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Information
Section p.7

Commentary

New Zealand's tax system: weak at reducing inequality

Summary

How well does New Zealand's tax system perform in reducing inequality? What would be the effect of some likely changes to it discussed in the interim report of the Tax Working Group, released last week?

New Zealand's personal income tax system is very weak in reducing inequality compared to other OECD countries. So is our transfer (income support) system. Together they're near the bottom of the OECD. Each system is about half as effective as the most effective in the OECD. The inequality-reducing power of the tax and transfer system on market income inequality has steadily declined for New Zealand over the last three decades, says the MSD's Household Incomes Report.

GST is regressive: the lowest income tenth of households pay about twice the proportion of their income in GST as the highest income households. That is mainly because low income people are able to save proportionately less. GST is a tax on labour income and the combination of GST and personal income tax does little to reduce income inequality. The effective tax rate on the incomes of the lowest income households averages 26% compared to 31% for the highest income households. Only benefits and Working for Families tax credits make the tax and transfer system progressive. While reducing the GST rate would improve the situation, it comes at a high cost in lost revenue. Reducing the lowest tax rate or introducing a zero-tax threshold would be more effective in redistributing income to low and middle income families.

Most of the public focus has been on taxing capital gains – the increase in value of assets such as housing (excluding the family home) and shares – which most high income countries already tax. The gain in the value of an asset is, in economic terms, just another form of income so the proposal is that it should be taxed like any other form of income. Fairness is the strongest argument in favour of taxing capital gains. There is no reason why income as a capital gain should be tax-free when the same income earned in wages or salaries is taxed.

Those paying it are likely to be highly concentrated in the wealthiest households. A huge 82% of the assets whose capital gains are likely to be subject to tax are owned by the top 20% of households by wealth. Taxing this form of income would therefore be a useful step towards making New Zealand's tax system more effective at reducing inequality, though in relative terms probably small in the average year. In addition, it could close some tax loopholes. Some wealthy individuals use closely-held companies to convert taxable income into untaxed capital gains. A well-designed tax on capital gains would make this practice pointless.

Much needs to be done to make our tax and transfer systems more capable of reducing New Zealand's high level of income inequality. The Tax Working Group could recommend some useful options.

How well does New Zealand's tax system perform in reducing inequality? What would be the effect of some likely changes to it? The interim report of the Tax Working Group was released by the Government on 20 September. The report and background papers prepared for the Group provide some answers.[1]

In brief, the personal income tax system is very weak at reducing income equality by OECD standards and so is the income support system (such as benefits and Working for Families). GST increases income inequality, adding to the weakness of our overall tax system in inequality reduction. A tax on capital gains would be paid overwhelmingly by the wealthiest households and so help to reduce income inequality.

There are two main ways that a government can reduce income inequality. One is through the tax system and the other is through income support including social welfare and tax credits (such as the Working for Families system) – in the jargon, the 'transfer system'. In addition a government can significantly reduce the pressures on people's incomes through public services such as health, education and housing provided at no cost or at lower cost than would be provided commercially.

As the Group stated in its report[2], one of the "three main ways the tax system supports the wellbeing of New Zealanders", in addition to providing a "fair and efficient source of revenue", and "a policy instrument to influence behaviours", is

> **A means of redistribution.** Taxes fund the redistribution that allows all New Zealanders, regardless of their market income, to participate fully in society. While much of this redistribution occurs through the transfer system, the progressive nature of the income tax means that the tax system also plays a role in reducing inequality. (p.11)

In what follows I look mainly at the direct impacts on income from personal income taxes, GST and taxes on income from capital (company income tax and a possible tax on capital gains). The first three of these taxes make up 90 percent of tax revenue in New Zealand – one of the highest concentrations of such taxes in the OECD. Other countries make much more use of environmental, payroll and other taxes.

