NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 160 (August 2014)

Commentary

The election and the economy

Summary

What economic policies do we need from a new government after the election?

The "rock star economy" was never more than a blip and economic growth has probably peaked. Yet wages haven't followed growth on its way up and unemployment is much higher than it should be. Meanwhile crucial economic, social and environmental imbalances remain.

The incoming Government will be faced with an array of issues which it can either face or, like the present one, hope will go away. They include unacceptably high unemployment, job growth heavily dependent on the Christchurch rebuild, increasing discontent at stagnant wages, an unbalanced economy with growing reliance on commodity exports whose prices are now falling, an exchange rate that punishes exports other than the main commodities, housing shortages and unaffordable house prices particularly in Christchurch and Auckland, growing popular demand to address high income and wealth inequalities and child poverty, and a backlog caused by five years of falling government expenditure in real terms on most government services and social support programmes.

There are three key elements to a decent wages system that will begin to dig New Zealand out of its low-wage rut: industry policy that supports investment and diversification of our economy into more productive industry; encouraging and broadening the positive impact of collective bargaining to return bargaining power to workers so that the benefits of productivity growth flow through into wages; and a social security system that, like ACC earnings-related compensation, genuinely provides security of income plus training and support for those who lose their jobs in an increasingly insecure ("flexible") job market.

Workers and other low and middle income earners depend on public services such as health, education, public transport, good health and safety regulation and environmental protection as part of their "social wage". In addition the taxation system and "transfers" such as Working for Families tax credits are vital mechanisms for correcting some of the very high inequality in the incomes people receive from work and investments. These can only be maintained by raising sufficient taxation. It must be progressive taxation – that is, taxing those with higher incomes at a higher rate. Recent research shows that reducing inequality is good for economic growth and redistribution doesn't harm growth.

National's policies address few of these solutions and in some cases make things worse. Labour and the Greens are proposing many steps in the right direction.

What economic policies do we need from a new government after the election?

The "rock star economy" was never more than a blip and economic growth has probably peaked. Yet wages haven't followed growth on its way up and unemployment is much higher than it should be if the benefits of the growth were evenly spread. Some economists are starting to wonder what will replace the Canterbury rebuild to keep the economy moving as it peaks, probably next year, and then begins to wind down. With National intent on ensuring government expenditure continues to shrink as a proportion of the economy, it will be less and less able (let alone willing) to help. Meanwhile crucial economic, social and environmental imbalances remain unaddressed.

So the incoming Government will be faced with an array of issues which it can either face or continue to hope will go away. They include unacceptably high unemployment, job growth heavily dependent on the Christchurch rebuild, increasing discontent at stagnant wages, an unbalanced economy with growing reliance on commodity exports whose prices are now falling, an exchange rate that punishes exports other than the main commodities (such as manufacturing), housing shortages and unaffordable house prices particularly in Christchurch and Auckland, a growing need and popular demand to address high income and wealth inequalities and child poverty, and a backlog caused by five years of falling government expenditure in real terms on most government services and social support programmes.

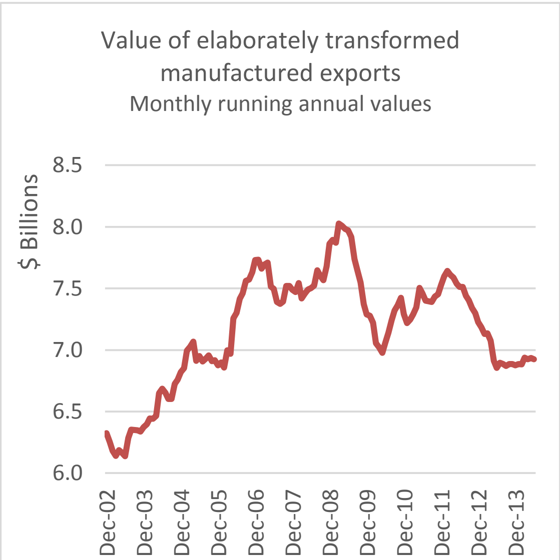
I'll look at this from the viewpoint of good jobs and good public services.

Good jobs

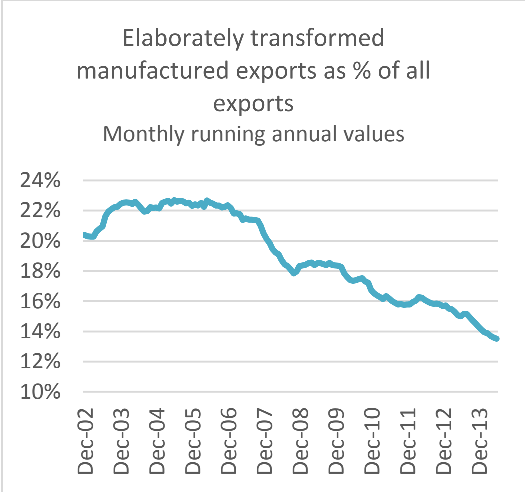
There are three key elements to a decent wages system that will begin to dig New Zealand out of its low-wage rut: industry policy that supports investment and diversification of our economy into more productive industry; encouraging and broadening the positive impact of collective bargaining to return bargaining power to workers so that the benefits of productivity growth flow through into wages; and a social security system that, like ACC earnings-related compensation, genuinely provides security of income plus training and support for those who lose their jobs in an increasingly insecure ("flexible") job market.

