NEW ZEALAND COUNCIL OF TRADE UNIONS
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Commentary

Wages and income inequality

Summary

Wages and salaries are a vital part of the picture of income inequality in New Zealand because so many people depend on them. For households with at least one member aged 18-64, wages make up over three-quarters of average household income, and this is rising.

According to economist Brian Easton, "The majority of the poor are couples with jobs, with some – but not a lot of – children living in their own home albeit with a mortgage". Between 1993 and 2003, real wages at and below the median (middle) grew only 3% to 6% while those above grew significantly faster – for example 15% for the top 10%. Between 1998 and 2013 middle income earners' incomes fell in proportion to the average. About 30% of households with dependants earn wages below $18.40 and over half of the sole parents with dependants who are working earn below the Living Wage. Most earn under $15 per hour.

Top salaries rose rapidly in the late 1990s, stretching the inequality between top executives and most workers. There is conflicting evidence as to whether top income inequality rose or fell during the 2000s, but it rose more recently. The average income in the top 0.1% (one in a thousand) of salaries was approximately $650,000 in 2012, and $285,000 for the top 1%. The average for the top 0.1% rose from 16.5 times the average for the bottom 90% in 1994 to 21 times in 2012, and for the top 1% from 8 times the bottom 90% in 1994 to 9 times in 2012. However this excludes shares or share options that senior executives often get paid with.

The labour (wages) share of New Zealand's income fell from approximately 60% of income in early 1980s to 46% in 2002 – a loss to wage earners of about a quarter of aggregate income. It then recovered to around 50% – a sixth lower than the 1980s. In current dollar terms, that is a loss of about $19bn per year or $10,000 per wage earner per year.

ILO research attributes falling labour share in developed economies to financialisation (46%) globalisation (19%), technology (10%) and loss of employee bargaining power, deunionisation and falling government spending (25%). Higher unemployment also contributes.

Low labour incomes have implications for aggregate demand, weakening the domestic sales of local firms. Rising inequality puts greater pressure on governments to compensate people for their loss. Working for Families is an example, but is being cut. Even at $2.5bn it is small compared to the $19bn annual loss in labour share. On average households whose main income comes from wages and salaries had negative savings in 2006/07.

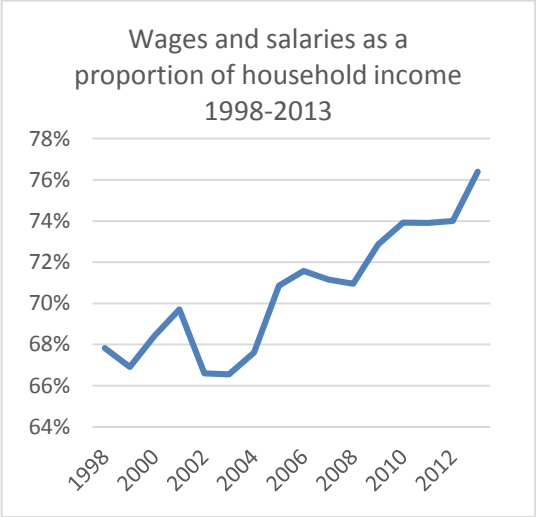
In June I contributed a presentation on Wages and Inequality to a seminar on "Inequality: Causes and Consequences" organised by the Institute for Governance and Policy Studies at Victoria University in Wellington. This is a summary of it with some corrections and additions. I can provide the slides to anyone interested.

Wages and salaries are a vital part of the picture of income inequality in New Zealand because so many people depend on them, although it is important to remember that the greatest extremes of inequality most frequently come from investment income (for very high incomes) and from social welfare benefits (for poverty).

Wages and salaries are market incomes – that is, before taxes, tax credits like Working for Families and other government assistance. 'Market' incomes include income from capital (real estate, investments financial assets and other unearned income) as well as wages, but we are looking only at wages and salaries (which I'll just refer to as "wages"). Market income is distributed much more unequally than even New Zealand's high inequality of disposable incomes. Taxes, working for families and social assistance redistribute income, reducing inequality.

The importance of wage and salary income

For households with at least one member aged 18-64, wages make up over three-quarters of average household income, and this is rising, according to Statistics New Zealand's New Zealand Income Survey. This survey does do not include all investment income but the Household Economic Survey shows similar results and also shows that for a majority of households, wages are the only source of regular income*. Between 1983-2003 among families with at least one person aged 25-59, Stillman, Le, Gibson, Hyslop, & Maré (2012) found that "labour income is by far the largest component of income and made up between 84% and 90% of regular income during the sample period." According to Perry (2014), "The two factors that impact the most on the incomes of two parent with dependent children households are average wage rates and the total hours worked by the two parents."

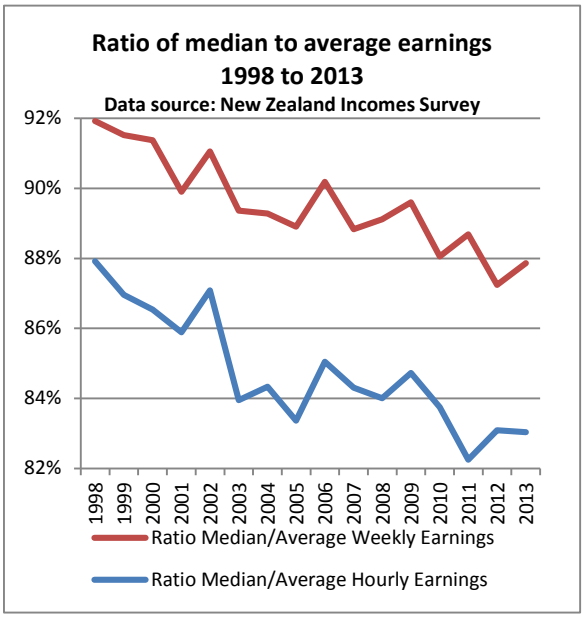


Easton (2013, p. 23) reports that "The majority of the poor are couples with jobs, with some – but not a lot of – children living in their own home albeit with a mortgage". He includes as a factor in the steep rise in inequality 1985-1993: "union power to maintain and increase real wages was weakened". Nevertheless it is difficult to draw clear lines between wages (and other market income) and household income inequality because of the effect of taxation and the various forms of social assistance. But given the dominance of wages in household incomes, they must underpin any consideration of adequacy and fairness of household incomes – unless we are willing to move to much more generous income assistance. A Treasury report (Aziz, Gibbons, Ball, & Gorman, 2012, fig. 2) found that the market incomes of the lowest income half of households had essentially remained static in real terms between 1988 and 2010. This is in spite of a marked increase in the number of earners per household – according to Perry (2014, p. 15), "Around two of every three two-parent families were dual-earner families from 2007 to 2013, up from one in two in the early 1980s." Many families worked harder to stand still.

