NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Commentary

Budgets are about more than debt and surpluses

Summary

We have yet to hear much from the Government about what will be in the Budget on 15 May other than that they hope to be forecasting a surplus – by a whisker – and that in the interests of paying off debt quickly, new spending will again be very tight.

While getting debt down is a good, the faster it is done and the lower the target, the greater the squeeze on public services and welfare – creating problems later. It is a question of getting the right balance. The current focus on the Budget deficit and debt pushes out a whole lot of other deficits that need as much or more attention. It is also an effective cover for National and ACT to pursue a programme of 'less government'.

The Government's trajectory is one of continuing spending cuts. Alongside increasing costs of New Zealand Superannuation because of the ageing population, increases in health needs and other pressures, this is not sustainable without major cuts in public services.

Treasury's forecasts show that among the major expense categories, between 2013 and 2017 only finance costs and New Zealand Superannuation will grow in real terms (that is, after inflation and growing population are taken into account). Health expenses will fall 11.5 percent in real terms over the four years, Education 4.6 percent, Social Welfare (other than Super) 10.3 percent, and other expenses 19.4 percent, while New Zealand Superannuation will grow 0.6 percent. Growing finance costs will be more than balanced by increasing investment income.

In its single-minded focus on the Budget deficit, the Government is ignoring growing deficits and imbalances elsewhere. They cannot be ignored for ever. They include high levels of inequality and poverty, climate change, the ageing population, the unbalanced economy, and growing gaps in health and education.

At its heart, the current Government's view is that 'the market' will see things right. It therefore sees no need for a broader vision. Tinkering and cost-cutting are poor substitutes for effective policy. Will this Budget be any different?

We have yet to hear much from the Government about what will be in the Budget on 15 May other than that they hope to be forecasting a surplus – by a whisker – and that in the interests of paying off debt quickly, 'new spending' will again be very tight at $1 billion. Most of that goes to inadequate increases in health and education, leaving very little for other initiatives.

Even the $1 billion may be a mirage. In a pre-Budget speech at the beginning of April, the Prime Minister said that "in the five budgets of our government, new operating spending has averaged only $250 million a year". So-called 'operating allowances' promising new spending amounted to $5.35 billion – over $1 billion a year over the five years. Of that, over $4 billion has been clawed back in spending cuts.

Even the announced operating allowances before the claw back are worth less than they used to be. For example in 2011 the Government added the normal increase in education expenditure due to rising enrolments to the operating allowances, leaving less room for genuinely new expenditure.

Of the few announcements, one is $69 million over four years (so about $17 million a year) to increase New Zealand Trade and Enterprise's international representation and increase the funding to support New Zealand exporters. Another is $100.9 million for defence, part of $535.5 million over the next four years, which Labour says is just an admission the severe cuts imposed on the defence forces were excessive. Small-ticket announcements have been made for sexual violence services and cochlear implants for children. There is likely to be just enough of an adjustment to paid parental leave for National to say they are doing something.

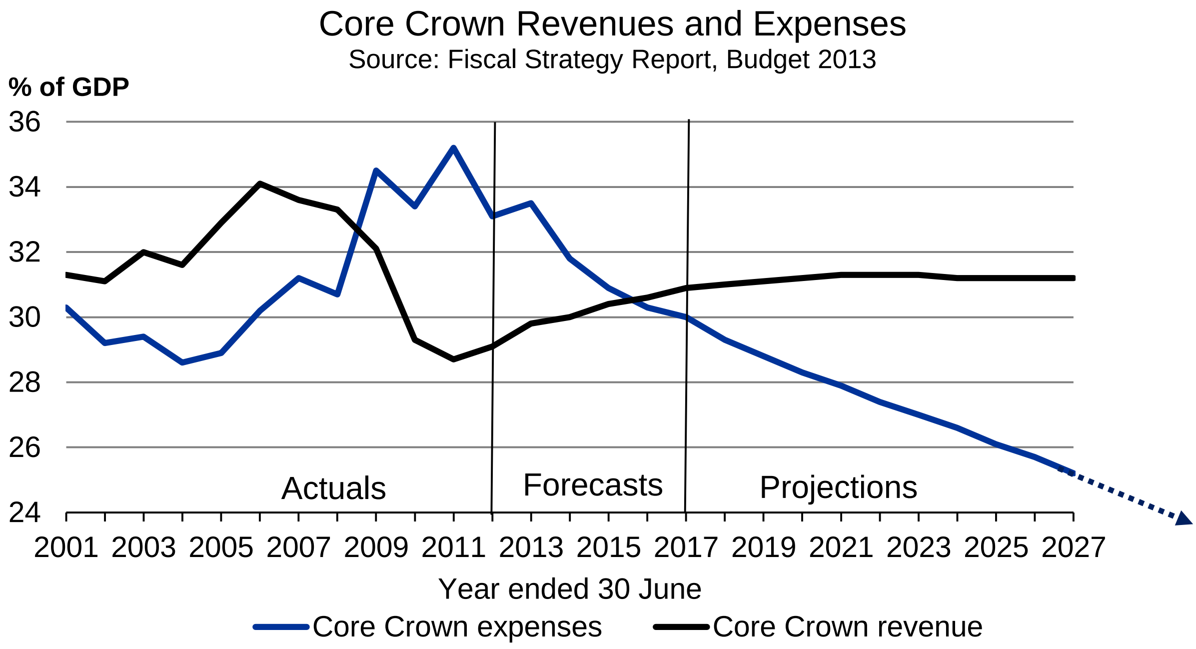
Deficits and Debt Targets and the squeeze on public services

The Government says that even after surplus is reached (it hopes this coming financial year), it will keep the squeeze on spending because it wants to "reduce net government debt to below 20 per cent of GDP by 2020". While getting debt down is a good idea to reduce finance costs (interest on the debt) and rebuild the buffer inherited from the Labour-led governments of the 2000s, the faster it is done and the lower the target, the greater the squeeze on public services and welfare – creating problems later. It is a question of getting the right balance.

