NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 173 (October 2015)

Information Section p.7

Commentary

Counting the ways wages are being suppressed

Summary

Despite economic growth in production per hour worked which peaked at 4.7 percent in dollar terms in the year to June 2014, wage rises have been subdued. Even the Reserve Bank is commenting on it. What are some of the reasons for wage rises being low?

We have a poorly performing economy. Most of the recent growth has been because more people have been brought into the labour force or people are working longer hours, rather than because people are producing more in each hour they work. Over the supposed "rock star" period of June 2013 to June 2015, the economy's production per hour worked increased only 0.1 percent. Yet companies' profit rates are rising quickly – so wages could.

Even the Minister of Finance concedes that current strong net immigration is holding down wages. It could be much better controlled so that, while taking humanitarian concerns into account, it focuses on skills that New Zealand residents genuinely do not have or couldn't be trained to do, and in numbers that the country can absorb.

The Government has been open about suppressing pay increases for people employed in the state sector. Its tight funding of contractors such as in aged care also holds down wages. By doing this, the Government is reducing pressure on private sector employers for pay increases.

High unemployment, now at 5.9 percent or 148,000 people and expected to rise, is more downward pressure on wages. The harder it is to find a job, the more pressure there is to accept one with poor pay and conditions. Unemployment could be in the 3 percent range: it was 3.4 percent in December 2007.

There is growing local and international evidence that low welfare benefit payment levels and harsh pressure to leave benefits as quickly as possible also force down wages. For example a study of changes in Germany similar to the ones here in the 1990s showed that the jobs people were able to find after being made redundant paid 10 percent less after the changes.

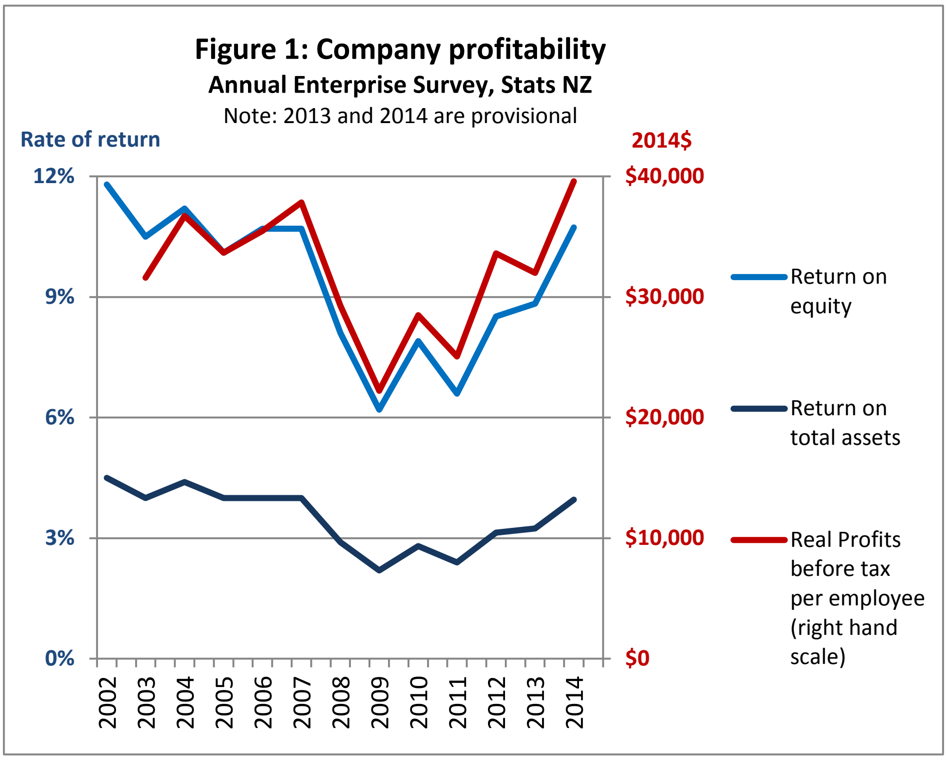
Weakened collective bargaining and unionisation also reduces pay rises, as seen in previous Bulletins, most recently in the August issue. And of course longer term policies to increase the productivity of New Zealand industries would also make a difference.

The Government can influence all of these, plus the minimum wage, to raise wages.

Despite economic growth in production per hour worked which peaked at 4.7 percent in dollar terms in the year to June 2014, wage rises have been subdued[1]. The standard measure of "wage inflation" is the Labour Cost Index (LCI) which has continued to rise at only 1.5 to 1.8 percent a year percent a year, to the pleasant surprise of commercial bank economists and the Reserve Bank. But it is a hard, one-sided view, not to mention poor economics, to consider this as just a cost. It is not good news for the people who make up 85 percent of the labour force whose wages are their main source of income and whose buying power keeps the economy moving. They have a right to see a fair share of the growing income which they generate from their work flowing into their bank accounts. In this commentary I look at some of the reasons why wage rises have been low: a poorly performing economy, strong net immigration, a Government holding down state sector pay rates, continuing high unemployment and harsh social welfare rules. I have covered another important reason, weakened collective bargaining and unionisation in previous Bulletins, most recently in the August issue. And of course longer term policies to increase the productivity of New Zealand industries would also make a difference. All of these, plus raising the minimum wage, are matters the Government can influence.

