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Information Section p.7

Commentary

Shrinking share of income to low and middle-income earners

Summary

A new report on inequalities in wages, salaries and the income of the self-employed finds growing inequalities in the income they earned per hour over the period 1998 to 2015.

To a reasonable approximation, two-thirds of employees are paid below the average wage and they received either very low wages or experienced low wage growth, or both. That means growth in the average hourly wage is not a good indicator of the rises most people receive.

The data analysed was provided by Statistics New Zealand from their annual New Zealand Income Survey. It covers all jobs held by a person and is before tax and benefits such as Working for Families tax credits.

For wage and salary earners, the minimum wage formed a very strong backstop. The rise in the hourly pay of the lowest income one-tenth of employees was strongly boosted by rises in the minimum wage, so that over the whole period they received on average the same increase as the tenth of employees with the highest hourly pay – 39 percent in real terms over the whole period. But the average hourly wages of the next 50 percent of employees above the minimum wage rose at just half that rate – just 18 to 20 percent.

People on low rates of pay increased the hours they worked over period – while those at the highest rates reduced their work hours.

Inequality among the self-employed was even greater. The lowest hourly incomes among the self-employed were negative: they were making losses. The highest one-tenth received an hourly income double that of the highest income wage and salary earners.

But many were on very low incomes: in 2015, the hourly earnings of an estimated 41 percent of the self-employed were under the minimum hourly wage and 51 percent were under the Living Wage. The average hourly earnings of the lowest 30 percent fell in real terms between 1998 and 2015. However even the top earners saw average earnings rise only 17 percent.

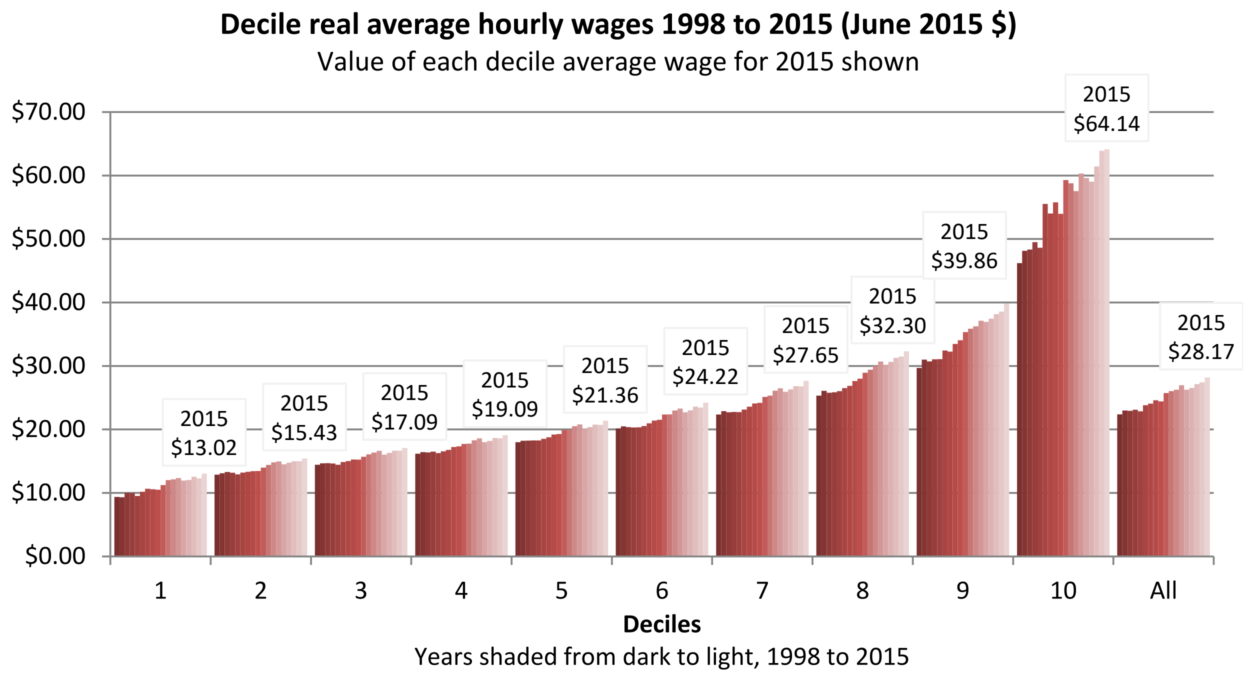
While hours worked per week by self-employed people fell over the whole income range, the higher their incomes, the fewer hours self-employed people worked per week.

There are ways many self-employed people can hide their incomes, especially through capital gains, so we cannot take these results entirely at face value. But either some self-employed are earning very poor rates of income or there is a lot of work for tax authorities and tax reformers to do, and probably both. A capital gains tax would help considerably.

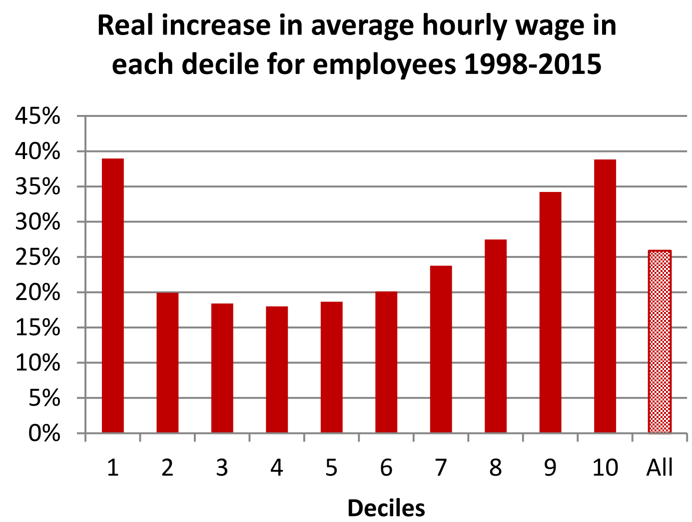
This week we released a new study which is available on the CTU website, "Shrinking portions to low and middle-income earners: Inequality in Wages and Self-Employment 1998-2015". It shows rising inequality in the hourly rates of gross earnings (before tax and benefits) among both wage and salary earners and the self-employed over the period 1998-2015, although incomes of the lowest 10 percent (decile) of wage and salary earners benefited greatly from strong rises in the minimum wage since 2000. A majority of people received either low earnings per hour or experienced low growth in those hourly rates, or both.

The data was provided on special request by Statistics New Zealand (SNZ) from the New Zealand Income Survey and comprises jobs sorted into deciles by income per hour, along with hours worked, numbers of people and total income earned in each decile. It covers all jobs held by a person and is before tax and benefits such as Working for Families tax credits. Data for 2016 was unable to be used because a change in the survey prevents valid comparison between 2016 and earlier data.

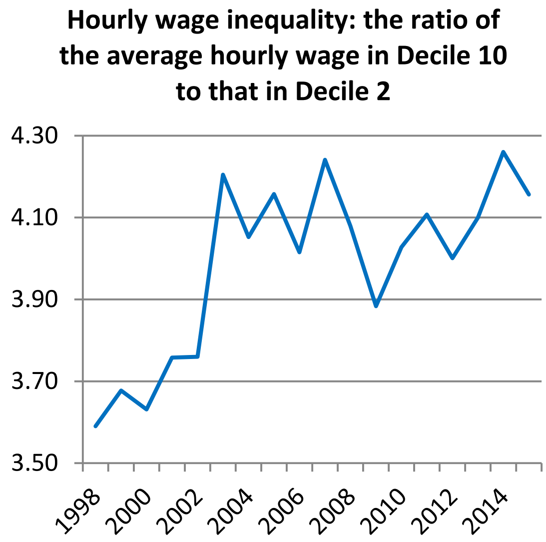
Employees



For wage and salary earners (employees) the study finds increasing inequality in average hourly wages. The exception is the lowest income decile which is heavily influenced by the minimum wage, whose income has risen on average at about the same rate as the top decile and rose faster during the Labour-led Government in the early 2000s than in previous or subsequent National-led Governments. Other than that, wage rates for the next 50 percent (deciles 2 to 6) of employees rose much more slowly than the wage rates of higher income wage and salary earners: the real average hourly wage of the top 10 percent rose by 39 percent while the

