NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 92 (June 2008)

Comment
Times are hard. It is likely that when the June quarter economic growth figures come out on 26th September, it will confirm that the economy has been in a technical recession through the first half of 2008. We are halfway there with the news that the economy contracted by 0.3 percent in the March quarter. The Bank of New Zealand has warned that the length of the adjustment process threatens to be longer than the 1998 downturn.

Food price rises are hitting low income families hard. Overall food prices are up by 6.8 percent while grocery food prices rose by 11.8 percent. And there could be more to come. The price of grain is expected to rise 60 percent next year which also impacts on poultry prices. The combined effect of the credit crunch, a much slower housing market, the drought, electricity supply problems, fuel and food prices and high interest rates is considerable. For workers who, in general, had a couple of better years on the wages front in 2006 and 2007, this is a dismal scenario. With the Reserve Bank predicting inflation of 4.7 percent in the September 2008 year and with the prospect that the fuel price spike could actually be a high and rising plateau, there is a likelihood of some workers facing real wage cuts in this period.

And of course it is election year. As I have said before, the National Party delights in giving the Labour-led Government no credit whatsoever for the economic good times that the country experienced for several years since 2000 but all the blame for any bad times. It is hard for the Government to provide a sense of perspective about the economy when the bad news keeps on coming. And it is also difficult to campaign on their considerable achievements when economic circumstances are worsening. For example, it is great to have an extra week's holiday but if travel costs are soaring then it is harder to celebrate that particular improvement.

Nevertheless – it is important to put things into perspective without trying to underestimate the very real impact high food prices for instance are having on people. To a great extent these food prices are an international problem. In the UK for instance annual food price inflation is at 8.7 percent – worse than it is here. And we have had high food prices in New Zealand in the recent past with an increase for example of 7.8 percent in the September 2001 year at a time the adjusted labour cost index for that period was up by only 2.0 percent.

And it is much easier to cope with higher prices if you have a job - despite the fact that many are on low incomes. The number of people on an unemployment benefit is down from 161,128 in December 1999 to 17,465 at the end of May this year. And in case you think it is all due to the number on Sickness Benefits - in the last twelve months to May those numbers have declined by 1,542. And if you have a job now the minimum wage is over 70 percent higher than it was in 1999. Also family tax credits act for some as an automatic stabiliser. If your family income falls, your family tax credits go up.

The Government has also pointed out that real household incomes went up by 25 percent from December 1999 to June 2007. Real wages using the analytical unadjusted labour cost index were up by 14.8 percent. Real wages using the quarterly employment survey over this period show an increase of 7.9 percent. Not so impressive is that real wages using the official adjusted labour cost index fell by 1.3 percent. All these statistics are correct – but they all measure different things. While many economists believe that the non-adjusted labour cost index is a more accurate measure of wage movements, the adjusted index is still the official measure. And household incomes are up partly due to more employment rather than higher wages.

Many households in recent years have been able to sustain increased spending due to any one or a combination of several factors - more jobs and more hours per household, family tax credits, and adding a bit more to the mortgage while house prices were rising. In addition there have been improvements in the social wage – huge cost reductions for visits to the doctor and prescription charges, free early childhood education for 20 hours a week, paid parental leave and so on. But to some extent all these options are now constrained. Most households are already bulked up in terms of jobs and hours. Expecting family incomes to keep rising in real terms because of people working more and more hours is unrealistic. Family tax credits are being lifted in October – but that is basically a 5 percent inflation adjustment brought forward. There is little prospect of a huge increase in family tax credits any time soon. And as for topping up the mortgage to pay for a car, fridge or holiday – that is most unlikely with falling house prices. So that leaves – wages and taxes. And for some - benefits.

Tax cuts are coming. Of course the National Party has already started a bidding war on that front. But in my view that still leaves wage increases as the most likely source of increased income for households in the coming year. Already the Reserve Bank Governor has said that if he is going to 'look through' the spike in inflation so should employers, unions and workers. In other words he wants to constrain wage growth in order to discipline inflation expectations. We simply cannot accept that real wages should fall. Our main arguments about embedded low wages are not actually based on short-term inflationary considerations – but we will need to keep the pressure on over the coming period without losing the huge public support that has been generated for decent wage increases.

