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Commentary

The union pay premium, 2017

Summary

In August, the Centre for Labour, Employment and Work (CLEW) at Victoria University released their annual analysis of collective employment agreements (CEAs). It shows again that people who are part of a collective get better pay rises: the union pay premium.

For the year to June 2017 CLEW finds that on average wages in collectives rose by 1.9 percent, which is slightly higher than the 1.8 percent last year. Over the same period, the Labour Cost Index (LCI), which is dominated by people on individual rather than collective employment agreements, rose less: by 1.7 percent. Private sector collective pay rates rose 1.9 percent (the lowest increase since 2000) while the private sector LCI rose only 1.6 percent, also the lowest since 2000 (equal with last year). Central government CEA rates rose 1.8 percent (up from 1.6 percent in 2016) while the central government LCI rose 1.9 (the difference is likely to be a measurement issue rather than real). Finally, local government CEA pay rates rose 2.5 percent (the same as in 2016), much more than the local government LCI which rose only 1.8 percent.

In every case in 2017 there was a clear union premium so the year confirms the longer term picture: that there is a worthwhile premium for being on a CEA, particularly in the private sector. Further, virtually all jobs on CEAs get a pay rise (only 1 percent didn't in 2017) but of those not on a CEA, only 48 percent got a rise.

Comparing by industry, CEA pay increases are again higher than those shown in the LCI. In 2017, CEA increases were higher in all industries we can compare except Food manufacturing, Education and training, Arts and recreation Services, and 'Other services'. Over the six years 2011 to 2017, CEA increases were higher in all industries.

Looking at the longer run, a job on a wage of $15.00 in June 1993 (around the average hourly wage) would be paying $27.06 in June 2017 if it had risen at the rate of increase in CEAs, but only $24.47 if it had risen at the rate of the LCI, a 10.6 percent CEA premium. For the private sector, the premium is 17.1 percent: $28.39 for CEAs compared to only $24.25 for the LCI. For Central Government (which includes the wider state sector such as health and education), the premium is quite small at 3.2 percent, which would be expected as the result of much higher unionisation in that sector. In Local Government, the premium is 14.2 percent.

However the number of working people directly benefitting from these union-negotiated increases continues to fall under the outgoing Government's legislation which placed barriers in the way of recruiting union members and negotiating CEAs. It is little wonder that pay rises for most working people are weak when unions are struggling to do their job of creating a fairer balance in who gets income, resources and power in New Zealand. Yet they are still doing that job, as the pay premium illustrates.

The Centre for Labour, Employment and Work (CLEW) at Victoria University released their annual analysis of collective employment agreements (CEAs)[1] in August. Once again it shows that people who are part of a collective do better in pay rises. Here, I update the "union premium" for 2017 – how much more people on CEAs, negotiated by unions, receive.

The pay advantage in collective agreements

As I usually do (see the September 2014 *Economic Bulletin* for more details of why) I compare the CEA increases with the Labour Cost Index (LCI) which covers all workers. I compare the LCI rather than for example the average wage because both CLEW's data for CEAs and the LCI are concerned with the rate for the job rather than the individual holding the job, whereas the average wage includes pay increases for all kinds of reasons, and is affected by changes in the composition of the labour force (such as people in low paid jobs becoming unemployed). The LCI includes CEA-negotiated pay increases, but not rises due to the merits of the individual holding the job. However it is dominated by people on individual rather than collective employment agreements. The LCI and CLEW's increase in CEAs are not calculated in the same way (see the technical note at the end of this commentary) so some of the difference found by the comparison could be due to measurement issues, but the comparison is still a useful one.

For the year to June 2017 CLEW finds that, on average, wages in collectives rose by 1.9 percent, slightly higher than the 1.8 percent last year (which CLEW has revised to take account of additional information since last year). Over the same period, the LCI rose less: by 1.7 percent. Private sector collective pay rates rose 1.9 percent, which is the lowest increase since 2000 and significantly less than last year (2.2 percent) which was the lowest since 2001. However the private sector LCI rose only 1.6 percent, the same as last year, and also the lowest since 2000. Central government CEA rates rose 1.8 percent (up from 1.6 percent in 2016) while the central government LCI rose 1.9. Both are now rising at similar rates to the private sector after being well behind since 2012 (2011 in the case of the LCI). Finally, local government CEA pay rates rose 2.5 percent (the same as 2016), much more than the local government LCI which rose 1.8 percent.

In each case in 2017 there was a clear union premium with the exception of central government, and that is probably more a measurement issue than a significant difference given the relatively high level of CEA coverage in central government. See the graphs on the next page (Figure 1). Despite the barriers the outgoing Government put in the way of negotiating CEAs, a premium remains. As will be seen below, the same was true in the great majority of industries we can compare. The year confirms the longer term picture: that there is a worthwhile premium for being on a CEA, particularly in the private sector.

These figures understate the CEA premium because the LCI includes people on a CEA as well as those on individual agreements: if they could be separated out, the gap between CEAs and individual agreements would be even bigger.

A job on a wage of $15.00 in June 1993 (around the average hourly wage) would be paying $27.06 in June 2017 if it had risen at the rate of increase in CEAs, but only $24.47 if it had risen at the rate of the

[1] Blumenfeld, S., Ryall, S., & Kiely, P. (2017). *Employment Agreements: Bargaining Trends and Employment Law Update 2016/17*. Wellington, New Zealand: Centre for Labour, Employment and Work, Victoria University of Wellington.