A full analysis of the distributional impact of company income tax, environmental taxes (like fuel tax), and concessions such as tax incentives is not available, though some general comments can be made. Often it is not easy to quantify their effect because the data is difficult to obtain or the person or organisation legally required to make the tax payment to the Inland Revenue Department (IRD) is not necessarily the one who in the end pays it. In the jargon, it is difficult to tell where the *incidence* of the tax lies. For example, suppliers of goods and services collect GST and send it to IRD, but by and large it is the people who buy the goods and services – you and me – who pay the tax in higher prices.

Personal income tax: weak and getting weaker at reducing inequality

New Zealand's personal income tax system is very weak in reducing inequality compared to other OECD countries, as Figure 1 shows. So is our transfer (income support) system. Really, the two need to be thought of together – the 'tax and transfer system'. Together they're near the bottom of the OECD (see table). Each system is about half as effective as the most effective in the OECD. The inequality-reducing

[1] The papers are available at https://taxworkinggroup.govt.nz/key-documents. I am a member of the Group so need to make clear that what follows all comes from public sources, either from these published reports and papers or from the OECD and other sources I identify. Any opinions expressed are my own.

[2] Tax Working Group. (2018). *Future of Tax: Interim Report*. Wellington, New Zealand: New Zealand Government. Retrieved from https://taxworkinggroup.govt.nz/resources/future-tax-interim-report

power of the tax and transfer system on market income inequality has steadily declined for New Zealand over the last three decades, says the MSD's Household Incomes Report.[1]

Both the tax and transfer systems need to be effective for two reasons. Firstly, if the tax system is weak in reducing inequality, much more needs to be spent on the transfer system – which is politically difficult (often opposed by the same people who oppose high taxes on the rich). Secondly, taxes and transfers can address different aspects of inequality. The transfer system is strongest at lifting people out of poverty. Both the tax system and the transfer system can address low to middle income inadequacy (such as through tax credits, assistance with housing, and low or zero taxes at the bottom of the range). However the tax system is one of the few means we have to address extremes of high incomes.

How effective are New Zealand's tax and transfer systems at reducing income inequality?

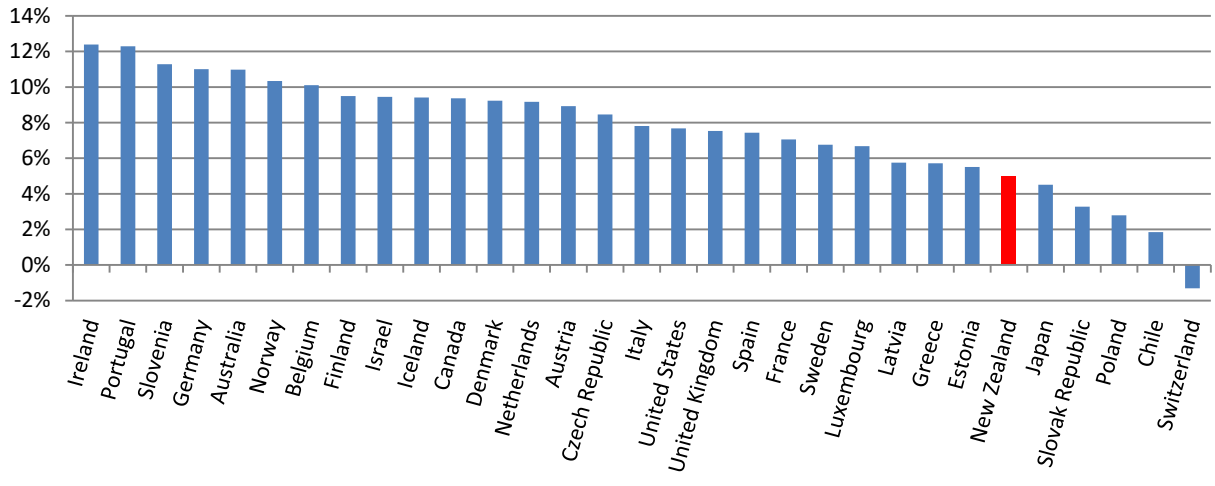
	Income Taxes	Transfers	Taxes and transfers
NZ: Reduction in inequality	5.0%	19.5%	24.5%
Rank from OECD bottom	6	8	6
Most effective	Ireland (12.4%)	Finland (38.6%)	Finland (48.1%)
Least effective	Switzerland (-1.3%)	Mexico (4.0%)	Chile (6.6%)

Source: OECD Dataset: Income Distribution and Poverty, For year 2014 except for Chile (2015), and Japan (2012). Inequality is measured by the Gini coefficient of equivalised household income. Reduction in inequality is the percentage reduction in the gross market income Gini coefficient.

