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Commentary

Why the TPPA-11 is still a bad deal

Summary

The Transpacific Partnership Agreement (TPPA) has shrunk into the 11 member "Comprehensive and Progressive Transpacific Agreement" (I'll call it the TPPA-11) with the exit of Trump's USA. The Government is now selling it to us as sufficiently improved to be worth signing and ratifying. There are some improvements but it is still a bad deal.

First, there are numerous parts of the TPPA-11 that are still bad. They include making it difficult to use government purchasing to help new industries and improve working conditions; preventing state-owned enterprises from favour local suppliers and making them act commercially at all times; ISDS and restrictions on our ability to improve the quality of foreign investment; barriers to regulating finance and areas like private education; a labour chapter that is in practice unenforceable, and other concerns about impacts on working conditions such as the use of ISDS against improved labour law.

The Government's five 'fixes' that it says make the deal satisfactory are weak. The *market access for farmers* is far behind what was promised, and modelling suggests much will be at the expense of exports to non-TPPA-11 markets. *Upholding the status of the Treaty of Waitangi* turns out to be just the standard provision that has been in New Zealand agreements since 2001, without the strengthening that the Waitangi Tribunal is suggesting. *Preserving the right to regulate* is good as far as it goes – a declaration that New Zealand will not support ISDS in future negotiations, and trying to get side letters with other TPPA-11 countries to agree not to use ISDS. In fact the side letters have found only one country other than Australia (which always signs them with New Zealand): Peru. Investors from all the other countries can still use full ISDS against New Zealand. The TPPA-11 constrains the right to regulate in many other ways too. *Protecting the Pharmac model* relies heavily on suspension of provisions which are at risk if the US rejoins. *The ability to control the sale of New Zealand homes* is being resolved by legislation before TPPA-11 comes into force – but then, other needed policies will be ruled out.

Finally, the economic modelling is badly flawed. For example it cannot tell if the agreement will increase inequality, whether jobs are lost or gained in total, what the transition effects will be on people and communities as increased imports or offshoring threaten jobs, what happens to the balance of trade, and the impact of the financial system. Economic gains are tiny, even we can believe the modelling, and manufacturing other than food processing loses. Environmental impacts are ignored. There is still much to be concerned about.

The Transpacific Partnership Agreement (TPPA) has shrunk into the 11 member "Comprehensive and Progressive Transpacific Agreement" (CPTPP – which is neither comprehensive nor progressive, so I'll refer to as TPPA-11) with the exit of Trump's USA. The Government is now selling it to us as sufficiently

improved to be worth signing and ratifying. There are some improvements but this commentary will explain why it is still a bad deal.

I'll look at it three ways: a brief look at some of the areas that are still bad; the areas the Government says it has fixed (it gives itself 4½ stars out of five); and whether we can believe the economic modelling which the Ministry of Foreign Affairs and Trade (MFAT) has used to evaluate its negotiating work.

This is not a complete list – for that see our submission on the TPPA or the November 2012 Bulletin for an earlier look at the effects or the January 2016 Bulletin for an earlier look at the economic case.[1] More detail on the matters raised below will be in our submission to Parliament, due 18 April.

Why the TPPA-11 is still a bad deal

Government purchasing

The deal locks us further into government procurement rules which prevent governments from using them to support local industry, an important way to move the economy into higher value, higher wage production. The State Owned Enterprises chapter has a similar effect – for example KiwiRail will not be able to favour local suppliers of rolling stock. Another concern is whether government contracts can specify that workers engaged in fulfilling government contracts are paid decently (such as at least the Living Wage), have prescribed minimum working conditions, have resolved any gender pay equity concerns, and have above minimum standard health and safety conditions.

State Owned Enterprises

State Owned Enterprises under the TPPA-11 definition are large government-controlled entities which are "principally engaged in commercial activities". As well as being restricted from favouring local suppliers, they must act commercially except when fulfilling a "public service mandate". So Air New Zealand cannot cross-subsidise its provincial flights, without an explicit "public mandate".

Investment

Investor State Dispute Settlement, which gives investors the right to sue governments for their actions in the public interest, in private offshore tribunals, is still there – more of that below. The ability of the government to screen business takeovers and other overseas investment is weakened further, and it rules out a long list of conditions we might want to put on overseas investment to improve its quality.

Services, Finance

The financial sector has a special chapter (Chapter 11) which parallels the investment and the services chapters. It makes regulation of finance more difficult, rather than what is needed: international agreement to strengthen financial regulation and reduce the risk of damaging financial crises.

There are ongoing concerns that in Services (Chapter 10), the rules leave fewer options to regulate areas such as private education (for example English language schools) and make privatisation and commercialisation of public services more difficult to reverse.

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[1] The CTU submission to Parliament is at http://www.union.org.nz/160324-proposed-tppa/; the November 2012 Bulletin is at http://www.union.org.nz/wp-content/uploads/2017/09/CTU-Monthly-Economic-Bulletin-141-November-2012.pdf; the January 2016 Bulletin at www.union.org.nz/wp-content/uploads/2016/11/CTU-Monthly-Economic-Bulletin-175-January-2016.pdf

Labour

The Labour Chapter (Chapter 19) is based on a standard US model. It is a significant improvement over the weak arrangements which New Zealand has previously agreed in that it is in theory enforceable. However the record shows that it is in practice impossible to enforce. For us, it fails the "Hobbit test": we have not been able to obtain assurances that the Hobbit law, which stripped basic labour rights from workers in the film and video industry to attract investment, would be illegal under this agreement.

The Government has told the CTU that we should be satisfied with the chapter because it is a significant improvement over previous New Zealand agreements. However labour concerns in the TPPA-11 are not limited to wanting a labour chapter: for example we can obtain no assurance that ISDS will not be used against improved labour laws. A "Temporary entry" chapter allows trades people and technicians to work on a temporary basis without protections for their labour rights and New Zealand jobs. There is therefore little to celebrate in a trophy labour chapter that can have little effect.

The "fixes"

The new Government had only five objectives to satisfy to make the deal satisfactory. These "fixes" are weak. When pressed, their final defence is that with Trump, Brexit and threats to the WTO, they had to keep trade liberalisation moving. Yet this is an increasingly unpopular model of globalisation: they would have been better to demonstrate that they needed a new model by consulting with the New Zealand public and then looking for like-minded countries willing to rethink.

The Government's five objectives are as follows.

1. ***It achieves meaningful gains in market access for farmers***

In fact it falls well below the promises made throughout the TPPA negotiations. Even proponents admit the gains are modest. The greatest gain is for access to the beef market in Japan, but other governments (such as the European Union) are also negotiating tariff reductions with Japan.

According to MFAT's modelling (if it can be believed), dairy exports actually fall compared to no TPPA-11 (Walmsley, Strutt, Minor, & Rae, 2018, Table 16). It gains some access to the TPPA-11 countries, but this is presumably supplied by moving product from other markets. There is huge 'trade diversion': access is gained to TPPA-11 at the expense of exports to other markets. Dairy exports eventually rise 14.6 percent to TPPA-11 but fall 0.6 percent to the world as a whole.

The headline figure used by politicians is that $222.4 million of tariffs on New Zealand exports will eventually be eliminated. This is a rather meaningless figure. Exporters cannot assume the prices they receive will go up by this amount – it may all go in price reductions to customers or it might be shared, or it might go to a middle-man, depending on competitive conditions. Standard economic theory assumes perfect competition and consumers get all the benefits, but buy more because of the reduced price. Perfect competition rarely exists. The net gains to exporters are complicated by trade diversion – they may have to reduce sales elsewhere. The economic gains turn out to be very small.