Everything is harder when the economy is contracting. There are however many things that can be done including greater assistance for beneficiaries and others on low incomes, monetary policy that can lower interest rates, and so on. There are two things that can be done at a general level. The first is stay on course with investment in people, building infrastructure, lifting productivity, investing in new technology, encouraging exports, boosting R&D and so on. The economic transformation programme should continue to be rolled out as that is about the long-term benefit to the overall economy.

The second thing is to avoid talking the economy down even further. This does not mean unionists should attempt to paint a rosy picture in an election period when the economy is in worse shape now than it was last year. That is not only wrong – it is clumsy. But there will be plenty of people who will want to portray things as worse than what they are. We should challenge those who deliberately exaggerate the extent of the economic decline.

Meanwhile, on another topic, some business lobby groups are in full scale attack mode on the Climate Change (Emissions Trading and Renewable Preference) Bill since the National Party withdrew its support for the Bill. Unions have shared some of the business concerns and the CTU submission pushed hard for a longer time period for trade-exposed firms and for the inclusion of intensity measures so that new investment could occur at world best practice. But the Government has now agreed that the 90 percent free allocation will remain in place until 2018 rather than 2013 and the phase out would be completed in 2030 rather than 2025. There will be provision for an intensity-based mechanism. In addition there will be five-yearly reviews. The 50,000 tonne threshold for firms that could get allocation of credits is also likely to drop considerably.

It is true that there is considerable uncertainty about many aspects of climate change and how emissions trading would work – including what the post-2012 rules will be, the carbon price, extent of business opportunities, likely abatement, how other countries will react, and a key issue for us which has not been included in the economic modeling used by business groups - the extent to which New Zealand goods will be disadvantaged in Europe and elsewhere if we do not take action. But the Bill establishes a framework with considerable flexibility to adjust and the real debate can happen over the actual allocation plans.

It is starting to look like some sections of the business community will continue to oppose any reasonable measures to respond to climate change. They say there should be more time. I remember when the Employment Contracts Act was introduced. It was the biggest change in employment law in a century and was announced on 18th December 1990 with submissions closing on 11th February 1991. Given the Christmas break that left just weeks for submissions. I can't remember business complaining about a rush then!

So is there plenty of time? Not according to the Intergovernmental Panel on Climate Change (IPPC). Last year Rajendra Pachauri who is the chair of the

IPPCC said “*If there’s no action before 2012, that’s too late. What we do in the next two to three years will determine our future. This is the defining moment.”* The National Government signed the Kyoto Protocol over 10 years ago in May 1998. This Government ratified the Kyoto Protocol in 2002 and announced a carbon tax policy, nearly 6 years ago. The carbon tax was to have come into effect in 2007 but was scuttled because business and farmer opposition undermined parliamentary support. New Zealand would not have been anything like the first country to have a carbon tax. Finland has had a carbon tax since 1990.

The business groups are now arguing that there needs to be an intensity measure. I agree. But as stated above, the Government has agreed to include such a measure. Back in 2005, the carbon tax proposal also made provision for intensity measures via negotiated greenhouse agreements (NGAs). But those same business interests also opposed the climate change package incorporating the carbon tax so the NGAs fell over.

Then in September 2007 the Government announced its revised climate change policy including an emissions trading scheme. In addition to the legislative process there has been a Climate Change Leadership Forum and technical advisory groups – both with business representation. There have been a huge number of meetings yet Business NZ has claimed that “*the only significant changes (to the Bill) have been decisions made by government without consultation with stakeholders*”. Business had their say – they got a result as have we. But now they continue to dump on the Bill. It is now 9 months since the Government announced the emissions trading scheme and 10 years since the National Party signed up to the Kyoto Protocol. Looks like some sections of business will never be ready.

The CTU has consistently argued that there needs to be a broad range of climate change responses including regulation, mitigation, investment and education. As well as the need for a just transition for affected workers, our focus has been on union involvement in education and other programmes with the business sector to directly reduce emissions and conserve energy; developing the skills base for sustainable development; and advocating for those on low incomes impacted by increased fuel, electricity and other charges as a result of emissions trading. It is time to get on with it.

