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Commentary

Unions, pay and inequality

Summary

This looks at the latest data on collective employment agreements, showing again that people who are part of a collective do better in pay rises, and unionisation's effect on inequality.

We often assume that because unions go some way to levelling the playing field for people who rely on wages and salaries, they help to reduce income inequality. In July, International Monetary Fund researchers published a study providing strong evidence that is right. It finds that deunionisation was associated with increasing income inequality in the 20 high income countries that it analysed including New Zealand.

They find that higher unionisation reduces inequality not only in low to middle incomes before tax, but also by reducing the share of the nation's income that top incomes have acquired. Further, they find evidence that it reduces inequality in after tax incomes by influencing policies such as increased top tax rates and stronger social security systems. In other words unions are a powerful force for social progress.

They find that New Zealand is at an extreme in deunionisation increasing inequality – but also near the opposite extreme in the positive effect of the minimum wage in reducing inequality. Financial deregulation is also associated with rising inequality while technology plays a relatively modest role.

Comparing the new data on collective employment agreements (CEAs) to the Labour Cost Index (LCI) for all jobs shows that in the year to June 2015 the LCI rose 1.6 percent overall, the same as wages in CEAs, the private sector LCI rose 1.8 percent, considerably lower than the 2.3 percent rise for CEAs, central government LCI rose 1.1, just higher than CEAs (1.0 percent), and local government rose 2.1 percent, again considerably lower than the 3.0 percent for CEAs.

A job on a $15 wage in June 1993 (then around the average wage) would be paying $26.09 in June 2015 if it had risen at the CEA rate of increase, but only $23.70 if it had risen at the LCI rate, a 10.1 percent CEA premium. For the private sector, the premium is 15.9 percent. Jobs on CEAs are 2.1 times as likely to get a pay rise as those which are not.

The best data we have on the pay (and other conditions) that unions negotiate has been released this month by the Centre for Labour, Employment and Work (CLEW) at Victoria University in their annual analysis of collective agreements[1]. It shows again that people who are part of a collective do better in

[1] Blumenfeld, S., Ryall, S., & Kiely, P. (2015). *Employment Agreements: Bargaining Trends and Employment Law Update 2014/15*. Wellington, New Zealand: Centre for Labour, Employment and Work, Victoria University of Wellington.

pay rises. We often assume that because unions go some way to levelling the playing field between people who rely on wages and salaries and their employers, they help to reduce income inequality. Research has not always backed up that assumption, but a recent study shows strong evidence that it is right. It finds that union influence to improve fairness is not only through employment relationships, but also through the way they push for better taxation and other social conditions that reduce income inequality. We'll look at that first, and then have a look at CLEW's latest findings.

Unions and inequality

In July, two International Monetary Fund researchers, Florence Jaumotte and Carolina Osorio Buitron[1], published a study, "Inequality and Labor Market Institutions". It finds that deunionisation "is associated with the rise of income inequality in our sample of advanced economies [20 including New Zealand], notably at the top of the income distribution. Our key findings are that the decline in unionization is related to the rise of top income shares and less redistribution, while the erosion of minimum wages is correlated with considerable increases in overall inequality." In addition they find that (unsurprisingly) lower top tax rates are related to higher inequality, and (in common with several other recent studies) that financial deregulation is also associated with rising inequality while technology plays a relatively modest role.

There are some particularly remarkable aspects of these findings, which they have tested for robustness a number of ways. We'd expect that unions reduce *gross* income inequality – that is before taxes and transfers such as tax credits and welfare benefits – mainly among low and middle incomes. That is what rebalancing bargaining power in wage negotiations does. But Jaumotte and Buitron make two other findings. Firstly, deunionisation increases the share of income that the highest incomes receive. The rise in the income share of top incomes, most clearly documented by French economist Thomas Piketty and colleagues, is a critical feature of the growing imbalance in income, hence wealth and associated with that political power. The reason for this effect is likely to be "the positive effect of weaker unions on the share of capital income – which tends to be more concentrated than labor income – and the fact that lower union density may reduce workers' influence on corporate decisions, including those related to top executive compensation." Or put the other way round, unions rebalance not only bargaining power but also the distribution of incomes from the very top incomes to the rest of the population. They increase the share of income going to wage and salary earners (the "labour share" of income).

Secondly the researchers find that as well as reducing gross income inequality unions also reduce *net* income inequality – that is after taxes and transfers. Indeed, on average they estimate that about half of the increase of net income inequality in the countries that they analyse was due to deunionisation. Unions don't directly affect tax rates and the strength of social security so how does this come about? The authors conclude that it is likely to be because unions influence policies that bring about redistribution of income through mechanisms such as these. In other words unions are a powerful force for social progress. Weakening unions leads to weaker social protections and increasingly unfair distribution of the income generated by the economy.

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[1] Jaumotte, F., & Buitron, C. O. (2015). *Inequality and Labor Market Institutions* (Staff Discussion Note No. SDN 15/14). Washington DC, USA: International Monetary Fund. Retrieved from http://www.imf.org/external/pubs/cat/longres.aspx?sk=42987

They find that New Zealand is at an extreme in the effect of deunionisation on increasing inequality – but also near the opposite extreme in the positive effect of the minimum wage in reducing inequality.

There are other recent studies which also show a relationship between deunionisation and increasing inequality, often also showing a strong effect of financial deregulation (including international financial deregulation), some forms of globalisation and international trade, and some effect from technology. I can provide references these studies to anyone interested.

Since the Global Financial Crisis and a change in senior staff in the research department of the International Monetary Fund, their research has been constantly, and often pleasantly, surprising. It is a matter of speculation just how long that will last with another change in their research head and while the institution's policy arm continues largely to ignore the research.

Collective Bargaining in New Zealand

The annual survey of collective bargaining agreements carried out by CLEW looks at all aspects of collective employment agreements (CEAs) including hours of work, health and safety provisions, provisions around 90-day trials and much more, but I only have space here to look at wages.

As I did last year (see the September 2014 *Economic Bulletin* for more details of why) I compare the increases with the Labour Cost Index (LCI) which covers all workers. I compare the LCI rather than for example the average wage because both CLEW's data for CEAs and the LCI are concerned with the rate for the job rather than the individual holding the job, whereas the average wage includes all kinds of pay increase. The LCI includes CEA-negotiated increases among those it measures, but not rises due to the merits of the individual holding the job.

