NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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This is the last Bulletin for 2014. The next issue will be published on Friday, 30 January 2015. Very best wishes to readers for a good break over Christmas and the New Year. Come back refreshed.

Commentary

Doing something about low incomes: wages and benefits

Summary

The Government is putting poverty on the agenda despite denying that there was a problem during the election campaign. It is difficult to see how it can address poverty without increasing incomes, yet Ministers talk about not "throwing money at the problem".

This matters for working people because it is partly about wages and partly about a social welfare system that underpins good wages. On average between 2009 and 2013, two in five children in poverty (41 percent) were from households where at least one adult was in full-time employment or was self-employed. This was down from over one in two children (52 percent) before the Working for Families package in 2004. Clearly, more money did make a difference for families with people in work.

We know that many more are struggling, with home ownership unaffordable, little or no savings in the bank, and just managing to pay the bills from week to week. Restoring the value of Working for Families would be a start. Raising wages would be even better.

But Working for Families did almost nothing for children in beneficiary families. Being born into a family dependent on an income-tested benefit is almost a guarantee of living in poverty. In 2013, 80 percent of children in such families were in poverty.

This matters not only for those families. What happens to people in work when a crisis strikes and they lose their jobs or can't work? The "replacement income" from benefits is crucial to keeping families going. If it is low and they have few savings, then people are forced to find work as quickly as possible to keep paying the bills. That pulls down wages and forces people into jobs that don't suit their needs, skills or experience. So benefit levels underpin wage levels and decent jobs, particularly with the insecurity and high job churn New Zealand suffers from.

The replacement income level for accidents, through ACC, is 80 percent, yet benefits are under 55 percent of the average weekly wage, one of the lowest proportions in the OECD. The level, which was up to 80 percent in the 1980s, fell as a result of the poverty-creating cuts in the 1991 Budget. It has kept falling because benefits are pegged to inflation, not wages. Wages have risen too slowly, but faster than inflation. The Government says increasing benefits might reduce "the incentive to work". But even an increase of 25 percent would only restore benefits for families to the level that National found a good enough "incentive" after the 1991 cuts.

The "incentives" argument is a crock. More money would make a real difference. It needs to be done.

The Government is putting poverty on the agenda despite denials that there was a problem during the election campaign. That's good, but we have yet to see what it means in practice: will it address the underlying issues or simply aim to spend the least that is required to take it off the political agenda? With Ministers talking loudly about not "throwing money at the problem", it seems unlikely that it will actually address the most obvious need for people who have fallen into poverty: raise their incomes. Yet it is difficult to see how it can address poverty without doing so. This matters for working people because it is partly about wages – and the problem is wider than poverty given the numbers of people on inadequate wages – and partly about a social welfare system that underpins good wages

According to the Ministry of Social Development's (MSD's) Household Incomes Report (Perry, 2014, p. 156), on average between 2009 and 2013, two in five children in poverty (41 percent) were from households where at least one adult was in full-time employment or was self-employed. That meant that their families were living on less than 60 percent of the 2007 median household income after tax, adjusting for household size, inflation and after housing costs. This was down from over one in two children in poverty (52 percent) before the Working for Families package in 2004. Clearly, more money did make a difference for families with people in work – though too many remain well below an acceptable living standard. Half of the children in hardship come from working families measured by MSD's deprivation indexes.

We know that many more are struggling, with home ownership unaffordable, little or no savings in the bank, and just managing to pay the bills from week to week. Wages are crucial in this: according to the report (p.77), "The two factors that impact the most on the incomes of two-parent-with-dependent-children households are average wage rates and the total hours worked by the two parents". A Treasury report (Galt & Palmer, 2013, p. 2) found that about 30 percent of households with dependants earn wages below $18.40. "In 25 percent of households with two adults and dependants, the principal earner of the household is on a wage rate below the Living Wage." Other earners in the household generally "will have an even lower wage rate if they are earning wages or a salary" (Galt & Palmer, 2013, pp. 7, 8).

Restoring the value of Working for Families would be a start. Its real value has been falling since 2010 according to Treasury figures, not helped by decisions in the 2011 Budget which stopped the adjustment of entitlement thresholds for inflation. Raising wages would be even better – especially if Working for Families was fixed so that it didn't effectively tax wage rises at higher rates than top incomes.

But Working for Families did almost nothing for children in beneficiary families: according to the MSD's report it "had little impact on poverty rates for children in beneficiary families". Three in five children in poverty live in families dependent on a benefit, including those with some part-time work. That proportion is as high as it was after benefit levels were severely cut in the 1991 Budget.

By 2013, almost three-quarters (74 percent) of children in workless households were in poverty, and 80 percent of those in families dependent mainly on an income-tested benefit. Being born into a family dependent on a benefit is close to a guarantee of living in poverty. Can we really tolerate this level of hardship for so many of our children, with long term consequences for their health and education?

This matters not only for those families. What happens to people in work when a crisis strikes? It could be redundancy or job loss for another reason. This happens all too frequently in New Zealand with its high job turnover. It could be marriage breakup or the death or serious illness of a partner. All of these can be devastating to the household's finances on top of the emotional turmoil. The availability of what is called “replacement income” from benefits is crucial to keeping families going over these periods, short or long. If the replacement income is low and they have no savings to live off, then people are forced to find work as quickly as possible to keep paying the bills. That means they are more likely to accept lower wages or a job they’d rather not do, or one that doesn’t match their skills and experience. The availability of workers desperate to work under these conditions means employers can take advantage of the situation to lower pay rates. That affects the incomes of their other employees (or at least their prospects for wage rises) and in the end the incomes of many more workers than those needing welfare benefits are affected. In economist’s jargon, low welfare benefits lower workers’ “reservation wage” – the lowest wage rate they are willing to accept in a job. Benefit levels are therefore an important underpinning of wage levels, and they are particularly important for a country with the job insecurity and high churn of jobs that New Zealand suffers from.

The replacement income level for time off work due to accidents, through ACC, is 80 percent. If you have to take substantial time off work, ACC pays you earnings-related compensation at 80 percent of your normal earnings, up to a certain threshold. That allows workers to continue to pay their bills and live without having to worry unduly about financial stresses while coping with their injury. Why should the benefit when you become unemployed be any different? As we’ll see it is much lower.

