



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Comment

The current economic crisis was not created by workers. But they are paying for it. This financial crisis was not about too much government, too much regulation, or wages being “too high”. As *The Economist* said this week in its leader – financial markets were ‘plagued by poor regulation, dangerous incentives and the reckless use of mathematical models’. There were some underlying factors such as falling productivity and low wages that pushed investment towards high risk financial products and households towards high levels of debt. But the causes of this crisis are now clearly seen as due to crazy levels of leverage, completely inadequate supervision of the finance sector and shameful exploitation of low income households using highly dubious financial products.

Now we are witnessing the effects of the financial crisis on the real economy – jobs, household incomes and firms as well as massive fiscal pressures for governments. In New Zealand there are forecasts of unemployment rising to above 7 percent from 4.2 percent today. It would be more helpful if economists competed on the best ideas on how to head off the worst effects of this crisis rather than simply debate how bad it might get. We know that workers here are already being affected. We do not know the scale. We know that there are huge layoffs overseas. Just about every economic indicator is getting worse except for inflation and interest rates. And we are in a period of heightened uncertainty where worker, consumer and business confidence are all at risk.

What needs to be done? The official cash rate should get down to around 2 percent sooner rather than later. But the focus now is much more on fiscal policy rather than monetary policy. In a concrete sense what we need to do is in three broad areas. What can be done to stimulate the economy in a way that helps in the both the short and long run? How can employers be supported to hang on to workers? How can workers be supported if they are laid off?

There are many ways to stimulate the economy. Suggestions include bringing forward planned major infrastructure spending, investment in schools and hospitals, rapid implementation of rail projects, renewable energy projects, major broadband implementation, establishing a process to bring forward smaller infrastructure projects possibly using regional contestable funds, investing in home insulation on the basis that it can be targeted to areas of greatest housing and employment need, green retrofitting of commercial buildings, major job creation programme based on environmental and social needs, rapidly expanding skills training by creating a “human infrastructure” fund, adapting government procurement to boost local suppliers, expanding

productivity best practice initiatives, lift the minimum wage to boost demand, and rapidly establish sector groups in employment-rich industries. Demand could also be stimulated by direct income support to those most in need. There could also be more assistance with lines of credit for firms. One of the current ironies is that while the finance sector internationally needs a major overhaul, the immediate problem is to get lending going again. There needs to be more risk aversion in the long-run – but not right now. Fundamentally the criteria for stimulating the economy should be about investment in job rich projects with large multipliers, in areas where speedy implementation is possible, and using a diversified approach rather than too many eggs in one basket.

How can employers be supported to hang on to workers? We have previously supported modest changes to provisional tax around the uplift and penalties. There could be changes to depreciation. What about new training subsidies where an employer could instead of laying off workers apply to a training fund for (say) one day a week additional training. Or if training wasn't practical why couldn't people qualify for a day's community work once a week while remaining in their current job for the rest of the week?

How can workers get support when they are laid off? The Government has announced assistance for accommodation supplements and continued entitlement for a period of the in-work-tax-credit. This is welcome but too narrowly focussed and small. It is only \$26 million a year. This is the time for a major extension of active labour market programmes to assist workers with advice, relocation, job search and retraining. This will need real dollars. Unions will also continue to push for statutory redundancy pay.

Extraordinary circumstances require innovative solutions. There may need to be some targeting of support - for young people, Māori, specific industries or regions. There will no doubt be proposals put forward that will grate with unionists. However, unions will engage with any government that is trying to head off the worst effects of the recession. We have a union delegation going to the Jobs Summit and we welcome the fact that the crisis is being viewed through a jobs lense. We know there are risks. The way in which the National-led Government rammed through the removal of appeal rights against unfair dismissal for workers in their first 90 days makes it hard to build trust in Government processes. We would prefer the Government to drop their plans to attack holiday pay, ACC, bargaining rights and union access and so forth. But at the very least they should recognise that now is not the time to push those attacks up as a policy priority.

The minimum wage decision is a test for the new National Government. Unemployment was at 6.8 percent in 1999 but one of the first things the new Labour-Alliance Government did was lift the minimum wage. When National was last in Government it froze the minimum wage for several years. If it does not go up now, it is a real cut in the minimum wage. Australia has a minimum wage equivalent to \$17.94 in NZ dollars. Low income workers will spend their wage increases on necessities. While unions are supporting initiatives to help businesses maintain cash flow and income – it appears that business leaders are advocating for a real wage reduction for low income workers. This will not help those workers or the economy. Remember the National tax package actually puts up tax for the low-paid compared with the package the Labour-led Government put into legislation.