For the year to June 2015 CLEW finds that on average the minimum adult wage in the collectives (which they take as the measure of pay rate changes throughout the agreements, weighted by the number of people in each CEA) rose by 1.6 percent, the same as last year. Private sector collective rates rose 2.3 percent (again the same as 2014), central government 1.0 percent (down from 1.1 percent in 2014) and local government 3.0 percent (down from 3.1 percent in 2014).

For the year to June 2015 the LCI rose by 1.6 percent overall, the same as CEAs, the private sector LCI rose 1.8 percent, considerably lower than for CEAs, central government LCI rose 1.1, just higher than CEAs, and local government rose 2.1 percent, again considerably lower than for CEAs. The difference between the increases for central government (1.0 percent for CEAs compared to 1.1 percent for the LCI) is unlikely to be real: the different ways in which the two increases are calculated could well create such a difference. Given the central place of CEAs in central government wage fixing, no great difference would be expected.

So the year on the whole confirms the longer term picture: that there is a worthwhile premium for being on a CEA, particularly in the private sector. See the graphs on the next page (Figure 1).

A job on a wage of $15.00 in June 1993 (around the average hourly wage) would be paying $26.09 in June 2015 if it had risen at the rate of increase in CEAs, but only $23.70 if it had risen at the rate of the LCI, a 10.1 percent CEA premium. For the private sector, the premium is 15.9 percent: $27.23 for CEAs compared to only $23.49 for the LCI.

Figure 1: Average annual increases, comparing CEAs with LCI

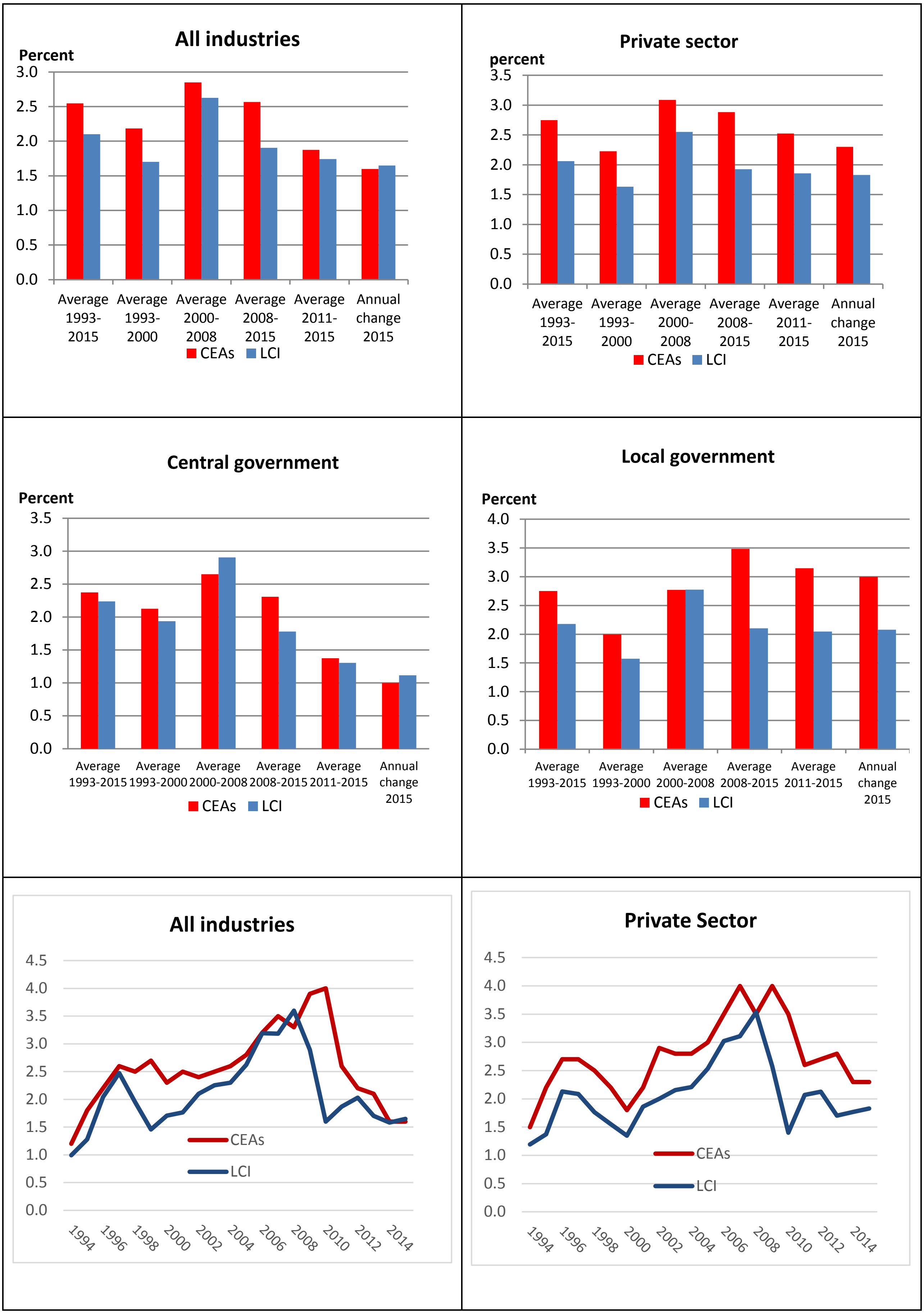
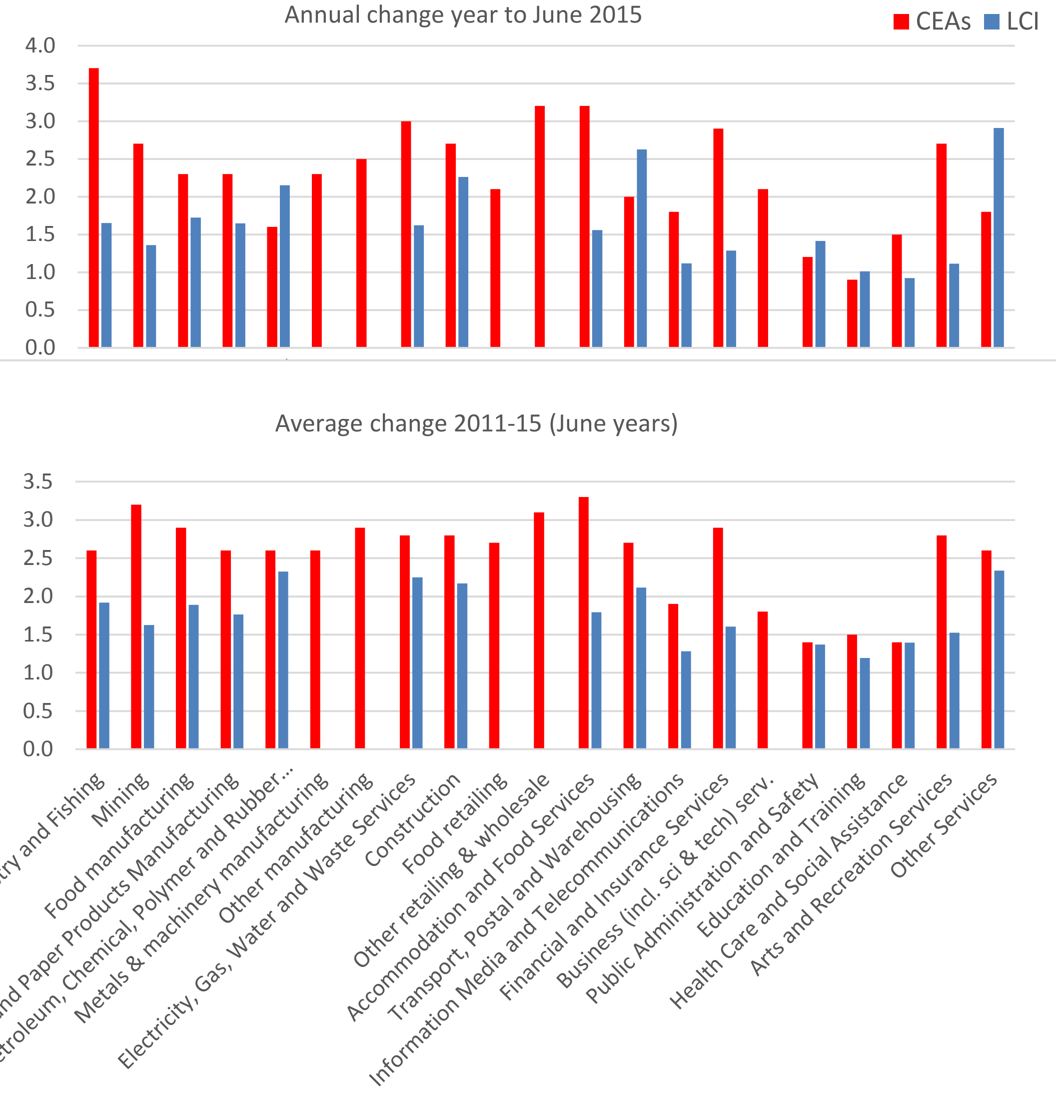