The Government says it doesn’t want to increase the level of the benefits because it will reduce “the incentive to work”. This could be just a euphemism for what I have described: how hard the level of benefits force people to find inadequate jobs. But taken at face value, it is actually not the same thing. There is an incentive to work if benefits are only moderately less (as for ACC) than what people would get in their jobs. Benefits don’t have to be at poverty level for that. Most people either want to get back into work for a host of reasons but want the work to be in a decent job, or they can’t work because they have children or other dependents to care for – and it is in all our interests that they do a good job of that. But even if we were to accept that “incentive to work” is the main criterion for setting a benefit level, what is the risk that incentive to work would be lost from a rise in benefits?

In fact the gap between benefit levels and wages has been growing steadily since the savage cuts in benefits in 1991. Benefits have been adjusted only by inflation since then, while wages on average rose faster than inflation. I’ve shown elsewhere that the economy could afford faster wage growth, but despite our low-wage economy, wage growth has still been faster than inflation for the majority of the period. In other words, the rate of replacement income has continuously fallen. We have both wages that are too low and welfare benefits that are too low even taking that into account.

The first graph on the next page comes from the Household Incomes Report (Perry, 2014, p. 82 redrawn from Figure C.7). It shows how far benefits[1] have fallen behind the average ordinary time weekly wage after tax (the black line) – the wage measure which New Zealand Superannuation is pegged to. The comparison is shown since the mid-1980s, but the fall really only opened up from 1991.

The unemployed and invalids benefits look a lot lower mainly because they are for single people rather than for families. All the values are “real” – that is, after taking account of consumer price inflation – and are stated in March 2013 dollars.

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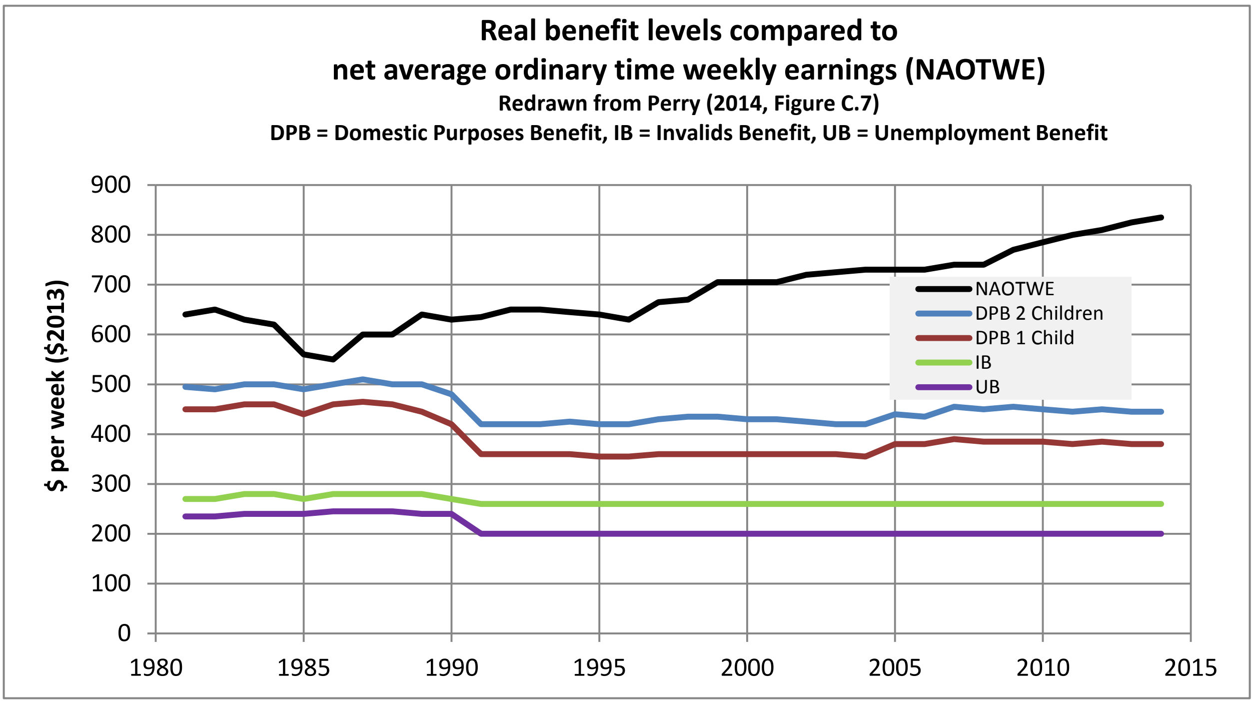
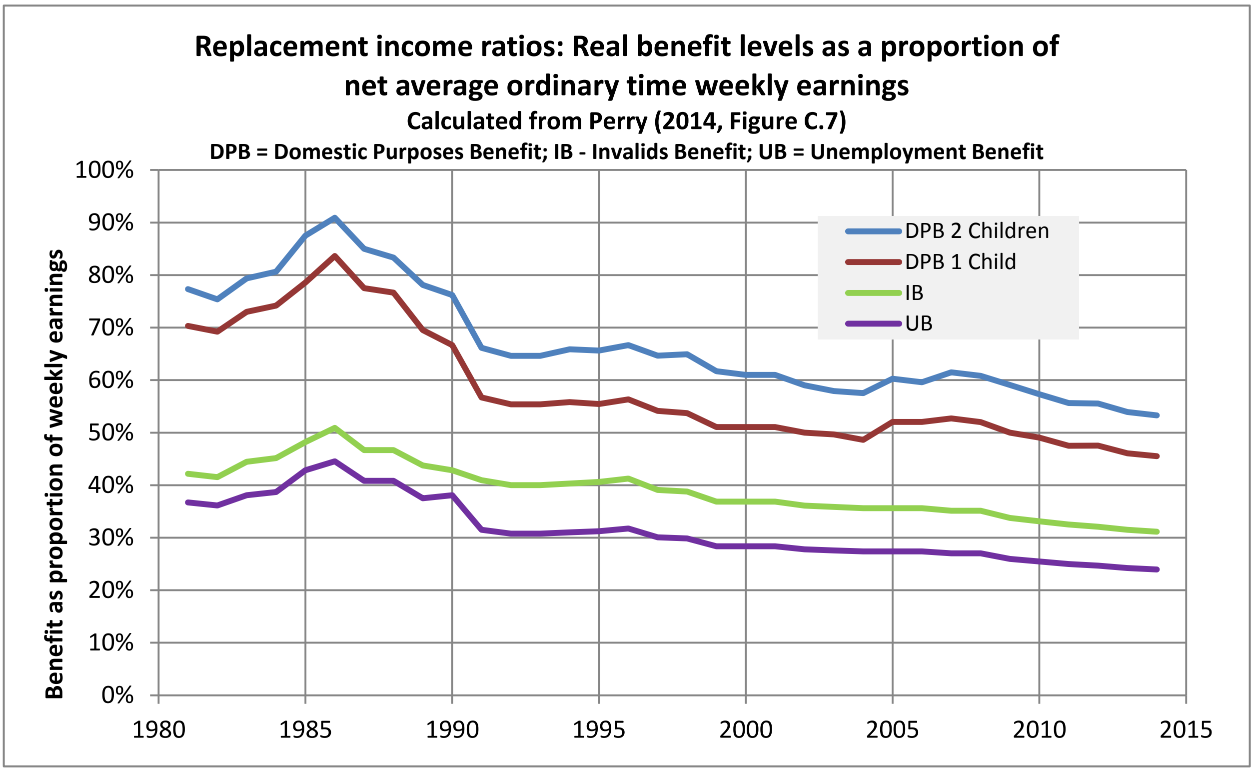
[1] The benefits are income-tested benefits plus the Family Tax Credit (or Family Support prior to 2007). Accommodation Supplement and income-related rents subsidies are not included. DPB and IB lines have been shifted forward one year to correct a mistake in the original.