The economy

Inflation has been very low recently, to the concern of the Reserve Bank and the Minister of Finance whose growth in tax take depends on it. So wages have been growing faster than prices: in other words there have been real increases in wages recently, but only recently. Low real wage increases are in part because, despite all the mindless talk of "rock star economy", the economy is growing only weakly when looked at in terms of the hours being worked. Most of the recent growth has been because more people have been brought into the labour force or people are working longer hours, rather than because people are producing more in each hour they work. Over the supposed "rock star" period of June 2013 to June 2015, the economy's production (Gross Domestic Product or GDP) was increasing around 3.0 percent a year but per hour worked it increased only 0.1 percent over the two years. It stood still, and in fact output per hour fell in the first of those two years.



But if poor economic performance is holding back growth in wages, that doesn't apply to growth in rates of profit. Statistics New Zealand publishes an Annual Enterprise Survey. The latest takes us only to 2014, but recent surveys such as ANZ Bank's Business Outlook (September) and the New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion (October) show continuing expectations of rising profits. We have recently seen evidence of this with both ANZ and BNZ declaring record profits.

As Figure 1 shows, the Annual Enterprise Survey finds strongly rising rates of profits since 2009 whether measured as return on equity, return on assets or profits per employee (in 2014 dollars[2]). This is despite *falling* capital productivity over this period in the market (commercial) sector of the economy according to Statistics New Zealand.

Immigration

Minister of Finance Bill English recently conceded that wages would have risen faster if net immigration had been lower. He said "If there are less people that show up, it is possible that wages might have been a bit higher". The Reserve Bank has made similar observations in a recent Monetary Policy Statements and the Governor, Graeme Wheeler said in a recent speech:

> In the two years to June 2015, the labour force expanded by 6.1 percent, enabling strong employment growth of 6.7 percent to be absorbed with only a moderate increase in wage costs. Moderate wage inflation, spare capacity and the decline in inflation expectations towards 2 percent have been important factors behind the subdued rate of non-tradables inflation.

It is very credible of course that if more people are asking for work, then employers don't have to raise their wages to attract them.

There is evidence of this in surveys of employers, again by Statistics New Zealand in its Business Operations Surveys. In 2013 and 2014 it asked businesses how they responded to "hard to fill" vacancies. In 2013, 11,313 firms out of 36,360 (about a third) said they had such problems, and 15,474 out of 37,944 (40 percent) in 2014. They said they used a variety of ways to fill the jobs: spending more on recruitment or trying different ways to recruit, training people for the job, bringing in contractors, or recruiting from overseas (24 percent in 2013, 26 percent in 2014). But only 40 percent in 2013 and 38 percent in 2014 said they raised wages or salaries to attract people to the job.

Net immigration is at record levels: 61,234 in the year to September. Immigration is not a bad thing, though the evidence for its economic benefits is mixed. Humanitarian considerations, such as to welcome refugees and unite families, are important too. But in general we need to be sure that we are as far as possible admitting people with skills New Zealand residents genuinely do not have or couldn't be trained to do, and in numbers that the country can absorb. Increasingly, immigration is being poorly controlled. Some of the immigration cannot be controlled: it is returning New Zealanders and Australians who have a right to free entry to work here. But there are problems beyond that. It is a complex area with statistics that very difficult to navigate. In particular there are no readily available up to date statistics that show whether immigrants are actually working, let alone in what kind of work. However it is useful to look at work visas as an example.

Work visas are for a maximum of a year for low skilled jobs and 3 years for higher level skills, though many work visa holders successfully apply for residency. Most of us would assume that applications for work visas are tested to ensure that the applicants have skills in short supply. However only a subset – those in the Essential Skills category – are labour market tested in this way. Even that category is not fully tested however. Employers may request "approval in principle" to recruit overseas workers if they can demonstrate that there are no suitable New Zealand workers available to do the job. They may also become "accredited employers" under certain conditions and for full time jobs with an annual base salary of at least $55,000. There are special rules for the Canterbury rebuild. An exemption was made under pressure from Queenstown employers to allow them to recruit low-skilled workers from overseas despite their record of violations of minimum employment standards and chronic accommodation shortages that are reasonable explanations for New Zealanders to be reluctant to work there.

In addition there are students who have a right to work up to 20 hours a week during term time and full time during holidays. There are working holiday schemes which allow 18-30 year olds to undertake "incidental" work in any occupation for up to a year, many of which are commitments under international agreements New Zealand governments have signed. Many of these people are likely to be working in relatively low skill jobs. There are various other categories such as tour guides, joining a partner in New Zealand, highly specialist fields including crews of chartered fishing vessels, interpreters from Japan, seasonal workers in horticulture and viticulture, Chinese chefs and nurses, farm managers from the Philippines, Vietnam or Indonesia.

An analysis of work visas for the year to June 2015 showed that among 26,459 Essential Skills visas, 30.1 percent were granted solely on the basis of a case being made by an employer and 26.1 percent were not recorded as having a labour market test having been undertaken at all. A total of 154,218 work visa applications were approved, most of them falling into those other categories.

There is plenty of room for the Government to control immigration better. It is not, as Bill English put it, that people just "show up".

Holding down state sector pay

The Government has been open about suppressing pay increases for people employed in the state sector. Its tight funding of external contractors both directly and indirectly (such as through the constant squeeze on District Health Boards who contract for many community health services) also holds down wages. It exacerbates the long standing problems of inadequate recognition of skills, lack of training and career paths, and gender pay gaps now recognised in many of these industries. By holding down the wages and salaries it pays, the Government is helping keep the pressure for pay increases off private sector employers, especially those which employ people with similar skills.