The Minister also falls back on the China story: that similar gains were modelled for exports to China but they turned out much larger. The weakness in this is twofold: firstly it admits we cannot believe the modelling on which the Government depends for its story about economic gains. If the upward error can be that big, so could the downward error. Secondly, much of the gains in China were due to luck:

the Sanlu milk powder contamination scandal; and a huge increase in China's demand for raw materials of all kinds, which Australia benefitted from equally, without any free trade agreement at the time.

2. It upholds the unique status of the Treaty of Waitangi

TPPA-11 has the same standard Tiriti exception as all similar New Zealand agreements since 2001. The Waitangi Tribunal found (in Wai 2522) that while the Treaty exception provides a "reasonable degree of protection to Maori interests" it "may not encompass the full extent of the Treaty relationship". This is because it does cover not laws or policies that apply to everyone but are also important for compliance with Te Tiriti, including water, mining and fisheries. The Government has ruled out trying to renegotiate it, saying it will put the existing exception at risk. This is the status quo, not a win.

3. It preserves New Zealand's right to regulate in the public interest

The Government appears to identify this with minimising the impacts of the TPPA-11's ISDS provisions. It is to be congratulated on declaring that it will not support ISDS in future negotiations. It also tried to extricate New Zealand from TPPA-11's ISDS by signing side-letters with other countries in the deal. Unfortunately, contrary to what the Government says, this has been largely unsuccessful. It highlights an agreement with Australia that neither country allows its investors to use ISDS against the other country. But that has been standard in similar agreements in which both countries were parties and had already been agreed for the TPPA. The only other country that did a similar deal was Peru – really this Government's only gain. Four countries refused – Japan, Canada, Chile and Mexico. Three others agreed to introduce a government veto on investors using ISDS in individual cases (Brunei, Malaysia and Viet Nam), but they also agreed that their investors can use ISDS in the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) instead. Finally, Singapore and New Zealand already had the veto arrangement in the 2000 New Zealand-Singapore Closer Economic Partnership Agreement. The side-letter with Singapore makes clear that investors can use TPPA-11 in preference – a loss of the veto and a backward step.

ISDS, while very important, is not the only brake on New Zealand's right to regulate. The whole agreement restricts New Zealand's right to regulate: that is the point of such agreements.

4. The Pharmac model continues to be protected

This relies heavily on the suspension of provisions which would have raised medicine prices and increased the power of Big Pharma lobbying against Pharmac. If the US rejoined the agreement – and even Trump has not ruled that out – it would demand these back and more. In addition, the threat of a pharmaceutical multinational taking an ISDS case against a Pharmac decision is still on the table.

5. The ability to control the sale of New Zealand homes

The Government is legislating to prevent non-resident overseas investors from buying New Zealand housing unless they have built it for resale, which the CTU and many others support. It points out that this would not have been possible after the TPPA-11 takes effect. But many other changes to our overseas investment rules will not be allowed in future either. Legal expert, Auckland University's Amokura Kawharu, points out for example that a future government could not introduce new categories for screening, such as whether the target of an overseas takeover is 'strategic'(Kawharu, 2015).

The economic impact

Despite Labour's election promise in its Trade policy to "Strengthen the quantitative analysis contained in National Interest Analyses required for Parliamentary Treaty ratification to ensure that best estimates of positive and negative impacts of any trade agreements are made" the quantitative analysis of the TPPA-11 is the identical methodology to the one used for the TPPA which they are rightly concerned about. The published report tells us little about its assumptions and omits detail that would be useful, but standard construction of the type of model used (Computable General Equilibrium or CGE models), means they are unable to tell us anything useful about —

- Impacts on inequality – who gains and who loses from change. The share of income going to wages and to capital (such as profits) is fixed, so the model can't tell us if wages and salary earners lose (or gain) income share. This is an important measure of income inequality.
- Effects of some industries being dominated by one or a few firms: perfect competition is assumed.
- Whether total jobs are lost or gained. The existing workforce is assumed to effortlessly and immediately reassign itself to new jobs when trade changes industries. The number of jobs in the economy cannot change as a result of trade impacts, by design. Politicians claiming big job creation are ignoring their own modelling, the effects of increased imports and offshoring, and the difficulties of finding employment after job loss.
- Impacts on people and communities as patterns of trade change and offshoring occurs. We know from research in New Zealand and elsewhere that when people lose their jobs, they may experience substantial income losses and take a long time to find a satisfactory replacement job. For example in a recent New Zealand study, Hyslop and Townsend (2017) find that compared to workers who did not lose their jobs, displaced workers' employment rate was 20-25 percent lower in the year following displacement and was still 8-12 percent lower five years later. Their earnings and total income were 25-30 percent lower in the first year and 13-22 percent lower five years later.
- The effect on the balance of trade (the difference between the dollar values of total imports and exports). The model assumes the balance doesn't change, so imports grow as fast as exports. This may reduce employment in parts of the economy. Highlighting only growth in exports is misleading.
- The impact of the financial system. In the real world, the movement of finance can impact exchange rates, prices and the balance of trade; it can affect demand for goods and services through credit and debt. It can also create crises.

An alternative model used to model the TPPA by researchers based at Tufts University in the US (Capaldo & Izurieta, 2016) was designed to remedy these problems. Its modelling showed growing inequality and falling employment. It is criticised by MFAT saying the authors "do not allow for any adjustment within or by the affected economies as a result of this change. In the Capaldo et al model, as a sector declines for example, people previously employed in that sector stay unemployed rather than taking employment in other (growing) sectors." It is not clear what MFAT base this on, but it is true that the model does not assume that workers move instantly to new employment when they lose their jobs. There is evidence that this is a real result of trade (e.g. Autor, Dorn, &

Hanson, 2013; Autor, Dorn, Hanson, & Song, 2013) and more generally when workers are displaced, as noted above. The model has some assumptions that are oversimplifications but so does the CGE model used by MFAT's modellers. This is true of any model – it cannot capture all aspects of reality. What the Tufts model does illustrate is that more realistic assumptions will lead to significantly different predictions that the CGE model is incapable of capturing. Rather than dismissing the alternative model, MFAT should be commissioning models that incorporate its best features and dispense with the unreal assumptions of their own modelling.

MFAT's CGE model has three "scenarios". Scenario 1 includes the effects of tariff cuts on goods trade, plus some removal of "non-tariff measures" (NTMs) which might be "barriers" to trade. The next two Scenarios model more and more aggressive removal of these NTMs. While modelling of tariff reductions is a relatively standard procedure (though assumptions about competitive conditions are crucial), the modelling of NTMs is not. NTMs can include many desirable laws and regulations such as food safety, health and safety of people, biosecurity protections, consumer protections such as content and labelling, and many others. Removing good "non-tariff measures" is negative for people, the environment and the economy. Their impact on trade is difficult to model and quantify, as the authors acknowledge, even if it can be identified. Countries will resist removing them because they have beneficial effects. Therefore Scenarios 2 and 3 are simply unrealistic and their modelled impacts so unreliable that they should not be taken seriously.

Scenario 1 probably still overestimates the gains and has all the design problems outlined above, but even it estimates only an additional 0.3 percent increase in GDP after 21 years of the TPPA-11 being in force (2019 to 2040). This is economically and statistically insignificant. It will be impossible to tell if it has actually happened. For the record, the increases in GDP estimated for Scenarios 2 and 3 are an increase of 0.5 percent and 1.0 percent by 2040 respectively – still tiny over a 21 year period.

The CGE analysis does not consider the environmental impacts. For example, what is the impact on the continuing intensification of agriculture which the TPPA-11 encourages, on rivers and greenhouse gas emissions? MFAT's National Interest Analysis dismisses such concerns (p.220). Nor does the above economic analysis include other costs, nor lost opportunities such as making it much more difficult to aid diversification of industry through government procurement.