Consensus forecasts[1] published by NZIER in June 2008

March Years percent	**2008**	**2009**	**2010**
GDP	2.9	1.0	2.4
CPI	3.4	3.9	2.7
Wages (QES)	4.1	4.5	3.9
Employment	-0.2	0.4	0.9
Unemployment	3.6	4.2	4.6

[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.

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 1.0 percent in May 2008, and increased 6.8 percent over the past 12 months. Unemployment is at 3.6 percent. Māori unemployment is 8.6 percent and Pacific peoples' unemployment is at 8.2 percent, compared with 3.0 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 hourly wages, as measured by the Quarterly Employment Survey (QES) for March 2008, were up annually by 4.6 percent (4.4 percent in the private sector and 5.4 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $23.63 ($21.96 in the private sector and $30.58 in the public sector). The female rate of pay is $21.94 which is 87.8 percent of the male rate of $24.99. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.4 percent in the March 2008 year (3.5 percent in the private sector and 3.4 percent in the public sector). However for workers who got an increase in the last year, the median increase was 4.0 percent and the average increase was 5.6 percent. The next update of wages data is on 4th August, 2008. Economic activity decreased by 0.3 percent in the March 2008 quarter compared with a 0.8 percent increase in the December 2007 quarter and 0.5 percent in the September 2007 quarter. In the March 2008 calendar year the economy grew 3.0 percent, up from the 1.6 percent growth recorded in the year to March 2007. The next GDP update is on 26th September. The Official Cash Rate (OCR) remains at 8.25 percent.

Economic Growth

Economic activity, as measured by gross domestic product (GDP), declined by 0.3 percent in the March 2008 quarter. This follows an increase in economic activity of 0.8 percent in the December 2007 quarter. In annual terms, the economy grew 3.0 percent to the year ended March 2008 compared with 1.6 percent for the March 2007 year. The impact of the drought was evident with agriculture down 5.6 percent for the March 2008 quarter, the largest decline in agriculture since the March 1998 quarter. Construction was down by 5.2 percent for the quarter. Spending by New Zealand households was down 0.4 percent in the March 2008 quarter, following an increase of 0.5 percent in the December 2007 quarter. Expenditure on durable items, such as vehicles and furniture and major appliances, were also down by 3.4 percent this quarter. However, for the year ended March 2008, service industries which make up the most significant proportion of GDP were up 3.9 percent. Service industries make up the most significant proportion of GDP. Perhaps the only good news was that business spending on plant, machinery and equipment rose 5.9 percent for the quarter.

Trade and the Current Account

For the year ended March 2008, the current account deficit was $13.8 billion. This is 7.8 percent of GDP. The investment income deficit has once again overwhelmed any impact from trade in goods and services. At $13.1 billion in the year ended 31 March 2008, the investment income deficit is $0.7 billion

[2] If the worker is however supervising or training other workers the $12 minimum applies.

larger than in the December 2007 year, and $1.3 billion larger than in the March 2007 year. It is 95 per cent of the overall current account deficit. At 31 March 2008, New Zealand's overseas liabilities exceeded its assets abroad by $153.2 billion – an increase of $10.2 billion from 31 March 2007.

Even more worrying was this quote from Statistics NZ saying that *"the proportion of profits distributed overseas as dividends rather than reinvested in New Zealand was 90.4 percent in the year to March 2008, compared with 63.8 percent in the year to March 2007 and 42.0 percent in the year to March 2006."*

Latest trade figures show that the total value of merchandise exports rose 11.2 percent from May 2007 to May 2008, to reach $3.7 billion, while merchandise imports were up 17.3 percent to $3.9 billion over the same period. Crude oil and other petroleum products led the increase for both exports and imports in the May 2008 month. We know that a lot of stock have been through the meatworks due to dairy conversions and other factors so no surprise that the next largest increase in exports came from meat and edible offal which rose $117 million from May 2007, with sheep meat the main contributor to this rise. Export quantities of milk powder, butter and cheese were down 29.7 percent compared with the previous May, although values were still up 3.9 percent. According to the Reserve Bank's Trade Weighted Index, the New Zealand dollar fell 1.4 percent in May 2008 compared with April 2008, and was 2.7 percent lower compared with May 2007. For the three months ended May 2008 exports of merchandise goods were valued at $11.0 billion, up 11.6 percent on the equivalent 2007 period.