The current focus on the Budget deficit and debt pushes out a whole lot of other deficits that need as much or more attention. I'll return to these below. But the seeming obsession with deficits and debt is also an effective cover for National and ACT to pursue a programme of 'less government' by continuing to reduce government spending well beyond the time when it could be justified as withdrawing the higher spending necessary during the recession and the Canterbury emergency.

If government expenditure continued to fall at the rate projected in the 2013 Budget (see the graph), by 2084 there would be no government left in New Zealand – expenditure would have dropped to zero. Of course I'm not suggesting this is the Government's intention, but it does show two things.

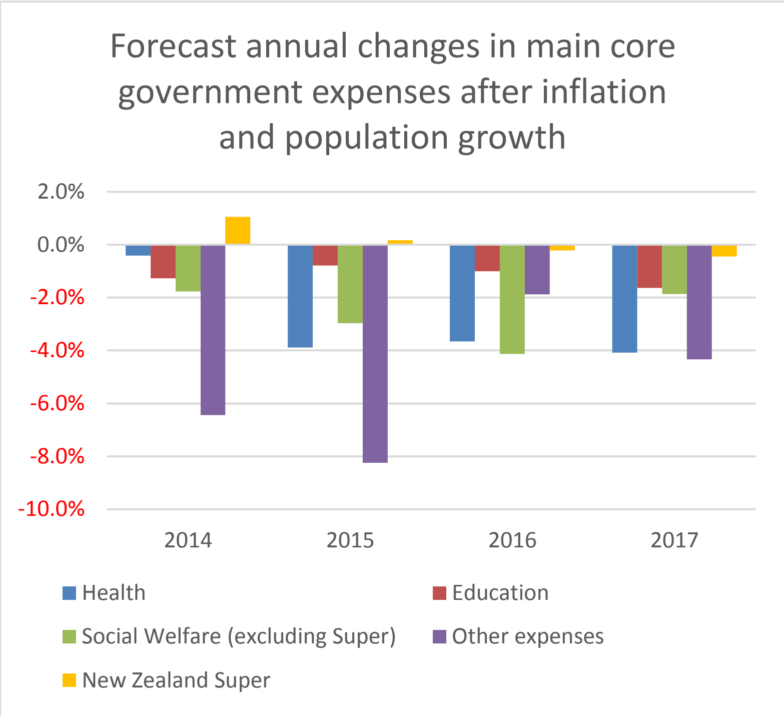
Firstly it shows that the trajectory the current Government is on is one of continuing cuts in spending



(while maintaining revenue at the same level as a proportion of GDP). Alongside continuing increases in the costs of New Zealand Superannuation because of the ageing population, increases in health needs and other pressures, it is clear that this fall in expenditure is not sustainable without major cuts in public services. Indeed, this is shown in Treasury's forecasts. ('Forecasts' are based on actual policy decisions and economic forecasts, whereas 'projections' mindlessly show what would happen if current trends continue without change in policy or economic conditions.)

Falling real expenditure forecast

The forecasts show that among the major expense categories, between 2013 and 2017 only finance costs and New Zealand Superannuation will grow in real terms (that is, after inflation and growing population are taken into account). Under these forecasts, Health expenses will fall 11.5 percent in real terms over the four years, Education 4.6 percent, Social Welfare (other than Super) 10.3 percent, and other expenses 19.4 percent, while New Zealand Superannuation will grow 0.6 percent.



Finance costs are forecast to grow 10.8 percent – but investment income (not including New Zealand Super and income going to ACC, State Owned Enterprises and other entities outside the "Core Crown") is forecast to grow even faster at 54.0 percent in real terms so net finance costs are a decreasing drag on available resources. While policy changes may occur, and how the economy fares will also have an impact, these are major changes in spending that have to occur somewhere in the Government's budget if it is to reduce total spending as its own forecasts anticipate. What happens to these looming problems in Budget 2014 needs to be watched.

Secondly, however, this long-term trajectory shows that taking this kind of projection as an indication of a Government's skill as an economic manager is simply nonsense. When trends point to unsustainable outcomes, policies change (or the outcomes force change). Yet projections like these are the basis of the Government's running criticism of the Labour-led administration, "proving" that its policies would have led to sky-high deficits and debt. There is another graph in the 2013 Budget documents showing net government debt at over 60 percent of GDP in 2023 if policies hadn't changed from 2009 onwards. Well, doh! As Treasury comments (never echoed by the Minister of Finance or the Prime Minister): "But it is crucially important when looking at long-term projections, and even when looking at short-term projections, to recognise that these are simply assumptions in a spreadsheet, or inputs to a model, until actual decisions are made in the real world."

Whichever party had been elected in 2008, policies would have changed to cope with the Global Financial Crisis and earthquakes, among other pressures. The crucial issue is *how* they changed. Tax cuts to the rich or direct assistance to the most needy families? Spending on housing or on partial privatisations? Funded when the construction industry and the risk of inflation were at their lowest through the Reserve Bank, or later by borrowing and asset sales? Tax broadening by increasing GST or by introducing a capital gains tax? And so on.