The Government is keen on diversifying our economy and our exports. If we are to believe the modelling, the TPPA-11 will take us in the opposite direction. Under all three scenarios, estimated output from manufacturing other than food processing falls. Gains in employment (tiny as they are) go to agricultural and low skilled workers (mainly low paid) and the professions and managers; the losses are in technical and "assistant professionals", service workers and clerks.

Conclusion

There are still numerous reasons to be concerned about the negative impacts of the TPPA-11 on New Zealand's future. Many of the negative impacts are long term, concerning our ability to move the economy out of its current low value, low productivity, low wage rut, and to counter the environmental and social effects of our current structure. The National Interest Analysis is simply self-justification by the negotiators. The economic modelling is flawed, and even it cannot find substantial economic gains. There are many good reasons to continue to oppose this agreement.

Bill Rosenberg

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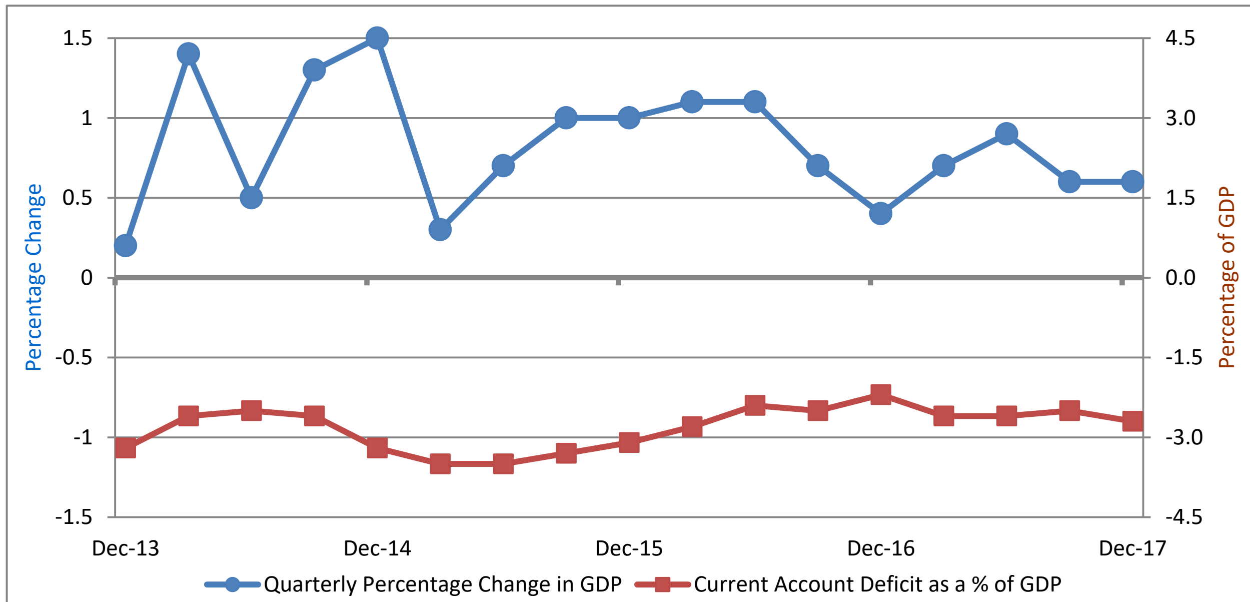
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 19 March 2018.

Annual Percentage Change (March Year)	2017-18	2018-19	2019-20	2020-21
GDP	2.9	3.1	3.3	2.9
CPI	1.2	1.8	1.9	2.0
Private Sector average hourly wage	2.3	3.0	3.0	2.9
Employment	3.2	2.0	1.6	1.4
Unemployment rate (% of labour force)	4.5	4.3	4.3	4.3

Economy



★ Growth in New Zealand's measured economy in the three months to December 2017 was similar to Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 0.6 percent, the same as in the previous quarter. Average growth for the year ended December 2017 was 2.9 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 0.1 percent in the December quarter (down marginally from 0.2 percent the previous quarter), and 0.7 percent over the year, though the revisions to GDP estimates (see note to the right), has raised estimates for previous years – for example 1.8 percent in 2016. Nonetheless, GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.3 percent a year. Since 2011 it has averaged 1.5 percent per year. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, grew somewhat more strongly: it rose by 0.9 percent over the quarter and 1.3 percent over the year to December.

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 little changed in the year to December (up just 0.1 percent) compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It is little

[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

different in December 2017 than it was in December 2012. Statistics New Zealand's official productivity statistics for the year to March 2017 are summarised below.

- ★ Business investment rose by 3.7 percent compared to the previous quarter driven mainly by construction of Non-residential buildings, Plant, machinery and equipment, and Transport equipment. Growth compared to the same quarter last year was strong at 6.6 percent, driven by Plant, machinery and equipment, Transport equipment and Intangible fixed assets. Investment in housing rose 0.5 percent in the quarter following a 3.0 percent rise and 0.6 percent fall in the previous two quarters. It grew only 1.3 percent over the same quarter last year. Household consumption growth strengthened a little to 1.2 percent in the December quarter in real terms, after rising 1.0 percent in the previous quarter, and rose 4.3 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, reflecting largely the revenue employers are getting for their products) rising 2.9 percent from the same quarter last year, and 1.0 percent in the most recent quarter.

- ★ By industry, the largest contributors to growth in the latest quarter were Professional, scientific, technical, administrative and support services (up 2.3 percent), Wholesale trade (up 2.2 percent), Retail trade and accommodation (up 1.6 percent), Transport, postal and warehousing (up 1.7 percent), and Rental, hiring and real estate services (up 0.8 percent). There were contractions in Agriculture, forestry and fishing (down 3.2 percent), and Arts, recreation and other services (down 1.9 percent). Manufacturing production fell 0.1 percent. Compared with the same quarter last year, the biggest rises were in Retail trade and accommodation (up 6.2 percent), Wholesale trade (up 5.4 percent), Transport, postal and warehousing (up 5.4 percent), and Public Administration and safety (up 3.6 percent). Mining contracted by 2.4 percent and Arts, recreation and other services fell 1.0 percent.

- ★ New Zealand recorded a Current Account deficit of $2.0 billion in seasonally adjusted terms for the December 2017 quarter (but an actual deficit of $2.8 billion) following a revised $1.5 billion deficit for the previous quarter. There was a deficit in goods trade ($465 million, seasonally adjusted) following a $80 million deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $0.7 billion in goods and services (compared to a $1.1 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 $2.7 billion from $2.5 billion in the previous quarter (seasonal adjustment not available). For the year to December 2017, the current account deficit was $7.7 billion or 2.7 percent of GDP compared to a $7.0 billion deficit in the year to September (2.5 percent of GDP). The deficit on investment income was $9.6 billion for the year.

- ★ The country's Net International Liabilities were $155.2 billion at the end of December 2017, down from a revised $156.2 billion at the end of the previous quarter and down from $157.7 billion a year before. The December net liabilities were equivalent to 54.8 percent of GDP, compared to a revised 56.0 percent in the previous quarter and 59.3 percent a year before. Net international liabilities would take 2.03 years of goods and services exports to pay off, down from 2.12 years a year before. However gross liabilities would take 5.31 years of goods and services exports to pay off. The fall in net liabilities over the quarter was due to a net $2.5 billion valuation increase (mainly $2.0 billion in

market price valuations) offset by a $1.5 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $157.7 billion. New Zealand's international debt was $287.6 billion (equivalent to 101.5 percent of GDP), of which 29.2 percent is due within 12 months, compared to $139.1 billion in financial assets (other than shares; 49.1 percent of GDP), leaving a net debt of $148.5 billion (52.4 percent of GDP). Of the net debt, $4.2 billion was owed by the government including the Reserve Bank (equivalent to 1.5 percent of GDP and up from $3.5 billion at the end of the previous quarter) and $109.2 billion by the banks (38.5 percent of GDP), which owed $153.4 billion gross.

