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Commentary

Overseas investment in New Zealand: how much, how good?

Summary

Overseas investment is frequently controversial. When multinational corporations misbehave or try to influence governments (including in treaties like the TPPA) they attract odium. Land sales to overseas buyers are controversial for understandable reasons. But ongoing business investment frequently flies under the radar and is economically much more important.

The Government recently announced an initiative to attract more overseas investment. In doing so it admitted that the usually claimed benefits had largely not eventuated in New Zealand. It wants to attract higher quality investment but because most of our ability to be selective and attach conditions to business investment has been signed away in trade and investment agreements, it can only do so by spending a lot of time wooing selected investors and making life as easy for them as possible.

The new investment it estimates is needed is $160-200 billion. If all that came from overseas investment, it would cost New Zealand around $13-16 billion a year in profits going overseas to the investors. This would roughly double the investment income going overseas, which already accounts for virtually all of the current account deficit. It is about equal to the value of dairy and forestry exports. We have good reason to ask whether this is value for money.

Evidence compiled by researchers on the quality of existing overseas companies ('foreign direct investment') is that it is low quality. It targets high-performing local firms but does not generally raise productivity; there is little evidence local suppliers and customers benefit by learning from overseas firms' practices; there is little wage premium (about 3 percent) nor sign that their workers pick up skills that are useful when they move to another employer. There are many examples of debt-loaded leveraged buyouts, asset stripping and tax avoidance.

Overseas firms employ about one in six employees, but account for around a quarter of business assets so are not strong job creators. Concentrated in low-competition areas of the economy (like finance), they export less and make much higher rates of profit than local firms.

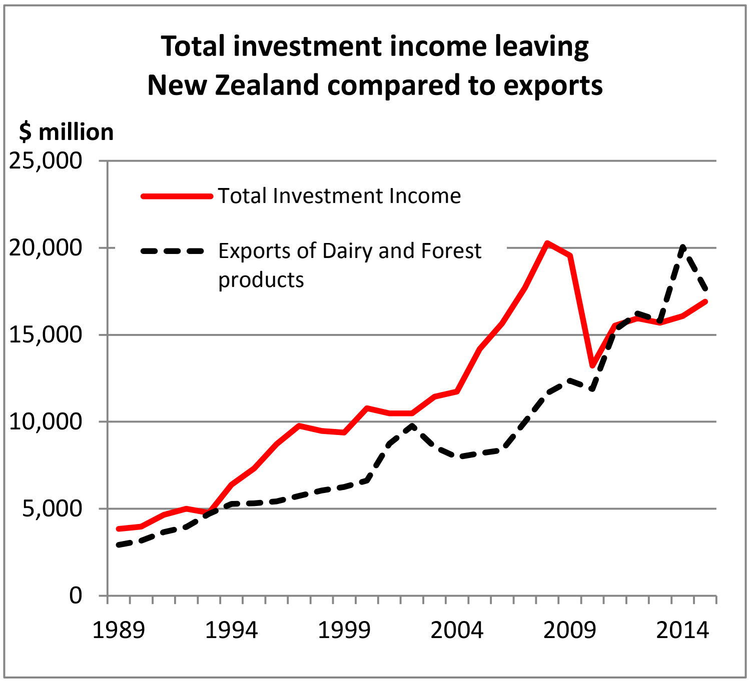
Neither do they bring in much new investment funding. The growth in their valuations since 2001 has been overwhelmingly by capital gain (32 percent) and reinvestment of profits made here (66 percent) though only 30 percent of the profits were reinvested. It is reckless to have discarded so much of our ability to be selective of overseas investment.

Overseas investment is frequently controversial in New Zealand and around the world. When large multinational corporations misbehave or try to influence government policy (and treaties like the TPPA embody that) they attract odium. Land sales to overseas buyers are always controversial here for understandable reasons. But there is ongoing business investment which frequently goes under the radar which is economically much more important. The Government recently announced an initiative to attract more overseas investment. It is an area where grand assertions tend to be bandied about but rarely accompanied by evidence as to whether it is good for us, here in New Zealand. This commentary has a look at some evidence that has become available.

In its July announcement of an "Investment Attraction Strategy" the Government acknowledged that New Zealand has not attracted overseas investment that provided benefits such as access to export markets, bringing new technologies and know-how to local firms, creating skilled jobs, lifting skill levels, or bringing increased investment to the regions. The benefits routinely claimed for overseas investment had not by and large eventuated. Instead "The bulk of overseas investment into New Zealand in the last decade has been in the non-tradable sectors and, in particular, by investors seeking market penetration largely in the business and financial services, retail and property sectors. Aside from increasing competition, these investments are unlikely to produce wider benefits to the economy."

