NEW ZEALAND COUNCIL OF TRADE UNIONS
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Commentary

The Shuffle Budget

Summary

In political terms this was a Shuffle Budget.

Rather than redistribute to those who most needed it from those who could afford it, the Budget shuffled money from one group of not-so-well-off New Zealanders to another. Rather than address issues in a serious way, it shuffled policies just enough to recognise mounting public concern. And there was distinct shiftiness in the way the Budget shuffled capital gains tax, housing and benefits policies from other parties in a way that was so minimal that even the Government wasn't sure they would make a difference.

There is much the Government should be doing that has been shuffled under the carpet to be addressed by some future government. It says we cannot afford to do much more but contradicts itself by dangling tax cuts for the next election year (2017). It is deliberately underspending by at least $500 million a year over the next two years so it can announce a tax cut of up to $1.5 billion in the 2017 Budget.

So on its own figures it could find up to $1.5 billion for a major programme such as making a real difference to benefit levels, a step up in health or education, or paying state sector workers fair wages. But if a Government really wants to address the growing pile of problems, it must raise more revenue.

Treasury described the risks still present in the international economy, with the probability greater that risks will worsen rather than lessen. Risks remain in the international financial system. Commodity prices including dairy may continue to fall. On the other hand, oil prices may start to rise again. But in all, exports of goods and services fall slightly as a proportion of the size of the economy and imports rise.

Domestically, the forecast is for continuing strong rises in house prices next year. High net immigration and other increases in labour supply are "expected to keep annual growth in weekly earnings subdued throughout most of 2015 at around 2.1 percent" and slow the fall unemployment (which Treasury has persistently underestimated).

This does not paint a picture of an economy that is overcoming its imbalances or providing strongly rising wages. That includes extraordinarily low labour productivity growth. If labour productivity growth is the basis for wage growth (and that depends on better employment law) then the outlook for a high value, high wage economy in the medium term is not good.

In political terms this was a Shuffle Budget.

Rather than redistribute to those who most needed it from those who could afford it, the Budget shuffled money from one group of not-so-well-off New Zealanders to another. Two-thirds of the cost of the modest package for low income families was paid for by cutting out the $1,000 Kiwisaver "kickstart" payment ($500 million out of $790 million over four years); more was paid for by cuts in Working for Families entitlements for higher income, but by no means rich, families. The Health vote is a never ending series of cutting programmes to pay for others which make good headlines, while reducing funding in real terms (see our post-Budget analysis next week for details).

> For someone working full time but on the minimum wage, a lump sum of $1,000 invested at the age of 18 (the kickstart for an 18 year old joining Kiwisaver) would have grown to $18,800 by the age of 65 using the rates of return on sorted.org.nz. That's $7,400 in real terms.

Rather than address issues in a serious and coherent way it shuffled policies just enough to recognise mounting public concern. There are still not enough houses being built in Auckland – particularly affordable ones. The stronger enforcement of the capital gains tax on selling house for capital gain will help but not address speculation head on. The concerns about overseas buyers inflating house prices brought a dog whistle (requirements to register with IRD and have a local bank account) rather than action. Child poverty has not been addressed – though the increase in benefits was a welcome admission that incomes must increase to address inequality and poverty (see the November 2014 Bulletin).

And there was distinct shiftiness in the way the Budget shuffled capital gains tax, housing and benefits policies from other parties in a way that was so minimal that even the Government wasn't sure they would make a difference.

We covered details of the Budget in our special report on the day, 21 May. Here, I'm looking at taxes and welfare benefits, and the economic outlook the Budget documents described.

What is affordable? Taxes and needs

There is much the Government should be doing: more education and training for young people and for people facing job loss or big changes in the occupational skills they need to work; addressing health needs, especially primary care, population health and the growing problems in residential and home care; poverty, income and wealth inequalities that reach up through a large part of New Zealand's population, including decent wages and liveable levels of benefits; wage and salary levels in a growing economy – and particularly for state sector workers who have seen even smaller increases than most; pollution of rivers, climate change… the list is well known. There is a growing pile that has been shuffled under the carpet to be addressed by some future government that cannot or is not willing to continue to ignore them.

The Government says we cannot afford to do much more. It immediately contradicts itself by dangling tax cuts before us next election year (2017). It is deliberately underspending by at least $500 million a year over the next two years so that it has room to announce a tax cut that is likely to cost between $1 billion and $1.5 billion (depending on its spending plans) in the 2017 Budget. This works through its "operating allowances" which are supposed to provide funds for "new spending" each year. In fact this Government changed the rules so that they include funds for just keeping up with costs, population growth and demographic changes in the population such as education roll growth and ageing. So very little is actually available for genuinely new programmes (in Health, just $74 million of the $378 million increase from Budget 2014 is for such programmes, out of a total $14.8 billion operational funding). The

Government is allowing $1 billion a year for the operating allowances for the years to June 2016 and 2017 – and then $2.5 billion in the year to June 2018, the election year Budget. It is then allowing $1.5 billion in the year to June 2019.

