NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Comment

Economics is sometimes called the “dismal science”. It is certainly living up to its reputation. But it is the dismal outlook for workers and others that is of greatest concern. It is of no comfort to point out the origins of this economic crisis. We are now witnessing on a global scale the continued fallout from the financial crisis. New Zealand is not going to escape. Amid great uncertainty, the statistical updates, forecasts and projections add to the gloom. This time last year the forecast average growth rate for calendar 2009 of our 20 top trading partners was 3.7 percent. By January this year it was 0.2 percent. Expect the next update to show a contraction. Treasury forecast unemployment to reach 7.5 percent in 2010 but expect their next forecast to revise that upwards. The latest update in the NZ government accounts for the last 6 months of 2008, show tax revenue down $1.0 billion from forecast. By 2012 that is expected to reach $3.5 billion and added numbers on benefits along with higher debt servicing costs add another $1.5 billon to reach a $5.4 billion annual negative impact. Public debt which was at 17.5 percent of GDP only last year is forecast to rise to around 40 percent by 2013.

New Zealand has some advantages. Unemployment is relatively low compared with many other countries, the Australian parent banks are 4 of the 13 AA rated banks left, there is room for a further drop in the official cash rate and public debt is also relatively low. But systemic underlying problems are combining with the recession to place the New Zealand economy in a vulnerable position. The growing public sector debt lines up alongside high household debt (on average 160 percent of annual household disposable income compared with 60 percent in 1990) and a high current account deficit. This is a toxic trifecta. The growth in household debt has been driven by low wages and a housing bubble in part due to tax policy. The high current account deficit is driven by offshore bank borrowing and high foreign ownership of companies operating in New Zealand. This means that lifting wages, improving savings, and avoiding speculative housing bubbles are vital ingredients of long-run economic stability. Peculiar then that the Government has signalled wage restraint and dropping contributions to NZ Superannuation Fund to line up alongside their urgent legislation before Christmas on tax cuts that favour those on high incomes and cuts to KiwiSaver.

The Government therefore deserves considerable criticism for policy choices at this stage of a deepening recession. It would be better to cancel the tax cuts in favour of a package that would have less impact on government accounts but more help to middle and low income families. There does at least appear to be a rethink of the next tranche of cuts scheduled for 2010. But the attacks on long term savings are also a major concern.

However, we also have to acknowledge that it is very hard to govern at these times of great uncertainty, dramatically worsening trade, growth and employment forecasts and a significantly deteriorating fiscal outlook. There are plenty of rocks and lots of hard places. No options are risk free. Most have significant opportunity costs. The CTU has therefore supported the Jobs Summit. Unions have been welcomed as participants and seen as part of the solution. Some of the proposals that emerged are positive: financial support for training if workers opted for a 9-day fortnight; more support for workers made redundant; requirements for government procurement to not disadvantage NZ firms; inclusion of skills and training provisions in infrastructure tenders; and job-rich environmental and housing projects. Our approach was to support proposals that will create jobs, retain jobs and support workers made redundant.

Of course there are huge risks for unions in this process. There will be debate about who pays the full costs of the 10th day if a 9-day fortnight is worked. You can be sure unions will be saying that incomes need to be maintained. Some business lobbies are persisting with proposals for savage labour market deregulation. Reprioritising government expenditure to make way for new initiatives could affect public services and state sector jobs. And it is hard to trust a government that told us last year that the 90 days 'fire at will' bill would not be part of their 100 day programme only to see them rush it through under urgency before Christmas. We will continue to campaign hard against attacks on workers' rights. But we see it as essential and also responsible to engage positively with any government that wants to head off the worst effects on jobs from this deepening recession.

Some of the ideas that emerged from the Summit will not cost the Government much if anything. But clearly others will cost. And that gets to the heart of the conundrum this Government now has to squarely face. How do you responsibly spend your way out of this recession at a time of rising public debt, an outside possibility of a credit downgrade and growing budget deficits? At this stage the Government seems to be saying that: they have already set in place (along with the previous Government) a fiscal stimulus of 3 percent of GDP per year from 2007-10; have already increased borrowing to fund investment; they are conducting line by line reviews of government spending to reveal value for money priorities and create headroom for new initiatives including those from the Jobs Summit; and they have hinted at reducing or suspending contributions to NZSF because it would be funded entirely by debt. All of these are open to criticism. It is likely that a larger fiscal stimulus will be needed than what is currently indicated. We are a small open economy – many would say 'too open'. This is a global crisis on a scale we have not seen for 50 years. New Zealand operates in a small margin and in many ways depends on a recovery among trading partners. If the Government is serious that it wants to stimulate the economy in a way that also helps long run productivity and competitiveness, then now is logically the time to invest in people and skills, and the environmental integrity that needs to underpin our clean, green image. Investing now in the infrastructure for a modern economy is not just about roads – it is about rail, the environment, housing, as well as people and their skills.