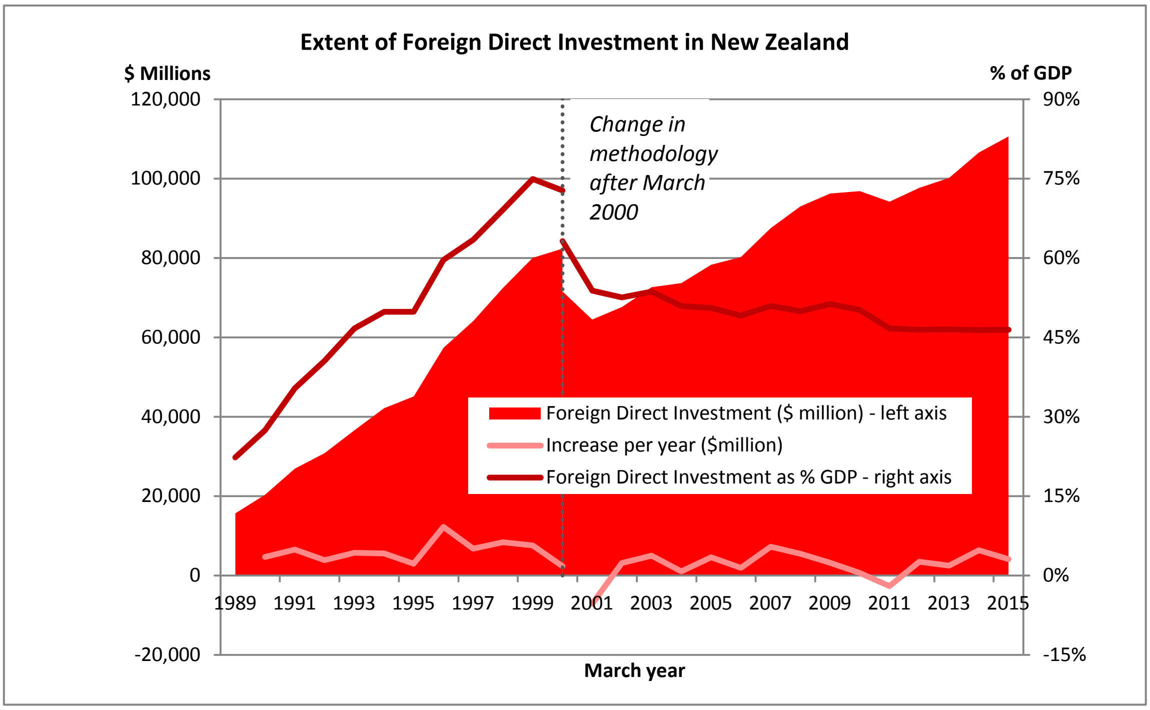
To put it more bluntly: too much of it has gone into banking, speculative finance, property and company takeovers which often were aimed at asset stripping and loading the target with debt to make quick profits (leveraged buyouts). The evidence is consistent with this.

The Government wants to attract better quality investment in order to meet investment needs which it estimates at $160 billion to $200 billion over an unstated period. If all that came from overseas investment in companies, it would cost New Zealand around $13 billion to $16 billion a year in profits going overseas to those investors if they continue the level of returns current foreign direct investors receive. This would roughly double the investment income going overseas, which already accounts for virtually all of New Zealand's current account deficit. It is about equal to the value of New Zealand's total dairy and forestry exports. So we have good reason to worry whether this investment is doing what it is advertised to do.



Unfortunately successive governments have given away our right to regulate the quality and quantity of business investment from overseas in various international agreements. We may no longer demand incoming investments are good quality beyond the bare bones requirements of the existing Overseas Investment Act that individual investors be of good character, commit some money to the investment and have relevant "business experience and acumen", unless sensitive land or fishing quota are involved when the rules are tighter. Treaties from the WTO through to the recent free trade and investment agreement with South Korea (and similar leaked provisions in the TPPA) mean we may not strengthen that nor require investors to use local products, export a proportion of their products, introduce technology nor a range of other reasonable requirements. Investors can enforce these rules in offshore tribunals. So the Government's new strategy amounts largely to spending a lot of time wooing investors and making life as easy for selected investors as possible. It seems unlikely to be any more successful than our previous history.

The evidence below is about investment which has a degree of control of a business ("foreign direct investment"). We don't have good data on the most controversial overseas investment: residential property and rural land, though for the latter I have estimated that approximately 8 to 10 percent of land for farming is overseas owned or controlled, the majority in forestry. We may get some better figures for residential property when the new law requiring the residency of the owner to be recorded comes into force, but because statistical information on property sales is under commercial control and not readily available to the public except at a cost, even that cannot be taken for granted. Neither do I cover other forms of investment such as debt and financial derivatives which constitute the majority of New Zealand's international liabilities. You can find more details here.



Foreign direct investment can be desirable if it brings new capital, expertise unavailable in New Zealand, technology, knowledge spillovers to other firms and workers (that is, other firms learn from what the overseas companies do, and workers gain skills and experience they wouldn't otherwise get), and links into the local economy that multiply its developmental effects by local firms producing materials, components or services for the overseas owned firm or distributing and marketing its products.

While proponents refer to these as benefits of foreign direct investment, in fact the evidence is that they are often weak in New Zealand: the investment is often low quality and sometimes even damaging.

For example local researchers Richard Fabling and Lynda Sanderson (2011) from independent research trust Motu and Treasury found that "foreign firms tend to target high-performing New Zealand companies" but that "positive effects do not extend to productivity growth" unless the acquired company was originally capital-shallow. "Overall, the New Zealand research echoes the theoretical ambiguity … – while foreign acquisitions generate potential for positive effects on domestic firms, these positive outcomes are not guaranteed and depend heavily on the motivation of the new foreign parent." They show a fall in capital/labour ratios after acquisition of high capital-intensity firms (Table 6, p.18) which is consistent with asset-stripping and leveraged buyouts which have been common in the last two decades.