So even on its own figures, it could find up to $1.5 billion in one year for a major programme such as making a real difference to benefit levels, a step up in health or education, or paying fair incomes to state sector workers. What about paying off debt? The New Zealand government is not in an urgent debt situation: Bill English showed comparisons with other governments in the OECD (similar to ones we have been showing for years), emphasising how low New Zealand's debt was compared to the size of its economy. But the government's forecasts and (less credible) projections show core government revenue (not including Crown Entities and state owned enterprises) rising from 30.0 percent of GDP in 2015 to 31.0 percent of GDP in 2029 while spending falls from 30.5 percent of GDP to 26.7 percent – opening an enormous 4.3 percent gap. In today's terms that would be around $10 billion. Even over the (somewhat more reliable) forecast period to 2019, the gap opens up to 1.4 percent in 2019 or around $3.5 billion in today's terms, with government expenditure falling to 29.2 percent of GDP. The Government won't allow this gap to open as wide because it will cut taxes, but it needs to keep some of it to pay off debt. It could equally use some of it for the programmes that are needed – either by scrapping tax cuts or by paying off debt more slowly or some combination of the two. But if a Government really wants to address the growing pile of problems, it must raise more revenue.

The economy

The Treasury economic outlook drew a picture of the risks still present in the international economy, with the probability greater that risks will worsen rather than lessen. China's growth rates are falling (though still likely to be well over 6.0 percent a year, aiming for 7.0 percent), with internal risks of excess and bad debts. China's health affects New Zealand's economy both directly and through Australia. There are still risks in the US financial system which will rise as the Federal Reserve (central bank) withdraws its stimulus of record low interest rates and quantitative easing (money creation). This could have international consequences if money flows back into the US attracted to higher interest rates, or another crisis shakes the financial system yet again. Commodity prices including dairy may continue to fall in the face of increasing exports from other producers, unwinding of stockpiles such as in China and slowing demand. On the other hand, oil prices, may start to rise again.

Treasury's forecast for dairy exports is for their dollar value in 2019 still to be lower than in 2014. Their meat export forecast is only slightly better, with a sharp fall in the year to March 2016 and continuing to fall the following year. However it is very optimistic about exports of some manufactured exports (metal products and equipment, chemicals, rubber and other non-metallic goods, and textiles and clothing) which it forecasts to grow 40% between this year and 2019. It would be a turnaround if there is a strong increase in high value manufactured goods (though it's hard to know how many of these fall into that category): elaborately transformed manufactured goods are now down to under 15% of goods exports, from a peak of 23 percent in 2004, though there is the hint of a rise in the last few months.

But in all, exports of goods and services fall slightly as a proportion of the size of the economy between 2015 and 2019 from 27.9 percent in the year to March 2015 to 26.4 percent in the following year, recovering only to 27.6 percent in 2019. Treasury doesn't forecast any help from the exchange rate: its forecast (notoriously difficult) for the "basket" of currencies New Zealand trades in, the Trade Weighted Index, is for it to be virtually unchanged for the next three years. On the other hand imports rise from

27.4 percent of GDP to 28.5 percent in 2019. That contributes to a growing current account deficit (doubling from 2.6 percent of GDP in 2014 to 5.3 percent in 2019), adding to New Zealand's international debt. Most of that deficit – around 4 percent of GDP – is however income from foreign investment in New Zealand less income from investment abroad.

Domestically, the forecast is for continuing strong rises in house prices: 5.2 percent in the year to March 2016, but then 3.0 percent the following year. This fall is supported by strong investment in housing (rising a forecast 11.9 percent in the year to March 2016, 5.3 percent and 6.0 percent the following two years, though plummeting to 0.2 percent in 2019) though seems optimistic given current experience. It also relies on net immigration peaking in the year to June 2015.

High net immigration and other increases in labour supply are "expected to keep annual growth in weekly earnings subdued throughout most of 2015 at around 2.1 percent" and as noted in our special Budget report, the forecast wage increase out to 2019 is lower than Treasury's December forecast. Treasury also says that "high net inflows of migrants and increased participation in the labour force" are "tempering" the fall in the unemployment rate which it nonetheless continues to forecast will fall to 4.5 percent by 2018, despite persistently underestimating it.

In all this does not paint a picture of an economy that is overcoming its internal or international imbalances nor providing strongly rising wages for New Zealand workers. What strikingly reinforces this picture is extraordinarily low labour productivity growth. Treasury calculates it to have grown only 0.2 percent in the year to March 2014, and forecasts only 0.1 percent growth this year. It forecasts a rise to 1.3 percent growth in the year to March 2016, but there seems little to base this on other than hopes that once new workers and immigrants become more familiar with their work and build their skills and experience, it should "revert to the average" which Treasury regards as being around 1.5 percent in the long run. If labour productivity growth is the basis for wage growth (and that depends on better employment law) then the outlook for a high value, high wage economy in the medium term is not good.

