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Commentary

Hope, a new Government and making room to fund its programme

Summary

Welcome back. It's refreshing to start a new year with the hope that the change of Government has brought. It has got off to an energising start and lots more promised to come. Many of its initiatives take additional government spending so one of the Government's big challenges is to ensure it has the revenue to carry out its programme, and the willingness to spend it. Do the new Government's policies allow that?

This is not about the shockingly dishonest "fiscal hole" that Bill English and Steven Joyce were trying to scare voters with during the election campaign. There was no such fiscal hole. The funding difficulties I discuss here are ones National would have faced even more intensely, but would have continued to deal with by ignoring growing problems which need funding.

Not only does the new Government have to fill those funding holes handed on to it, but it wants to do more in important areas which the previous Government largely left to fester. But it is faced with a problem in its self-imposed policy to limit its operational spending to roughly 30 percent of GDP. An arbitrary spending cap is poor policy.

There are a number of large areas of Government spending that are likely to rise relentlessly, not just in dollar terms but *as a proportion of GDP*. These notably include health and New Zealand Superannuation. Education, especially if life-long education becomes a reality, and Working for Families, if better wage increases don't eventuate, could also be in that category.

If it fixes its total spend as a proportion of GDP, year after year they take an increasing proportion of expenses, leaving less and less for other important areas. It is like a slowly rising floor in a horror movie, where the hero sees the ceiling approaching, threatening to crush him.

The Budget Policy Statement the Government published in December showed spending already over $4 billion below its self-imposed limit at 28.6 percent of GDP in 2019. It could buy time by paying debt off even more slowly than it plans, it is looking for savings (there are likely to be few left) and programmes it can cancel. But these don't solve the structural problem.

Wriggle space within a room whose floor is steadily rising only buys time. The Government needs more revenue and it needs the fiscal policy space to spend it in. Otherwise it will find it cannot finance its worthy programme.

Welcome back. It's refreshing to start a new year with the hope that the change of Government has brought. It has got off to an energising start and lots more promised to come. There are significant restorations of rights in employment law, support for people with children and low incomes, and game changers like the new focus on child poverty, phasing in free tertiary education, and a determination to address the increasingly severe housing problems New Zealanders are facing and get serious about climate change. There are disappointments too – the intention to sign up to the US-less TPPA and 90 day 'fire at will' trials remaining for 30 percent of employees (despite well-researched evidence they don't create jobs or help vulnerable groups). But we are well on the positive side of ledger.

There is much more to come of course. The Government has an ambitious programme. Many of its initiatives take additional government spending so one of the Government's big challenges is to ensure it has the revenue to carry out its programme, and the willingness to spend it.

In December, Minister of Finance Grant Robertson presented the Government's intentions for his first Budget (17 May) in his Budget Policy Statement. It was presented at the same time as Treasury's Half Year Economic and Fiscal Update (HYEFU) and announcements on its Families Package. This commentary takes a look at what the documents tell us about whether there will be enough money.

Big funding needs that any Government would face

Let me make clear at the outset that this is not a reprise of the shockingly dishonest "fiscal hole" that Bill English and Steven Joyce were trying to scare voters with during the election campaign and had the gall to persist with post-election. There was no such fiscal hole. Labour budgeted for what it was promising.

The funding difficulties I discuss here are ones they would have faced too, but more intensely as I describe below. If nine years of experience is a fair guide, their response would have been to pretend that growing problems don't exist and to reduce revenue through tax reductions despite it. That is fiscal irresponsibility at its worst.

The problem the Government confronts is summed up in the Budget Policy Statement:

> We also expect to manage a number of cost pressures across the public service in Budget 2018 arising primarily from the underfunding of core public services in recent years. We are still uncovering the scale of these pressures. Our commitment as a government includes extra resources for health, education, increasing police numbers and a significant funding increase for conservation.

Not only does it have to fill the funding holes left by the previous Government that created deteriorating health services, a mental health crisis, a housing crisis, teacher shortages, and many other social and environmental deficits, but it wants to do more in important areas which have been largely left to fester. They include poverty, regional development, industry training, youth unemployment, funding of superannuation. It is thankfully unavoidable that the historic issue of underpayment of women must now be addressed. The previous Government started on that but in its legislation and limited financial response showed it would try to resist the tide of history.

Self-imposed problem: spending limit

The new Government is faced with a problem in its self-imposed policy to limit spending: "The Government will maintain its expenditure to within the recent historical range of spending to GDP ratio." That ratio is roughly 30 percent of GDP. They have left enough flexibility to raise spending during a recession but there is nonetheless a lid on what they allow themselves to spend, even if the revenue was available or it was able to be debt-financed. As we will see, an arbitrary spending cap is poor policy.

It's worth noting that the spending limit is actually on 'Core Crown expenses'. Core Crown excludes state-owned enterprises and Crown Entities (though many of them rely on or impact Core Crown spending). In the jargon, 'expenses' are operational expenditure: day-to-day spending such as salaries, benefit payments and finance costs, as distinct from capital spending on assets which last over a period of years. The Government policy has placed no limit on capital spending. A broader view might classify education spending (for example) as building 'human capital' in the capability of our people, but that is not within the current rules.

The rising floor

To illustrate the problem: there is a number of large areas of Government spending that are likely to steadily rise, not just in dollar terms but *as a proportion of GDP*.

In its 2016 Statement on the Long-Term Fiscal Position, Treasury projects out current trends into the future to look at their effect on government finances. It estimated the movement of the main parts of government expenditure out to 2060. Some elements of Core Crown spending are set out in the following table from the Statement. Notice that they are expressed as a proportion of GDP.

Table 6.1 - Projections for "Historical Spending Patterns" scenario
Per cent of nominal GDP

	2015	2030	2045	2060
Healthcare	6.2	6.8	8.3	9.7
New Zealand Superannuation (NZS)	4.8	6.3	7.2	7.9
Education	5.3	5.4	5.5	5.7
Law and order	1.5	1.4	1.4	1.4
Welfare (excluding NZS)	4.2	4.5	4.7	4.7
Other expenses	6.3	6.7	6.7	6.7

Bear in mind that this is highly dependent on assumptions on population growth and aging, productivity and wage growth, growth in health care and other costs, as well as changing government policies over this long period. So we shouldn't take the exact numbers too literally – it's the trend that is important.

Government funding of healthcare, according to Treasury, is going increase its proportion of GDP by over half by 2060, going from 6.2 percent in 2015 to 9.7 percent in 2060. Aging is part of this: older people have somewhat higher medical needs (though the biggest costs are in their last years of life, which move out as they age) and they also need more residential or home care. Health costs could be managed down by better primary care and encouraging fitness, less obesity and other preventative strategies. To its credit, Treasury modelled some of the savings from such policies. But medical advances lead people to want more of it. There is little doubt there will be a continuing upward trend – and it is cheaper and fairer for it to be publicly funded rather than hidden away in a mixture of private funding and people going without because they can't afford it (leading to them suffering and being less productive). Labour has promised to fully fund increasing health costs, the aging of the population and population growth – which the previous Government consistently failed to do – and their election figures look about right to do that. But even those increases are not enough to meet needs for resuscitating neglected services such as for mental health and those increased demands that new treatments bring.