Figure 2: Annual changes in wages and salaries, comparing CEAs with LCI



By industry, there is a similar pattern of CEA increases being higher than LCI. Figure 2 shows the comparison for 2015 and for 2011 to 2015 which is as far back as this CLEW data is available. Other than in the public services as already discussed, only three industry categories (Transport, Postal and Warehousing; Petroleum, Chemical, Polymer and Rubber Product Manufacturing; and Other Services) show CEAs getting a lower increase than the LCI in 2015. However between 2011 and 2015, CEAs got higher increases in all categories we can compare, apart from sectors dominated by government where the increases were virtually the same.

Information from the Labour Cost Index Survey enables an estimate of how more frequently jobs covered by collectives get pay rises compared to other jobs. CLEW shows that virtually all jobs on CEAs get a pay rise (only 1 percent didn’t in 2015) but only 47 percent of those not on a CEA got a rise. In general those on CEAs are more likely to get a rise of any given size though since 2013 those not on a CEA have been more likely to get an increase of greater than 5 percent but even that gap seems to be closing again. In all, jobs on CEAs are 2.1 times more likely to get a pay rise than those that are not. See Figure 3.

Figure 3: Proportion of those on CEA or not on CEA receiving increases

However the number of people directly benefitting from these union-negotiated increases is falling according to CLEW. (Other workers may well benefit because in many firms and some industries the collective agreements set the benchmark for pay rises.) Coverage in 2015 was 328,700 people compared to 335,200 in 2014. Private sector coverage fell from 136,800 in 2014 to 134,200 in 2015 and public sector from 198,400 to 194,500. Not quite as pessimistic a picture comes from the LCI data which suggests coverage of around 380,000. Whichever is true, it is little wonder unions are struggling to do their job of creating a fairer balance in who gets income, resources and power in New Zealand.

Bill Rosenberg

Information

Forecast....7
Economy....7
Employment....11
Wages and prices....13
Public Sector....14
Notes....15