Bill Rosenberg

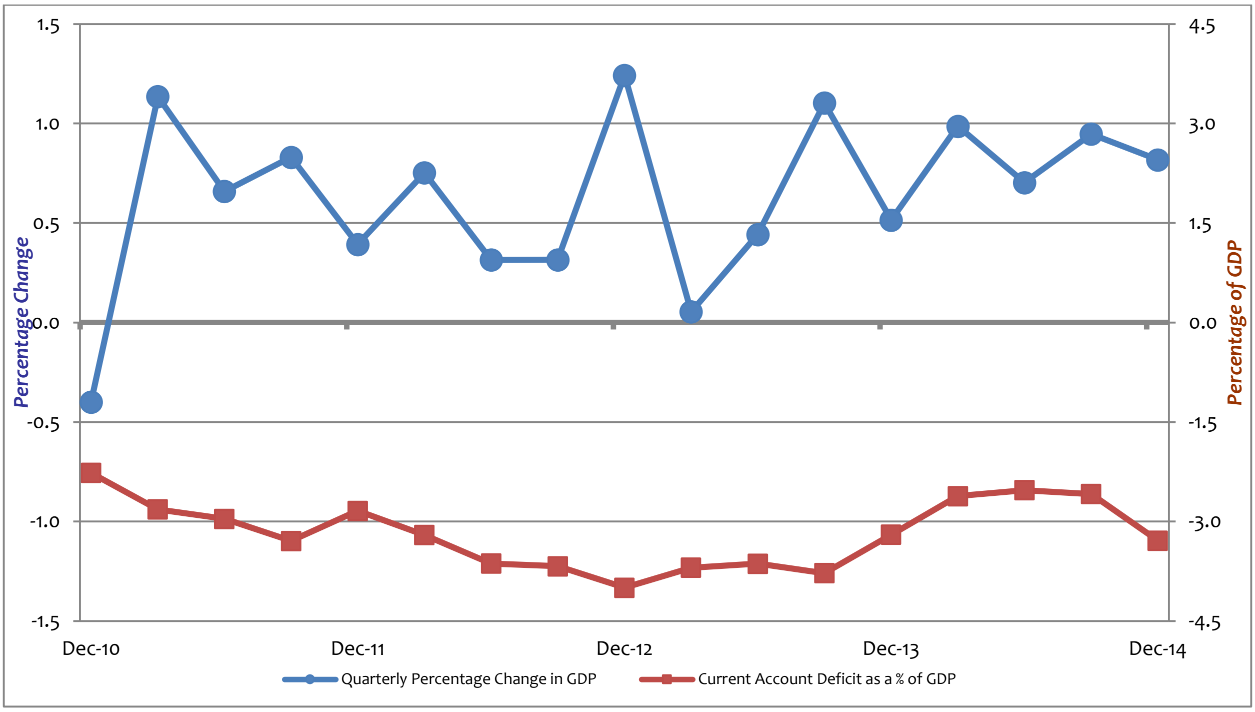
Forecast

- This [NZIER forecast] was released on 16 March 2015.

Annual Percentage Change (March Year)	**2014-15**	**2015-16**	**2016-17**	**2017-18**
GDP	3.3	2.9	2.8	2.4
CPI	0.5	1.6	2.0	2.1
Private Sector average wage	3.0	3.3	3.4	3.3
Employment	2.9	2.1	1.4	0.9
Unemployment rate	5.5	5.4	5.0	5.1

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

Economy



- Growth in New Zealand's economy continued in the December 2014 quarter, with Gross Domestic Product rising by 0.8 percent, compared to quarterly increases of 0.9 percent in September, 0.7 percent in June, 1.0 percent in March and 0.5 percent in December 2013, revised downwards. Growth for the year ended December 2014 was 3.3 percent. The December 2014 quarter was 3.5 percent up on the same quarter in 2013. However GDP per person is barely increasing by some measures: it fell 0.1 percent in the quarter in dollar terms, though it rose 0.3 percent in volume terms. So production per person is increasing but falling prices mean it is not showing as increased spending. Real gross national disposable income per capita, which takes into account the income that goes overseas in interest and dividends to overseas investors, and the falling prices for some of our main exports, fell 1.0 percent. The largest quarterly rises by industry were in "Furniture and other manufacturing" (up 8.2 percent after six months of falling production), Printing (up 6.5 percent after nine months of falling production), Petroleum, chemical, polymer, and rubber product manufacturing (up 5.4 percent), Fishing, aquaculture and primary industry support services (up 4.9 percent), and Accommodation and Food Services (up. 3.4 percent). Manufacturing rose 1.0 percent and its largest subsector, Food, beverage and tobacco manufacturing rose 1.5 percent. There were significant falls in Wood and paper products manufacturing (down 5.2 percent), Textile, leather, clothing, and footwear manufacturing (down 4.6 percent), Electricity, gas, water, and waste services (down 2.5 percent), Metal product manufacturing (down 2.5 percent) and "Other services" (down 1.8 percent). The result was that Primary Industries fell 0.3 percent, Goods producing industries (which includes Construction) rose 0.3 percent and Service industries rose 0.8 percent. Over the year (comparing December quarters), all industries expanded except Forestry and Logging (down 0.8 percent), Food, beverage, and tobacco manufacturing (down 0.8 percent), Textile, leather, clothing, and footwear manufacturing (down 3.5 percent), Printing (down 3.3 percent), Electricity, gas, water, and waste services (down 2.2 percent), and "Other Services" (down 0.1 percent). Construction led the expansion, rising 11.7 percent over the year followed by Non-metallic mineral product manufacturing (up10.3 percent), Accommodation and food services (up 10.3 percent), Fishing, aquaculture and primary industry support services (up 9.2 percent), Petroleum, chemical, polymer, and rubber product manufacturing (up 9.1 percent), Mining (up 5.6 percent), and Retail Trade (up 5.5 percent). Household consumption expenditure rose 0.6 percent in real terms in the quarter and 3.7 percent from the December 2013 quarter. Expenditure on non-durable goods (such as groceries) fell 0.2 percent in real terms during the quarter and rose 2.2 percent during the year while durables (such as appliances) rose 1.0 percent in the quarter and boomed at 8.2 percent growth over the year. Business investment fell 0.9 percent in the quarter but rose 4.6 percent from the previous December quarter. There were falls in Transport equipment (down 6.1 percent), Non-residential buildings (down 4.2 percent) and Other Construction (down 1.5 percent), while Residential buildings increased strongly at 5.2 percent.