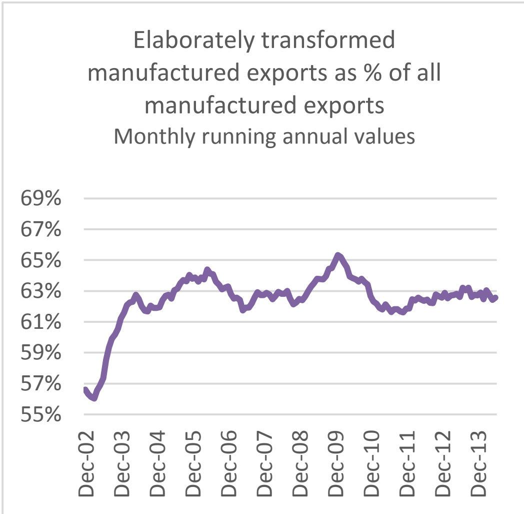
Industry policy

Diversification of industry is needed for a number of reasons as well as providing good jobs. New Zealand's economy was radically restructured during the 1980s and 1990s by opening the economy but governments failed to take the necessary actions to ensure the often high valued-added industries destroyed were replaced by new high value-added industries (as explained by McMillan & Rodrik, 2012). The result is seen in our increasing dependency for our exports on low-value commodities such as milk powder and unprocessed logs. With a few exceptions they produce mainly poor paying jobs with poor working conditions. It is a risk to the economy to be dependent on an increasingly narrow band of commodities and markets.



In an open economy we are, as famous labour economist Richard Freeman (2007) put it, exposing New Zealand workers to the "great doubling" of the global labour force, most of which is much lower paid than New Zealanders. The effect of the huge expansion of the effective labour force is transmitted primarily through imports that compete with New Zealand-made goods and services, the loss of competitiveness of our manufactured exports, and the outsourcing of production of New Zealand firms to low wage countries. We cannot compete with them on the basis of low wages and hope to maintain living standards in New Zealand. We can only compete on the basis of higher productivity which delivers higher wages to New Zealand workers – and so far we have failed to both build sufficient high productivity firms and transmit the benefits to more than a minority of workers. If we cannot succeed, the future of New Zealand is dire unless we return to a more closed and protected economy.





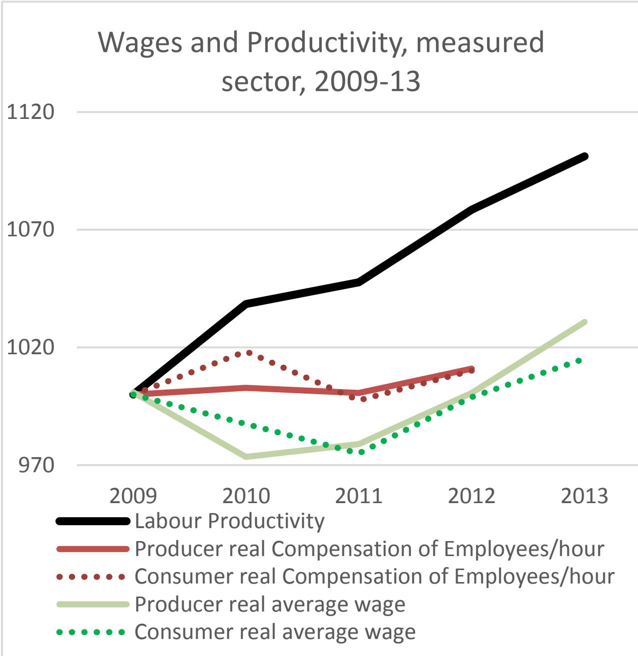
Success requires much more direct and strategic government support for promising sectors of industry. It requires an industry strategy, including support for the development of higher value manufacturing such as use of government procurement to assist local suppliers to get a local market and increase their scale. Part of the support must be bringing down the high exchange rate which virtually all observers (among them the Reserve Bank) agree is unsustainably high. More than that, its overvaluation has been persistent: this is not a one-off. It is largely driven by high interest rates in New Zealand compared to rates in the main financial centres of the world, encouraging short term financial flows into New Zealand which drive up the exchange rate; and by our main commodity exports (e.g. Mabin, 2010; McDonald, 2012; Reddell, 2013). New Zealand is suffering from an economy excessively driven by unproductive financial profit-seeking and the "Dutch disease"[*] – a few commodities driving the exchange rate to the detriment of the rest of the tradable sector such as manufacturing. The highest value-added manufactured exports, elaborately transformed manufactures, have fallen since 2009 as a proportion of our exports and of total manufactured exports.