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

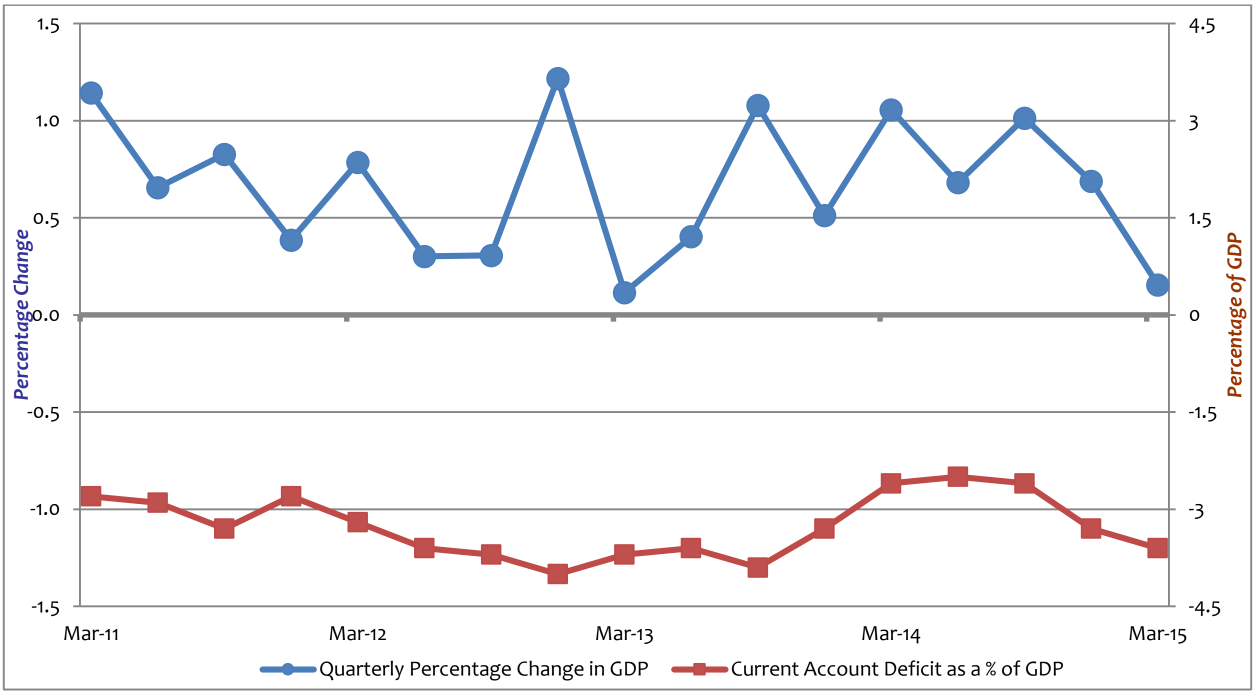
Forecast

- This NZIER forecast was released on 15 June 2015.

Annual Percentage Change (March Year)	**2014-15**	**2015-16**	**2016-17**	**2017-18**
GDP	3.2	2.8	2.7	2.4
CPI	0.1	1.6	1.9	2.0
Private Sector average wage	2.4	2.6	3.0	3.0
Employment	3.2	2.3	1.8	1.1
Unemployment rate	5.8	5.5	5.2	5.3

Actuals in red.

Economy



- Growth in New Zealand's economy slowed in the March 2015 quarter, with Gross Domestic Product rising by 0.2 percent, compared to quarterly increases of 0.7 percent in December 2014 (revised down from 0.8 percent), 1.0 percent in September, 0.7 percent in June, and 1.1 percent in March 2014. The slow growth in the quarter, much lower than expected by Treasury and other forecasters, was mainly due to a fall in activity in agriculture (down 2.3 percent) due to lower milk production. Growth for the year ended March 2015 was 3.2 percent while the March quarter was 2.6 percent up on the same quarter in 2014. However GDP per person is barely increasing by some measures: it fell 0.4 percent in the quarter in real terms, though it rose 0.5 percent in dollar terms. 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, rose 0.6 percent having fallen 1.1 percent in the previous quarter and 0.3 percent in the three months before that. Growth in GDP per capita is flat lining at a level around the lowest it was during the 2000s before the Global Financial Crisis hit, separating from GDP growth due to the strong population growth driven by high net immigration. The largest quarterly rises by industry were in Arts and recreation services (up 5.9 percent), Administrative and support services (up 3.9 percent), Wood and paper products manufacturing (up 2.3 percent), Textile, leather, clothing, and footwear manufacturing (up 2.8 percent) and Accommodation and food services (up 2.7 percent). Construction was up 2.5 percent after a fall in the previous three months. There were significant falls in Printing (down 8.5 percent), Mining (down 7.8 percent), Furniture and other manufacturing (down 3.9 percent), Information media and telecommunications (down 2.8 percent), as well as Agriculture. Manufacturing was down 0.3 percent overall, with its largest sector, Food, beverage, and tobacco manufacturing, down 1.6 percent. The result was that Primary Industries fell 2.9 percent, Goods producing industries (which includes Construction) rose 0.6 percent and Service industries rose 0.7 percent. Over the year (comparing March quarters), all industries expanded except Forestry and Logging (down 2.5 percent), Textile, leather, clothing, and footwear manufacturing (down 1.2 percent), and Printing (down 1.4 percent). Non-metallic mineral product manufacturing (up 11.0 percent) and Construction (up 10.2 percent) led the expansion. Household consumption expenditure rose 0.7 percent in real terms in the quarter and 3.6 percent from the March 2014 quarter. Expenditure on non-durable goods (such as groceries) rose 0.6 percent in real terms during the quarter and rose 2.0 percent during the year while durables (such as appliances) boomed at 3.1 percent growth in the quarter and 8.7 percent growth over the year. Business investment fell 2.8 percent in the quarter but rose 4.6 percent from the previous March quarter. There were falls in expenditure on Construction other than buildings (down 6.7 percent) and Land improvements (down 0.5 percent), while expenditure on Residential buildings increased strongly at 12.3 percent and Non-residential buildings at 13.1 percent.
- New Zealand recorded a Current Account deficit of $1.8 billion for the March 2015 quarter in seasonally adjusted terms ($3.2 billion actual), compared to a $2.5 billion deficit in the December 2014 quarter. There was another deficit, though small, in the goods trade ($90 million, seasonally adjusted, following a $403 million deficit in the December quarter) and a surplus of $604 million ($225 million in December) in goods and services, while the deficit on income (mainly payments to overseas investors) fell to $2.4 billion from $2.8 billion. For the year to March 2015, the current account deficit was $8.6 billion or 3.6 percent of GDP compared to a $7.8 billion deficit in the year to December (3.3 percent of GDP). The deficit on investment income was $9.9 billion.

- The country's Net International Liabilities were $153.5 billion at the end of March 2015 (64.2 percent of GDP) down from $154.6 billion (65.0 percent of GDP) at the end of December 2014, and up from $150.1 billion (65.5 percent of GDP) in March 2014. The fall in net liabilities in the quarter was due to changes in the market valuation of assets and liabilities, partly offset by a $2.0 billion inflow of investment. Without the market value changes, the net liabilities would have been $152.6 billion. Assets rose in value from $198.0 billion to $213.6 billion partly because of exchange rate and valuation changes ($9.8 billion) and partly due to financial flows ($5.8 billion). Liabilities rose from $352.6 billion to $367.2 billion with financial inflows accounting for $3.8 billion and valuation changes $10.8 billion (but only $0.7 billion of this was due to exchange rate changes). New Zealand's international debt was $271.8 billion (113.7 percent of GDP), of which 38.6 percent is due within 12 months, compared to $128.7 billion in financial assets (other than shares; 53.8 percent of GDP), leaving a net debt of $143.1 billion. Of the net debt, $10.1 billion was owed by the government (equivalent to 4.2 percent of GDP and down from $12.3 billion in December 2014) and $102.3 billion by the banks (42.8 percent of GDP), which owed $57.7 billion to related parties. Total insurance claims owed by overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 31 March 2015, $16.4 billion of these claims had been settled, leaving $3.8 billion outstanding.