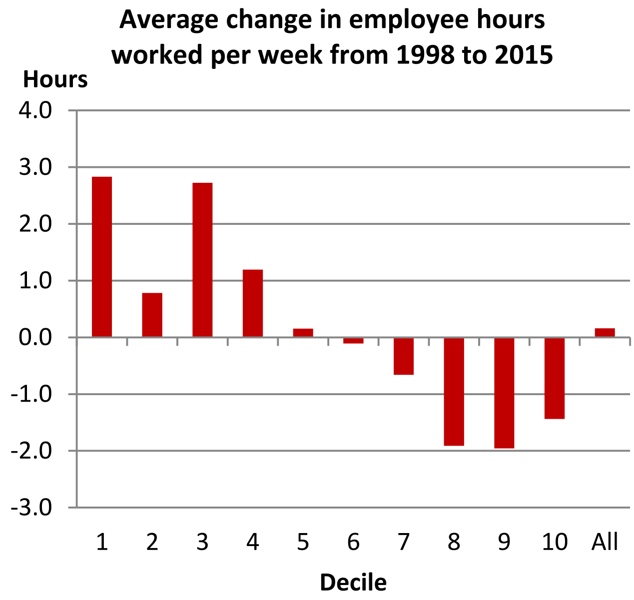


low and middle income 50 percent rose by 18-20 percent between 1998 and 2015 in real terms. On the whole, the more highly paid employees were, the faster their hourly wage rates increased, creating growing inequality. There is a 'hollowing out' of the wage scale in the sense that the low and middle income half of employees were getting much lower real increases in pay rates than the top 40 percent – and that higher income group is becoming increasingly unequal.



On the other hand weekly wages showed a weaker growth in inequality over the period. The reason is that employees on lower wages worked increasingly long hours to make up for slower increases in their hourly rate, while those on the highest 40 percent of wages reduced the hours they worked.

The top of the lowest income decile closely tracks the adult hourly minimum wage, but the mean for the decile during the period averaged 10 percent below the minimum wage, implying many workers are being paid below the adult minimum wage. This can be partly explained by lower minimum wage rates for young workers and trainees, misreporting of incomes, and the unintended inclusion of some self-employed who pay themselves a wage or salary in SNZ's survey, but there remains a gap that could suggest significant flouting of minimum wage laws.



In 2015, an estimated 778,000 or 39 percent of wage and salary earners earned below the Living Wage. Two-thirds of wage and salary earners had wages below the average hourly wage over the period.

To a reasonable approximation, employees paid below the overall average hourly wage received either low wages or experienced low wage growth, or both.

Employees on or below the Living Wage

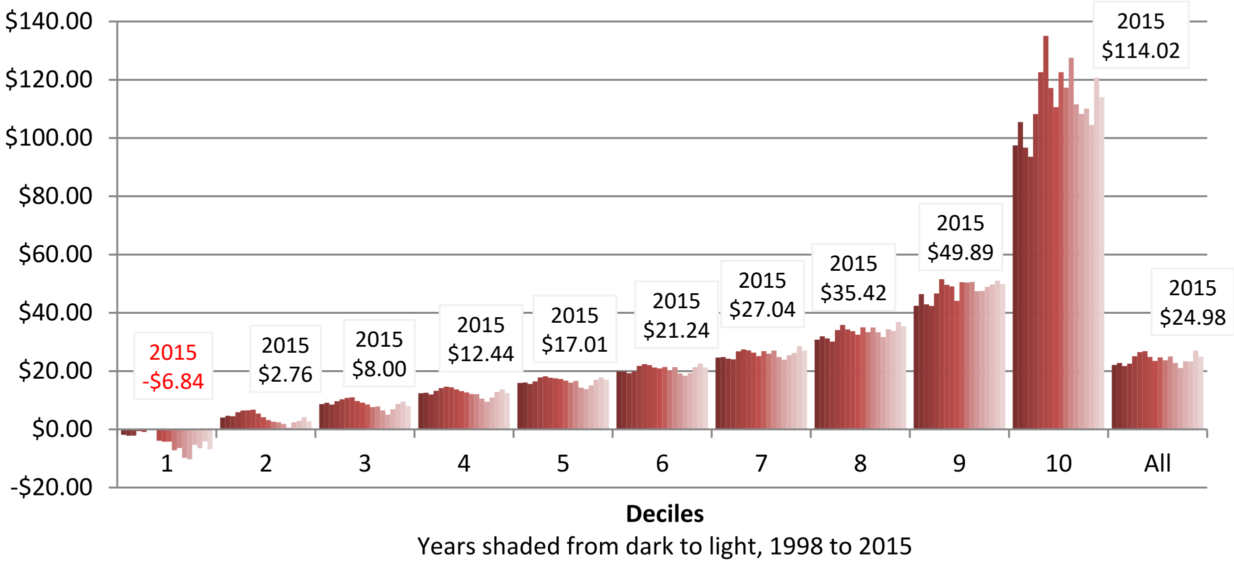
June year	Living Wage	Number of employees on or below Living Wage	Proportion of all employees
2012	$18.40	691,000	38.2%
2013	$18.80	704,000	38.0%
2014	$19.25	746,000	38.5%
2015	$19.80	778,000	39.0%
2016	$20.20	694,000	36.0%

The main differences between the policy regimes of the Labour-led Government (taken to be 2000-2008) and National-led Government (2009-2015) were a slower rate of real wage growth and faster rise in hours worked under National. Wage inequality rose under both Governments though there is a suggestion of a pause towards the end of the Labour-led Government.

Self-employed

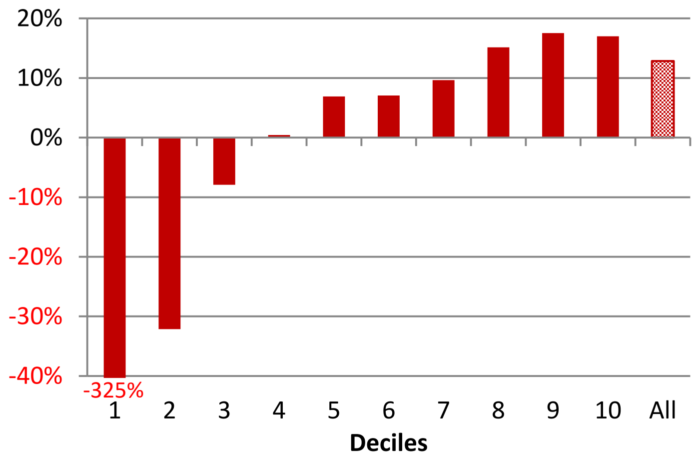
Decile real incomes per hour of self-employed 1998 to 2015 (June 2015 $)

Value of wage for 2015 shown



Self-employed people earned less than wage and salary earners per hour comparing both average and median hourly incomes for the whole of each group. Their incomes also increased more slowly. However their ability to spread their incomes among family members, take income as capital gain (not reported in Statistics New Zealand's survey) and other ways to disguise income are important factors.

Real increase in average income per hour in each decile for self-employed, 1998-2015

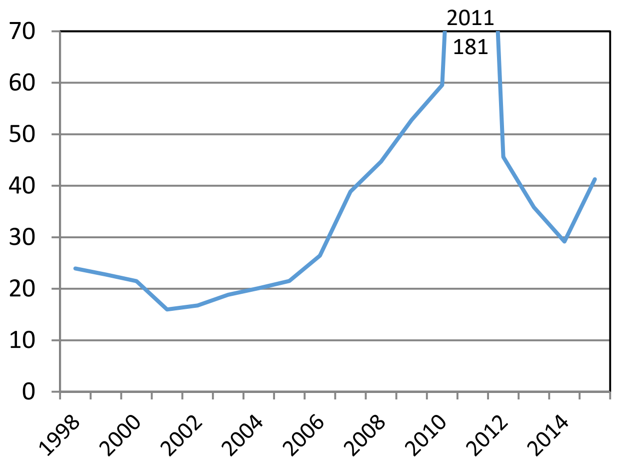


The spread and inequality of earning rates is far greater for self-employed people than employees: the lowest income 10 percent had negative incomes and in 2015, an estimated 41 percent of self-employed were earning less per hour than the minimum wage and 51 percent were earning under the Living Wage. Meanwhile the highest 10 percent had average hourly earning rates double those of the highest 10 percent of employees on average over the 1998-2015 period.