New Zealand Superannuation is projected to rise from 4.8 percent of GDP in 2015 to 7.9 percent in 2060. That's a big rise, though not as much as healthcare, and it's already happening. The rate of increase in spending could be managed down by raising the age of eligibility or reducing payments but these are not politically popular and there are good arguments against them. In the March 2017 *Bulletin*

I showed that net costs were not nearly as frightening after tax paid by both superannuitants and the New Zealand Super Fund and could be smoothed by resuming contributions (stopped by the previous Government) to the New Zealand Super Fund. The new Government is resuming those payments gradually so the smoothing will not be as great as originally planned but will still be worthwhile. That of course brings some costs forward rather than paying them in 2045 or 2060, and some argue we have more urgent priorities. But there is a trick here: the contributions to the New Zealand Super Fund are classed as capital so don't count towards the limit on spending. Despite that trick and despite the smoothing of payments, the expenses of New Zealand Superannuation to the Core Crown will continue to rise as a percentage of GDP something along the lines that Treasury has projected. Why? Because wherever the money to fund them comes from – taxes, or running down the New Zealand Super Fund (as is planned from the early 2030s) – it will be Core Crown spending when it is paid to superannuitants (another accounting trick).

Education costs rise more slowly as a proportion of GDP according to Treasury's projection, largely because the population is aging and the school-age population is relatively static as a proportion of the population. If however life-long education becomes a reality because of increasingly rapid changes in jobs and industries this could, and should, change.

The other areas of spending don't rise much with GDP at all.

However there are some payoffs. If we continue with weak wage growth (and Treasury's HYEFU forecasts for the next four years have the share of the nation's income going to working people continuing to fall), then the Working for Families 'top up' or wage subsidy will need to rise at least as fast as wages, and arguably faster. We could fix labour laws and enable wages to rise faster, or raise Working for Families faster. Instead it is losing its value. In April I calculated that the value of Working for Families had fallen from $3.1 billion in 2010 (in 2017 dollar terms) to an estimated $2.4 billion in 2017 – worth $700 million a year. Not even the new Government's more generous Families Package restores that: it peaks at $540 million in the year to June 2019, and then declines in dollar terms to $510 million in the year to June 2022 and even faster in real terms. It should be linked, like New Zealand Superannuation, to rises in the average wage. Combined with population growth, that would increase its proportion of total spending and GDP. It doesn't need to happen if wages do start to rise more strongly.

So the Government is faced with a situation where some parts of its spending are rising relentlessly as a proportion of GDP. If it fixes its total spend as a proportion of GDP, year after year they take an increasing proportion of expenses, leaving less and less for other important areas. It is like a slowly rising floor in one of those cheap horror movies, where the hero sees the ceiling approaching, threatening to crush him.

The Government's Families Package made a substantial inroad into poverty and it has big plans to go further. To take each extra person out of poverty costs more than the last because they are the people deepest in poverty. This will take an increasing proportion of Core Crown expenses and of GDP.

It must also provide for pay equity, realistic pay rises for state sector employees and employees of contractors to the state, regional development, conservation, and more. Some of these will naturally need a steep rise in funding, others will need a rapid rise because of past neglect.

It is not encouraging that the Budget Policy Statement forecasts not only Core Crown expenses below the 30 percent cap, at 28.6 percent in the year ending June 2019, but falling as a proportion of GDP down to 27.6 percent of GDP in 2022. To be clear: National's plans were even sadder. They planned to reduce Core Crown expenses to 26.9[1] percent of GDP by 2021. That would have put the previous Government under even more intense funding pressure than the new one.

What could it do?

Each percentage point of GDP is worth $2.9 billion this financial year. So there is 1.4 to 2.4 percentage points of GDP in extra spending over the period that could be taken up if it had the funds, even within the Government's self-imposed rules: $4.2 billion rising to $8.3 billion. However may not have the revenue to do that because it has promised not to raise most taxes this term. Unexpected growth in employment and incomes would help, but that is unlikely to be enough.

There are strong increases in capital expenditure including for buildings and other infrastructure in Education, Defence, KiwiBuild (affordable housing), Corrections, roading, rail, Health and the New Zealand Super Fund contributions with further allowances for other new spending. To an extent the Government is diverting revenue from operational expenditure to capital expenditure, but it is certainly true that there is a big backlog of need there too.

It sensibly allows itself some more spending power by reducing debt more slowly and maintaining it at 20 percent of GDP, instead of reducing it further and faster as the previous Government planned. Remember again that each percentage point of GDP paid into reducing debt is worth $2.9 billion. The easiest way to reduce debt as a proportion of GDP would be to allow inflation to do the job rather than cutting vitally needed spending. Treasury forecasts GDP to grow in dollar terms at about 5 percent a year, of which about 2 percent is inflation in the whole economy – the 'GDP deflator'. In fact the GDP deflator rose 3.6 percent in the year to September. If that continued, the debt target would be reached a year early – so it could be paid off more slowly, or more debt used to fund capital expenditure. Either would free up operational funding. It could also quite safely relax the rather arbitrary debt target.

It is looking for savings and for programmes of the previous Government to cancel. That Government is likely to have found all the easy savings – it had chewed through the fat into the meat and bone some years ago. There will be some programmes that don't deserve to continue (like the tax cuts). But those are essentially a one-off source of funds.

These are all wriggle spaces within the rules the Government has made for itself. But wriggle space within a room whose floor is steadily rising only buys time. The Government needs more revenue and it needs the fiscal policy space to spend it in. Otherwise it will find it cannot finance its worthy programme.

Bill Rosenberg

[1] This has been recalculated using Treasury's revised GDP estimates to make it comparable with HYEFU 2017.

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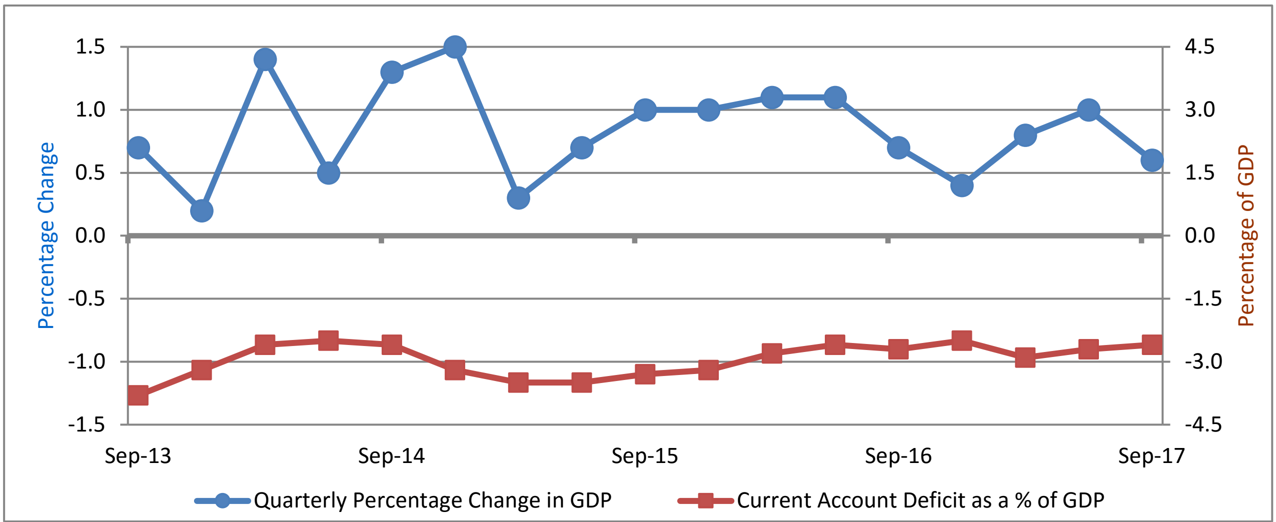
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 11 December 2017.