- ★ Overseas Merchandise Trade for the month of February 2018 saw exports of goods rise in value by 11.1 percent from the same month last year while imports rose 4.6 percent. This created a trade surplus for the month of $217 million or 4.9 percent of exports, following a large deficit in January. There was a trade deficit for the year of $3.0 billion or 5.5 percent of exports, lower than the 7.8 percent deficit in the year to the same month in 2017. In seasonally adjusted terms, exports rose 2.5 percent or $112 million over the month (compared to a 15.9 percent fall the previous month) led by rises in Crude oil (up $69 million from zero the previous last month, not seasonally adjusted), Seafood (up 15.2 percent or $19 million) and Mechanical machinery and equipment (up 7.8 percent or $11 million), offset by falls led by Logs, wood and wood articles (down 4.8 percent or $20 million) and Meat (down 2.2 percent or $14 million) among the top ten export categories. Dairy product exports were little different from January, down just 0.1 percent or $2 million. Seasonally adjusted imports fell 5.5 percent or $281 million over the previous month, creating a trade deficit of $193 million following a $586 million deficit in the previous month. The falling imports were led Petroleum and products (down 33.8 percent or $217 million, not seasonally adjusted), Mechanical machinery and equipment (down 10.9 percent or $75 million, not seasonally adjusted), Electrical Machinery and Equipment (down 11.5 percent or $53 million), and Plastic and plastic articles (down 5.0 percent or $10 million), offset by rises led by Textiles and textile articles (up 5.7 percent or $13 million). In the year to February, 22.5 percent of New Zealand's exports went to China, 16.3 percent to Australia, 9.8 percent to the US, and 62.4 percent went to the top seven countries buying New Zealand exports. This was up from 19.9 percent going to China in the year to January 2017, and 62.3 percent going to the top seven destinations. Over the same period, 19.4 percent of New Zealand's imports came from China (compared to 19.6 percent in the year to January 2017), 12.1 percent from Australia, 10.6 percent from the US, and 62.8 percent from the top seven countries selling to New Zealand, compared to 64.0 percent a year before.

- The Retail Trade Survey for the three months to December 2017 showed retail sales rose 5.4 percent by volume and 6.3 percent by value compared with the same quarter a year ago. They rose 1.7 percent by volume and 1.9 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Specialised food (up 5.5 percent), Liquor (up 4.1 percent), Food and beverage services (also up 4.1 percent), Pharmaceutical and other store-based retailing (up 4.0 percent), and Fuel (up 3.8 percent). Food retail encompassing Supermarket and grocery stores (easily the largest single category, with 21 percent of sales), Specialised food, and Food beverage services, together made up almost half of the increase for the quarter ($211 million out of the $444 million total). There were sales falls in Department stores (down 1.2 percent) and Hardware, building, and garden supplies (down 0.8 percent) with Accommodation (up 0.6 percent) also particularly weak. We noted last quarter that September was the first quarter when Statistics New Zealand collected retail trade data under a new design which uses GST data

wherever possible, surveying only the larger retail businesses. This quarter they announced some major revisions to Supermarket sales for September and previous quarters. For example, they now estimate that Supermarket sales rose 5.6 percent rather than the 2.9 percent previously published.

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.

★ The Performance of Manufacturing Index for February 2018 was 53.4, a fall from 54.4 in the previous month. The employment sub-index was at 54.8, a rise from 52.8 in the previous month.

★ The Performance of Services Index for February 2018 was 55.0, a fall from 55.7 the previous month. The employment sub-index was 50.6, up a little from 50.4 in the previous month.

★ On 22 March 2018 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 but with more optimism for agricultural prices: "The outlook for global growth continues to gradually improve. While global inflation remains subdued, there are some signs of emerging pressures. Commodity prices have continued to increase and agricultural prices are picking up." It was not worried about the GDP growth in the December quarter being a little lower than expected: "GDP was weaker than expected in the fourth quarter, mainly due to weather effects on agricultural production. Growth is expected to strengthen, supported by accommodative monetary policy, a high terms of trade, government spending and population growth. Labour market conditions are projected to tighten further." Housing is still a concern: "Residential construction continues to be hindered by capacity constraints. The Kiwibuild programme is expected to contribute to residential investment growth from 2019. House price inflation remains moderate with restrained credit growth and weak house sales." It dropped comments on low interest rates, record high share prices and the exchange rate. It expected consumer price inflation to fall further due to falling food and energy prices and "adjustments to government charges" but as always, they expect inflation to eventually get to their target of 2 percent. The next OCR announcement will be on 10 May 2018 and will include a Monetary Policy Statement.

★ According to REINZ, over the year to February the national median house price rose $34,000 or 6.9 percent to $530,000 and REINZ's house price index rose 3.9 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 1.9 percent seasonally adjusted while the house price index rose 1.4 percent. In Auckland over the year the median price was up $31,000 or 3.7 percent at $858,000 while the house price index rose 1.1 percent. Over the month Auckland's median price rose 4.6 percent seasonally adjusted, and the house price index rose 1.4 percent. Excluding Auckland, over the year the national median price rose $35,000 to $450,000 or 8.4 percent while the house price index rose 6.9 percent. Over the month the median price excluding Auckland was up 4.7 percent on the previous month seasonally adjusted, and the house price index rose 1.3 percent. There was another record median price in Hawke's Bay (up 18.4 percent over the year to $444,000). Median prices fell only on the West Coast over the year (down 10.7 percent) and in 5 of the 14 regions over the

month, seasonally adjusted. Sales fell in only three regions over the month, seasonally adjusted, while over the year, sales fell in six regions, averaging a rise of 1.2 percent.

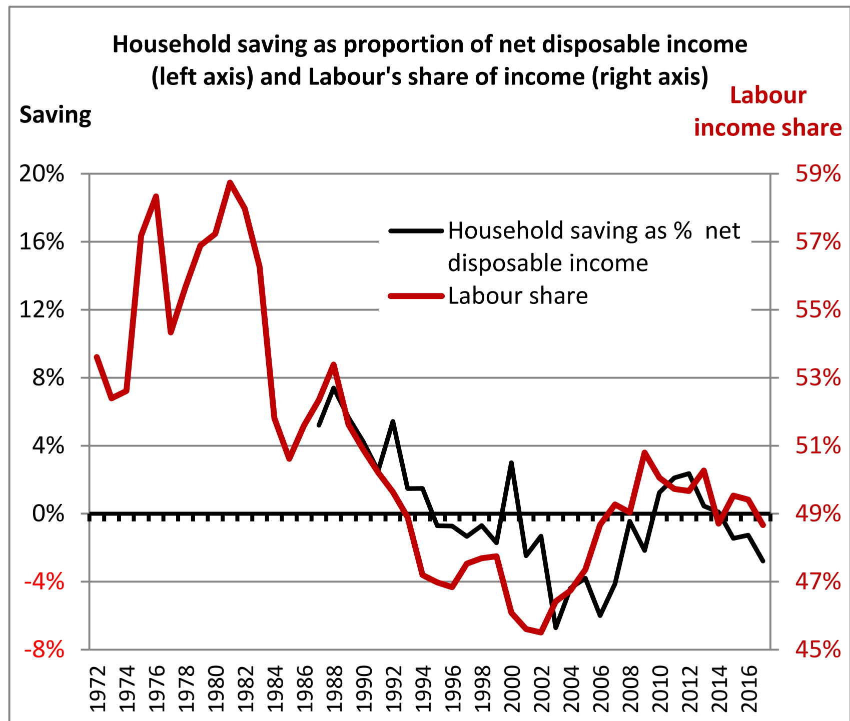
- Annual Productivity statistics for the year to March 2017 showed weak labour productivity growth of 0.9 percent in the latest year in the 'measured sector' (largely the commercial or market sector of the economy), but significantly revised data showed faster labour productivity growth in recent years prior to 2017. The change in 2016 was reversed from a 0.7 percent fall to a 1.6 percent rise, and an outlier at 3.7 percent growth in the year to March 2010 was up from 3.2 percent. Nevertheless, labour productivity growth averaged a relatively weak 1.1 percent between 2008 and 2017. Capital productivity grew 1.1 percent in the latest year but its growth averaged 0.0 percent over the 2008-2017 period, dragged down by sharp falls in the 2009 and 2010 years. Multifactor productivity (in theory what cannot be explained by labour and capital, such as greater skills and experience; in practice including any errors in estimates of labour and capital productivity) rose 1.0 percent in the latest year and 0.6 percent over the 2008-2017 period. The capital-labour ratio remained almost unchanged over the period 2010-2017 (that is, there was little capital deepening). Nonetheless, Real unit labour costs, the labour costs per unit of production, which are closely related to labour's share of New Zealand's income but include labour of the self-employed, fell 6.3 percent between 2009 and 2016 (latest available) in the measured sector, and 0.8 percent in the year to March 2016. For the whole economy, real unit labour costs fell 6.1 percent over the same period, and 5.2 percent over the period 2008 to 2017.

