NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Comment
Food prices are hitting households – and also the headlines. In the 30 years to 2005, world food prices fell by around three-quarters in inflation-adjusted terms. Since then they have risen by 75 percent, with much of the increase in the past year. The U.N. Food and Agriculture Organisation's (FAO) Food Price Index, measuring the market prices of cereals, dairy produce, meat, sugar and oils, was 57 percent higher in March 2008 than a year earlier.

There are many reasons. Demand for food is growing with a larger world population, and changes in diet. In India and China for example there are significant increases in consumption of grain, meat and dairy products. Oil prices not only add to food transport costs but also the price of fertilizer. Climate is also a factor with large parts of central and western Asia and Africa running out of water. The Australian drought reduced their wheat harvest. Market speculation, a lower US dollar, continued export subsidies by the EU and others, and low food stocks are all exacerbating the crisis. As Paul Krugman has noted “Governments and private grain dealers used to hold large inventories in normal times, just in case a bad harvest created a sudden shortage. Over the years, however, these precautionary inventories were allowed to shrink, mainly because everyone came to believe that countries suffering crop failures could always import the food they needed. This left the world food balance highly vulnerable to a crisis affecting many countries at once”.

Of course some firms are benefitting from this crisis. A couple of weeks ago, the agriculture conglomerate Cargill said that its third-quarter profit rose 86 percent to $US1.03 billion on strong growth in its commodity sourcing and finance business. Unesco has also noted the considerable influence of big transnational corporations in North America and Europe which undermine small scale agriculture in developing countries.

Then there is the bio-fuel debate. Increasing use of grain to produce ethanol is also creating food shortages. But as George Monbiot points out, while 100 million tonnes of food will be diverted this year to feed cars, 760 million tonnes will be used to feed animals and this amount of grain could cover the global food deficit 14 times.

We know that 24,000 people die each day from hunger. Recently there have been food riots in Egypt, Ivory Coast, Yemen, Haiti, Senegal, Yemen and Mexico. Food represents around 75 percent of consumer spending in developing countries compared with 15 percent in developed countries. The World Bank estimates that for "2 billion people, high food prices are now a matter of daily struggle, sacrifice and for too many, even survival. …already some 100 million people may have been pushed into poverty as a result of high prices over the last 2 years".

In New Zealand, food prices have gone up by 6 percent in the last year. Grocery food prices are up by 9 percent. This is particularly hard on low income families as food expenditure is relatively inelastic. That means it is difficult to adjust consumption because of higher prices when we are talking about basic food items. Nevertheless there has been a reaction with the volume of cheese sold in New Zealand down by 10 percent in the last year.

Adding to this, we have seen rising fuel prices, higher rents and high mortgage interest payments. This coincides with the prospect of lower house prices. This has benefits in terms of home affordability but of course means that many can no longer subsidise their consumption by equity withdrawal. Despite the fact that real household incomes have risen by around 25 percent in the last 8 years due to more employment (jobs and hours worked) per household, higher wages, and payments such as Working for Families, there is no doubt that the pressure is really on now.

Numerous responses have been suggested. In a global sense there are huge issues around trade rules, food security, aid and development, climate change, food monopolies and so forth. In a New Zealand context, there surely should be questions asked of Fonterra. After all, a special Act of Parliament ensured it could be established, it is the prime beneficiary of any trade negotiations, and is enjoying record sales. Just why is it a golden rule that all domestic sales have to be at the international price? I guess it is because farmers should be allowed to get the best price from wherever. But given the support from the whole country for the dairy industry, a concession in terms of lower domestic prices would be justified.

Much of the focus has been on the issue of GST being taken off food. In Australia, GST does not apply to basic food for human consumption - for example, fruit and vegetables, meat, eggs, bread, cheese, soup, milk, tea, coffee, fruit and vegetable juices, breakfast cereals, flour, infant formula, sugar, ingredients for food for human consumption, some beverages and beverage ingredients, and fats and oils for culinary purposes. Removing GST on such basic food items has some merit as it directly addresses the problem of food prices. However critics of such a move, including the Government, point out that it is a very complex measure with major compliance issues as to what constitutes food. Treasury also estimates that about 30 percent of any GST reduction is not passed on to consumers. Another approach to reduce prices would be to reduce GST across the board. This would reduce consumer prices generally and would hopefully jolt the Reserve Bank into dropping interest rates. GST revenue is nearly 20 percent of core revenue. A decrease to (say) 10 percent would cost around $2.35 billion so it is hard to see that happening unless personal tax cuts were abandoned or at least delayed for some time. Taking GST of all food would cost a similar amount whereas removing it from fruit and vegetables is estimated to cost $300 million. Therefore, removing GST from a range of food items could cost somewhere between those amounts - more like $1 billion.