In research published last year by MBIE, Tinh Doan, Kris Iyer and Dave Maré (2014) looked for increased productivity through three types of potential 'spillovers' in the form of local firms learning from their interactions with overseas firms. They concluded: "We find little evidence of substantial positive spillover effects from FDI [foreign direct investment] to local firms' productivity".

Regarding benefits to labour incomes and skills, Sanderson, Maré and another Motu researcher, Trinh Le (2014) found that in contrast to international experience, which shows significant wage premiums for working in foreign-owned firms, the wage premium in New Zealand is only 2.7 percent to 3.5 percent after taking account of factors such as firm size, location, industry, and the tendency of such firms to hire more highly skilled workers. They comment: "These findings give little support to the argument that foreign firms provide substantial indirect or spillover benefits to domestic firms through human capital accumulation and labour mobility."

What about job creation? In 2014, about one in six employees, or 17.2 percent were employed in overseas owned firms (those with 25 percent or more overseas ownership)[1]. It was 17.5 percent in 2013. There aren't good statistics to compare that to the assets of the companies, but one indication is that, according to non-official data kindly supplied by Statistics New Zealand, in 2013 25 percent of all shares (equity) in New Zealand were owned overseas[2] (and 33 percent of privately owned shares). Further, in 2014 foreign direct investment was 27.0 percent of non-housing capital stock (and 32.3 percent of market sector non-housing capital stock). This suggests that overseas firms are not particularly prolific job creators, though they tend to be much larger than average: they make up only 1.7 percent of all enterprises. It could be argued that their operations provide work for other firms and therefore their employment effect is wider than what is measured by their own employee numbers. But that cuts both ways: local firms and the government provide work for overseas companies (do banks provide work for their customers or do their customers provide work for banks?). New operations ("greenfield investment") or significant additions to existing operations have a greater claim to wider job creation effects, but these appear to be a small minority of investments (good data is not available).

Foreign firms seem to be concentrated in low-competition areas of the economy sheltered from overseas competition ('non-tradeable'). An Inland Revenue Department (IRD) analysis of Management's top-200 non-bank firms (Benge, 2010) showed much higher rates of profit going to foreign firms: returns on equity of 26 percent compared to 12 percent and returns on assets of 16 percent compared to 10 percent. But that was not matched by the firms' export performance. This led IRD to suggest that these firms were concentrated in areas of the economy with 'location-specific rents' – that is, areas not exposed to international competition and with dominant market positions where they could inflate their prices and profits.

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[1] Statistics New Zealand: Business Demography Statistics: Enterprises by industry and overseas equity 2000-14.

[2] Statistics New Zealand warns that this is non-official data, work in progress and subject to revision. It warns that sector estimates are based on current available data sources; it uses the Annual Enterprise Survey and uses specific line-codes which are not normally released at this level; the non-household sector equity estimates have not been fully analysed and they therefore expect some revisions when this is completed; and further work using extended savings data from the Household Economic Survey on Household Net Worth due to be released next year may result in revisions. The calculated proportions are after subtracting out double counting.

Examples of such sectors (see the following table) include the largest presence for foreign direct investment sector, finance and insurance which makes up almost a third of foreign direct investment ($32.1 billion out of $99.6 billion in March 2015), Electricity, gas, water, and waste services ($4.7 billion) and Rental, hiring, and real estate services ($3.9 billion).

The financial cost to New Zealand of foreign investment is considerable: from foreign direct investment alone, $9.0 billion in profits were sent abroad in the year to March 2015 out of the total $16.9 billion in investment income remitted overseas[1]. That was a rate of return of 12.0 percent after tax – close to the average 11.9 percent since 2001. It was five times the rate of return paid on overseas debt that year (2.4 percent) and almost four times the average return paid on overseas debt (3.3 percent) since 2001. Foreign direct investment is therefore particularly expensive.

But doesn't foreign direct investment bring new funds into New Zealand? Surprisingly, very little in net terms. Since 2001, all but 2 percent of the increase in foreign direct investment has been the result of capital gain (revaluations: 32 percent) and reinvested profits (66 percent). Other financial inflows have been balanced by divestment. However only 30 percent of the income from this investment was reinvested: the remainder was sent to the overseas owners[2]. Weak or negative net capital contributions are common where leveraged buyouts or other behaviour mainly seeking capital gain (such as asset-stripping) are concerned. Private equity investment has frequently been associated with this, with numerous examples in New Zealand over the last two decades.

Overseas ownership of New Zealand companies by industry, March 2015

Industry	$ Billion
Financial and insurance services	32,108
Manufacturing	14,728
Agriculture, forestry, and fishing	5,909
Retail trade	5,743
Wholesale trade	4,983
Electricity, gas, water, and waste services	4,725
Rental, hiring, and real estate services	3,944
Professional, scientific, and technical services	2,782
Mining	2,271
Information media and telecommunications	2,261
Health care and social assistance	1,826
Accommodation and food services	782
Construction	451
Transport, postal, and warehousing	287
Administrative and support services	245
Information suppressed or unallocated	16,554
Total	**99,599**

Foreign direct investment carries greater risk of tax evasion and avoidance as seen in recent examples such as Google, Microsoft, McDonalds, Apple, Facebook and the Australian banks in New Zealand. While local businesses will try to avoid and evade tax too, the international operations and size of these corporations make avoidance and evasion much more feasible, cost-effective and difficult to police without international agreements empowering the cooperation and enforcement required.