- New Zealand recorded a Current Account deficit of $2.6 billion for the December 2014 quarter in seasonally adjusted terms ($3.2 billion actual), compared to a $2.4 billion deficit in the September quarter. There was another deficit in the goods trade ($458 million, seasonally adjusted, following a $356 million deficit in the September quarter) while the deficit on income (mainly payments to overseas investors) rose to $2.6 billion from $2.5 billion. For the year to December 2014, the current account deficit was $7.8 billion or 3.3 percent of GDP compared to a $6.1 billion deficit in the year to September. The deficit on investment income was $10.1 billion, which is rising because of increased outward flows of income on foreign investment in New Zealand.
- The country's Net International Liabilities were $153.9 billion at the end of December 2014 (64.7 percent of GDP) up from $152.0 billion (64.2 percent of GDP) at the end of September, and $145.1 billion (64.4 percent of GDP) in December 2013. The rise in net liabilities in the quarter was due mainly to net financial inflows of $3.7 billion, but was partly offset by changes in the market valuation of assets and liabilities. Without the market value changes, the net liabilities would have been $155.7 billion. Assets fell in value from $200.0 billion to $198.9 billion mainly because of exchange rate and valuation changes; financial flows accounted for only $423 million of the $1.5 billion fall. Liabilities rose only $449 million to $352.8 billion with financial inflows largely cancelled out by valuation changes. New Zealand's international debt was $261.6 billion (109.9 percent of GDP), compared to $117.9 billion in financial assets (other than shares; 49.5 percent of GDP), leaving a net debt of $143.7 billion. Of the net debt, $12.4 billion was owed by the government (equivalent to 5.2 percent of GDP) and $99.5 billion by the banks (41.8 percent of GDP), which owed $57.9 billion to related parties. Total insurance claims owed by overseas reinsurers from the

Canterbury earthquakes are estimated at $20.2 billion, and at 31 December 2014, $15.8 billion of these claims had been settled, leaving $4.4 billion outstanding.

★ Overseas Merchandise Trade for the month of April saw exports of goods fall 5.5 percent from the same month last year while imports rose 2.6 percent. This created a trade surplus for the month of $123 million or 3.0 percent of exports, compared with an average surplus of 13 percent for April over the previous five years. In seasonally adjusted terms, exports fell 2.0 percent or $84 million over the month (compared to a 6.1 percent rise the previous month) influenced by falls in all top categories except Crude oil (up 90.6 percent or $40 million), Mechanical machinery and equipment (up 3.1 percent or $4 million) and Fruit (up 20.3 percent or $30 million). There were large falls in Dairy products (down 8.1 percent or $84 million), Meat (down 11.6 percent or $65 million), Seafood (down 4.6 percent or $6 million), Aluminium and aluminium articles (down 8.7 percent or $8 million), Wine (down 5.8 percent or $8 million), and Electrical machinery and equipment (down 1.5 percent or $1 million). Seasonally adjusted imports fell more slowly at 0.3 percent or $13 million over the previous month, creating a trade deficit of $166 million compared to a $95 million deficit in the previous month. Among top imports there were rises only in Petroleum and products (up 36.0 percent or $135 million), Optical, medical, and measuring equipment (up 2.6 percent or $3 million) while there were large falls in Mechanical machinery and equipment (down 5.6 percent or $30 million), Electrical machinery and equipment (down 7.3 percent or $26 million), and Textiles (down 17.7 percent or $36 million). Exports to China fell 25.9 percent in the year to April and fell 5.8 percent to Australia, which has regained top destination status for the year. Exports to Australia were $8,528 million in the year to April, compared to $8,454 million to China (down from $11,409 million the previous year). Our top six export destinations accounted for 58.4 percent of our exports in the year (of which China accounts for 17.4 percent), compared to 60.5 percent in the previous year (China 22.6 percent). However China remains top importer with $9,076 million of imports in the year to April compared to Australia at number two with $6,271 million and the trade balance with China has moved from a $2,996 million surplus in the year to April 2014 to a deficit of $622 million in the year to April 2015, a turnaround of $3.6 billion. Imports from China rose 7.9 percent in the year to April, and rose 1.0 percent from Australia, but in the month imports from China rose 8.2 percent while imports from Australia fell 2.5 percent compared to the same month in the previous year.

★ The Performance of Manufacturing Index[1] for April 2015 was 51.8, a fall from 54.6 in March. The employment sub-index was at 51.0, a rise from 49.8 in March.