Among self-employed, the higher their earning rates (whether hourly or weekly) the more rapidly they rose over the period. The bottom 30 percent however had falling earning rates in real terms. Their weekly incomes were not moderated as much as employees by the hours they worked, and it is the highest earning self-employed who work the shortest hours (averaging 29 hours per week in 2015). Average hours worked have fallen or remained static for almost all self-employed income groups over the period of study and although on average they still work longer hours than employees, that difference has fallen to 39.3 hours per week for self-employed compared to 36.3 for employees in 2015.

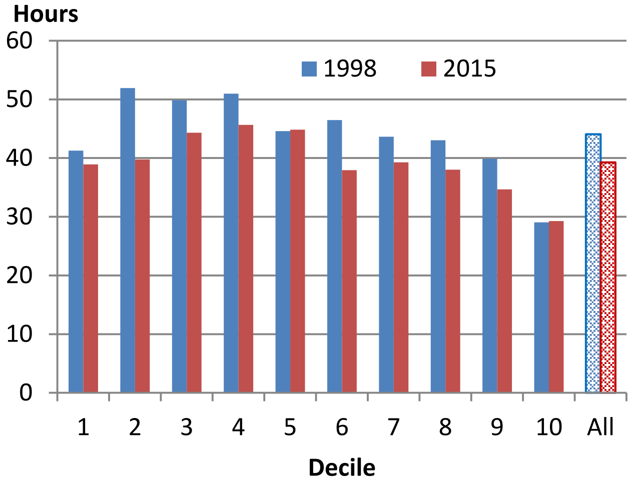
The main differences between the two policy regimes with respect to self-employed incomes were a rise in income inequality under Labour compared to a fall under National (though inequality was by then at a higher level). There is a suggestion of a slower rate of income growth and slower fall in hours worked under National but this difference is unlikely to be statistically significant.

Self-employed income inequality: the ratio of average income per hour in Deciles 10 and 2



The low rates of earning also suggest that very poor labour productivity is widespread among the self-employed, a further concern given it constitutes a sizeable portion of New Zealand's economy.

Average hours worked by self-employed in each decile, 1998 and 2015



In conclusion

The strong rises of the minimum wage over the period have been effective in protecting the wage rates of the lowest income 10 percent of employees, but not those of the next 50 percent or more in deciles 2 to 6. It is surprising that the minimum wage does not support a greater ripple effect up the wage scale. Such hollowing out of the wage distribution is often explained by technology making middle skill jobs redundant and forcing more people into low skilled, low paid employment. However the evidence for this is mixed in New Zealand. There is a rising proportion of jobs in higher skilled occupations, but there is also evidence of the average skill of workers falling in recent years because of strong growth in the employment of lower skilled workers. The poor wage increases beyond the bottom decile could be because of the weak bargaining power of the majority of workers who do not have coverage of a collective employment agreement. Globalisation is increasingly recognised as another contributor to wage inequality which has some explanatory power for New Zealand. The impact of the minimum wage shows that such effects can be significantly and positively countered by regulatory measures.

The data provides little support for the idea that people have low incomes because they don't work hard enough. The highest income earners among employees worked fewer hours per week on average than the next five deciles and their work hours fell over the period. The highest income earners among self-employed people worked the fewest hours on average of all self-employed deciles, and more only than the lowest employee decile whose members on average worked part time.

Because of the ability of the self-employed to disguise or under-report their income in various ways, further research is needed to understand to what extent the low earning rates they report, and the low rate of increase in earnings, is a reality. Tax authorities and policy makers should be interested too. A capital gains tax would help considerably. However, among the self-employed are some with very low incomes, and many of them are likely to have very variable incomes too: they could well be among the most precarious workers in New Zealand. Public policy should take an interest in those who are forced into self-employment (often dependent contracting) by their employers, or where small businesses are given special advantages.

Bill Rosenberg

Information

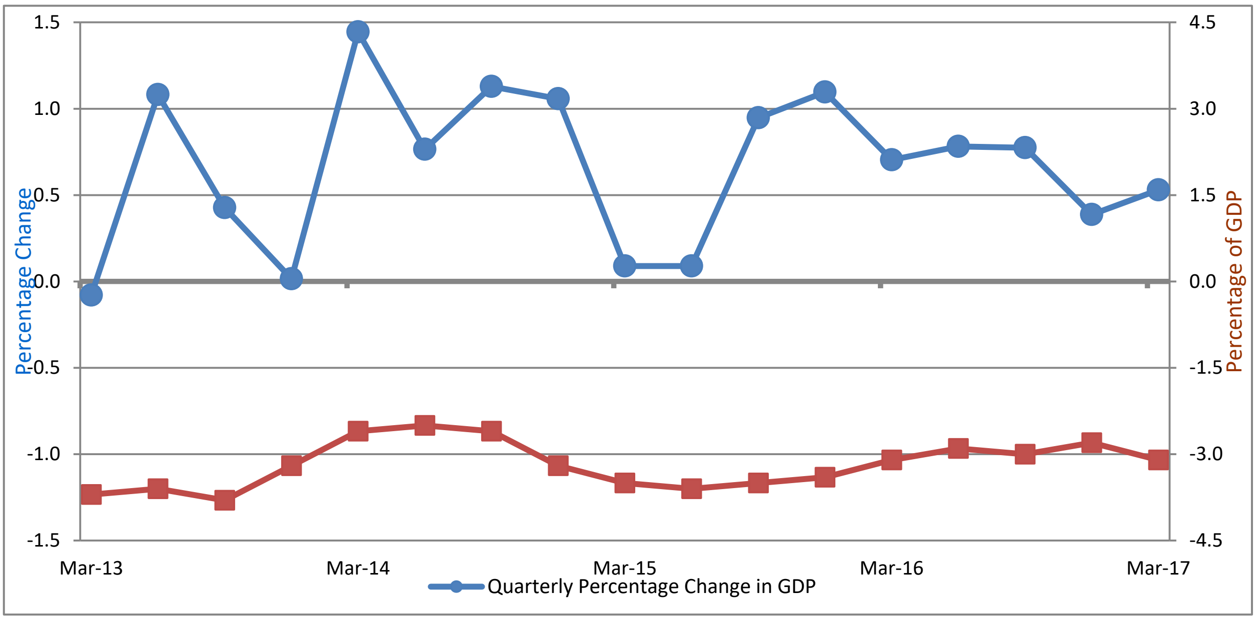
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This NZIER consensus forecast was released on 12 June 2017.

Annual Percentage Change (March Year)	**2017-18**	**2018-19**	**2019-20**
GDP	3.1	3.3	2.7
CPI	1.5	2.0	2.1
Private Sector average hourly wage	2.1	3.0	3.0
Employment	2.4	2.1	1.6
Unemployment rate (% of labour force)	4.7	4.6	4.6

Economy



- Growth in New Zealand's economy was below expectations in the three months to March 2017, with Gross Domestic Product rising by 0.5 percent, compared to 0.4 percent in the December quarter and 0.8 percent in both the June and September quarters too. This is the second consecutive quarter in which GDP growth has been below forecasters' expectations and is well below Treasury's 1.1 percent forecast in the Budget. If this pattern continues it could affect the viability of the Government's tax reductions and spending. Average growth for the year ended March 2017 was 3.0 percent (and 2.5 percent increase between March quarters compared to Treasury's 3.1 percent forecast, though its average growth forecast was closer to actual, also at 3.1 percent). However GDP is not keeping up with the rapidly growing population: GDP per person fell 0.1 percent in the March quarter, though it rose 0.9 percent over the year. 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, fell by 0.9 percent over the quarter after rising by an exceptionally strong 1.8 percent (revised down from 2.3 percent) during the December quarter. It rose 1.8 percent over the year to March. I estimate[1] that production per hour worked in the economy fell by 1.4 percent in the year to March compared to the same period a year ago indicating falling productivity which is bad for future wage growth. However it rose 1.1 percent in the March quarter after five consecutive quarters of falls. Business investment growth in the three months (2.3 percent) was strong following (revised down) 1.9 percent in the December quarter, and 3.7 percent over the year. Investment in housing fell 1.6 percent following only 0.1 percent growth in the previous quarter. However it grew 10.2 percent year on year. Household consumption growth strengthened to 1.3 percent in the March quarter in real terms, after rising only 0.4 percent in the previous quarter, and rose a strong 4.7 percent for the year. Inflation in the economy as a whole is higher than CPI with the GDP deflator (a price index

[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.

for expenditure on the economy's production) rising 1.2 percent in the March quarter and 1.8 percent (revised) in the December quarter, with a total rise of 2.5 percent for the year.