Whether you look at the Domestic Purposes Benefit (DPB) with one or with two children, the unemployment benefit (UB) or the Invalids Benefit (IB), the story is very similar. All have flat-lined in real terms since 1991, while the average wage rose – we'd say not fast enough, but it did rise.



It is even more revealing to look at it in terms of the adequacy of the replacement income. The next graph uses the same data as the previous one to calculate replacement income ratios: the proportion the benefits are of the net average ordinary time weekly wage.



Whereas in the 1980s, the Domestic Purposes Benefit for a parent with two children was 75 to 85 percent of the net average weekly wage (briefly over 90 percent when real wages fell as a result of

Muldoon's 1982-84 wage freeze) the benefit cuts in 1991 slashed it to around 65 percent and by 2013 it was under 55 percent. The single unemployment benefit fell from between 35 and 45 percent of the net average weekly wage to just over 30 percent after the benefit cuts and less than a quarter (approximately 24 percent) in 2014. Those are huge gaps opening in replacement income, and explain why poverty levels are so high for the children of beneficiaries.

Even if the present equivalent of the Domestic Purposes Benefit was lifted by a quarter it would be no higher than the levels relative to the average wage that it was slashed to in 1991, creating a sharp increase in poverty. Lifting them by about 45 percent would take them back to the levels in 1990, just before the cuts, and still below their highest point in relative terms. A lift of a third in the value of unemployment and invalids benefits would take them back to the 1991 relative rates. The invalids benefit would need an almost 40 percent lift to take it back to the 1990 level and the unemployment benefit almost 60 percent, showing how much it was cut in proportional terms.

If National thought the levels it cut benefits to in 1991 were enough to "incentivise" employment then even a substantial rise in current benefit levels would do no harm. But in fact the "incentive" argument is simplistic. Much higher benefit levels relative to the average wage prior to the 1980s co-existed with levels of unemployment far below those since the 1990s. Simon Chapple (1994) estimated that the unemployment rate in the early 1980s was under 3 percent. In the 1970s it was never above 2 percent, and mainly below 1 percent prior to that back to the 1950s. Labour force participation rates (the proportion of working age people either in work or actively looking for work) in 2014 are little higher than they were in 1986 (68.4 percent on average in 2013 compared to 66.7 percent in 1986). The decision to work is driven much more directly by the availability of decent work opportunities, the financial needs of the household, and the personal needs of individual workers, parents and their dependents.

Many New Zealanders are under the impression that New Zealand has a generous social welfare system. We can test that with OECD data. It provides comparisons of the replacement income ratio of unemployment benefits[1] in a number of forms. A long-run comparison shows that during the 1960s, New Zealand had one of the most generous benefit entitlements in the OECD, being first in 1963. New Zealand's benefits fell in their ranking over the whole period, and by 2005 (when the comparison finishes) were 16th out of 29 OECD countries. Over that period the replacement ratio of 16 of the 21 countries rose, while only 5 including New Zealand's fell – and it fell the most. Other measures for more recent years show them continuing to deteriorate until 2011 and 2012 by when New Zealand was 15th or 19th in the OECD depending on the measure used.

A more detailed comparison for 2012 shows that during the initial stages of unemployment New Zealand ranks 25 to 28 out of 33 OECD countries for a single parent with two children, and ranks 31 or 32 (equal last) for a two-earner couple with two children. For example a single parent with two children

[1] See the spreadsheets at http://www.oecd.org/els/benefitsandwagesstatistics.htm, accessed 2 September 2014, when data was available until 2012. The long run comparison uses the Gross Replacement Rate using Average Production Worker earnings to measure previous earnings. The more recent comparisons use Average Worker earnings as the measure of previous earnings and are the Gross Replacement Rate, and the Net Replacement Rate with or without Social Assistance and Housing Benefits. For the 2012 detailed comparison, the ranking depends on whether the benefit is compared with 67%, 100% or 150% of the average wage. The comparison is "after tax and including unemployment and family benefits. Social assistance and other means-tested benefits are assumed to be available subject to relevant income conditions. Housing costs are assumed equal to 20% of average wage".

in New Zealand is estimated by the OECD to receive 54 percent of the average wage whereas the OECD median is 70 percent of the country's average wage. Denmark, a small country we frequently compare ourselves with, has 77 percent (for the first two years of unemployment) and Canada 84 percent.

Good wages, security of employment and income, and ridding New Zealand of high levels of poverty all demand realistic benefit levels. The "incentives" argument is a crock. More money would make a real difference. It needs to be done.