And talking of personal tax cuts – depending on how soon they apply, and how they are designed, they could provide some relief to assist with higher food and fuel prices. The Government could also look at special welfare payments. There is an inflation adjustment to Working for Families due in the next year or so and the Government could also improve the payments beyond that or bring the adjustment in early. Other options include food subsidies and price controls. These are extremely unlikely.

It should be no surprise that union focus at this stage has mainly been on the need to lift wages. A lift in the minimum wage to two-thirds of the average wage, legislative changes to promote multi-employer and industry collective bargaining, responsible contractor policies so that government purchases require that 'value for money' includes recognition of the value of workers producing the goods and services, and ongoing campaigns to increase pay rates are a more reliable long-term strategy to deliver a sustainable living wage than many other suggestions. But this does not mean that something could not be done on either GST or improvements to Working for Families in the meantime.

Consensus forecasts[1] published by NZIER
The consensus forecasts were updated in March 2008.

March Years percent	**2008**	**2009**	**2010**
GDP	3.0	1.7	2.4
CPI	3.4	3.0	2.8
Wages (QES)	4.1	4.1	3.7
Employment	1.5	0.7	0.9
Unemployment	3.7	4.0	4.3

Economic Snapshot
Consumer prices rose 0.7 percent in the March 2008 quarter, and were up by 3.4 percent annually. The next CPI update is on 15th July 2008. Food prices rose 0.7 percent in March 2008, and increased 6.0 percent over the past 12 months. Unemployment is at 3.4 percent. Māori unemployment is 7.3 percent and Pacific peoples' unemployment is at 4.7 percent, compared with 2.3 percent for European/Pākehā. The minimum wage is $12.00 an hour and $9.60 for new entrants aged 16 or 17 for the first 3 months or 200 hours whichever ends first[2] Ordinary time wages, as measured by the Quarterly Employment Survey (QES) for December 2007, were up annually by 4.2

[1] The consensus is made up of the average of forecasts from NZIER, Berl, ANZ- National Bank, ASB Bank, BNZ Bank, First New Zealand Capital, Deutsche Bank, UBS, Westpac, Reserve Bank of New Zealand and Treasury. They are done every 3 months which means that we sometimes will know actual figures for some of the forecasts.
[2] If the worker is however supervising or training other workers the $12 minimum applies.

percent (4.0 percent in the private sector and 5.0 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $23.29 ($21.73 in the private sector and $29.49 in the public sector). The next update of wages data is on 5th May, 2008. Economic activity increased 1.0 percent in the December 2007 quarter, compared with 0.5 percent in the September 2007 quarter. In the 2007 calendar year the economy grew 3.1 percent, up from the 1.5 percent growth recorded in 2006. The next GDP update is on 27th June. The Official Cash Rate (OCR) remains at 8.25 percent.

Consumer Price Index
Consumer prices rose by 0.7 percent for the March 2008 quarter and 3.4 percent for the March 2008 year. In the quarterly CPI, the main increases were from food at 1.8 percent and housing (including rents) at 1.0 percent. In the annual increase of 3.4 percent in the March quarter of 2008 compared with the March quarter of 2007, the main factors were petrol up by 20.5 percent, electricity up by 6.0 percent and food up by 5.1 percent. There were decreases in some areas including early childhood education costs down by 34.7 percent and pharmaceutical products (prescriptions) down by 15.8 percent. Food prices rose by 0.7 percent for the month of March, and 6.0 percent for the March 2007 year. Grocery prices were 9.0 percent higher than March last year.

Unemployment benefit numbers fall
The number of people receiving an unemployment benefit has dropped from 161,128 in December 1999, to 19,034 as at 31 March 2008. At fewer than 20,000, this is a decrease of 88 percent since 1999, and is the lowest number since 1979.

Official Cash Rate
The OCR remains at 8.25 percent. It is no doubt a difficult time for the Reserve Bank with significant inflation pressures and global financial uncertainty at the same time as a rapidly slowing economy. But it cannot be said that excess demand from NZ consumers is driving food and fuel price rises. And having warned for years about the impact of house prices, surely the RBNZ has to factor in the dramatic reduction in house price inflation. The RBNZ does not want today's inflation level of 3.4 percent to anchor ongoing expectations so has targeted wage increases as a potential concern. But the adjusted Labour Cost Index shows that wages in 2007 went up by 3.3 percent. And the often used but unofficial unadjusted Labour Cost Index shows wages were up by 5 percent last year, but that was lower than the September 2004 to September 2006 period when figures were above 5 percent and as high as 5.7 percent. By the time productivity and profits are factored in, there is still room for real wage increases. Regular contributions to KiwiSaver are also diverting money into savings and away from consumption.