- By industry, the largest contributors to growth in the latest quarter were Agriculture, forestry, and fishing (up 2.8 percent), Manufacturing (up 1.0 percent), Electricity, gas, water, and waste services (up 2.1 percent), Retail trade and accommodation (up 1.8 percent), Public Administration and Safety (up 1.6 percent), Health care and social assistance (up 1.6 percent) and Wholesale trade (up (1.4 percent). They were offset by falls in Construction (down 2.1 percent) and Transport, postal and warehousing (down 2.0 percent). Over the year to March, the biggest rises were in Construction (up 9.3 percent), Arts, recreation, and other services (up 6.8 percent), Retail trade and accommodation (up 5.4 percent), Health care and social assistance (up 5.3 percent), and Professional, scientific, technical, administration, and support (up 4.7 percent). However Agriculture, forestry, and fishing was down 1.1 percent over the year, Mining was down 10.5 percent and Information media and telecommunications down 0.2 percent.

- New Zealand recorded a Current Account deficit of $2.8 billion in seasonally adjusted terms for the March 2017 quarter (but an actual surplus of $244 million) following a revised $1.7 billion deficit for the December 2016 quarter. There was another deficit in the goods trade ($1.2 billion, seasonally adjusted, the highest since June 2008) following a $795 million deficit in the December quarter, with deficits in all quarters back to September 2014). There was a seasonally adjusted deficit of $198 million in goods and services (compared to a $386 million surplus in December), the first such deficit since March 2012, while the deficit on primary income (mainly payments to overseas investors) deteriorated to $2.3 billion from $2.1 billion in December (seasonal adjustment not available). For the year to March 2017, the current account deficit was $8.1 billion or 3.1 percent of GDP compared to a $7.2 billion deficit in the year to December (2.8 percent of GDP). The deficit on investment income was $8.5 billion for the year.

- The country's Net International Liabilities were $154.8 billion at the end of March 2017, down from a revised $157.5 billion at the end of December and from $159.0 billion a year before. The March net liabilities were equivalent to 58.5 percent of GDP, compared to a revised 60.4 percent in December and 63.4 percent a year before. They would take 2.19 years of goods and services exports to pay off, down from 2.27 years a year before. The fall in net liabilities was due to $4.6 billion in valuation changes (mainly in market price valuations) reducing liabilities, offset by a $2.0 billion net inflow of investment, increasing liabilities. Without the valuation changes, the net liabilities would have been $159.5 billion. Statistics New Zealand explains the net inflow of investment as follows: "There was a $4.7 billion withdrawal of New Zealand's other investment assets held overseas. This included New Zealand banks withdrawing $2.8 billion of currency and deposits from overseas, while increasing their other investment liabilities such as loans from overseas by $2.5 billion. These are inflows of investment as in both cases money is flowing into New Zealand. Banks settling debt securities saw our portfolio investment liabilities decrease by $3.4 billion. Portfolio investment abroad increased by $1.3 billion, mainly due to increases in equity and debt securities by fund managers. These are outflows of investment as both transactions involve money leaving New Zealand." New Zealand's international debt was $286.5 billion (108.2 percent of GDP), of which 31.1 percent is due within 12 months, compared to $139.9 billion in financial assets (other than shares; 52.8 percent of GDP), leaving a net debt of $146.6 billion (55.4 percent of GDP). Of the net debt, $5.8 billion was owed by the government including the Reserve Bank (equivalent to 2.2 percent of GDP and down from $6.4 billion in December) and $110.3 billion by the banks (41.7 percent of GDP), which owed $155.8 billion gross. Total insurance claims made on overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 31 March 2017, $19.7 billion of these claims had been settled, leaving $516 million outstanding. For the Kaikōura earthquakes, out of an estimated $814 million of claims, $19 million had been settled leaving $795 million outstanding.

★ Overseas Merchandise Trade for the month of July saw exports of goods rise in value by 16.8 percent from the same month last year while imports rose 5.4 percent. This created a trade surplus for the month of $85 million or 1.8 percent of exports, which is rare for July. There was a trade deficit for the year of $3.2 billion or 6.4 percent of exports, slightly worse than the 6.0 percent deficit in the year to the same month in 2016. In seasonally adjusted terms, exports rose 6.7 percent or $303 million over the month (compared to a 3.5 percent rise the previous month) led by rises in Dairy products (up 2.4 percent or $32 million), Meat (up 5.7 percent or $31 million), Fruit (up 7.4 percent or $16 million), Logs, wood and wood articles (up 3.5 percent or $13 million), Mechanical Machinery and Equipment (up 6.9 percent or $9 million), and Crude oil (up 9.3 percent or $3 million, not seasonally adjusted, after a steep rise of 164.6 percent the previous month), offset by falls led by Wine (down 4.0 percent or $6 million), Aluminium (down 5.6 percent or $5 million, not seasonally adjusted), Seafood (down 3.1 percent or $4 million) and Electrical Machinery and Equipment (down 4.6 percent or $4 million). Seasonally adjusted imports rose 2.0 percent or $91 million over the previous month, creating a trade surplus of $154 million compared to a $58 million deficit in the previous month. The imports were led by rises in Petroleum and products (up 4.5 percent or $18 million following a 38.7 percent fall in the previous month, not seasonally adjusted), and Textiles and textile articles (up 4.9 percent or $9 million, not seasonally adjusted), offset by falls in Plastic and plastic articles (down 9.5 percent or $19 million), Mechanical machinery and equipment (down 2.4 percent or $16 million, not seasonally adjusted), and Electrical machinery and equipment (down 2.1 percent or $8 million).

★ The Retail Trade Survey for the three months to June 2017 showed retail sales rose 5.4 percent by volume and 6.7 percent by value compared with the same quarter a year ago. They rose 2.0 percent by volume and 1.6 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Liquor (up 7.4 percent), Accommodation (up 4.9 percent), Food and beverage services (up 4.6 percent) and Specialised food (up 4.2 percent). There were falls in Furniture, floor coverings, houseware, textiles (down 0.7 percent), Pharmaceutical and other store-based retailing (down 0.6 percent) and Non-store and commission-based retailing (which includes online sales, down 0.5 percent). Supermarket and grocery stores, easily the largest single sector, rose 0.2 percent by value and fell 0.1 percent by volume.

★ The Performance of Manufacturing Index for July 2017 was 55.4, a fall from 56.0 in the previous month. The employment sub-index was at 56.4, a sharp rise from 49.0 in the previous month and above the May value of 55.4.

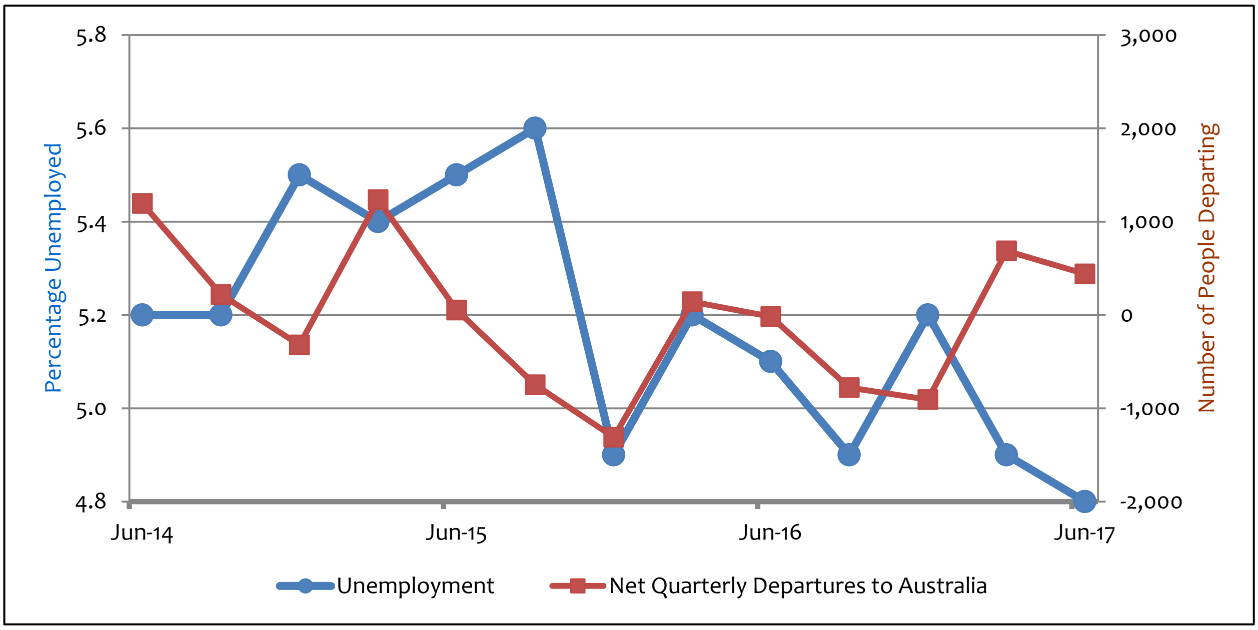
★ The Performance of Services Index for July 2017 was 56.0, a fall from 58.3 the previous month. The employment sub-index was 55.2, up from 54.2 in the previous month.