The evidence is therefore that while bringing substantial financial gains to their owners, many overseas owned firms do little to improve New Zealand's productivity, technology, knowledge, linkages and capability, but are likely to lead to an increase in our international liabilities. Much more active filtering of investment, with conditions on performance, are logical policies.

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[1] Statistics New Zealand, Balance of Payments, year ended March 2015.

[2] Data from Statistics New Zealand, Balance of Payments 2001-2015.

Compare investment with inward migration: there are strong controls over who may become a permanent resident in New Zealand (with the exception of Australian and New Zealand citizens) and some expectations as to their behaviour once they are here. Even if there is debate as to what criteria and conditions are desirable and necessary for overseas investment, it is reckless to have discarded our ability to pursue such policies in some form.

Bill Rosenberg

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Information

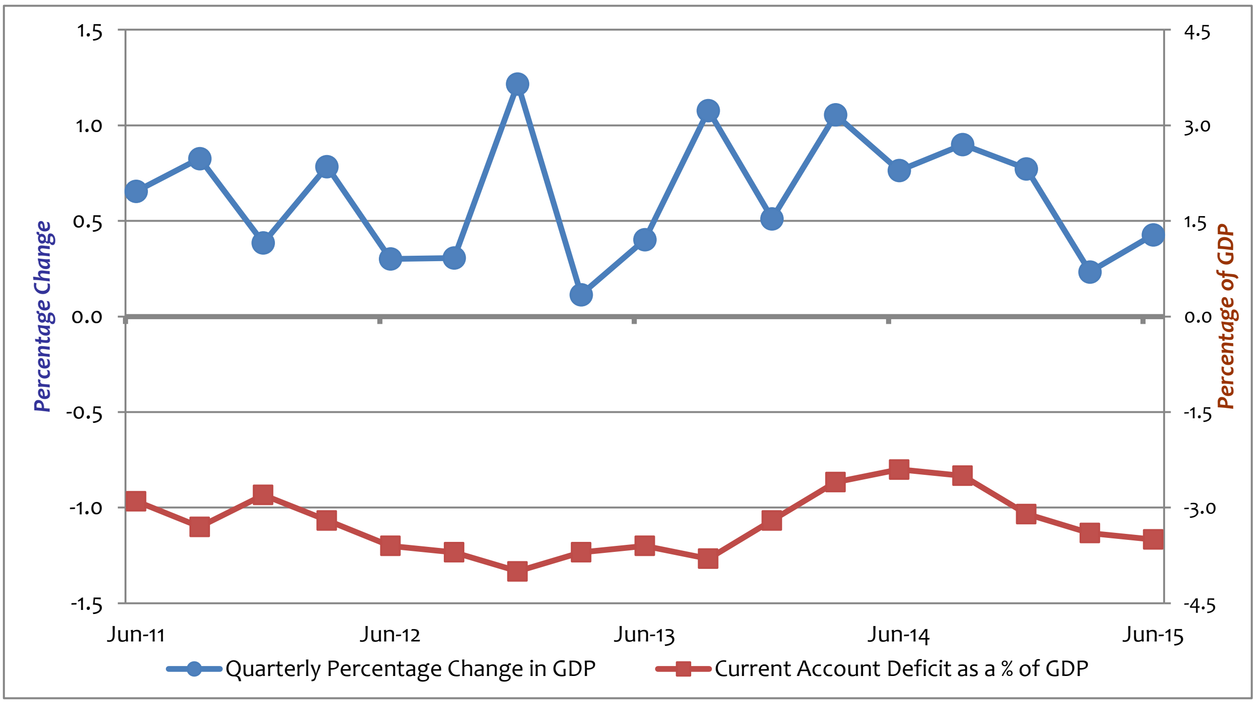
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER forecast was released on 14 September 2015.

Annual Percentage Change (March Year)	**2015-16**	**2016-17**	**2017-18**	**2018-19**
GDP	2.5	2.6	2.6	2.1
CPI	1.5	1.9	1.9	1.8
Private Sector average wage	2.9	2.9	2.9	2.7
Employment	1.7	1.7	1.5	1.5
Unemployment rate	5.9	5.8	5.6	5.5