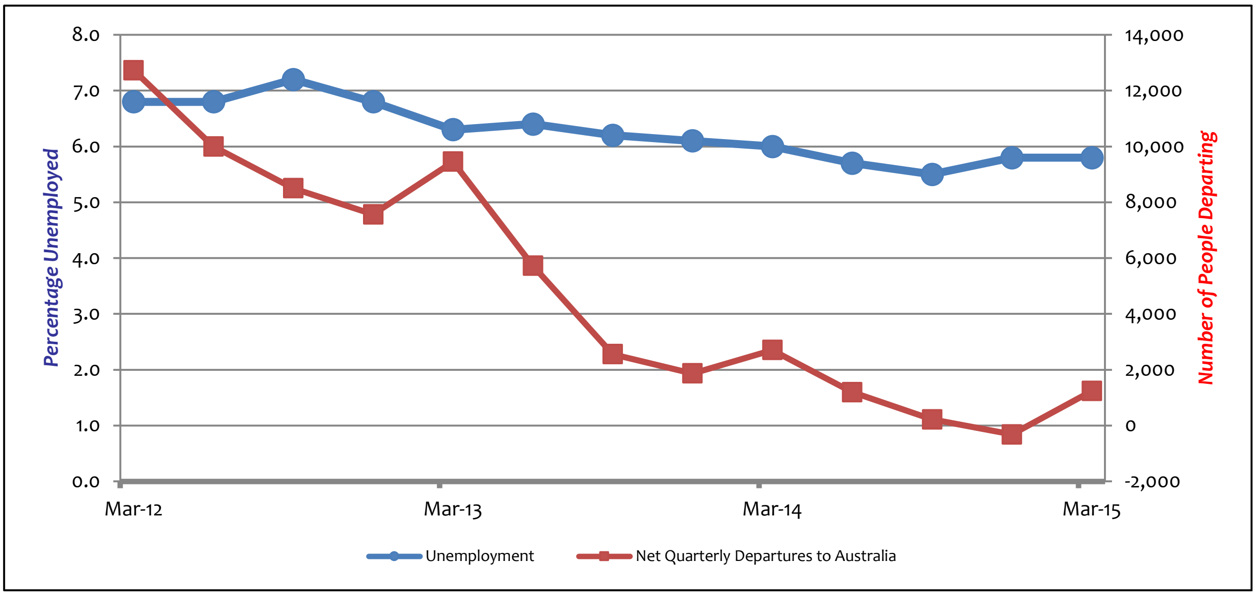
★ The Performance of Services Index[1] for April 2015 was 56.5, a fall from 57.6 in March. The employment sub-index fell to 53.6 from 54.8 in March.

★ The Retail Trade Survey for the three months to March 2015 showed retail sales rose 2.7 by volume (the largest percentage increase since December 2006) and 1.7 percent by value (a record increase since the series began in September 2003) compared with the December 2014 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Electrical and electronic goods, Hardware, building and garden supplies, Supermarket and grocery stores, Accommodation, Department Stores, Food and beverage services, and Non-store and commission retailing (which includes internet purchases). Sales volumes rose in all sectors.

- On 30 April 2015 the Reserve Bank left the Official Cash Rate (OCR) at 3.50 percent and signalled that any change was likely to be downwards. It said: "The timing of future adjustments in the OCR will depend on how inflationary pressures evolve in both the non-traded and traded sectors. It would be appropriate to lower the OCR if demand weakens, and wage and price-setting outcomes settle at levels lower than is consistent with the inflation target." The next OCR review will be announced on 11 June 2015 and will be accompanied by a Monetary Policy Statement.

★ The REINZ Housing Price Index rose 9.3 percent in the year to April 2015. Auckland rose 18.9 percent, Christchurch fell 0.6 percent and Wellington fell 2.8 percent. In the month, the index was up 0.5 percent with Auckland prices up 1.2 percent, Christchurch down 0.1 percent and Wellington down 0.5 percent. The Housing Price Index will no longer be made available by REINZ except by subscription. The national median house price fell $20,000 or 4.2 percent compared to March to $455,000. It is $22,750 or 5.3 percent higher than a year ago. However it increased only $3,000 over both the month and the year to $353,000 excluding Auckland, whose median price rose 18 percent during the year. There were 493 or 20 percent more sales under $400,000, taking the number to 2,990, compared to April 2014, a rise of 348 (81 percent) to 779 in the $1 million plus range and 420 more (35 percent) to 1,605 in the $600,000 to $999,999 range. Sales under $400,000 accounted for 41.3 percent of sales in April 2015 but 44.0% percent in April 2014.

Employment



★ According to the Household Labour Force Survey the unemployment rate in the March 2015 quarter was at 5.8 percent or 146,000 people, from a upward-revised 5.8 percent in December 2014 (143,000 people), seasonally adjusted. It is 6.1 percent actual (not seasonally adjusted) or 152,800 people, down from 6.3 percent a year before. Including the unemployed, there were 267,700 people jobless, and there were 103,600 part-timers who wanted more work. Seasonally adjusted female unemployment at 6.3 percent was higher than for men (5.4 percent), though female unemployment fell and males' rose. Māori unemployment fell from 13.3 percent in March 2014 to 12.6 percent, and Pacific people's unemployment fell from 13.2 percent to 12.5 percent over the year. The labour force participation rate at 69.6 percent is up from 69.4 percent in

December 2014 and 69.0 percent a year before. There are 38,900 unemployed people who have been out of work for more than 6 months (unchanged from 38,800 in March 2014), and they are 25.5 percent of the unemployed compared to 25.2 percent a year before. Those out of work for more than a year is at 11.7 percent of the unemployed compared to 11.8 percent a year before. Compared to OECD unemployment rates, New Zealand is 13th equal lowest (out of 34 countries), worsening from 10th in December.