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.

★ On 10 August 2017 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent and also issued a Monetary Policy Statement. The Bank indicated, as it has for many months, 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 was more relaxed about the international situation: “Global economic growth has become more broad-based in recent quarters. However, inflation and wage outcomes remain subdued across the advanced economies, and challenges remain with on-going surplus capacity.” It means high unemployment. It commented on low interest rates and record high share prices. “Monetary policy is expected to remain stimulatory in the advanced economies, but less so going forward.” It continued expressing concerns about the exchange rate. The trade-weighted exchange index (that is a combination of exchange rates with New Zealand’s main trading partners, weighted by our trade with them) had risen since the time of the last statement “partly in response to a weaker US dollar. A lower New Zealand dollar is needed to increase tradables inflation and help deliver more balanced growth.” Though GDP growth in New Zealand in the March quarter was weaker than expected, the Bank expected it to improve, “supported by accommodative monetary policy, strong population growth, an elevated terms of trade, and the fiscal stimulus outlined in Budget 2017.” The Bank considered that house price rises had “continued to moderate”, due to its loan-to-value ratio restrictions, “affordability concerns” and tighter lending conditions, and thought that the moderation would continue but there was a risk of price rises resuming because of “continued strong population growth” and limits to the capacity of the construction sector to build more houses. As it said last time, it considered inflation would be brought to 2 percent “in the medium term”. The next OCR announcement will be on 28 September 2017.

★ According to REINZ, over the year to July the national median house price rose $17,000 or 3.4 percent to $518,000 and REINZ’s house price index rose 1.2 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 fell 1.2 percent seasonally adjusted while the house price index did not change. In Auckland over the year the median price fell 1.2 percent or $10,000 to $830,000 while the house price index fell 2.1 percent. Over the month Auckland’s median price fell 1.3 percent seasonally adjusted, and the house price index rose just 0.1 percent. Excluding Auckland, over the year the national median price rose $23,838 to $415,838 or 6.1 percent while the house price index rose 7.5 percent. Over the month the median price excluding Auckland was down 2.6 percent on the previous month seasonally adjusted, and the house price index was down 0.1 percent. Three regions had record median prices: Northland ($455,000, up 23 percent over the year), Hawke’s Bay ($400,000, up 25.8 percent), and Otago ($400,000, up 15.3 percent). Median prices fell in 7 of the 14 regions over the month, seasonally adjusted, and sales fell in 8 of the regions. Over the year, sales fell sharply in all regions, averaging a 24.5 percent fall.

Employment



- According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the June 2017 quarter fell to 4.8 percent or 128,000 people, compared to 4.9 percent in March (131,000 people), seasonally adjusted. It is half as much again than the 3.3 percent it was in December 2007, which would mean 40,000 more people would have jobs. The seasonally adjusted female unemployment rate at 4.9 percent in June was higher than for men (4.7 percent), but came down sharply from 5.7 percent in March while male unemployment rose from 4.2 percent. Māori unemployment was almost static changing from 11.0 percent in June 2016 to 11.1 percent in June 2017, while Pacific people's unemployment rose from 9.1 percent to 10.1 percent over the year (though the changes are not statistically significant). Compared to OECD unemployment rates, New Zealand had 12th lowest (out of 35 countries), one position between than in March.

- **Youth unemployment** for 15-19 year olds was 20.7 percent in June, up from 20.5 percent in March 2017, and up from 18.4 percent in June 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 June 2017 the unemployment rate was 34.5 percent, a sharp increase from 24.3 percent a year before. For 15-19 year old Pacific Peoples it was 22.8 percent, down sharply from 32.5 percent a year before. For 20-24 year olds, youth unemployment was 8.5 percent, down from 8.7 percent in March and 9.4 percent a year before. For Māori 20-24 year olds in June 2017 the unemployment rate was 16.6 percent, a fall from 17.4 percent a year before. For 20-24 year old Pacific Peoples it was 20.1 percent, up sharply from 12.2 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 8.8 percent, down from 10.4 percent in March but up from 6.8 percent a year before. For Māori 15-19 year olds in June 2017 the rate was 14.6 percent, up from 11.0 percent a year before and for Pacific Peoples it was 10.9 percent, little changed from 11.0 percent a year before. For 20-24 year olds the NEET rate was 13.2 percent, down from 14.8 percent in March and 14.3 percent a year before. For Māori 20-24 year olds in June the rate was 25.5 percent, little different from 25.0 percent a year before, and for Pacific Peoples it was 26.2 percent, up from 20.4 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (14.7 percent) than those not in education (11.4 percent). There were 74,000 people aged 15-24 years who were not in employment, education, or training (NEET), down from 86,000 in March but up from 71,000 a year before.

- By **region**, in the North Island, unemployment rates rose compared to a year ago in three out of the eight regions none of the changes were statistically significant (that is, 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 7.2 percent (compared to 10.6 percent a year before) while Bay of Plenty is at 6.1 percent (5.1 percent a year before) and Gisborne/Hawke's Bay is at 5.8 percent (from 5.0 percent a year before). Auckland is at 4.5 percent (from 4.7 percent a year before) and Wellington 4.8 percent (from 5.3 percent a year before). The South Island looks better with Tasman/Nelson/Marlborough/West Coast at 3.0 percent showing a statistically significant improvement from 5.9 percent a year before, Canterbury at 3.8 percent (3.2 percent a year before), Otago at 5.0 percent (4.5 percent a year before) and Southland at 4.6 percent (5.0 percent a year before).

- There were 44,600 unemployed people in June 2017 who had been **out of work for more than 6 months** compared to 44,800 a year before. The numbers appear to have increased sharply compared to quarters before June 2016, a possible contributor being a change in the survey questions from that date. This is 36.2 percent of the unemployed compared to 35.5 percent a year before, and is a level that has not previously been reached in a June quarter since 1995. Those out of work for more than a year are 16.9 percent of the unemployed compared to 16.7 percent a year before, the highest in a June quarter since 1998.

- 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 June quarter there were a total of 327,000 people looking for work classed as "underutilised", or 11.8 percent of the labour force extended to include these people. Of them, 100,100 were underemployed, 128,000 were officially unemployed, and 98,000 were additional jobless people looking for work. The 11.8 percent underutilisation rate is lower than 12.3 in the previous quarter (seasonally adjusted) or 12.9 percent a year before. It is higher for women at 14.5 percent than for men (9.4 percent).

- The number recorded as **employed** fell by 3,000 between the March and June 2017 quarters (seasonally adjusted). It rose by 76,000 over the year. The employment rate fell from 67.1 percent to 66.7 percent over the three months. It was 61.3 percent for women and 72.3 percent for men. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) fell from 70.6 percent to 70.0 percent, all in seasonally adjusted terms.

- **By industry**, the actual fall in employment of 16,500 since the March quarter was made up of both gains and losses. The biggest gains were of 8,900 in Education and Training, 7,200 in Arts, recreation, and Other services, 5,100 in Professional, scientific, technical, administrative and support services, and 4,200 in Financial and insurance services. The largest falls were of 12,000 in

Agriculture, forestry, and fishing, 10,300 in Construction, 8,400 in Manufacturing and 4,400 in Health care and social assistance. These are not seasonally adjusted.