Figure 2: Public sector vs Private Sector

Real increases in the Labour Cost Index 2009-15

Note: Industries shown are for those in the public sector

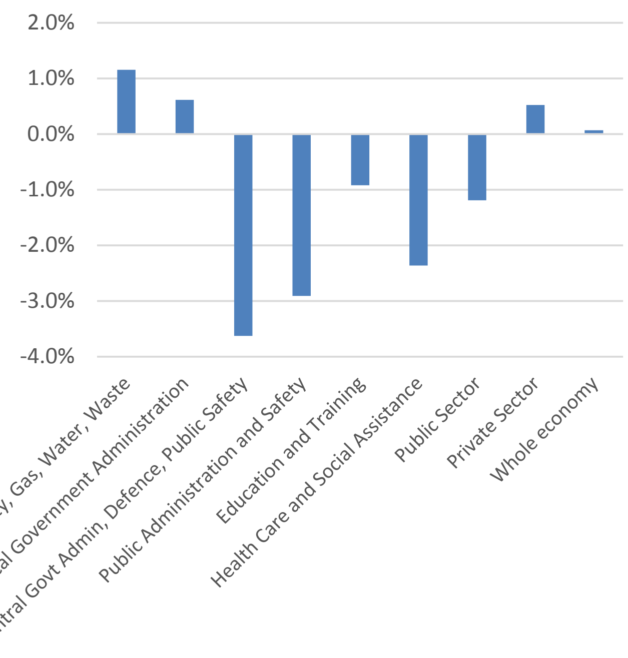


Figure 2 shows the increases in the public sector LCI compared to the private sector between June 2009 and June 2015. Average hourly wages show a somewhat different picture because many public sector jobs are on collective agreements which provide for scales or individual pay increases on performance grounds. Taken together with the pattern of the LCI it strongly suggests that performance pay is becoming a false substitute for the general pay increases needed to protect incomes against rises in the cost of living, relativities with the private sector and other recruitment and retention issues. It is false to the extent that it is no longer rewarding performance but just maintaining real pay levels. In effect it is penalising those who do not receive those increases rather than rewarding those who do. It is also notable that local government pay has kept in step with the private sector, reaffirming that the low increases for central government jobs is policy driven.

Continuing high unemployment

Unemployment, now at 5.9 percent or 148,000 people and expected to rise, is both a policy failure and further downward pressure on wages. The harder it is to find a job, the more pressure there is to accept one with poor pay and conditions. In addition there are those who would like jobs but are not officially counted as ‘unemployed’, making a total 262,500 in June, up 25,200 from a year before. There are a further 66,200 who are working part time but want more work. We know from the 2000s that an unemployment rate in the 3 percent range is feasible: it was 3.4 percent in December 2007. Treasury would like to have it at 4.5 percent to guard against too much wage pressure, which illustrates its effects. Even if you accepted that brutal view, unemployment is currently too high. When strong employment growth comes at the same time as continuing high joblessness, it is difficult not to conclude that the high net immigration is a contributor to unemployment, particularly when the incoming workers include many taking lower skill jobs.

Harsh social welfare rules

In case you ever doubted it, there is growing evidence that low welfare benefit levels and pressure to leave benefits as quickly as possible also force down wages. For example, labour economist David Card and colleagues Kluve and Weber (2010) in a ‘study of studies’ (a meta-analysis) of active labour market policies found that judging performance of a welfare system on how fast people are pushed off it neglects the longer-term benefits of spending more time on a welfare benefit. More time can, through raising skills and more effective job search, improve subsequent employment outcomes. Even more directly, Engbom, Detragiache and Raei (2015) looked at the effect of the Hartz reforms in Germany in the early 2000s. These included much tighter conditions on benefits, reduced payments and also made it easier for employers to hire people in temporary jobs. They found that after the reforms, people who lost their jobs through no fault of their own received 10 percent lower earnings when they found work than people in the same circumstances before the reforms.

Figure 3a: Percentage employed and off unemployment benefit in all months 1 to 6 months

LEED, Statistics NZ

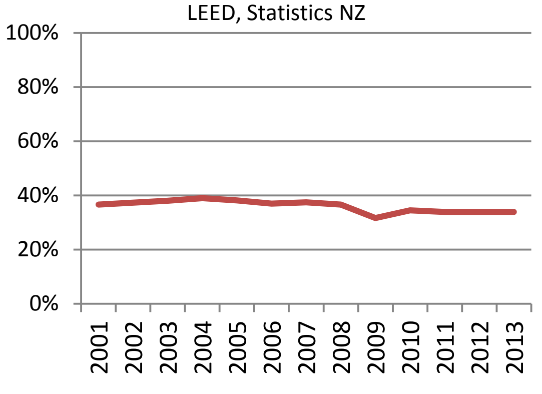
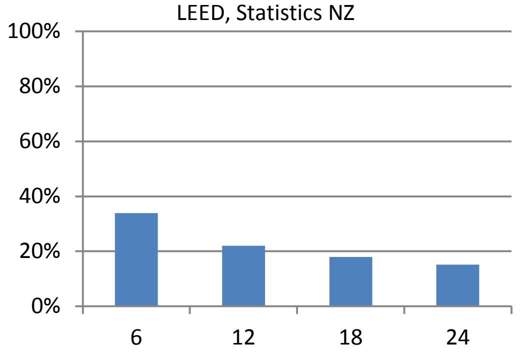