In the North Island, only Taranaki and Wellington (6.0 percent) have unemployment below the 6.1 percent average for the country (not seasonally adjusted), and Northland, with 9.9 percent unemployment (up from 8.4 percent a year before), Bay of Plenty with 7.8 percent (7.1 percent a year before), Gisborne/Hawkes Bay with 7.3 percent (8.5 percent a year before), and Manawatu-Whanganui with 7.4 percent (7.9 percent a year before) are particularly hard hit. Auckland's unemployment rate was 6.9 percent (down from 7.3 percent a year before). The South Island looks considerably better, with Tasman/Nelson/Marlborough/West Coast at 4.4 percent, Canterbury at 3.1 percent, Otago at 3.8 percent and Southland at 4.2 percent, all lower than a year before though still higher than March 2008. The unemployment rate outside Canterbury is 6.0 percent.

By industry, over the year almost a third of the increase in employment came from Construction (23,300 workers compared to 73,800 overall), followed by Arts, recreation, and other services, Manufacturing, and Retail and accommodation, which together made up virtually all the increase. There were falls in Wholesale trade, Agriculture, forestry and fishing, Rental and real estate, and Transport, postal and warehousing.

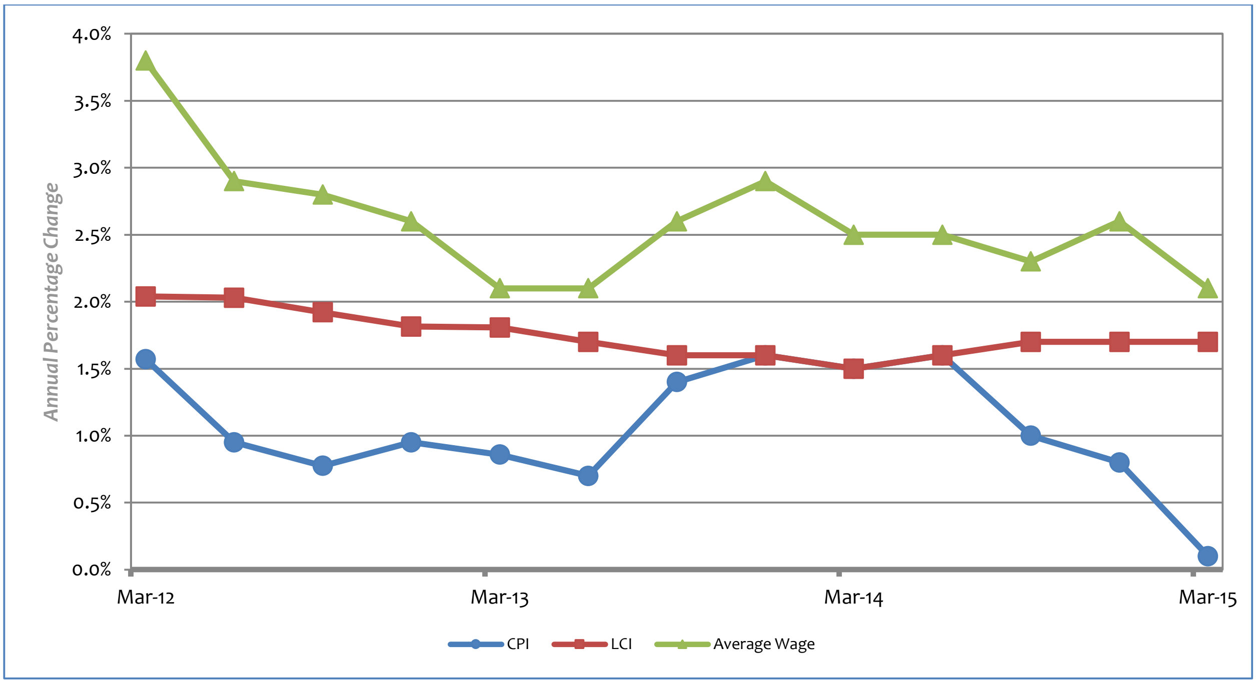
★ Youth unemployment for 15-19 years was 21.4 percent, up from 21.1 percent in December but down from 22.7 percent a year before; for 20-24 year olds it was 11.0 percent, down from 11.1 percent in December and 12.8 percent a year before, all in seasonally adjusted terms. The not in employment, education, or training (NEET) rate for 15-19 year olds was 8.2 percent, up from 7.7 percent in December and down from 9.0 percent a year before while for 20-24 year olds it was 15.2 percent, also up from 14.7 percent in December and down from 15.0 percent a year before. Looking at the whole 15-24 year old group, unemployment was higher for those in education (16.5 percent) than those not in education (13.9 percent) and the 27,000 increase in employment over the year was entirely among people not in education, a reversal from the situation a year before when the increase was entirely among those in education. There were 76,000 people aged 15-24 years who were not in employment, education, or training (NEET).

⭘ The Ministry of Social Development reports that at the end of March 2015 there were 116,893 working age people on the Jobseeker benefit, a fall of 7,738 from 124,631 in December 2014 and a fall of 5,060 from March 2014. Of those at March 2015, 63,063 were classified as 'Work Ready', and 53,830 were classified as 'Health Condition or Disability'. A total of 284,260 were on 'main' benefits, 24,885 fewer than December 2014 and 11,060 fewer than March 2014. It was 28,506 more than in March 2008.

