NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 97 (November 2008)

Comment
As the *Economist* wryly observed this week, some in the West used to say that the only thing that could save China was capitalism: now they are saying that the only thing that can save capitalism is China. In recent months in this Bulletin, I have trawled through the story of sub-prime housing, devious derivatives and swaps, and ludicrous levels of leverage. Given the huge budget deficit in the USA, the bailouts are being funded by borrowing – Japan (US$585 billion) and China (US$541 billion) own more than 40 percent of the foreign holdings in US Treasury securities. China has its own problems with huge job losses in manufacturing. And Chinese per capita income ranks at 100th in the world. Its 1.3 billion people consumed only US$1.2 trillion in 2007—compared to US$9.7 trillion by 300 million Americans. However the architecture of global financial regulation will now need to ensure a much stronger place at the table for China.

New Zealand is not big enough to be part of the G20 list of countries that met in mid-November. But we should make our voice heard on financial regulation. It will need more than a new set of rules that takes a few years to design. It requires a new oversight body that can react more quickly to emerging problems.

But it needs to go much further than this. In the last few years, the old ideological compass of communism as a counterweight to capitalism has been submerged. It may now regain at least a more robust analytical foothold. But in its place we have seen a more imprecise critique – a sustainable development model as a contrast to unfettered global finance capitalism. The current crisis should not be allowed to be seen simply as a technical problem about finance market instruments. It is actually a symptom of something much deeper. The private sector cannot act in the public interest. The economic bottom line cannot satisfy human needs and sabotages the environment. Freedom of capital to trickle down does not work. To borrow a political slogan "it is time for a change". Now is the time to put some more precision into a sustainable development prescription as a comprehensive model to replace capitalism.

Actually it was unions that were warning about gearing up for massive leverage, private equity appetite for debt, hedge fund extravagance, financialisation, short-term thinking, and corporate greed. If anything, we were scoffed at. Yet AIG with more than 100,000 employees around the world and US$1 trillion in assets got a USUS$85 billion bailout, then another US$38 billion and now it looks like it will total more than US$150 billion. Why? Because they were totally exposed to derivatives, credit default swaps and other hugely risky financial products.

As others have observed – rescuing capitalism is an expensive project. The U.S. government's US$152.5 billion rescue plan for AIG far exceeds the US$90.7 billion U.S. and European governments spent on development aid in 2007. The U.S. and European governments have committed approximately US$4.1 trillion to aid struggling banks and other financial institutions. That's more than 45 times the sums they spent on development aid last year. The U.S. government spent US$23.2 billion in aid to all developing countries in 2007 - far less than the US$29 billion bailout for investment bank Bear Stearns.

But right now we in New Zealand face the somewhat delayed but nevertheless significant consequences of the global financial meltdown. All the indicators look bad – retail sales, manufacturing, services generally, tourism, construction, commodity prices and so on. The predictions on unemployment range from 5.7 percent to 8 percent over the next few years – well up from 4.2 percent now. That means at least another 30,000 unemployed and probably more.

The CTU put out a discussion document on 30th October called *Short Term Stimulus for Long Term Gain*. We discussed some of the issues involved in bringing forward infrastructure spending, recommended that a skills investment fund is created so we invest in people as well as physical infrastructure, promoted a renewed focus on workplace productivity, gave some support to changes in provisional tax and depreciation to assist firms with working capital and to retain workers, and advocated for an assistance package for workers made redundant.

But now the focus is on the new Government. They will be getting plenty of advice. Their confidence and supply agreement with ACT makes for sober reading particularly on government spending. Yet the Westpac Bank in their November quarterly overview said "now is not the time for the government to be tightening its belt". The Northern Employers and Manufacturing Association and now Business NZ are already urging the government to change employment law to restore business confidence. This of course would shatter worker confidence. It is bad enough to be threatened with redundancy but worse still for a Government to be offering income assistance on the one hand and with the other hand whipping away rights to appeal against unfair dismissal and attacking union rights around access and collective bargaining.

In the last few days the ILO Governing Body released a statement signed up to by governments, employers and unions. It said among other things that "promoting employment, social protection, and fundamental principles and rights at work and social dialogue constitutes, through the ILO's Decent Work Agenda, an effective policy package in response to the current economic crisis". This is a real contrast to the opportunistic mutterings of the local business lobby groups.

And by the way – we have some proposals on how to close the wage gap with Australia. The National-ACT Confidence and Supply Agreement states that they "agreed on the concrete goal of closing the income gap with Australia by 2025". That will require sustainable increases in real wages alongside productivity improvements. The union movement has a 6-point plan to lift wages and the new Government would benefit from detailed engagement on these proposals.