Figure 3b: Percentage employed and off benefit in all months since coming off unemployment benefit in 2011

LEED, Statistics NZ



In New Zealand, there is a high rate of churn in people leaving and returning to benefits, suggesting that the low benefits and high pressure to leave the benefit leads to poor quality jobs. For example the Ministry of Social Development’s 2015 Benefit System Performance Report (covering the year to June

2014) finds that 40 percent of people leaving a 'Jobseeker Work-Ready' benefit have returned to a welfare benefit 12 months later and this hasn't materially improved over four years (Raubal & Judd, 2015, p. 23). Their 2013 report suggested the high churn rate could have been due to insecure casual or seasonal work or 90-day trials (Raubal & Judd, 2014, p. 33).

Statistics New Zealand's linked employer-employee data (LEED)[3] reinforces this. It shows only 33.8 percent of these exiting an unemployment benefit were in work and off welfare benefit for all of their first six months in 2013 (the most recent available). Of those who came off a welfare benefit in 2011, only 15.2 percent had been in work and off welfare benefit for all of the following two years (see figures 3a and 3b). This suggests insecure and spasmodic jobs if work was found. It is unlikely to be well paid.

In conclusion

The Reserve Bank announced this week that it would hold the official cash rate (interest rate) steady, essentially because it is in a dilemma. Everything except the property price bubble in Auckland points to further lowering of the interest rate, but the Bank is worried a further reduction will inflate the price bubble even more, increasing the risk of a financial crisis. But its orders say it must get the CPI inflation rate up from its current low level of 0.4 percent to the middle of a 1-2 percent band and the only weapon it has to do that is lower its interest rate.

I suggested another weapon: the Government should help out by raising wages. It might helpfully stoke inflation a little (the risk that would get out of hand is low) and would help most New Zealand households. The increased demand could help the economy at a time when economic growth is starting to slow but unemployment is still too high, and with the exchange rate now at a more realistic level (though it still needs to go lower) exporters are more competitive even with some wage pressure.

As you can see, the Government has plenty of levers it could pull to make this happen.

Bill Rosenberg

References

Card, D., Kluve, J., & Weber, A. (2010). Active Labour Market Policy Evaluations: A Meta-Analysis. *The Economic Journal*, *120*(548), F452–F477. http://doi.org/10.1111/j.1468-0297.2010.02387.x

Engbom, N., Detragiache, E., & Raei, F. (2015). *The German Labor Market Reforms and Post-Unemployment Earnings* (Working Paper No. WP 15/162). Washington DC, USA: International Monetary Fund. Retrieved from http://www.imf.org/external/pubs/cat/longres.aspx?sk=43094.0

Raubal, H., & Judd, E. (2014). *2013 Benefit System Performance Report for the year ended 30 June 2013*. Wellington, New Zealand: Ministry of Social Development. Retrieved from http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/investment-approach/2013-benefit-system-performance-report.pdf

Raubal, H., & Judd, E. (2015). *2014 Benefit System Performance Report for the year ended 30 June 2014*. Wellington, New Zealand: Ministry of Social Development. Retrieved from http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/investment-approach/2014-benefit-system-performance-report.pdf

[1] Nominal GDP expenditure per actual hour worked, both seasonally adjusted (InfoShare series SNE083AA and HLF100AA).
[2] Uses a GDP (expenditure) deflator. Using CPI makes little difference. Profits are surplus before tax.
[3] See Table 2.23 of the annual LEED series at http://nzdotstat.stats.govt.nz/wbos/Index.aspx

Information

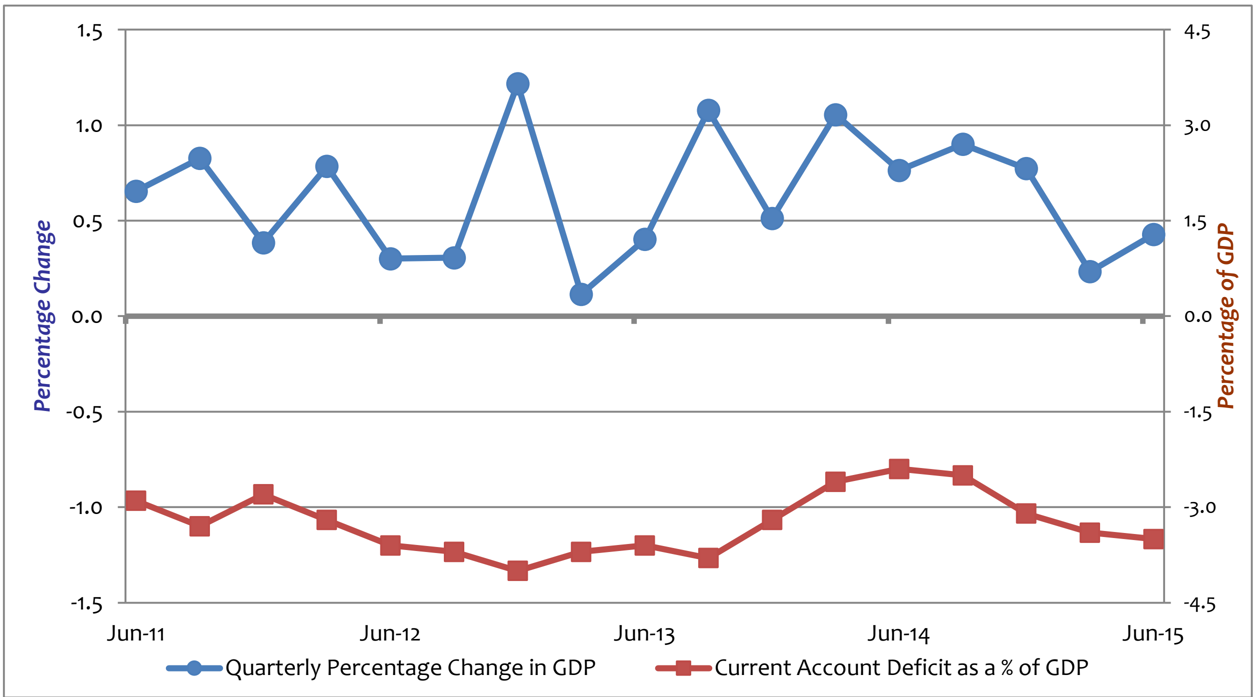
A ★ indicates information that has been updated since the last bulletin.