★ In the June 2017 quarter, total **union membership** was estimated at 372,200, a 0.9 percent fall from 375,400 in the March quarter and down 1.9 percent from 379,300 in June 2016. The membership is 18.0 percent of employees (or slightly higher if those who said they didn't know were discounted) compared to 18.1 percent in the March quarter and 19.1 percent a year before. Women make up 57.5 percent of the membership compared to being 49.0 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.1 percent compared to 15.0 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**, 18.2 percent of employees (376,600, which is larger than the estimated number of union members) said their employment agreement was a collective in June compared to 18.7 percent in March and 20.6 percent (410,300) in June; 67.8 percent (1,401,800) said it was an individual agreement compared to 66.4 percent in March and 62.9 percent in June, and 7.6 percent or 158,000 said they had no agreement (which is illegal), compared to 7.4 percent in March and 8.6 percent in June. A further 6.3 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.4 percent for men and 21.2 percent for women. Again, these figures could be affected by seasonal variations in numbers.

★ By **employment relationship**, in the June 2017 quarter, 90.6 percent of employees (1,873,000) reported they were permanent, 4.7 percent casual (96,700), 2.6 percent fixed term (54,400), 1.0 percent seasonal (21,100), and 0.4 percent employed through a "temporary agency" (8,100). The proportion reporting they were permanent was up from 90.0 percent (1,862,800) in March and 88.7 percent (1,762,900) in June. Women were slightly less likely to be permanent employees: 89.3 percent of women were permanent compared to 91.8 percent of men in June. Instead, women were more likely to be casual (5.4 percent of them compared to 4.0 percent of men) or fixed term (2.6 percent of women compared to 1.8 percent of men). However more men were in seasonal work than women – 1.3 percent of men (14,100) compared to 1.0 percent of women (6,900). Of the temp agency employees, 3,900 were men and 4,200 women. 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 June 2017 quarter, 23.2 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.5 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 17.3 percent had been in their job for at least five but less than ten years, and 25.9 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, 27.8 percent of men had been in their jobs for more than 10 years, but only 23.8 percent of women. Age is a significant factor as would be expected: 55.0 percent people aged 15 to 24 had been in their jobs for less than a year, and 31.0 percent of 25-34 year olds, but only 13.5 percent of 45-54 year olds and 10.4 percent of 55-64 year olds. Small differences may not be statistically significant.

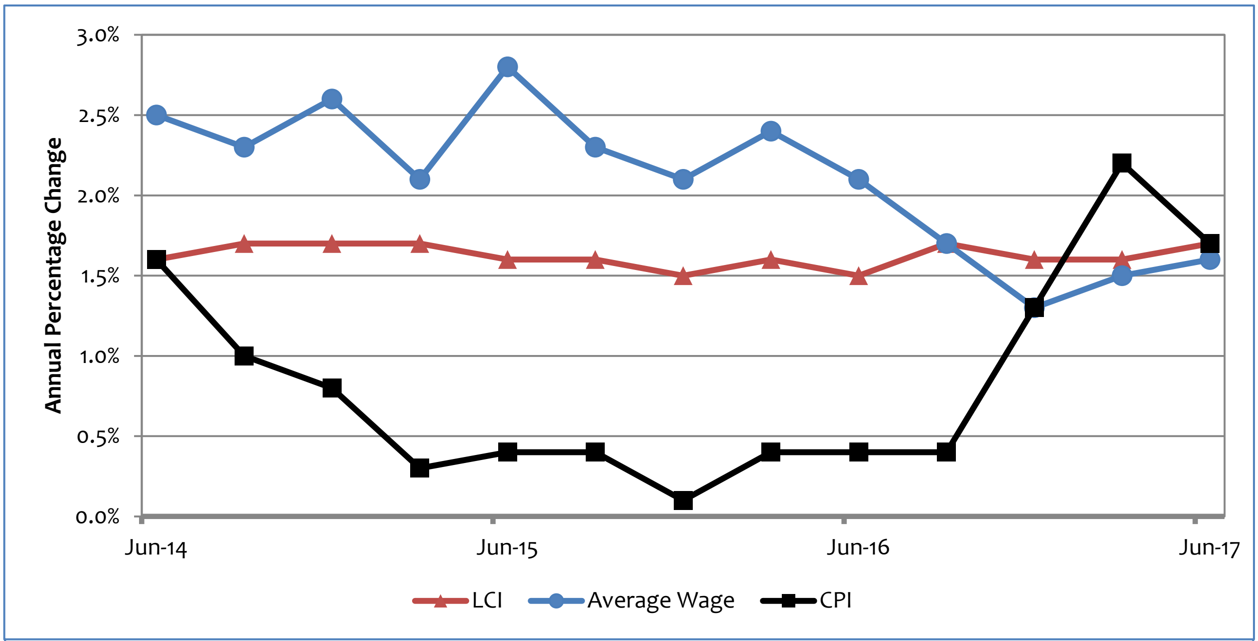
- The Ministry of Social Development reports that at the end of June 2017 there were 118,776 working age people on the Jobseeker benefit, 822 more than a year before but a fall of 629 from

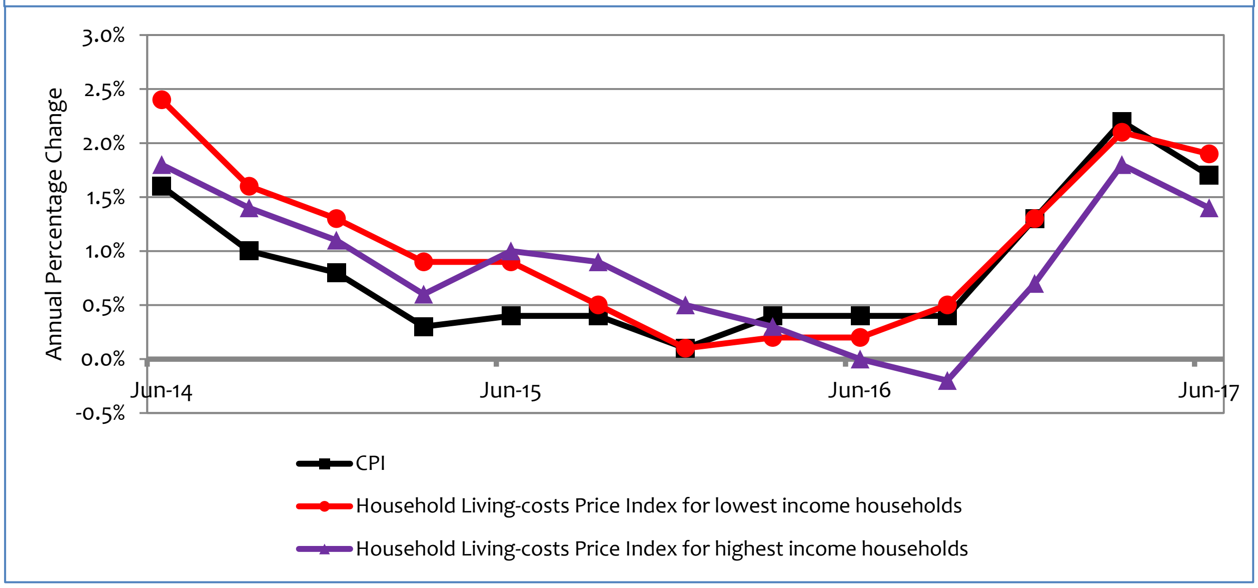
119,405 in March. At June 2017, 63,029 were classified as 'Work Ready', and 55,747 were classified as 'Health Condition or Disability'. A total of 276,331 were on 'main' benefits, 3,846 fewer than a year before, mainly due to 4,791 fewer on Sole Parent Support, and 1,905 fewer than March, mainly because of 1,581 fewer on Sole Parent Support. Of the 49,147 benefits cancelled during the three months to June, 20,540 or 41.8 percent of the people obtained work, 10.8 percent transferred to another benefit and 5.3 percent became full time students.