* See the Tables 1 and 2 of the spreadsheet Household Economic Survey: Year ended June 2013 – tables at http://stats.govt.nz/browse_for_stats/people_and_communities/Households/HouseholdEconomicSurvey_HOTPYeJun13.aspx

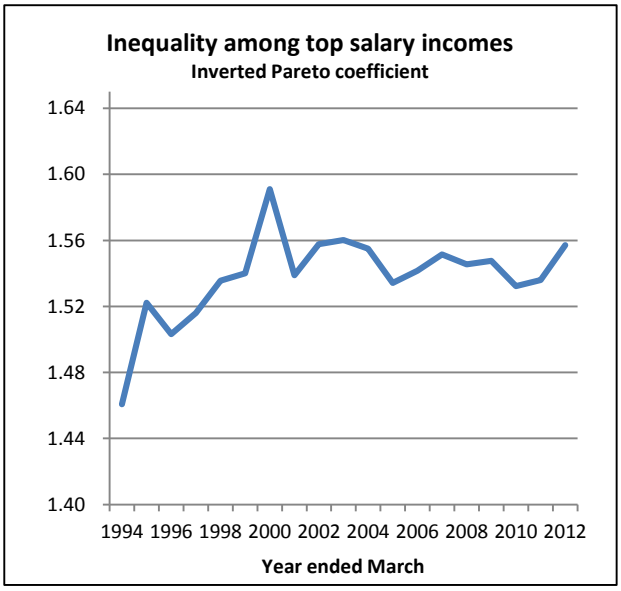
The distribution of wages

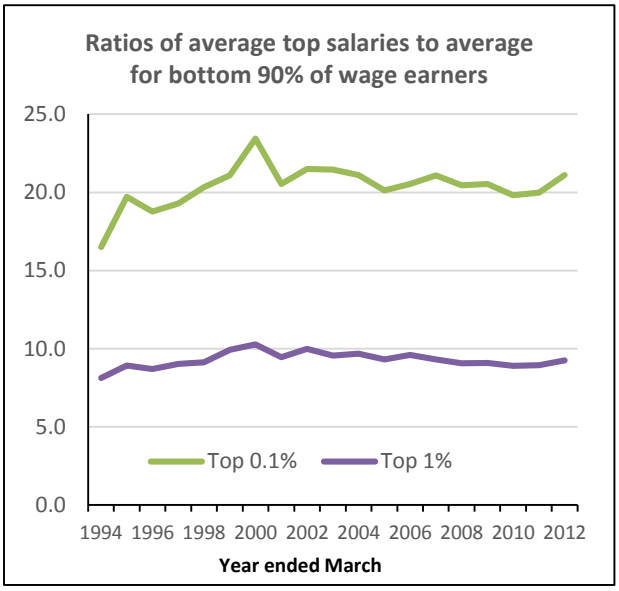
There is not as good publicly available data and analysis of the distribution of wages (or other market income) as there is for disposable household income. However Stillman, Le, Gibson, Hyslop and Maré (2012) analysed the incomes of families with at least one person aged 25-59, from 1983-2003. They found that "real hourly wages declined 11-16% fairly evenly across the entire wage distribution between 1983 and 1993". Between 1993 and 2003, real wages at and below the median (middle) grew only 3% to 6% while those above grew significantly faster – for example 15% at the 9th decile (the lowest income of the top 10%). Changes in weekly earnings were less extreme, with no divergence from 1993 to 2003 because lower paid workers worked more hours. However there was a gradual increase in inequality in the top half of the wage distribution – the ratio between the 9th decile and the median increased by about 6% between 1983 and 2003 for hourly and weekly wages, and gross and disposable household income. This indicates the close relationship between wage and household inequality.



Since 2003, there have been some signs of an increase in wage inequality between lower and higher incomes. For example the ratio of the median to average wage earnings fell between 1998 and 2013 – what middle income earners were receiving fell in proportion to the average.

Top salaries (such as chief executives and highly paid professionals) appear to have levelled off like other incomes with the Global Financial Crisis, but now could be taking off again. My own analysis of wage and salary income data from Inland Revenue, which unfortunately only goes back to 1994 (after the biggest growth in inequality occurred), shows that top salaries rose more quickly than others in the late 1990s,





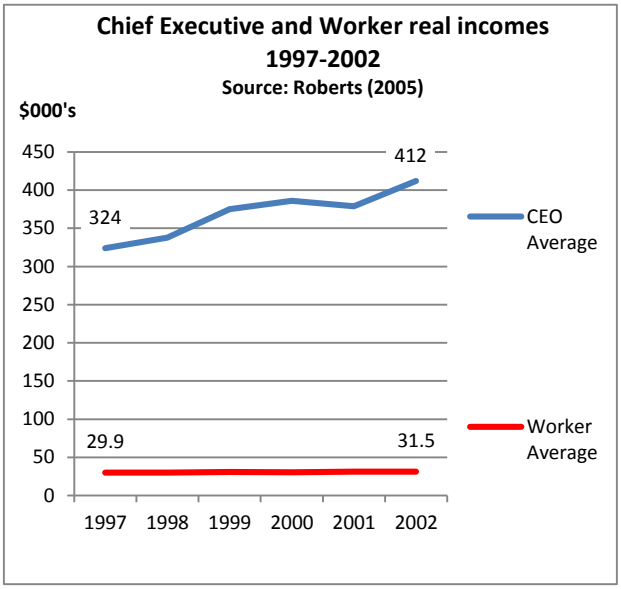
Source: Analysis of IRD data for wage incomes. Top 0.1% and Top 1% incomes are estimated assuming Pareto distribution.

stretching the inequality between top executives and most workers. It possibly fell a little during the 2000s and more recently rose (though note that 2012 data is provisional).

On this data, the average income in the top 0.1% (one in a thousand) of salaries was approximately $650,000 in 2012, and $285,000 for the top 1%. They had been $265,000 and $130,000 respectively in 1994. The average for the top 0.1% rose from 16.5 times the average for the bottom 90% in 1994 to 21 times in 2012, and for the top 1% from 8 times the bottom 90% in 1994 to 9 times in 2012.

However the data does not include some forms of income that senior private sector executives frequently get as part of their pay package such as shares or share options. It is therefore likely to understate the total remuneration for this group.