Annual Percentage Change (March Year)	2017-18	2018-19	2019-20	2020-21
GDP	2.7	3.2	3.0	2.4
CPI	1.4	1.8	2.0	2.0
Private Sector average hourly wage	2.2	3.1	3.2	3.1
Employment	2.7	1.9	1.5	1.3
Unemployment rate (% of labour force)	4.6	4.5	4.5	4.5

Economy



★ Growth in New Zealand's measured economy in the three months to September 2017 was below Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 0.6 percent, compared to 1.0 percent in the previous quarter (revised up). Average growth for the year ended September 2017 was 3.0 percent (and 2.7 percent compared to the same quarter last year). However growth in GDP per person continues to be weak with a rapidly growing population: GDP per person rose only 0.2 percent in the September quarter (down from 0.5 percent the previous quarter), and 0.8

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 1.6 percent in September years. 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 0.3 percent over the quarter and 2.4 percent over the year to September. Its average performance has also been lower than the 2000s.

Note that there have been major revisions of GDP estimates, largely affecting data since 2013, with significant effects in 2016 and 2017. The estimate of annual GDP growth in the year to March 2016 was raised by 1.2 percentage points (from 2.4 percent to 3.6 percent) and in the year to March 2017 by 0.8 percentage points (from 2.9 percent to 2.7 percent).

★ I estimate[1] that labour productivity measured by production per hour worked in the economy was unchanged in the year to September 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 September 2017 than it was in September 2012. It fell 1.8 percent in the September quarter in seasonally adjusted terms. Statistics New Zealand's official productivity statistics for the year to March 2017 will be published on 22 February.

★ Business investment rose by 0.3 percent compared to the previous quarter though the growth compared to the same quarter last year was reasonably strong at 3.5 percent, driven mainly by construction of other than buildings, Plant, machinery and equipment, and Intangible fixed assets. Non-residential building and Transport equipment investment fell over the year. Investment in housing rose 3.3 percent in the quarter following 0.6 percent and 1.5 percent falls in the previous two quarters. It grew only 1.4 percent over the same quarter last year. Household consumption growth weakened to 0.9 percent in the September quarter in real terms, after rising a revised 1.1 percent in the previous quarter, and rose 3.5 percent over the same quarter in the previous year. Inflation in the economy as a whole is considerably higher than CPI, with the GDP deflator (a price index for expenditure on the economy's production) rising 3.6 percent from the same quarter last year, and 1.3 percent in the most recent quarter.

★ By industry, the largest contributors to growth in the latest quarter were Construction (up 3.6 percent), Manufacturing (up 0.7 percent), Transport, postal and warehousing (up 1.4 percent), Professional, scientific, technical, administrative and support services (up 0.9 percent), Health care and social assistance (up 2.1 percent) and Arts, recreation and other services (up 2.4 percent). There were contractions in Agriculture, forestry and mining (down 1.0 percent), Electricity, gas, water, and waste services (down 1.6 percent), Retail trade and accommodation (down 0.4 percent), and Rental, hiring and real estate services (down 0.3 percent). Compared with the same quarter last year, the biggest rises were in Health care and social assistance (up 5.8 percent), Retail trade and accommodation (up 5.5 percent), Arts, recreation and other services (up 4.2 percent),

[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

Professional, scientific, technical, administrative and support services (up 3.6 percent), and Agriculture, forestry and fishing (up 3.4 percent).

★ New Zealand recorded a Current Account deficit of $1.3 billion in seasonally adjusted terms for the September 2017 quarter (but an actual deficit of $4.7 billion) following a revised $1.5 billion deficit for the previous quarter. There was near balance in goods trade (a $26 million deficit, seasonally adjusted) following a $0.4 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $1.2 billion in goods and services (compared to a $0.8 billion surplus in the previous quarter) including a $1.2 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) worsened to $2.4 billion from $2.1 billion in the previous quarter (seasonal adjustment not available). For the year to September 2017, the current account deficit was $7.1 billion or 2.6 percent of GDP compared to a $7.4 billion deficit in the year to June (2.7 percent of GDP). The deficit on investment income was $8.5 billion for the year.

★ The country's Net International Liabilities were $156.7 billion at the end of September 2017, up from a revised $157.2 billion at the end of the previous quarter but down from $167.9 billion a year before. The September net liabilities were equivalent to 56.3 percent of GDP, compared to a revised 57.4 percent in the previous quarter and 64.3 percent a year before. Net international liabilities would take 2.13 years of goods and services exports to pay off, down from 2.41 years a year before. However gross liabilities would take 5.45 years of goods and services exports to pay off. The fall in net liabilities over the quarter was due to a net $2.6 billion valuation increase (mainly $2.1 billion in market price valuations) offset by a $2.2 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $159.3 billion. New Zealand's international debt was $287.8 billion (equivalent to 103.5 percent of GDP), of which 30.4 percent is due within 12 months, compared to $138.1 billion in financial assets (other than shares; 49.6 percent of GDP), leaving a net debt of $149.8 billion (53.8 percent of GDP). Of the net debt, $3.5 billion was owed by the government including the Reserve Bank (equivalent to 1.3 percent of GDP and down from $4.5 billion at the end of the previous quarter) and $112.8 billion by the banks (40.6 percent of GDP), which owed $153.8 billion gross.

★ Overseas Merchandise Trade for the month of December saw exports of goods rise in value by 25.7 percent from the same month last year (a record $5.6 billion) while imports rose 11.2 percent. This created a trade surplus for the month of $640 million or 11.5 percent of exports, which is a record surplus for December and the largest in any month since March 2015. There was a trade deficit for the year of $2.8 billion or 5.3 percent of exports, lower than the 6.5 percent deficit in the year to the same month in 2016. In seasonally adjusted terms, exports rose 13.0 percent or $611 million over the month (compared to a 0.7 percent fall the previous month) led by rises in Aluminium and aluminium articles (up 311.8 percent or $130 million, not seasonally adjusted), Fruit (up 60.9 percent or $113 million), Dairy products (up 9.1 percent or $107 million), Meat (up 7.6 percent or $47 million) and Crude oil (up 165.5 percent or $66 million, not seasonally adjusted), offset by falls led by Logs, wood and wood articles (down 10.5 percent or $50 million) and Seafood (down 3.1 percent or $5 million). Seasonally adjusted imports fell 4.5 percent or $239 million over the previous month, creating a trade surplus of $230 million following a $619 million deficit in the previous month. The falling imports were led by Petroleum and products (down 22.0 percent or $124 million, not seasonally adjusted), Mechanical machinery and equipment (down 3.5 percent or

$29 million, not seasonally adjusted), Textiles and textile articles (down 12.8 percent or $28 million), Electrical Machinery and Equipment (down 4.2 percent or $19 million), and Optical, medical and measuring equipment (down 5.1 percent or $8 million), offset by rises led by Plastic and plastic articles (up 2.0 percent or $4 million). In the year to December, 22.3 percent of New Zealand's exports went to China, 16.4 percent to Australia, 9.9 percent to the US, and 62.5 percent went to the top seven countries buying New Zealand exports. This was up from 19.5 percent going to China in the year to December 2016, and 61.3 percent going to the top seven destinations. Over the same period, 19.3 percent of New Zealand's imports came from China (compared to 20.0 percent in 2016), 12.2 percent from Australia, 10.7 percent from the US, and 63.2 percent from the top seven countries selling to New Zealand, compared to 62.4 percent a year before.

- The Retail Trade Survey for the three months to September 2017 showed retail sales rose 4.1 percent by volume and 5.4 percent by value compared with the same quarter a year ago. They rose 0.2 percent by volume and 0.1 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Non-store and commission-based retailing (which includes online sales, up 8.7 percent), Clothing, footwear and accessories (up 4.0 percent), Liquor (up 3.9 percent), Department stores (up 1.9 percent) and Electrical and electronic goods (up 1.9 percent). There were falls led by Fuel (down 3.2 percent), Food and beverage services (down 2.2 percent; Statistics New Zealand says its 3.1 percent fall in sales volume was a record), Furniture, floor coverings, houseware and textiles (down 1.3 percent), Recreational goods (down 1.2 percent) and Motor vehicles and parts (down 1.0 percent). Supermarket and grocery stores, easily the largest single sector, rose 1.6 percent by value and 0.5 percent by volume. Statistics New Zealand notes that this is the first quarter where they have collected retail trade data under a new design which uses GST data wherever possible, surveying only the larger retail businesses.