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 September saw exports of goods rise 2.0 percent from the same month last year while imports fell 1.3 percent. This created a trade deficit for the month of $1.2 billion or 33.1 percent of exports. In seasonally adjusted terms, exports fell 8.6 percent or $383 million over the month (compared to a 4.3 percent rise the previous month) led by falls in Dairy (down 16.0 percent or $172 million), Fruit (17.5 percent or $39 million) and Seafood (6.8 percent or $9 million) but tempered by rises in Logs, wood and wood articles (up 7.2 percent or $21 million), Crude oil (91.7 percent or $33 million, not seasonally adjusted), Mechanical machinery and equipment (up 7.7 percent or $12 million) and Electrical machinery and equipment (12.4 percent or $11 million). Seasonally adjusted imports fell 5.5 percent or $264 million over the previous month, creating a trade deficit of $454 million compared to a $336 million deficit in the previous month. Imports fell in Petroleum and products (1.5 percent or $7 million) and Optical, medical, and measuring equipment(4.3 percent or $6 million) but rose in Mechanical machinery and equipment (11.4 percent or $69 million), Electrical machinery and equipment (10.4 percent or $39 million), Textiles and textile articles (4.2 percent or $10 million) and Plastic and plastic articles (5.0 percent or $9 million). Our top six export destinations accounted for 58.7 percent of our exports in the year (of which Australia accounts for 17.2 percent and China 17.0 percent), compared to 60.3 percent in the previous year (China 22.3 percent, Australia 17.4 percent). However China easily remains top source of imports with $9,964 million of imports in the year compared to Australia at number two with $6,254 million and the trade balance with China has moved from a $3,005 million surplus in the 2014 year to a deficit of $1,600 million in the 2015 year, a turnaround of $4.6 billion. Imports from China rose 19.2 percent in the year, and rose 1.2 percent from Australia. In the month, imports from China rose 22.4 percent while imports from Australia rose just 0.8 percent compared to the same month in the previous year.

★ The Performance of Manufacturing Index[1] for September 2015 was 55.4, a rise from 55.1 in the previous month. The employment sub-index was at 51.0, a fall from 53.0 in the previous month.

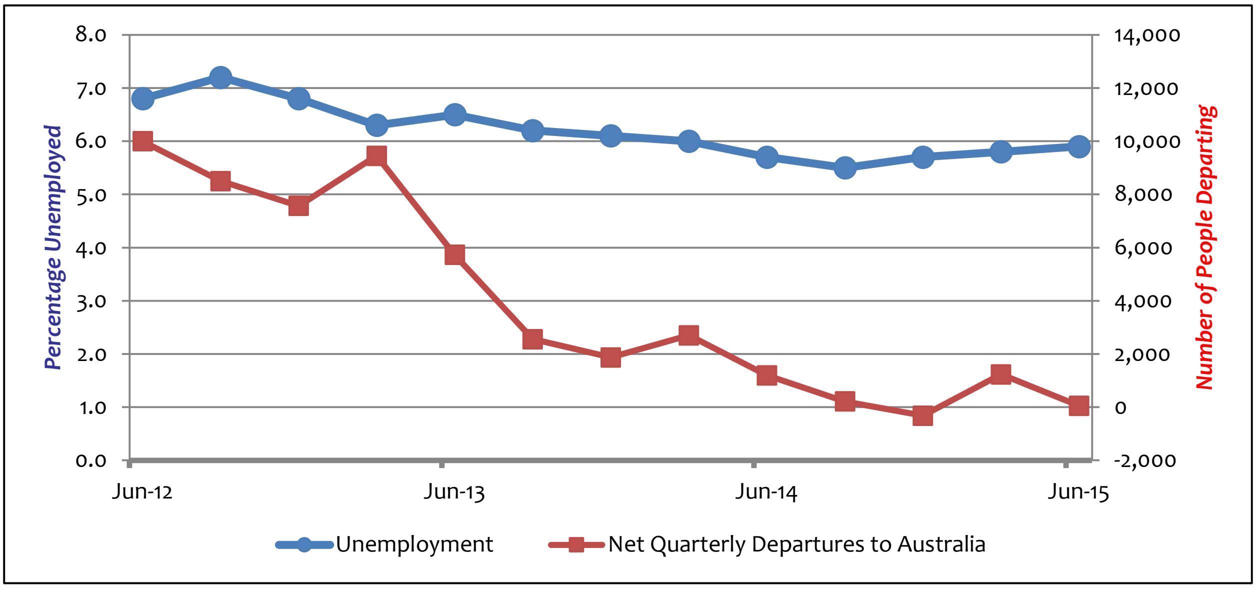
★ The Performance of Services Index[1] for September 2015 was 59.3, a rise from 58.5 in the previous month. The employment sub-index was stable at 53.7 from 53.8 in the previous month.