Although the lack of that information doesn't necessarily mean top income inequality is under- or over-stated, the apparent easing in inequality during the 2000s is not consistent with many media reports and analyses of accelerating inequality between the incomes of top executive their workers. It is however reasonably consistent with research by Otago academic Helen Roberts (2005, p. 21) relating to the period 1997 to 2002 (see graph, though note that it shows real – after-inflation – incomes). This shows CEO remuneration rising from 11 times the average income of workers in 1997 to 13 times in 2002. More recently, Fairfax business journalist Tim Hunter (2013) compared CEO incomes to those of the average for staff in their companies. In 2013 for example he found the ratio had increased from 22 times in 2010 to 26 times in 2012. His methodology is different from either Roberts or the tax data analysis, so is not directly comparable, but is consistent with strongly growing inequality between top incomes and the rest of us. These kinds of studies are largely limited to the chief executives of sharemarket-listed companies and top public sector managers because of lack of other data, but it is difficult to believe other executives had significantly different trends given their jealous attention to relativities.



At the other end of the income scale, a Treasury analysis of the Living Wage, while dismissing the concept for often spurious reasons, found that about 30 percent of households with dependants earn wages below $18.40 (Galt & Palmer, 2013, p. 2). "Over half of the sole parents with dependants who are working have wage rates below the Living Wage, and most of these earn less than $15 per hour. In 25% of households with two adults and dependants, the principal earner of the household is on a wage rate below the Living Wage. This earner may also have income from other sources, but generally the partner and dependants will have an even lower wage rate if they are earning wages or a salary" (p.8).

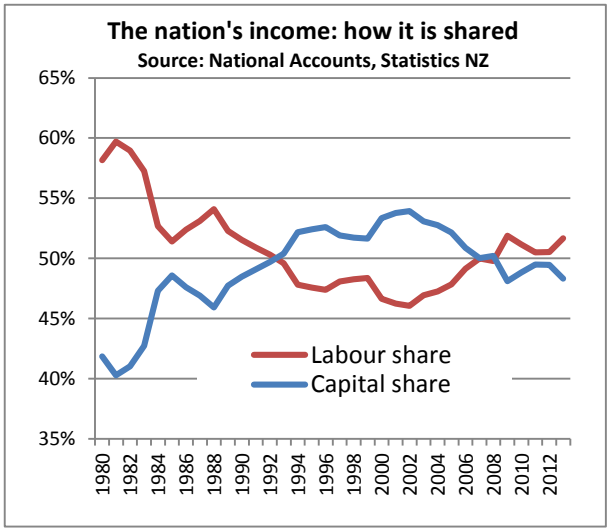
How much of New Zealand's income goes to wage and salary earners?

However individual or household income inequality is not the only concern as to how income is distributed. "Factor shares" describe how the income of the economy is shared between labour and

capital. Like inequality in general, this is a rising international concern. The International Labour Organisation (ILO) and economist Thomas Piketty are among those who have analysed it.

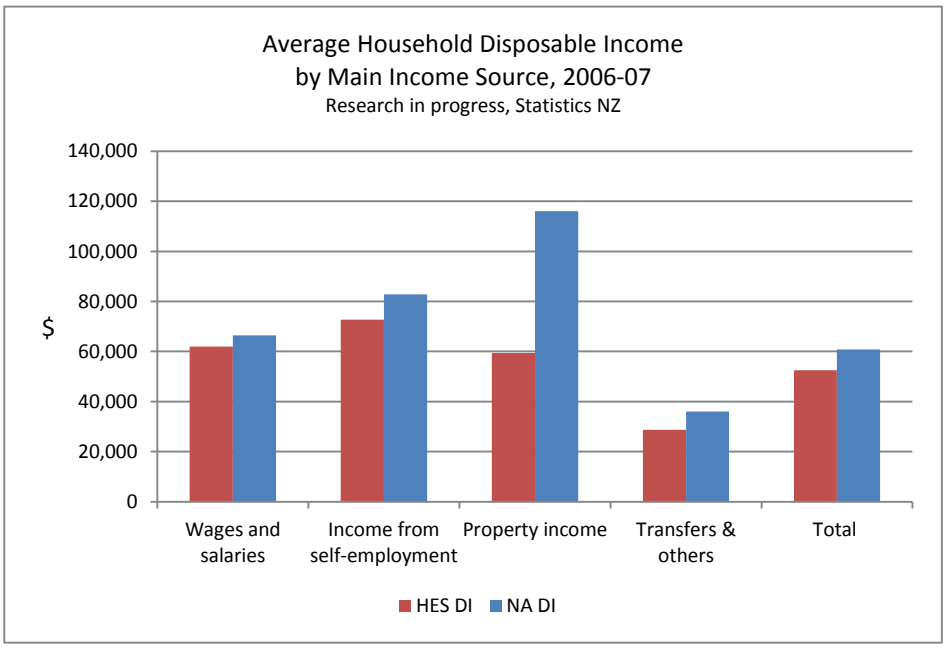
In the national accounts, the income generate by the economy is divided into "compensation of employees" and "gross operating surplus". Compensation of employees includes wages and non-wage benefits such as employer superannuation contributions, ACC employer levies and medical insurance paid by the employer. Gross operating surplus includes interest, dividends and self-employed income.

The "Labour share" is compensation of employees as a proportion of the total income generated by the economy (which is notionally equal to GDP). Sometimes the Labour share is augmented to include labour income of working proprietors such as the self-employed (by assuming they pay themselves at the same wage rate as employees in the same industry), but we don't do that here. The "Capital share" is gross operating surplus as proportion of total income and the two shares add to 1 by definition. Changes in the labour share are closely related to whether real wages keep up with labour productivity.



I have covered this in more detail before (see for example the February and June Economic Bulletin) but in brief the labour share of income fell from approximately 60% of income in early 1980s to 46% in 2002 – a loss to wage earners of about a quarter of aggregate income. It then recovered to around 50% – a sixth lower than the 1980s. In current dollar terms, that is a loss of about $19bn per year or $10,000 per wage earner per year. The present value of the loss over that period is estimated at between $660bn (invested in term deposits) and $1,200bn (paying off mortgages) or 3 to 5 times GDP. New Zealand's labour share is very low by developed country standards: Piketty considers 60-70% typical. In United Nations comparisons, only Chile and Mexico are lower among OECD countries.

The difference in distribution of types of income can be seen in the graph of household income by main income source. The brown bars show estimates of the income from the Household Economic Survey which is used for most income analysis. The blue bars result from work in progress by Statistics



New Zealand (Cope, 2013). They add income that can be observed in the economy as a whole and must be benefiting some households. The main change is for households whose main income is from property (which includes financial wealth as well as shares, real estate and other forms of wealth). Their income approximately doubles when this 'hidden' income is added back, and they are by far the highest income households on average, followed by self-employed (think of high income professionals and successful small business owners) with wages and salaries ahead only of those surviving on welfare benefits.

A reason for the big loss of income share to labour could have been because of the radical shift in New Zealand's industry structure, particularly during the 1980s and 1990s, which killed many relatively high-paying, high value-add industries but replaced them largely with low paid service industries. However a shift-share analysis which breaks down the changes in labour share into those due to shifts in industrial structure and those due to changes *within* an industry indicates that the big structural changes largely cancelled each other out and the fall was overwhelmingly within-industry effects – especially during the 1990s. Could the fall be because of increasing capital intensity which would increase returns to capital? Probably not. There was weak capital deepening over the period.