- 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.

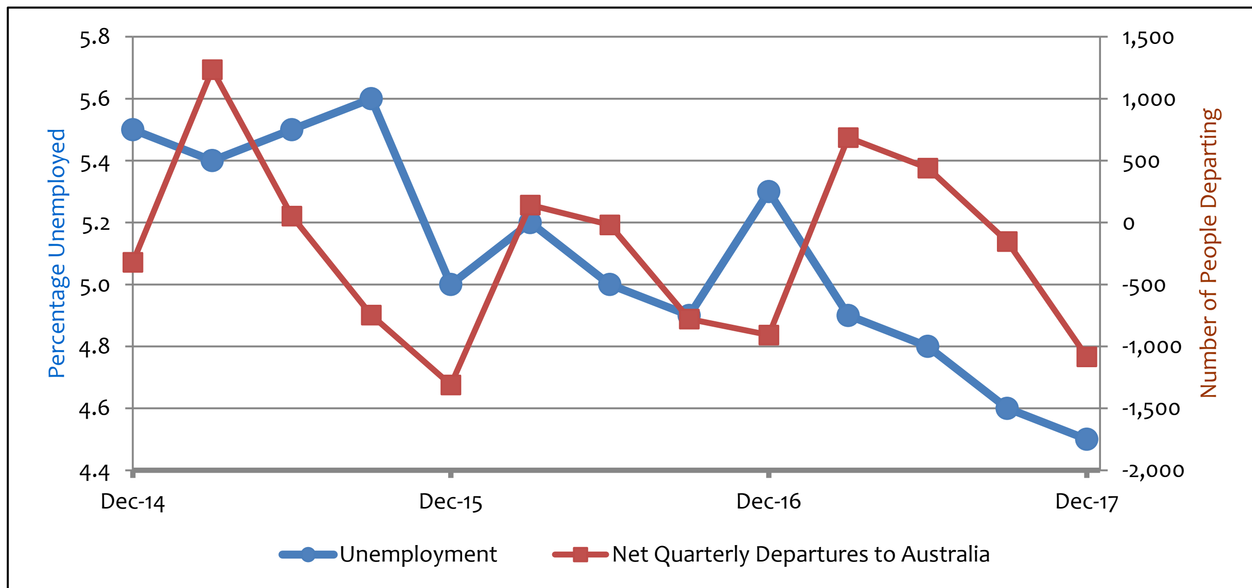
- **Wage and salary earners' share of New Zealand's income** can be calculated from the annual National Accounts Income and Expenditure figures for the year to March 2017, released in November. It showed a sharp fall in the share of the nation's income (gross domestic income) going to employees or wage 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

[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-

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.



Employment



- According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the December 2017 quarter fell to 4.5 percent or 122,000 people, compared to 4.6 percent in September (126,000

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.

people), seasonally adjusted. If it were the 3.3 percent it was in December 2007, 32,000 more people would have jobs. The seasonally adjusted female unemployment rate fell to 5.0 percent from 5.3 percent in September but was still considerably higher than for men (4.0 percent) whose unemployment rate was unchanged. Māori unemployment fell from 11.9 percent in December 2016 to 9.0 percent in December 2017, a nine-year low, while Pacific people's unemployment fell from 9.7 percent to 7.7 percent over the year. Compared to OECD unemployment rates, New Zealand remained at 13th lowest (out of 35 countries). However New Zealand had the third-highest employment rate at 77.9 percent for 15-64 year olds, again unchanged since September.

- **Youth unemployment** for 15-19 year olds was 20.3 percent in December, up from 19.3 percent in September, and down a little from 20.7 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 December 2017 the unemployment rate was 24.9 percent, down from 30.7 percent a year before. For 15-19 year old Pacific Peoples it was 32.5 percent, up from 31.1 percent a year before. For 20-24 year olds, youth unemployment was 8.6 percent, down a little from 9.0 percent in September and from 9.4 percent a year before. For Māori 20-24 year olds in December 2017 the unemployment rate was 8.9 percent, a fall from 15.9 percent a year before. For 20-24 year old Pacific Peoples it was 11.9 percent, up from 11.3 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 8.5 percent, up from 7.2 percent in September but down from 9.5 percent a year before. For Māori 15-19 year olds in December 2017 the rate was 12.4 percent, down from 14.8 percent a year before and for Pacific Peoples it was 12.1 percent, down from 14.1 percent a year before. For 20-24 year olds the NEET rate was 14.8 percent, the same as in September but down from 17.1 percent a year before. For Māori 20-24 year olds in December the rate was 21.5 percent, down sharply from 28.2 percent a year before, and for Pacific Peoples it was 21.9 percent, down a little from 22.3 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (16.1 percent) than those not in education (10.7 percent). There were 80,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, up from 76,000 in September but down 10,000 from 90,000 a year before.

- By **region**, in the North Island, unemployment rates fell compared to a year ago in all of the eight regions except Bay of Plenty (which rose slightly from 4.9 percent to 5.1 percent). Taranaki had the worst unemployment rate at 6.4 percent, while Manawatu/Whanganui had 5.7 percent (5.9 percent a year ago), Northland was at 5.6 percent (from 7.3 percent a year ago), and Gisborne/Hawke's Bay was also at 5.6 percent (8.1 percent a year ago). Auckland's unemployment rate was 4.1 percent, down from 5.1 percent a year before. The lowest North Island unemployment was in Wellington at 3.7 percent (down from 5.6 percent a year before). The South Island looked better with Tasman/Nelson/Marlborough/West Coast at 3.5 percent (from 4.1 percent a year before), Canterbury at 4.0 percent (3.7 percent a year before), Otago at 4.5 percent (4.0 percent a year before), and Southland had 3.7 percent unemployment (5.0 percent a year before).

- There were 36,700 unemployed people in December 2017 who had been **out of work for more than 6 months** compared to 45,100 a year before. The numbers appeared to increase sharply after June 2016, a possible contributor being a change in the survey questions from that date, but December brings numbers closer to pre-June 2016. This is 30.3 percent of the unemployed compared to 32.7 percent a year before, but is still at a much higher level than most of the 2000s.