- ★ The Performance of Manufacturing Index for December 2017 was 51.2, a fall from 57.7 in the previous month. The employment sub-index was at 51.3, a fall from 54.1 in the previous month.

- ★ The Performance of Services Index for December 2017 was 56.0, a slight fall from 56.5 the previous month. The employment sub-index was 55.8, up from 50.7 in the previous month.

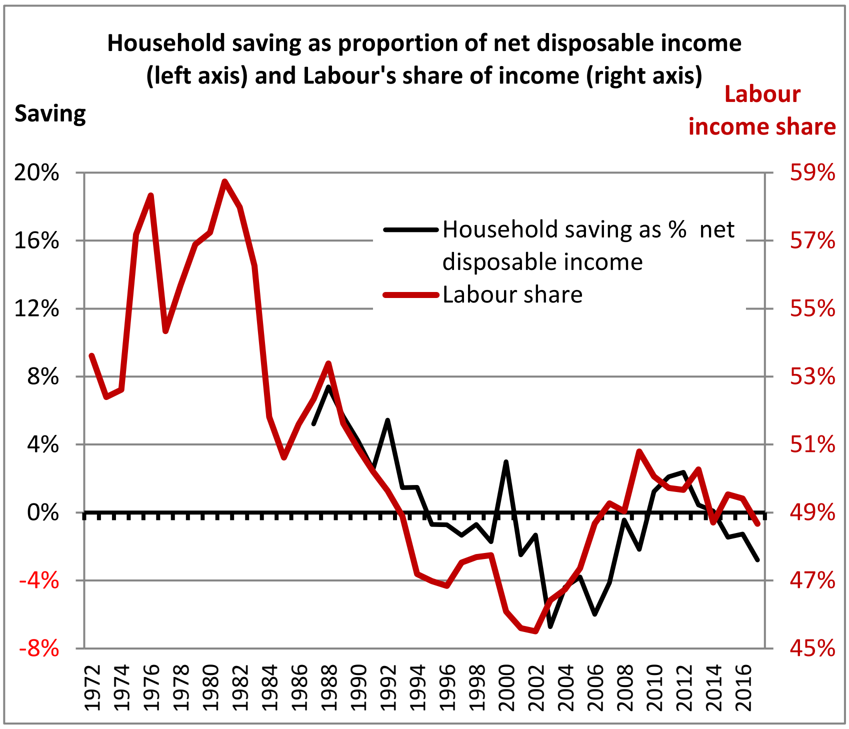
For these indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

- On 9 November 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 continued its more relaxed view of the international situation, though no longer noted 'surplus capacity' (which still exists in many countries shown by high unemployment): "Global economic growth continues to improve, although inflation and wage outcomes remain subdued. Commodity prices are relatively stable." It again commented on low interest rates and record high share prices. "Monetary policy remains easy in the advanced economies but is gradually becoming less stimulatory." It was happier about the exchange rate: "The exchange rate has eased since the August Statement and, if sustained, will increase tradables inflation and promote more balanced growth." That is well overdue but partly the result of election uncertainty and partly due to financial dealers' distaste for a progressive government. GDP growth in New Zealand in the June quarter grew "in line with expectations, following relative weakness in the previous two quarters. Employment growth has been strong and GDP growth is projected to strengthen, with a weaker outlook for housing and construction offset by accommodative monetary policy, the continued high terms of trade, and increased fiscal stimulus." While not stated as such, on the RBNZ's assessment, the new Government's housing policies are already adding to the success of the Bank's constraints on borrowing by housing speculators: "House price inflation has moderated due to loan-to-value ratio restrictions, affordability constraints, reduced foreign demand, and a tightening in credit conditions. Low house price inflation is expected to continue, reinforced by new government policies on housing." However it still has uncertainties about the incoming Government's policies: "The Bank has incorporated preliminary estimates of the impact of new government policies in four areas: new government spending; the KiwiBuild programme; tighter visa requirements; and increases in the minimum wage. The impact of these policies remains very uncertain." With annual CPI inflation at 1.9 percent in September, "Overall, CPI inflation is projected to remain near the midpoint of the [1 to 3 percent] target range and longer-term inflation expectations are well anchored at 2 percent." The next OCR announcement will be on 8 February 2018 and will be accompanied by a Monetary Policy Statement.

★ According to REINZ, over the year to December the national median house price rose $30,000 or 5.8 percent to $550,000 and REINZ's house price index rose 3.8 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 1.7 percent seasonally adjusted while the house price index fell 0.7 percent. In Auckland over the year the median price was up $15,000 or 1.8 percent at $870,000 while the house price index rose 0.7 percent. Over the month Auckland's median price rose 0.5 percent seasonally adjusted, and the house price index fell 0.5 percent. Excluding Auckland, over the year the national median price rose $28,000 to $450,000 or 6.6 percent while the house price index rose 6.8 percent. Over the month the median price excluding Auckland was down 0.4 percent on the previous month seasonally adjusted, and the house price index fell 0.1 percent. There were record median prices in Waikato (up 11.7 percent over the year to $525,000), Bay of Plenty (up 20.4 percent to $598,000), and Wellington (up 4.7 percent to $560,000). Median prices fell in 5 of the 14 regions over the month, seasonally adjusted, and sales fell in 4 of the regions. Over the year, sales fell in all regions, averaging a sharp 10.1 percent fall.

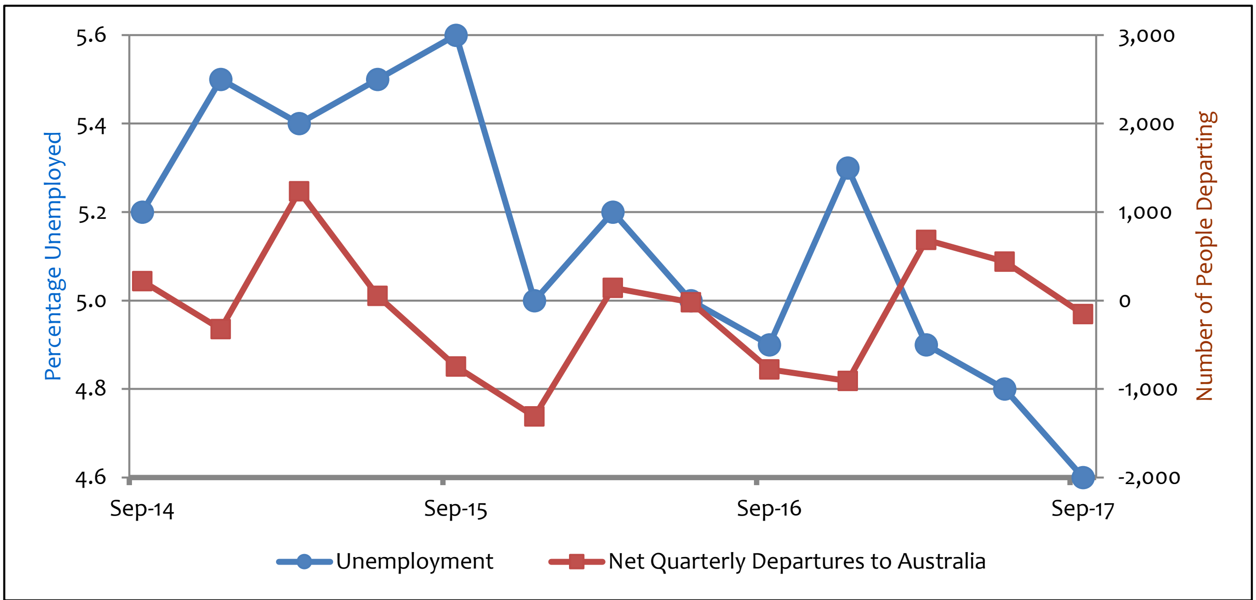
- The Household Economic Survey for 2017 showed wages and salaries made up 59.6 percent of average annual household income over the year to June 2017, which had fallen from 66.8 percent in 2007. Self-employment income made up 18.1 percent. It rose sharply in 2016 from 12.0 percent of average household income in 2015 to 17.4 percent in 2016. It had been 11.7 percent in 2007. Investment income made up 4.8 percent of household income, or $3,010, but under half of households had any such income: the median was zero. New Zealand Superannuation and war pensions were 6.7 percent of household income, private superannuation 0.9 percent, other government benefits 3.2 percent, other sources of regular income 3.8 percent and irregular sources of income 3.0 percent, totalling $100,892 per household, including $97,882 in regular income. Average total income increased 0.8 percent in real terms from 2016, and regular income 1.2 percent, but average household wages and salaries fell 0.1 percent while average self-employed income rose 4.8 percent, and investment income 8.0 percent. Median household income was $76,728, including $75,412 regular income.

