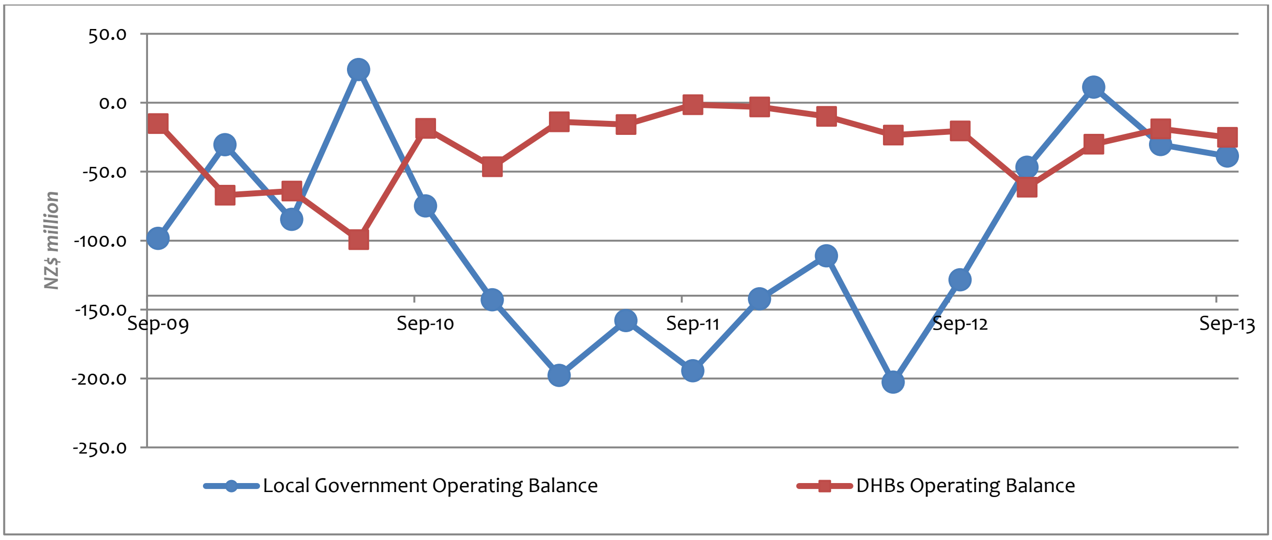
Wages and prices



- ★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to December 2013, just up a pip on the 0.4 percent in the September quarter. The LCI increased 1.6 percent in the year to December. It increased 0.4 percent in the public sector and 0.6 percent in the private sector in the three months to December. Over the year to December it rose 1.4 percent in the public sector and 1.7 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 2.4 percent. The average increase was 3.1 percent.
- ★ The Quarterly Employment Survey for the three months to December 2013 found the average hourly wage for ordinary-time work was $28.03, up 0.2 percent on the September 2013 quarter and up 2.9 percent over the year. The average ordinary-time wage was $25.98 in the private sector (up 0.3 percent in the quarter and up 3.2 percent in the year) and $35.27 in the public sector (down 0.2 percent in the quarter and up 1.6 percent in the year). Female workers (at $25.92) earned 13.2 percent less than male workers (at $29.85) 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 December. 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 rose by 1.2 percent in the month of January 2014, following a 0.1 percent fall in December 2013. Food prices rose 0.9 percent in the year to January 2014. Compared with December, fruit and vegetable prices rose 4.4 percent; meat, poultry, and fish prices rose 0.8 percent; grocery food prices rose 0.9 percent; non-alcoholic beverages rose 1.5 percent; and restaurant meals and ready-to-eat food rose 0.1 percent.

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand for the six months to December 2013, core Crown tax revenue was $602 million or 2.0 percent lower than the forecast in the December 2013 Half Year Economic and Fiscal Update (HYEFU) and total core crown revenue was $580 million or 1.8 percent below forecast. Expenses were $83 million (0.2 percent) below forecast. Net debt at 28.8 percent of GDP ($62.3 billion) was $392 million higher than the forecast 28.6 percent of GDP. The Operating Balance before Gains and Losses (OBEGAL) was a $1,788 million deficit, $380 million higher (worse) than forecast. The Operating Balance was a $3,161 million surplus compared to a forecast surplus of $1,588 billion. This was because "continued strength in equity markets saw gains recorded on financial instruments of $3.1 billion, which was $1.8 billion ahead of forecast". The shortfall in tax revenue consisted of shortfalls in GST ($175 million) of which almost half ($80 million) relates to earthquake funds and Treasury is not sure if the rest is simply a timing issue or a permanent loss; in corporate tax ($140 million) with a risk that total corporate tax take for the year will be below budget; and in PAYE ($136 million) and other individuals' tax ($106 million) which are possibly due to timing issues.

★ District Health Boards recorded combined deficits of $41.6 million for the six months to December 2013. This is $2.4 million less than the $44.1 million deficit in their plans. The Northern region was $1.0 ahead of plan (a $1.9 million surplus in Counties Manukau balances out deficits in the other four Northern DHBs, but only Northland is behind plan), the Midland region was $1.6 million ahead of plan (Waikato DHB dominates the region's $10.8 million deficit with a deficit of $9.0 million and is, along with Tairawhiti, behind plan), Central region was $3.8 million behind plan (with Capital and Coast and Hutt Valley the largest contributors to the region's $12.6 million deficit at $4.6 million $3.6 million deficits respectively; both are also well behind plan) and the Southern Region was $3.6 million ahead of plan ($13.6 million of its $19.0 million deficit is from Canterbury DHB but it was Southern and West Coast DHBs that were behind plan). The DHB furthest ahead of plan was Nelson Marlborough by $3.0 million, and Capital and Coast was furthest behind, by $1.9 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/economicbulletin154.

For further information contact Bill Rosenberg.