Those out of work for more than a year are 13.5 percent of the unemployed compared to 11.6 percent a year before and is the highest in a December 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 December quarter there were a total of 343,000 people looking for work classed as "underutilised", or 12.1 percent of the labour force extended to include these people. Of them, 122,000 were underemployed, 122,000 were officially unemployed, and 99,000 were additional jobless people looking for work. The 12.1 percent underutilisation rate is not much more than in the previous quarter (seasonally adjusted 12.0 percent) and down on 12.4 percent a year before. It is higher for women at 15.2 percent than for men (9.4 percent).
- The number recorded as **employed** rose by 12,000 between the September and December 2017 quarters (seasonally adjusted). It rose by 93,000 over the year. The employment rate remained at 67.8 percent over the three months. It was 62.4 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) changed little from 71.1 percent to 71.0 percent, all in seasonally adjusted terms.
- **By industry**, the actual rise in employment of 44,800 since the September quarter was made up of both gains and losses. The biggest gains were of 13,800 in Retail trade, and accommodation and food services, 8,600 in Professional, scientific, technical, administrative, and support services, 8,200 in Wholesale trade, and 7,800 in Construction, offset by falls led by Rental, hiring, and real estate services (down 3,900) and Public administration and safety (down 2,700). These are not seasonally adjusted. Over the year, the biggest contributor to the 92,600 additional jobs was 25,900 in Professional, scientific, technical, administrative, and support services.
- In the December 2017 quarter, total **union membership** was estimated at 397,000, a 4.1 percent increase from 381,500 in the September quarter and up 5.1 percent from 377,900 a year before. The membership is 18.7 percent of employees compared to 18.2 percent three months before and 18.3 percent a year before. Women make up 57.8 percent of the membership compared to them being 49.4 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.9 percent compared to 15.6 percent. The increase in numbers was greater for males (up 7.2 percent over the year) than females (up 3.6 percent) so this isn't just due to the pay equity settlement. The rise was in three age groups: 15-24 (up 7.9 percent in the year, 11.0 percent in the quarter), 25-34 (up 18.4 percent in year, 11.3 percent in quarter), and 55-64 year olds (up 9.2 percent in year, 3.6 percent in quarter). The other age groups fell over the year. By industry, the rises in both numbers and union density over the year to December were led by Manufacturing (up 5,400 and density rising from 19.8 percent to 21.7 percent), Construction (up 3,400, density rising from 5.7 percent to 7.4 percent), Education and Training (up 5,700, density rising from 40.2 percent to 42.6 percent), Health Care and Social Assistance (up 7,400, density up from 41.4 percent to 43.4 percent). However numbers and density fell in a number of industries, notably Transport, Postal and Warehousing (down 1,900, density falling from 29.9 percent to 26.1 percent). There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.

- In the December 2017 quarter, total **collective employment agreement** coverage was estimated at 389,800 employees, which makes 18.4 percent of employees who said their employment agreement was a collective compared to 18.1 percent three months before and 19.2 percent (395,300) a year before. An estimated 67.8 percent (1,439,900) said they were on an individual agreement compared to 68.5 percent three months before and 65.9 percent a year before, and 6.6 percent or 140,600 said they had no agreement (which is illegal), compared to 6.9 percent three months before and 7.8 percent a year before. A further 7.1 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.7 percent for men and 21.1 percent for women. The biggest fall in collective agreement membership was among 15-24 year olds – down 7.3 percent over the year, though the proportion rose 8.3 percent over the quarter. Those aged 65+ fell 6.0 percent in the year but rose 1.9 percent in the quarter. But there was a strong rise for 55-64 year olds – up 5.6 percent in the year and 1.9 percent in the quarter. Collective agreement membership grew in all age groups except 35-44 year olds over the quarter. By industry, one of the largest falls over the year was Public Administration and Safety (down 2,600, density falling from 37.0 percent to 33.5 percent), and the largest rises were in Health Care and Social Assistance (up 3,800, density rising from 34.7 percent to 35.3 percent) and Manufacturing (up 3,000 and density up from 19.5 percent to 20.3 percent). Again, these figures could be affected by seasonal variations in numbers.

- By **employment relationship**, in the December 2017 quarter, 89.8 percent of employees (1,906,500) reported they were permanent, 5.3 percent casual (112,300), 2.4 percent fixed term (50,500), 1.4 percent seasonal (29,500), and 0.4 percent employed through a "temporary agency" (8,900). The proportion reporting they were permanent was down from 90.7 percent (1,898,500) three months before and from 89.3 percent (1,840,300) a year before. Women were slightly less likely to be permanent employees: 88.7 percent of women were permanent compared to 90.9 percent of men. Instead, women were more likely to be casual (6.0 percent of them compared to 4.6 percent of men) or fixed term (3.1 percent of women compared to 1.7 percent of men). However more men were in seasonal work than women – 1.6 percent of men (17,000) compared to 1.2 percent of women (12,600). Of the temp agency employees, 5,100 were men and 3,800 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 December 2017 quarter, 24.4 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.3 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 25.4 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, 26.8 percent of men had been in their jobs for more than 10 years, but only 23.9 percent of women. Age is a significant factor as would be expected: 55.3 percent people aged 15 to 24 had been in their jobs for less than a year, and 32.4 percent of 25-34 year olds, but only 14.9 percent of 45-54 year olds and 9.5 percent of 55-64 year olds. Small differences may not be statistically significant.

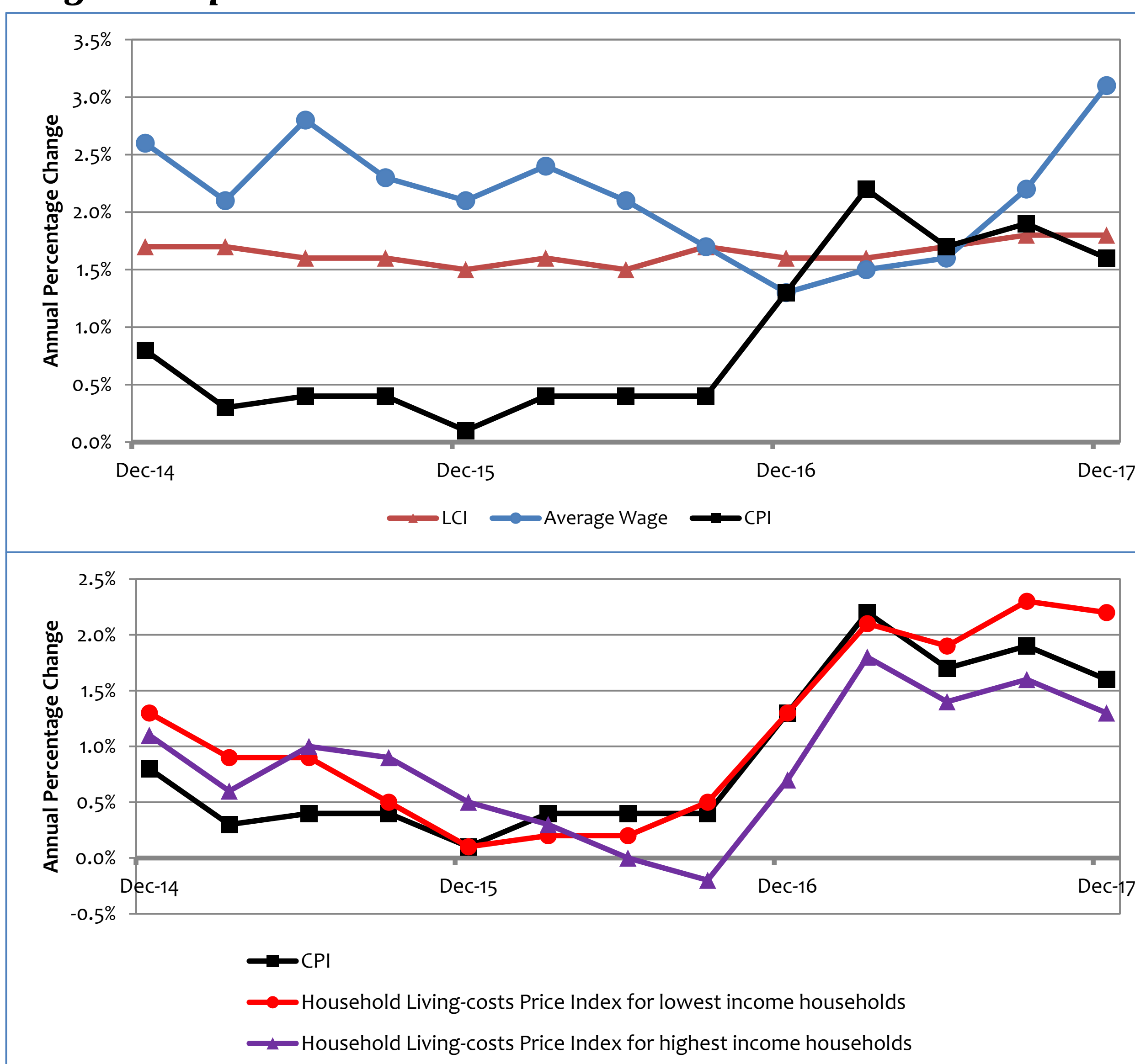
- The Ministry of Social Development reports that at the end of December 2017 there were 123,041 working age people on the Jobseeker benefit, 1,270 fewer than a year before but a rise of 2,315