It is early days with this new Government. The style is good so far. They want to consult. But the substance is what counts. And if their prescription to head off the worst effects of the recession drives through policies that disadvantage workers then they will have earned the tag of a right wing government rather than centre-right. We used to joke about the Labour-led Government that centre-left meant “two days centre – one day left”. So every so often we had a really good day. Centre right means every so often we will have a really bad day. But the deal with ACT and the core propositions of National Party policy herald many a bad day. We’ll see.

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

March Year % change	**2009**	**2010**	**2011**
GDP	0.2	2.1	3.1
CPI	4.2	2.8	2.7
Wages (QES)	5.1	4.0	3.7
Employment	0.4	0.6	1.4
Unemployment	4.4	4.9	4.8

Economic Snapshot
Consumer prices rose 1.5 percent in the September 2008 quarter, and were up by 5.1 percent annually, the highest annual increase since the June 1990 quarter. The next CPI update is on 20 January 2009. Food prices fell 0.3 percent in October 2008, and increased by 9.9 percent over the past 12 months. Unemployment is at 4.2 percent. Maori unemployment is 9.3 percent and Pacific peoples’ unemployment is at 7.6 percent, compared with 3.2 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 September 2008, were up annually by 5.5 percent (5.2 percent in the private sector and 6.4 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $24.33 ($22.64 in the private sector and $30.77 in the public sector). The female rate of pay is $22.61 which is 87.8 percent of the male wage at $25.76. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.6 percent in the September 2008 year (3.7 percent in the private sector and 3.6 percent in the public sector). However for workers who got an increase in the last year, the median increase was 4.3 percent and the average increase was 6.1 percent. The next update of wages data is on 2nd February, 2009. Economic growth decreased by 0.2 percent in the June 2008 quarter following a 0.3 percent decline in the March 2008 quarter. On an annual basis, the economy grew by 2.6 percent over the year to June 2008. The next GDP update is on 23rd December. The Official Cash Rate (OCR) stands at 6.5 percent.

Employment and Unemployment
There has been a significant rise in unemployment over the September quarter, with the latest Household Labour Force Survey revealing a new unemployment rate of 4.2 percent, up from 3.9 percent in the June quarter. There are now 23,000 people receiving the Unemployment Benefit. Despite this rise, the number of people receiving an Unemployment Benefit at the end of September has decreased from 95,000 to 23,000 between 2003 and 2008. The Quarterly Employment Survey showed that although there was a 1.6 percent increase in full-time equivalent workers in the year to September, and an increase of 1.8 percent in filled jobs, when looking at just the last quarter, there were small decreases in both. There are obviously changes going on in the demand for labour, and with Treasury forecasting the rate of unemployment reaching 5.7 percent by 2010, the rate for the next quarter is certain to rise again.

[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.

So total unemployment is at 4.2 percent, Maori unemployment is 9.3 percent, Pacific peoples' unemployment is at 7.6 percent, compared with 3.2 percent for European/Pakeha. The number of underemployed (those wanting additional hours) remained constant at 80,800 for the September quarter. The number of jobless (which adds those discouraged from seeking work or not currently available for work to the number of unemployed) increased in the year to September by 23.7 percent, up to 173,600.

Meanwhile, a recent report by Hudson NZ has shown that many employers are feeling anxious about hiring new staff. Although 83.5 percent of employers expect to retain or increase their current staffing levels over the period January to June 2009, only 7.9 percent expect to exceed current staffing numbers over this same period, down on the 18.9 percent forecast for the period July to December 2008.

Wages

Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for September 2008, were up annually by 5.5 percent (5.2 percent in the private sector and 6.4 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $24.33 ($22.64 in the private sector and $30.77 in the public sector). The female rate of pay is $22.61 which is 87.8 percent of the male rate of $25.76. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.6 percent in the September 2008 year (3.7 percent in the private sector and 3.6 percent in the public sector). In the September 2008 year, 61 percent of salary and ordinary time wages in the survey sample increased. For those workers who got an increase in the last year, the median increase was 4.3 percent and the average increase was 6.1 percent. In the September 2008 year the highest wage increases by industry were in health and community services (5.7 percent), local government administration (5.4 percent) and mining (4.3 percent).

Food Prices

Food prices fell 0.3 percent in the month of October, but were up 9.9 percent in the year to October 2008. Over the year, the grocery food group had the most significant increase (up 11.9 percent) with meat, poultry and fish (up 11.0 percent), while fruit and vegetables also rose (up 12.5 percent). Within these subgroups, the most significant upward contributions came from higher prices for ready-to-eat food (up 7.2 percent), bread (up 20.1 percent), beef (up 18.2 percent), cheese (up 29.9 percent) and cakes and biscuits (up 16.1 percent).