Economy



★ Growth in New Zealand's economy was again slow in the June 2015 quarter, with Gross Domestic Product rising by 0.4 percent, compared to quarterly increase of 0.2 in March which was a significant fall from 0.8 percent in December 2014. The growth was slower than expected by Treasury and other forecasters leading to predictions of rising unemployment. It was mainly due to a fall in activity in Manufacturing (down 0.4 percent, all sectors falling except Food processing), the Wholesale trade (down 1.1 percent), Transport, postal and warehousing (down 1.8 percent), and Arts, recreation and other services (down 1.7 percent). Public administration and safety was also down 0.4 percent in the quarter. Output from Agriculture, forestry and fishing rose 2.0 percent but many producers in the sector have to face falling prices for their products. Growth for the year ended June 2015 was 3.0 percent. However GDP is barely keeping up with the rapidly growing population: GDP per person stood still in the June quarter having fallen 0.3 percent in the March quarter. Though GDP grew 0.4 percent in the June quarter, population was estimated to have grown by 0.5 percent over the same period. However 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 0.4 percent having risen 0.5 percent in the previous quarter and fallen 1.1 percent in the December 2014 quarter. 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. Output per hour worked in the economy grew only 0.4 percent in the year to June, indicating weak productivity growth. Primary Industries rose 2.1 percent in the quarter, Goods producing industries (which include Construction) rose 0.4 percent and Service industries rose 0.5 percent. Comparing the year to June to the previous year, all industries expanded. Retail trade and accommodation (up 6.5 percent) led, with Financial and insurance services up 3.9 percent, Information media and telecommunications up 3.5 percent, Health care and social assistance also up 3.5 percent, Mining up 3.3 percent, and Public administration and safety up 3.1 percent. Slowest growing were Wholesale trade and Transport, postal and warehousing (both up 0.6 percent), and Education and Training (up 0.8 percent). Household consumption expenditure rose 0.9 percent in real terms in the quarter and annually rose 3.1 percent from the June 2014 year. Expenditure on non-durable goods (such as groceries) rose 0.4 percent in real terms during the quarter and rose 1.8 percent during the year while durables (such as appliances) grew faster at 0.7 percent growth in the quarter (but much slower than the 2.1 percent in the previous quarter) and 8.1 percent growth over the year. Business investment rose 2.2 percent in the quarter after a fall of 2.7 percent in the previous quarter and rose 4.5 percent year on year.

★ New Zealand recorded a Current Account deficit of $2.1 billion for the June 2015 quarter in seasonally adjusted terms ($1.2 billion actual), compared to a $1.6 billion deficit in the March quarter. There was another deficit in the goods trade ($621 million, seasonally adjusted, following a $104 million deficit in the March quarter) and a surplus of $287 million ($691 million in March) in goods and services, while the deficit on income (mainly payments to overseas investors) stayed steady at $2.4 billion compared to $2.3 billion in March. For the year to June 2015, the current account deficit was $8.3 billion or 3.5 percent of GDP compared to a $8.1 billion deficit in the year to March (3.4 percent of GDP). The deficit on investment income was $9.2 billion.

★ The country's Net International Liabilities were $149.7 billion at the end of June 2015 (62.2 percent of GDP) down from $152.2 billion (63.9 percent of GDP) at the end of March, and from $150.7 billion (64.4 percent of GDP) in June 2014. The fall in net liabilities in the quarter was largely due to rises in the net market valuation of assets and liabilities, partly offset by falls due to exchange rate changes and financial derivative valuation changes. There was zero net inflow of investment. Without the market value changes, the net liabilities would have been $152.2 billion. Assets rose in value from $213.9 billion to $232.9 billion mainly because of exchange rate and valuation changes ($17.5 billion) along with financial flows of $1.5 billion. Liabilities rose from $366.1 billion to $382.6 billion with financial inflows accounting for $1.4 billion and net valuation changes $15.0 billion ($8.7 billion of which was due to exchange rate changes and $8.2 billion due to financial derivative valuation changes). New Zealand's international debt was $286.6 billion (119.1 percent of GDP), of which 32.9 percent is due within 12 months, compared to $143.1 billion in financial assets (other than shares; 59.5 percent of GDP), leaving a net debt of $143.5 billion (59.4 percent of GDP). Of the net debt, $6.5 billion was owed by the government including the Reserve Bank (equivalent to 2.7 percent of GDP and down from $10.1 billion in March) and $105.8 billion by the banks (44.0 percent of GDP), which owed $62.3 billion to related parties. Total insurance claims owed by overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 30 June 2015, $16.9 billion of these claims had been settled, leaving $3.3 billion outstanding.

★ Overseas Merchandise Trade for the month of August saw exports of goods rise 5.6 percent from the same month last year while imports rose 19.2 percent. This created a trade deficit for the month of $1.0 billion or 27.7 percent of exports. In seasonally adjusted terms, exports rose 4.4 percent or $188 million over the month (compared to a 8.5 percent rise the previous month) influenced by rises in Meat (13.8 percent or $79 million), Mechanical machinery and equipment (5.9 percent or $8 million), Fruit (8.4 percent or $18 million), and Wine (10.7 percent or $13 million) but offset mainly by a fall in Crude oil (57.4 percent or $48 million, not seasonally adjusted). Seasonally adjusted imports rose 2.2 percent or $100 million over the previous month, creating a trade deficit of $261 million compared to a $349 million deficit in the previous month. Imports fell in Petroleum and products (27.6 percent or $158 million) but rose in Mechanical machinery and equipment (1.7 percent or $10 million). Our top six export destinations accounted for 58.7 percent of our exports in the year (of which Australia accounts for 17.3 percent and China 17.0 percent), compared to 60.5 percent in the previous year (China 22.6 percent, Australia 17.4 percent). However China remains top importer with $9,773 million of imports in the year compared to the US at number two (supplanting Australia) with $6,387 million and the trade balance with China has moved from a $3,321 million surplus in the 2014 year to a deficit of $1,417 million in the 2015 year, a turnaround of $4.7 billion. Imports from China rose 18.0 percent in the year, and rose 24.2 percent from the US and 2.8 percent from Australia. In the month, imports from China rose 33.9 percent while imports from Australia fell 5.7 percent compared to the same month in the previous year. Imports from the US rose 58 percent under the influence of aircraft and parts which rose by $203 million.

★ The Performance of Manufacturing Index[1] for August 2015 was 55.0, a rise from 53.7 in the previous month. The employment sub-index was at 53.3, also a rise from 50.9 in the previous month.