Pay gap persists

Statistics NZ recently released analysis from the 2006 Census, demonstrating that the pay gap between men and women is still very much alive. The median personal income for men was higher than that of women at all levels of education. The Census showed that the median annual income of men with no qualifications was almost $8000 higher than women's. When men attained a school qualification the difference rose to almost $10,000, and at a post-school qualification level it was $14,000 higher. The different outcomes reflect not just lower pay rates but fewer paid hours of work.

Food Prices

Food prices rose in the year to May 2008 by 6.8 percent. Grocery food prices were up 11.8 percent, fresh milk up 21.5 percent, cheese up 59.4 percent, bread up 13.9 percent, and butter up 80.1 percent.

Housing and Property

Quotable Value statistics show that the average New Zealand sale price decreased slightly from $388,465 in April, to $387,299 in May. The increase in house prices for the May 2008 year was 2.4 percent compared with 4.9 percent for the April 2008 year. According to REINZ, monthly sales were down 53 percent from May last year, with 4,373 sales last month, down from 9,285 in May 2007. Over the course of the year, this decline means that close to 20,000 fewer properties had been sold in the year to May 2008, as compared to 2007. The national median price remained at $345,000 for May 2008 which is $5,000 below the May 2007 median price. Meanwhile building consents statistics show there were 1,653 new housing units authorised in May 2008, a decrease of 669 units compared with May 2007.

Government Accounts

The latest report on the Government accounts is more positive than at Budget time with the operating balance for the 10 months till the end of April over $3 billion which is $626 million ahead of forecast. The stated reasons are higher-than-expected investment returns and corporate tax revenue. The operating balance excluding gains and losses (OBEGAL) was also more than $600 million stronger than forecast in the Budget and the cash surplus was $738 million instead of the forecast $561 million.

Manufacturing

Total manufacturing sales increased 3.7 percent ($743 million) during the March 2008 quarter. Manufacturing volumes, by comparison, increased 0.2 percent during this period following an increase of 3.4 percent in the previous quarter. Meat and dairy product manufacturing were up by 5.0 percent, basic metal manufacturing up 6.1 percent, while there were decreases in wood product manufacturing and furniture and other manufacturing, down 4.7 percent and 11.0 percent, respectively.

Retail Sales

Total retail sales rose 1 percent in April 2008, while retail volumes fell 0.5 percent. Overall retail sale were up by 3.1 per cent for the April 2008 year but once vehicle sales are removed the rise was a more modest 1.3 percent. A large 8.1 percent ($51 million) rise in motor vehicle retailing contributed to the rise in retail sales in April, and in contrast to this, there was a 3.6 percent fall in supermarket and grocery store retailing. These figures should not be overstated, as the opposite trend was evident last month. There continues to be rises in the cost of staple goods (fuel, groceries, food), and less spending on discretionary items.

Migration

In the year ended May 2008, there were 84,800 permanent and long-term arrivals, up 2,400 from the May 2007 year and 79,900 departures, up 8,200. In the year ended May 2008, there was a net inflow of 7,300 migrants from the United Kingdom, down from 9,700 the previous year. There were also net inflows from India (4,300), the Philippines (3,400), Fiji (2,600), South Africa (2,300), China (2,100), and Germany (1,600) in the May 2008 year. The net outflow to Australia was 31,200 in the May 2008 year, compared with 24,500 in the May 2007 year.

Internal migration

Over the whole period covered by the 1981–2006 censuses, the region with the biggest net gains from internal migration was Bay of Plenty, which received 48,700 more people than it lost. The region with the biggest net losses was Southland, which lost 28,800 more people than it received. Recently, however, migration patterns have been changing. In 2001–2006, the region with biggest net gain (8,200) was to Canterbury, and the region with the biggest net loss (18,100) was not Southland but Auckland.

KiwiSaver

KiwiSaver membership has passed 670,000 with more than 2,300 new members signing up every day in May. As at 31 May, 673, 942 people had joined KiwiSaver.

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