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Commentary

A socially unbalanced Budget

Summary

The Budget last week was, as expected, an election year Budget. Many low and middle income families will welcome the relief of some extra money in their pockets. But much more could have gone to them rather than to high income earners, and there would have been funding left over to address problems like the underfunded the health system, education and housing.

Around 140,000 families missed out on any benefit from the "Family Income Package" Most are families relying on social welfare benefits and are likely to be in impoverished circumstances.

Tax cuts are by far the biggest part of the package – up to three-quarters of it. They are heavily weighted to top incomes. The one-fifth of households with the highest incomes gets 36 percent of the benefits. That's more than the lowest income 60 percent get.

The benefits of the smaller part, Working for Families (WFF) and Accommodation Supplement (AS), go heavily to lower income families: over 90 percent go to the lowest income 60 percent. If we want to do more for low and middle income families, WFF is the best place to focus.

Despite the increases, WFF still has problems. Its estimated total value in 2017 is $2.33 billion in June 2016 dollars. That's $725 million less than it was in 2010. In the first full year of the new rates (2019) it is still $511 million short of 2010. In addition, the Government has increased the rate at which families lose WFF as their incomes rise, to 25 cents in each dollar, and lowered the income level at which this kicks in.

If there had been no tax cuts, WFF could have been increased to fill the full $725 million gap, the abatement rate could have been cut back to 20 cents in the dollar and the threshold increased and indexed to wages. The cost in the first year would have been about $550 million.

There would be around $1 billion available. It could provide income to the 140,000 families who missed out, plug the $305 million gap in this year's Health budget and begin the task of mending deteriorating services. It could put money into all school operations grants to meet their rising costs and accelerate the upgrading of Housing Corporation houses. With more balanced, but still prudent, debt targets, we could do even more. Even these are tight Budgets to do all that is necessary. Really, if we want to make a real difference, rather than just repair the damage to our social systems and infrastructure, we need to raise revenue through more progressive income taxes and taxes on wealth.

The Budget last week was, as expected, an election year Budget. Many low and middle income families will welcome the relief of some extra money in their pockets, but as we discussed briefly in our report on the evening of the Budget, the revenue lost in the tax part of the package could have been so much better used. Much more could have gone to those families rather than to high income earners, and there would have been funding left over to address other problems like the underfunding of the health system, education and housing. The effect will be to continue to starve these public services and social support, which for several years have showed all the signs of underfunding. This is a case of poor priorities. In this commentary I will look at the effect of the 'Family Incomes Package' and an alternative approach.

The Family Income Package

The "Family Income Package" that was announced in the Budget looks like this when showing gains by different income bands[1] (it's good to see Treasury giving an indication of how gains and losses are distributed):

Distribution of changes resulting from "Family Income Package"

Quintile	Minimum income in range	Number of Families who gain	Average change per week from:				Average from all elements
			Tax	IETC	WFF	AS	
1	*	154,000	$5.13	-$0.10	$16.63	$17.04	$35.32
2	$24,000	296,000	$11.07	-$5.73	$6.10	$3.81	$15.11
3	$51,000	296,000	$20.90	-$2.32	$2.98	$2.14	$23.69
4	$84,000	298,000	$28.12	-$3.77	$1.65	$0.25	$26.24
5	$127,000	298,000	$34.65	-$1.43	$0.00	$0.00	$33.22
All		**1,342,000**	**$21.58**	**-$2.94**	**$4.28**	**$3.32**	**$25.81**

Each "quintile" is one fifth of families which include at least one working-age person. So it excludes some superannuitant families and students for example. Quintile 1 is the lowest income families (up to $24,000 annual income) and Quintile 5 is the highest income families (at least $127,000 annual income).

You can read off roughly what each will get on average per week from each part of the package – tax threshold changes, the Independent Earner Tax Credit (IETC one of National's own inventions, now abolished, and very small so I won't refer to it again), Working for Families (WFF) and the Accommodation Supplement (AS). It also shows the average total gain, which isn't necessarily the sum of the parts because each family will be affected differently depending on the number and age of their children, housing situation, location and so on.

The first thing to note is that Quintile 1 is about half the size of the other four: just over 150,000 families compared to nearly 300,000 in the others. Why? Because there are about 140,000 families who miss out on the package. Most are families relying on social welfare benefits and are likely to be in impoverished circumstances. They don't benefit from any part of the package because their benefits are adjusted to pay the same net amount whatever the tax rates, and they may not be able to claim accommodation supplements (some may be on income-related rents which are not affected by the package).

[1] From: https://budget.govt.nz/budget/2017/releases/r8-joyce-fact-sheet-1-family-incomes-package.htm#sthash.YeEcn2X8.dpuf

The Government asserts that the package is "expected to lift 20,000 households above the threshold for severe housing stress, and reduce the number of children living in families receiving less than half of the median income by around 50,000". (Note that they carefully avoid mentioning the word "poverty": less than half the median income is a commonly used poverty measure.) It would be very good if these statements are true and hopefully some independent experts will check them out. Many people are concerned that the rise in the accommodation supplement, which appears to have been sufficient to restore its real value relative to rents since it was last adjusted in 2007 (though it was then based on rent levels in 2005) will lead to increased rents, so we will need to watch and see.

To see how much more could be done however, we can add up the cost of this by multiplying the number of families by their average weekly changes, and then annualising it:

The distribution of the costs of the "Family Income Package"

Quintile	Tax ($m)	Proportion		WFF ($m)	Proportion		AS ($m)	Proportion		Average ($m)	Proportion	
		In quintile	Cumulative		In quintile	Cumulative		In quintile	Cumulative		In quintile	Cumulative
1	41.1	3%	3%	133.2	45%	45%	136.5	59%	59%	282.8	16%	16%
2	170.4	11%	14%	93.9	31%	76%	58.6	25%	84%	232.6	13%	29%
3	321.7	21%	35%	45.9	15%	91%	32.9	14%	98%	364.6	20%	49%
4	435.7	29%	64%	25.6	9%	100%	3.9	2%	100%	406.6	23%	71%
5	536.9	36%	100%	0.0	0%	100%	0.0	0%	100%	514.8	29%	100%
All	**1,505.9**	**100%**		**298.7**	**100%**		**231.7**	**100%**		**1,801.1**	**100%**	
Total cost	1,895.0			373.0			361.6			2,075.3		

I've added the full cost in the first year, which includes some such as superannuitants and some students who are not included in the table, and also includes $575 million of clawbacks in the first year – for example people spend their new income and so the government gets GST from their spending, companies make profits from this and (hopefully) pay corporate tax on it, and there are some other adjustments. I'm assuming the clawbacks apply more or less in proportion to costs across the different families. Superannuitants do well out of the package apparently: they gain directly through the tax cuts, and because the adjustment to New Zealand Superannuation is tied to the average wage less tax, they benefit from that too.

You can see a number of features of the package from this table. First look at the tax cuts. They are by far the biggest part of the package. It's a little hard to tell exactly what proportion from the table because of the claw-backs but it is probably between two-thirds and three-quarters. Secondly they are heavily weighted to the top incomes. The highest income one-fifth of households (Quintile 5) gets 36 percent of them – more than the 35 percent the lowest income 60 percent get.

Looking at the Working for Families (WFF) and Accommodation Supplement (AS) parts, the benefits go heavily to lower income families: 91 percent go to the lowest income 60 percent in the case of WFF and 98 percent in the case of AS. If we want a simple way to increase the incomes of low and middle income families, these are the ways to do it. AS is not the best way because it does risk encouraging landlords to increase rents – though it now needs to be indexed to rents so it doesn't get so far behind again. Best to focus on WFF.