- 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 29 October 2015 the Reserve Bank left the Official Cash Rate (OCR) unchanged at 2.75 percent but signalled that there could be further reductions. His statement noted slow global economic growth and inflation and ongoing uncertainty about central bank interest rates around the world. Domestically the economy is mixed with the low dairy prices “weighing on domestic farm incomes” but growth in the services and construction sectors “driven by net immigration, tourism and low interest rates”. The Bank was unsure whether the recent rise in dairy prices would be sustained. Rapid house price rises in Auckland pose a risk to financial stability. They expect CPI inflation to rise to “well within the target range” (of 1 to 3 percent) by early 2016, but the rising exchange rate could act against this, leading to lower interest rates, which “seem likely” in any case. The next OCR review will be announced on 10 December 2015 and will include a Monetary Policy Statement.

★ According to REINZ, the national median house price rose $64,650 or 15.4 percent to a new record of $484,650 in September 2015 compared to a year before and up 4.2 percent on the previous month. The Auckland median price rose 25.4 percent or $156,000 over the year, from $615,000 to $771,000, and rose $31,000 or 4.2 percent on the previous month. Excluding Auckland the national median price was $365,000, up $28,000 or 8.3 percent compared to a year before and up 4.7 percent compared to the previous month. There were 413 or 15 percent more sales under $400,000 compared to the same month a year ago taking the number to 3,153, a rise of 614 (143 percent) to 1,042 in the $1 million plus range and 797 more (68 percent) to 1,970 in the $600,000 to $999,999 range. Sales under $400,000 accounted for 38.6 percent of sales in September 2015 but 46.4 percent in the same month a year before.

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).

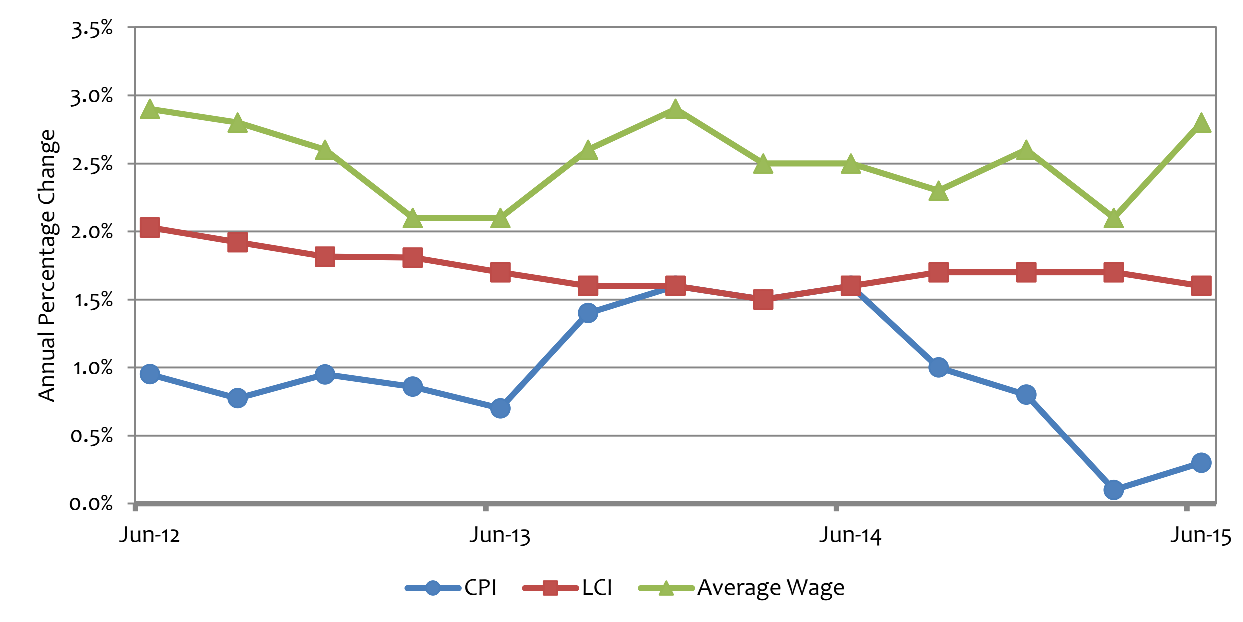
- Youth unemployment for 15-19 years was 20.1 percent, down from 21.4 percent in March and 20.9 percent a year before; for 20-24 year olds it was 10.5 percent, down from 11.0 percent in March and 11.0 percent a year before, all in seasonally adjusted terms. The not in employment, education, or training (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 September 2015 there were 120,901 working age people on the Jobseeker benefit, a fall of 2,232 from a year before but a rise of 2,859 from 118,072 in June 2015 (the second quarterly rise). At September 2015, 65,732 were classified as ‘Work Ready’, and 55,169 were classified as ‘Health Condition or Disability’. A total of 287,167 were on ‘main’ benefits, 7,154 fewer than a year before and 1,818 more than June 2015. It was 17,559 more than in September 2008. Of 43,369 benefits cancelled during the three months to September, 18,593 or 42.9 percent obtained work, 14.1 percent transferred to another benefit and 7.1 percent became full time students.