This is not to pretend that the Labour-led governments of the 2000s were perfect. They weren't – but their spending decisions were made on the basis of Treasury advice on the state of the economy[1], and they left the incoming National-led governments a legacy of very low debt – net debt was only 5.5 percent of GDP in 2008 – or *negative* 1.5 percent including the New Zealand Superannuation Fund. This allowed National to build up debt to its current level of 27.1 percent of GDP during the recession and the earthquakes without significant risk to the economy.

Choose your debt target

Another aspect of deficits and debt is that the current Government uses a "net debt" target. The 2000s Labour-led government used gross debt – that is, before deducting the government's financial assets, which are considerable. Its target was that gross debt should be no more than 20 percent of GDP. That was a more demanding target than the current target of net debt being no more than 20 percent of GDP by 2020, and one that Bill English campaigned to have loosened in the lead-up to the 2008 election campaign. He wanted more debt and argued that the debt level was even lower than it looked. "(The idea that) debt's bad has become a padlock on progressive thinking," he said[2].

The Government's "net debt" is not a true measure of net debt because it excludes the New Zealand Superannuation ('Cullen') Fund. The rationale seems to be that because the Fund is for a specific purpose – to reduce the cost of future superannuation payments somewhat – it is not available to pay off creditors in a crisis. But that is a rather narrow view. One of the reasons regularly given in Europe for austerity programmes to reduce deficits and pay off debt is the looming cost of pensions due to the ageing populations there. While the ageing problem is not as urgent in New Zealand, it still must be addressed. The Super Fund was set up for that purpose. Whether it was the best way to do it and whether it is sufficient can be debated, but it certainly does help. Exclusion of the Fund makes even less sense given the Super Fund's income is counted as part of Core Crown revenue and helps to reduce the deficit. Debt targets themselves, and how long it takes to reach them, are therefore a political choice. A different Government could decide to relax the debt target and give itself more room to address the problems that have been left to fester.

The other deficits

In its single-minded focus on the Budget deficit, the Government is ignoring growing deficits and imbalances elsewhere. They cannot be ignored for ever. While solving some is about better legislation and policy rather than money, others cannot be solved without increasing government expenditure and revenue. Put another way, the government's expenditure cuts – like in the 1990s – make good headlines for those who oppose any government expenditure. They may well have found some genuine savings, but in the end, constant cutting creates unsustainable situations which must be addressed. A future Government can then be blamed for spending on them.

Inequality, poverty are at unacceptable levels and are now a major public concern showing up in opinion polls. They demand a fairer tax system, higher welfare benefits, a fairer wages system which more effectively shares the income in the economy, low cost good-quality housing, and much more. The

Government is barely touching the surface of this problem and in many areas such as taxation, employment relations and state housing making it worse.

Climate change is intensifying yet New Zealand's response is almost completely ineffective, either in terms of reductions in greenhouse gases or in terms of changing the economy to recognise – and take advantage of – the 'new normal'. New Zealand will be forced to take action by changes in the climate, changes in the international economy, pressures on our 'clean green' image, and growing public concern at home. The later action is taken the more difficult it will be and the more opportunities will be lost.

The ageing population has major implications for government spending and the economy's productivity. At its heart it is an economic and social issue whose most effective response requires government action. Currently the Government is simply pretending it doesn't exist. The solutions aren't easy but doing nothing will just make the adjustment more difficult when it does happen.

The economy is unbalanced with a chronic current account deficit and overvalued exchange rate leading to mounting international liabilities whose cost in interest and dividend payments to overseas investors is driving the current account deficit. Relative to the rest of the OECD, productivity levels and productivity growth are low and wages have a low share of the income in the economy. Our exports are increasingly reliant on a small group of commodities and countries, creating vulnerability to a slowdown (or worse) in China. The situation will hit home as the Canterbury rebuild tails off and high commodity prices return to more normal values. The Government is unwilling to address these issues by changes to monetary policy and avoids an industry policy to actively encourage diversification and higher value, higher wage export sectors.

Preventable diseases caused by poverty, poor nutrition and commercial pressures, such as obesity and diabetes are receiving less attention than treatment such as surgery which would be more effectively reduced in the long run by preventative public health programmes. Meanwhile, ambulance services and hospitals are showing increasing signs of stress due to several years of underfunding, and hidden waiting lists are growing. In rapidly growing residential care for the aged and disabled, the problems of profit-driven provision and low paid, insufficiently trained staff are left unaddressed.

In **education** the damaging underlying effects of poverty and inequality on children's ability to learn are being denied. Increasing resources are being channelled into private institutions and charter schools at the expense of public education in contradictory, poorly evidenced policies. Too little funding is being provided for industry and on-the-job training with employers being allowed to fill the skills gap by immigration rather than encouraging and assisting people to develop new skills. Falling rolls are being used to save money rather than increase the quality of tertiary education.

At its heart, the current Government's view is that 'the market' will see things right. It therefore sees no need for a broader vision. Tinkering and cost-cutting are poor substitutes for effective policy. Will this Budget be any different?