However while increasing WFF is a step forward, it still has many problems. It is a long way behind where it was in 2010. It was worth a total of $2.79 billion in 2010 – the last year it rose in dollar terms. In June 2016 dollars, that's worth $3.06 billion. The estimated value in 2017 is $2.33 billion in June 2016 dollars ($2.37 billion in the government accounts) – that's $725 million less than it was in 2010, and the number of children who stand to benefit from it hasn't changed much. The increase in the package brings the total value of WFF to $2.54 billion (in June 2016 dollars) in the year to June 2019, the first full year of the new rates. That is still $511 million short of what it was in 2010: the package plugs well under half the gap. So there is a lot still to do there. The Government argues that the increase in AS is a substitute, but that was a decade overdue for an increase in its own right.

In addition, the Government has made WFF less generous in another way. The rate at which it gets reduced for each dollar a family earners, the abatement rate, is going up from 22.5 cents in each dollar to 25 cents. That brings forward an increase it had heralded to occur by 2025, though Treasury considers that steps towards it would likely have occurred by 2019. It means that along with taxes, low and middle income families will have very high effective tax rates on the last dollars they earn – for example 35.5 cents in the dollar if they are taxed at 10.5 percent, 42.5 cents in the dollar if they are on the 17.5 percent tax rate and 55 cents in the dollar if they pay the 30 percent tax rate. These are all considerably higher than the top tax rate of 33 percent paid on income above $70,000 by someone on $1 million a year. The abatement rate should be brought back to 20 cents (or less) rather than increased. The Government is also reducing the income at which abatements start from $36,350 a year to $35,000, so more families will be affected by the higher abatement rate. The result will be that the eroding away of the value of WFF that occurred from 2010 will continue. The Treasury forecasts are for the value of it to have eroded back to $2.38 billion in June 2016 dollars or $675 million less than in 2010 by 2021.

The combination of tax cuts being the largest part of the package and being heavily weighted to top incomes means that the whole package is weighted that way despite the heavy weighting to low income and middle families in WFF and AS. The top quintile gets 29 percent of the overall benefits, or as much as the lowest income 40 percent. The part of the package that most helps low and middle income families is the smallest.

What could a socially balanced Budget do?

This suggests what could have been done differently.

If there had been no tax cuts, WFF could have been increased to fill the full $725 million gap and more to bring it back to its 2010 value. The abatement rate could have been cut back to its pre-2010 20 cents in the dollar and the threshold increased and indexed to wages. In the first year, the cost of that would have been about $550 million.

Treasury estimates the net tax revenue loss of the package at $1.5 billion in the year to June 2019, and $1.3 billion and $1.5 billion in the following two years. So there would be around $1 billion available. We could provide additional income to the 140,000 families who missed out. We could plug the $305 million gap we estimate is in just this year's Health budget and put more in to begin the task of mending the services that have deteriorated over the last seven years. We could put money into all school operations grants to meet their rising costs. We could accelerate the upgrading of Housing Corporation houses to make them the warm, insulated, dry houses that we should expect. These are just a start.

If there was a better balance between a prudent level of the financial debt of the government and the building social deficits, we would have further funds to address those problems. For example, if we shifted the Government's current debt target of net debt (which ignores the growing New Zealand Superannuation Fund) of 20 percent of GDP by 2021 (and further reductions after that) to 21 percent by 2022 and returned capital expenditure to what the Government had planned in December in its Budget Policy Statement, we would have an additional $1 billion a year to address the many social deficits, according to Treasury's Fiscal Strategy Model. By 2022, net government debt would be down to just 6 percent of GDP including the Super Fund, a measure some international agencies use. If we decided to stabilise debt at its current level of around 24 percent of GDP, another $500 million would be available per year or we could resume payments to the New Zealand Superannuation Fund next year.

Even these are tight Budgets to do all that is necessary. Really, if we want to make a real difference, rather than just repair the damage to our social systems and infrastructure, we need to contemplate raising revenue through more progressive income taxes and taxes on wealth.

This was a Budget that did some good for low and middle income families, but could have done so much more by focussing its priorities on people's needs rather than the coming election. It continues the neglect of New Zealand's public services and insufficient support for people on low and middle incomes because of our failing wage setting system. In not just the long run, these would be the best 'social investments' for a Government that says it believes in social investment: it would stop people getting into the desperate situations that the Government's current thinking addresses one by one. It would put a fence at the top of the cliff rather than a more efficient ambulance at the bottom.

Bill Rosenberg

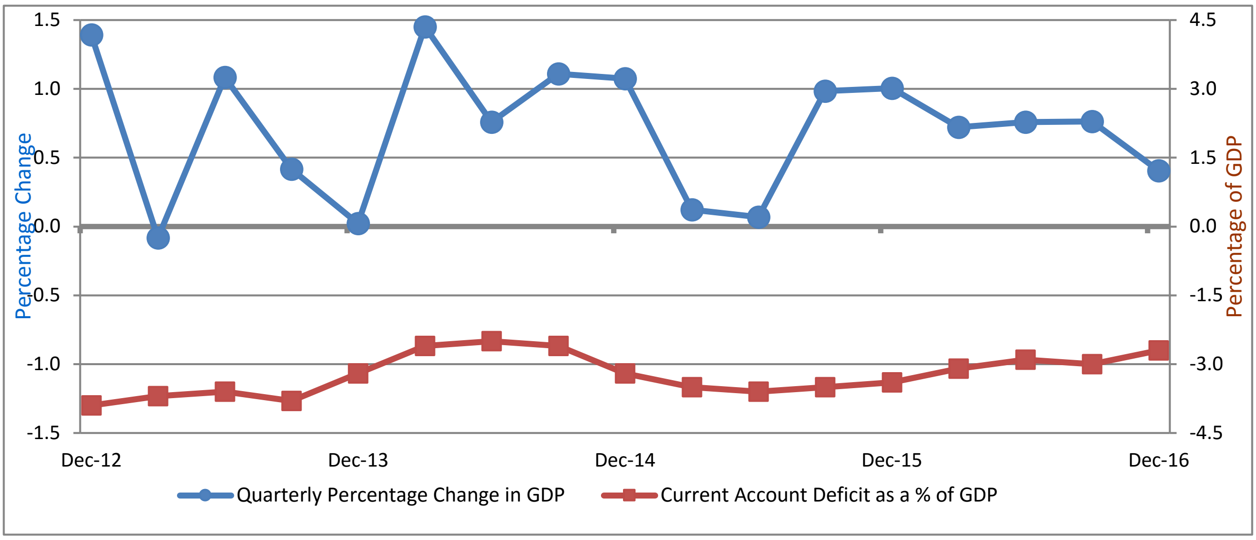
Information

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

Forecast

- This [NZIER consensus forecast](#) was released on 13 March 2017.