- ★ Overseas Merchandise Trade for the month of July saw exports of goods rise 14.0 percent from the same month last year while imports rose 4.8 percent. This created a trade deficit for the month of $649 million or 15.4 percent of exports. In seasonally adjusted terms, exports rose 8.0 percent or $317 million over the month (compared to a 5.8 percent fall the previous month) influenced by rises in Dairy (18.9 percent or $174 million), Fruit (11.1 percent or $22 million), and Seafood (11.7 percent or $14 million), but offset by falls in Logs, Wood and Wood articles (down 2.3 percent or $7 million) and Aluminium (down 12.6 percent or $12 million, not seasonally adjusted). Seasonally adjusted imports rose 2.8 percent or $124 million over the previous month, creating a trade deficit of $279 million compared to a $471 million deficit in the previous month. Imports fell in Petroleum and products (10.9 percent or $63 million), Mechanical machinery and equipment (4.1 percent or $26 million) and Electrical machinery and equipment (2.3 percent or $9 million) but rose in Textiles and textile articles (26.8 percent or $48 million) and other consumption goods. Our top six export destinations accounted for 58.7 percent of our exports in the year (of which Australia accounts for 17.4 percent and China 17.1 percent), compared to 60.4 percent in the previous year (China 22.6 percent, Australia 17.4 percent). However China remains top importer with $9,530 million of imports in the year to July compared to Australia at number two with $6,282 million and the trade balance with China has moved from a $3,205 million surplus in the year to July 2014 to a deficit of $1,175 million in the year to July 2015, a turnaround of $4.4 billion. Imports from China rose 14,5 percent in the year to July, and rose 2.8 percent from Australia, and in the month imports from China rose 28.5 percent while imports from Australia fell 0.6 percent compared to the same month in the previous year.

- ★ The Performance of Manufacturing Index[1] for July 2015 was 53.5, a fall from 55.1 in the previous month. The employment sub-index was at 50.8, also a fall from 53.8 in the previous month.

- ★ The Performance of Services Index[1] for July 2015 was 56.5, a fall from 58.1 in the previous month. The employment sub-index fell to 53.8, down from 54.1 in the previous month.

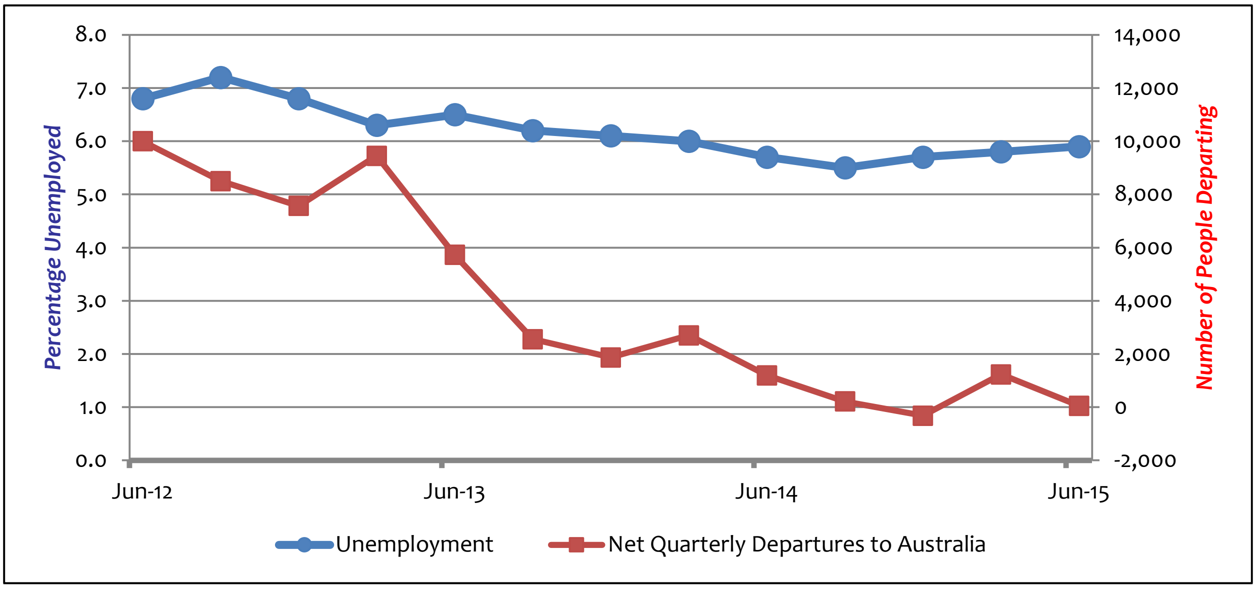
- ★ The Retail Trade Survey for the three months to June 2015 showed retail sales rose 5.9 by volume and 4.1 percent by value compared with the June 2014 quarter. They rose just 0.1 percent by volume and by value in the quarter, seasonally adjusted, however. By value, the largest positive contributors to the increase in the quarter was Non-store and commission retailing (which includes internet purchases) which was up 7.9 percent, Fuel (up 3.2 percent) and Liquor (up 2.1 percent). Largest falls were Specialised food (down 3.6 percent), Furniture, floor coverings, houseware and textiles (down 3.5 percent) and Accommodation (down 2.0 percent).

- On 23 July 2015 the Reserve Bank reduced the Official Cash Rate (OCR) by 0.25 percentage points to 3.0 percent and signalled that there could be further reductions. Despite the fall in the exchange rate, it said "further depreciation is necessary given the weakness in export commodity prices". Inflation will depend on how much the increased import costs resulting from devaluation of the dollar are passed through to consumers, but it expects it to be back around 2% by early 2016. The next OCR review will be announced on 10 September 2015 and will be accompanied by a Monetary Policy Statement.