Those on high incomes are getting a big boost on 1st April this year. Talk of a pay freeze is ridiculous. Unions know that bargaining is difficult in harder economic times. That reality check occurs as part of the bargaining process. Workers cannot adjust their ‘prices’ weekly as the oil companies do. Wage bargaining is a once a year (or even two years or more) opportunity to focus on why a wage increase is justified. We know that jobs are important. But this crisis will not be helped by crude arithmetic that it is either jobs or wage increases. It is both. It is about households remaining viable too – not just businesses. And households need jobs, decent wages, good services and benefits to survive in this crisis. As the International Labour Organisation has said – now is the time to step up the Decent Work Agenda – not put it aside.

We believe that quality public services are needed now more than ever. There is something strange about business leaders attacking public servants at this time. Actually we need more government and more publicly motivated advice rather than more of the market-based, self-serving advocacy of some private business interests. Public sector jobs are real jobs and we will rely heavily on the public sector to help us out of this deepening crisis.

Where there is economics there is always politics. It is fair enough for the new Government to say to the electorate that they have come into power at a difficult time in terms of the global economic crisis. But the cheap shot about inheriting major fiscal problems from the previous Labour-led Government is something they should not be allowed to cement in. For a start, in 1999 Labour inherited 6.8 percent unemployment and gross debt to GDP of 37 percent. Last November, National inherited 4.2 percent unemployment and gross debt of 17.5 percent. At the Fiscal Update on 18th December, Bill English said, “this is the rainy day the Government has been saving for”. Now which Government was that Bill? And the wage gap with Australia grew by 50.4 per cent in the 1990s but has shrunk by 2.6 per cent since then. Sure there was a recession that started last year. But after 8 years of giving Labour and its allies no credit for the good times, National wants them to shoulder all the blame for bad times. Bill English has described Labour as a “fair weather” Government. Actually Labour inherited a real mess and very difficult economic times. I hope that the new Government drops those lines and focuses on what we can all agree on – that governing at this time in these economic circumstances is very difficult and we should all do what we can to assist.

Finally, it is important at this time for unions to discuss an alternative economic programme. Barack Obama has launched a green jobs programme. United Nations Secretary-General Ban Ki-moon has called on the world's business and other leaders to use the current economic crisis to launch a global "Green New Deal" that creates jobs and fights climate change by investing in renewable energy and technological development. *The Economist* said this week, “even nationalisation has something to say for it”. More and more people are joining the dots between jobs, global finance, climate change and the role of Governments in a much more progressive and inclusive way than what we have seen in recent decades. This crisis proves global finance capitalism is dangerously unstable and works against the interest of people in its current form. We all need finance. But we do not need the current set up. It is time to build an alternative based on sustainable development. Just as we focus on the immediate tasks – we must debate the ideas that can underpin an alternative approach to finance, trade and economic management that completely reconciles with social, environmental and cultural requirements.

Consensus forecasts¹ published by NZIER

The consensus forecasts were updated in December 2008.

March Year % change	2009	2010	2011
GDP	-0.2	0.9	3.0
CPI	3.1	2.5	2.4
Wages (QES)	4.9	3.6	3.0
Employment	0.1	-0.4	1.4
Unemployment	4.8	5.7	5.7

Economic Snapshot

Consumer prices fell 0.5 percent in the December 2008 quarter, and were up by 3.4 percent annually. The next CPI update is on 17 April 2009. Food prices rose 1.5 percent in December 2008, and increased by 9.4 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). The next update of wages data is on 2nd February, 2009. Economic growth decreased by 0.4 percent in the September 2008 quarter, which was the third consecutive quarterly decline. On an annual basis, the economy grew by 1.7 percent over the year to September 2008. The next GDP update is on 27 March. The Official Cash Rate (OCR) was lowered even further on 29 January, from 5.0 percent to 3.5 percent.

Consumer Price Index

The CPI fell by 0.5 percent in the December 2008 quarter and increased by 3.4 percent in the year to December. Although fruit and vegetable prices fell 5.9 percent over the December quarter, over the course of the year they had increased 11.5 percent. Electricity costs rose 7.7 percent over the year, with rent up by 3.0 percent, and new housing prices up 3.1 percent. Petrol prices were erratic, but fell 4.8 percent over the course of the year. The CPI is likely to fall significantly in 2009.

Food Prices

Food prices fell 0.2 percent in the month of December, but were up 9.4 percent in the year to December 2008. Over the year, the grocery food group had the most significant increase (up 11 percent) with meat, poultry and fish (up 11.1 percent), while fruit and vegetables also rose (up 8.7 percent). Within these subgroups, the most significant upward contributions came from higher prices for ready-to-eat food (up 6.9 percent), bread (up 20.2 percent), cakes and biscuits (up 14.0 percent), and restaurant meals (up 5.2 percent).

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.