Household Economic Survey

This is normally a three yearly survey, but in this particular intervening year Statistics NZ has focused on housing costs. They note that median annual household income was $57,947 in 2007/08, up 3.9 percent from 2006/07. Median annual personal wage and salary income for those receiving income from this source was $35,000 (up 2.9 percent from 2006/07). That means that fully half of New Zealanders earn a wage income less than $35,000. Median weekly expenditure on housing costs rose from $130 in 2006/07, to $156 in 2007/08 (up 20.1 percent). For those making mortgage payments, median weekly mortgage payments rose from $256 to $328 (up 27.8 percent) between 2006/07 and 2007/08. In 2007/08, 28 percent of New Zealand households with a mortgage paid over $500 per week in mortgage payments (18 percent in 2006/07). For households making rent payments, median weekly household expenditure on rent was $225, up from $210 in 2006/07 (up 7.1 percent).

Government Accounts
Treasury figures for the three months ending September 2008 showed a $0.8 billion deficit in the total Crown operating balance. This was $1.7 billion lower than the forecast $0.9 billion, with the majority of this loss attributable to losses on the investment portfolios of Crown financial institutions. The OBEGAL (Operating Balance Excluding Gains and Losses) was $0.5 billion higher than forecast, at $0.9 billion, with the difference explained by higher than forecast tax revenue. Gross debt sits at 17.8 percent.

Trade
In the month of October 2008, exports were valued at $3.8 billion, up $466 million (13.8 percent) from October 2007. The main contributors to this rise were milk powder, butter and cheese; meat and edible offal; and wood and wood articles. Imports also rose, to reach $4.8 billion; the highest value on record. The month of October had a goods deficit of $942 million, with a $5.2 billion deficit in the year to October 2008. Dairy prices are down by 25 percent on this time last year. Capital goods imports are down nearly 7.5 percent this quarter on the same quarter last year. Tourism does not look good with October inbound tourists down 3 percent on the same month last year. The current account deficit remains a major concern. It is 8.4 percent now but could reach 10 percent next year and this does not bode well for cost of capital amongst other things.

Retail sales
Retail sales fell 0.9 percent in September 2008 quarter, with motor vehicle retailing the largest contributor to the decrease. This is the third consecutive fall in quarterly retail volumes. Sixteen of the twenty four retail sub-groups showed decreased sales, with only appliance retailing and department stores having increases of $10 million or more; a small figure compared to the $71 million drop that the motor vehicle group experienced in the quarter. On an annual basis, volumes are down by 3.4 percent and the value of sales is up by just 0.5 percent. The outlook is mixed. There are some positive factors that could work their way through. Lower mortgage interest rates, lower petrol prices, tax cuts, and lower food prices could all help households spend a bit more. But the lower dollar will affect prices of imports and in any case households will be feeling less secure about employment and housing equity.

Housing and Property
Quotable Value report a 6.8 percent decline in national property values in the year ending October 2008, with the average sale price for October 2008 sitting at $379,290. The median house price from REINZ for October was $335,000 compared with $330,000 last month.

Labour Market Dynamics
Statistics NZ recently released another selection from their long run Linked Employer-Employee Data set. In this instance, the focus has been the transition between receiving a benefit and acquiring employment. Between 2001 and 2007, approximately 65 percent of individuals who moved off a domestic purposes benefit were in employment in the month immediately following, and 38 percent of these people remained in continuous employment over the following two years. And 62 percent of transitions from an unemployment benefit were also to employment (as opposed to transferring onto another form of Government benefit), while for sickness benefits and invalid's benefits, the proportions were 54 percent and 28 percent, respectively.

Migration

In the year ended October 2008, there were 87,400 permanent and long-term arrivals, up 4,700 (6 percent) from the October 2007 year. Over the same period, there were 83,000 departures, up 7,900 (10 percent). Net migration was 4,300 in the October 2008 year, down from 7,500 in the October 2007 year. In the year to October 2008, there was a net inflow of 7,700 migrants from the United Kingdom, 5,200 from India, 3,700 from the Philippines, 2,700 from Fiji and China, and 2,800 from South Africa. The net outflow to Australia was 34,600 in the year to October 2008, the highest number on record.

NZ in lead for closing gender gap

The annual Global Gender Gap report shows New Zealand sitting at fifth place out of a ranking of 130 countries, with equality measured over a variety of indices, including the gap between men and women in economic participation and opportunity, educational attainment, political empowerment and health and survival. The report shows that New Zealand has 'closed the gap' in 78.59 percent of equality measurements between men and women, while the Nordic countries have reached more than 80 per cent. New Zealand has eliminated the gap that existed in the field of educational attainment, and has closed over 97 percent of the gap in health. There has been an impressive jump from 58 percent to 77 percent in economic participation, and this is measured by labour force participation; wage equality for similar work; income levels and numbers of managers, professional and technical workers and law and policy makers.

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