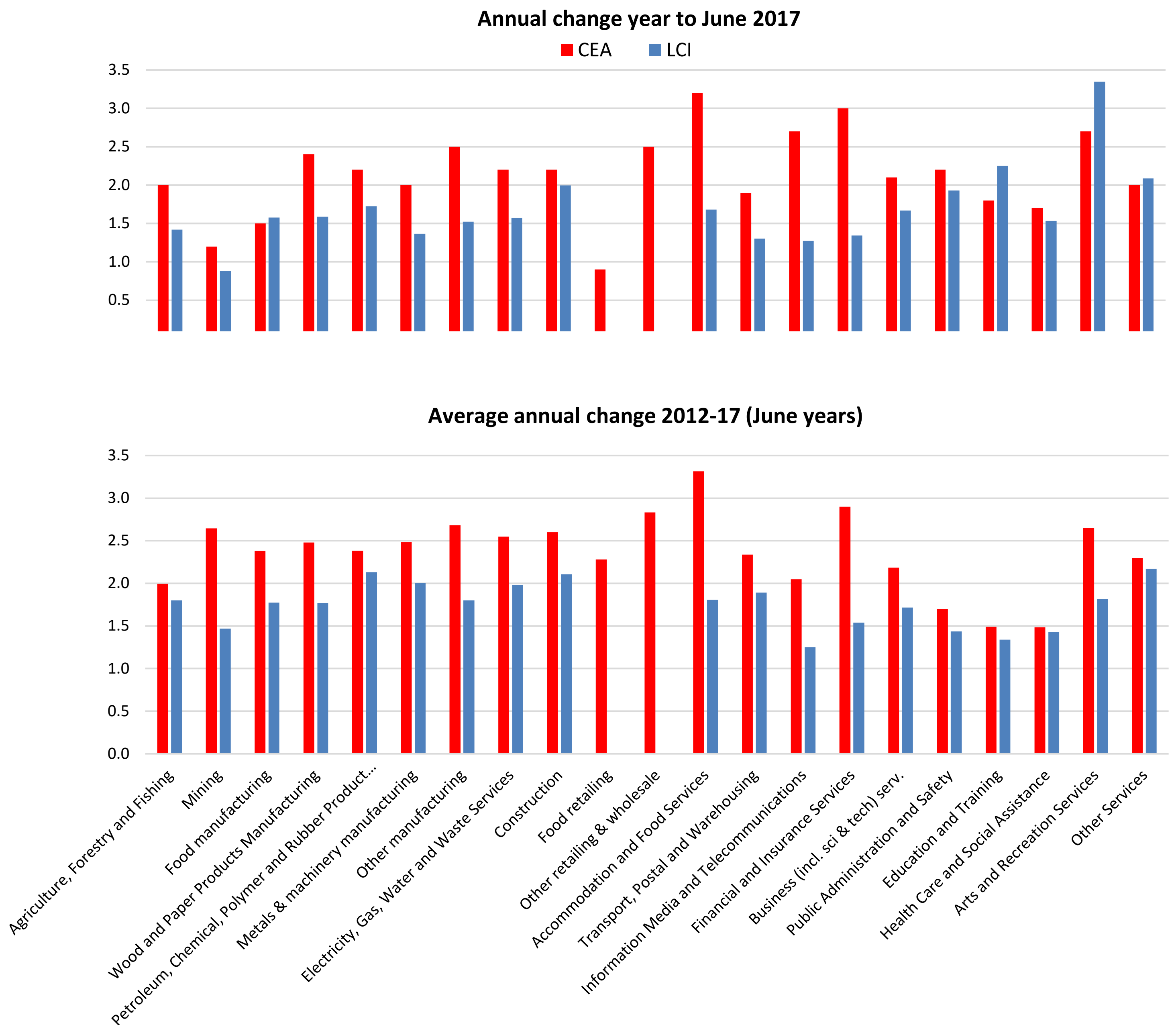
LCI, a 10.6 percent CEA premium. For the private sector, the premium is 17.1 percent: $28.39 for CEAs compared to only $24.25 for the LCI. For Central Government (which includes both core public service and the wider state sector such as health and education), the premium is quite small at 3.2 percent, which would be expected as the result of much higher rates of unionisation and collective agreement membership in that sector. In Local Government, the premium is 14.2 percent.

Figure 1: Average annual increases to 2017, comparing Collective Agreements (CEAs) with LCI

By industry

Comparing by industry, CEA pay increases are again higher than those shown in the LCI. Figure 2 shows the comparison for 2017 and for average annual increases from 2011 to 2017 which is as far back as CLEW data is available. In 2017, CEA increases were higher in all industries we can compare except Food manufacturing, Education and training, Arts and recreation Services, and 'Other services'. Over the six years 2011 to 2017, CEA increases were higher in all industries. They are close in Agriculture, Forestry and Fishing (an average increase of 1.8 percent in the LCI compared to 2.0 percent in CEAs; this is the weakest industry for Union and CEA coverage), and the mainly public services of Public administration and Safety, Education and training and Health care and social assistance, all of which have high union and CEA coverage. These also had a low increase over the six years, though this is picking up.

Figure 2: Annual changes in wages and salaries, comparing CEAs with LCI



Frequency of pay rises

Information from the Labour Cost Index survey enables us to estimate how frequently jobs covered by collectives get pay rises compared to other jobs. CLEW shows that virtually all jobs on CEAs get a pay rise (only 1 percent didn't in 2017) but for jobs not on a CEA, only 48 percent got a rise. In general those on CEAs are more likely to get a rise of any given size though since 2013 those on a CEA have been less likely to get an increase of greater than 5 percent, but even that gap is very small. In all, jobs on CEAs are 2.1 times more likely to get a pay rise than those that are not. See Figure 3.

However the number of working people directly benefitting from these union-negotiated increases is falling according to CLEW. (Other workers may well benefit because in many firms and some industries the collective agreements set the benchmark for pay rises.) CEA coverage in 2017 was 323,700 people compared to 329,700 in 2016. That is 15.7 percent (about one in six) of New Zealand employees at June 2017, compared to 16.6 percent at June 2016. It fell in both the private and public sector: private sector coverage fell from 139,200 to 133,700 and public sector coverage fell from 190,500 to 190,000. A significantly different picture comes from Statistics New Zealand Household Labour Force Surveys which showed 376,600 employees said they were on CEAs in June 2017 (18.2 percent), down from 410,300 in June 2016 (20.6 percent). LCI data suggests similar coverage. Whichever is true, it is little wonder unions are struggling to do their job of creating a fairer balance in who gets income, resources and power in New Zealand. Yet they are still doing that job, as the pay premium illustrates.