Policies to resist this could include broadening the Reserve Bank's objectives to include employment and the exchange rate, and the use of a wider range of policy tools such as controlling banks' use of overseas funding for lending on mortgages in New Zealand. Many of the policies we may need to use are hamstrung by international trade agreements like the proposed Transpacific Partnership Agreement which is likely to make control of the financial system and international financial flows more difficult, and severely weaken the use of government procurement as an industry development tool. It needs to be accompanied by encouraging the growth of savings in New Zealand – and their investment in productive enterprises.

[*] The "Dutch disease" is an economists' term referring to the problem that the Netherlands had when it found a large natural gas field in 1959. It applies to any situation when natural resource exports (in the Dutch case, gas) drive up the exchange rate, making it difficult for manufactured exports to compete.

National has rejected any attempt to influence the exchange rate. It has industry policies but they don't add up to a strategy and leave manufacturing exposed. Contrary to its rhetoric it does "pick winners" such as the SkyCity casino convention centre and a new convention centre in Christchurch, the film industry and the Bluff aluminium smelter, but each of them is highly problematic in terms of added value, low wages, or in crowding out more valuable use of resources. On the other hand the creation of the Callaghan Institute may turn out to be a positive step. Labour and the Greens each has a range of policies to address industry strategy, including manufacturing, monetary policy and the exchange rate. More will need to be done but they are certainly important moves in the right direction.

Raising wages



But wages won't go up just because firms have higher productivity, unless there are mechanisms to ensure it happens. Since the early 1990s, real wage growth (that is, after inflation) has fallen well behind productivity growth, and that process has repeated since 2009. As is recognised in our own law and international labour conventions, the unequal bargaining power between employers and workers allows that to happen. The only effective way to address that is by strengthening and broadening the impact of collective bargaining independently negotiated by unions representing the workers in the industry concerned. Data showing reasons for pay rises released with Statistics New Zealand's Labour Cost Index implies that jobs subject to a collective employment agreements are twice as likely to get a pay rise compared to positions on individual agreements.

National has changes to the Employment Relations Act ready to pass if it returns to office which will further restrict even the weak collective bargaining laws we have. Labour and the Greens have policies that either work towards better laws or support an immediate change that strengthens collective bargaining.

Employment security

New Zealand has among the shortest job tenures and greatest churn in the OECD (see our 2013 publication "Under Pressure"). An open economy brings job insecurity, either because of the ups and downs of the international economy or because employers constantly adapt to seek new markets. The insecurity is increased if employers follow a path of low-skilled, low paid work rather than building the skills and employer-specific knowledge of their employees. Euphemistically called "flexibility", some forms are good for the economy, some not. In all cases, worker's quality of employment, wellbeing and future earnings are at stake. To the extent it is destructive, employment law should make it more difficult. To the extent that it is necessary and positive for the economy in the longer run, workers should not be forced to bear the brunt of constant job loss. In addition, if the fall in income they receive when thrown out of work is punishing, as it is with New Zealand's unemployment (now "jobseeker") benefits, then the pressure to find *any* job helps employers keep wages down, and makes it difficult for workers to search for long enough to find a job that suits their skills and experience. They may need to retrain or move to find a suitable job. Our social security system should recognise that there is a collective responsibility to protect the security of workers and their families when they lose their jobs in a highly insecure ("flexible") job market. As in countries like Denmark where the concept is known as "employment security" (as opposed to job security) or "flexicurity", the government should provide unemployment benefits at least 80-90 percent of the worker's previous wage for one to two years while they search for jobs, it should provide advice and funding for retraining, and help with relocation if necessary. We recognise that such levels of income replacement are necessary for accident compensation. It is punitive not to do the same when the economy benefits from insecure work.

We have among the lowest unemployment benefit levels in the OECD. For example we have the lowest income replacement rates for a two-earner couple with two children on two-thirds of the average wage and third from bottom for a similar family on the average wage, and a single person on the average wage with no children. Benefit levels are steadily falling relative to average wages because they are only kept up with inflation.

None of the main parties are promising to address this problem. National's policies are heading for increasingly targeted benefits, meaning fewer people will be eligible, and it is putting increasing pressure on people to get off the benefit (whether into work or not) rather than seeing social security entitlements as being there to assist people through difficult times into a job as good (as far as possible) as they had before. Labour and the Greens are offering further assistance for families.

Good public services

Workers and other low and middle income earners depend on public services such as health, education, public transport, good health and safety regulation and environmental protection as part of their "social wage". Without them they would risk bankruptcy from ill-health, loss of opportunity that education and training provides, and lowered quality of life for themselves, their children and future generations. In addition the taxation system and "transfers" such as Working for Families tax credits are vital mechanisms for correcting at least some of the very high inequality in the incomes people receive from work and investments. These can only be maintained by raising sufficient taxation. It must be progressive taxation – that is, taxing those with higher incomes at a higher rate. Our income tax structure has lost a great deal of its progressive nature and is now one of the least effective for this purpose in the OECD. Making it more redistributive again, and using other forms of progressive taxation such as a capital gains tax, exempting the family home, are essential not only to reduce inequality but to raise enough revenue to pay for the public services we need. A famous jurist said that "taxes are the price we pay for a civilised society". Does this – as the government and business representatives claim – threaten economic growth? Not according to senior researchers in the conservative International Monetary Fund (Berg & Ostry, 2011). In a recent research paper they stated that on the contrary, "lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution... [R]edistribution 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." Nor is there good evidence that higher government spending is bad for growth: it is the quality of the spending that counts. In any case, the objective of government is far broader than simply economic growth.