Another possibility is that there was a move from wage work to self-employment. There has long been concern that employees have been forced into much less secure situations as dependent contractors. As far as the available data allows us to say, there is some effect growth in self-employment income, but not enough to substantially change the picture of falling labour share. Self-employment peaked around 2000 and returned to levels similar to the 1980s, whether looking at number of workers or hours paid. As with industry restructuring, this hides big changes – self-employment falling in the largest self-employed occupation, agriculture, rising in professions and managers. There was a fall in the proportion of hours worked in agriculture, forestry and fishing from 60-65% in the 1980s and 1990s, to around 45% this decade, balanced out by a big increase in the large and rapidly growing Professional, Scientific, and Technical Services, plus smaller contributions from elsewhere. However it is not clear how much of this increase is due to increases in traditionally self-employed occupations and how much has been forced by dependent contracting.

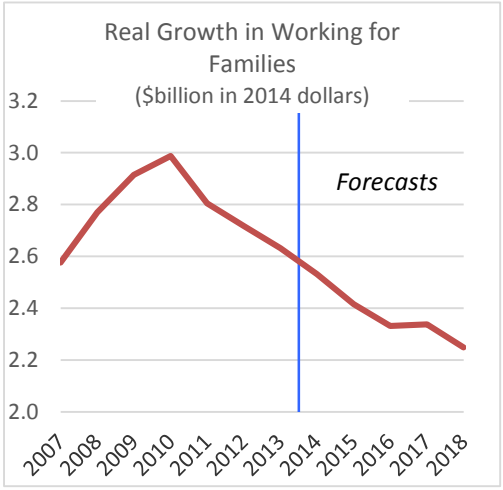
As mentioned, a falling labour share can point to real wages falling behind productivity growth. We have documented this (e.g. in the June Economic Bulletin) and may bring you further details later this year.

Implications

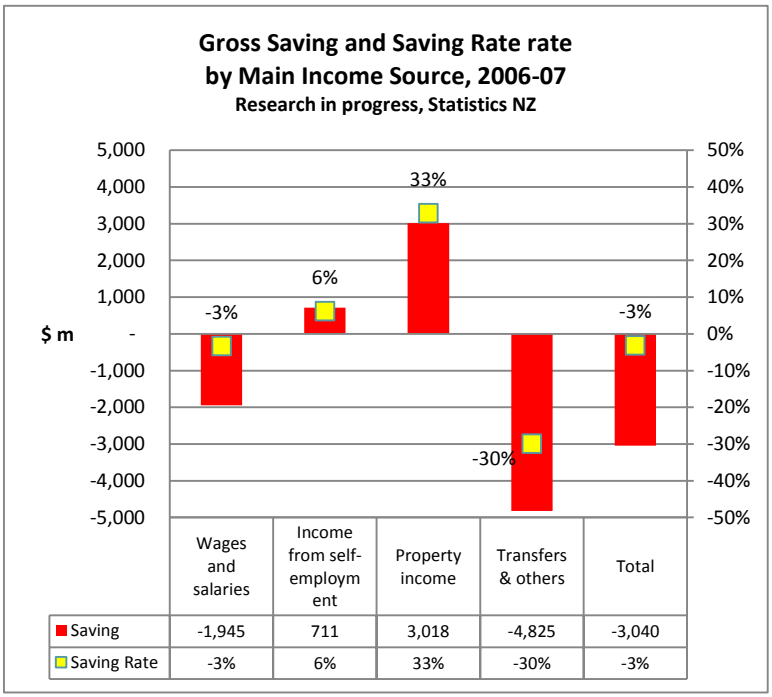
Research in the ILO and elsewhere also finds that the falling labour share is due to within-industry effects rather than moves to more capital-intensive production (International Labour Office, 2013). The ILO research attributes falling labour share in developed economies to increased financialisation (46%) globalisation (19%), technology (10%) and loss of employee bargaining power, deunionisation and falling government spending (25%). Increases in unemployment also contribute. The ILO and others, including research in the IMF and OECD find restoration of bargaining power of workers through higher unionisation and collective bargaining is part of the solution (though we have yet to see the OECD and IMF incorporate it in their advice to members!).

Low labour incomes also weaken aggregate demand and the domestic sales of local firms.

High inequality creates pressures on governments to compensate people for their loss. Working for Families is an example. Effectively a wage subsidy, it is being cut, as the graph on the right from 2014 Budget data shows (see the May Economic Bulletin). Even at $2.5bn it was small compared to the $19bn annual loss in labour share.



Low wages also have implications for savings. The second graph on this page also comes from the work by Statistics New Zealand (Cope, 2013). It shows negative savings on average in households whose main source of income is from wages and salaries or from benefits. Only households whose main source of income is from property (wealth) saved significantly. Household saving across all households shows a very similar pattern to the labour share since the late 1980s, falling increasingly negative until 2003, then rising as the labour share rose.



Bill Rosenberg

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Forecast

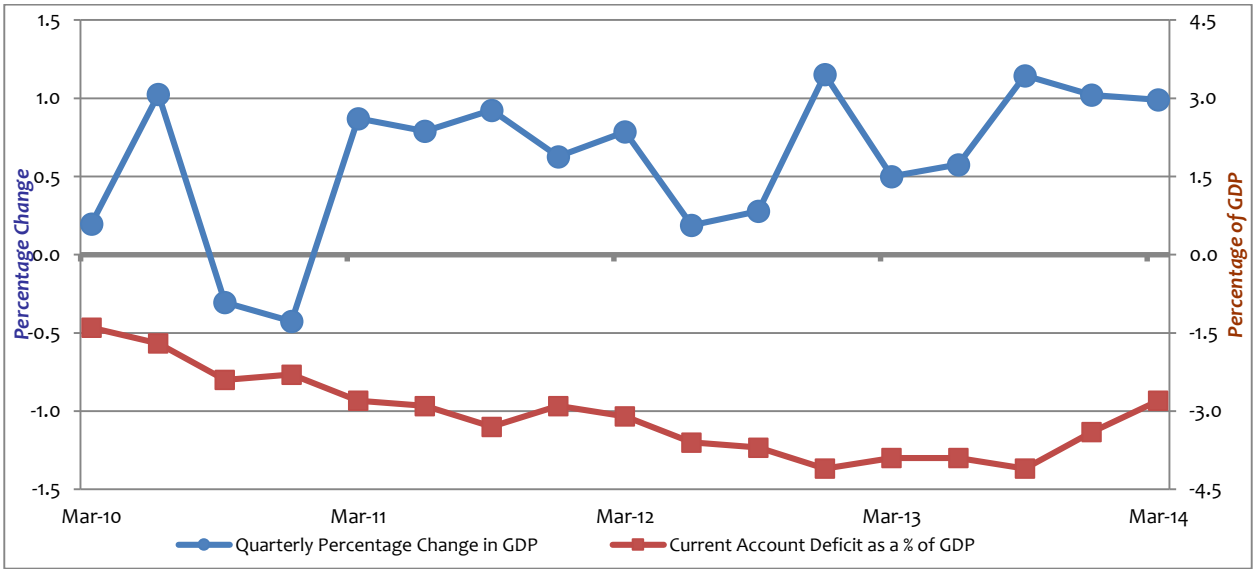
★ This NZIER forecast was released on 16 June 2014.