Households in the top 10% of incomes (top decile) pay 35% of all personal income taxes, but that reflects the fact that they receive 30% of the income before taxes. All this is before the effect of GST is added in.

Figure 1: Reduction in inequality due to the personal income tax system

Source: see note to table above



[1] Perry, B. (2017). *Household Incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2016*. Wellington, New Zealand: Ministry of Social Development, p.197. Retrieved from https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/.

GST: regressive

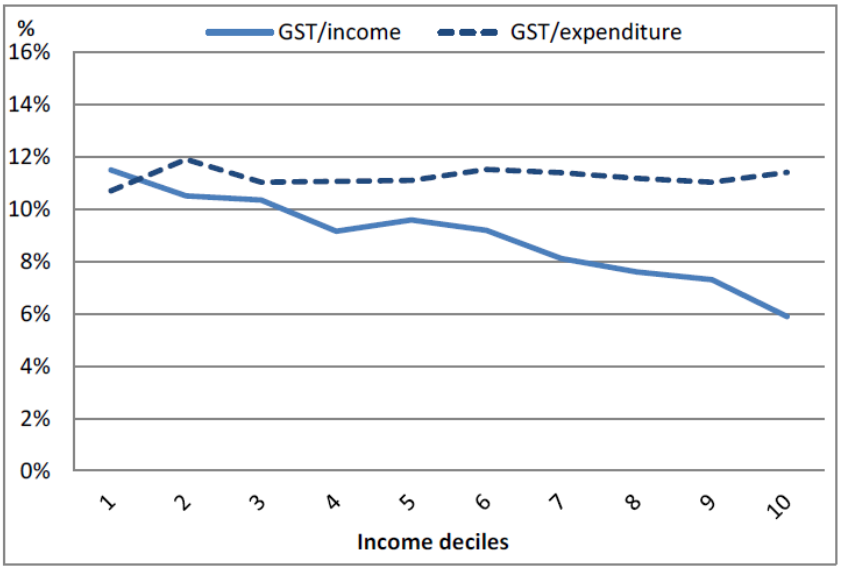
It is important to take GST into account because it collects almost a third of tax revenue (31.4% in 2017 according to Treasury, though closer to a quarter of revenue if GST paid by government departments and agencies is excluded). That revenue is the highest in the OECD as a proportion of GDP.

"GST can be viewed as an indirect tax on labour income together with a lump-sum tax on wealth on the day that the tax is introduced," a background paper for the Group says[1]. It is regarded as a lump-sum tax on wealth because when it is introduced (or increased) it increases the cost of goods and services that the wealth might be spent on, reducing its buying power (this is true only to the extent that it is not spent on assets used in running a company that can claim the GST back).

As a tax on labour – that is, on wages, salaries, and some self-employed income – it needs to be added in to the total taxes paid by workers.

GST is regressive: low income households pay a higher proportion of their incomes in GST than high income people. That is mainly because low income people are able to save proportionately less. Figure 2 shows the lowest income tenth of households (decile 1) paying GST at about twice the rate of the highest income households (decile 10).

Figure 2: Average GST paid per household[2]



Some contend that this is not a concern because the GST proportion is almost flat in terms of expenditure by households: low expenditure and high expenditure households pay a similar proportion in GST because the savings effect no longer exists. Assuming people spend all their income over their lives, the argument is that it is not regressive over a lifetime. That disregards inheritances, but perhaps more importantly disregards the reality of the here-and-now: it is small consolation to a struggling family that at some point in their lives they may possibly be better off. Similarly, many retired people spend more than their income by running down their savings, so GST is a high proportion of their income. The Group recognised the "considerable public concern regarding the regressive nature of GST" (p.86).