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 February 2018 showed the seasonally adjusted number of job vacancies rose by 1.5 percent in the month and rose 6.4 percent over the same month a year previously, while the trend rose by 0.7 percent and 6.8 percent respectively. Over the month, the trend of vacancies in Auckland was up 0.8 percent, in Bay of Plenty up 1.3 percent, Canterbury down 0.4 percent, Gisborne/Hawke's Bay up 1.0 percent, Manawatu-Whanganui/Taranaki up 1.2 percent, Nelson/Tasman/Marlborough/West Coast up 0.4 percent, Northland up 1.7 percent, Otago/Southland up 0.7 percent, Waikato up 1.2 percent and Wellington up 0.1 percent. By industry, Accounting, HR, legal and admin trended up 0.8 percent in the month, Construction and engineering rose 0.4 percent, Education and training rose 0.9 percent, Healthcare and medical rose 1.4 percent, Hospitality and tourism rose 1.4 percent, IT rose 1.4 percent, Manufacturing rose 1.2 percent, Sales, retail, marketing and advertising rose 1.1 percent, and Other rose 0.5 percent. By occupation, Manager vacancies trended up 0.6 percent, Professionals rose 0.7 percent, Technicians and Trades workers rose 0.6 percent, Community and Personal Services rose 0.8 percent, Clerical and Administration rose 1.1 percent, Sales rose 1.4 percent, Machinery Drivers and Operators fell 0.6 percent, and Labourers rose 1.6 percent.

★ International Travel and Migration statistics showed 10,210 permanent and long-term arrivals to New Zealand in February 2018 and 5,240 departures in seasonally adjusted terms, a net gain of 4,970 which was down 1,300 on the previous month. There was a seasonally adjusted net gain from Australia of 70, compared to a loss of 40 a year before. It was made up of a net loss of 330 New Zealand citizens offset by a net gain of 400 citizens of other countries. There was an actual net gain of 68,943 migrants in the year to February, down from 71,333 in the year to February 2017, but up from 67,391 the previous February year. Net migration from Australia in the year was 179 arrivals, with 24,759 departures and 24,580 arrivals. However there was a net loss of 4,959 New Zealand citizens to Australia over the year and a net loss of 813 to all countries. In February, 7.4 percent of the arrivals had residence visas, 34.2 percent student visas, 28.6 percent work visas, and 4.8 percent visitors. A further 24.5 percent were New Zealand or Australian citizens.

Wages and prices



- See item on the falling share of national income going to wages and salaries under Economy above.
- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to December 2017 and increased 1.8 percent in the year. It rose a little more than the 1.6 percent increase in the CPI but that was due to the pay equity increase in June. Statistics New Zealand says: "The Care and Support Worker (Pay Equity) Settlement Act (2017) continues to contribute to annual wage growth in the healthcare and social assistance industry. Had this Act not come into effect, LCI wages and salaries would have increased 1.6 percent in the year to the December 2017 quarter." The LCI increased 0.5 percent in the public sector and 0.4 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, 49 percent of jobs surveyed did not receive a pay rise, and 51 percent of private sector jobs got no rise. For the 51 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.5 percent and the average increase was 3.7 percent. For those jobs in the public sector that received increases, the median increase was 2.0 percent and in the private sector 2.5 percent; the average increase in the public sector was 2.7 percent and in the private sector 3.9 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 were more likely to get a pay rise of any size ranging from less than 2 percent to 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 stating pay rates got a pay rise in the year to June 2017.

- The Quarterly Employment Survey for the three months to December 2017 found the average hourly wage for ordinary-time work was $30.68, up 0.8 percent on the previous quarter and up 3.1 percent over the year, significantly more than the 1.6 percent rise in the CPI. Female workers (at $28.63) earned 11.7 percent less than male workers (at $32.41) for ordinary time hourly earnings. The average ordinary-time wage was $28.60 in the private sector (up 0.8 percent in the quarter and 3.1 percent in the year) and $38.85 in the public sector (up 0.4 percent in the quarter and 3.2 percent in the year). Average total hourly wages (including overtime) ranged from $19.50 in Accommodation and food services and $21.44 in Retail trade, to $42.33 in Finance and insurance services, and $40.67 in Information, media and telecommunications. In Accommodation and food services, 58.2 percent of employee jobs were part time, and in Health care and social assistance 43.0 percent were part time; in Retail trade 42.3 percent were part time; 39.1 percent were also part time in Arts, recreation and other services, and 31.2 percent in Education and training. Together these five industries made up 68.6 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

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.