Annual Percentage Change (March Year)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
GDP	3.4	3.3	3.1	2.5
CPI	1.7	1.7	2.0	2.0
Private Sector average wage	1.6	2.3	3.0	3.2
Employment	4.8	2.4	2.1	1.6
Unemployment rate (% of labour force)	5.0	4.7	4.7	4.8



Economy

- Growth in New Zealand's economy was below expectations in the December 2016 quarter, with [Gross Domestic Product](#) rising by 0.4 percent, compared to 0.8 percent in September (revised down from 1.1 percent) and 0.8 percent in the June quarter too. Average growth for the year ended

December 2016 was 3.1 percent (and 2.7 percent increase between December quarters). However GDP is not keeping up with the rapidly growing population: GDP per person fell 0.2 percent in the December quarter, and 0.9 percent over the year. On the other hand, real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, rose by an exceptionally strong 2.3 percent during the December quarter and rose 2.0 percent over the year to December. I estimate[1] that production per hour worked in the economy fell by 2.4 percent compared to the same period last year and fell 0.9 percent in the December quarter, indicating falling productivity which is bad for future wage growth. Business investment growth in the three months (1.8 percent) was strong relative to a revised 0.7 percent in the September quarter and much faster than GDP growth. Investment in housing grew only 0.1 percent, a second slow quarter (0.6 percent in the September quarter) and much lower than the 5.3 percent in the June quarter. Household consumption growth was relatively weak, rising only 0.4 percent in the quarter in contrast to 1.4 percent in the previous quarter and for the year up 4.3 percent. Inflation in the economy as a whole is stronger than CPI with the GDP deflator (a price index for expenditure on the economy's production) rising 1.9 percent in the December quarter and 0.8 percent in the September quarter, with a total rise of 3.9 percent for the year.

- By industry, the largest contributors to growth in the latest quarter were Professional, scientific, technical, administration, and support (up 1.7 percent) followed by Construction (up 1.8 percent), Financial and Insurance services (up 1.3 percent), Health care and assistance (up 0.1 percent) and Arts, recreation and other services (up 3.8 percent). They were offset by falls led by Manufacturing (down 1.6 percent), Agriculture, forestry and fishing (down 0.8 percent), Mining (down 2.3 percent), and Transport, postal and warehousing (down 0.7 percent). Over the year, the biggest rise was in Construction (up 10.5 percent), followed by Retail trade and accommodation (up 5.3 percent), Professional, scientific, technical, administration, and support (up 4.7 percent), Health care and assistance (up 4.7 percent) and Arts, recreation and other services (up 4.7 percent). However Agriculture, forestry and fishing was down 0.4 percent over the year and Mining was down 9.2 percent.

- New Zealand recorded a Current Account deficit of $1.6 billion in seasonally adjusted terms for the December 2016 quarter (but an actual deficit of $2.3 billion) following a revised $5.0 billion deficit for the September 2016 quarter. There was another deficit in the goods trade ($833 million, seasonally adjusted, following a $703 million deficit in the September quarter, with deficits in all quarters back to September 2014). There was a surplus of $375 million in goods and services ($332 million in September), while the deficit on primary income (mainly payments to overseas investors) improved to $2.0 billion from $2.2 billion in September (not seasonally adjusted). For the year to December 2016, the current account deficit was $7.1 billion or 2.7 percent of GDP compared to a $7.6 billion deficit in the year to September (3.0 percent of GDP). The deficit on investment income was $8.1 billion for the year. During the year to March, foreign direct investors (those with a degree of control of the companies they hold shares in) were paid dividends at the rate of 10.6 percent after tax, compared to 11.8 percent the year before. By comparison they received a rate of return

[1] Because of the changes to the Household Labour Force Survey, there is a break in the hours-worked series in June. I estimated the increase for June using the historical relationship with hours paid from the more limited Quarterly Employment Survey.

of only 2.6 percent after tax on debt owed to them by their companies. Portfolio investors received returns of 4.2 percent on shares and 2.0 percent on debt.

- The country's Net International Liabilities were $156.5 billion at the end of December 2016, down from $166.1 billion at the end of September and up from $153.8 billion a year before. The December net liabilities were equivalent to 59.9 percent of GDP, compared to a revised 64.8 percent in September and 62.2 percent a year before. They would take 2.24 years of goods and services exports to pay off, up from 2.21 years a year before. The fall in net liabilities was due to a $3.3 billion net outflow of investment plus $6.3 billion in valuation changes (mainly in market valuations) without which the net liabilities would have been $162.8 billion. Part of the net outflow of investment was due to insurance companies running down overseas investments to pay for claims from the November earthquakes. The largest part of the outflow was banks increasing their investment assets overseas. New Zealand's international debt was $289.0 billion (110.6 percent of GDP), of which 32.4 percent is due within 12 months, compared to $143.1 billion in financial assets (other than shares; 54.8 percent of GDP), leaving a net debt of $145.9 billion (55.9 percent of GDP). Of the net debt, $6.5 billion was owed by the government including the Reserve Bank (equivalent to 2.5 percent of GDP and down from $11.4 billion in September) and $107.8 billion by the banks (41.3 percent of GDP), which owed $158.4 billion gross. Total insurance claims made on overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 31 December 2016, $19.5 billion of these claims had been settled, leaving $0.6 billion outstanding. For the Kaikōura earthquakes, out of an estimated $694 million of claims, $14 million had been settled.

- ★ Overseas Merchandise Trade for the month of April saw exports of goods rise 9.8 percent from the same month last year while imports rose 4.9 percent. This created a trade surplus for the month of $578 million or 12.2 percent of exports. There was a trade deficit for the year of $3.5 billion or 7.1 percent of exports, a slight improvement on the 7.3 percent deficit in the year to the same month in 2016. In seasonally adjusted terms, exports rose 18.1 percent or $716 million over the month (compared to a 3.1 percent fall the previous month) led by rises in Crude oil (up 121.2 percent or $47 million, not seasonally adjusted), Dairy (up 9.1 percent or $989 million), Meat (up 10.6 percent or $51 million), Logs, wood and wood articles (up 10.7 percent or $37 million), Mechanical Machinery and Equipment (up 9.2 percent or $12 million) and Wine (up 7.9 percent or $11 million), offset by falls led by Fruit (down 2.9 percent or $7 million) and Seafood (down 11.6 percent or $17 million). Seasonally adjusted imports rose 6.2 percent or $272 million over the previous month, creating a trade surplus of $19 million compared to a $425 million deficit in the previous month. The imports were led by rises in Petroleum and products (not seasonally adjusted, up 19.7 percent or $66 million) and Electrical machinery and equipment (up 7.4 percent or $27 million), offset by falls in Mechanical machinery and equipment (not seasonally adjusted, down 7.9 percent or $50 million), Textiles (not seasonally adjusted, down 6.1 percent or $13 million), Plastic and plastic articles (down 8.9 percent or $17 million) and Optical, medical, and measuring equipment (down 5.8 percent or $8 million).

- ★ The Retail Trade Survey for the three months to March 2017 showed retail sales rose 4.6 percent by volume and 6.7 percent by value compared with the same quarter a year ago. They rose 1.5 percent by volume and 2.6 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Non-store and commission retailing (which includes internet purchases) which was up 9.6 percent, Fuel (up 6.5 percent), Motor vehicles and parts (up 5.9 percent) and Food and beverage services (up 4.0 percent). There were falls in

Recreational Goods (down 0.8 percent), Department Stores (down 0.5 percent), Supermarket and grocery stores (down 0.2 percent) and Specialised food (down 0.1 percent). Supermarket and grocery stores, easily the largest single sector, fell 0.2 percent by value and 2.0 percent by volume.