★ Job Vacancies Online for July 2017 showed the seasonally adjusted number of job vacancies rose by 1.4 percent in the month and rose 11.9 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Auckland rose 7.7 percent, Wellington rose 11.8 percent, the rest of the North Island rose 15.6 percent, Canterbury rose 7.8 percent and the rest of the South Island rose 35.0 percent. Over the month, vacancies fell slightly (down 0.3 percent) in Auckland but rose in the other four regions: in Wellington they rose 4.1 percent, in the rest of the North Island they rose 0.9 percent, in Canterbury by 0.7 percent and in the rest of the South Island by 5.6 percent. By industry, the fastest annual increases were in Education and training (up 31.9 percent), Construction and engineering (up 25.9 percent), and Healthcare and medical (up 7.2 percent). However Accounting, HR, legal and admin fell 1.1 percent, IT fell 4.7 percent, and Hospitality and tourism fell 0.3 percent. Over the month, Accounting, HR, legal and admin also fell 1.1 percent, Hospitality and tourism fell 9.9 percent and Sales, retail, marketing and advertising fell 1.7 percent while Education and training rose 25.4 percent, Construction and engineering rose 6.0 percent and IT rose 5.9 percent. By occupation, all categories rose over the year, the fastest rises being for Machinery Drivers (up 34.3 percent), Labourers (up 23.2 percent), Sales (up 15.0 percent), Professionals (up 14.3 percent) and Technicians and Trades workers (up 10.3 percent). Over the month, vacancies fell in five of the eight occupational groups, led by Clerical and Admin (down 2.7 percent), Community and Personal Services (down 2.5 percent) and Managers (down 2.2 percent) while Professionals rose 6.8 percent, Technicians and trades workers rose 1.1 percent and Labourers rose 0.2 percent.

★ International Travel and Migration statistics showed 11,150 permanent and long-term arrivals to New Zealand in July 2017 and 5,340 departures in seasonally adjusted terms, a net gain of 5,800. There was a record actual net gain of 72,402 migrants in the year to July, a new record according to Statistics New Zealand. Net migration to Australia in the year to July was 469 arrivals, with 24,959 departures and 25,428 arrivals. However there was a net loss of 4,769 New Zealand citizens to Australia over the year and a net loss of 1,112 to all countries. For the month, there was a seasonally adjusted net loss to Australia of 100, compared to a gain of 10 a year before. It was made up of a net loss of 530 New Zealand citizens offset by a net gain of 430 citizens of other countries. In July, 10.1 percent of the arrivals had residence visas, 33.4 percent student visas, 25.8 percent work visas, and 4.8 percent visitors. A further 25.5 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 June 2017 and increased 1.7 percent in the year, the same as the 1.7 percent increase in the CPI. The LCI increased 0.4 percent in the public sector and 0.4 percent in the private sector in the three months to June. Over the year it rose 1.9 percent in the public sector and 1.6 percent in the private sector. During the year, 43 percent of jobs surveyed did not receive a pay rise, and 46 percent of private sector jobs got no rise. For the 57 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.2 percent and the average increase was 3.0 percent. For those jobs in the public sector that received increases, the median increase was 2.0 percent and in the private sector 2.3 percent; the average increase in the public sector was 2.6 percent and in the private sector 3.2 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 40 percent less likely to get one of more than 5 percent. Only 48 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.

★ The Quarterly Employment Survey for the three months to June 2017 found the average hourly wage for ordinary-time work was $30.09, up 0.6 percent on the previous quarter and up just 1.6 percent over the year, less than the 1.7 percent rise in the CPI. Female workers (at $28.03) earned 11.9 percent less than male workers (at $31.82) for ordinary time hourly earnings. The average ordinary-time wage was $28.04 in the private sector (up 0.8 percent in the quarter and just 1.2 percent in the year) and $38.47 in the public sector (down 0.9 percent in the quarter but up 4.1 percent in the year). In June, average total hourly wages (including overtime) ranged from $19.48 in Accommodation and food services and $21.21 in Retail trade, to $42.32 in Finance and insurance services, and $40.91 in Information, media and telecommunications. In Accommodation and food services, 54.7 percent of employee jobs were part time, and in Retail trade, 39.0 percent were part time; 43.2 percent were also part time in Health care and social assistance, 34.8 percent in Arts, recreation and other services, and 32.9 percent in Education and training. Together these five industries made up 67.1 percent of all part time work. (However the QES does not include agriculture or fishing and excludes very small businesses.)

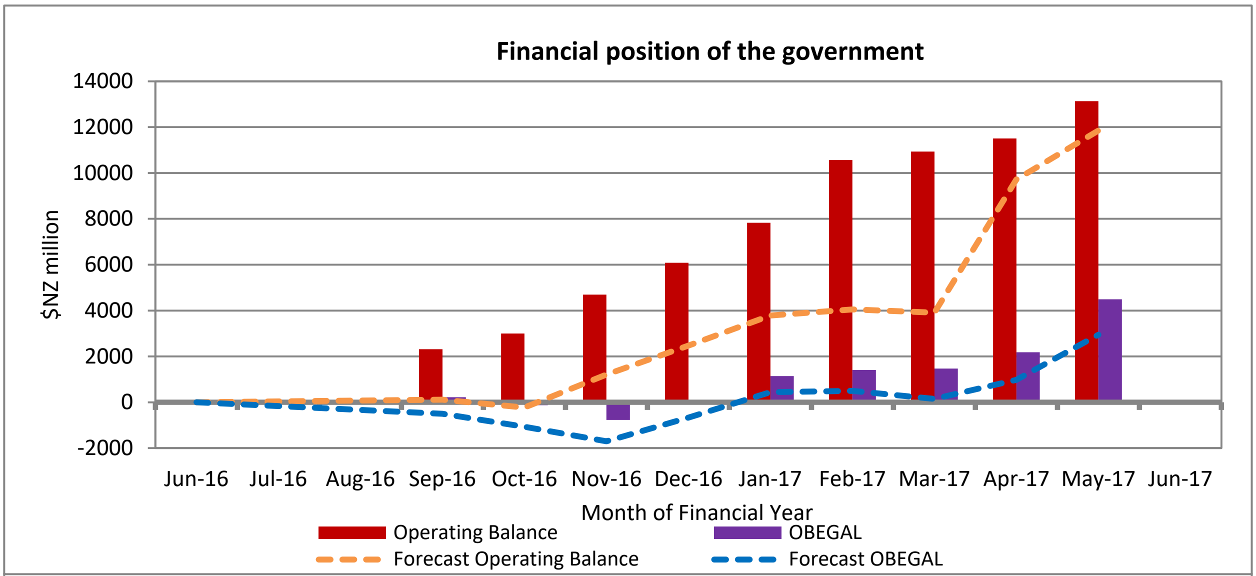
- The Consumer Price Index (CPI) rose 0.0 percent in the June 2017 quarter compared with the March 2017 quarter, and fell 0.1 percent in seasonally adjusted terms. It increased 1.7 percent for the year to June. For the quarter, the largest upward influence was Vegetables (up 19.0 percent), and Food together accounted for 367 percent of the rise. The next largest rises came from Housing and household utilities, which accounted for 580 percent of the rise. All parts of this other than Property rates and related services (which fell 0.1 percent) rose faster than the total rise in CPI. Rents were up 0.4 percent in the three months, new housing up 1.8 percent, property maintenance up 0.9 percent, and household energy up 1.5 percent, mainly due to a 1.5 percent rise in electricity prices. House insurance was up 1.3 percent and contents insurance 0.8 percent. Alcoholic beverages and Tobacco contributed 16 percent of the rise. While transport prices fell 1.3 percent, much of that was due to falling prices of domestic air travel (down 14.5 percent), but petrol prices fell 1.9 percent. Communications fell 1.8 percent, with Telecommunication equipment down 12.5 percent, and Recreation and culture was down 0.7 percent influenced by a 5.4 percent fall in the prices of Audio-visual and computing equipment, an 8.1 percent fall in accommodation services and a 1.4 percent fall in package holiday prices. Newspapers, books, and stationery however rose 3.0 percent. Over the year, Housing and household utilities was easily the biggest driver in the rise, up 3.1 percent and contributing for almost half (44.5 percent) of the increase with new housing up 6.4 percent and all the other components rising faster than overall CPI: Property maintenance (up 2.6 percent), Property rates and services (up 3.2 percent), rents (up 2.1 percent) and Household energy (up 1.8 percent). House insurance was up 7.0 percent, and Real estate services were up 9.5 percent. Professional services were also up 9.4 percent. Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in June (down 0.3 percent in the quarter and 6.4 percent over the year). Other major contributors to the annual increase were Food (up 2.0 percent, accounting for almost a quarter or 22.3 percent of the increase), Cigarettes and tobacco (up 9.8 percent, accounting for 16.0 percent of the increase), and petrol which accounted for a tenth (10.9 percent) of the total, rising 4.5 percent. In seasonally adjusted terms, the CPI fell 0.1 percent from March, Food rose 0.5 percent, Alcoholic beverages and tobacco rose 0.8 percent, Clothing and footwear fell 0.6 percent, Housing and household utilities rose 0.6 percent, Communications fell 1.7 percent, Recreation and culture fell 0.2 percent, and Education rose 0.7 percent. In Auckland prices rose 2.0 percent, Wellington 1.4 percent and they rose 2.1 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 0.9 percent and it was 1.4 percent in the rest of the South Island. Auckland's housing costs rose 3.8 percent over the year, the fastest in the country; Wellington's rose 2.7 percent, the North Island (outside Auckland and Wellington) rose 3.2 percent, Canterbury's rose 1.1 percent and rest of the South Island rose 2.6 percent, with the national average movement of 3.1 percent exceeded by Auckland and the rest of the North Island (outside Auckland and Wellington).