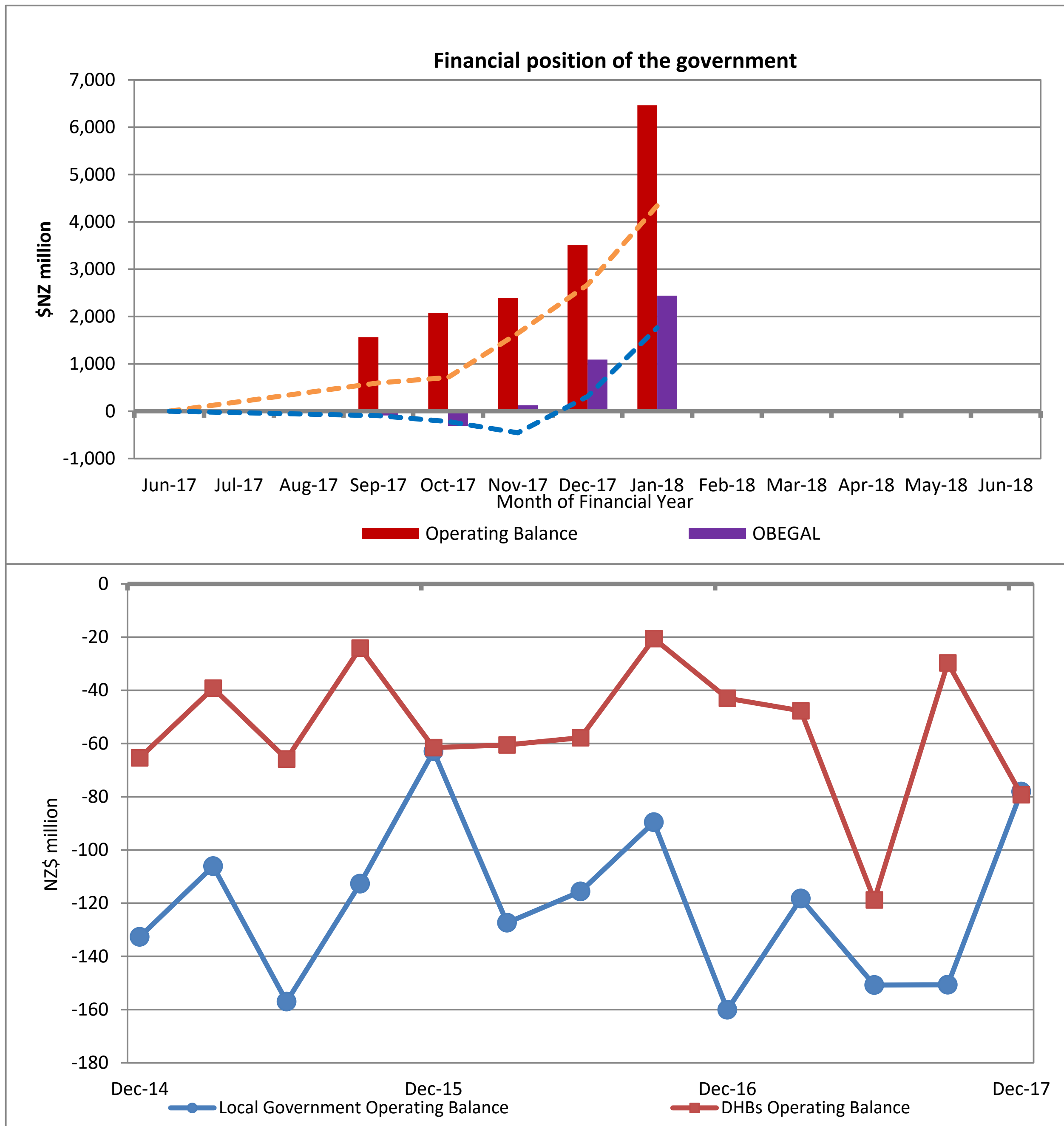
4.2 percent, accounting for 19.5 percent of the increase), and petrol which accounted for a sixth (16.2 percent) of the total, rising 6.5 percent. In seasonally adjusted terms, the CPI rose 0.4 percent over the last three months, Food rose 0.2 percent, Alcoholic beverages and tobacco rose 1.0 percent, 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 December 2017 again showed lower income households experiencing faster price rises than higher income households. Lowest spending households saw their living costs rise 2.2 percent over the year while prices for the highest spending households rose only 1.3 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: 53.7 percent of the expenditure of the lowest income one-fifth of households went on Food and Housing and household utilities in 2017, and the increases in those costs made up 77 percent of the increase in their living costs, compared to being only 33.3 percent of the expenditure of the highest income one-fifth, making up 59 percent of the increase in their living costs over the year. High income households also received more relief from falling prices for Clothing and footwear, Household contents and services, Communications, and Recreation and culture, which together removed 34 percent of their costs increases compared to just 9 percent of the costs of low income households. Over the year, the All households HLPI index rose 1.8 percent, the Beneficiary households index rose 2.4 percent, the Māori households index rose 2.1 percent, and the Superannuitant households index rose 2.1 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.2 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.5 percent, and quintile 5 (the highest incomes) rose 1.3 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.4 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.5 percent, and quintile 5 rose 1.3 percent. Over the December quarter, the All households HLPI index rose 0.2 percent, the Beneficiary households index rose 0.2 percent, the Māori households index rose 0.1 percent, and the Superannuitant households index rose 0.1 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 0.1 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.1 percent, quintile 4 rose 0.2 percent, and quintile 5 rose 0.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.1 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.2 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.3 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 fourteen different types of households. See the commentary in the November 2016 Bulletin for more detail. Weights reflecting the proportion of different products bought by households were updated starting from the December 2017 release.

- ★ The Food Price Index fell 0.5 percent in the month of February 2018 (and was unchanged in seasonally adjusted terms). Food prices rose 0.1 percent in the year to February 2018. Compared with the previous month, fruit and vegetable prices fell 0.9 percent (and were unchanged seasonally adjusted); meat, poultry, and fish prices fell 2.1 percent; grocery food prices fell 0.7 percent (and down 0.6 percent seasonally adjusted); non-alcoholic beverage prices rose 0.5 percent; and restaurant meals and ready-to-eat food prices rose 0.3 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 seven months to 31 January 2018, core Crown tax revenue was $0.9 billion (2.1 percent) higher than forecast in the 2017 Half-Year Economic and Fiscal Update (HYEFU 17). PAYE and GST revenue were each $0.3 billion higher than forecast "primarily as the levels of employment and residential investment were above forecast". Customs and excise duties were above forecast by $0.2 billion due to higher than expected tobacco duties. Overall core Crown revenue was $1.0 billion or 2.0 percent higher than forecast. Core Crown expenses were $0.2 billion (0.3 percent) higher than forecast, mainly due to timing issues. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $0.7 billion better than forecast, with a $2.4 billion surplus instead of the $1.8 billion deficit forecast. However there were substantial unforecast gains and losses, with net investment gains of $5.5 billion, $2.7 billion more than forecast, offset by a $1.5 billion increase in estimates of

future liabilities, mainly an increase of ACC's claims liability due to lower than expected discount rates. "The Emissions Trading Scheme also recognised a loss of $0.5 billion due to an increase in carbon prices." The result was that the Operating Balance was $2.1 billion better than forecast with a $6.5 billion surplus. Net debt at 21.6 percent of GDP ($60.1 billion) was $1.2 billion lower than forecast. Gross debt at $86.0 billion (30.9 percent of GDP) was $2.1 billion more than forecast. The Crown's net worth in financial terms was $2.1 billion higher than forecast at $117.0 billion.

- District Health Boards had 423 fewer full time equivalent staff than planned at the end of December 2017 (64,105 compared to 64,527 planned). All categories of staff were affected except Medical Personnel (doctors – 112 over plan) and Nursing (168 over plan), with shortfalls in Allied Health Personnel (423 short), Management/Administration staff (198 short), and Support Personnel (82 short). Average costs per full time equivalent staff were $700 below those planned ($94,500 compared to $95,200). The DHBs had accumulated combined deficits of $79.2 million in the six months to December. This is $19.8 million worse than their plans. The Funder arms were in surplus by $37.1 million, $14.5 million more than the $22.6 million surplus planned, and Provider arms (largely their hospitals) in deficit by $119.0 million, $35.4 million worse than planned. The Northern region was $3.1 million behind plan with a deficit of $2.8 million and three of the four DHBs in deficit. The Midland region was $6.4 million behind plan with a deficit of $15.6 million and all of the five DHBs in deficit. Central region was $5.6 million behind plan, a combined $24.4 million deficit and all of the six DHBs in deficit. The Southern Region was $4.7 million behind plan with a $36.4 million deficit and four of the five DHBs in deficit, with Canterbury showing a $23.1 million deficit and Southern $11.6 million. In all, just two of the 20 DHBs were in surplus and just three were ahead of plan. The DHB furthest ahead of plan was Counties Manukau by $0.7 million, and Southern was furthest behind, by $3.5 million. Capital expenditure across all DHBs was behind plan with $172.0 million spent out of $272.5 million planned.

- ★ Local Government in the December 2017 quarter recorded a 3.5 percent ($85.2 million) increase in operating income in seasonally adjusted terms and a 0.5 percent rise in operating expenditure ($12.6 million) including a 0.8 percent fall in employee costs (down $4.6 million) compared to the previous quarter. This resulted in an operating deficit of $78.1 million in the quarter, compared with a deficit of $150.7 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/economicbulletin198.

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