When added to personal income tax, the distribution of taxes is shown in in Figure 3 from the interim report (p.17). Taking income taxes, GST and ACC levies (a small flat tax) together, the tax system, shown in blue, is barely progressive: the effective tax rate on the incomes of the lowest income households is 26% (decile 1), compared to 31% for the highest income households (decile 10). It is only transfers, mainly benefits and Working for Families tax credits, that make it progressive.

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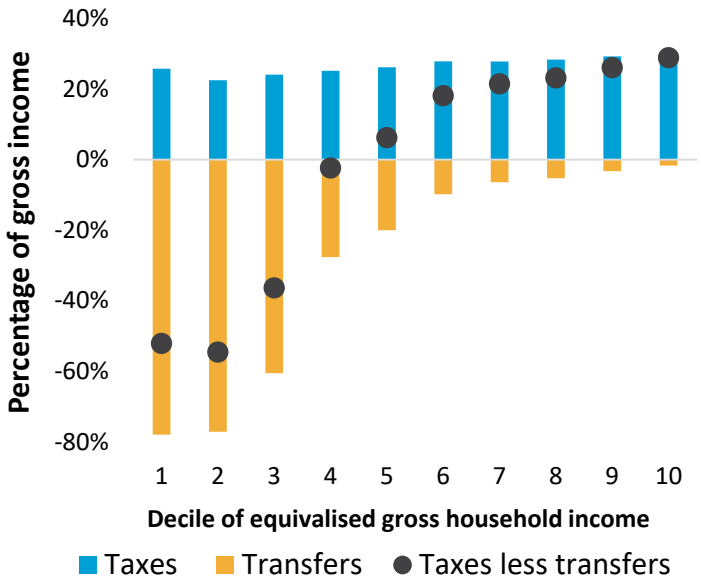
[1] *GST: Background Paper for Session 2 of the Tax Working Group*, p.4, available at https://taxworkinggroup.govt.nz/resources/twg-bg-gst

[2] *GST: Background Paper for Session 2 of the Tax Working Group*, p.22.

The Group considered whether the rate of GST should be lowered or there should be exemptions, such as for food, from GST. In either case, the greatest *dollar* benefits go to high income households (which is a reflection of income inequality) but in proportional terms a reduction in the GST rate would benefit low income households most. The problem is its cost and relative effectiveness. To reduce GST from 15% by just 1.5 percentage points to 13.5% would cost $2 billion a year. That would have to be found somewhere else, and the Group's terms of reference rule out raising income tax rates. Further, if $2 billion per year was available to spend, we could make a greater difference to low and middle income households through the income tax system. Either reducing the lowest tax rate from 10.5% to 5.25% or introducing a zero-tax threshold at $7,000 would be more effective in redistributing income to low and middle income families than the GST reduction, at a similar cost.

Figure 3: Average effective tax rate (income tax, GST and ACC levies less transfers) by income decile, 2012/13



The Group is also considering environmental taxes in order to improve use of limited resources, or dissuade behaviour that damages the environment. It has suggested a set of principles for when taxes should be used, rather than (or as well as) regulation or education. It points out that many environmental taxes are, like GST, regressive. That doesn't mean they shouldn't be used but they should either be designed to minimise their effect on low and middle income households (for example there could be tax-free allocations of resources to households to cover reasonable needs) or the income tax or transfer system should offset them. A problem with the latter is that later Governments could reverse them.