For these two indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

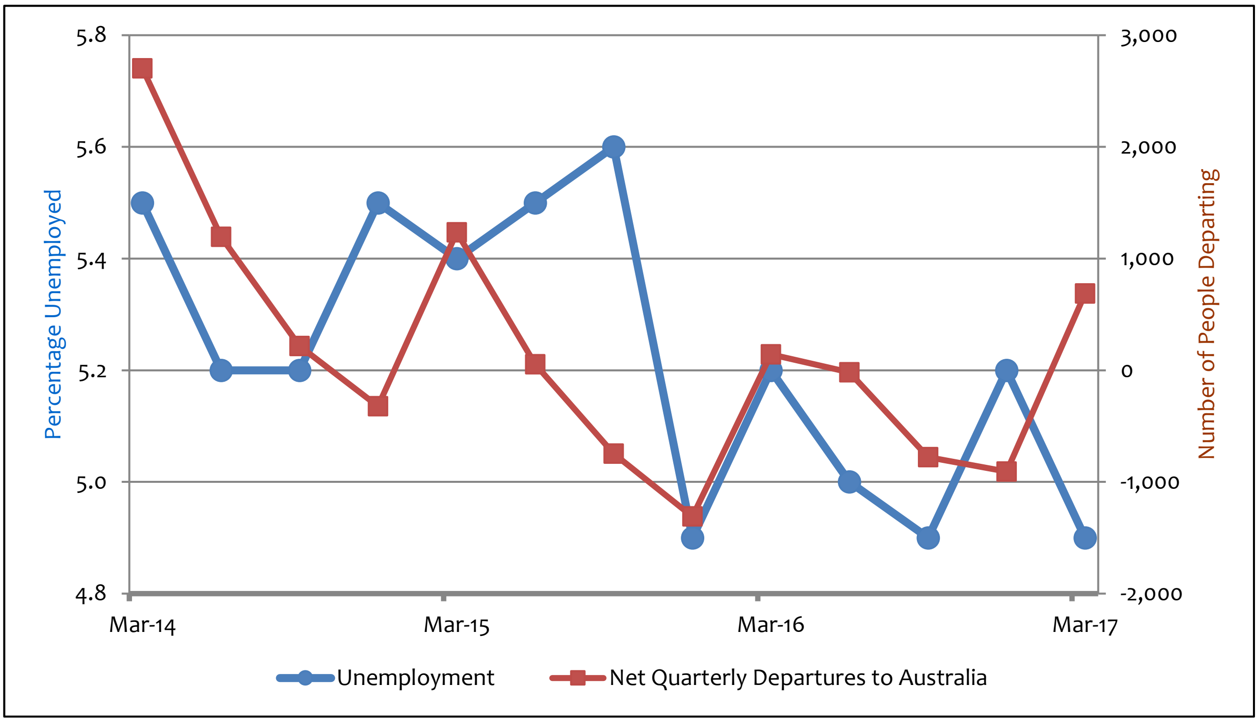
★ The Performance of Manufacturing Index for April 2017 was 56.8, a fall from 56.8 in the previous month. The employment sub-index was at 53.0, a small fall from 53.5 in the previous month.

★ The Performance of Services Index for April 2017 was 52.8, a sharp fall from 58.8 the previous month. The employment sub-index was 55.8, up from 53.0 in the previous month.

★ On 11 May 2017 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent, and also published a Monetary Policy Statement. It indicated that the rate is likely to be in place for a considerable time unless there were unforeseen events: "Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly". It observed that stronger demand internationally had raised commodity prices over the year, increasing inflation in trading partners but "core inflation" remained generally low. It did not reiterate concerns about "extensive geo-political uncertainty" for the first time in several statements. The trade-weighted exchange rate (that is a combination of exchange rates with New Zealand's main trading partners, weighted by our trade with them) had "fallen by around 5 percent since February, partly in response to global developments and reduced interest rate differentials. This is encouraging and, if sustained, will help to rebalance the growth outlook towards the tradables sector." This is the first time the Bank has sounded positive about the exchange rate in a considerable time. Economic growth in New Zealand in the December quarter was weaker than expected, but "the growth outlook remains positive, supported by on-going accommodative monetary policy, strong population growth, and high levels of household spending and construction activity." The Bank considered that house price rises had "moderated further", partly due to its loan-to-value ratio restrictions and tighter lending conditions, and thought that the moderation would continue but there was a risk that price rises resume because house building wasn't keeping up with demand. The high inflation in the three months to March "was mainly due to higher tradables inflation, particularly petrol and food prices. These effects are temporary and may lead to some variability in headline inflation over the year ahead. Non-tradables and wage inflation remain moderate but are expected to increase gradually." The Bank considered inflation would be brought to 2 percent "in the medium term". The next OCR announcement will be on 22 June 2017.

★ According to REINZ, over the year to April the national median house price rose $51,000 or 10.4 percent to $540,000 and REINZ's house price index rose 7.8 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 0.9 percent seasonally adjusted while the house price index was unchanged. In Auckland, over the year, the median price rose 3.0 percent or $24,000 to $854,500 and the house price index rose 5.2 percent. Over the month the median price fell 2.1 percent seasonally adjusted, and the house price index rose 0.1 percent. Excluding Auckland, over the year the national median price rose $52,500 to $435,000 or 13.7 percent while the house price index rose 12.8 percent. Over the month the median price was up 0.4 percent on the previous month seasonally adjusted, and the house price index was up 0.8 percent. Three regions had record median prices: Waikato ($489,200, up 22.3 percent), Wellington ($537,000, up 18.6 percent), and Otago ($381,000, up 12.4 percent). However median prices fell in 8 of the 14 regions over the month, seasonally adjusted, and sales fell in all but Taranaki. Over the year, sales fell sharply in all regions, averaging a 33.2 percent fall.

Employment



★ According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the March 2017 quarter fell to 4.9 percent or 132,000 people, compared to 5.2 percent in December 2016 (138,000 people), seasonally adjusted. It is half as much again than the 3.3 percent it was in December 2007, which would mean 44,000 more people would have jobs. The seasonally adjusted female unemployment rate at 5.7 percent in March was higher than for men (4.2 percent), and while female unemployment was unchanged compared to the previous quarter, male unemployment fell from 4.9 percent. Māori unemployment fell from 12.2 percent in March 2016 to 10.4 percent in March 2017, and Pacific people's unemployment rose from 9.8 percent to 11.0 percent over the year. Compared to OECD unemployment rates, New Zealand had 13th lowest (out of 35 countries), the same as in December.

★ **Youth unemployment** for 15-19 year olds was 20.4 percent in March, down from 21.9 percent in December 2016, and equal to the 21.9 percent in March 2016 (these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not). For Māori 15-19 year olds in March 2017 the unemployment rate was 21.2 percent, a sharp decline from 34.2 percent a year before. For 15-19 year old Pacific Peoples it was 32.8 percent, similar to the 33.1 percent it was a year before. For 20-24 year olds youth unemployment was 8.7 percent, down from 9.4 percent in December and 9.5 percent a year before. For Māori 20-24 year olds in March 2017 the unemployment rate was 13.4 percent, lower than the 16.2 percent a year before. For 20-24 year old Pacific Peoples it was 13.0 percent, similar to the 12.7 percent it was a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the

NEET rate) for 15-19 year olds was 10.5 percent, up from 9.6 percent in December and 8.8 percent a year before. For Māori 15-19 year olds in March 2017 the rate was 16.8 percent, compared to 17.3 percent a year before and for Pacific Peoples it was 17.1 percent, up from 13.8 percent a year before. For 20-24 year olds the NEET rate was 14.9 percent, down from 17.1 percent in December and 15.9 percent a year before. For Māori 20-24 year olds in March the rate was 26.6 percent and for Pacific Peoples it was 22.3 percent. For the whole 15-24 year old group, unemployment was higher for those in education (14.9 percent) than those not in education (11.7 percent). There were 86,000 people aged 15-24 years who were not in employment, education, or training (NEET), down from 90,000 in December but up from 82,000 a year before.