However the Government is saying that the budget will have new spending of $1.75 billion. Health normally takes $750 million just to keep pace with inflation, demographics and technology (although Treasury has hinted that $400 million may be more like the figure this time). It remains to be seen if the Government can free up more headroom without major and controversial cuts in existing spending. But my point is less about the operating budget. It is more about how the Government uses more debt to invest in a way that stimulates the economy in the short run and strengthens it in the long run. This is where more debate is needed. If this is a once in 50 year event, then the costs associated with 'rescuing' the economy are not just about the operating side of the accounts but how public debt is used over a period. This is why the CTU has proposed an Employment Commission with a major funding base to invest in projects to create or retain jobs. The Industry Training Federation has suggested an Industry Skills Recovery Fund. Another option is to establish a Stabilisation Fund. Overseas we see large rescue packages that all acknowledge do not appear to be sufficient at this stage. The New Zealand Government needs to be open to the possibility that it will need to consider such a large package on top of what it has already committed.

Now for those of you still following the rambling logic of this… there are big risks and costs associated with more public debt. It has to be paid eventually, and a credit-rating downgrade is threatened. But there are risks everywhere. A bigger risk could be that the NZ Government fails to invest in people, skills, natural capital and major physical infrastructure enough at this time and we not only suffer for years from the effects of high unemployment but our economy has a much weaker base to underpin productivity improvements, real wage rises and export market expansion.

One option I have heard is that the Government could have some preferential infrastructure bonds the NZ Super Fund could buy. It sure would be a money-go-round but it protects the prefunding of retirement savings, invests in New Zealand, keeps the asset with NZSF and gives the Government more resource for modern infrastructure as I described above. I acknowledge the design of this looks just as clumsy as the rationale for rescuing an 'iconic' New Zealand firm. But in the current circumstances it is not that options are free of risk, or could not be subject to justifiable criticism. It might just be the case that those risks and criticisms are subordinate to a greater risk – major loss of jobs and a failure to make the right investments now to avoid a much deeper recession.

At the Jobs Summit there was a recognition that the initiatives taken to create and protect jobs should be done in such a way to lift productivity and long-term economic outcomes. I agree. This is similar to what the CTU said last October in our publication *Short Term Stimulus for Long Term Gain*. If this recession deepens as many predict it will however be harder and harder to maintain those twin goals. The focus then becomes job protection and it is harder to combine what is essentially an economic stabilisation approach with considerations of which firms have been well managed, which industries are sunrise or sunset, and where our long-term economic development prospects fit. All the more reason therefore for a Stabilisation Fund with the flexibility to combine the twin-initiatives for as long as possible.

Consensus forecasts[1] published by NZIER

The consensus forecasts were updated in December 2008. However it is important to note that forecasts are changing rapidly so expect a different set of figures to emerge at the end of March. Also the March years do not show what happens in the short term such as CPI somewhere between 1 percent and 2 percent annually for the September 2009 year.

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 0.8 percent in January 2009, and increased by 9.5 percent over the past 12 months. Unemployment is at 4.6 percent. Māori unemployment is 9.6 percent and Pacific peoples' unemployment is at 7.8 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. The Minimum wage rises to $12.50 ($10.00 for new entrants) in April. Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for December 2008, were up annually by 5.4 percent (5.1 percent in the private sector and 5.3 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $24.55 ($22.83 in the private sector and $31.06 in the public sector). The female rate of pay is $22.80 which is 87.6 percent of the male wage at $26.02. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.3 percent in the December 2008 year (3.2 percent in the private sector and 3.5 percent in the public sector). The next update of wages data is on 4 May 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 further on 29 January, from 5.0 percent to 3.5 percent.

Employment and Unemployment

The unemployment rate now sits at 4.6 percent, up from 4.2 percent in the September quarter, 3.9 percent in the June quarter, and 3.7 since this time last

[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.

year. Over the past 12 months, unemployment figures have effectively risen 36.8 percent, to reach 105,000 by the December quarter. There are now over 34,000 people receiving the unemployment benefit, up from 18,000 in June 2008. Although these numbers are bound to get worse over the forthcoming months, they still compare favourably to the number of people receiving the unemployment benefit 10 years ago - 161,128.

Despite the fact that the female Labour Force Participation Rate increased to an unprecedented 63.2 percent in the December quarter, more than 7,000 women still lost their jobs over this period, compared to 3,000 for men. Māori unemployment is 9.6 percent; Pacific peoples' unemployment is at 7.8 percent, compared with 3.2 percent for European/Pakeha. The number of underemployed (those wanting additional hours) remained constant at 96,600 for the December 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 December by 35.2 percent, up to 197,300.