Annual Percentage Change (March Year)	**2013-14**	**2014-15**	**2015-16**	**2016-17**
GDP	3.3	3.8	2.8	2.1
CPI	1.5	2.0	2.4	2.4
Private Sector average wage	2.8	3.1	3.5	3.3
Employment	3.7	2.3	1.6	1.0
Unemployment rate	6.0	5.3	5.1	5.2

Actuals are in red.

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

Economy



- Growth in New Zealand's economy continued to increase strongly in the March 2014 quarter, with Gross Domestic Product growing at 1.0 percent, compared to quarterly increases of 1.0 percent in December (revised up from 0.9 percent) and 1.1 percent in September (a further revision down from an original 1.4 percent) 0.6 percent in June and 0.5 percent in March 2013. Growth for the year ended March 2013 was 3.3. The March 2014 quarter was 3.8 percent up on the same quarter in 2013. The largest quarterly rises by industry were in Construction (up 12.5 percent and accounting for 80 percent of the growth in the quarter), Mining (6.3 percent), Electricity, gas, water, and waste services (up 1.6 percent), and Retail trade and accommodation (1.4 percent). However Wholesale Trade fell 1.5 percent. Manufacturing was static having grown strongly in the last two quarters but contracting in the two before that. The result was that Primary Industries rose 2.0 percent, Goods producing industries (which includes Construction) rose 4.0 percent and Service industries rose 0.3 percent. Over the year though (comparing March years), all industries expanded, led by Construction (12.0 percent), Health care and social assistance (4.9 percent), Financial and insurance services (4.7 percent) and Retail trade and accommodation (4.4 percent).

Agriculture, forestry and fishing rose 3.0 percent. All most all manufacturing industries expanded production over the year, the only exception being Textile, leather, clothing, and footwear manufacturing which contracted by 2.7 percent. Food, beverage, and tobacco manufacturing rose a weak 0.5 percent but Wood and paper products manufacturing rose 3.0 percent, Printing 3.1 percent, Petroleum, chemical, polymer, and rubber product manufacturing 6.6 percent, Non-metallic mineral product manufacturing 9.4 percent, Metal product manufacturing 2.4 percent, Transport equipment, machinery and equipment manufacturing 0.3 percent, and Furniture and other manufacturing 8.3 percent. Household consumption expenditure did not rise in real terms in the quarter but rose 3.4 percent in the year. Expenditure on non-durable goods (such as groceries) rose 0.4 percent in real terms during the quarter and rose only 0.8 percent during the year while durables rose 1.8 percent in the quarter and boomed at 8.6 percent over the year. Business investment fell 1.5 percent in the quarter mainly due to a 18.2 percent fall in Intangible fixed assets and a 8.6 percent fall in Plant, machinery, and equipment, while Residential Buildings rose 11.6 percent, Non-resident buildings 17.5 percent and Transport Equipment 5.8 percent.

- New Zealand recorded a Current Account deficit of $0.6 billion for the March 2014 quarter in seasonally adjusted terms, compared to a 0.9 billion deficit in the December quarter. The improvement was driven by a surplus on goods trade of $2.2 billion while the deficit on income and transfers rose to $2.8 billion. For the year to March 2014, the deficit was $6.3 billion or 2.8 percent of GDP compared to a revised $7.6 billion deficit in the year to December 2013. The deficit on income of $9.9 billion was virtually all investment income ($9.7 billion deficit), outflows of which are steadily rising while inflows are near to static.

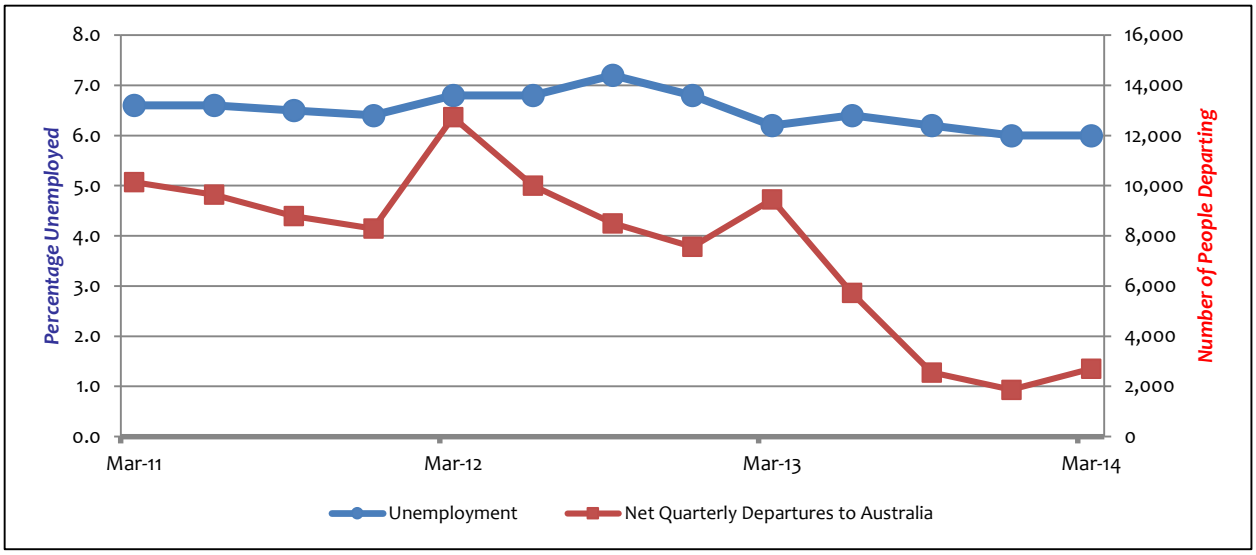
- The country's Net International Liabilities were $147.9 billion at the end of March 2014 (65.3 percent of GDP) down from a revised $146.9 billion (66.4 percent of GDP) at the end of December 2013, and from the $151.2 billion (71.4 percent GDP) in March 2013. The fall in net liabilities in the quarter was due mainly to net financial derivative valuation changes and market price changes. There was a net inward financial flow of $1.3 billion. Of the net liabilities, $8.8 billion was owed by the government (equivalent to 3.9 percent of GDP) and $100.3 billion by the banks (44.3 percent of GDP). Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes are estimated at $19.1 billion, and at 31 March 2014, $14.2 billion of these claims had been settled, leaving $4.8 billion outstanding. Without these, net international liabilities would have been $152.8 billion or 67.4 percent of GDP. New Zealand's gross international liabilities were $328.1 billion in March, against $180.1 billion in overseas assets.