Technical note: Measurement of the LCI and CEA increase

Labour Cost Index (LCI)

The data for the LCI is gathered from a survey of employers. Each is asked to select employees or positions on a salary scale (based on job descriptions) and report increases in their pay and hours worked from quarter to quarter and the reasons for those increases. Statistics New Zealand states:

> The LCI is a price index that measures change in pay rates for a fixed quality and quantity of labour input. We show price-related change in rates reported by respondents, such as those to reflect the cost of living, to match market rates, to retain staff, and to attract staff. We don't show changes in reported rates that are the result of service increments, merit promotions, increases (and decreases) relating to the performance of individual employees, and change in hours worked are not shown in the index, as they are considered to represent quality or quantity change. (http://tinyurl.com/y87cvffn)

In effect, the LCI reports on pay increases for the job rather than for the individual, though this is based on the employer’s view of both the reason for the increase and whether or not the job has changed. Some of those pay increases are due to an increase in the rates in a CEA.

Collective Employment Agreement (CEA)

The Centre for Labour, Employment and Work calculates increases based on the movement in the minimum adult rate in the CEA. We use data reported in Table 3.2 of their report which is the weighted mean level of annualised wage change. It excludes agreements that expired prior to the beginning of the year (e.g. expired before June 2016 for the year to June 2017), or do not include wage rates, or for which it is not possible to calculate the increase from preceding agreements (such as if there is too big a gap between settlements, it is an establishment agreement, or the wage structure has changed).

Bill Rosenberg

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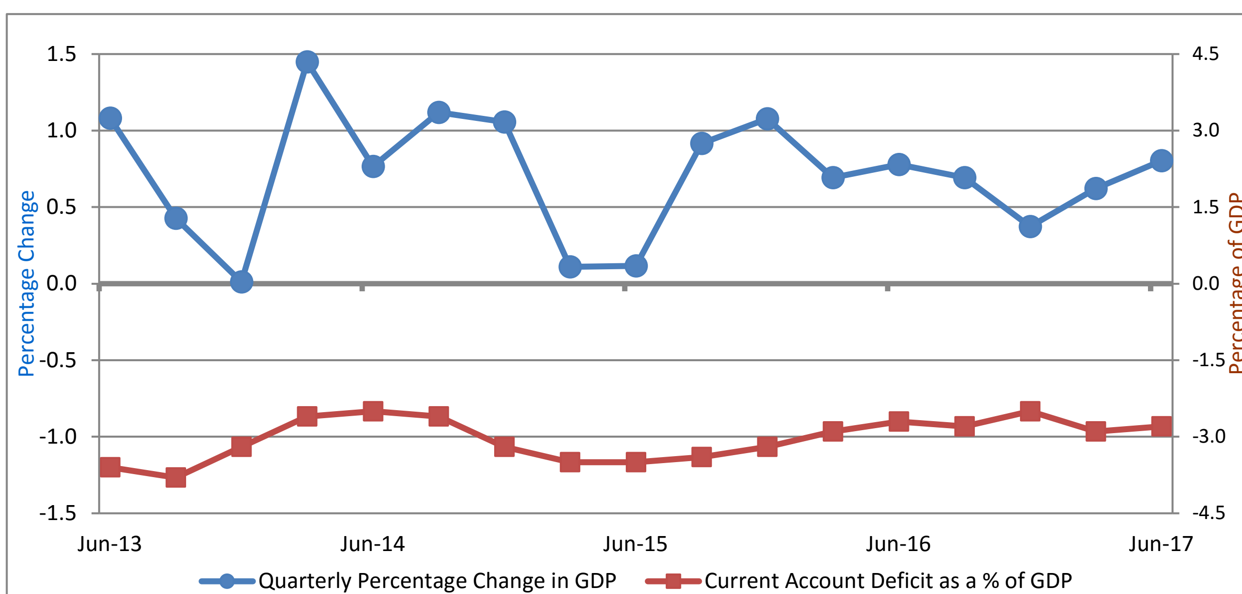
Forecast

- This NZIER consensus forecast was released on 11 September 2017.

Annual Percentage Change (March Year)	**2017-18**	**2018-19**	**2019-20**	**2020-21**
GDP	2.9	3.4	2.9	2.4
CPI	1.1	1.9	2.0	2.0
Private Sector average hourly wage	2.2	2.9	3.2	3.1
Employment	2.2	2.0	1.5	1.4
Unemployment rate (% of labour force)	4.7	4.6	4.6	4.6

Economy



- Growth in New Zealand's economy in the three months to June 2017 was close to Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 0.8 percent, compared to 0.6 percent in the previous quarter. Average growth for the year ended June 2017 was 2.7 percent (and

2.5 percent between June quarters). However growth in GDP per person continues to be weak with a rapidly growing population: GDP per person rose only 0.3 percent in the June quarter, and 0.6 percent over the year, worse even than recent performance. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.6 percent a year. Since 2012 it has averaged 1.2 percent. 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, grew somewhat more strongly: it rose by 0.9 percent over the quarter and 1.8 percent over the year to June. Its average performance has also been lower than the 2000s. I estimate[1] that labour productivity measured by production per hour worked in the economy was unchanged in the year to June compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It is little different in June 2017 than it was in June 2013. It fell 0.1 percent in the June quarter in seasonally adjusted terms. Business investment in the three months fell by 0.4 percent compared to the March quarter though the annual growth was strong at 3.6 percent, driven by construction, transport equipment and intangible fixed assets. Investment in housing fell 1.0 percent in the quarter following a 1.3 percent fall in the previous quarter. However it grew 10.3 percent year on year. Household consumption growth weakened to 0.9 percent in the June quarter in real terms, after rising 1.2 percent in the previous quarter, and rose a strong 4.0 percent over the same quarter in the previous year. Inflation in the economy as a whole is higher than CPI with the GDP deflator (a price index for expenditure on the economy's production) rising 2.8 percent from the June quarter last year, but it fell 0.8 percent in the June 2017 quarter.