Bill Rosenberg

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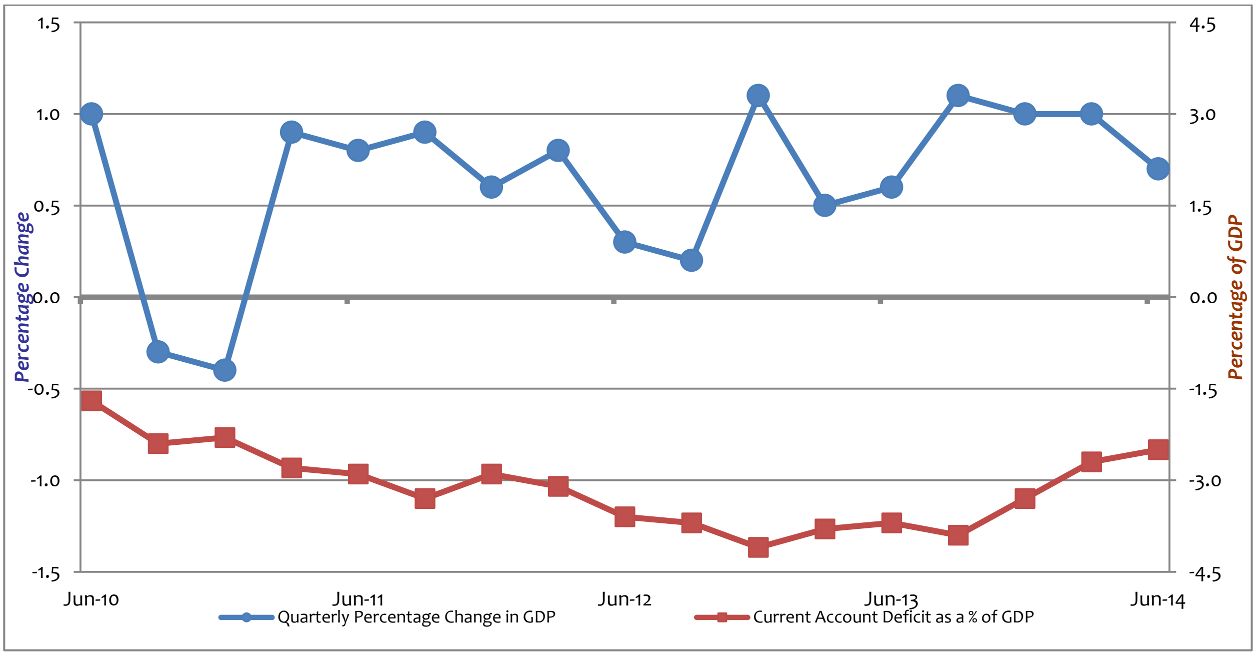
Forecast

- This NZIER forecast was released on 15 September 2014.

Annual Percentage Change (March Year)	**2014-15**	**2015-16**	**2016-17**	**2017-18**
GDP	3.3	2.9	2.2	1.9
CPI	1.6	2.2	2.3	2.2
Private Sector average wage	2.9	3.6	3.5	3.4
Employment	2.3	1.7	1.1	0.8
Unemployment rate	5.3	5.1	5.1	5.3

A ★ indicates information that has been updated since the last bulletin.

Economy



- Growth in New Zealand's economy continued to increase but less strongly in the June 2014 quarter, with Gross Domestic Product growing at 0.7 percent, compared to quarterly increases of 1.0 percent in March and 1.0 percent in December 2013. Growth for the year ended June 2013 was 3.5 percent. The June 2014 quarter was 3.9 percent up on the same quarter in 2013. The largest quarterly rises by industry were in Administrative and Support Services (up 7.5 percent), Professional, scientific and technical services (up 3.3 percent), Accommodation and Food Services (up3.0 percent), Textile, leather, clothing, and footwear manufacturing (up 2.6 percent) and Construction (up 2.2). However Mining fell 4.5 percent, Forestry and Logging fell 3.5 percent, and Agriculture fell 2.2 percent. Manufacturing fell 0.3 percent following a static March quarter. The tradables (import-competing and export) sector was therefore weak. The result was that Primary Industries fell 3.1 percent, Goods producing industries (which includes Construction) rose 0.7 percent and Service industries rose 1.4 percent. Over the year though (comparing June years), all industries expanded except Mining (which fell 0.9 percent), led by Construction (11.7 percent), Agriculture, forestry and fishing (5.9 percent), Health care and social assistance (5.3 percent), Retail trade and accommodation (4.2 percent) and Financial and insurance services (4.2 percent). Almost all manufacturing industries expanded production from the June quarter last year, the only exception being Textile, leather, clothing, and footwear manufacturing which contracted by 3.0 percent. Food, beverage, and tobacco manufacturing rose 2.1 percent, Wood and paper products manufacturing rose 0.5 percent, Printing 9.3 percent, Petroleum, chemical, polymer, and rubber product manufacturing 5.0 percent, Non-metallic mineral product manufacturing 12.4 percent, Metal product manufacturing 4.5 percent, Transport equipment, machinery and equipment manufacturing 2.9 percent, and Furniture and other manufacturing 4.2 percent.Household consumption expenditure rose 1.3 percent in real terms in the quarter and 3.3 percent from the June 2013 quarter. Expenditure on non-durable goods (such as groceries) rose 0.3 percent in real terms during the quarter and rose only 0.7 percent during the year while durables rose 1.4 percent in the quarter and boomed at 7.4 percent over the year. Business investment rose 2.5 percent in the quarter with large increases in non-building construction (19.9 percent), Transport equipment (9.9 percent) and Intangible fixed assets (6.2 percent).

★ Annual data on National Income showed strong growth in the year to March 2014, but only a quarter of the growth went to employees ("Compensation of Employees" which includes wages, employer contributions to employees' superannuation and other employee benefits). Over half went to Operating Surplus, or payments to owners of capital which includes dividends, interest, royalty payments and self-employed income. The higher profits were mainly in agriculture, construction and finance. The rest of the increase went to higher government revenue from taxes on production such as GST, tariffs on imports, EQC and fire service levies, duties on fuels and road user charges. The result was that employees' share of national income (the "labour share") fell during the year from 51.3 percent to 50.0 percent. Revisions to the National Accounts show household saving as having occurred at a higher rate than previously estimated. It was increasingly negative from 1995, bottomed out in 2003, becoming positive in 2010 and remaining so. The revisions now classify weapons delivery systems such as fighter aircraft and tanks as "investments". They also treat research and development expenditure as an investment instead of an expense. The result of the accounting changes is to push up estimates of New Zealand's GDP between 1972 and 2011 by between 0.5 and 1.4 percent.