Bill Rosenberg

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[1] Brook, A.-M. (2011). Making Fiscal Policy More Stabilising: Challenges and Policy Options. June 2011. Retrieved from http://www.treasury.govt.nz/publications/research-policy/conferences-workshops/macroeconomicimbalances/pdfs/mi-brook-paper.pdf
[2] More debt better than more tax - National. (2007, October 7). *Sunday Star Times*. Retrieved from http://www.stuff.co.nz/business/5210/More-debt-better-than-more-tax-National

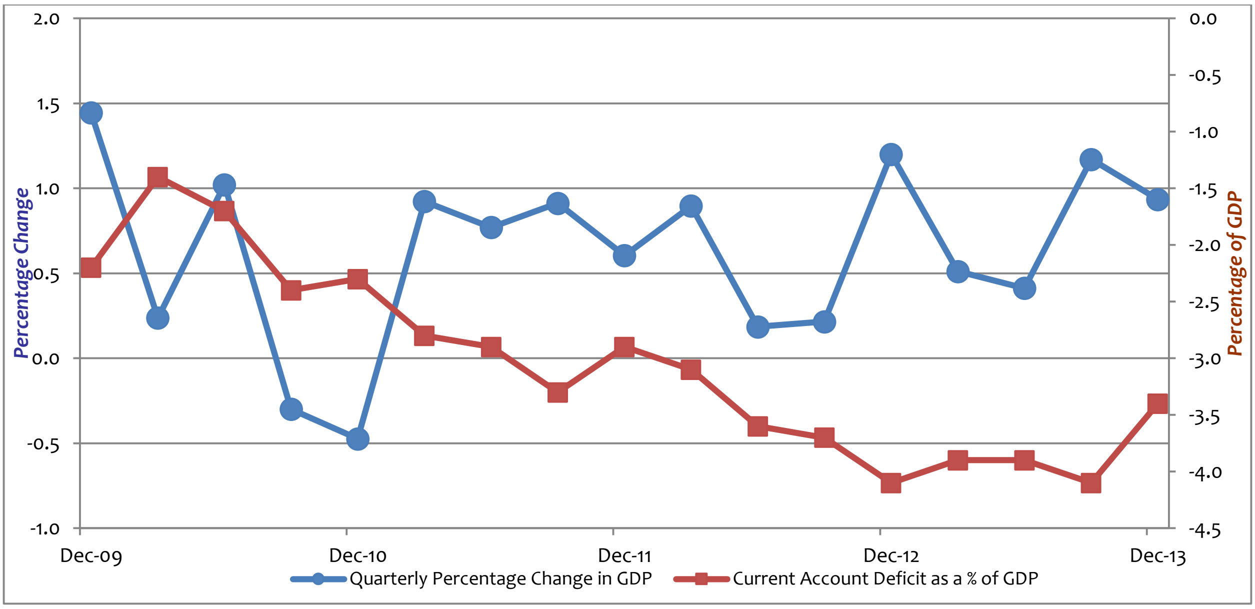
Forecast

- This [NZIER forecast] was released on 17 March 2014.

Annual Percentage Change (March Year)	**2013-14**	**2014-15**	**2015-16**	**2016-17**
GDP	2.9	3.6	2.8	2.0
CPI	1.5	2.1	2.4	2.4
Private Sector average wage	2.7	3.1	3.4	3.3
Employment	2.7	2.4	1.4	0.8
Unemployment rate	5.9	5.4	5.1	5.2

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

Economy



- Growth in New Zealand's economy continued to increase strongly in the December 2013 quarter, with Gross Domestic Product growing at 0.9 percent, compared to quarterly increases of 1.2 percent in September (revised down from 1.4 percent) 0.4 percent in June and 0.5 percent in March. Growth for the year ended December 2013 was 2.7 percent, only 0.1 percentage point higher than that in the year to September. The December 2013 quarter was 3.1 percent up on the same quarter in 2012 (down from the increase between September quarters of 3.3 percent). The largest quarterly rises by industry were in Mining (up 9.5 percent), Electricity, gas, water, and waste services (up 3.8 percent), and Wholesale Trade (up 3.2 percent). However, there were falls led by Professional, scientific, technical, administration, and support (down 2.1 percent), and Agriculture, forestry, and fishing (down 2.0 percent). Manufacturing rose a healthy 2.1 percent but Construction was surprisingly weak with a 0.4 percent rise. The result was that Primary Industries rose 0.3 percent, Goods producing industries rose 1.8 percent and Service industries rose 0.3 percent. Over the year though (comparing the December quarters), all industries expanded, led by Mining (10.5

percent), Construction (7.6 percent), Health care and social assistance (5.5 percent), Wholesale Trade (3.8 percent), Retail trade and accommodation (3.8 percent), Financial and insurance services (3.7 percent), and Manufacturing (3.4 percent). Agriculture, forestry and fishing rose only 1.9 percent. All most all manufacturing industries expanded production over the year, the only exception being Textile, leather, clothing, and footwear manufacturing which contracted by 8.7 percent. Food, beverage, and tobacco manufacturing rose a relatively weak 1.9 percent (matching agriculture, forestry and fishing which drives much of it) but Wood and paper products manufacturing rose 3.1 percent, Printing 14.5 percent, Petroleum, chemical, polymer, and rubber product manufacturing 4.5 percent, Non-metallic mineral product manufacturing 8.7 percent, Metal product manufacturing 1.3 percent, Transport equipment, machinery and equipment manufacturing 4.9 percent, and Furniture and other manufacturing 11.5 percent. Household consumption expenditure rose a strong 1.3 percent in real terms in the quarter and 3.7 percent in the year. Expenditure on non-durable goods (such as groceries) rose 0.2 percent in real terms during the quarter and rose only 0.9 percent during the year while durables rose a strong 2.6 percent in the quarter and boomed at 8.9 percent over the year. Business investment rose just 0.9 percent in the quarter (though Plant, machinery, and equipment rose 19.7 percent) and despite it growing a strong 9.3 percent in the year, this was less than Treasury forecasts.

