



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Comment

There is now widespread recognition that wages need to rise in New Zealand. The CTU has identified a number of measures that are needed to lift wages on a sustainable basis. These include: increasing the minimum wage to two-thirds of the average wage; amending employment law to strengthen collective bargaining particularly in relation to promoting industry and multi-employer base documents; greater support (including institutional forms) for union capacity to deliver improved wages for workers; the implementation of good employer and responsible contractor policies in the State sector, and an ongoing programme to deliver for women equal pay for work of equal value. We also support higher wages through more investment in skills, plant, machinery and technology alongside improved workplace practices to boost productivity.

These measures will help address the structural issues that underpin embedded low wages. In the short run however the pressure on the pay packet has been made worse by high food and petrol prices.

But the nagging concern that sits alongside high net migration to Australia is the Trans-Tasman wage gap. As noted previously, the average weekly wage in Australia in May 2008 was \$AUD1124.00. In New Zealand at that time the average weekly wage was \$904.00. Using OECD purchasing power parities and exchange rate differentials that equates to a NZ equivalent of \$1233.00 or 36.4 percent more than the NZ average wage of \$904.00. The wage gap with Australia grew by 50.3 percent from (June) 1990 to 1999 but only 1.4 percent from 1999 to 2007. They also have 9 percent compulsory employer contributions to workplace superannuation. From 1st October 2008 the minimum wage in Australia will increase to \$AUD14.31 an hour. Again, using OECD purchasing power parities and exchange rate differentials that equates to a NZ equivalent of \$15.70.

National needs to do better than simply argue that economic growth and tax cuts will lift wages. Sure we know that the National Party will promise to cut taxes by more than what this Labour-led Government has committed to do from October. From a worker's perspective there are various dimensions to

wages including the wage rate, tax and also the social wage. There is no point getting a large tax cut if it means the social wage is under attack through user pays across health and education and including high road tolls. Reduced costs to see the doctor, lower prescription charges, and subsidies for early childhood education, paid parental leave and so on all make up the social wage in addition to other social services.

And National simply cannot credibly argue that the wage gap with Australia can be closed through tax measures. Nor is it simply about productivity. Labour productivity in New Zealand has increased by 42 percent since 1988 but real wages have barely moved. And if you take mining out of Australian productivity figures and agriculture, forestry and fishing out of New Zealand figures, we are still left with a huge gap in relative productivity. Sure they are a larger economy and that is a factor. They have more consistently invested in skills. But they have also had an employment relations and wage framework that despite the attacks by the Howard government supported a reasonable level of wages across large groups of workers. The fact is that although there have been significant increases in the NZ minimum wage in recent years, the minimum wage in Australia is 31 percent higher than in NZ and they have kept industrial awards that form base industry and occupational wage rates. The National Party has a phenomenally poor record on both these issues. They froze the minimum wage for years in the 1990s and only managed to lift it by 87 cents in nine years compared with \$5 since 2000 under a Labour-led Government. In 1999 the minimum wage in Australia was closer to 60 percent higher than the NZ minimum wage. And the National Party destroyed the occupational and industry award system that had underpinned wages in New Zealand for decades.

Meanwhile, the National Party leaders have said they will increase debt as a percentage of GDP if they become the Government. The figure of 22 percent as a ratio of gross debt to GDP is not in itself of major concern. In fact I expect to see gross debt as a proportion of GDP rise for a while in any case. The reality is that Michael Cullen had to stretch the Budget considerably to fund this Government's tax cut programme of \$2.7 billion a year on average over the next 4 years. However, adding in another tax cut on top of that is likely to be a stretch too far. The signs are there already and we have already seen the National party talk about operating deficits – not just cash deficits.

As Bill English said on 2nd August this year in his speech to the National Party Conference "small operating deficits, for a limited time, are not the end of the world". Now the problem with this is if we have higher debt levels and we get hit with a number of economic shocks (say a drought plus something similar to the Asian financial crisis in 1998 that affected our export markets) then a National Government will have already used up the buffer. And what would a National Government do if debt was up and the books were already showing an operating deficit? That is where the risk lies. We know their instinct is to privatise and to cut into government spending. Of course it looks probable they would do that anyway judging by remarks in recent weeks – but the point is that their approach to fiscal management when combined with their true ideological instincts amplify the risks of privatisation and significant spending

cuts. This is the problem with National's approach – it is too risky – it shows poor judgement on fiscal management and increases the likelihood of real cuts in public services and privatisation.