★ The Performance of Services Index[1] for August 2015 was 58.2, a rise from 56.6 in the previous month. The employment sub-index rose to 54.4 from 53.5 in the previous month.

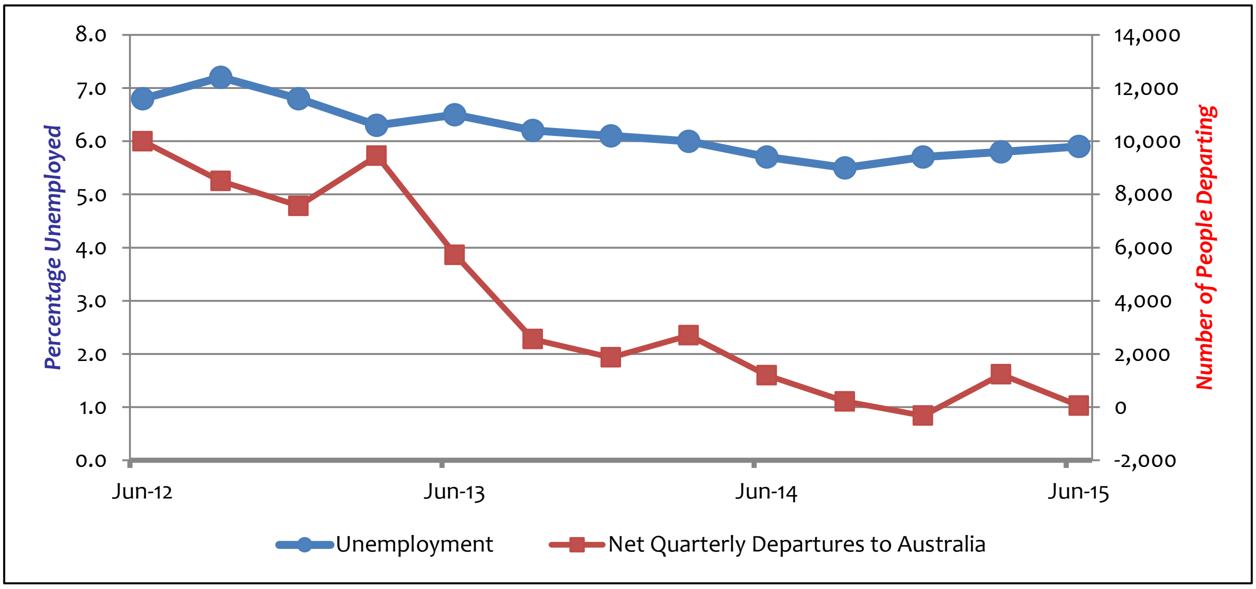
- The Retail Trade Survey for the three months to June 2015 showed retail sales rose 5.9 by volume and 4.1 percent by value compared with the June 2014 quarter. They rose just 0.1 percent by volume and by value in the quarter, seasonally adjusted, however. By value, the largest positive contributors 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 10 September 2015 the Reserve Bank reduced the Official Cash Rate (OCR) by 0.25 percentage points to 2.75 percent and signalled that there could be further reductions. Despite the fall in the exchange rate, the Bank's Governor said "further depreciation is appropriate, given the sharpness of the decline in New Zealand's export commodity prices". HIs statement noted the slowing economy: "Domestically, the economy is adjusting to the sharp decline in export prices, and the consequent fall in the exchange rate. Activity has also slowed due to the plateauing of construction activity in Canterbury, and a weakening in business and consumer confidence. The economy is now growing at an annual rate of around 2 percent." He said that "inflation is expected to return well within the target range [of 1 to 3 percent] by early 2016". The next OCR review will be announced on 29 October 2015.

★ According to REINZ, the national median house price rose $45,000 or 10.7 percent to $465,000 in August 2015 compared to a year before but it was the same as in the previous month. The Auckland median price rose 20.5 percent over the year, from $614,050 to $740,000, and rose $5,000 on the previous month. Excluding Auckland the national median price was $348,500, up $8,500 or 2.5 percent compared to a year before and down $3,500 or 1.0% compared to the previous month. There were 627 or 25 percent more sales under $400,000 compared to August 2014, taking the number to 3,150, a rise of 480 (130 percent) to 848 in the $1 million plus range and 711 more (63 percent) to 1,934 in the $600,000 to $999,999 range. Sales under $400,000 accounted for 40.6 percent of sales in August 2015 but 46.0 percent in the same month a year before.

- 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).