- By industry, the largest contributors to growth in the latest quarter were Manufacturing (up 1.8 percent), Retail trade and accommodation (up 2.8 percent), Transport, postal and warehousing (up 3.5 percent), Rental, hiring and real estate services (up 0.5 percent), Professional, scientific, technical, administrative and support services (up 1.1 percent) and Public Administration and Safety (up 1.6 percent). They were offset by falls in Mining (down 5.2 percent) and Construction (down 1.1 percent). Compared with the June quarter last year, the biggest rises were in Retail trade and accommodation (up 6.6 percent), Professional, scientific, technical, administrative and support services (up 5.1 percent), Public administration and safety (up 4.7 percent), Transport, postal and warehousing (up 4.5 percent), Arts, recreation and other services (up 4.1 percent), Health care and social assistance (up 3.7 percent), and Wholesale trade (up 3.5 percent). They were offset by falls in Mining (down 8.4 percent), Agriculture, forestry and fishing (down 0.9 percent) and Construction (down 0.1 percent).
- New Zealand recorded a Current Account deficit of $1.6 billion in seasonally adjusted terms for the June 2017 quarter (but an actual deficit of $618 million) following a $2.8 billion deficit for the March quarter. There was another deficit in the goods trade ($446 million, seasonally adjusted) following a $1.1 billion deficit in the March quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $834 million in goods and services (compared to an unusual $138 million deficit in March) including a record $1.3 billion surplus in services, while

[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 2016 using a recent Statistics New Zealand estimate that the changes in the survey created a jump in the series by 50,000 people or 2,550,000 actual hours worked per week: see Anand-Kumar, V., Penny, R., & Gordon, M. (2017). *Investigation on the impact of the 2016 redevelopment on the Household Labour Force time series.* Wellington, New Zealand: Statistics New Zealand, p.11. Available at http://on-cue.co.nz/Vinyak%20Anand-Kumar.pdf

the deficit on primary income (mainly payments to overseas investors) improved to $1.9 billion from $2.3 billion in March (seasonal adjustment not available). For the year to June 2017, the current account deficit was $7.5 billion or 2.8 percent of GDP compared to a $7.7 billion deficit in the year to March (2.9 percent of GDP). The deficit on investment income was $8.0 billion for the year.

- The country's Net International Liabilities were $154.2 billion at the end of June 2017, up from a revised $153.0 billion at the end of March but down from $163.4 billion a year before. The June net liabilities were equivalent to 57.5 percent of GDP, compared to a revised 57.8 percent in March and 64.5 percent a year before. They would take 2.14 years of goods and services exports to pay off, down from 2.31 years a year before. The rise in net liabilities over the quarter was due to $1.1 billion in valuation changes (mainly due to $2.8 billion in market price valuations) plus a $110 million net inflow of investment. Without the valuation changes, the net liabilities would have been $153.1 billion. Statistics New Zealand explains the net inflow of investment as follows: "The $1.2 billion increase in New Zealand's net liability position was driven by a $2.8 billion change in net market price movements. Foreign investors saw the value of their shares in NZX-listed companies increase along with the value of government bonds. Net financial transactions increased the net liability position by $110 million, as foreigners increased their investment in New Zealand more than New Zealand did with the rest of the world. The New Zealand dollar appreciated against most of its trading partners' currencies between 31 March and 30 June 2017. This decreased the value of New Zealand's liabilities by $2.2 billion and decreased the value of our assets by $2.1 billion, resulting in little effect on the net liability position." New Zealand's international debt was $290.9 billion (108.5 percent of GDP), of which 30.4 percent is due within 12 months, compared to $144.9 billion in financial assets (other than shares; 54.1 percent of GDP), leaving a net debt of $145.9 billion (54.4 percent of GDP). Of the net debt, $4.5 billion was owed by the government including the Reserve Bank (equivalent to 1.7 percent of GDP and down from $5.9 billion in March) and $110.3 billion by the banks (41.1 percent of GDP), which owed $157.8 billion gross. Total insurance claims made on overseas reinsurers from the Canterbury earthquakes are estimated at $21.1 billion, and at 30 June 2017, $19.8 billion of these claims had been settled, leaving $1.3 billion outstanding. For the Kaikōura earthquakes, out of an estimated $1.1 billion of claims, $75 million had been settled leaving $991 million outstanding.

★ Overseas Merchandise Trade for the month of September saw exports of goods rise in value by 9.0 percent from the same month last year while imports rose 1.4 percent. This created a trade deficit for the month of $1,143 million or 30.2 percent of exports, which is not unusual for September. There was a trade deficit for the year of $2.9 billion or 5.7 percent of exports, lower than the 6.9 percent deficit in the year to the same month in 2016. In seasonally adjusted terms, exports rose 4.2 percent or $176 million over the month (compared to a 11.4 percent fall the previous month) led by rises in Dairy products (up 42.3 percent or $355 million), Logs, wood and wood articles (up 3.5 percent or $13 million), and Aluminium and aluminium articles (up 4.8 percent or $5 million, not seasonally adjusted), offset by falls led by Crude oil (down 70.0 percent or $76 million, not seasonally adjusted), Fruit (down 22.6 percent or $56 million), and Wine (down 13.4 percent or $20 million). Seasonally adjusted imports rose 4.9 percent or $218 million over the previous month, creating a trade deficit of $247 million following a $205 million deficit in the previous month. The rising imports were led by Petroleum and products (up 8.8 percent or $33 million, not seasonally adjusted), and Mechanical machinery and equipment (up 1.0 percent or $8 million, not seasonally

adjusted), offset by falls led by Electrical Machinery and Equipment (down 4.4 percent or $17 million), and Plastic and plastic articles (down 5.4 percent or $10 million). In the year to September, 21.6 percent of New Zealand's exports went to China, 16.7 percent to Australia, 10.3 percent to the US, and 62.6 percent went to the top seven countries buying $1 billion or more of New Zealand exports. This was up from 18.9 percent going to China in the year to September 2016, though 62.0 percent still went to the top seven destinations. Over the same period, 19.6 percent of New Zealand's imports came from China (compared to 20.0 percent in 2016), 12.5 percent from Australia and 10.2 percent from the US, and 63.4 percent from the top seven countries selling to New Zealand, compared to 64.4 percent a year before. Elaborately transformed manufactured exports are at their lowest as a proportion of all exports (15.3 percent) in a September quarter since reporting began in 2002.