When the Pre-election Fiscal Update is released, I would not be surprised to see effects on fiscal balances, outlook and debt ratios from higher government spending (including stronger than anticipated uptake of KiwiSaver), the impact of the Labour Government tax cuts, and the flow-on effects of a slower economy. This implies a tight fiscal position now and in the next couple of years. That would leave no room at all for National's tax cut plans – unless they are funded by debt or cuts elsewhere. But my hope is that the focus going into the election campaign will not just be on tax. Let's have a debate about the broad range of things that make up the income and welfare of workers and their families – gross wages, tax, the social wage and services.

Consensus forecasts¹ published by NZIER

The consensus forecasts were updated in June 2008.

March Year % change	2008	2009	2010
GDP	2.9	1.0	2.4
CPI	4.0	3.9	2.7
Wages (QES)	4.1	4.5	3.9
Employment	-0.2	0.4	0.9
Unemployment	3.6	4.2	4.4

Economic Snapshot

Consumer prices rose 1.6 percent in the June 2008 quarter, and were up by 4.0 percent annually. The next CPI update is on 21st October 2008. Food prices rose 0.6 percent in July 2008, and increased by 7.6 percent over the past 12 months. Unemployment is at 3.9 percent. Maori unemployment is 7.1 percent and Pacific peoples' unemployment is at 6.5 percent, compared with 2.8 percent for European/Pakeha. 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. Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for June 2008, were up annually by 5.3 percent (5.4 percent in the private sector and 4.8 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 \$22.23 which is 87.6 percent of the male wage at \$25.38. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.5 percent in the June 2008 year (3.5 percent in the private sector and 3.7 percent in the public sector). However for workers who got an increase in the last year, the median increase was 4.1 percent and the average increase was 5.8 percent. The next update of wages data is on 3rd November, 2008. Economic growth decreased by 0.3 percent in the March 2008 quarter compared with a 0.8 percent increase in the December 2007 quarter. On an annual basis, the economy grew by 3.0 percent over the year to March 2008. The next GDP update is on

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. Because the consensus forecasts are done only every 3 months, some of the more recent forecasts will be more accurate.

26th September. On 24th July, the Official Cash Rate (OCR) was reduced from 8.25 percent to 8.0 percent.

Wages

The Labour Cost Index (LCI), showed that salary and ordinary time wage rates increased 3.5 percent in the year to the June 2008 quarter, the largest annual increase since the series began in December 1992. In the June 2008 quarter, salary and ordinary time wage rates rose 0.7 percent, following rises of 0.8 percent and 1.0 percent in the March 2008 and December 2007 quarters. In the year to the June 2008 quarter, public sector salary and wage rates increased 3.7 percent with a 4.5 percent increase in the local government sector and a 3.5 percent rise in the central government sector. In the private sector, salary and wage rates increased 3.5 percent in the last year. The industry groups with the largest annual increases in salary and wage rates (including overtime) were in mining – up 5.3 percent, health and community services – up 5.1 percent, and finance and insurance – up 4.9 percent.

The median increase for all surveyed salary and ordinary time wage rates that rose in the year to the June 2008 quarter was 4.1 percent (4.0 percent in the public sector and 4.1 percent in the private sector), up from 4.0 percent in the year to the March 2008 quarter. The median increase for the June 2008 quarter was 4.0 percent (4.0 percent in the public sector and 4.2 percent in the private sector), up from 3.9 percent in the March 2008 quarter. The average increase for all surveyed and ordinary time wage rates that rose in the year to the June 2008 quarter was 5.8 percent (5.5 percent in the public sector and 5.9 percent in the private sector), up from 5.6 percent in the year to the March 2008 quarter. In the June 2008 quarter, the average increase was 5.6 percent (5.3 percent in the public sector and 5.7 percent in the private sector), up from 4.7 percent in the March 2008 quarter. Unadjusted salary and ordinary time wage rates showed an increase of 5.5 percent in the year to the June 2008 quarter. The Quarterly Employment Survey shows that average ordinary time hourly earnings increased 5.3 percent for the June 2008 year (5.4 percent in the private sector and 4.8 percent in the public sector); mainly driven by the manufacturing, wholesale trade, and health and community services industries. Average ordinary time hourly earnings fell by 1.6 percent in the public sector and increased 2.0 percent in the private sector for the June 2008 quarter. The average wage is \$23.97 (\$22.40 in the private sector and \$30.10 in the public sector). The female average wage is \$22.23 which is 87.6 percent of the male wage at \$25.38.