- **Wage and salary earners' share of New Zealand's income** can be calculated from the annual National Accounts Income and Expenditure figures for the year to March 2017, released in November. It showed a sharp fall in the share of the nation's income (gross domestic income) going to employees or wage and salary earners – **the labour income share**. It fell to 48.7 percent of the nation's income from 49.4 percent in the year to March 2016. It has been falling since 2009 when it was 50.8 percent. The main beneficiaries have been local corporate shareholders, though the self-employed have gained share slightly. The OECD median labour income share at the same period was 54.7 percent, Denmark had 61.2 percent, and Australia 51.7 percent (it crashed from 54.8 percent a year earlier)[1]. The labour income share is now at the lowest it has been since 2006 when it was rising. Each percentage point difference is worth $1,157 per year on average to each of New Zealand's 2,030,900 wage and salary earners employed at March 2017. The labour income share reached a peak in 1981 when it was a full 10 percentage points higher at 58.7 percent. If the labour income share was still 58.7 percent, each wage and salary earner would average $11,650 per year better off. The same release showed **household saving** falling deeper into the negative: expenditure outstripped disposable income by $4.1 billion in the March 2017 year, or 2.8 percent of net household disposable income. It was in the negative for all but one year between 1995 and 2009. Household saving fell by $2.3 billion while government saving increased by $3.2 billion and total national saving increased $3.4 billion.



[1] OECD and Denmark are calculated from the European Commission's AMECO databases (GDP (Income approach), Labour costs), last updated 9 November 2017 (https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/macro-economic-database-ameco/download-annual-data-set-macro-economic-database-ameco_en). Australia is calculated from Australia Bureau of Statistics, 5206.0 Australian National Accounts: National Income, Expenditure and Product, Table 7.

Employment



- According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the September 2017 quarter fell to 4.6 percent or 126,000 people, compared to 4.8 percent in June (128,000 people), seasonally adjusted. If it were the 3.3 percent it was in December 2007, 36,000 more people would have jobs. The seasonally adjusted female unemployment rate rose to 5.3 percent from 4.9 percent in September and was considerably higher than for men (4.1 percent) which fell from 4.7 percent. Māori unemployment fell from 10.6 percent in September 2016 to 9.9 percent in September 2017, while Pacific people's unemployment fell from 10.1 percent to 9.4 percent over the year (though the changes are not statistically significant). Compared to OECD unemployment rates, New Zealand had 13th lowest (out of 35 countries), one position worse than in June. However New Zealand had the third-highest employment rate at 77.4 percent for 15-64 year olds, compared to 4th highest in June.
- **Youth unemployment** for 15-19 year olds was 19.3 percent in September, down from 20.6 percent in June, and little changed from 19.1 percent a year before (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 September 2017 the unemployment rate was 23.7 percent, down from 26.6 percent a year before. For 15-19 year old Pacific Peoples it was 30.1 percent, down from 31.1 percent a year before. For 20-24 year olds, youth unemployment was 9.0 percent, up from 8.5 percent in June but down a little from 9.2 percent a year before. For Māori 20-24 year olds in September 2017 the unemployment rate was 13.2 percent, a fall from 15.2 percent a year before. For 20-24 year old Pacific Peoples it was 15.2 percent, up from 11.1 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 7.2 percent, down from 8.7 percent in June but little changed from 7.3 percent a year before. For Māori 15-19 year olds in September 2017 the rate was 10.4 percent, down from 11.6 percent a year before and for Pacific Peoples it was 10.2 percent, down from 11.2 percent a year before. For 20-24 year olds the NEET rate was 14.8 percent, up from 13.3 percent in June and unchanged from 14.8 percent a year before. For Māori 20-24 year olds in September the rate was 25.3 percent, down a

little from 26.7 percent a year before, and for Pacific Peoples it was 30.0 percent, up sharply from 19.3 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (15.3 percent) than those not in education (10.9 percent). There were 76,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, little changed from 75,000 in June and 75,000 a year before.

- By **region**, in the North Island, unemployment rates rose compared to a year ago in four out of the eight regions, but only Gisborne / Hawke's Bay's rise from 6.5 percent to 8.8 percent was statistically significant. In the North Island, Gisborne / Hawke's Bay has the worst unemployment rate at 8.8 percent, while Northland is at 6.6 percent (from 7.6 percent a year ago), Manawatu/Whanganui is at 5.5 percent (4.6 percent a year ago), Taranaki is at 4.9 percent (4.7 percent a year ago), Bay of Plenty is at 4.7 percent (5.1 percent a year before), and Waikato is at 3.7 percent (4.5 percent a year before). Auckland is at 4.6 percent (from 5.3 percent a year before) and Wellington is also at 4.6 percent (from 4.6 percent a year before). The South Island looks better with Tasman/Nelson/Marlborough/West Coast at 2.2 percent (from 2.8 percent a year before), Canterbury at 3.6 percent (3.9 percent a year before), Otago at 3.9 percent (3.7 percent a year before), though Southland had 5.2 percent unemployment (5.3 percent a year before).
- There were 42,900 unemployed people in September 2017 who had been **out of work for more than 6 months** compared to 43,500 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 34.9 percent of the unemployed compared to 34.6 percent a year before, and is a level that has not previously been reached in a September quarter since 2000. Those out of work for more than a year are 15.0 percent of the unemployed compared to 14.6 percent a year before, the highest in a June quarter since 2001.
- 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 September quarter there were a total of 332,000 people looking for work classed as "underutilised", or 11.8 percent of the labour force extended to include these people. Of them, 108,700 were underemployed, 126,000 were officially unemployed, and 97,000 were additional jobless people looking for work. The 11.8 percent underutilisation rate is the same as in the previous quarter (seasonally adjusted) and down on 12.3 percent a year before. It is higher for women at 14.7 percent than for men (9.0 percent).
- The number recorded as **employed** rose by 56,000 between the June and September 2017 quarters (seasonally adjusted). It rose by 102,700 over the year. The employment rate rose to 67.8 percent from 66.7 percent over the three months. It was 62.5 percent for women and 73.4 percent for men. Similarly the participation rate (the proportion of the working age population, those aged 15 years and over, either in jobs or officially unemployed) rose from 70.1 percent to 71.1 percent, all in seasonally adjusted terms.
- **By industry**, the actual rise in employment of 44,200 since the June quarter was made up of both gains and losses. The biggest gains were of 13,300 in Agriculture, forestry, and fishing, 12,800 in Construction, 11,000 in Public administration and safety, and 9,900 in Health care and social assistance. The largest falls were of 8,100 in Information media and telecommunications, 6,300 in

Wholesale trade, and 5,400 in Arts, recreation, and other services. These are not seasonally adjusted.