- Overseas Merchandise Trade for the month of June saw exports of goods rising 4.8 percent from the same month last year while imports rose 8.7 percent, creating a trade surplus for the month of $247 million or 5.9 percent of exports. In seasonally adjusted terms, exports fell 0.7 percent or $28 million over the month (compared to a 0.4 percent rise the previous month) influenced by significant rises in exports of Meat, Fruit and Aluminium, but offset by significant falls in Dairy products, Crude oil, and Electrical machinery and equipment. Seasonally adjusted imports rose 0.1 percent or $5 million, creating a trade deficit of $26 million which is below the $33 million in the previous month. Exports to China rose 50.2 percent in the year to June and fell 6.3 percent to Australia. Our top six export destinations accounted for 60.2 percent of our exports in the year (of which China accounts for 22.6 percent), compared to 59.7 percent in the previous year (China 16.9 percent). Imports from China rose 9.0 percent in the same period, and fell 11.2 percent from

Australia. Elaborately transformed manufactured goods were 12.7 percent of exports in the June quarter, down from 14.0 percent in the June 2013 quarter, and from 17.4 percent in the June 2009 quarter.

- The Performance of Manufacturing Index[1] for June 2014 was 53.3, a rise from a revised 52.6 in May and 54.3 in April. The employment sub-index was at 52.9, down from 53.5 in May and 54.0 in April.
- The Performance of Services Index[1] for June 2014 was 54.7, a rise from 54.1 in May and 58.6 in April. The employment sub-index rose slightly to 52.4 from 52.1 in May and 53.2 in April.
- The Retail Trade Survey for the three months to March 2014 showed retail sales rose 0.7 by volume and by value in the quarter compared with the December 2013 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Specialised food, Liquor, Department stores, Hardware, building and garden supplies, Electrical and electronic goods. Pharmaceutical and other store-based retailing, Accommodation, Food and beverage services, and Motor vehicles and parts. Supermarkets and Grocery stores; Furniture, floor coverings, houseware, textiles; and Fuel were the largest negative contributions.
- On 24 July 2014 the Reserve Bank raised the Official Cash Rate (OCR) to 3.50 percent from 3.25 percent. It is now indicating it will pause in making further interest rate rises until the end of the year, though this depends on economic conditions. Further rises are highly likely. It says that "Wage inflation is subdued, reflecting recent low inflation outcomes, increased labour force participation, and strong net immigration", and "the level of the New Zealand dollar is unjustified and unsustainable and there is potential for a significant fall." The next review and Monetary Policy Statement will be announced on 11 September.
- The REINZ Housing Price Index fell 0.3 percent in the month of June 2014. Auckland rose 1.6 percent, Christchurch fell 1.9 percent and Wellington fell 4.3 percent. The index was up 6.2 percent compared to June 2013. For the year, Auckland prices rose 6.5 percent, Christchurch rose 5.5 percent and Wellington fell 3.1 percent. The national median house price fell $2,750 (0.6 percent) from $430,000 in May to $427,250 in June. It is $33,250 or 8.4 percent higher than a year ago with median prices rising in eight regions. Auckland accounted for 68 percent of the increase, Canterbury/Westland 23 percent and Waikato/Bay of Plenty 9 percent. The three regions accounted for all of the increase in median prices during the year. There were 542 or 17.3 percent fewer sales under $400,000 compared to June 2013, but a rise of 65 to 406 in the $1 million plus range and 69 more (to 1,159) in the $600,000 to $999,999 range. Sales under $400,000 accounted for 44.8 percent of sales in June 2014 but 50.9 percent in June 2013.