- ★ According to REINZ, the national median house price rose $49,000 or 11.8 percent to $465,000 in July 2015 compared to a year before and up $15,000 (3.3 percent) on the previous month. The Auckland median price rose 21 percent over the year, from $610,000 to $735,000 but fell 2.65 percent compare to the previous month. Excluding Auckland the national median price was $352,000, up $19,950 or 6.0 percent compared to a year before and up $12,000 compared to the previous month. There were 486 or 17 percent more sales under $400,000 compared to July 2014, taking the number to 3,272, a rise of 514 (130 percent) to 909 in the $1 million plus range and 771 more (66 percent) to 1,934 in the $600,000 to $999,999 range. Sales under $400,000 accounted for 40.3 percent of sales in July 2015 but 47.3 percent in July 2014.

- Productivity statistics released in June 2015 for the "measured sector" (similar to the market or commercial sector, and 77 percent of the economy) for the year to March 2014 show labour productivity rose 1.4 percent in the year, capital productivity fell 0.3 percent and multifactor productivity (what is unaccounted for by labour or capital) rose 0.6 percent. From 1996 to 2014, Australia's rate of labour productivity growth averaged 2.3 percent a year, considerably higher than the average 1.5 percent increase a year in New Zealand. The 1.4 percent increase in labour productivity in the year to March 2014 means that real wages in the measured sector fell further behind productivity growth that year. The average hourly wage (including overtime) rose only 0.9 percent that year after consumer prices are taken into account (that is, from the point of view of workers' cost of living) and fell an estimated 1.8 percent after producer prices are taken into account (that is, from the point of view of the increase in revenue received by their employers, or what they could afford to pay). So wages fell 0.5 percent or 3.2 percent behind productivity growth depending on how real wages are measured. Since the bottom of the recession in 2009, real wages have fallen behind labour productivity growth by between 5 percent and 6 percent depending on how they are measured.

Employment



- According to the Household Labour Force Survey the unemployment rate in the June 2015 quarter was 5.9 percent or 148,000 people, compared to 5.8 percent in March (146,000 people), seasonally adjusted. It is 5.7 percent actual (not seasonally adjusted) or 142,500 people, up 10,000 from 132,500 or 5.5 percent a year before. Including the unemployed, there were 262,500 people jobless, up 25,200 from 237,300 a year before, and there were 95,700 part-timers who wanted more work, down 2,200 from a year before. Seasonally adjusted female unemployment at 6.7 percent was considerably higher than for men (5.2 percent), and female unemployment rose while males' fell. Māori unemployment rose from 11.2 percent in June 2014 to 12.6 percent, and Pacific people's unemployment fell from 11.5 percent to 11.3 percent over the year. The labour force participation rate at 69.3 percent is down from 69.5 percent in March and up from 68.7 percent a year before. There are 41,200 unemployed people who have been out of work for more than 6 months (up from 37,000 in June 2014), and they are 28.9 percent of the unemployed compared to 27.9 percent a year before. Those out of work for more than a year is at 12.1 percent of the unemployed compared to 11.8 percent a year before. Compared to OECD unemployment rates, New Zealand is 12th equal lowest (out of 34 countries), improving from 13th equal in March.

- In the North Island, only Waikato (5.0 percent) and Wellington (5.6 percent) have unemployment below the 5.7 percent average for the country (not seasonally adjusted), and Northland, with 8.6 percent unemployment (up from 8.4 percent a year before), Gisborne/Hawkes Bay with 7.7 percent (6.7 percent a year before), and Manawatu-Whanganui with 7.0 percent (7.1 percent a year before) are particularly hard hit. Taranaki also appears to have fared badly, hit by both falling dairy and oil prices, with 7.3 percent unemployment, up from 5.2 percent a year before. Auckland's unemployment rate was 6.3 percent (the same as a year before). The South Island looks considerably better, with Tasman/Nelson/Marlborough/West Coast at 4.4 percent, Canterbury at 3.3 percent, Otago at 4.2 percent and Southland at 5.5 percent, though all higher than a year before. The unemployment rate outside Canterbury is 6.1 percent.

- ★ By industry, over the year more than two-thirds of the increase in employment came from Manufacturing (36.3 percent or 24,600 workers compared to a growth of 67,800 overall) and Construction (33.5 percent or 22,700 workers), followed by Retail trade, and accommodation, and food service (30.1 percent or 20,400 people) and Arts, recreation and other services (11.8 percent or 8,000 people). However this was offset by falls led by Wholesale trade (down 27.3 percent or 18,500 workers), and Public safety and administration (down 10.0 percent or 6,800 workers).

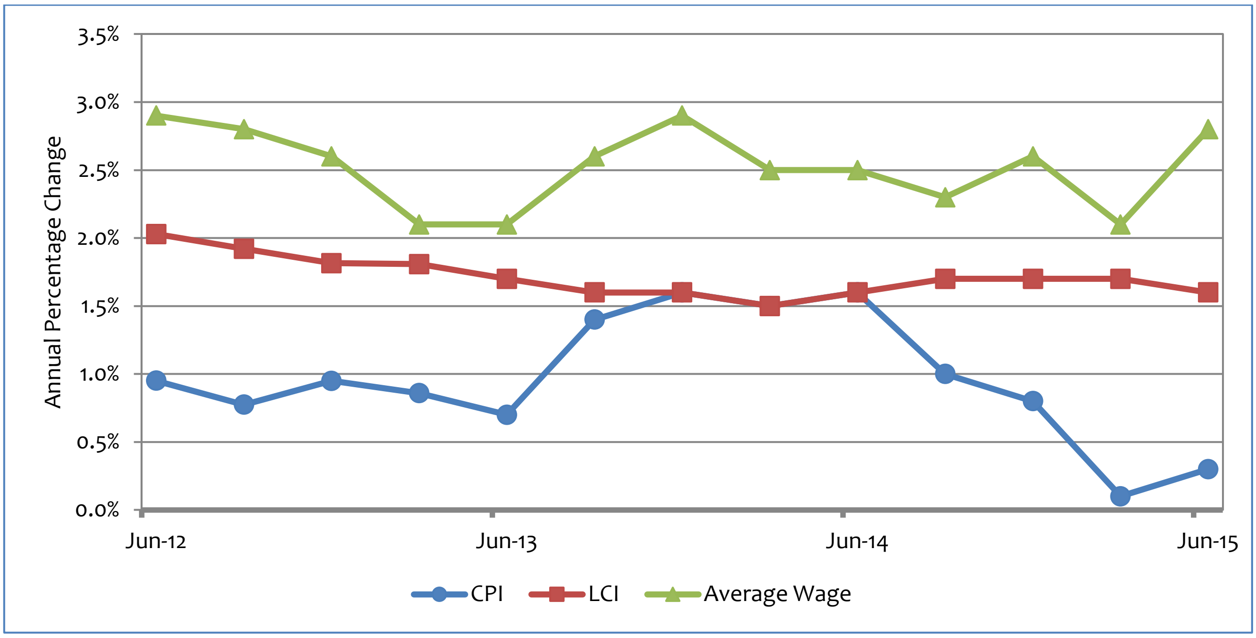
- ★ Youth unemployment for 15-19 years was 20.1 percent, down from 21.4 percent in March and 20.9 percent a year before; for 20-24 year olds it was 10.5 percent, down from 11.0 percent in March and 11.0 percent a year before, all in seasonally adjusted terms. The not in employment, education, or training (NEET) rate for 15-19 year olds was 7.6 percent, down from 8.2 percent in March and the same as a year before while for 20-24 year olds it was 15.2 percent, the same as in March and up from 14.8 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (15.9 percent) than those not in education (13.2 percent). There were 74,000 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 June 2015 there were 118,072 working age people on the Jobseeker benefit, a fall of 3,059 from 121,131 in June 2014 but an unusual rise of 1,179 for June from 116,893 in May. It appears the reduction in numbers on a benefit is slowing. Of those at June 2015, 63,255 were classified as 'Work Ready', and 54,817 were classified as 'Health Condition or Disability'. A total of 285,349 were on 'main' benefits, 1,089 fewer than March 2015 and 8,237 fewer than June 2014. It was 22,279 more than in June 2008. Of 51,490 benefits cancelled during the three months to June, 19,764 or 38 percent obtained work, 11 percent transferred to another benefits and 4 percent became full time students.