- New Zealand recorded a Current Account deficit of $0.8 billion for the December 2013 quarter in seasonally adjusted terms, $1.7 billion less than the September quarter deficit of $2.6 billion. The improvement was driven by a surplus on goods trade of $1.8 billion while the deficit on income and transfers rose to $2.7 billion. For the year to December 2013 the deficit was $7.5 billion or 4.1 percent of GDP compared to a revised $8.2 billion in the year to June. The deficit on income of $9.4 billion was virtually all investment income, outflows of which are steadily rising while inflows are near to static.

- The country's Net International Liabilities were $147.6 billion at the end of December 2013 (66.6 percent of GDP) down from a revised $149.5 billion (69.2 percent GDP) at the end of June, and from the $152.8 billion (72.6 percent GDP) in December 2012. The fall in net liabilities in the quarter was due mainly to rising overseas prices of shares and other securities (worth $2.9 billion) and revaluation of derivatives ($1.0 billion) but also included a net outflow of investment from New Zealand of $0.9 billion. Of the net liabilities, $11.2 billion was owed by the government (equivalent to 5.0 percent of GDP) and $101.3 billion by the banks (46.3 percent of GDP). Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes are estimated at $19.0 billion, and at 31 December 2013, $13.0 billion of these claims had been settled, leaving $5.9 billion outstanding. Without these, net international liabilities would have been $153.5 billion or 69.3 percent of GDP. New Zealand's gross international liabilities were $325.0 billion in December, against $177.5 billion in overseas assets.

- ★ Overseas Merchandise Trade for the month of March 2014 saw exports of goods rising 15.0 percent (reaching $5.0 billion for the first time) while imports rose 13.0 percent from the previous year, creating a trade surplus for the month of $920 million, the highest ever for a March month. In seasonally adjusted terms, exports rose 1.1 percent or $52 million over the month (down from the 3.8 percent rise the previous month) influenced by rises in exports of Crude oil, Mechanical machinery and equipment, Wine, Seafood, Meat and Electrical machinery and equipment, though offset by falls in exports of Aluminium, Dairy products, Fruit, and Logs and wood articles. Seasonally adjusted imports rose 4.8 percent or $198 million, creating a trade surplus of $287 million which is below the $432 million in February. The largest increase in imports was in Mechanical machinery and equipment, followed by Electrical machinery and equipment and Optical, medical, and measuring equipment, but offset by falls in Textiles and textile articles, Petroleum and products and Plastics. Exports to China rose 51.2 percent in the year to March and fell 7.3 percent to Australia. Our top six export destinations accounted for 60.4 percent of our exports in the year (of which China accounts for 22.4 percent), compared to 59.8 percent in the previous year (China 16.0 percent). Imports from China rose 7.9 percent in the same period, and fell 11.9 percent from Australia. Elaborately transformed manufactured goods have fallen to 11.8 percent of exports from 13.4 percent in the March 2013 quarter, and from 16.0 percent in March 2008.

★ The Performance of Manufacturing Index[1] for March 2014 was 58.4, a rise from a revised 56.5 in February and 56.4 in January. The employment sub-index was at 56.3, up from 54.7 in February and 51.0 in January.

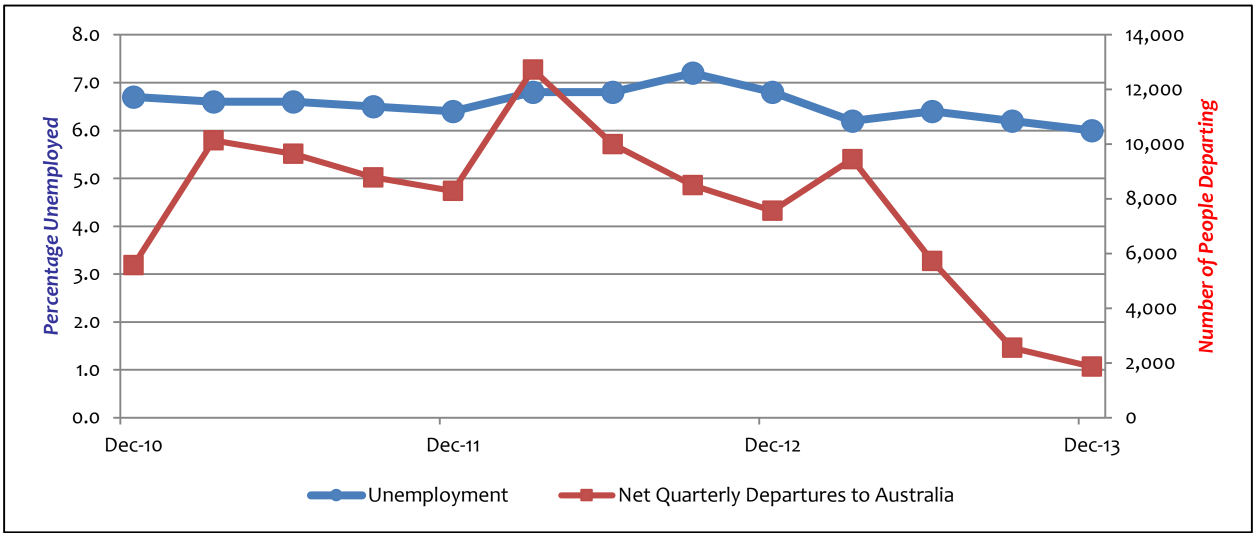
★ The Performance of Services Index[1] for March 2014 was 58.3, a sharp rise from a revised 52.8 in February but not far from the 58.0 in January. The employment sub-index rose more modestly, to 54.3 from 53.5 in February but down from the 55.0 in January.