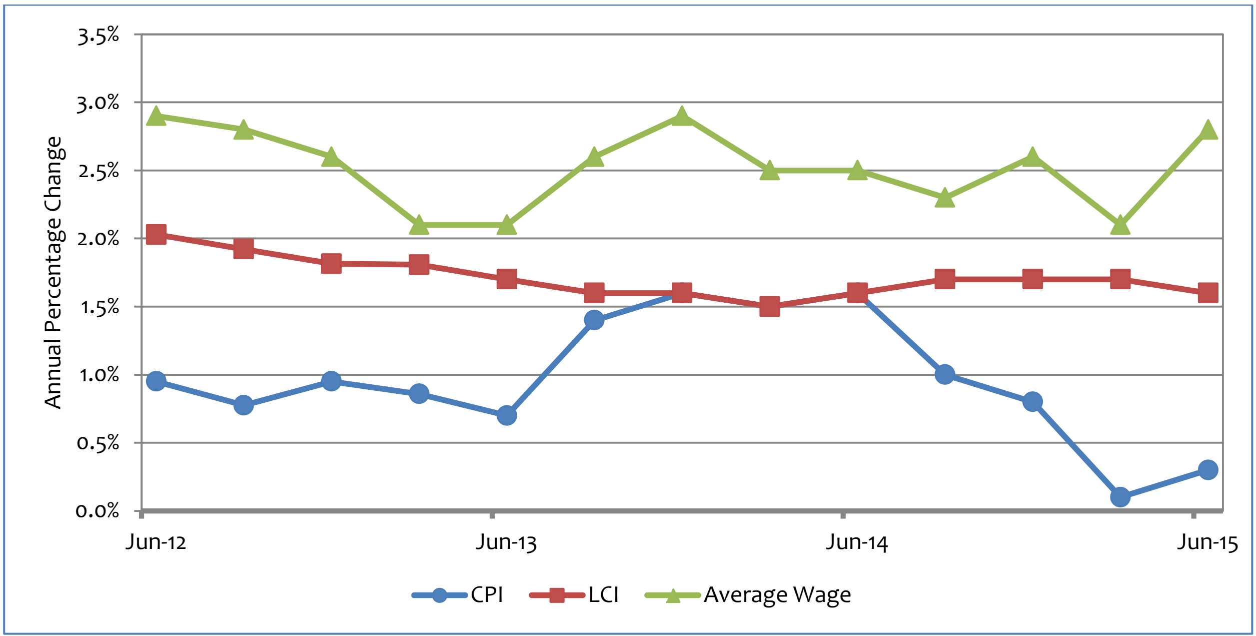
- Youth unemployment for 15-19 years was 20.1 percent, down from 21.4 percent in March and 20.9 percent a year before; for 20-24 year olds it was 10.5 percent, down from 11.0 percent in March and 11.0 percent a year before, all in seasonally adjusted terms. The not in employment, education, or training (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 the number of skilled job vacancies static in August after a fall of 0.7 percent in the previous month. All job vacancies rose by 0.2 percent in August, after a rise of 0.3 percent in the previous month. In the year to August, skilled vacancies rose 0.7 percent. All vacancies rose by 1.3 percent.

- ★ International Travel and Migration data showed 10,310 permanent and long-term arrivals to New Zealand in August 2015 and 4,840 departures in seasonally adjusted terms, a net gain of 5,470. There was an actual net gain of 60,290 migrants in the year to August. Net migration to Australia in the year to August was 529 departures, with 25,009 departures and 24,480 arrivals. Statistics New Zealand say this is the smallest annual net loss to Australia since 1991. For the month of August, there was a seasonally adjusted net gain from Australia of 180 compared to a loss of 190 a year before. In August, 12.4 percent of the arrivals had residence visas, 20.5 percent student visas, 32.1 percent work visas, and 5.8 percent visitors. A further 28.6 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.

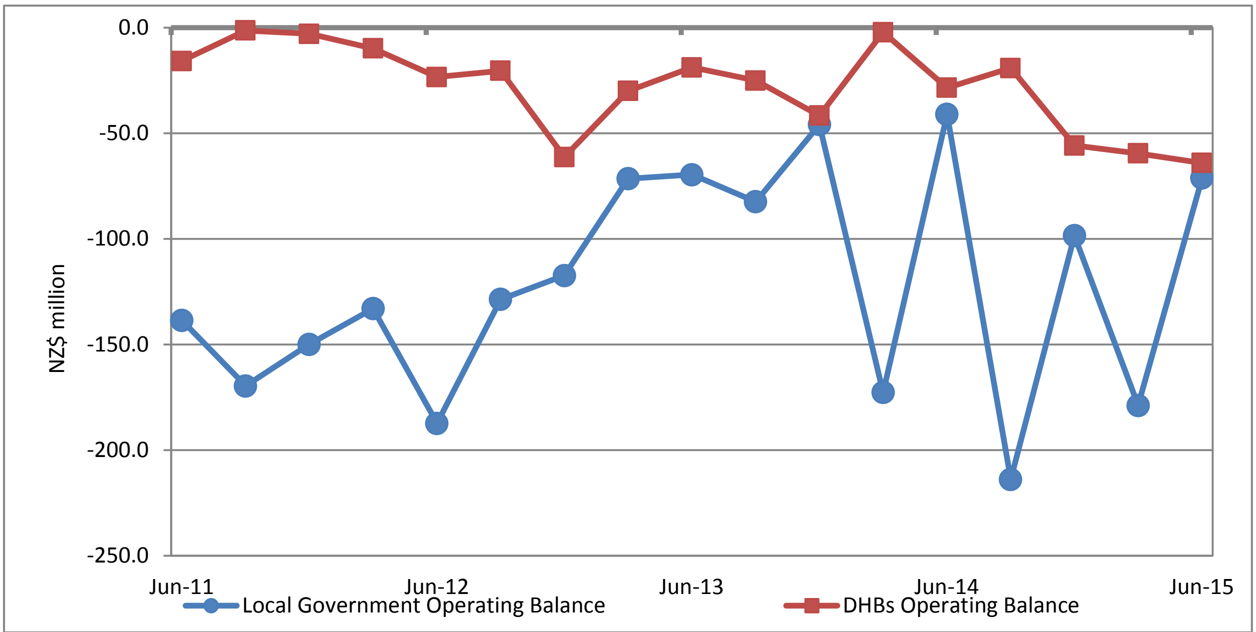
- The Quarterly Employment Survey for the three months to June 2015 found the average hourly wage for ordinary-time work was $29.01, up 0.8 percent on the March quarter and up 2.8 percent over the year. The average ordinary-time wage was $27.14 in the private sector (up 1.2 percent in the quarter and 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.