★ By **region**, in the North Island, unemployment rates rose compared to a year ago in two out of the eight regions but only in Bay of Plenty was the rise statistically significant (that is, for the other regions the error in the estimates of unemployment means it cannot be ruled out that the rises were in fact zero). In the North Island, Northland has the worst unemployment rate at 8.0 percent while Gisborne/Hawke's Bay and Bay of Plenty are tied for second at 7.6 percent at 4.9 percent. The change in Bay of Plenty from one of the best to one of the worst is steep: from 4.7 percent in March 2016 to 7.6 percent in March 2017. Auckland is at 5.0 percent (down from 6.1 percent a year before) and Wellington 5.1 percent (down from 5.9 percent a year before). The South Island looks better with Tasman/Nelson/Marlborough/West Coast at 2.8 percent showing a statistically significant improvement from 5.1 percent a year before, Otago at 4.4 percent (the same as a year before) and Southland at 4.7 percent (4.6 percent a year before). However Canterbury at 4.0 percent has a statistically significant deterioration from 2.7 percent a year before.

★ There are 44,500 unemployed people who have been **out of work for more than 6 months**. This is apparently a large increase from the 32,100 a year before but a change in the survey question could have contributed to this. This is 32.0 percent of the unemployed compared to 22.9 percent a year before, a level that has not been previously reached in a March quarter since 1999. Those out of work for more than a year are 14.0 percent of the unemployed compared to 10.3 percent a year before (again possibly affected by the changed survey question), the highest in a March quarter since 2002.

★ The unemployed were not the only people looking for work: "**underutilisation**" includes the officially unemployed as above, people looking for work who are not immediately available or have not looked for work sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours ("underemployed"). In the March quarter there were a total of 346,700 people looking for work classed as "underutilised", or 12.5 percent of the labour force extended to include these people. Of them, 109,600 were underemployed, 139,100 were officially unemployed, and 98,000 were additional jobless people looking for work (these figures are not seasonally adjusted). The 12.5 percent underutilisation rate is lower than the 13.8 percent a year before but considerably higher than in September 2007 when it was 8.8 percent. It is higher for women at 15.9 percent than for men (9.3 percent). Excluding the officially unemployed, the underutilisation rate is 7.5 percent.

★ The number recorded as **employed** rose by 29,000 between the December 2016 and March 2017 quarters (seasonally adjusted). The recorded employment rate rose from 66.8 percent to 67.1 percent over the three months. It was 61.6 percent for women and 73.0 percent for men. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) rose from 70.5 percent to 70.6 percent, all in seasonally adjusted terms.

★ **By industry**, the increase in employment of 20,100 since the December 2016 quarter was made up of both gains and losses. The biggest gains were of 18,900 in Manufacturing, 6,900 in Professional, scientific, technical, administrative, and support services, and 4,400 in both Transport, postal, and warehousing and Rental, hiring, and real estate services. The largest falls were of 9,800 in Retail trade, accommodation and food services, and 4,000 in Arts, recreation, and other services. These are not seasonally adjusted.

★ In the March 2017 quarter, total **union membership** was estimated at 375,400, a 0.7 percent fall from 377,900 in the December quarter and down from 379,300 in the June quarter. The membership is 18.1 percent of employees (or slightly higher if those who didn't know were discounted) compared to 18.3 percent in the December quarter and 19.1 percent in the June quarter. Women make up 56.5 percent of the membership compared to 48.9 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.0 percent compared to 15.4 percent. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends. Regarding coverage by a **collective employment agreement**, 18.7 percent of employees (387,800, which is larger than the estimated number of union members) said their employment agreement was a collective in March compared to 19.2 percent in December and 20.6 percent (410,300) in June; 66.4 percent (1,373,400) said it was an individual agreement compared to 65.9 percent in December and 62.9 percent in June, and 7.4 percent or 153,900 said they had no agreement (which is illegal), compared to 7.8 percent in December and 8.6 percent in June. While the proportion has fallen slightly, there is still a large number that flout the law. A further 7.4 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.1 percent for men and 21.5 percent for women. Again, these figures could be affected by seasonal variations in numbers.

★ By **employment relationship**, in the March 2017 quarter, 90.0 percent of employees (1,862,800) reported they were permanent, 4.9 percent casual (102,100), 2.5 percent fixed term (51,100), 1.5 percent seasonal (31,700), and 0.3 percent employed through a "temporary agency" (7,200). The proportion reporting they were permanent was up from 89.3 percent (1,840,300) in December 2016 and 88.7 percent (1,762,900) in June. Women were slightly less likely to be permanent employees: 89.2 percent of women were permanent compared to 90.8 percent of men. Instead, women were more likely to be casual (5.4 percent of them compared to 4.5 percent of men) or fixed term (3.0 percent of women compared to 1.9 percent of men). However somewhat more men were in seasonal work than women – 1.7 percent of men (17,900) compared to 1.5 percent of women (13,800). Of the temp agency employees, 3,400 were men and 3,800 women. Women made up 48.9 percent of employees. Employment relationships may have seasonal variations, so we should be cautious about seeing trends in quarterly comparisons. In addition, small differences may not be statistically significant.

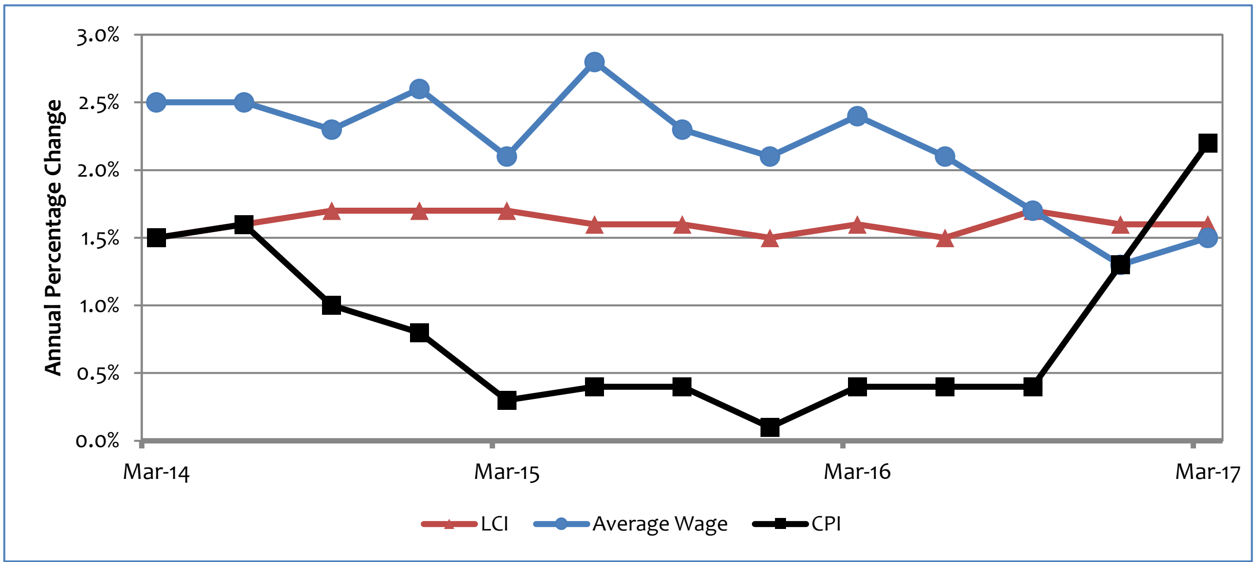
★ By **duration of employment (job tenure)**, in the March 2017 quarter, 22.8 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.0 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 17.2 percent had been in their job for at least five but less than ten years, and 25.6 percent had been in their jobs for 10 years or more. Women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 27.6 percent of men had been in their jobs for more than 10 years, but only 23.4 percent of women. Age is a significant factor: 53.0 percent people aged 15 to 24 had been in their jobs for less than a year, and 29.8 percent of 25-34 year olds, but only 12.8 percent of 45-54 year olds and 10.6 percent of 55-64 year olds. Small differences may not be statistically significant.