Unemployment

Unemployment has gone up to 3.9 percent with the Household Labour Force Survey showing another 7,000 making a total of 89,000. On an annual basis, unemployment increased by 8,000 (10.1 percent). This was driven by an increase in male unemployment of 8,000 while female unemployment remained flat. Unemployment rates for the June 2008 quarter were 7.1 percent for Maori, 6.5 percent for Pacific peoples, and 2.8 percent for European. The rate of unemployment for 15-19 year olds was 15.1 percent compared with 6.7

percent for 2—24 year olds and 1.6 percent for 55-59 year olds. The jobless rate fell to 166,300. The number underemployed was 82,100.

There was a 15,000 increase in the number employed compared with June 2007. This compares with a measured decline of 5,000 in the year to March 2008, but also an increase of 54,000 in the year to December 2007. The government administration sector employment has reduced by 13,000 on a year ago and there is reduced employment of tradespeople in building (down 10,000), electricians (down 5,000), and metal trades (down 11,000).

Employment increased by 26,000 (1.2 percent) over the June 2008 quarter to 2,169,000, following a decrease of 27,000 the previous quarter. This is the second highest level of employment recorded since the survey began. The QES shows that in the year to June 2008, the number of full-time equivalent employees increased 2.5 percent. This was driven by a 2.8 percent increase in full-time employment.

Interest Rates

The OCR (Official Cash Rate) was reduced in July to 8.0 percent. This was the first reduction for 5 years. A further decrease is expected on 11th September. Despite this reduction Banks, due to the cost of offshore borrowing, did not reduce all their rates - for example floating rates.

Food Prices

Food prices rose in the year to July 2008 by 7.6 percent and by 0.6 percent in the July 2008 month. Grocery food prices rose by 11.2 percent in the July 2008 year. There have been very large annual price increases for bread (up 196 percent), cheddar cheese (up 59.3 percent), butter (up 89.4 percent), and fresh milk (up 10.2 percent). Statistics NZ estimate that about \$21 of every \$100 spent by households on food is spent on eating out or takeaways. About \$17 of every \$100 spent on food is on meat, poultry and fish, and around \$14 is on fruit and vegetables. Non-alcoholic beverages such as coffee, soft drinks and fruit juice account for \$10, and \$38 is spent on grocery food.

Poverty Levels

The World Bank has recalculated the number of people facing extreme poverty. The Bank now estimates the global number of extreme poor in 2005 to be 1.4 billion, or 25.7 percent of the world population, as compared to 930 million using their previous method of calculation. In addition to this upward revision of 470 million people the Bank estimates that approximately 100 million more people have fallen into extreme poverty because of the recent surge in food prices.

Producer Prices

Annual producer prices (inputs) rose by 11.8 percent and outputs by 8.5 percent. This includes a spike in the last quarter of 5.6 percent in input prices due to electricity and oil prices. However, spot electricity and also oil prices have fallen since the June quarter – although spot electricity prices are volatile at the moment with more shortages of rainfall where it is most needed. In the

year to the June 2008 quarter, the electricity generation and supply index rose 41.7 percent, which is also the largest annual rise since the series began.

Capital Goods Price Index

In the year to the June 2008 quarter, the Capital Goods Price Index rose 3.1 percent. This followed rises of 2.8 percent and 3.5 percent in the years to the June 2007 and June 2006 quarters, respectively. The price of a new residential building rose 0.8 percent in the quarter (the slowest since September 2002), which lessened annual residential building inflation to 4.4 percent, from 5.0 percent.