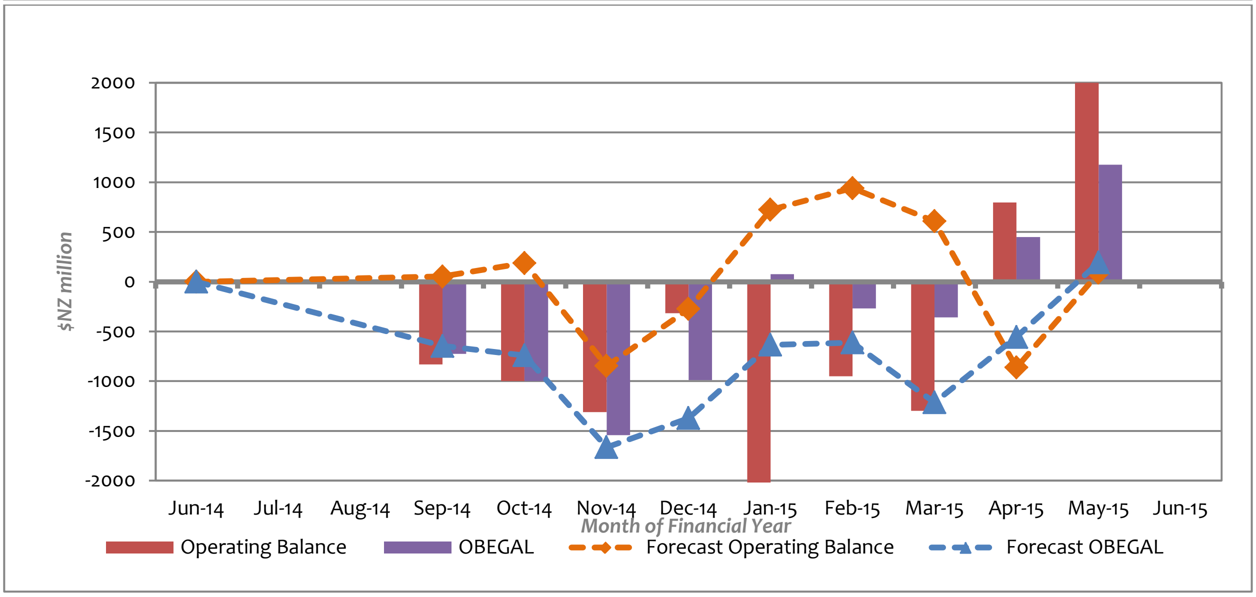
★ *[Note: this contains a correction in red following a notice from Statistics New Zealand that was circulated to readers.]* The Consumer Price Index rose 0.4 percent in the June 2015 quarter compared with the March quarter driven by rising petrol prices, and increased 0.4 percent for the year to June, 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 fell by 0.5 percent in the month of August 2015 (0.4 percent seasonally adjusted), following a 0.6 percent rise in the previous month. Food prices rose 0.4 percent in the year to August 2015. Compared with July, fruit and vegetable prices rose 3.1 percent (0.6 percent seasonally adjusted); meat, poultry, and fish prices fell 1.8 percent; grocery food prices fell 1.8 percent (down 1.3 percent seasonally adjusted); non-alcoholic beverages fell 1.0 percent; and restaurant meals and ready-to-eat food prices rose 0.2 percent. Dairy price falls led the fall in grocery food prices, mainly in cheese and butter.

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 $64.1 million for the year to June 2015 (unaudited). This is $40.2 million worse than their plans. The Northern region was $2.2 million ahead of plan with a surplus of $6.2 million and all DHBs in surplus, the Midland region was $11.6 million behind plan with a combined deficit of $12.2 million and all DHBs in deficit despite Waikato staging a spectacular turnaround from a $10.2 million deficit in May to a $0.4 million deficit in June, Central region was $13.3 million behind plan and all but Hawke's Bay and Whanganui in deficit for a total $13.8 million, and the Southern Region was $17.5 million behind plan with a $44.3 million deficit and three of the five DHBs in deficit including Canterbury at $17.9 million and Southern at $27.2 million. The DHB furthest ahead of plan was Waitemata by $1.4 million, and Southern was furthest behind, by $12.4 million. The funder arms were in surplus by $169.0 million, but Provider arms in deficit by $231.6 million.

★ Local Government recorded a 9.3 percent ($191.2 million) rise in operating income and a 3.7 percent rise in operating expenses ($83.6 million) including a 3.0 percent rise ($15.5 million) in employee costs for the June 2015 quarter compared to March 2015. This resulted in an operating deficit of $71.2 million in the June quarter, compared with a deficit of $178.8 million in the March quarter, and deficits in all the quarters back to March 2008 with the exception of June 2010, all in seasonally adjusted terms. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

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/economicbulletin172.

For further information contact Bill Rosenberg.