★ Job Vacancies Online showed the number of job vacancies rose by 0.5 percent in September and In the year to September rose 1.9 percent. Over the year, vacancies for the most highly skilled (Skill level 1) fell 1.7 percent, skilled (Skill level 2) rose 8.2 percent, semi-skilled (Skill level 3) rose 4.6 percent, low skilled (Skill level 4) rose 2.2 percent and unskilled (Skill level 5) fell 0.4 percent.

★ International Travel and Migration data showed 10,510 permanent and long-term arrivals to New Zealand in September 2015 and 4,960 departures in seasonally adjusted terms, a net gain of 5,550. There was an actual net gain of 61,234 migrants in the year to September. Net migration to Australia in the year to September was 220 departures, with 24,683 departures and 24,903 arrivals. For the month of September, there was a seasonally adjusted net gain from Australia of 70 compared to a loss of 280 a year before. In September, 10.3 percent of the arrivals had residence visas, 18.9 percent student visas, 39.4 percent work visas, and 4.3 percent visitors. A further 26.4 percent were New Zealand or Australian citizens.

Wages and prices



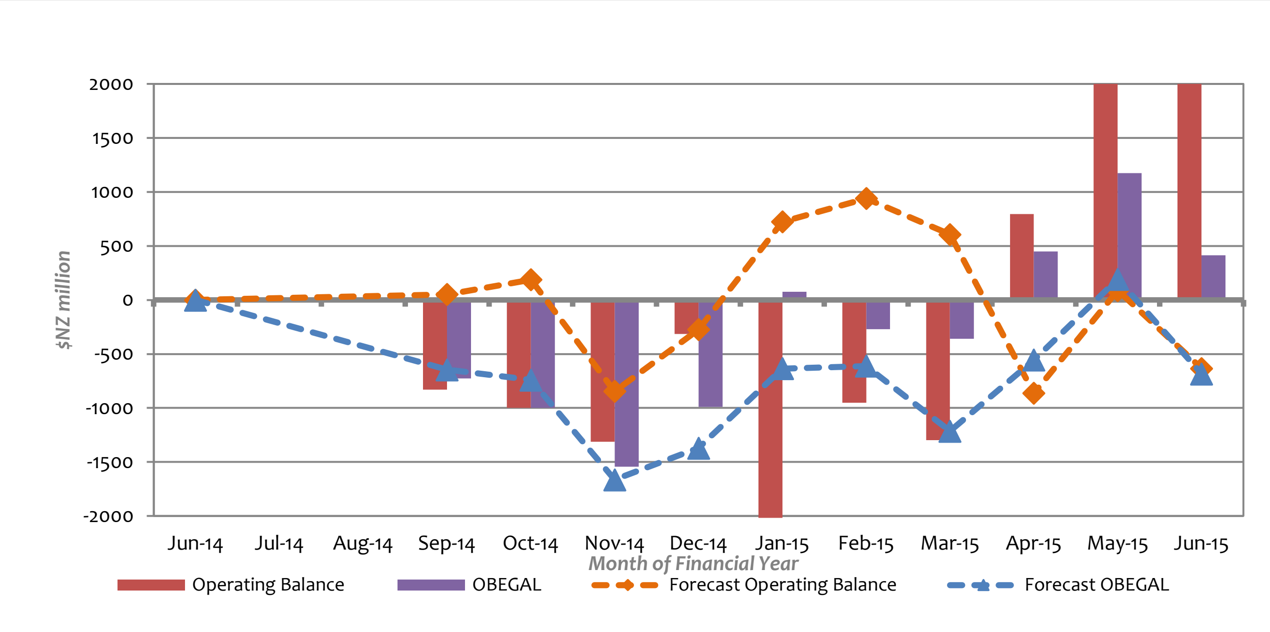
- The [Labour Cost Index](#) (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to June 2015. The LCI increased 1.6 percent in the year to June, ahead of the 0.3 increase in the CPI. It increased 0.3 percent in the public sector and 0.5 percent in the private sector in 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.