Trade

Exports of \$3.4 billion for July 2008 were 29.6 percent higher than July 2007, mainly as a consequence of a rise in crude oil exports (following a rise in production from the Tui oilfield), and milk powder, butter and cheese. Imports of \$4.2 billion were 21.9 percent higher than July 2007. The monthly trade balance was a deficit of \$781 million, or 22.8 percent of exports. The annual trade balance for the year ended July 2008 was a deficit of \$4.4 billion. According to the Reserve Bank's Trade Weighted Index, the New Zealand dollar fell 1.4 percent in July 2008 compared with June 2008, and was 10.9 percent lower compared with July 2007.

Retail sales

Annual retail sales rose 2.4 percent and were up by 0.9 percent for the month. However, volumes fell by 2.3 percent for the June year, 1.5 percent for the June quarter and 0.7 percent for the month.

Firm Size

Latest statistics (for February 2007) were released this week and show that 97 percent of enterprises employ fewer than 20 people and 89 percent employ fewer than 5 people. However a whopping 68 percent of enterprises have no employees at all. SMEs (fewer than 20 staff) employ 31 percent of all workers. That means that 69 percent of the workforce is employed by the other 3 percent of enterprises.

Housing and Property

Quotable Value report a 2.2 percent decline in national property values over the past year, down on the 0.1 percent growth reported in June. The average New Zealand sale price stayed steady at \$393,370. REINZ report a median price of \$340,000 – also similar to the previous month. However the Auckland metropolitan median price fell from \$440,000 in June to \$425,000 in July. The national rural median price was down only slightly at \$1,800,000 to July compared with \$1,805,000 to June, but more significantly is up 41.7 per cent over the July 2007 national median farm price of \$1,270,000. The national dairy median price at \$4,200,000 to July is now 32.8 per cent higher than the July 2007 figure of \$3,162,500. Housing consents for the year ended July 2008 were \$712 million lower than the previous year. Meanwhile the Wizard Home Loans Affordability report shows it took 77.4 percent of the median take-home pay to service the mortgage on the median house in July, down from 78.3 percent in June and down from a peak of 83.8 percent in November

last year. And lending to households on a seasonally adjusted basis, total household claims rose just 0.3 percent for the month - the same as last month. These are the lowest levels recorded in these data since they began in 1991.

Migration

A net inflow of 40,500 non-New Zealand citizens and a net outflow of 35,300 New Zealand citizens were recorded in the year ended July 2008. The majority of the net outflow of New Zealand citizens was to Australia (32,600), followed by the United Kingdom and the United Arab Emirates (both 500), and Canada (400). Compared with the July 2007 year, permanent and long term arrivals of non-New Zealand citizens were up 3,700 and arrivals of New Zealand citizens were down 100. There were 5,800 more departures of New Zealand citizens and 1,600 more departures of non-New Zealand citizens. In the year ended July 2008, there was a net inflow of 7,600 migrants from the United Kingdom, down from 9,000 in the July 2007 year and 10,600 in the July 2006 year. In contrast, the net inflow of 4,700 from India was up from 3,000 in the July 2007 year and 2,100 in the July 2006 year. There were also net inflows from the Philippines (3,600), Fiji (2,700), South Africa (2,500) and China (2,400) in the July 2008 year. The net outflow to Australia was 32,300 in the July 2008 year, compared with 25,500 in the July 2007 year. This is the highest annual net outflow to Australia since the April 1989 year (32,600). There were earlier peaks in the January 1989 year (33,700) and the December 1979 year (33,400). Net outflows to Australia were recorded in each broad occupation group, led by service and sales workers, professionals, and trades workers (each 2,100). There was also a net outflow to Australia of 13,200 people without an occupation, of which most were children or students.

Population

The estimated resident population of New Zealand was 4,268,600 at 30 June 2008, Statistics New Zealand said today. The population increased by 40,300 (1.0 percent) in the June 2008 year, compared with 43,700 (1.0 percent) in the June 2007 year. The main contribution to population growth during the June 2008 year came from natural increase (excess of births over deaths) of 35,600, up 2,000 on the previous June year.

Sheep Numbers

Drought and dairy expansion have had a significant impact on sheep numbers which will be down 11 per cent this year to 34.2 million.

Cruise Time for Some

New Zealand's cruise industry hit a record 168,000 passenger and crew arrivals last season. The industry has grown from 27 cruises and 19,400 passengers in the 1996/1997 season, to last season's 116, 200 passengers and 51,500 crew on 98 cruises.