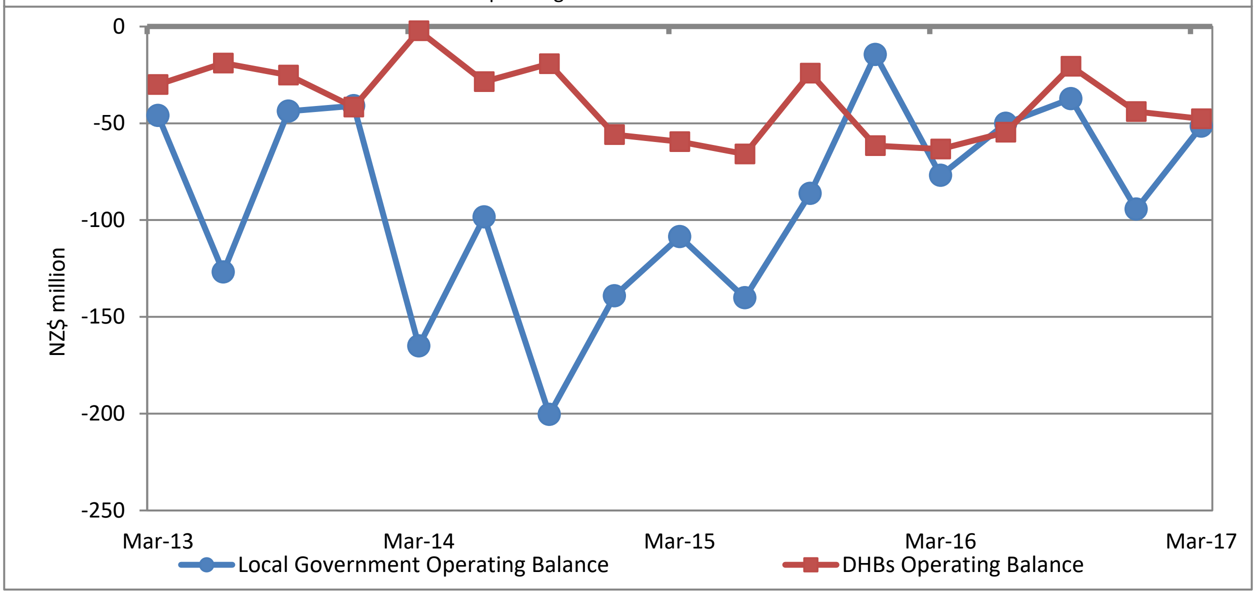
- The **Household Living-costs Price Indexes** (HLPIs) for the year to June 2017 again showed lower income households experiencing faster price rises than higher income households because of the differences in what they spend their money on. Prices for the necessities of housing and food dominated the rises while relative luxuries of domestic air travel and electronic goods dominated falls. Over the year, the All households HLPI index rose 1.6 percent, the Beneficiary households index rose 2.0 percent, the Māori households index rose 1.8 percent, and the Superannuitant households index rose 1.7 percent. By income quintile, the index for the lowest income households (quintile 1) rose 1.9 percent, quintile 2 rose 1.8 percent, quintile 3 rose 1.4 percent, quintile 4 rose 1.5 percent, and quintile 5 (the highest incomes) rose 1.4 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.0 percent, quintile 2 rose 2.8 percent, quintile 3 rose 1.5 percent, quintile 4 rose 1.5 percent, and quintile 5 rose 1.4 percent. Over the June quarter, the All households HLPI index rose 0.1 percent, the Beneficiary households index rose 0.3 percent, the Māori households index rose 0.1 percent, and the Superannuitant households index rose 0.2 percent. By income quintile, over the year the index for the lowest income households (quintile 1) rose 0.2 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.0 percent, quintile 4 fell 0.1 percent, and quintile 5 fell 0.1 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.2 percent, quintile 2 rose 0.2 percent, quintile 3 fell 0.1 percent, quintile 4 fell 0.1 percent, and quintile 5 rose 0.0 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 0.2 percent in the month of July 2017 (but was unchanged in seasonally adjusted terms). Food prices rose 3.0 percent in the year to July. Compared with the previous month, fruit and vegetable prices fell 1.0 percent (and fell 1.4 percent seasonally adjusted); meat, poultry, and fish prices fell 0.8; grocery food prices rose 0.2 percent (unchanged seasonally adjusted); non-alcoholic beverage prices rose 0.3 percent; and restaurant meals and ready-to-eat food prices rose 0.2 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 eleven months to 31 May 2017, core Crown tax revenue was $1.1 billion (1.6 percent) higher than forecast in the 2017 Budget Economic and Fiscal Update (BEFU 17). Corporate tax was $688 million (7.4 percent) above forecast and GST was $245 million (1.4 percent) above forecast. Overall core Crown revenue was $1.1 billion or 1.5 percent higher than forecast, and $5.4 billion (7.8 percent) higher than the same period last year. Core Crown expenses were $345 million (0.5 percent) below forecast, mainly because "impairment of tax receivables [were] less than forecast". As a result, the Operating Balance before Gains and Losses (OBEGAL) was $4.5 billion in surplus, $1.6 billion (52.6 percent) better than forecast. The Operating Balance was a $13.1 billion surplus, $1.3 billion more than forecast resulting from "lower than expected actuarial gains (mostly reflecting a lower discount rate used to convert future cash into present day dollars), partially off-set by higher than forecast returns on the Crown's investment portfolios." Net debt at 22.4 percent of GDP ($59.3 billion) was $1.2 billion lower than forecast. Gross debt at $87.5 billion (33.0 percent of GDP) was $384 million less than forecast. The Crown's net worth in financial terms was $1.3 billion higher than forecast at $103.8 billion.

- District Health Boards had 75 fewer full time equivalent staff than planned at the end of June 2017 (62,883 compared to 62,959 planned). While all categories of staff were affected except Nursing (which was 472 over plan), the largest shortfalls were in Allied Health Personnel (228 short), Medical Personnel (doctors – 129 short), and Management/Administration staff (128 short). Average costs per full time equivalent staff were close to those planned ($93,900 compared to $93,500). The DHBs had accumulated combined deficits of $117.5 million in the twelve months to June (unaudited full year accounts). This is $58.8 million worse than their plans. The Funder arms were in surplus by $171.9 million, $59.2 million more than planned, and Provider arms (largely their hospitals) in deficit by $284.3 million, $113.4 million worse than planned. The Northern region was $23.0 million behind plan with a deficit of $7.5 million and two of the four DHBs in deficit. The Midland region was $18.7 million behind plan with a deficit of $10.6 million and three of the five DHBs in deficit. Central region was $1.7 million behind plan, a combined $28.3 million deficit and four of the six DHBs in deficit. The Southern Region was $15.4 million behind plan with a $71.1 million deficit and three of the five DHBs in deficit, with Canterbury showing a $51.8 million deficit and Southern $21.8 million. In all, 8 of the 20 DHBs were in surplus but only five ahead of plan. The DHB furthest ahead of plan was Capital and Coast by $2.9 million, and Counties Manukau was furthest behind, by $17.4 million. Capital expenditure across all DHBs was behind plan with $569.8 million spent out of $760.4 million planned.
- Local Government in the March 2017 quarter recorded a 5.6 percent ($131.3 million) increase in operating income in seasonally adjusted terms and a 3.6 percent rise in operating expenditure ($88.4 million) including a 3.4 percent rise in employee costs (up $18.1 million) compared to the December 2016 quarter. This resulted in an operating deficit of $51.6 million in the March quarter, compared with a deficit of $94.4 million in the December 2016 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/economicbulletin192.

For further information contact Bill Rosenberg.