○ 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 24 April 2014 the Reserve Bank raised the Official Cash Rate (OCR) to 3.00 percent from 2.75 percent at the 13 March announcement. In March, the Bank said that “the OCR will need to rise by about 2 percentage points over the next two years for inflation to settle around target”, but this time said “The speed and extent to which the OCR will be raised will depend on economic data and our continuing assessment of emerging inflationary pressures, including the extent to which the high exchange rate leads to lower inflationary pressure”. The OCR rise this calendar year may be slower than thought in March, due to the lower than expected rise in the CPI in the March quarter. The next review will be announced on 12 June, which will include a Monetary Policy Statement.

★ The REINZ Housing Price Index rose 3.4 percent in the month of March 2014. Auckland rose 0.4 percent to reach a record high, Christchurch rose 1.9 percent, again a new high, and Wellington fell 2.3 percent, 4.4 percent below its peak. The index was up 9.2 percent compared to March 2013. For the year, Auckland rose 9.2 percent, Christchurch rose 10.9 percent and Wellington rose 1.6 percent. The national median house price rose $25,000 (6.0 percent) from $415,000 in February to $440,000 in March. It is $44,000 or 10.0 percent higher than a year ago. Auckland accounted for 75 percent of the increase, Canterbury/Westland 14 percent and Waikato/Bay of Plenty 9 percent. The three regions accounted for 97 percent of the increase in median prices. There were 887 or 21.9 percent fewer sales under $400,000 compared to March 2013, but a rise of 105 or 21.3 percent in the $1 million plus range and 139 or 9.4 percent in the $600,000 to $999,999 range. Sales under $400,000 accounted for 43.1 percent of sales in March 2014 but 49.7 percent in March 2013.

Employment



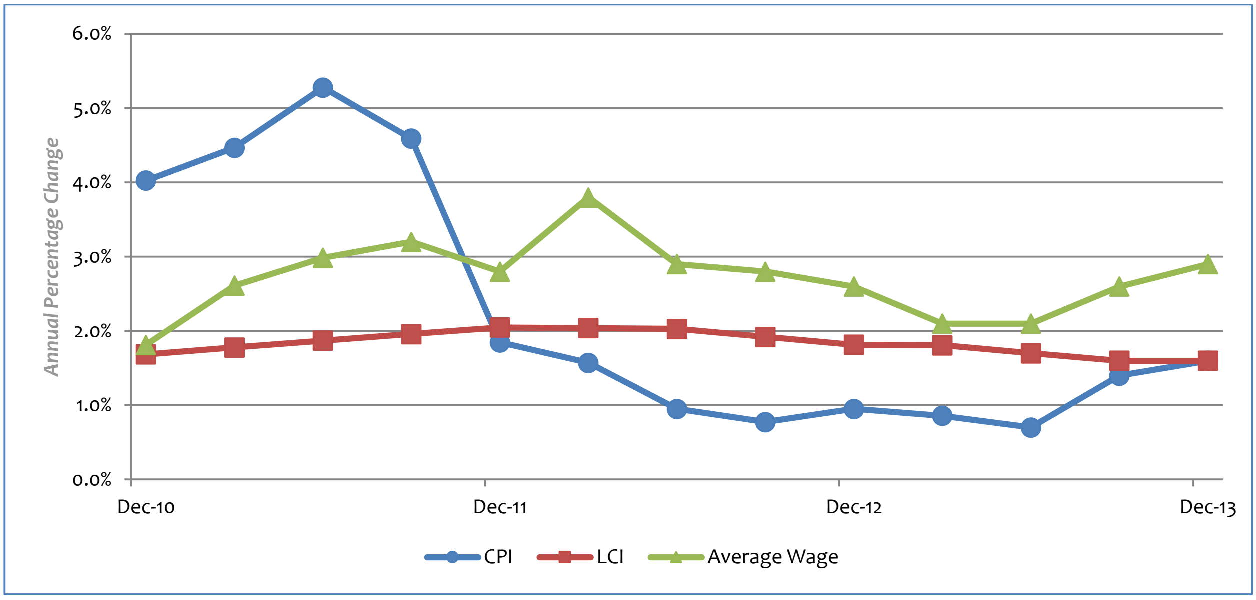
- According to the Household Labour Force Survey the unemployment rate in the December 2013 quarter fell to 6.0 percent from 6.2 percent in the September 2013 quarter. Seasonally adjusted female unemployment at 6.9 percent was higher than for men (5.2 percent). The unemployment rate in Canterbury was 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 March 2014 there were 121, 953 working age people on the Jobseeker benefit, a fall of 8,272 from 130,225 in December 2013 and a fall of 6,831 from March 2013. Of those at March 2014, 65,908 were classified as 'Work Ready', and 56,045 were classified as 'Health Condition or Disability'. A total of 295,320 were on 'main' benefits, 26,549 fewer than December 2013 and 14,826 fewer than March 2013. It was 39,566 more than in March 2008.