★ Job Vacancies Online showed a seasonally adjusted fall in skilled job vacancies of 3.4 percent in April after a rise of 2.4 percent in the previous month. All job vacancies fell by 3.1 percent in April, after a rise of 2.1 percent in the previous month. In the year to April, skilled vacancies rose 9.0 percent. All vacancies rose by 6.4 percent.

★ International Travel and Migration data showed 9,590 permanent and long-term arrivals to New Zealand in April 2015 and 4,850 departures in seasonally adjusted terms, a net gain of 4,740. There was an actual net gain of 56,813 migrants in the year to April. Net migration to Australia in the year to April was 1,915 departures, with 25,742 departures and 23,827 arrivals. For the month of April, there was a seasonally adjusted net gain from Australia of 120 compared to a loss of 290 a year before. In April, 12.1 percent of the arrivals had residence visas, 18.3 percent student visas, 32.2 percent work visas, and 4.9 percent visitors. A further 31.7 percent were New Zealand or Australian citizens.

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 2015. The LCI increased 1.7 percent in the year to March, ahead of the 0.1 increase in the CPI. It increased 0.3 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 1.8 percent in the private sector. During the year, 41 percent of jobs surveyed did not receive a pay rise, and 43 percent did not in the private sector. For the 59 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.5 percent and the average increase was 3.2 percent. For those jobs that received increases, the median increase in the public sector was 1.9 percent and in the private sector 2.5 percent; the average increase in the public sector was 2.2 percent and in the private sector 3.4 percent. We estimate that jobs on collective employment agreements were 2.0 times as likely to get a pay rise as those who were not.

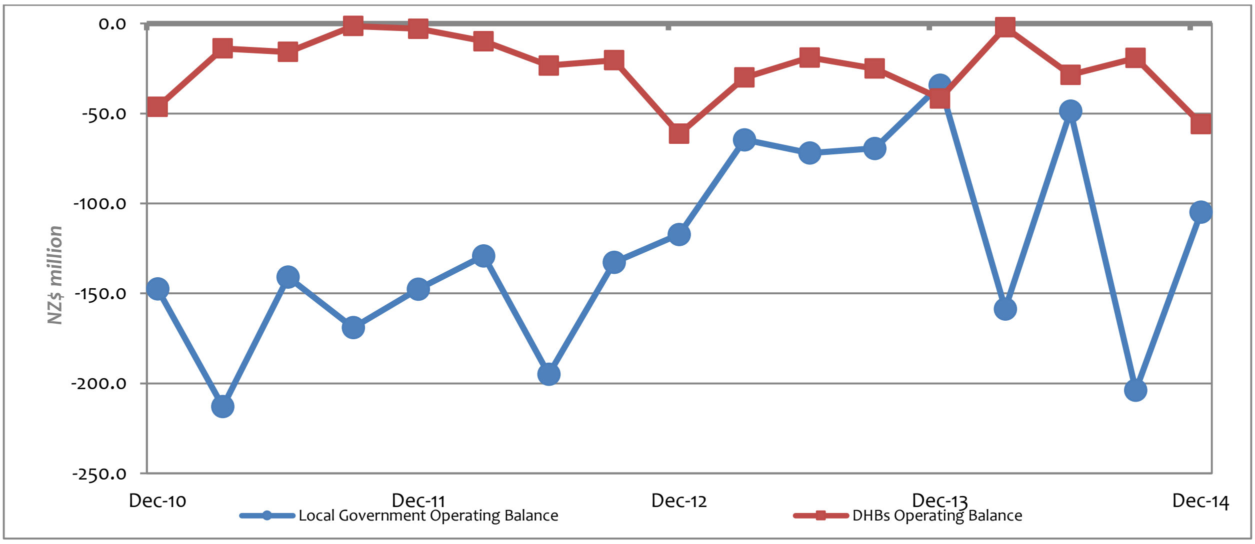
★ The Quarterly Employment Survey for the three months to March 2015 found the average hourly wage for ordinary-time work was $28.77, up 0.0 percent on the December 2014 quarter and up 2.1 percent over the year. The average ordinary-time wage was $26.83 in the private sector (up 0.2 percent in the quarter and up 2.6 percent in the year) and $36.25 in the public sector (up 0.8