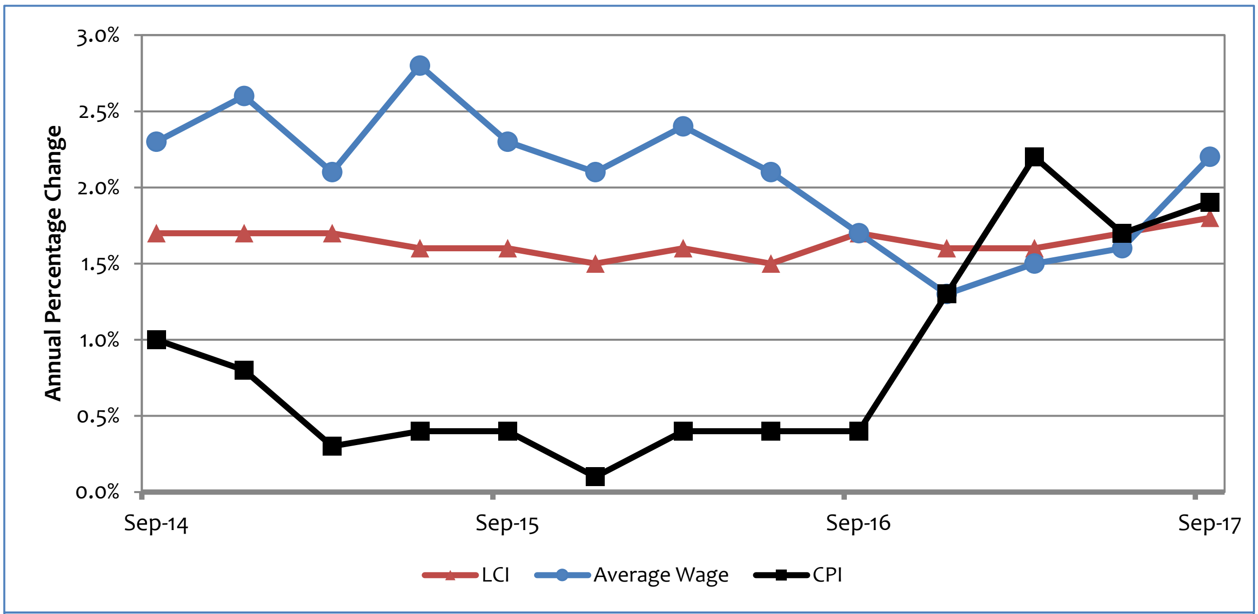
- In the September 2017 quarter, total **union membership** was estimated at 381,500, a 2.5 percent increase from 372,200 in the June quarter and up 1.6 percent from 375,400 a year before. The membership is 18.2 percent of employees compared to 18.0 percent in the June quarter and 18.7 percent a year before. Women make up 58.6 percent of the membership compared to them being 49.2 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.7 percent compared to 14.9 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**, 18.1 percent of employees (378,000) said their employment agreement was a collective in September compared to 18.2 percent in June and 19.5 percent (391,800) a year before; 68.5 percent (1,432,600) said it was an individual agreement compared to 67.8 percent in June and 65.0 percent a year before, and 6.9 percent or 144,400 said they had no agreement (which is illegal), compared to 7.6 percent in June and 7.9 percent a year before. A further 6.5 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.1 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 September 2017 quarter, 90.7 percent of employees (1,898,500) reported they were permanent, 4.9 percent casual (102,300), 2.3 percent fixed term (48,800), 1.1 percent seasonal (23,000), and 0.3 percent employed through a "temporary agency" (6,400). The proportion reporting they were permanent was up from 90.6 percent (1,873,000) in June and 89.9 percent (1,804,100) a year before. Women were slightly less likely to be permanent employees: 89.6 percent of women were permanent compared to 91.8 percent of men in June. Instead, women were more likely to be casual (5.7 percent of them compared to 4.1 percent of men) or fixed term (3.0 percent of women compared to 1.7 percent of men). However more men were in seasonal work than women – 1.4 percent of men (14,400) compared to 0.8 percent of women (8,700). Of the temp agency employees, 2,800 were men and 3,600 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 September 2017 quarter, 24.2 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 31.8 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 16.8 percent had been in their job for at least five but less than ten years, and 25.7 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, 27.4 percent of men had been in their jobs for more than 10 years, but only 24.2 percent of women. Age is a significant factor as would be expected: 56.1 percent people aged 15 to 24 had been in their jobs for less than a year, and 31.9 percent of 25-34 year olds, but only 13.7 percent of 45-54 year olds and 10.6 percent of 55-64 year olds. Small differences may not be statistically significant.

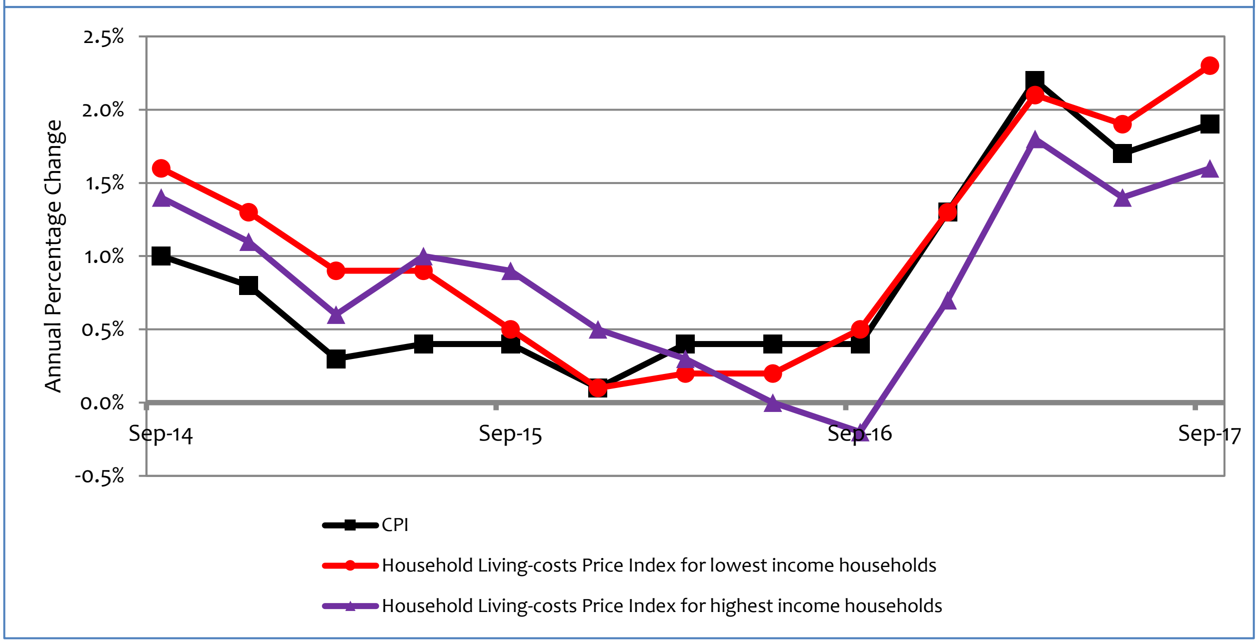
★ The Ministry of Social Development reports that at the end of December 2017 there were 123,041 working age people on the Jobseeker benefit, 1,270 fewer than a year before but a rise of 2,315 from 120,726 three months before. At December 2017, 65,613 were classified as 'Work Ready', and 57,428 were classified as 'Health Condition or Disability'. A total of 289,788 were on 'main' benefits, 7,222 fewer than a year before, mainly due to 4,292 fewer on Sole Parent Support, and 12,568 more than three months earlier, mainly because of 8,800 coming on to Jobseeker Support Student Hardship benefits – a seasonal effect. Of the 39,846 benefits cancelled during the three months to December, 19,286 or 48.4 percent of the people obtained work, 13.5 percent transferred to another benefit and 1.5 percent became full time students. A further 2,390 (6.0 percent) left on their 52 week reapplication or annual review. A total of 14,778 suffered sanctions, the majority (11,889) on a Jobseeker benefit. Of the total sanctioned, 42.9 percent were Māori, though 35.9 percent of working-age benefit recipients were Māori.