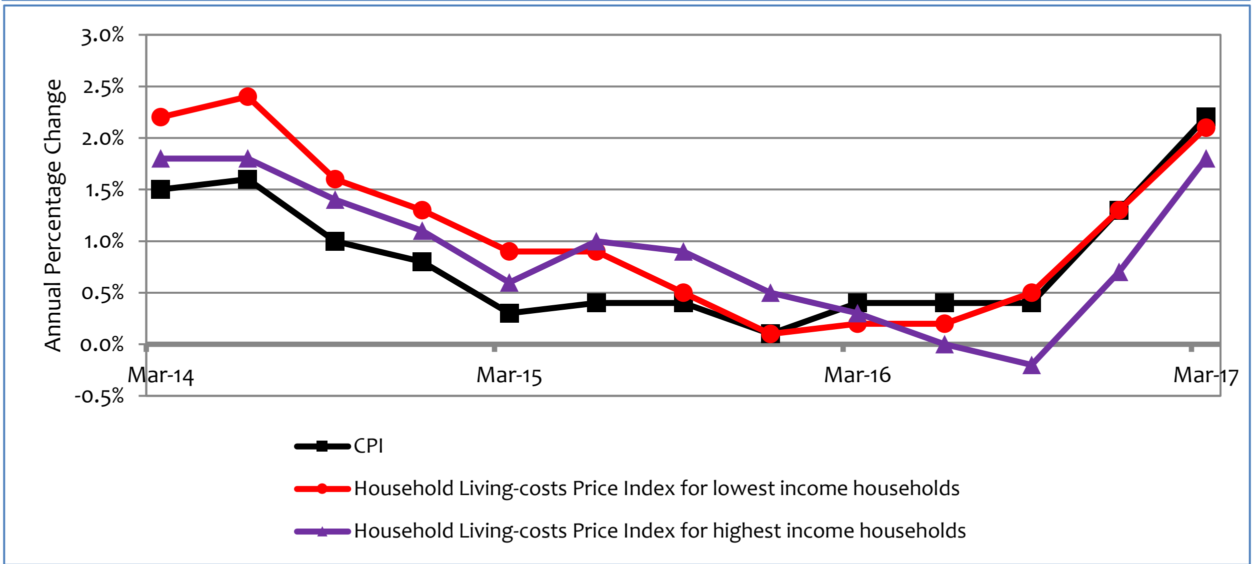
- The Ministry of Social Development reports that at the end of March 2017 there were 119,405 working age people on the Jobseeker benefit, 2,271 more than a year before but a fall of 4,906 from 124,311 in December. At March 2017, 63,945 were classified as 'Work Ready', and 55,460 were classified as 'Health Condition or Disability'. A total of 278,236 were on 'main' benefits, 1,655 fewer than a year before, mainly due to 4,175 fewer on Sole Parent Support, and 18,744 lower than December, mainly because of over 10,000 coming off a 'Jobseeker Support Student Hardship' benefit during the three months. The Minister welcomed the fall in numbers on Sole Parent Support, attributing it to the Budget 2015 package that "set new requirements for sole parents and partners of beneficiaries to look for part-time work of 20 hours a week when their youngest child turns 3, instead of 5". She inaccurately claimed that "the proportion of the population on a main benefit (9.6 per cent) [is] the lowest it's been in a March quarter since 1997". In fact it was at 9.0 percent of the population (she means those aged 15 to 64) in March 2008 when it was 22,482 lower. Of the 52,826 benefits cancelled during the three months to March, 22,344 or 42.3 percent obtained work, 11.1 percent transferred to another benefit and 13.7 percent became full time students.

- ★ Job Vacancies Online for April 2017 showed the seasonally adjusted number of job vacancies fell by 4.7 percent in the month and rose 5.4 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Auckland rose 4.8 percent, Wellington fell 0.2 percent, the rest of the North Island rose 10.7 percent, Canterbury rose 1.6 percent and the rest of the South Island rose 9.0 percent. Over the month, vacancies fell in all regions: in Auckland by 4.5 percent, Wellington by 4.9 percent, the rest of the North Island by 4.8 percent, Canterbury by 1.2 percent and in the rest of the South Island by 9.8 percent. By industry, the fastest annual increases were in Construction and engineering (up 14.8 percent) and Hospitality and tourism (up 10.8 percent) but vacancies fell in four of the eight sectors including y 23.1 percent in Education and training and 16.3 percent in IT. Over the month, the only rise was 0.5 percent in Construction and engineering with falls led by Education and Training which fell a huge 33.7 percent. By occupation, the fastest rises over the year were for Machinery Drivers (up 20.7 percent), Labourers (up 17.0 percent), Sales (up 14.6 percent) and Technicians and Trades workers (up 9.8 percent). Vacancies for Professionals fell 2.7 percent. Over the month, vacancies fell across all occupation groups except Technicians and Trades workers (up just 0.9 percent) and Labourers (up 1.0 percent) while falls were led by Professionals (down 10.4 percent).

- ★ International Travel and Migration statistics showed 10,890 permanent and long-term arrivals to New Zealand in April 2017 and 5,110 departures in seasonally adjusted terms, a net gain of 5,780. There was a record actual net gain of 71,885 migrants in the year to April, close to the highest ever. Net migration to Australia in the year to April was 780 arrivals, with 24,680 departures and 25,460 arrivals. However there was a net loss of 4,416 New Zealand citizens to Australia over the year and a net loss of 1,406 to all countries. For the month of April, there was a seasonally adjusted net loss from Australia of 200, compared to a gain of 40 a year before. In April, 13.7 percent of the arrivals had residence visas, 15.9 percent student visas, 34.4 percent work visas, and 5.6 percent visitors. A further 29.7 percent were New Zealand or Australian citizens.

Wages and prices





★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to March 2017 and increased 1.6 percent in the year, behind the 2.2 percent increase in the CPI. The LCI increased 0.3 percent in the public sector and 0.4 percent in the private sector in the three months to March. Over the year it rose 1.7 percent in the public sector and 1.5 percent in the private sector. During the year, 44 percent of jobs surveyed did not receive a pay rise, and 47 percent of private sector jobs got no rise. For the 56 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.1 percent and the average increase was 3.0 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.3 percent; the average increase in the public sector was 2.5 percent and in the private sector 3.1 percent. We estimate that over the year, jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those which were not, and are more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent but are 30 percent less likely to get one of more than 5 percent. Only 47 percent of jobs that were not on a collective got a pay rise during the year whereas the Centre for Labour, Employment and Work reports 99 percent of those on a collective got a pay rise. In the construction industry, salary and ordinary time wage rates in Canterbury went back to falling behind the rest of the country after a brief spurt in December: they rose 0.0 percent in Canterbury in March, but 0.7 percent in the rest of the country. Over the year to March, wage rates also rose faster in the rest of the country: 1.3 percent in Canterbury compared to 2.0 percent elsewhere. For those getting a rise, Canterbury wage rates rose 4.0 percent in the year compared to 3.6 percent elsewhere.