- ★ Job Vacancies Online showed a seasonally adjusted fall in skilled job vacancies of 0.5 percent in July after a rise of 0.7 percent in the previous month. All job vacancies rose by 0.6 percent in July, after a rise of 0.7 percent in the previous month. In the year to July, skilled vacancies rose 3.3 percent. All vacancies rose by 2.9 percent.

- ★ International Travel and Migration data showed 10,820 permanent and long-term arrivals to New Zealand in July 2015 and 4,870 departures in seasonally adjusted terms, a net gain of 5,740 (a record since the series began in 1982). There was an actual net gain of 59,639 migrants in the year to July. Net migration to Australia in the year to July was 843 departures, with 25,094 departures and 24,251 arrivals. For the month of July, there was a seasonally adjusted net gain from Australia of 210 compared to a loss of 160 a year before. In July, 8.2 percent of the arrivals had residence visas, 40.3 percent student visas, 22.3 percent work visas, and 4.3 percent visitors. A further 24.2 percent were New Zealand or Australian citizens.

Wages and prices



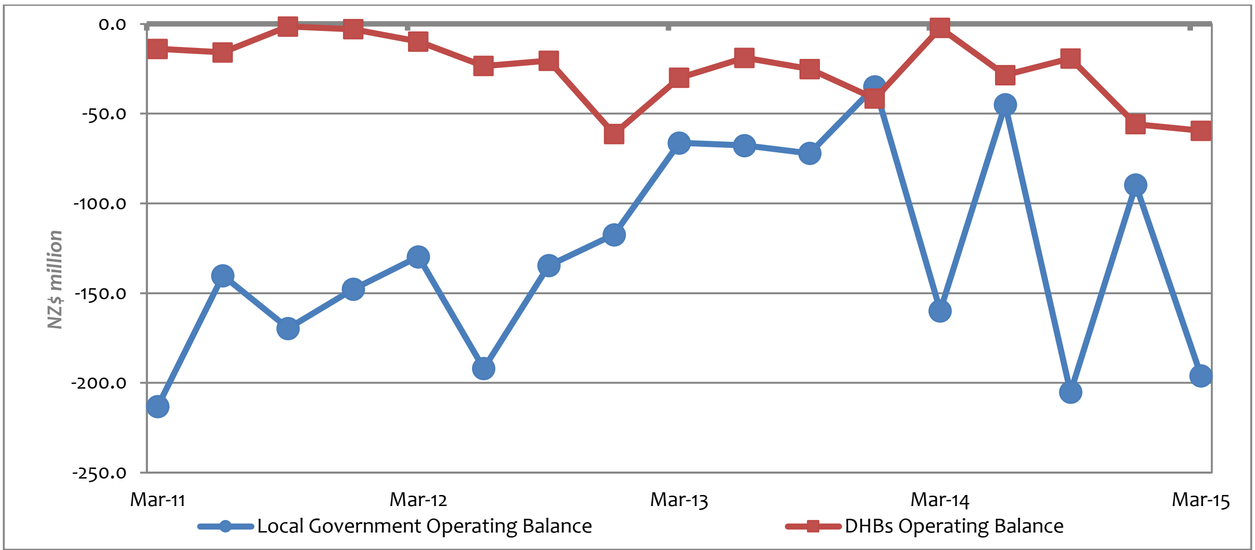
- ★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to June 2015. The LCI increased 1.6 percent in the year to June, ahead of the 0.3 increase in the CPI. It increased 0.3 percent in the public sector and 0.5 percent in the private sector in the 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, and 45 percent did not in the private sector. For the 57 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.5 percent and the average increase was 3.1 percent. For those jobs that received increases, the median increase in the public sector was 2.0 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 3.3 percent. We estimate that jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those who were not.