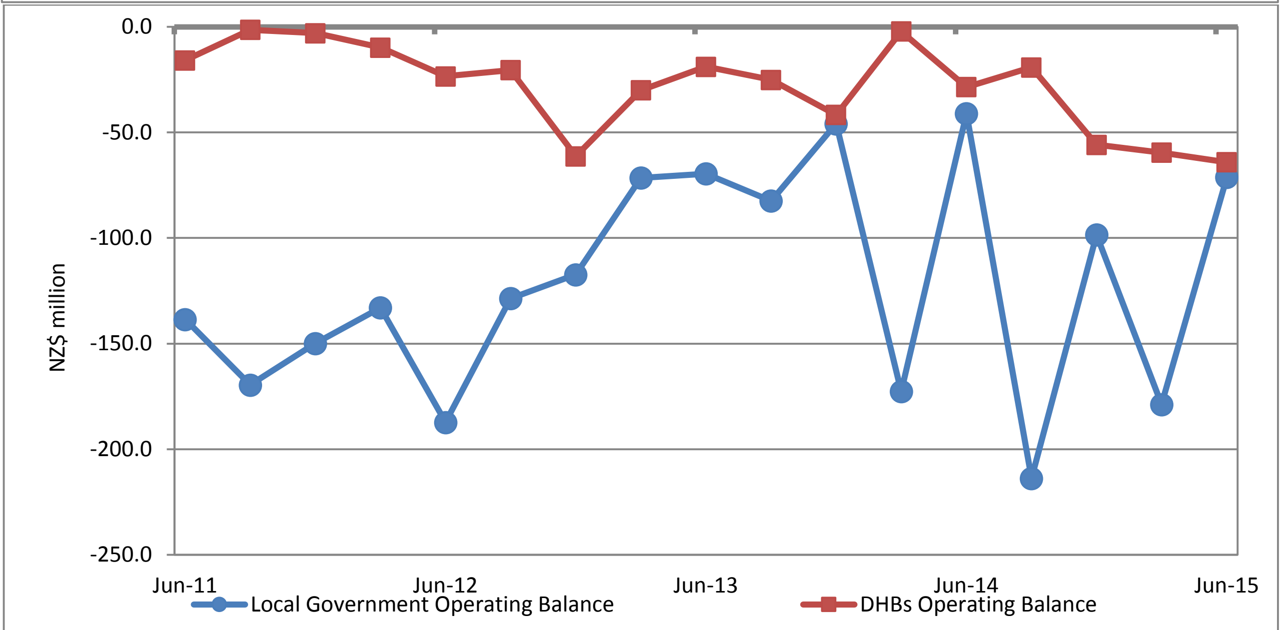
★ The [Consumer Price Index](#) rose 0.3 percent in the September 2015 quarter compared with the June quarter, and increased 0.4 percent for the year to September. For the quarter, Vegetables (up 13.8 percent), Local authority rates and payments (up 5.7 percent), Package holidays (up 7.5 percent), Petrol (up 1.6 percent) and Purchase of new housing (up 1.4 percent) were the largest upward influences. Offsetting them were Grocery food (down 1.4 percent), Milk, cheese and eggs (down 2.9 percent), Medical services (down 2.6 percent), and Telecommunication services (down 0.9 percent). Inflation in Canterbury for the year was 0.1 percent, the second time it has been below the national average since June 2011. It was *negative* 0.1 percent in Wellington and 0.7 percent in Auckland. Housing costs are still hitting particularly hard in Canterbury, rising 2.9 percent for the year, and Auckland, rising 3.9 percent, compared to 1.2 to 2.1 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 quarter to quarter. The index rose 0.1 percent from June in seasonally adjusted terms, Food fell 0.2 percent, Clothing and footwear was unchanged, Housing and household utilities rose 0.9 percent, Communications fell 0.8 percent, Recreation and culture rose 0.2 percent, and Education rose 0.9 percent.

★ The Food Price Index fell by 0.5 percent in the month of September 2015 (but rose 0.1 percent seasonally adjusted), following a 0.5 percent fall in the previous month. Food prices rose 0.4 percent in the year to August 2015. Compared with August, fruit and vegetable prices fell 5.0 percent (0.1 percent seasonally adjusted); meat, poultry, and fish prices rose 1.8 percent; grocery food prices rose 0.2 percent (up 0.2 percent seasonally adjusted); non-alcoholic beverages fell 0.6 percent; and restaurant meals and ready-to-eat food prices rose 0.2 percent.

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand for the year ended 30 June 2015, core Crown tax revenue was $559 million or 0.8 percent higher than forecast in the 2015 Budget Economic and Fiscal Update (BEFU). PAYE was 0.2 percent ($0.2 billion) higher than forecast, customs and excise duties were 3.0 percent higher ($0.1 billion), other individuals tax 2.2 percent higher ($0.1 billion), and corporate tax 0.8 percent higher ($0.1 billion). Core Crown expenses were $495 million (0.7 percent) less than forecast, "largely due to earthquake work progressing slower than forecast ($169 million), lower treaty settlement expenditure as completion of negotiations continued into 2015/16 ($133 million), lower Ministry of Education expenses across a number of departmental and nondepartmental activities ($116 million under forecast) and lower Ministry of Social Development (MSD) debt write-offs and benefit expenses ($40 million)." The

Operating Balance before Gains and Losses (OBEGAL) was a $414 million surplus, $1,098 million better than the $684 million deficit forecast. The Operating Balance was a $5,771 million surplus, $6,405 billion better than expected, the difference being mainly due to lower than forecast actuarial losses for ACC and GSF due to higher interest rates. Net debt at 25.2 percent of GDP ($60.6 billion) was $1.0 million lower than the $61.7 billion forecast. Gross debt at $86.1 billion was $2.2 billion above forecast.

★ District Health Boards recorded combined deficits of $21.7 million for the two months to August 2015. This is $3.1 million worse than their plans. The Northern region was $0.1 million behind plan with a surplus of $2.0 million and two of the four DHBs in deficit, the Midland region was $0.9 million behind plan with a combined deficit of $4.1 million and all DHBs in deficit, Central region was $3.0 million behind plan and all but Hawke's Bay in deficit for a total $8.9 million, and the Southern Region was $0.9 million ahead of plan with a $10.7 million deficit and three of the five DHBs in deficit including Canterbury at $5.9 million and Southern at $5.5 million. The DHB furthest ahead of plan was Southern by $2.0 million, and MidCentral was furthest behind, by $1.4 million. The funder arms were in deficit by $11.4 million, and Provider arms in deficit by $10.5 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/economicbulletin173.

For further information contact Bill Rosenberg.