- ★ The Quarterly Employment Survey for the three months to March 2017 found the average hourly wage for ordinary-time work was $29.90, up 0.5 percent on the previous quarter and up just 1.5 percent over the year. Female workers (at $27.76) earned 12.4 percent less than male workers (at $31.68) for ordinary time hourly earnings. The average ordinary-time wage was $27.82 in the private sector (up 0.3 percent in the quarter and just 1.1 percent in the year) and $38.81 in the public sector (up 3.1 percent in the quarter and 4.3 percent in the year). In March, average total hourly wages (including overtime) ranged from $18.90 in Accommodation and food services (a fall from $19.05 in the previous quarter) and $21.12 in Retail trade, to $42.11 in Finance and insurance services, and $39.76 in Information, media and telecommunications (a fall from $40.26 in the previous quarter). In Accommodation and food services, 59.4 percent of employee jobs were part time, and in Retail trade, 41.8 percent were part time; 43.7 percent were also part time in Health care and social assistance, 39.3 percent in Arts, recreation and other services, and 27.3 percent in Education and training. Together these five industries made up 67 percent of all part time work. (However the QES does not include agriculture or fishing and excludes very small businesses.)

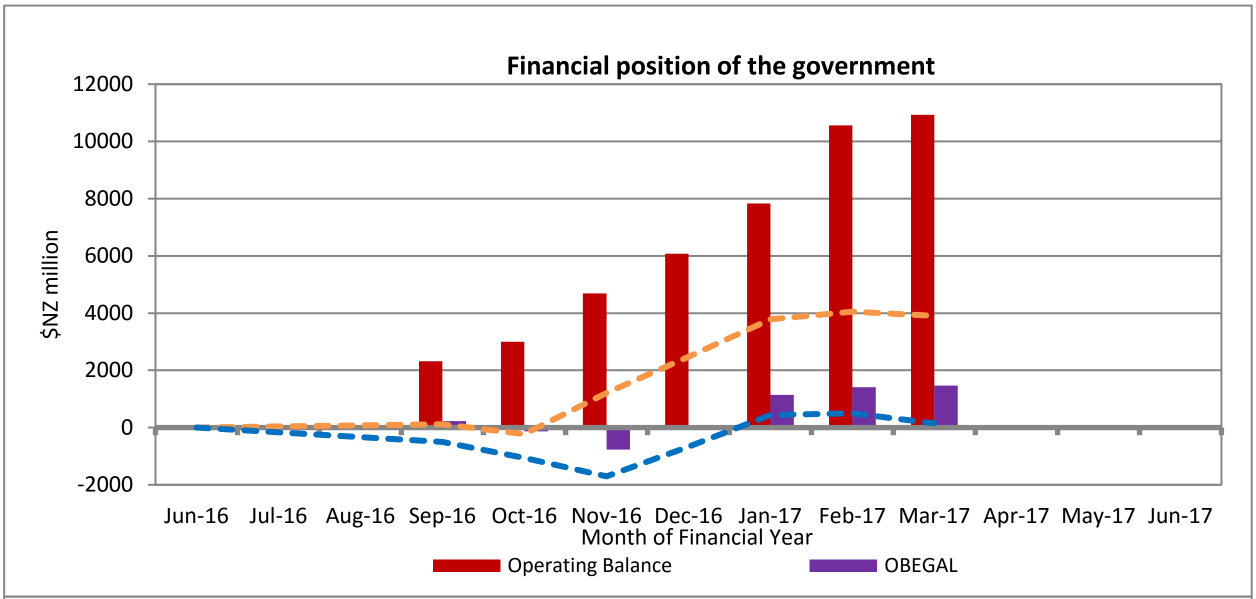
- The Consumer Price Index (CPI) rose 1.0 percent in the March 2017 quarter compared with the December 2016 quarter, and also 1.0 percent in seasonally adjusted terms. It increased 2.2 percent for the year to March, the largest annual increase since 2011 (which was boosted by the GST increase). For the quarter, the largest upward influence was Fruit (up 15.8 percent), and Food together accounted for 42.8 percent of the rise with rising prices of Grocery food contributing almost as much as Fruit. The annual rises in the tax on cigarettes and tobacco increased their prices by 9.7 percent, contributing nearly one third (29.3 percent) of the total rise. Petrol prices, rising 4.1 percent, contributed another 19.0 percent of the total rise. There were falls in International air transport (down 10.7 percent), Package holidays (down 7.5 percent) and Telecommunications services and equipment (down 1.2 percent and 1.0 percent respectively). Over the year, Housing and household utilities was easily the biggest driver in the rise, up 3.3 percent and contributing for over one third (38.4 percent) of the increase with new housing up 6.7 percent and all the other components rising faster than overall CPI: Property maintenance (up 2.6 percent), Property rates and services (up 3.3 percent), rents (up 2.3 percent) and Household energy (up 2.3 percent). Not part of the Housing group but also related to housing are house insurance (up 5.4 percent), and Real estate services (up 11.6 percent). Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in March (down 1.7 percent in the quarter and 8.9 percent over the year) though there are signs it is beginning to rise again. Other major contributors to the annual increase were petrol, accounting for nearly a quarter (23.2 percent) of the total, rising 12.2 percent, Food (up 1.6 percent) and Cigarettes and tobacco (up 9.8 percent). In seasonally adjusted terms, the CPI rose 1.0 percent from December, Food rose 1.2 percent, Alcoholic beverages and tobacco rose 1.0 percent, Clothing and footwear rose 0.2 percent, Housing and household utilities rose 0.8 percent, Communications fell 1.5 percent, Recreation and culture fell 0.1 percent, and Education fell 0.1 percent. Inflation in Canterbury for the year was 1.9 percent and it was 2.0 percent in the rest of the South Island. In Auckland prices rose 2.4 percent, Wellington 2.2 percent and 2.1 percent in the North Island other than Auckland and Wellington. Auckland's housing costs rose 3.9 percent over the year, the fastest in the country; Wellington's rose 2.6 percent, the North Island (outside Auckland and Wellington) rose 3.3 percent, Canterbury's rose 2.0 percent and rest of the South Island rose 3.0 percent, with the national average movement of 3.3 percent exceeded only by Auckland.