★ The Retail Trade Survey for the three months to June 2017 showed retail sales rose 5.1 percent by volume and 6.4 percent by value compared with the same quarter a year ago. They rose 1.7 percent by volume and 1.4 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in 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.

Note: these June survey results have been revised due to a correction issued by Statistics New Zealand. The correction affected the liquor and the electrical and electronic goods industries, and the totals.

★ The Performance of Manufacturing Index for September 2017 was 57.5, a fall from 57.9 in the previous month. The employment sub-index was at 50.7, a sharp fall from 56.5 in the previous month.

★ The Performance of Services Index for September 2017 was 56.0, a fall from 57.2 the previous month. The employment sub-index was 54.1, up sharply from 52.2 in the previous month.

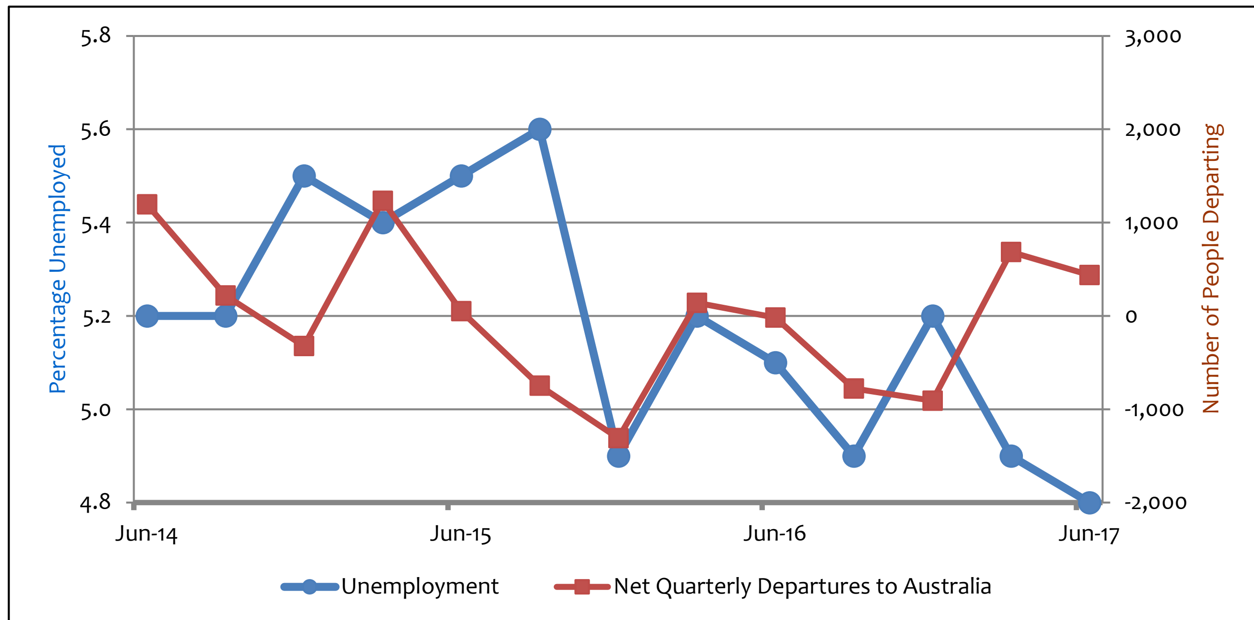
For these indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

- On 28 September 2017 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. 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 continued to improve 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 to express concerns about the exchange rate, though in somewhat more relaxed terms than previously. Though 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 "eased slightly" since the time of the last statement (this may have been because of the election), "A lower New Zealand dollar would help to increase tradables inflation and deliver more balanced growth." GDP growth in New Zealand in the June quarter grew "in line with expectations, following relative weakness in the previous two quarters. While exports recovered,

construction was weaker than expected. Growth is projected to maintain its current pace going forward, supported by accommodative monetary policy, population growth, elevated terms of trade, and fiscal stimulus." The Bank considered that house price inflation "continues to moderate", due to its loan-to-value ratio restrictions, "affordability constraints" and tighter lending conditions, and thought that the moderation would continue but there was a risk of price rises resuming "given 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 9 November 2017 and will be accompanied by a Monetary Policy Statement.

★ According to REINZ, over the year to September the national median house price rose $6,000 or 1.2 percent to $525,000 and REINZ's house price index rose 2.1 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 1.3 percent seasonally adjusted while the house price index rose 0.7 percent. In Auckland over the year the median price was unchanged at $845,000 while the house price index fell 0.7 percent. Over the month Auckland's median price rose 0.3 percent seasonally adjusted, and the house price index rose 0.7 percent. Excluding Auckland, over the year the national median price rose $23,000 to $428,000 or 5.7 percent while the house price index rose 7.0 percent. Over the month the median price excluding Auckland was down 0.9 percent on the previous month seasonally adjusted, and the house price index was up 0.8 percent. No regions had record median prices. Median prices fell in 5 of the 14 regions over the month, seasonally adjusted, and sales fell in 10 of the regions. Over the year, sales fell in all regions, averaging a sharp 26.2 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.