- ★ Job Vacancies Online showed a seasonally adjusted increase in skilled job vacancies of 0.7 percent in March after a fall of 1.9 percent in February. All job vacancies also rose – by 1.9 percent – in March, after a February fall of 1.2 percent. In the year to March, skilled vacancies increased by 16.7 percent. All vacancies increased by 20.1 percent.
- ★ International Travel and Migration data showed 8,740 permanent and long-term arrivals to New Zealand in March 2014 and 4,890 departures in seasonally adjusted terms, a net gain of 3,840. There was an actual net gain of 31,914 migrants in the year to March. Net migration to Australia in the year to March was 12,856 departures, with 34,002 departures and 21,146 arrivals. For the month of March, the seasonally adjusted net loss to Australia was 350 (the lowest for this series which began in January 1996), compared to 2,280 a year before.

Wages and prices



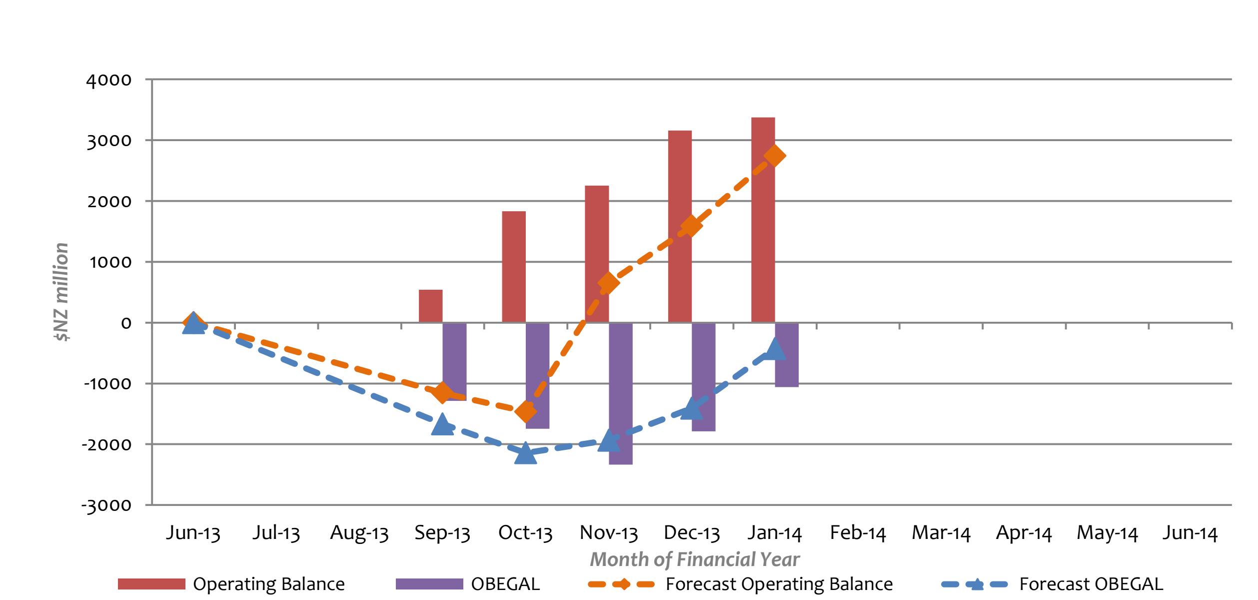
- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to December 2013, just up a pip on the 0.4 percent in the September quarter. The LCI increased 1.6 percent in the year to December. It increased 0.4 percent in the public sector and 0.6 percent 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

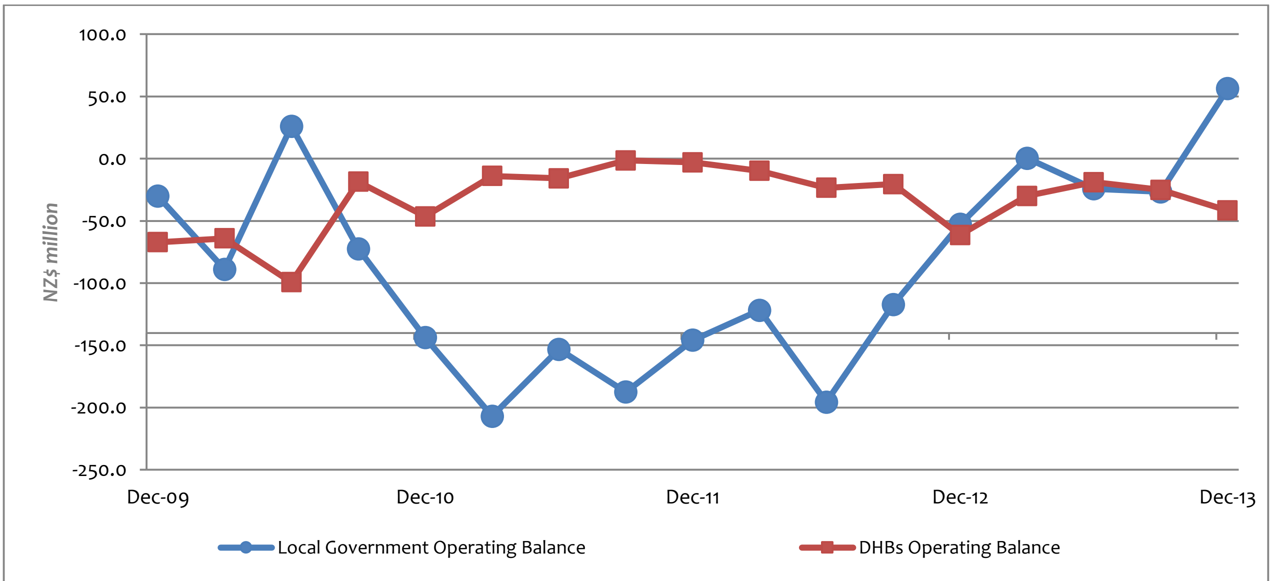
and up 2.9 percent over the year. The average ordinary-time wage was $25.98 in the private sector (up 0.3 percent in the quarter and up 3.2 percent in the year) and $35.27 in the public sector (down 0.2 percent in the quarter and up 1.6 percent in the year). Female workers (at $25.92) earned 13.2 percent less than male workers (at $29.85) for ordinary time hourly earnings.