In the May Bulletin I described National's future spending plans. Its forecasts for real cuts in spending cannot be covered by the provision it makes for future spending, so losses in government services, and a continuing fall in the value of Working for Families, is inevitable if they return to office. If they institute new services there must be more cuts in existing services. If in addition they promise tax cuts then services will suffer even more. Tax cuts are irresponsible in the face of the needs the country faces. In fact, the talk is vague: "dog whistling" in political jargon, and Finance Minister Bill English is clearly reluctant to promise anything. National want people to believe they will cut taxes without stating how much or what its effects will be. At the $500 million per year being suggested for tax cuts – which would put a huge dent in the $1,500 million allowance they have made available to keep up with inflation and spend on new services – they would average a derisory $4 a week even if only for low and middle income tax payers (on less than $60,000 a year) based on Treasury figures from the 2014 Budget. That's hardly a vote winner so it's clear why it is left silent. The cost will be further cuts in public services.

Labour and the Greens are proposing various forms of more progressive taxation (such as higher taxes on top income levels, and a capital gains tax), which will begin to address inequality, and improved public services, better health and safety and environmental laws, and increased assistance for families. These are all useful steps in the right direction.

References

Berg, A. G., & Ostry, J. D. (2011). *Inequality and Unsustainable Growth: Two Sides of the Same Coin?* (Discussion Paper No. SDN/11/08) (p. 21). International Monetary Fund. Retrieved from http://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf

Freeman, R. (2007). The Great Doubling: The Challenge of the New Global Labor Market. In *Ending Poverty In America: How to Restore the American Dream* (p. Chapter 4). NY: The New Press. Retrieved from http://www.topwonks.org/the-great-doubling-the-challenge-of-the-new-global-labor-market/

Mabin, G. (2010). *New Zealand's Exchange Rate Cycles: Evidence and Drivers* (Working Paper No. 10/10). Wellington, New Zealand: The Treasury. Retrieved from http://purl.oclc.org/nzt/p-1346

McDonald, C. (2012). *Kiwi drivers the New Zealand dollar experience* (Analytical Note No. AN2012/02). Wellington, New Zealand: Reserve Bank of New Zealand. Retrieved from http://www.rbnz.govt.nz/research_and_publications/articles/details.aspx?id=4240

McMillan, M., & Rodrik, D. (2012). *Globalization, Structural Change, and Productivity Growth* (Discussion Paper No. 01160) (p. 40). Washington DC, USA: International Food Policy Research Institute. Retrieved from http://www.ifpri.org/publication/globalization-structural-change-and-productivity-growth

New Zealand Council of Trade Unions Te Kauae Kaimahi. (2013). *Under Pressure: A Detailed Report into Insecure Work in New Zealand*. Wellington, New Zealand: New Zealand Council of Trade Unions Te Kauae Kaimahi. Retrieved from http://union.org.nz/underpressure

Reddell, M. (2013). The long-term level "misalignment" of the exchange rate: Some perspectives on causes and consequences. Presented at the Exchange Rate Policy Forum: Issues and Policy Implications, Wellington, New Zealand. Retrieved from http://www.rbnz.govt.nz/research_and_publications/seminars_and_workshops/Mar2013/5200823.pdf

Forecast

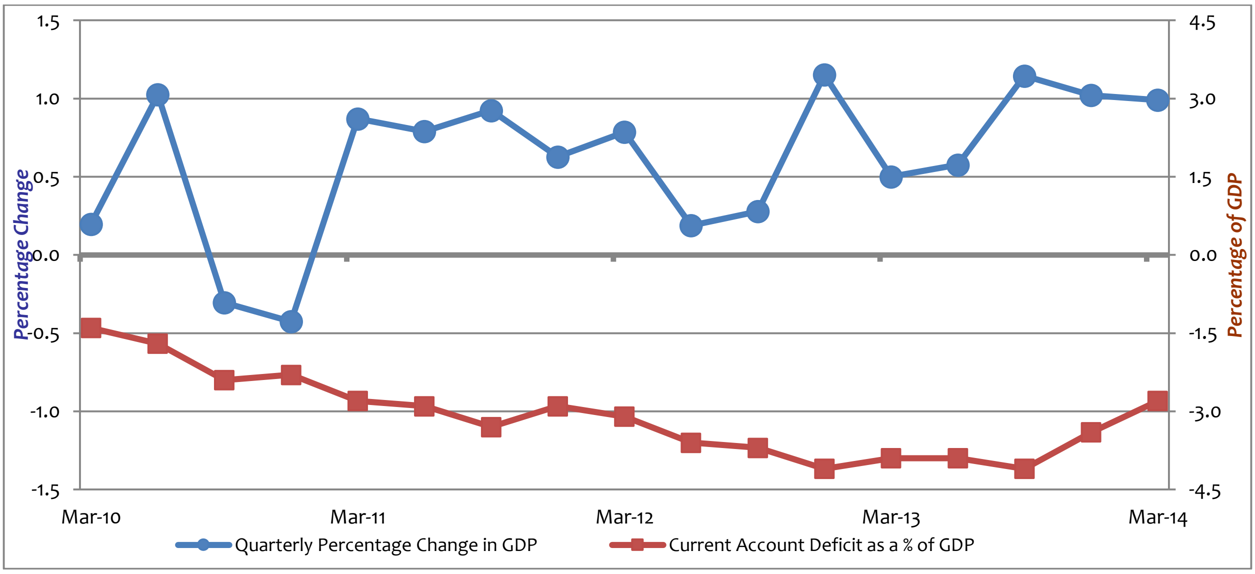
- This NZIER forecast was released on 16 June 2014.