- New Zealand recorded a Current Account deficit of $2.0 billion for the June 2014 quarter in seasonally adjusted terms ($1.1 billion actual), compared to a 0.6 billion deficit in the March quarter. The deterioration was driven by a falling surplus on goods trade of $0.3 billion while the deficit on income and transfers rose to $2.8 billion. For the year to June 2014, the deficit was $5.8 billion or 2.5 percent of GDP compared to a $6.0 billion deficit in the year to March. The deficit on investment income was $9.8 billion, which is rising because of increased outward flows of income on foreign investment in New Zealand.

- The country's Net International Liabilities were $149.7 billion at the end of June 2014 (65.3 percent of GDP) down from $151.0 billion (66.9 percent of GDP) at the end of March, and the same as the $149.7 billion (70.5 percent of GDP) in June 2013. The fall in net liabilities in the quarter was due mainly to net financial derivative valuation changes and market price changes, with assets rising $4.2 billion and liabilities rising $4.8 billion as a result of actual financial flows. There was a net inward financial inflow of $0.5 billion. Of the net liabilities, $8.7 billion was owed by the government (equivalent to 3.8 percent of GDP) and $98.9 billion by the banks (43.2 percent of GDP), which owed $60.2 billion to related parties. Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes are estimated at $19.7 billion, and at 30 June 2014, $14.8 billion of these claims had been settled, leaving $4.9 billion outstanding. New Zealand's gross international liabilities were $335.8 billion in June, against $186.1 billion in overseas assets. At March 2014, 50. 8 percent of New Zealand's international liabilities were due to the finance sector, and 69.4 percent of New Zealand's international assets.

- ★ Overseas Merchandise Trade for the month of October saw exports of goods fall 5.1 percent from the same month last year while imports rose 12 percent. This created a trade deficit for the month of $908 million or 23 percent of exports, the largest October deficit since 2008. In seasonally adjusted terms, exports rose 3.8 percent or $147 million over the month (compared to a 8.6 percent fall the previous month) influenced by falls in Milk Powder, Butter, and Cheese (down 8.8 percent), Crude oil (down 20.8 percent but not seasonally adjusted), Meat, Logs and wood products (down 7.2 percent) and Aluminium and aluminium articles (down 10.8 percent, not seasonally adjusted). The largest rise was in Logs, wood and wood articles (up 33.4 percent). Seasonally adjusted imports rose 14.5 percent or $583 million, creating a trade deficit of $387 million compared to a $720 million deficit in the previous month. Imports grew fastest in Petroleum and products (up 15.2 percent), Textiles and Plastics (up 5.6 percent) and Optical, medical, and measuring equipment (up 3.9 percent). Exports to China rose 22.7 percent in the year to October and fell 3.0 percent to Australia. However exports to China fell by 40.4 percent between the month of October 2014 and the same month last year while exports to Australia rose 4.0 percent. Our top six export destinations accounted for 59.9 percent of our exports in the year (of which China accounts for 17.5 percent), compared to 60.0 percent in the previous year (China 19.6 percent). Imports from China rose 4.6 percent in the year to October, and fell 7.1 percent from Australia, but in the month imports from China rose 18.1 percent while imports from Australia fell 4.8 percent.

- ★ The Performance of Manufacturing Index[1] for October 2014 was 59.3, a rise from 58.5 in September. The employment sub-index was at 57.5, up from 56.2 in September.

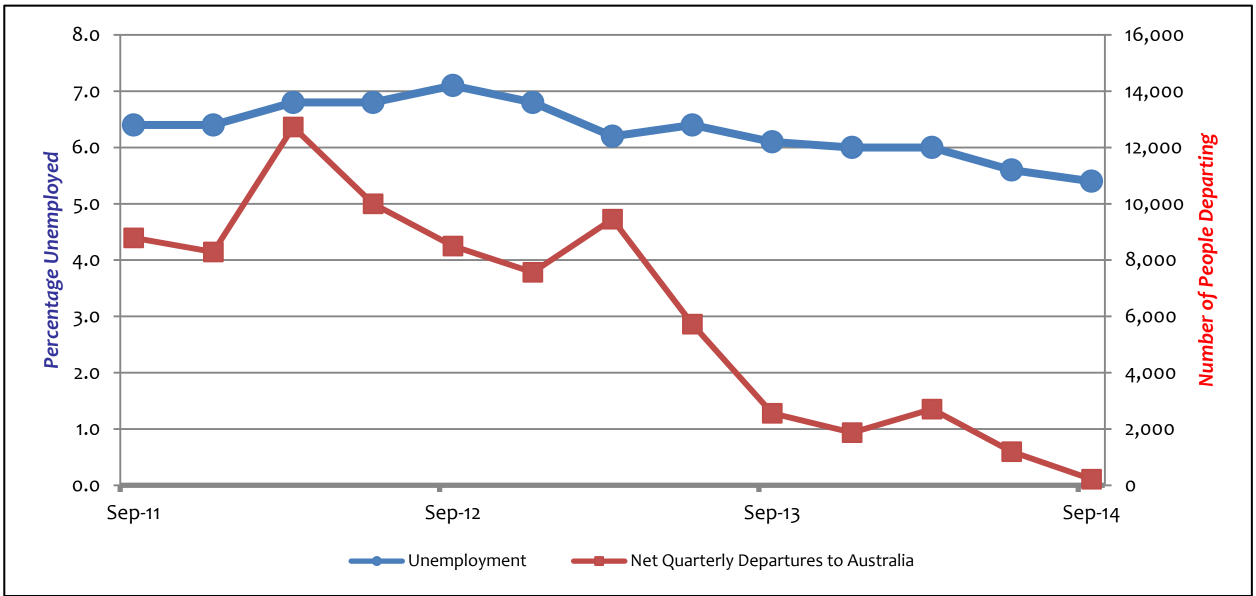
- ★ The Performance of Services Index[1] for October 2014 was 57.8, down slightly from 58.0 in September. The employment sub-index fell to 53.0 from 54.8 in September.