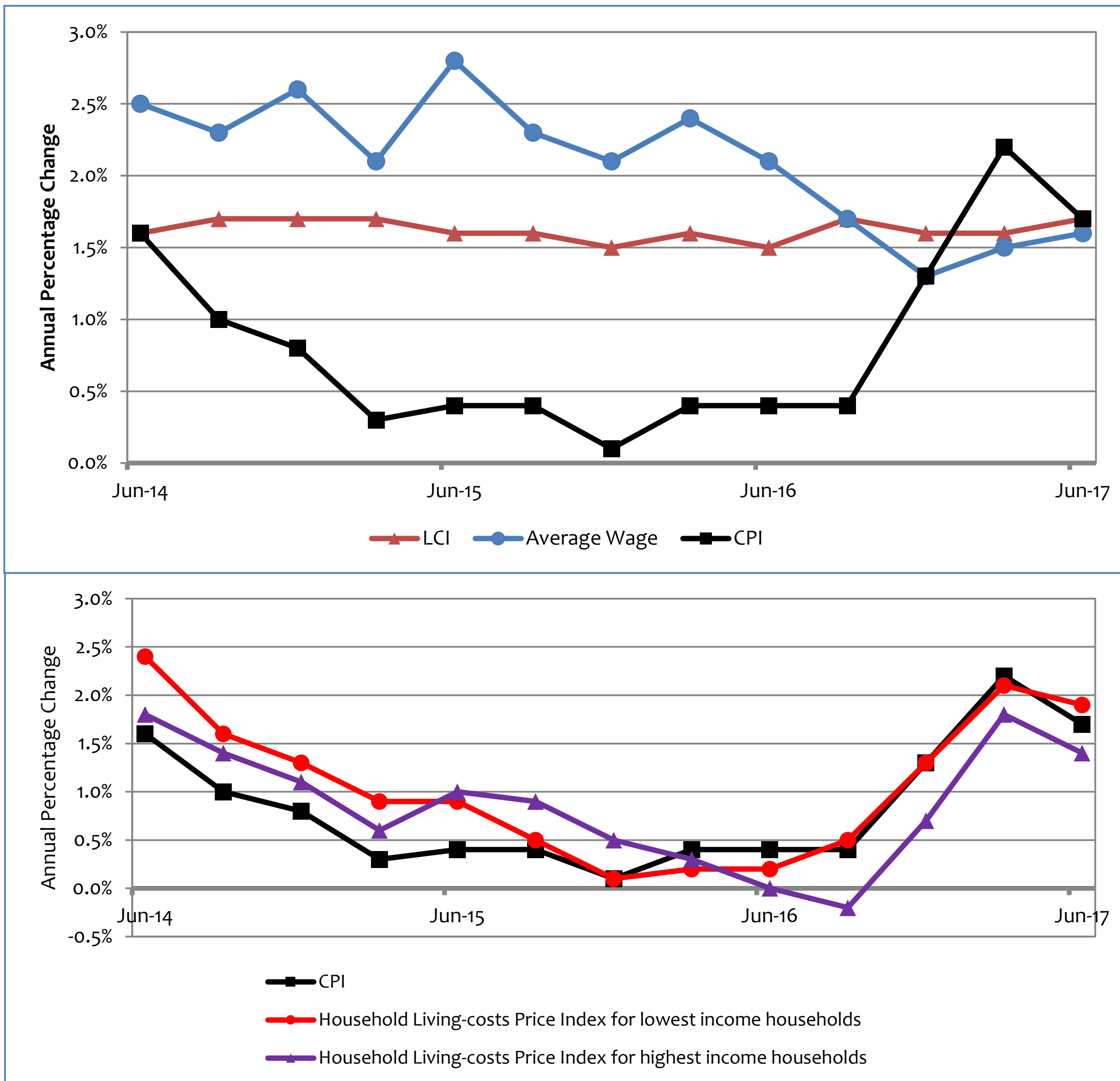
★ The Ministry of Social Development reports that at the end of September 2017 there were 120,726 working age people on the Jobseeker benefit, 1,558 fewer than a year before but a rise of 1,950 from 118,776 in June. At September 2017, 64,299 were classified as 'Work Ready', and 56,427 were classified as 'Health Condition or Disability'. A total of 277,220 were on 'main' benefits, 6,655 fewer than a year before, mainly due to 4,870 fewer on Sole Parent Support, and 889 more than June, mainly because of the increased number on Jobseeker benefits. Of the 40,544 benefits cancelled during the three months to September, 17,567 or 43.3 percent of the people obtained work, 13.8

percent transferred to another benefit and 6.1 percent became full time students. A further 2,892 (7.1 percent) left on their 52 week reapplication or annual review. A total of 14,724 suffered sanctions, the majority (11,522) on a Jobseeker benefit. Of the total, 41.6 percent were Māori, though 35.8 percent of working-age benefit recipients are Māori.

★ Job Vacancies Online for September 2017 showed the seasonally adjusted number of job vacancies fell by 6.7 percent in the month and rose 4.2 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Northland rose 24.6 percent (and rose 1.9 percent over the month), Auckland fell 2.6 percent (and fell 8.1 percent over the month), Waikato rose 17.2 percent (fell 7.0 percent), Bay of Plenty fell 3.9 percent (fell 10.9 percent), Gisborne-Hawkes Bay rose 23.6 percent (fell 3.6 percent), Manawatu-Whanganui-Taranaki rose 13.6 percent (down 2.7 percent), Wellington rose 7.2 percent (down 6.7 percent), Marlborough-Nelson-West Coast rose 26.2 percent (fell 4.1 percent), Canterbury rose 4.4 percent (fell 3.2 percent) and Otago-Southland rose 23.3 percent (rose 0.5 percent). By industry, the fastest annual increases were in Construction and engineering (up 14.5 percent), Education and training (up 7.1 percent), Healthcare and medical (up 3.8 percent) and "Other" (up 14.8 percent). All the other industries fell, the largest fall being in IT (down 12.4 percent), followed by Sales, retail, marketing and advertising (down 8.0 percent), and Hospitality and tourism (down 3.7 percent). Over the month, all industries fell, led by Education and Training (down 10.3 percent), Sales, retail, marketing and advertising (down 10.2 percent), and IT (down 9.6 percent). By occupation, the fastest rises over the year were for Machinery Drivers (up 29.5 percent), Labourers (up 28.3 percent), and Sales (up 3.0 percent). The largest falls over the year were in Community and Personal Services (down 1.3 percent) and Managers (down 1.2 percent). Over the month, vacancies fell for all but Labourers (up 0.4 percent), led by Managers (down 10.6 percent), Professionals (down 9.3 percent), Sales (down 7.8 percent) and Clerical and Admin (down 6.7 percent).