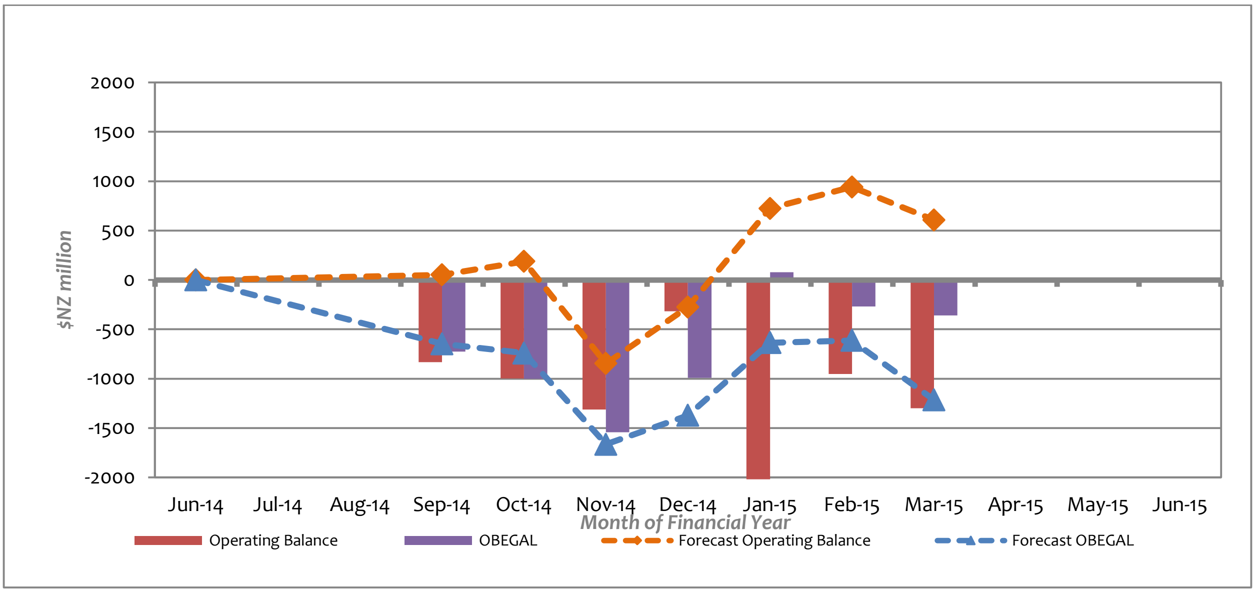
percent in the quarter and up 1.1 percent in the year). Female workers (at $26.55) earned 13.4 percent less than male workers (at $30.65) for ordinary time hourly earnings.

- The Consumer Price Index fell 0.3 percent in the March 2015 quarter compared with the December 2014 quarter driven by falling petrol prices, and increased 0.1 percent for the year to March. For the quarter, Food (rising 0.9 percent), Alcoholic beverages and tobacco (up 4.7 percent due mainly to rising taxes on them), Housing and household utilities (rising 0.4 percent) and Education (up 3.2 percent) were the largest upward influence. Overpowering them were Clothing and footwear (down 1.2 percent), Household contents and services (down 1.3 percent), Transport (down 5.3 percent, including petrol down 10.6 percent and international air travel, down 14.7 percent), and Recreation and culture (down 1.1 percent). Inflation in Canterbury for the year was 0.7 percent compared with 0.3 percent in Wellington and 0.0 percent in Auckland. Housing costs hit particularly hard in Canterbury, rising 4.1 percent for the year compared to 2.4 to 3.9 percent elsewhere.

- ★ The Food Price Index fell by 0.3 percent in the month of April 2015, following a 0.1 percent rise in the previous month. Food prices rose 1.0 percent in the year to April 2015. Compared with March, fruit and vegetable prices fell 1.2 percent; meat, poultry, and fish prices rose 0.4 percent; grocery food prices fell 0.9 percent; non-alcoholic beverages rose 0.3 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 nine months ended 31 March 2015, core Crown tax revenue was $844 million or 1.8 percent higher than forecast in the December 2014 Half Year Economic and Fiscal Update (HYEFU). Treasury anticipates around half of this reversing by 30 June. Main contributors were higher than expected corporate ($545 million) and 'other individuals' ($357 million) tax, offset by GST revenue being lower than forecast by $201 million due to higher than expected earthquake related refunds and weaker than expected growth in household spending in the economy in dollar terms (nominal consumption). Core Crown expenses were $127 million (0.2 percent) less than forecast. The Operating Balance before Gains and Losses (OBEGAL) was a $358 million deficit, $856 million better than forecast. The Operating Balance was a $1,258 million deficit compared to a forecast surplus of $607 million, the difference being mainly due to $4.6 billion in unexpected actuarial losses on the ACC and GSF liabilities due to weaker interest rates partly offset by unexpected $1.5 billion net gains on unidentified financial instruments. Net debt at 26.5 percent of GDP ($63.0 billion) was $1,730 million lower than the $64.8 billion forecast. Gross debt at $88.2 billion was $4.4 billion above forecast.

★ District Health Boards recorded combined deficits of $39.2 million for the nine months to March 2015. This is $24.1 million worse than their plans. The Northern region was $0.6 million ahead of plan with a surplus of $9.5 million and all DHBs in surplus, the Midland region was $8.0 million behind plan with a combined deficit of $14.8 million and all DHBs in deficit, almost half ($7.1 million) due to Waikato, Central region was $6.6 million behind plan and all but Whanganui in deficit for a total $10.1 million, and the Southern Region was $10.2 million behind plan with a $23.8 million deficit and three of the five DHBs in deficit including Canterbury at $12.1 million and Southern at $14.6 million. The DHB furthest ahead of plan was South Canterbury by $1.4 million, and Southern was furthest behind, by $7.1 million. The funder arms were in surplus by $96.6 million, but Provider arms in deficit by $135.6 million.

○ Local Government recorded a 2.8 percent ($56.2 million) increase in operating income and a 1.9 percent fall in operating expenses ($42.8 million) including an increase of 0.7 percent ($3.5 million) in employee costs for the December 2014 quarter compared to September. This resulted in an operating deficit of $104.8 million in the December quarter, compared with a deficit of $203.8 million in the September quarter, and deficits in all the last 27 quarters back to March 2008 with the exception of June 2010, all in seasonally adjusted terms. Note that the December quarter results are provisional and many previous figures have been revised.

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/economicbulletin168.

For further information contact Bill Rosenberg.