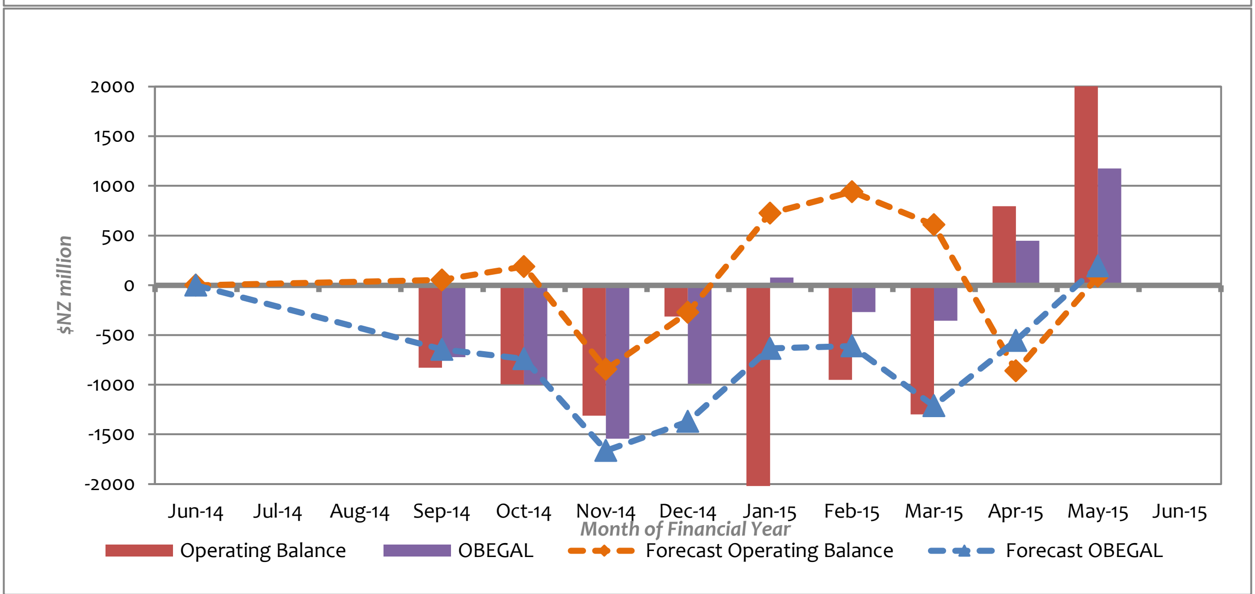
- ★ The Quarterly Employment Survey for the three months to June 2015 found the average hourly wage for ordinary-time work was $29.01, up 0.8 percent on the March quarter and up 2.8 percent over the year. The average ordinary-time wage was $27.14 in the private sector (up 1.2 percent in the quarter and up 3.2 percent in the year) and $35.86 in the public sector (down 1.1 percent in the quarter and up 1.6 percent in the year). Female workers (at $26.76) earned 13.5 percent less than male workers (at $30.93) for ordinary time hourly earnings.

- The Consumer Price Index rose 0.4 percent in the June 2015 quarter compared with the March quarter driven by rising petrol prices, and increased 0.3 percent for the year to June, driven by rents and home ownership costs. For the quarter, Vegetables (up 4.8 percent), Alcohol (up 0.9 percent), rents (up 0.6 percent), purchase of new housing (up 1.5 percent) and petrol (up 8.8 percent) were the largest upward influence. Offsetting them were Fruit (down 8.7 percent), Domestic air transport (down 13.3 percent), and Telecommunications services (down 1.9 percent). Inflation in Canterbury for the year was 0.2 percent, the first time it has been below the national average since June 2011. It was 0.1 percent in Wellington and 0.5 percent in Auckland. Housing costs are still hitting particularly hard in Canterbury, rising 3.0 percent for the year, and Auckland, rising 3.4 percent, compared to 1.1 to 2.2 percent elsewhere. Statistics New Zealand is now providing a seasonally adjusted series for the Consumer Price Index and a few of its subindexes. This takes out seasonal variation in prices to assist comparison month to month. The index rose 0.3 percent from March in seasonally adjusted terms, Food fell 0.3 percent, Housing and household utilities rose 0.4 percent and Communications fell 1.8 percent.

★ The Food Price Index rose by 0.6 percent in the month of July 2015 (0.5 percent seasonally adjusted), following a 0.5 percent rise in the previous month. Food prices rose 1.2 percent in the year to July 2015. Compared with June, fruit and vegetable prices rose 3.0 percent (0.6 percent seasonally adjusted); meat, poultry, and fish prices rose 1.3 percent; grocery food prices fell 0.1 percent (down 0.2 percent seasonally adjusted); non-alcoholic beverages rose 0.1 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 ended 31 May 2015, core Crown tax revenue was $401 million or 0.7 percent higher than forecast in the 2015 Budget Economic and Fiscal Update (BEFU). Main contributors were higher than expected corporate tax ($395 million) and 'other individuals tax' ($112 million), but this was offset by lower than forecast GST ($261 million lower). Core Crown expenses were $433 million (0.7 percent) less than forecast, with the largest contributor being education which was $205 million under forecast. The Operating Balance before Gains and Losses (OBEGAL) was a $1,176 million surplus, $983 million better than the $193 million surplus forecast. The Operating Balance was a $4,604 million surplus, $4,515 billion better than expected, the difference being mainly due to actuarial losses of $2.9 billion on ACC liabilities being lower than forecast due to higher interest rates and changed inflation assumptions. Financial instruments had net gains $558 million above forecast. Net debt at 25.3 percent of GDP ($60.4 billion) was $164 million lower than the $60.5 billion forecast. Gross debt at $85.7 billion was $1.6 billion above forecast.

- District Health Boards recorded combined deficits of $68.3 million for the eleven months to May 2015. This is $32.4 million worse than their plans. The Northern region was $0.7 million ahead of plan with a surplus of $3.8 million and all DHBs in surplus, the Midland region was $9.3 million behind plan with a combined deficit of $20.4 million and all DHBs in deficit, half ($10.2 million) due to Waikato, Central region was $10.2 million behind plan and all but Whanganui in deficit for a total $16.1 million, and the Southern Region was $13.5 million behind plan with a $35.7 million deficit and three of the five DHBs in deficit including Canterbury at $17.9 million and Southern at $20.2 million. The DHBs furthest ahead of plan were Waikato and South Canterbury, both by $0.7 million, and Southern was furthest behind, by $8.3 million. The funder arms were in surplus by $120.8 million, but Provider arms in deficit by $189.0 million.
- Local Government recorded a 0.5 percent ($11.4 million) fall in operating income and a 4.3 percent rise in operating expenses ($95.0 million) including a fall of 0.6 percent ($3.0 million) in employee costs for the March 2015 quarter compared to December 2014. This resulted in an operating deficit of $196.1 million in the March quarter, compared with a deficit of $89.7 million in the December 2014 quarter, and deficits in all the last 28 quarters back to March 2008 with the exception of June 2010, all in seasonally adjusted terms. Note that the March 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/economicbulletin171.

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