- ★ The Retail Trade Survey for the three months to September 2014 showed retail sales rose 1.5 by volume and 0.9 percent by value compared with the June 2014 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Supermarket and grocery stores, Food and beverage services, Furniture, floor coverings, houseware and textile goods retailing and Department stores. Only three of the fifteen industries had lower sales volumes: Accommodation, Clothing, footwear and accessories, and Non-store and commission-based retailing (which includes internet purchases).

- On 30 October 2014 the Reserve Bank left the Official Cash Rate (OCR) at 3.50 percent and signalled that a change was unlikely for some time. The next OCR review will be announced on 11 December along with a Monetary Policy Statement.

- ★ The REINZ Housing Price Index rose 1.4 percent in the month of October 2014. Auckland rose 2.9 percent, Christchurch rose 2.7 percent and Wellington rose 3.8 percent. The index was up 3.9 percent compared to September 2013. For the year, Auckland prices rose 9.8 percent, Christchurch rose 9.1 percent and Wellington rose 2.5 percent. The national median house price rose $10,000 or 2.4 percent compared to September to $430,000. It is $22,000 or 5.4 percent higher than a year ago with median prices rising in nine regions. Auckland accounted for 76 percent of the increase, Canterbury/Westland 15 percent and Waikato/Bay of Plenty 3 percent. The three regions accounted for 94 percent of the increase in median prices during the year. There were 311 or 9.5 percent fewer sales under $400,000 compared to October 2013, but a rise of 76 to 511 in the $1 million plus range and 123 more (to 1,372) in the $600,000 to $999,999 range. Sales under $400,000 accounted for 45.0 percent of sales in October 2014 but 48.5 percent in October 2013.

Employment



★ According to the Household Labour Force Survey the unemployment rate in the September 2014 quarter fell to 5.4 percent from 5.6 percent in June. Seasonally adjusted female unemployment at 6.3 percent was higher than for men (4.6 percent). In the North Island, only Taranaki (4.6 percent) and Wellington (5.6 percent) have unemployment below 6.0 percent. The South Island looks considerably better, but had low unemployment throughout the 2000s and has yet to regain the low levels of 2007 despite the Canterbury rebuild. The unemployment rate in Canterbury was 3.2 percent, down from 4.2 percent in September 2013. Almost half of the annual increase in employment came from Canterbury (34,500), with 91 percent of it coming from just three regions: Auckland, Waikato and Canterbury. Employment fell in Wellington and Bay of Plenty. By industry, over the year almost than half of the increase in employment came from Construction (33,500 workers compared to 70,400 overall), with Agriculture, Forestry and Fishing, Manufacturing, Retail, Accommodation and Food Services, Transport, Postal and Warehousing and Education all reducing employment. Construction, public administration and arts and recreation together accounted for over 90 percent of the increase in employment. There were 228,600 people jobless, including 134,300 people unemployed, and there were 92,000 part-timers who wanted more work. Māori unemployment did not fall compared to September 2013, and was still at 12.2 percent, and while Pacific people's unemployment did fall from 15.7 percent in September last year, it was still high at 11.7 percent. The labour force participation rate at 69.0 percent is up 0.1 percentage point from the previous quarter and up 0.4 percentage points for the year. There are 41,300 unemployed people who have been out of work for more than 6 months (down from 44,000 in September 2013), but as a proportion of the unemployed they have risen from 29.7 percent to 30.8 percent over the year. Those out of work for more than a year have risen from 11.6 percent of the unemployed to 12.9 percent over the year. Compared to OECD unemployment rates, New Zealand is 9th lowest (out of 34 countries), the same as in June.

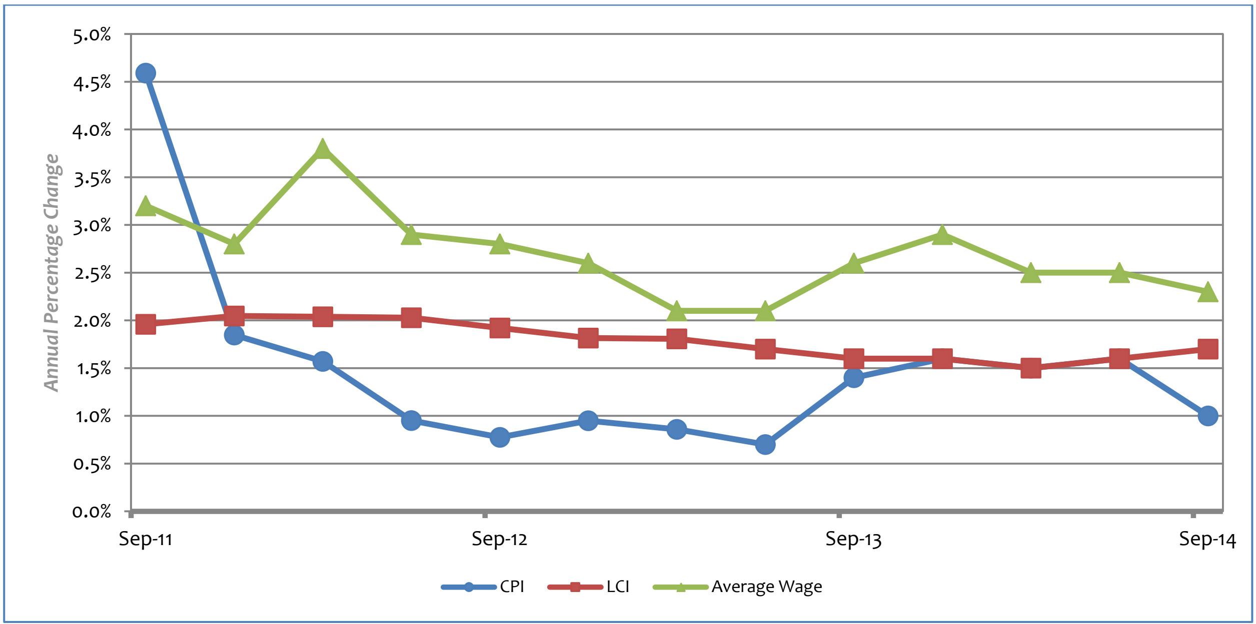
- Youth unemployment for 20-24 year olds was 10.4 percent, down from 10.9 percent in the June quarter and 11.0 percent a year before, again in seasonally adjusted terms. The NEET rate was 15.0 percent, up from 14.5 percent in the previous quarter and 14.1 percent in September 2013. The unemployment rate among (15-19 year olds) was 19.5 percent in September, down from 20.7 percent in June and from 23.1 percent a year before, in seasonally adjusted terms. It was slightly lower for those in education (19.0 percent) than those not (20.4 percent), and the 7,000 increase in employment over the year was almost entirely among people in education (6,000 increase) while those not rose only 1,000. The not in employment, education, or training (NEET) rate fell from 7.5 percent in June to 7.2 percent. There were 72,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 11.4 percent of people in that age group, up from 11.2 percent in June and 11.3 percent a year before.