Some commentators are suggesting that we need to see unemployment rise before interest rates will come down. But unemployment is a lagged indicator so it makes no sense to wait until the damage of a slower economy is done – when the slowdown can be softened by a drop in the OCR. The exchange rate has fallen slightly but it would have fallen more significantly if the RBNZ had dropped the OCR last week. Many would warn that this would lead to higher imported inflation. But all of this shows that current monetary policy is struggling to deal with the economic circumstances we face. All the more reason for the Parliamentary Inquiry into Future Monetary Policy to come up with some reforms.

Work Stoppages
29 work stoppages ended in the December 2007 year (compared to 42 for the December 2006 year. There were 21 private sector and 8 public sector stoppages. There were 9 manufacturing sector stoppages, 4 in transport and storage, 5 in health and community services and 11 in all other industries combined.

Housing and Property
Quotable Value statistics show that the average New Zealand sale price decreased to $388,894 in March (from $393,240 in February). The increase in house prices for the March 2008 year was 6.5 percent compared with 7.7 percent for the February 2008 year. Meanwhile REINZ report that sales fell to 5,129 - less than half the 10,989 sales in March 2007. The national median price rose from $337,500 in February to $349,000 in March. This is just 1.6 percent higher than the March 2007 median which was $343,500. Meanwhile building consents statistics for March 2008 show a continuing decline in the trend for the number of new housing units. There were 1,567 new housing units authorised in March 2008, 702 units fewer than in March 2007. Residential building consents issued in March 2008 were valued at $541 million, down $169 million from March 2007. Non-residential building consents issued in March 2008 were valued at $354 million, down $59 million from March 2007.

Government Accounts
For the 8 months to the end of February 2008, the operating balance was $3.3 billion lower than forecast at $1.4 billion. The main contributors to this lower than expected results were: investment losses of $1.1 billion (compared with forecast gains of $1.4 billion). These variances were recorded primarily by the NZS Fund ($1.5 billion), ACC ($0.8 billion) and EQC ($0.3 billion); the ACC actuarial loss on their claims liability was $0.4 billion higher than forecast, and; core Crown tax revenue to February was below forecast by $0.7 billion. The largest tax revenue variance was in GST ($0.4 billion lower than forecast). The OBEGAL (Operating Balances Excluding Gains and Losses) was $0.4 billion lower than forecast at $4.1billion, with the lower than forecast tax revenue being the main contributor. Gross debt is 18.3 percent of GDP and net debt is right down to 1.1 percent.

KiwiSaver
The number of New Zealanders in KiwiSaver increased to 542,338 by 9th April. Over 20,000 joined in the first nine days of April.

Trade, Balance of Payments and International Investment Position
The March trade balance was a $50 million deficit compared with a forecast of a $400 million surplus. Goods exports fell by 1.4 percent in the March 2008

quarter. This implies a fall in export volumes. For instance comparing this latest quarter with the March 2007 quarter, dairy products rose 47.5 percent in value, but dropped 9.6 percent in quantity. However, exports for the March 2008 quarter were still 14.1 percent higher than the next highest quarterly value recorded in September 2006. Imports increased by 0.4 percent for the quarter. The annual trade deficit is $4.79 billion. The March trade figures have prompted the BNZ to warn of a “stalling economy in the March quarter” and have increased the possibility of a GDP decline for this period.

Retail Sales

The outlook for retail sales growth is not good. In February 2008, seasonally adjusted retail sales fell 0.7 percent ($42 million) compared with a 0.3 percent rise in January 2008. Growth in retail spending between 2000 and 2007 was particularly strong with the total volume of spending rising 4.7 percent per annum on average and spending on durable goods like furniture, appliances and hardware gaining 10 percent per year. But the forecasts are for a much more subdued retail sector. One possible indicator is that spending using credit cards in New Zealand fell by a relatively large 2.7 percent in March after rising 0.5 percent in February.

Migration

In the year ended March 2008, there were 83,500 permanent and long term arrivals, up 1 percent from the March 2007 year and there were 78,800 departures, up 12 percent. As a result, net migration was 4,700 in the March 2008 year, down from 12,100 in the March 2007 year. A net inflow of 6,900 migrants came from the United Kingdom in the year to the end of March, down from 10,200 the previous year. There were also net inflows of 4,200 from India, 3,300 from the Philippines, 2,500 from Fiji, 2,100 from South Africa, 1,900 from China, and 1,600 from Germany. The net permanent and long-term outflow of 29,900 to Australia in the March 2008 year was the highest since the July 2001 year. It compared with 23,300 in the March 2007 year.

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