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 July saw exports of goods falling 3.3 percent from the same month last year while imports fell 4.8 percent, creating a trade deficit for the month of $692 million or 19 percent of exports. In seasonally adjusted terms, exports fell 7.5 percent or $311 million over the month (compared to a 1.1 percent fall the previous month) influenced by significant falls in all main exports except Mechanical machinery and equipment which rose 6.8 percent and Seafood which rose 3.4 percent. Dairy (down 8.7 percent), Meat (down 6.7 percent), Logs and wood products (down 0.3 percent), Crude oil (down 38.2 percent, not seasonally adjusted), Fruit (down 6.6 percent), Aluminium and its products (down 1.4 percent, not seasonally adjusted), Wine (down 2.0 percent) and Electrical machinery and equipment (down 0.5 percent) all fell. Seasonally adjusted imports fell 1.8 percent or $78 million, creating a trade deficit of $314 million which is more than the $80 million deficit in the previous month. Exports to China rose 47.3

percent in the year to July and fell 5.3 percent to Australia. Our top six export destinations accounted for 60.4 percent of our exports in the year (of which China accounts for 22.6 percent), compared to 59.6 percent in the previous year (China 17.2 percent). Imports from China rose 5.2 percent in the same period, and fell 9.4 percent from Australia.

★ The Performance of Manufacturing Index[1] for July 2014 was 53.0, a fall from a revised 53.4 in June and 52.7 in May. The employment sub-index was at 51.3, down from 52.7 in June and 53.2 in May.

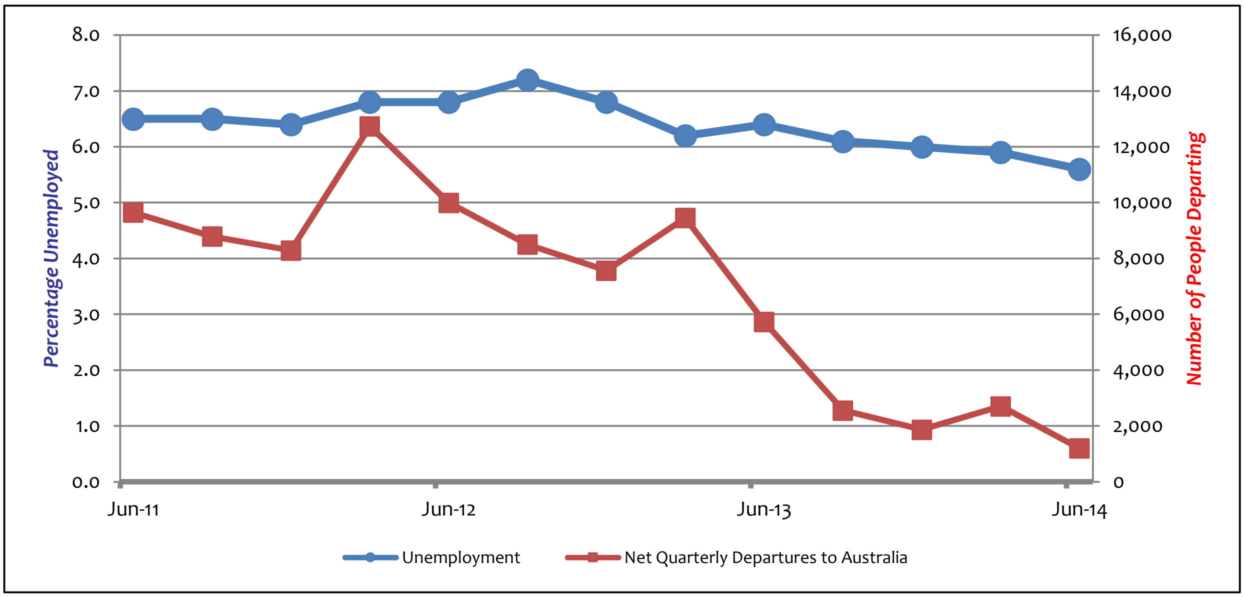
★ The Performance of Services Index[1] for July 2014 was 58.4, a rise from 55.2 in June and 54.3 in May. The employment sub-index rose to 54.0 from 52.6 in June and 52.6 in May.