- The Ministry of Social Development reports that at the end of September 2014 there were 123,133 working age people on the Jobseeker benefit, a rise of 2,002 from 121,131 in June 2014 and a fall of 3,337 from September 2013. Of those at September 2014, 66,754 were classified as 'Work Ready', and 56,379 were classified as 'Health Condition or Disability'. A total of 294,321 were on 'main' benefits, 735 more than June 2014 and 10,073 fewer than September 2013. It was 32,490 fewer than in September 2008. The MSD comments: "Changes in benefit numbers over this period largely reflect changes in economic conditions."

- Job Vacancies Online showed a seasonally adjusted fall in skilled job vacancies of 0.3 percent in October after a fall of 0.8 percent in September. All job vacancies fell by 0.1 percent in October, after a rise of 1.9 percent in September. In the year to October, skilled vacancies rose 7.3 percent. All vacancies rose by 10.1 percent.

- International Travel and Migration data showed 9,900 permanent and long-term arrivals to New Zealand in October 2014 and 4,650 departures in seasonally adjusted terms, a net gain of 5,250. There was an actual net gain of 47,684 migrants in the year to October. Net migration to Australia in the year to October was 5,311 departures, with 28,032 departures and 22,721 arrivals. For the month of September, the seasonally adjusted net loss to Australia was 120 compared to 920 a year before.

Wages and prices



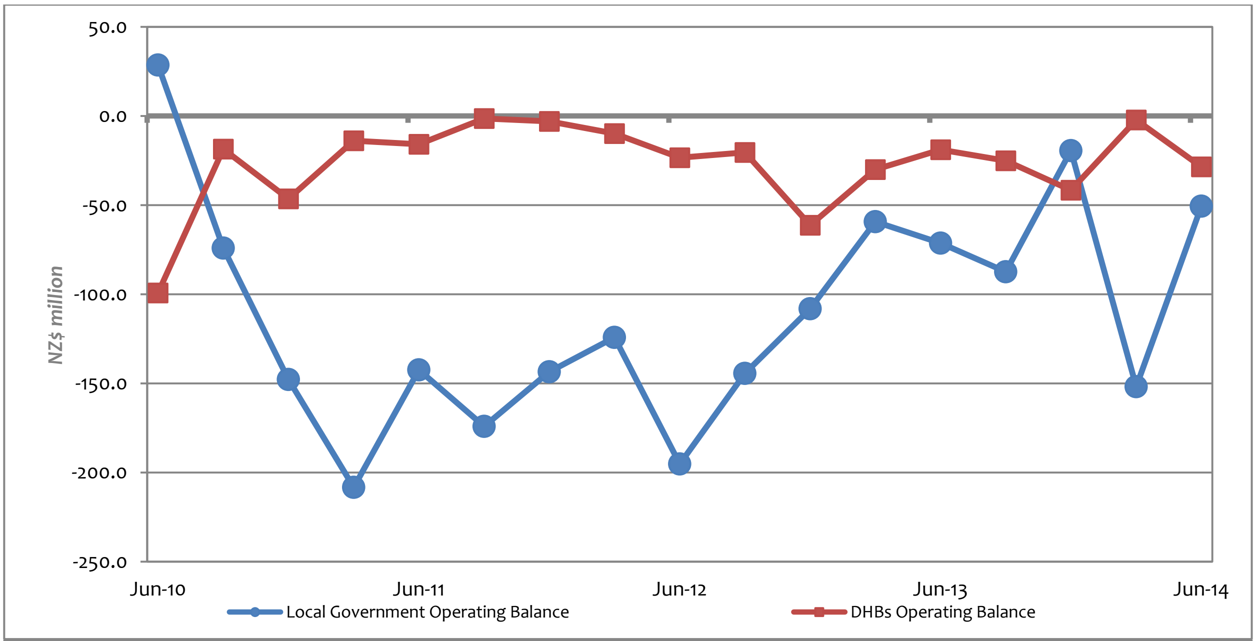
★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to September 2014. The LCI increased 1.7 percent in the year to September, ahead of the 1.0 increase in the CPI. It increased 0.3 percent in the public sector and 0.5 percent in the private sector in the three months to September. Over the year to September it rose 1.1 percent in the public sector and 1.9 percent in the private sector. During the year, 43 percent of jobs surveyed did not receive a pay rise. For the 57 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.5 percent and the average increase was 3.3 percent. The median increase in the public sector was 1.5 percent and in the private sector 2.5 percent. We estimate that those jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those who were not.