Employment

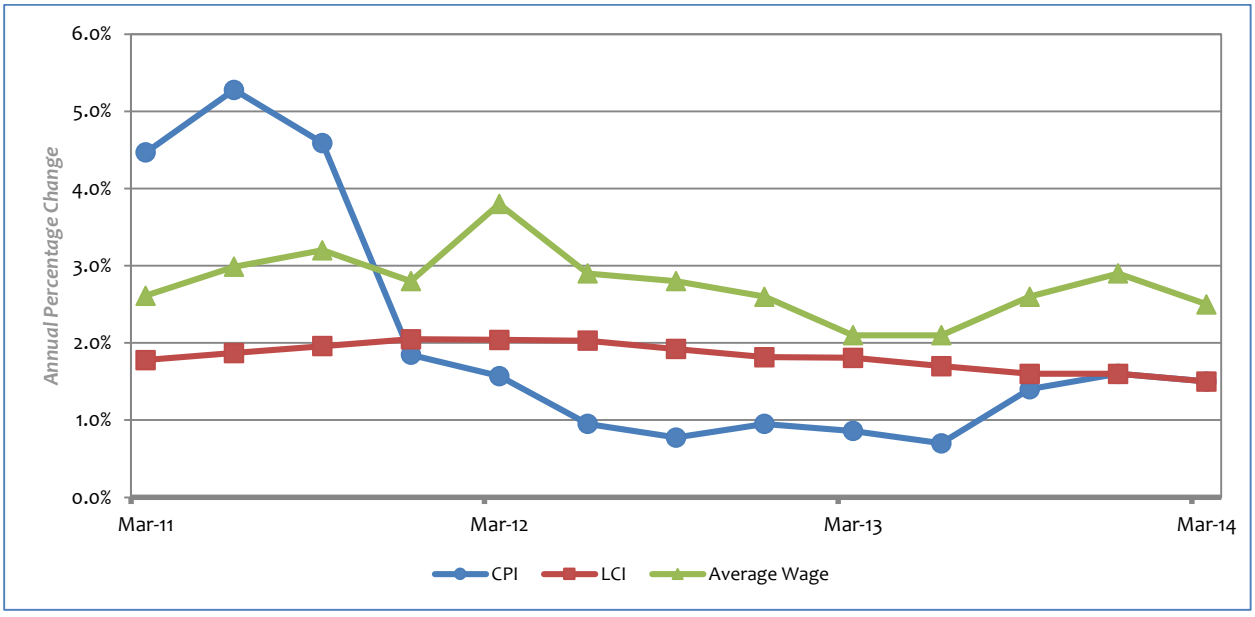


- According to the Household Labour Force Survey the unemployment rate in the March 2014 quarter remained at 6.0 percent, the same as it was in the December 2013 quarter. Seasonally adjusted female unemployment at 6.4 percent was higher than for men (5.6 percent). The unemployment rate in Canterbury was 3.3 percent, down from 4.3 percent in March 2013. There were 147,000 people unemployed and the number of jobless people (which includes those discouraged from seeking employment) was 254,100, 3,000 higher than the 251,400 a year before. There were 95,800 people seeking additional hours, a sharp increase from 83,300 a year previously. Māori unemployment fell from 13.9 percent in March 2013 to 13.2 percent and Pacific unemployment fell from 15.2 percent in March 2013 to 13.0 percent. The labour force participation rate at 69.3 percent is up 0.4 percentage points from the previous quarter and up 1.3 percentage points for the year. There are 38,400 unemployed people who have been out of work for more than 6 months (down from 44,600 in December 2013 and down from 40,900 in March 2013), and as a proportion of the unemployed they have fallen from 26.3 percent to 24.9 percent over the year. Compared to OECD unemployment rates, New Zealand has risen from 12th position in December 2013 to 11th (out of 34 countries).

- Youth unemployment (15-19 year olds) was 21.9 percent, down from 24.3 percent in December 2013 and from 25.0 percent a year before, in seasonally adjusted terms. It was somewhat lower (at 20.2 percent) among those in education than those not (25.0 percent), but most of the 8,000 increase in employment over the year was among people in education who increased by 5,000. The not in employment, education, or training (NEET) rate rose from 8.0 percent in December to 8.8 percent. The unemployment rate among 20-24 year olds was 12.2 percent, up from 11.2 percent in the December 2013 quarter and 10.0 percent a year before, and almost all of the employment increase over a year ago was among those in education. The NEET rate was 14.6 percent, up from 14.4 percent in the previous quarter. There were 75,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 11.8 percent of people in that age group, up from 11.3 percent in September and down from 12.6 percent a year before.

- At the end of June 2014 there were 121,131 working age people on the Jobseeker benefit, a fall of just 822 from 121,953 in March 2014 and a fall of 7,477 from June 2013. Of those at June 2014, 65,321 were classified as 'Work Ready', and 55,810 were classified as 'Health Condition or Disability'. A total of 293,586 were on 'main' benefits, just 1,734 fewer than March 2014 and 16,196 fewer than June 2013. It was 35,269 more than in June 2008.
- Job Vacancies Online showed a seasonally adjusted rise in skilled job vacancies of 14.2 percent in June after a fall of 5.3 percent in May. All job vacancies also rose – by 11.2 percent – in June, after a fall of 3.8 percent in May. In the year to June, skilled vacancies increased by 16.1 percent. All vacancies increased by 17.5 percent.
- International Travel and Migration data showed 9,210 permanent and long-term arrivals to New Zealand in June 2014 and 4,940 departures in seasonally adjusted terms, a net gain of 4,270. There was an actual net gain of 38,338 migrants in the year to June. Net migration to Australia in the year to June was 8,325 departures, with 30,514 departures and 22,189 arrivals. For the month of June, the seasonally adjusted net loss to Australia was 20 compared to 1,550 a year before.

Wages and prices



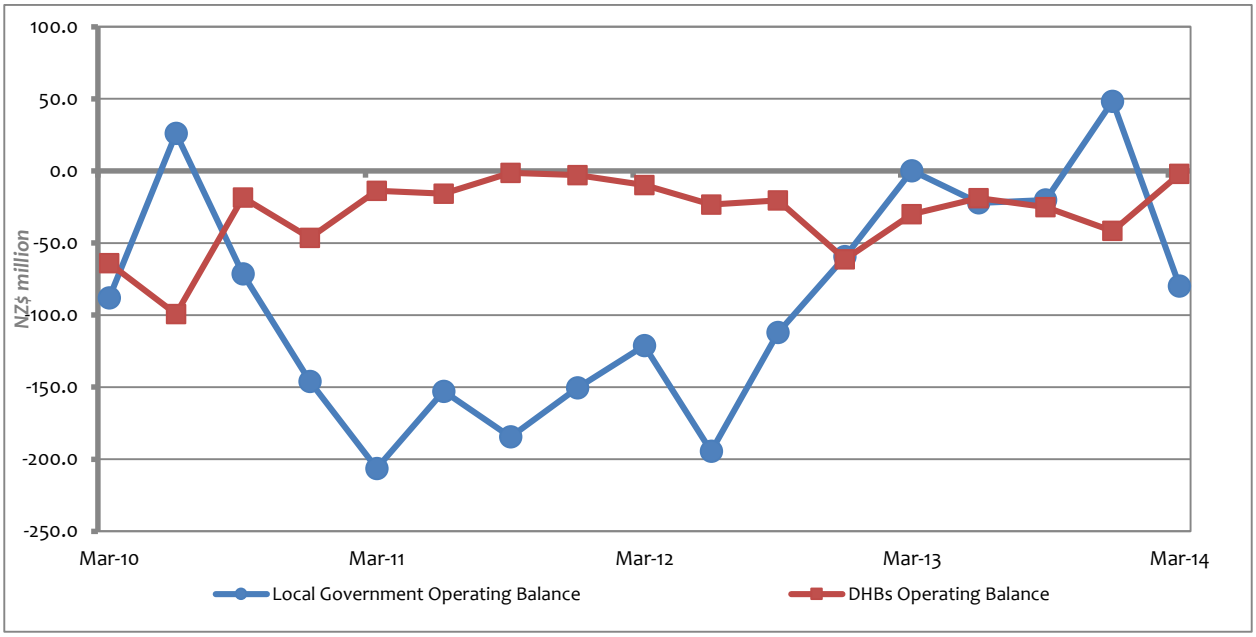
- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.3 percent in the three months to March 2014, down from the 0.5 percent in the December 2013 quarter. The LCI increased 1.5 percent in the year to March. It increased 0.2 percent in the public sector and 0.3 percent in the private sector in the three months to March. Over the year to March it rose 1.2 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 2.3 percent and the average increase was 3.1 percent. The median increase in the public sector was 1.8 percent and in the private sector 2.5 percent.