★ Job Vacancies Online for December 2017 showed the seasonally adjusted number of job vacancies fell by 0.5 percent in the month and rose 5.4 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Northland rose 18.8 percent (and rose 1.0 percent over the previous month), Auckland fell 0.7 percent (and was unchanged over the month), Waikato rose 16.9 percent (rose 0.9 percent), Bay of Plenty rose 23.6 percent (rose 3.1 percent), Gisborne-Hawkes Bay rose 9.4 percent (rose 1.2 percent), Manawatu-Whanganui-Taranaki rose 15.1 percent (rose 1.0 percent), Wellington rose 5.8 percent (fell 0.8 percent), Nelson/Tasman/Marlborough/West Coast rose 35.5 percent (rose 2.1 percent), Canterbury rose 10.3 percent (rose 1.5 percent) and Otago-Southland rose 26.8 percent (rose 1.9 percent). By industry, the fastest annual increases were in "Other" (up 14.9 percent), Hospitality & tourism (up 10.7 percent), Healthcare and medical (up 8.7 percent), and Construction and engineering (up 5.1 percent), while there were falls in IT (down 6.7 percent) and Education and training (down 3.0 percent). Over the month, all industries rose in a range between 0.4 and 2.2 percent except for Construction and engineering (down 0.6 percent) and IT (down 1.5 percent). By occupation, the fastest rises over the year were for Labourers (up 29.8 percent), Machinery Drivers and Operators (up 28.0 percent), Community and Personal Services (up 7.8 percent), Technicians and Trades workers (up 7.1 percent), and Sales (up 6.3 percent). None fell. Over the month, the fastest rises were for Labourers (up 2.7 percent) and Machinery Drivers and Operators (up 2.1 percent). Professionals fell 0.4 percent and all others grew between 0.8 and 1.4 percent.

★ International Travel and Migration statistics showed 10,800 permanent and long-term arrivals to New Zealand in November 2017 and 5,190 departures in seasonally adjusted terms, a net gain of 5,610 which was the same as the previous month, itself up from 5,220 the month before. There was a seasonally adjusted net gain from Australia of 170, compared to a gain of 120 a year before. It was made up of a net loss of 360 New Zealand citizens offset by a net gain of 530 citizens of other countries. There was an actual net gain of 70,354 migrants in the year to November, down from 70,694 in the year to October, but the same as the previous November year. Net migration to Australia in the year was 20 arrivals, with 24,916 departures and 24,936 arrivals. However there was a net loss of 5,183 New Zealand citizens to Australia over the year and a net loss of 1,309 to all countries. In November, 10.2 percent of the arrivals had residence visas, 11.9 percent student visas, 43.4 percent work visas, and 4.5 percent visitors. A further 29.4 percent were New Zealand or Australian citizens.

Wages and prices





- See item on the falling share of New Zealand's income going to wages and salaries under *Economy* above.
- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.6 percent in the three months to September 2017 and increased 1.8 percent in the year, a little less than the 1.9 percent increase in the CPI. The LCI increased 0.4 percent in the public sector and 0.7 percent in the private sector in the three months. Over the year it rose 1.5 percent in the public sector and 1.9 percent in the private sector. During the year, 47 percent of jobs surveyed did not receive a pay rise, and 49 percent of private sector jobs got no rise. For the 53 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 3.4 percent. For those jobs in the public sector that received increases, the median increase was 2.0 percent and in the private sector 2.4 percent; the average increase in the public sector was 2.5 percent and in the private sector 3.7 percent. We estimate that over the

year, jobs on collective employment agreements were 2.2 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 equally likely to get one of more than 5 percent. Only 45 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 September 2017 found the average hourly wage for ordinary-time work was $30.45, up 1.2 percent on the previous quarter and up 2.2 percent over the year, a little more than the 1.9 percent rise in the CPI. Female workers (at $28.38) earned 11.9 percent less than male workers (at $32.21) for ordinary time hourly earnings. The average ordinary-time wage was $28.37 in the private sector (up 1.2 percent in the quarter and 2.0 percent in the year) and $38.69 in the public sector (up 0.6 percent in the quarter and 3.3 percent in the year). In September, average total hourly wages (including overtime) ranged from $19.29 in Accommodation and food services and $21.29 in Retail trade, to $41.94 in Finance and insurance services, and $40.87 in Information, media and telecommunications. In Accommodation and food services, 57.9 percent of employee jobs were part time, and in Retail trade, 42.1 percent were part time; 43.5 percent were also part time in Health care and social assistance, 36.8 percent in Arts, recreation and other services, and 32.4 percent in Education and training. Together these five industries made up 68.5 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 0.1 percent in the December 2017 quarter compared with the September 2017 quarter, below most expectations. It rose 0.4 percent in seasonally adjusted terms. It increased 1.6 percent for the year to December. For the quarter, the largest single upward influence was Petrol (up 6.1 percent), and the Transport group together contributed more than three times the total rise. However Housing and household utilities was also a large contributor, rising 0.6 percent, mainly as a result of rents rising 0.5 percent, a 1.3 percent increase in the cost of new houses, and a rise of 1.6 percent in the cost of property maintenance services. These were offset however by falls in Food (falling 1.7 percent and negating most of the rise in Transport, with Vegetables falling 18.6 percent). House insurance was up 3.0 percent, contents insurance 1.1 percent and Real estate services up 0.5 percent, so the prices of many aspects of housing rose much faster than prices in general. Alcoholic beverages and Tobacco prices fell 0.6 percent, Clothing and footwear fell 1.2 percent, Household content and services fell 1.5 percent, Health fell 0.3 percent, and Communications fell 1.5 percent. Over the year, Housing and household utilities was the biggest driver in the rise, up 3.0 percent and contributing almost half (48.1 percent) of the CPI increase with new housing up 5.3 percent, rents up 2.3 percent, and all the other subgroups rising faster than overall CPI: Property maintenance up 3.6 percent, Property rates and services up 3.2 percent and Household energy up 2.0 percent. Rents rose fastest in Wellington but fell in Canterbury. House insurance was up 13.4 percent, and Real estate services were up 3.8 percent. Professional services were also up 4.6 percent. Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in December (down 0.1 percent in the quarter and 2.6 percent over the year) though the fall is slowing. Other major contributors to the annual increase were Food (up 2.3 percent, accounting for over a quarter or 26.0 percent of the increase), Alcoholic beverages and tobacco (up 4.2 percent, accounting for

This is the first release of the CPI after a three-yearly review of items surveyed to calculate the CPI, and their relative weights to ensure their continued relevance and accuracy. As a result, 15 items were removed and 23 added. One addition was "private accommodation rented from others" (presumably including Airbnb and similar) which rose 13 percent in the December 2017 quarter.