★ The Retail Trade Survey for the three months to June 2014 showed retail sales rose 1.2 by volume and 1.0 percent by value in the quarter compared with the March 2014 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Motor-vehicle and parts retailing, Food and beverage services Accommodation, Electrical and electronic goods retailing, and Hardware, building and garden supplies. Clothing, footwear and accessory retailing and fuel retailing fell.

- 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 0.7 percent in the month of July 2014. Auckland rose 0.7 percent, Christchurch rose 3.5 percent and Wellington rose 2.1 percent. The index was up 5.9 percent compared to July 2013. For the year, Auckland prices rose 12.2 percent, Christchurch rose 13.9 percent and Wellington fell 2.3 percent. The national median house price fell $11,250 (2.6 percent) from $427,250 in June to $416,000 in July. It is $31,000 or 8.1 percent higher than a year ago with median prices rising in five regions. Auckland accounted for 83 percent of the increase, Canterbury/Westland 19 percent and Waikato/Bay of Plenty 9 percent. The three regions accounted for 111 percent of the increase in median prices during the year. There were 775 or 21.8 percent fewer sales under $400,000 compared to July 2013, but a rise of 34 to 395 in the $1 million plus range and 2 more (to 1,163) in the $600,000 to $999,999 range. Sales under $400,000 accounted for 47.3 percent of sales in July 2014 but 52.5 percent in July 2013.