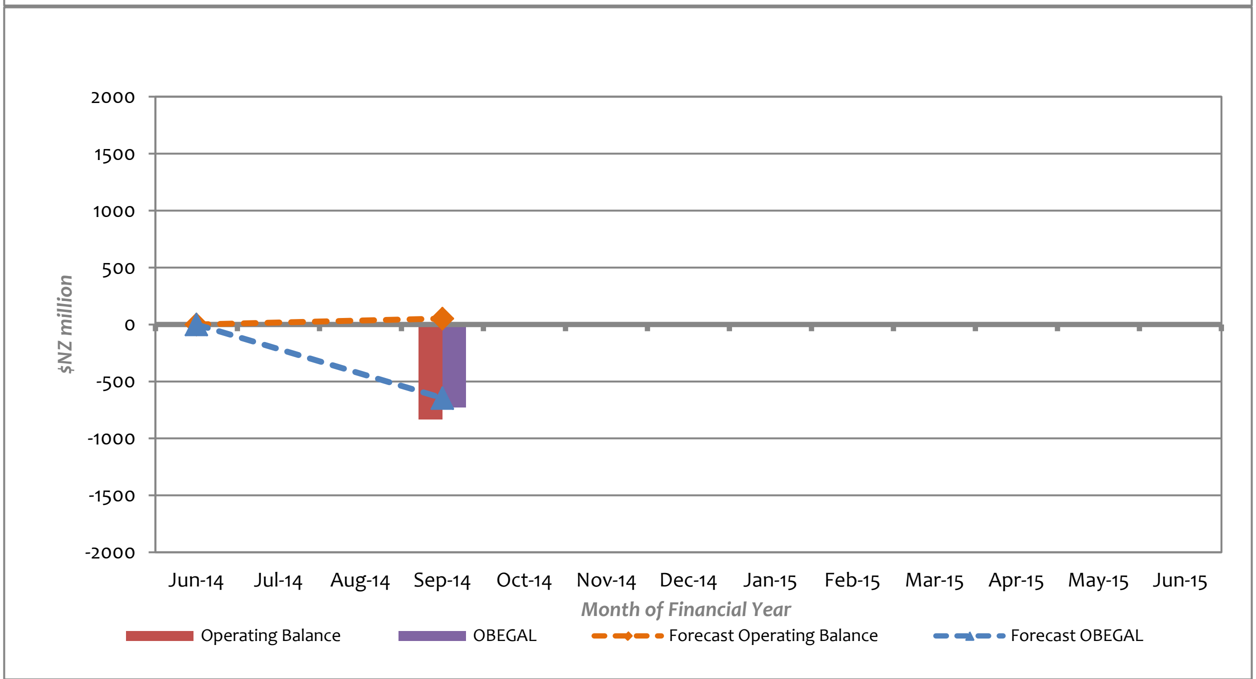
★ The Quarterly Employment Survey for the three months to September 2014 found the average hourly wage for ordinary-time work was $28.62, up 1.4 percent on the June quarter and up 2.3 percent over the year. The average ordinary-time wage was $26.67 in the private sector (up 1.4 percent in the quarter and up 2.9 percent in the year) and $35.67 in the public sector (up 1.1 percent in the quarter and up 1.0 percent in the year). Female workers (at $26.49) earned 12.9 percent less than male workers (at $30.43) for ordinary time hourly earnings.

○ The Consumer Price Index rose 0.3 percent in the September 2014 quarter compared with the June 2014 quarter and increased 1.0 percent for the year to September. For the quarter, Housing and household utilities were again the largest influence, rising 1.0 percent and accounting for almost three-quarters (73.4 percent) of the overall increase in CPI. Over the year, 80 percent of the increase came from housing and household utilities which rose 3.4 percent and without which the CPI would have risen only 0.3 percent. Inflation in Canterbury for the year was 1.6 percent compared with 1.1 percent in Wellington and 1.0 percent in Auckland. Housing costs hit particularly hard in Canterbury, rising 4.9 percent for the year compared to 3.0 to 3.7 percent elsewhere.

★ The Food Price Index was unchanged in the month of October 2014, following a 0.8 fall in September. Food prices rose 0.9 percent in the year to October 2014. Compared with September, fruit and vegetable prices fell 3.2 percent; meat, poultry, and fish prices rose 1.1 percent; grocery food prices rose 1.1 percent; non-alcoholic beverages fell 2.0 percent; and restaurant meals and ready-to-eat food rose 0.2 percent.

Public Sector





★ According to Treasury's [Financial Statements of the Government of New Zealand] for the three months ended 30 September 2014, core Crown tax revenue was $73 million or 0.5 percent higher than forecast in the May 2014 Budget Economic and Fiscal Update (BEFU), and 8.3 percent higher than the same period in 2013, due to "positive macroeconomic conditions leading to growth largely in source deductions, corporate tax and GST". However GST was less than forecast in the last three months "reflecting lower than forecast domestic consumption growth". Expenses were $123 million (0.7 percent) above forecast, mainly due to "the Crown's signing of a $103 million Deed of Indemnity in regards to Solid Energy". Net debt at 27.3 percent of GDP ($62.6 billion) was $565 million higher than the $62.1 billion forecast. The Operating Balance before Gains and Losses (OBEGAL) was a $725 million deficit, $79 million higher (worse) than forecast. The Operating Balance was a $831 million deficit compared to a forecast surplus of $52 million, the difference being main due to actuarial losses on the ACC liability of $1.2 billion, resulting from changes in short term discount rates. Gross debt at $85.2 billion was $2.1 billion above forecast, with approximately half of the difference the result of unsettled Reserve Bank trades and $730 million due to movements in derivatives. The government made $226 million in a radio spectrum sale that was not forecast.

- District Health Boards recorded combined deficits of $13.7 million for the month to July 2014. This is $150,000 worse than their plans. The Northern region was $0.2 million ahead of plan with a surplus of $1.5 million dominated by a $1.8 million surplus at Auckland offset by deficits in Counties Manukau and Waitemata, the Midland region was $0.5 million ahead of plan with a combined deficit of $2.2 million and all DHBs in deficit, Central region was $0.6 million behind plan and all in deficit totalling $3.9 million, and the Southern Region was $0.2 million behind plan with a $5.7 million deficit and three of the five DHBs in deficit. The DHB furthest ahead of plan was Nelson Marlborough by $0.6 million, and Southern was furthest behind, by $0.5 million.
- Local Government recorded a 6.1 percent ($120.3 million) rise in operating income and a 0.9 percent rise in operating expenses ($18.9 million) including an increase of 3.9 percent ($17.9 million) in employee costs for the June 2014 quarter compared to March. This resulted in an operating deficit of $50.6 million in the June quarter, compared with a deficit of $151.9 million in the March quarter, and deficits in all the last 26 quarters back to March 2008 with the exception of June 2010, all in seasonally adjusted terms. Note that the March quarter results are provisional and all previous figures have been revised.

Notes

1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

This bulletin is available online at http://www.union.org.nz/economicbulletin163.

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