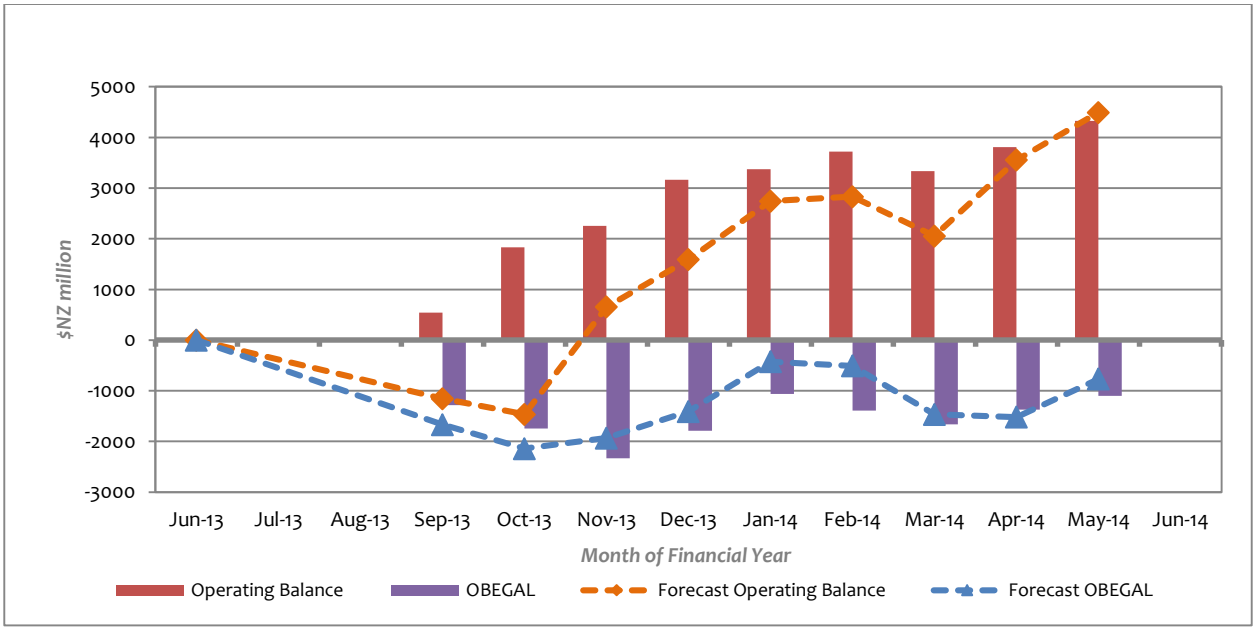
- The Quarterly Employment Survey for the three months to March 2014 found the average hourly wage for ordinary-time work was $28.18, up 0.5 percent on the December 2013 quarter and up 2.5 percent over the year. The average ordinary-time wage was $26.16 in the private sector (up 0.7 percent in the quarter and up 2.9 percent in the year) and $35.86 in the public sector (up 1.7 percent in the quarter and up 1.8 percent in the year). Female workers (at $26.13) earned 12.6 percent less than male workers (at $29.90) for ordinary time hourly earnings.

- The Consumer Price Index rose 0.3 percent in the June 2014 quarter compared with the March 2014 quarter and increased 1.6 percent for the year to June. For the quarter, Housing and household utilities were the largest influence, rising 1.2 percent with household energy (mainly electricity) rising 3.7 percent in the quarter. Over the year, exactly half of the increase came from housing and household utilities which rose 3.4 percent and without which the CPI would have risen only 1.0 percent. While prices rose by 0.3 percent on average in the three months to June, housing and household utilities rose at four times the rate at 1.2 percent, accounting for 88 percent of the increase in the CPI. They rose by 0.7 percent in Auckland, 1.8 percent in Wellington and 1.6 percent in Canterbury. The cost of newly built houses rose 1.2 percent and rents rose 0.6 percent. Electricity was up 4.2 percent. The other major contributor in the quarter was Food (contributing over half at 53 percent of the rise) but these rises were offset by falls in Alcohol and tobacco, Transport (especially purchases of cars), Communications, and Recreation and culture (mainly due to big falls in the prices of package holidays and audio-visual and computing equipment). Inflation in Canterbury for the year was 2.4 percent compared with 2.1 percent in Wellington and 1.5 percent in Auckland. Housing costs hit particularly hard in Canterbury, rising 5.7 percent for the year compared to 2.7 to 3.6 percent elsewhere.

- The Food Price Index rose by 1.4 percent in the month of June 2014, following a 0.6 percent rise in May. Food prices rose 1.2 percent in the year to June 2014. Compared with May, fruit and vegetable prices rose 5.0 percent; meat, poultry, and fish prices rose 3.6 percent; grocery food prices rose 0.5 percent; non-alcoholic beverages fell 1.0 percent; and restaurant meals and ready-to-eat food rose 0.2 percent.

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand for the eleven months to May 2014, core Crown tax revenue was $459 million or 0.8 percent lower than forecast in the May Budget Economic and Fiscal Update (BEFU), and total core Crown revenue was $432 million or 0.7 percent below forecast. Expenses were $36 million (0.1 percent) below forecast. Net debt at 26.2 percent of GDP ($59.5 billion) was $453 million lower than the forecast $59.0 billion. The Operating Balance before Gains and Losses (OBEGAL) was a $1,099 million deficit, $332 million higher (worse) than forecast. The Operating Balance was a $4,328 million surplus compared to a forecast surplus of $4,493 million. Tax revenue, though 4.6 percent higher than in the eleven months to May 2013, was below forecast because both GST ($238 million) and corporate tax ($120 million) were lower than expected. The lower GST was due to lower than forecast growth in consumption. The strong Operating Balance was mainly due to "continuing strength in equity markets" – rising share prices leading to gains on financial investments of $4.8 billion, $1.4 billion

ahead of forecast. These were partially offset by an increase in ACC's insurance liability due to falls in short-term interest rates affecting their discount rate.

★ District Health Boards recorded combined deficits of $40.7 million for the ten months to May 2014, up sharply from the $15.9 million in April. However this is $2.9 million less than the $43.7 million deficit in their plans. The Northern region was $0.9 million ahead of plan with surpluses in all four DHBs except Auckland DHB and all ahead of plan, the Midland region was $3.4 million ahead of plan with a combined deficit of $2.8 million with only Bay of Plenty and Lakes in surplus and only Waikato and Tairawhiti behind plan, Central region was $4.2 million behind plan with half of the DHBs (Hawke's Bay, MidCentral and Whanganui) ahead of plan and all but MidCentral in deficit led by Capital and Coast with a $9.9 million deficit contributing to a $13.2 million deficit for the region, and the Southern Region was $2.8 million ahead of plan, and $21.8 million of its $28.0 million deficit is from Canterbury, with it and Southern behind plan. The DHB furthest ahead of plan was Nelson Marlborough by $5.5 million, and Southern was furthest behind, by $4.2 million.

O Local Government recorded a 3.0 percent ($61.7 million) fall in operating income and a 3.3 percent rise in operating expenses ($66.5 million) including an increase of 0.3 percent ($1.6 million) in employee costs for the March 2014 quarter compared to December. This resulted in an operating deficit of $79.8 million in the March quarter, compared with a surplus of $48.4 million in the December quarter, and deficits in 22 of the last 26 quarters back to December 2007, all in seasonally adjusted terms. Note that the March 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/economicbulletin159.

For further information contact Bill Rosenberg.