Employment

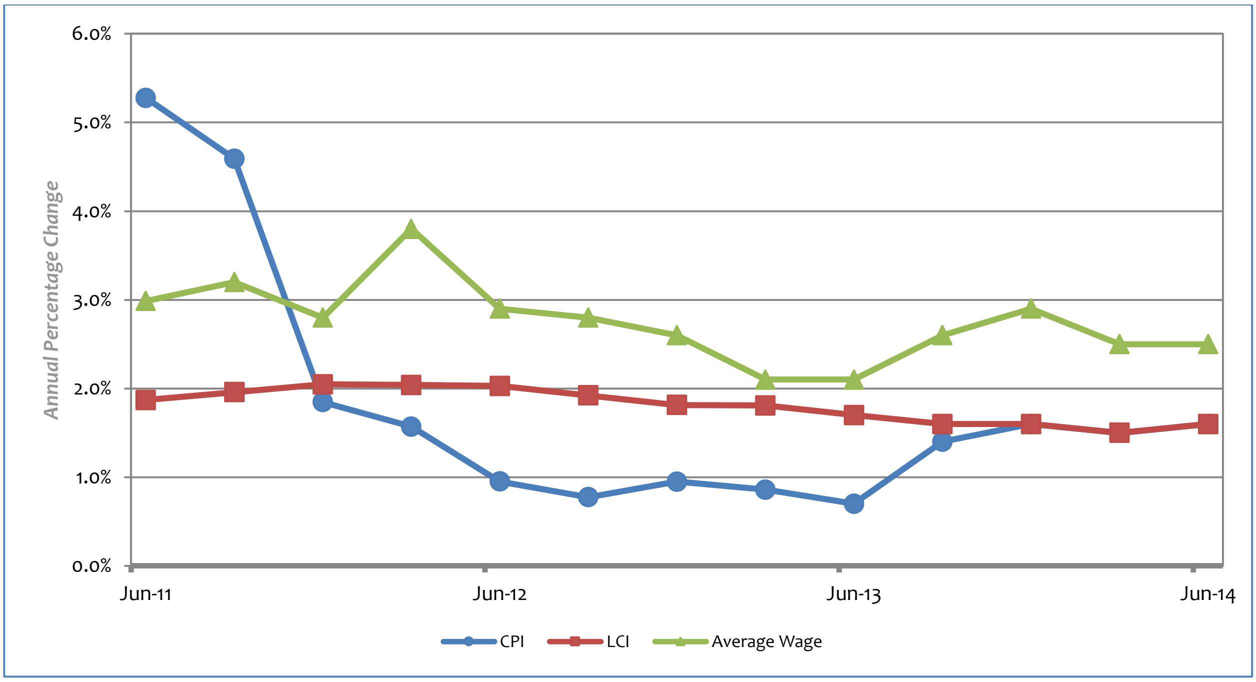


- According to the Household Labour Force Survey the unemployment rate in the June 2014 quarter fell to 5.6 percent from a revised 5.9 percent in March. Seasonally adjusted female unemployment at 6.4 percent was higher than for men (4.8 percent) and unchanged from March (male unemployment was 5.5 percent in March). The unemployment rate in Canterbury was 2.8 percent, down from 4.4 percent in June 2013. Of the increase in employment, 71 percent occurred in Auckland and Canterbury, as did 77 percent of the increase in the labour force with Canterbury accounting for 49.5 percent of the increase in the labour force and 61.3 percent of the increase in the working age population. There were 137,000 people unemployed and the number of jobless people (which includes those discouraged from seeking employment) was 236,500, 8,900 below the 245,400 a year before. There were 98,200 people seeking additional hours, a sharp increase from 87,500 a year previously. Māori unemployment fell from 12.8 percent in June 2013 to 11.0 percent in June this year and Pacific unemployment fell from 16.3 percent in June 2013 to 11.4 percent. The labour force participation rate at 68.9 percent is up 0.7 percentage points from the previous quarter and up 0.8 percentage points for the year. There are 36,600 unemployed people who have been out of work for more than 6 months (down from 37,900 in June 2013), but as a proportion of the unemployed they have risen from 25.6 percent to 27.7 percent over the year. Those out of work for more than a year have risen from 10.0 percent of the unemployed to 11.7 percent over the year. Compared to OECD unemployment rates, New Zealand has improved from 11th position in March 2014 to 9th (out of 34 countries).
- Youth unemployment (15-19 year olds) was 20.7 percent, down from 21.9 percent in March and from 23.8 percent a year before, in seasonally adjusted terms. It was almost the same among those in education (20.7 percent) as those not (20.8 percent), and the 11,000 increase in employment over the year was almost equally split between people in education (6,000 increase) and those not (5,000). The not in employment, education, or training (NEET) rate fell from 8.8 percent in March to 7.4 percent. The unemployment rate among 20-24 year olds was 10.9 percent, down from 12.2 percent in the March quarter and 11.5 percent a year before, again in seasonally adjusted terms.

The NEET rate was 14.5 percent, down from 14.7 percent in the previous quarter but up from the 14.1 percent in September 2013, and down from 15.9 percent a year ago. There were 71,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 11.1 percent of people in that age group, down from 11.9 percent in March and 12.1 percent a year before.

- The Ministry of Social Development reports that 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 fall in skilled job vacancies of 5.1 percent in July after a steep rise of 16.0 percent in June. All job vacancies also fell – by 2.8 percent – in July, after a rise of 11.2 percent in June. In the year to July, skilled vacancies fell by 0.4 percent. All vacancies fell by 1.0 percent.
- ★ International Travel and Migration data showed 9,310 permanent and long-term arrivals to New Zealand in July 2014 and 4,760 departures in seasonally adjusted terms, a net gain of 4,540. There was an actual net gain of 41,043 migrants in the year to July. Net migration to Australia in the year to June was 7,283 departures, with 29,768 departures and 22,485 arrivals. For the month of July, the seasonally adjusted net loss to Australia was 80 compared to 1,230 a year before.

Wages and prices



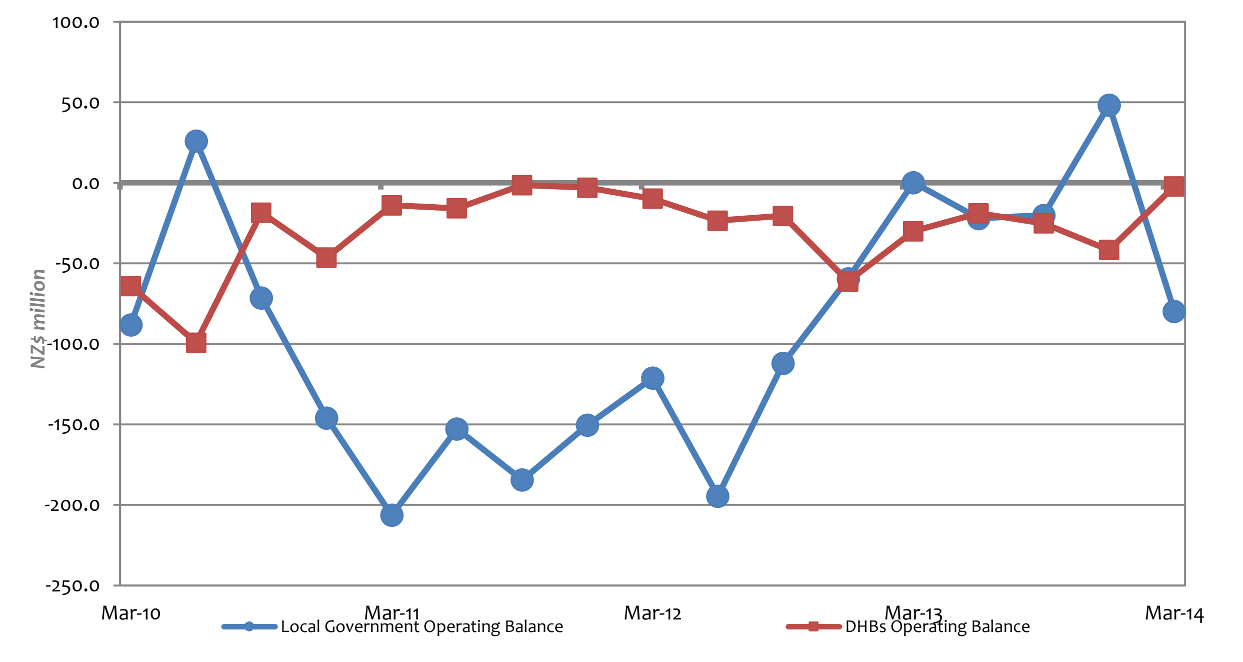
- ★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to June 2014. The LCI increased 1.6 percent in the year to June, the same as the CPI. It increased 0.3 percent in the public sector and 0.6 percent in the private sector in the three months to June. Over the year to June it rose 1.2 percent in the public sector and 1.8 percent in the private sector. During the year, 43 percent of jobs surveyed did not receive a pay rise. For the 57 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.4 percent and the average increase was 3.1 percent. The median increase in the public sector was 2.0 percent and in the private sector 2.5 percent.