Unemployment

There were 30,508 people collecting an Unemployment Benefit in December 2008, an increase of 8,000, or 34 percent over the course of the year. While this is much lower than 161,128 in December 1999, it shows a steady increase from around 18,000 in May 2008. While this figure of 30,508 is much lower than the number measured as unemployed (94,000 but due to be updated next week) it is a sign that more and more of the measured unemployed are needing to go on to a benefit rather than being in a short transition between jobs.

Government Accounts

Treasury figures for the five months ending November 2008 showed a \$5.7 billion deficit in the total Crown operating balance. This was \$7.1 billion lower than the forecast \$1.4 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 \$0.8 billion lower than forecast, at \$0.2 billion, with the difference explained by lower than forecast tax revenue. Gross debt was \$8.6 billion greater than forecast in the Pre election Economic and Fiscal Update at \$38.0 billion (21.1% of GDP). This was due to greater-than-forecast derivative liabilities (\$3.5 billion), a Reserve Bank bill tender relating to Residential Mortgage Backed Securities (\$2.4 billion), additional issuance of Treasury Bills (\$1.2 billion) and valuation adjustments to Government Stock (\$0.3 billion). The cash deficit was up nearly \$400 million from forecast at \$5.7 billion.

Trade

In the December 2008 quarter, exports increased 4.4 percent, to reach \$11.4 billion, while in the year to December; they were up \$429 million (17.4 percent). When viewed annually, the main contributors to this rise were milk powder, butter and cheese. But as we know the payout to dairy farmers is declining. Meat and edible offal, and crude oil also had significant increases. The month of December showed a trade deficit of \$347 million (9.0 percent of exports), while for the year to December 2008, there was a deficit of \$5.6 billion. The BNZ commented that while the full impact of the global recession on the New Zealand economy remains to be seen, the net detrimental effect on our external accounts is already clear. With exports slowing more than imports, the December trade deficit of \$347 million was far wider than the \$100 million expected by the market. The BNZ warns that the current account deficit could reach 10 percent this year.

Retail sales

Retail sales increased by less than 0.1 percent in November 2008, compared with October 2008. Until 18 months ago, core retail sales had been rising at a monthly average of 0.4 percent, but since then, this has fallen to an average of 0.2 percent. In the month of November 2008, core retailing (which excludes the vehicle related industries) rose by 0.3 percent, dominated by supermarket and grocery stores, which increased by 2.6 percent. Total retail spending is now down 4.1 percent on year earlier levels.

Housing and Property

Quotable Value report a 7.4 percent decline in national property values in the year ending December 2008, with the average sale price for December 2008 sitting at \$378,605. The median house price from REINZ for December was \$328,500 compared with \$337,500 for November. In the year to December 2008, the national average house price fell 4.78 percent. Building consents

were also down in the month of December, with only 1,127 consents issued, the lowest monthly amount since January 1987. These conditions appear to make home ownership more affordable and the proportion of after tax median income needed to pay a mortgage on an average house price did fall to 59.6 percent in December, from 63.8 percent in November. This also compares very favourably with the 82.9 percent required in November 2007 to perform this task. However, any mortgage demanding more than 40 percent of after tax income is still seen as prohibitive, so there would have to be further drops for the affordability claim to be a fair assessment. Falling house prices will help affordability but makes it tough for those trying to sell their house.

Migration

In the year ended November 2008, there were 87,400 permanent and long-term arrivals, up 4,800 (6 percent) from the November 2007 year. Over the same period, there were 83,800 departures, up 7,800 (10 percent). Net migration was 3,600 in the November 2008 year, down from 6,600 in the November 2007 year. In the year to November 2008, there was a net inflow of 7,500 migrants from the United Kingdom, 5,200 from India, 3,700 from the Philippines, 2,700 from Fiji and China, and 2,900 from South Africa. The net outflow to Australia was 35,300 in the year to November 2008, the highest number on record.

Work Stoppages

There were 29 work stoppages (23 complete strikes, 5 partial strikes and one lockout) ended in the September 2008 year, which was equal to the number in the 2007. The manufacturing sector had the greatest number of stoppages, with seven stoppages (24 percent of all stoppages), while the transport and storage industries had the highest number of workers involved.

Survey of Working Life

The above survey was completed alongside the March 2008 Household Labour Force Survey, and questioned New Zealand workers about their employment arrangements. The survey found that 9.4 percent of employees were temporary employees. Over half of these (52.0 percent) were further classified as casual workers. Of all temporary employees, 55.6 percent were female. This compared with 46.0 percent of all employed people. Of all employees, 57.9 percent were on an individual employment agreement, 26.8 percent were on a collective employment agreement, and 15.2 percent were not aware of being on any agreement or did not know what type of agreement they had.

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