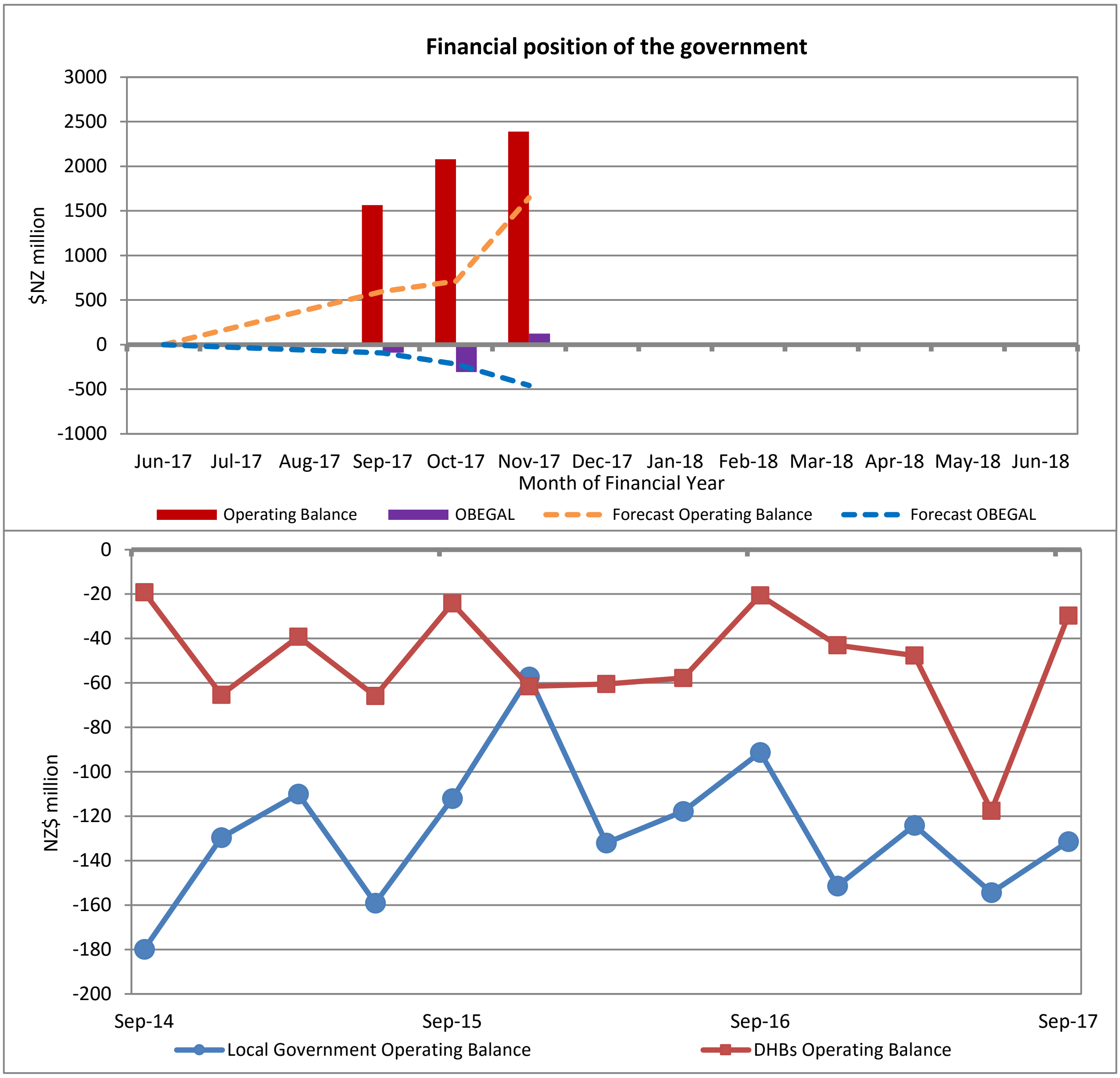
19.5 percent of the increase), and petrol which accounted for a sixth (16.2 percent) of the total, rising 6.5 percent. In seasonally adjusted terms, the CPI rose 0.4 percent over the last three months, Food rose 0.2 percent, Alcoholic beverages and tobacco rose 1.0 percent, Clothing and footwear fell 1.3 percent, Housing and household utilities rose 0.8 percent, Communications fell 1.1 percent, Recreation and culture rose 0.2 percent, and Education rose 0.9 percent. Over the year, in Auckland consumer prices rose 1.7 percent, Wellington 1.3 percent and they rose 2.0 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 0.6 percent and it was 1.6 percent in the rest of the South Island.

- 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 0.8 percent in the month of December 2017 (and fell 0.2 percent in seasonally adjusted terms). Food prices rose 2.3 percent in the year to December. Compared with the previous month, fruit and vegetable prices fell 1.7 percent (and fell 1.6 percent seasonally adjusted); meat, poultry, and fish prices fell 0.4 percent; grocery food prices fell 1.3 percent (and fell 0.8 percent seasonally adjusted); non-alcoholic beverage prices fell 1.9 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 five months to 30 November 2017, core Crown tax revenue was $531 million (1.8 percent) higher than forecast in the 2017 Half-Year Economic and Fiscal Update (HYEFU 17). GST revenue was $268 million higher than forecast and source deductions (PAYE income tax) were $196 million higher than expected. Overall core Crown revenue was $552 million or 1.7 percent higher than forecast. Core Crown expenses were $161 million (0.5 percent) higher than forecast, mainly because of timing issues. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $582 million better than forecast, with a $125 million surplus instead of the $457 million deficit forecast. However there were substantial unforecast gains and losses, with $3.9 billion more than forecast net investment gains offset by $1.4 billion in reduced estimates of ACC's valuation due to lower than expected discount rates. The result was that the Operating Balance was $743 million better than forecast with a $2.4 billion surplus. Net debt at 22.2 percent of GDP ($61.8 billion) was $699 million lower than forecast. Gross debt at $88.1 billion (31.6 percent of GDP) was $832 billion more than forecast. The Crown's net worth in financial terms was $881 million higher than forecast at $113.0 billion.

★ District Health Boards had 541 fewer full time equivalent staff than planned at the end of September 2017 (63,670 compared to 64,211 planned). All categories of staff were affected except Nursing (which was 75 over plan), with shortfalls in Allied Health Personnel (337 short), Management/Administration staff (183 short), Support Personnel (89 short) and Medical Personnel (doctors – 7 short). Average costs per full time equivalent staff were $800 below those planned ($94,000 compared to $94,800). The DHBs had accumulated combined deficits of $29.7 million in the three months to September. This is $6.3 million worse than their plans. The Funder arms were in surplus by $11.3 million, $13.8 million more than the $2.6 million deficit planned, and Provider arms (largely their hospitals) in deficit by $42.6 million, $21.0 million worse than planned. The Northern region was $2.2 million behind plan with a surplus of $0.3 million and three of the four DHBs in deficit. The Midland region was $1.3 million behind plan with a deficit of $6.4 million and all of the five DHBs in deficit. Central region was $0.8 million behind plan, a combined $9.5 million deficit and all of the six DHBs in deficit. The Southern Region was $2.1 million behind plan with a $14.0 million deficit and four of the five DHBs in deficit, with Canterbury showing a $8.5 million deficit and Southern $5.0 million. In all, just 2 of the 20 DHBs were in surplus but eight were ahead of plan. The DHB furthest ahead of plan was Counties Manukau by $0.7 million, and Southern was furthest behind, by $2.2 million. Capital expenditure across all DHBs was behind plan with $86.6 million spent out of $130.4 million planned.

★ Local Government in the September 2017 quarter recorded a 0.3 percent ($6.8 million) decrease in operating income in seasonally adjusted terms and a 1.1 percent fall in operating expenditure ($29.8 million) including a 0.1 percent fall in employee costs (down $0.5 million) compared to the previous quarter. This resulted in an operating deficit of $131.4 million in the quarter, compared with a deficit of $154.4 million in the previous 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/economicbulletin196.

For further information contact Bill Rosenberg.