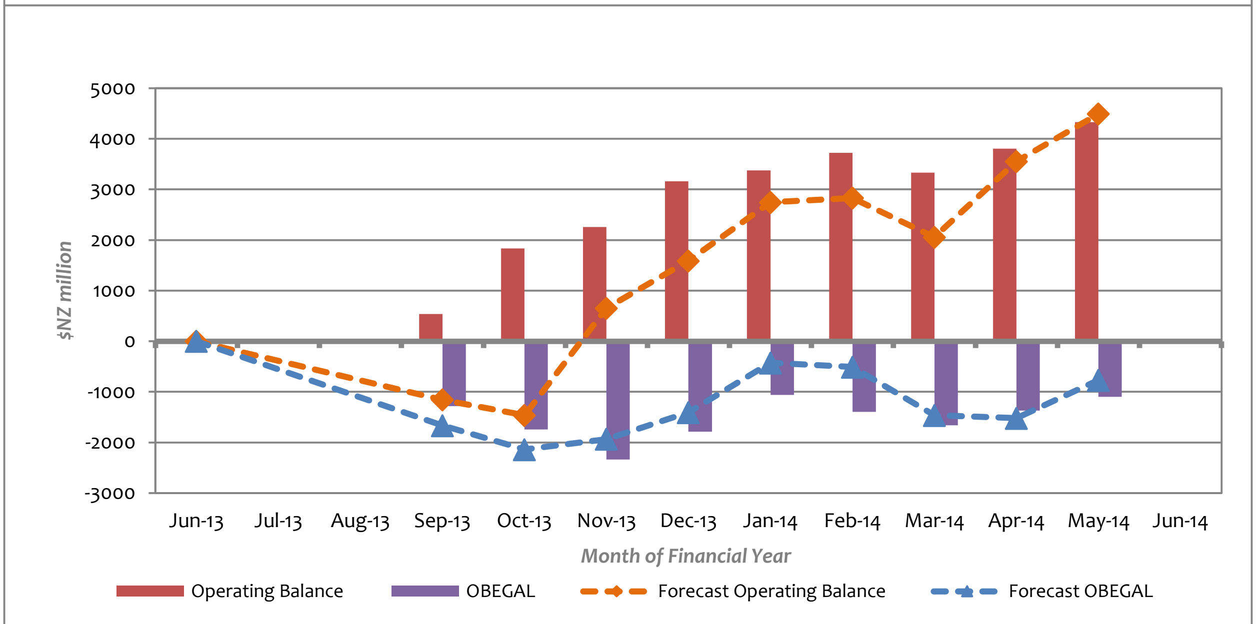
★ The Quarterly Employment Survey for the three months to June 2014 found the average hourly wage for ordinary-time work was $28.23, up 0.2 percent on the March quarter and up 2.5 percent over the year. The average ordinary-time wage was $26.29 in the private sector (up 0.5 percent in the quarter and up 3.1 percent in the year) and $35.28 in the public sector (down 1.6 percent in the quarter and up 1.3 percent in the year). Female workers (at $26.13) earned 12.9 percent less than male workers (at $30.00) 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 fell by 0.7 percent in the month of July 2014, following a 1.4 percent rise in June. Food prices fell 0.1 percent in the year to July 2014. Compared with June, fruit and vegetable prices fell 0.9 percent; meat, poultry, and fish prices fell 2.2 percent; grocery food prices fell 0.7 percent; non-alcoholic beverages rose 0.2 percent; and restaurant meals and ready-to-eat food were unchanged.

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 $28.5 million for the twelve months to June 2014. This is the final result (apart from auditing) for the year, and is a remarkable turnaround from the previous month when 12 of the DHBs showed a combined deficit of $40.7 million compared to 8 with a combined $28.5 million deficit one month later. Moreover, this is $7.1 million less than the $35.6 million deficit in their plans. The Northern region was $3.1 million ahead of plan with surpluses in all four DHBs totalling $7.2 million and all ahead of plan, the Midland region was $5.2 million ahead of plan with a combined surplus of $4.0 million with only Taranaki in deficit and all ahead of plan, Central region was $1.3 million behind plan mainly due to Hutt Valley but all except Hawke's Bay and MidCentral in deficit led by Capital and Coast with a $5.9 million deficit contributing to a $4.9 million deficit for the region, and the Southern Region was just $0.2 million ahead of plan, and $22.9 million of its $34.7 million deficit was from Canterbury with only Southern (with a deficit of $15.7 million) behind plan. The DHB furthest ahead of plan was Nelson Marlborough by $4.4 million, and Southern was furthest behind, by $6.7 million.

- ⭘ 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/economicbulletin160.

For further information contact Bill Rosenberg.