★ International Travel and Migration statistics showed 10,480 permanent and long-term arrivals to New Zealand in September 2017 and 5,280 departures in seasonally adjusted terms, a net gain of 5,190 which was down from 5,420 the previous month. There was an actual net gain of 70,986 migrants in the year to September, down from 72,072 in the year to August. Net migration to Australia in the year to September was 66 departures, with 25,069 departures and 25,003 arrivals. However there was a net loss of 5,227 New Zealand citizens to Australia over the year and a net loss of 1,637 to all countries. For the month, there was a seasonally adjusted net loss to Australia of 100, compared to a gain of 230 a year before. It was made up of a net loss of 540 New Zealand citizens offset by a net gain of 440 citizens of other countries. In September, 10.0 percent of the arrivals had residence visas, 12.6 percent student visas, 44.9 percent work visas, and 4.6 percent visitors. A further 27.2 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 0.5 percent in the September 2017 quarter compared with the June 2017 quarter, and rose 0.3 percent in seasonally adjusted terms. It increased 1.9 percent for the year to September. For the quarter, the largest single upward influence was Vegetables (up 6.2 percent), and Food group together accounted for 42.6 percent of the rise. The largest group contribution however came from Housing and household utilities, which accounted for 53.5 percent of the rise. All parts of this other than Household energy (which rose 0.3 percent) rose faster than the total rise in CPI: Rents were up 0.6 percent in the three months, new housing up 1.1 percent, property maintenance up 1.1 percent, and 'Property rates and related services' up 3.1 percent, mainly due to a 3.5 percent rise in local authority rates and payments which tend to be announced during this quarter. House insurance was up 6.1 percent, contents insurance 2.7 percent and Real estate services up 1.7 percent, so the prices of many aspects of housing rose much faster than prices in general. Alcoholic beverages and Tobacco contributed 10.7 percent of the rise (up 0.7 percent), and 'Miscellaneous goods and services', which includes personal care (like hairdressing and related appliances), personal effects (including jewellery), insurance, credit services (not including actual interest payments), and other services such as professional services, contributed 19.6 percent (up 1.3 percent). Transport prices fell 1.1 percent (a negative contribution to the overall rise of 30.0 percent), half due to a fall in petrol prices (down 1.7 percent) and more than a third due to falling international air transport prices (down 5.5 percent) though domestic air transport prices rose 4.0 percent. Communications fell 1.3 percent, with Telecommunication services down 1.5 percent, and Recreation and culture was down 0.1 percent mainly due to a 1.6 percent fall in the prices of Audio-visual and computing equipment and a 1.1 percent fall in 'Other recreational equipment and supplies'. Over the year, Housing and household utilities was the biggest driver in the rise, up 3.0 percent and contributing two-fifths (39.9 percent) of the CPI increase with new housing up 5.4 percent and all the other components except Household energy (up 1.7 percent) rising faster than overall CPI: rents (up 2.2 percent), Property maintenance (up 3.0 percent), and Property rates and services (up 3.4 percent). House insurance was up 12.1 percent, and Real estate services were up 8.1 percent. Professional services were also up 8.0 percent. Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in

September (down 0.5 percent in the quarter and 4.6 percent over the year). Other major contributors to the annual increase were Food (up 2.8 percent, accounting for over a quarter or 27.3 percent of the increase), Cigarettes and tobacco (up 9.9 percent, accounting for 14.8 percent of the increase), and petrol which accounted for a tenth (9.7 percent) of the total, rising 4.5 percent. In seasonally adjusted terms, the CPI rose 0.3 percent from June, Food rose 0.6 percent, Alcoholic beverages and tobacco rose 1.4 percent, Clothing and footwear rose 0.3 percent, Housing and household utilities rose 0.8 percent, Communications fell 1.4 percent, Recreation and culture fell 0.8 percent, and Education rose 0.6 percent. Over the year, in Auckland prices rose 2.0 percent, Wellington 1.7 percent and they rose 2.3 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 1.0 percent and it was 1.9 percent in the rest of the South Island. Auckland's housing costs rose 3.3 percent over the year, Wellington's rose 3.0 percent, and in the North Island (outside Auckland and Wellington) housing costs rose 3.5 percent, the fastest in the country. Canterbury's rose 0.9 percent and rest of the South Island rose 2.9 percent, with the national average movement of 3.0 percent exceeded by Auckland and the rest of the North Island (outside Auckland and Wellington).