Wages

Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for December 2008, were up annually by 5.4 percent (5.1 percent in the private sector and 5.3 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $24.55 ($22.83 in the private sector and $31.06 in the public sector). The female rate of pay is $22.80 which is 87.6 percent of the male wage at $26.02. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.3 percent in the December 2008 year (3.2 percent in the private sector and 3.5 percent in the public sector). In the December 2008 year, 58 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 5.8 percent. In the December 2008 year the highest wage increases by industry were in mining (4.8 percent) central government administration (4.3 percent) and health and community services (4.3 percent).

Food Prices

Food prices increased 0.8 percent in the month of January, following a decrease of 0.8 percent in December 2008. Over the year, the grocery food group had the most significant increase (up 10.0 percent) with meat, poultry and fish (up 11.8 percent), while fruit and vegetables also rose (up 13.4 percent). Within these subgroups, the most significant upward contributions came from higher prices for bread (up 20.8 percent) ready-to-eat food (up 6.5 percent), and restaurant meals (up 5.6 percent). Food prices rose annually by 9.5 percent.

Government Accounts

Treasury figures for the six months ending December 2008, compared with the forecasts in the Pre-election Economic and Fiscal Update show that tax revenue is tracking below forecast by around $1.0 billion. The lower tax revenue means the operating balance before gains and losses (OBEGAL) at $0.1 billion is $1.1 billion lower than forecast and the residual cash deficit at -$8.3 billion is $0.9 billion lower than forecast. Including gains and losses the operating balance of -$6.2 billion is $8.4 billion lower than forecast (approximately $2.4 billion lower than forecast compared to the *December Update*). The main contributors to this lower than expected result were: tax revenue was $1 billion lower than forecast; Investment losses were $4.9 billion higher than forecast; ACC recorded losses of $2.4 billion as a result of a change in the discount rate used to measure the ACC unfunded liability. Treasury report that while gross debt is higher than forecast by $10.2 billion due to unforecast issues of Residential Mortgage Backed Securities and Treasury Bills as well as higher than forecast derivative liabilities, net core Crown debt remains lower than forecast at $5.5 billion.

Trade
Merchandise export values, for January were 3% higher than a year ago. Imports were flat which a change from December is where they were up 15 percent. As the BNZ has noted, while not flash these figures compare favourably with some trading partners. Japan has had an annual 45.7 percent plunge in export volumes in January and a 31.7 percent drop in imports. The USA in December had an 8.4 percent annual fall in goods and services exports and a 14.7 percent reduction in imports. In New Zealand, meat exports for the three months to January rose 18 percent compared with a year ago. Exports of forestry products were up around 18 percent over the year while seafood gained 29 percent. Of course the exchange rate dropped 21 percent so this may not tell us a lot about volumes. Dairy receipts are holding up but the outlook is not positive.

Retail sales
Retail sales fell 1.1 percent in December 2008 quarter, with automotive fuel retailing and motor vehicle retailing the largest contributors to the decrease. Core retailing (which excludes the vehicle-related industries), rose by 0.6 per cent with supermarket and grocery sales up by 1.3 percent. The total retail sales trend has been declining since January 2008, at an average rate of 0.1 percent per month, falling a total of 1.6 percent during this time. This is the most prolonged period of decline since the series began in May 1995. The value of sales in the December 2008 quarter was 1.5 percent below year ago levels, with the volume of sales down 3.7 percent over the same period. As Westpac noted, for many “the hit to household balance sheets over the past year via lower house prices and lower share prices has been a key reason behind a general reluctance to spend. Falling house prices has brought a major swing towards households injecting equity (on average) into houses in 2008, compared to the hefty withdraws over the preceding five years. As house prices continue to drift downwards in 2009, households are likely to spend less of their income flow to ensure their balance sheets do not deteriorate too much”.

Housing and Property
Quotable Value have reported an 8.3 percent decline in national property values in the year ending January 2009, with the average sale price for January 2009 sitting at $382,762. The median house price from REINZ for December was $328,000 compared with $337,500 in November 2008, and $345,000 in December 2007. Only 812 building consents were authorised during the month of January 2009. This is a fall of 8.2 percent on the previous month, and is less than half the number of consents authorised since June 2007. Also, for the first

time since June 1998, the value of consents issued for non-residential buildings ($362 million) exceeds the value of consents issued for residential buildings ($329 million).

Migration

In the year ended January 2009, there were 88,200 permanent and long-term arrivals, up 5,700 (7 percent) from the January 2008 year. Over the same period, there were 83,700 departures, up 6,000 (8 percent). Net migration was 4,500 in the January 2009 year, down from 4,800 in the January 2008 year. In the year to January 2009, there was a net inflow of 7,900 migrants from the United Kingdom, 5,300 from India, 3,700 from the Philippines, 3,000 from Fiji, 2,700 from China, and 2,800 from South Africa. The net outflow to Australia was 35,400 in the January 2009 year; unchanged from the December 2008 year net outflow. Factoring in the large number heading to Australia, New Zealand still gained 4,500 permanent arrivals over and above the numbers lost.

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