★ The Consumer Price Index rose 0.3 percent in the March 2014 quarter compared with the December 2013 quarter and increased 1.5 percent for the year to December. For the quarter, Cigarettes and Tobacco were the largest influence, rising 10.2 percent as a result of the increase in tax on them in January. Without them, the index would not have risen at all. Over the year, nearly half of the increase came from housing and household utilities which rose 3.3 percent and without which, the CPI would have risen only 0.9 percent. While prices rose by 0.3 percent on average in the three months to March, housing and household utilities rose at over twice the rate at 0.7 percent. The cost of newly built houses rose 1.2 percent, with Auckland and Canterbury leading the rises, and rents rose 0.6 percent, with people in Canterbury facing rises of 1.9 percent in just three months. Maintenance was up 1.2 percent, energy up 0.4 percent, but rates up only 0.1 percent. These rises don't include mortgage interest costs which started to rise again in the quarter, insurance (up 1.7 percent in the quarter and 5.9 percent in the year), nor the rising prices of existing houses faced by first home buyers. Inflation in Canterbury for the year was 2.2 percent compared with 1.4 percent in the rest of the country (though 1.5 percent in Auckland). Housing costs hit particularly hard, rising 5.4 percent for the year compared to 2.7 to 3.3 percent elsewhere.

★ The Food Price Index fell by 0.3 percent in the month of March 2014, following a 1.0 percent fall in February. Food prices rose 1.2 percent in the year to March 2014. Compared with February, fruit and vegetable prices rose 0.5 percent; meat, poultry, and fish prices rose 0.9 percent; grocery food prices fell 1.6 percent; non-alcoholic beverages rose 0.2 percent; and restaurant meals and ready-to-eat food rose 0.4 percent.

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand for the eight months to February 2014, core Crown tax revenue was $1,138 million or 2.8 percent lower than forecast in the December 2013 Half Year Economic and Fiscal Update (HYEFU), and total core crown revenue was $1,206 million or 2.7 percent below forecast. Expenses were $68 million (0.1 percent) below forecast. Net debt at 27.1 percent of GDP ($60.0 billion) was $435 million higher than the forecast $59.6 billion or 26.9 percent of GDP. The Operating Balance before Gains and Losses (OBEGAL) was a $1,393 million deficit, $509 million higher (worse) than forecast. The Operating Balance was a $3,721 million surplus compared to a forecast surplus of $2,830 million. This was mainly due to "continuing strength equity markets" – rising share prices. There were shortfalls across all tax types, including GST ($350 million) of which a third relates to earthquake funds, a third timing issues and a third "underlying weakness" which is expected to leave a shortfall at the end of the financial year (June); corporate tax ($372 million shortfall, higher than last month) is believed to be largely timing issues though there is risk of a shortfall for the year; PAYE ($136 million) which Treasury thinks is due to timing issues; "other individuals' tax" which is $142 million below forecast and expected to remain so; and customs and excise duties which are $122 million below forecast due to a shortfall in tobacco excise.

★ District Health Boards recorded combined deficits of $2.0 million for the eight months to February 2014. This is $5.1 million less than the $7.1 million deficit in their plans. The Northern region was $1.4 million ahead of plan with surpluses in all four DHBs and all ahead of plan, the Midland region was $2.9 million ahead of plan with a combined surplus of $6.3 million and only Tairawhiti and Taranaki are in deficit and only Tairawhiti is behind plan, Central region was $3.6 million behind plan with only Hawke's Bay and Whanganui ahead of plan and all but MidCentral in deficit led by Capital and Coast with a $13.6 million deficit contributing to a $19.2 million deficit for the region, and the Southern Region was $4.4 million ahead of plan, and $21.1 million of its $26.2 million deficit is from Canterbury DHB though it was Southern and West Coast DHBs that were behind plan. The DHB furthest ahead of plan was Nelson Marlborough by $4.2 million, and Capital and Coast was furthest behind, by $2.3 million.

- Local Government recorded a 0.8 percent rise ($17.2 million) in operating income and a 3.2 percent fall in operating expenses (at $65.8 million) including an increase of 0.3 percent ($1.2 million) in employee costs for the December 2013 quarter compared to September. This resulted in an operating surplus of $56.3 million in the December quarter, compared with a deficit of $26.7 million in the September quarter, and deficits in all previous quarters back to June 2010 other than the March 2013 quarter, all in seasonally adjusted terms. Note that the December quarter results are provisional.

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/economicbulletin156.

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