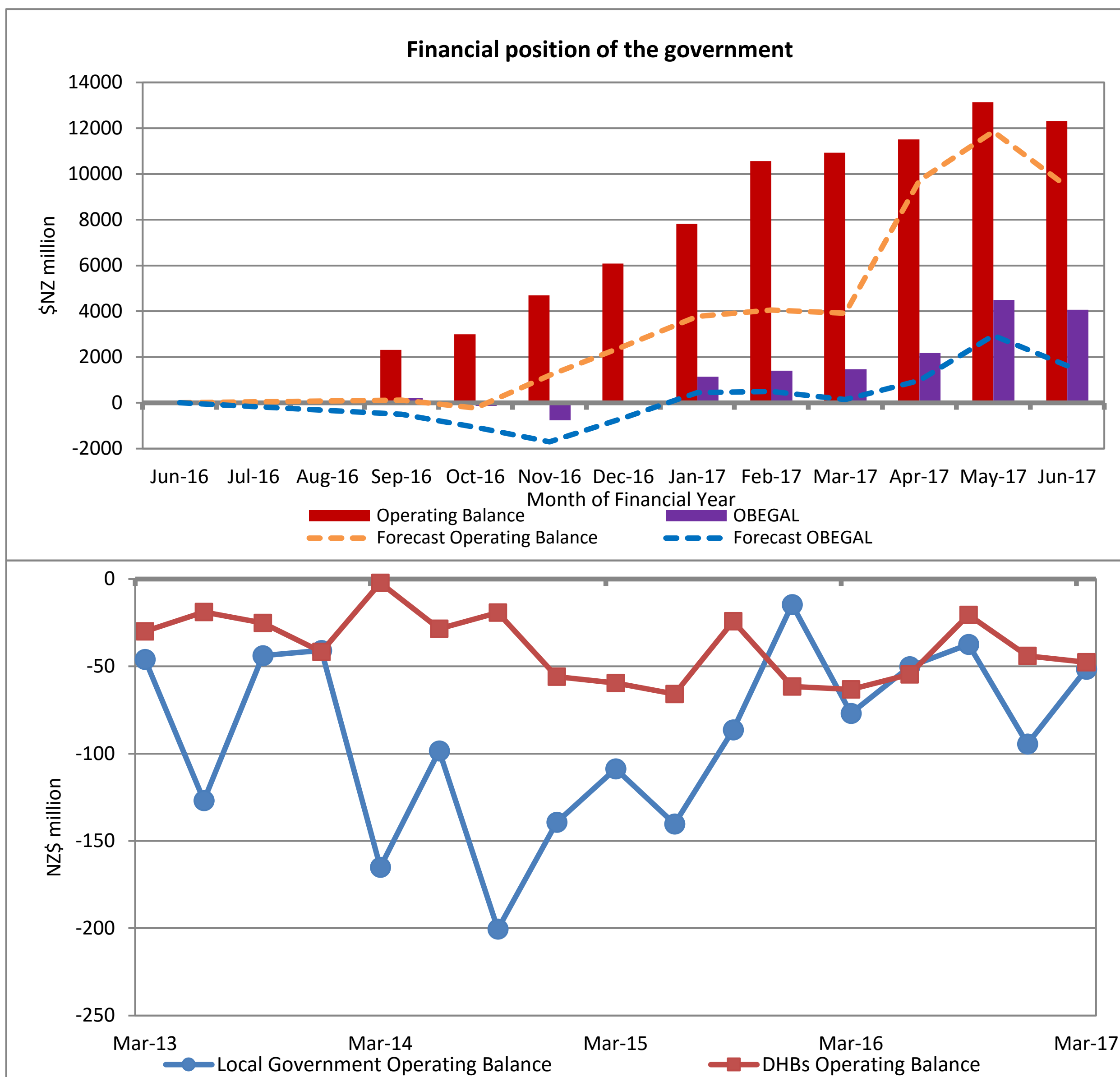
★ The **Household Living-costs Price Indexes** (HLPIs) for the year to September 2017 again showed lower income households experiencing faster price rises than higher income households. Lowest spending households saw their living costs rise 2.6 percent over the year while prices for the highest spending households rose only 1.5 percent. The difference occurs because they spend their money on different things. Prices for the necessities of housing and food dominate low income households' spending and dominated the price rises, though relieved somewhat by falling prices for petrol and telecommunication services. On the other hand, higher income and higher spending households also benefitted from falls in the prices of the relative luxuries of international air travel and electronic goods, and a fall in interest rates for mortgages. Over the year, the All households HLPI index rose 1.9 percent, the Beneficiary households index rose 2.3 percent, the Māori households index rose 1.2 percent, and the Superannuitant households index rose 2.3 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.3 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.8 percent, and quintile 5 (the highest incomes) rose 1.6 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.6 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.7 percent, and quintile 5 rose 1.5 percent. Over the September quarter, the All households HLPI index rose 0.6 percent, the Beneficiary households index rose 0.5 percent, the Māori households index rose 0.6 percent, and the Superannuitant households index rose the most, at 0.9 percent. By income quintile, over the year the index for the lowest income households (quintile 1) rose 0.7 percent, quintile 2 rose 0.7 percent, quintile 3 rose 0.6 percent, quintile 4 rose 0.6 percent, and quintile 5 rose 0.6 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.8 percent, quintile 2 rose 0.6 percent, quintile 3 rose 0.7 percent, quintile 4 rose 0.5 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 0.2 percent in the month of September 2017 (and rose 0.5 percent in seasonally adjusted terms). Food prices rose 3.0 percent in the year to September. Compared with the previous month, fruit and vegetable prices fell 4.9 percent (and rose 0.4 percent seasonally

adjusted); meat, poultry, and fish prices fell 0.2 percent; grocery food prices rose 0.9 percent (and rose 0.9 percent seasonally adjusted); non-alcoholic beverage prices rose 2.3 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 year ended 30 June 2017, government spending for the year as a percentage of GDP at 37.2 percent was the lowest it has been since 2005. Social security and welfare spending at 9.4 percent of GDP was the lowest since 2008, Health spending at 6.1 percent of GDP was the lowest it has been since 2008, Education at 5.0 percent of GDP, the lowest since 2002 (note that these are 'functional classifications' which are wider than the votes for those areas of spending: for example the Health functional classification includes some ACC spending). Crown tax revenue was $1.0 billion (1.4 percent) higher than forecast in the 2017 Budget Economic and Fiscal Update (BEFU 17). Corporate

tax was $0.6 billion (4.5 percent) above forecast "including a significant contribution from companies operating in the finance and insurance sector". PAYE revenue was $0.2 billion (0.7 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 $1.1 billion (1.5 percent) below forecast, mainly due to "lower than forecast impairment of tax receivables" and expected Treaty settlements were delayed. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $4.1 billion in surplus, $2.4 billion (51.0 percent) better than forecast. The Operating Balance was a $12.3 billion surplus, $2.9 billion more than forecast, with actuarial gains on ACC and GSF liabilities of $1.4 billion, and a New Zealand Superannuation Fund investment gain of $5.5 billion. Net debt at 22.2 percent of GDP ($59.5 billion) was $2.8 billion lower than forecast. Gross debt at $87.1 billion (32.5 percent of GDP) was $1.5 billion less than forecast. The Crown's net worth in financial terms was $10.5 billion higher than forecast at $110.5 billion, "mainly due to an upwards revaluation of property, plant and equipment of $7.5 billion" and the above-budget operating balance.

- 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 June 2017 quarter recorded a 0.5 percent ($11.7 million) increase in operating income in seasonally adjusted terms and a 1.9 percent rise in operating expenditure ($48.5 million) including a 0.2 percent rise in employee costs (up $1.3 million) compared to the March 2017 quarter. This resulted in an operating deficit of $160.9 million in the June quarter, compared with a deficit of $115.4 million in the June 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/economicbulletin194.

For further information contact Bill Rosenberg.