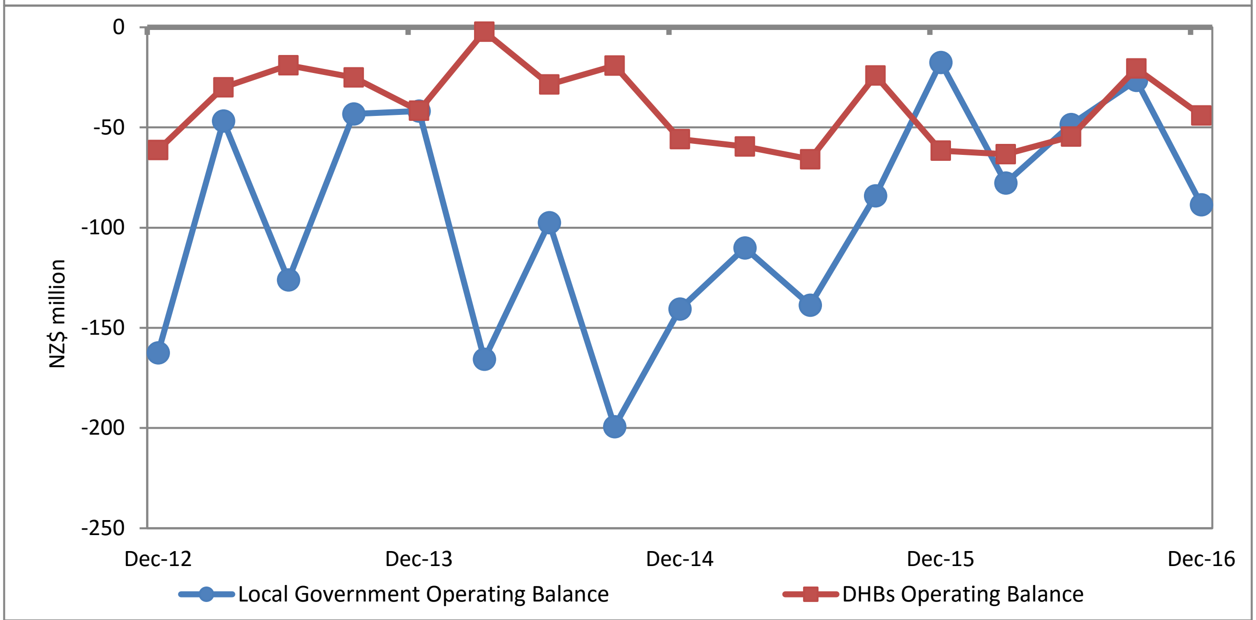
★ The **Household Living-costs Price Indexes** (HLPIs) for the year to March 2017 again showed lower income households experiencing faster price rises than higher income households because of the differences in what they spend their money on. Prices for the necessities of housing, food and petrol dominated the rises while relative luxuries international travel and package holidays dominated falls. The All households HLPI index rose 1.9 percent, the Beneficiary households index rose 2.2 percent, the Māori households index rose 2.1 percent, and the Superannuitant households index rose 2.0 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.1 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.9 percent, and quintile 5 (the highest incomes) rose 1.8 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.3 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.9 percent, quintile 4 rose 1.8 percent, and quintile 5 rose 1.6 percent. Over the March quarter, the All households HLPI index rose 0.9 percent, the Beneficiary households index rose 1.4 percent, the Māori households index rose 1.3 percent, and the Superannuitant households index rose 0.9 percent. By income quintile, over the year the index for the lowest income households (quintile 1) rose 1.2 percent, quintile 2 rose 1.2 percent, quintile 3 rose 0.9 percent, quintile 4 rose 1.0 percent, and quintile 5 rose 0.6 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 1.3 percent, quintile 2 rose 1.2 percent, quintile 3 rose 1.0 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.5 percent.

HLPIs show price increases like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by different types of households. There are fourteen indexes: for "all households", Beneficiary households, Māori households, Superannuitant households, five for households ranked by income (five "income quintiles"), and five for households ranked by expenditure ("expenditure quintiles"). See the commentary in the November 2016 Bulletin for more detail.

★ The Food Price Index fell by 0.8 percent in the month of April 2017 (and fell 0.2 percent in seasonally adjusted terms). Food prices rose 0.2 percent in the year to April. Compared with the previous month, fruit and vegetable prices rose 4.2 percent (and also rose 4.2 percent seasonally adjusted); meat, poultry, and fish prices fell 1.7 percent; grocery food prices fell 2.2 percent (down 2.1 percent seasonally adjusted); non-alcoholic beverage prices fell 2.7 percent; and restaurant meals and ready-to-eat food prices rose 0.1 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector





★ According to Treasury's [Financial Statements of the Government of New Zealand] for the nine months to 31 March 2017, core Crown tax revenue was $527 million (1.0 percent) higher than forecast in the 2016 Half Year Economic and Fiscal Update (HYEFU 16). In the November statement, Treasury adjusted its forecasts to estimate the fiscal cost of the Kaikōura earthquakes which were "expected to be between $2 billion and $3 billion. As a result, $1 billion was added to the HYEFU 16 forecasts in relation to estimated costs that could not be met by insurance proceeds, reprioritisation or existing budget allowances." The results reported need to be read in this light. Tax was $527 million above forecast and $3.7 billion (7.3 percent) higher than the same time last year, mainly driven by corporate tax which was $673 million ahead of forecast. Treasury comments that this indicated that "profits in the 2016 tax year were higher than forecast and that this has continued into the 2017 tax year". However GST was $145 million (1.0 percent) below forecast mainly due to "lower than expected residential investment" and PAYE was $110 million (0.5 percent) below forecast. Overall core Crown revenue was $546 million or 0.9 percent higher than forecast. Core Crown expenses were $722 million (1.3 percent) below forecast, mainly because expected Kaikōura earthquake costs “have yet to eventuate”. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $1,468 million in surplus, $1,321 million better than forecast. The Operating Balance was a $10.9 billion surplus, $7.0 billion higher than expected “largely due to actuarial gains on the ACC and GSF liabilities being $2.3 billion and $1.5 billion above forecast respectively, mostly reflecting an increase in the discount rate used to convert future cash into present day dollars”. Net debt at 23.8 percent of GDP ($62.0 billion) was $1,648 million lower than forecast. Gross debt at $87.8 billion (33.6 percent of GDP) was $3.2 billion less than forecast. The Crown’s net worth in financial terms was $7.1 billion higher than forecast at $100.4 billion.

- ★ District Health Boards had 478 full time equivalent staff fewer than planned at the end of March 2017 (62,336 compared to 62,844 planned). While all categories of staff were affected except Nursing (which was 284 over plan), the largest shortfalls were in Allied Health Personnel (297 short), Medical Personnel (doctors – 198 short), and Management/Administration staff (201 short). Average costs per full time equivalent staff were very close to those planned ($93,700 compared to $93,200). The DHBs had accumulated combined deficits of $47.7 million in the nine months to March. This is $34.4 million worse than their plans. The Funder arms were in surplus by $131.6 million, $47.4 million more than planned, and Provider arms (largely their hospitals) in deficit by $179.4 million, $82.4 million worse than planned. The Northern region was $7.2 million behind plan with a surplus of $16.0 million and three of the four DHBs in surplus. The Midland region was $14.8 million behind plan with a deficit of $1.3 million and three of the five DHBs in surplus including Waikato which nonetheless was $7.1 million behind plan. Central region was $3.9 million behind plan with a combined $19.9 million deficit and two of the six DHBs in surplus. The Southern Region was $8.6 million behind plan with a $42.4 million deficit and two of the five DHBs in surplus, with Canterbury showing a $32.7 million deficit and Southern $12.3 million. In all, 10 of the 20 DHBs were in surplus but only six ahead of plan. The DHB furthest ahead of plan was Southern by $1.6 million, and Canterbury was furthest behind, by $8.8 million. Capital expenditure across all DHBs was behind plan with $464.0 million spent out of $609.9 million planned.
- Local Government recorded a 2.2 percent ($53.7 million) fall in operating income in seasonally adjusted terms and a 0.3 percent rise in operating expenditure ($8.3 million) including a 0.8 percent fall in employee costs (down $4.5 million) for the December 2016 quarter compared to September 2016. This resulted in an operating deficit of $88.5 million in the December quarter, compared with a deficit of $26.4 million in the September quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin189.

For further information contact Bill Rosenberg.