Taxes on capital and companies

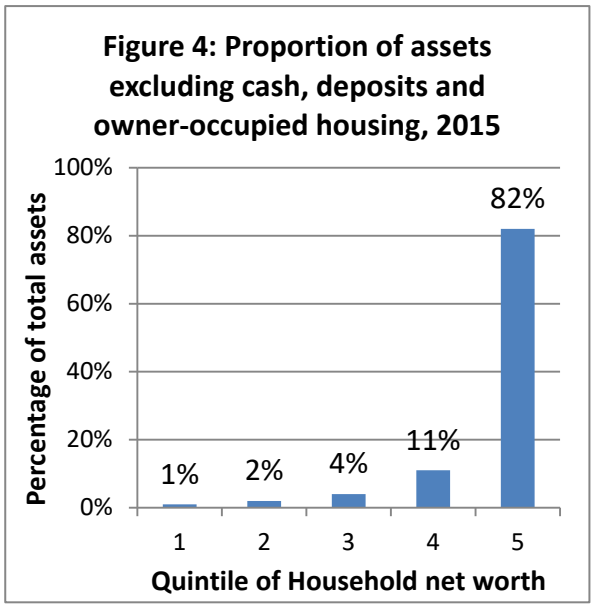
Most of the public focus has been on taxing capital gains – the increase in value of assets such as real estate (excluding the family home) and shares. The Group hasn't yet made a recommendation on this but has put forward design features for public comment.

The gain in the value of an asset is, in economic terms, just another form of income so the Group is proposing it should be taxed like any other form of income. It refers to this as "extending the taxation of capital income" because other forms of capital income – interest and dividends – are already taxed. While New Zealand does tax some limited forms of capital gains such as the "bright line test" on investor-owned housing sold within two (soon to be five) years, it is unusual in the OECD not to have a more general tax.

Fairness is the strongest argument in favour of taxing capital gains. There is no reason why income in the form of a capital gain should be tax-free when the same income earned in say wages or salaries is taxed.

The impacts on inequality from extending the taxation of capital income come in at least two ways.

Firstly, those paying it are likely to be highly concentrated in the wealthiest households. Because there are few statistics on capital gain income, it will not be certain who pays this tax unless and until income taxation is extended to capital gains. But officials have researched the ownership of the assets that are likely to be subject to the tax – that is, most wealth excepting the family home.



They find that a huge 82% of these assets are owned by the top 20% (quintile 5) of households by wealth: see Figure 4[1]. On this basis, they estimate that quintile 5 households would be paying approximately seven and a half times the tax on income from capital gains compared to the next qunitile down on average per year, and 125 times that of the bottom quintile. These are approximate and depend on how fast asset values rise in future, and the design of the tax.

This tax would therefore be a useful step towards making New Zealand's tax system more effective at reducing inequality, though in relative terms probably small in the average year. Exclusion of family homes makes it less effective, but that reflects political realities and the Group's terms of reference. A threshold on the value of the family home exemption to discourage overinvestment in luxury housing would be a partial step in that direction.

Secondly, a tax on capital gains can reduce inequality by closing some tax loopholes. The tax rate on company income is 28% while the top personal income tax rate is 33%. Some wealthy individuals go to considerable lengths to avoid paying that additional 5% by keeping their money in companies they own ("closely-held" companies).[2] One method is to build up assets and cash reserves in the company and then sell the company off, making a capital gain. If the money had been paid out to them, they would have had to pay tax at 33%; by receiving the value of the same money as a capital gain the only tax paid is the 28% on company income. A well-designed tax on capital gains would make this practice pointless.

There are some concerns that taxing capital gains tax on rental properties will increase rents. The Group's view so far, after weighing advice and evidence from a number of sources, is that rents may rise over time and house prices will be lower, but that these effects are unlikely to be large because other factors are much more important. It is seeking more evidence on these matters.

In conclusion

There is much that needs to be done to make our tax and transfer systems more capable of reducing New Zealand's high level of income inequality. Some of it is out of the hands of the Group due to its terms of reference, but it still has some options that would make the sharing of New Zealand's income fairer.

Bill Rosenberg

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[1] See *Distributional analysis: Background Paper for Session 5 of the Tax Working Group*, p.31, available at https://taxworkinggroup.govt.nz/resources/twg-bg-distributional-analysis. The assets also exclude non-financial assets other than real estate, such as consumer durables.Data is from Treasury and Statistics New Zealand.

[2] See for example *Information Release: High Wealth Individuals – Wealth Accumulation Review*, available at https://taxworkinggroup.govt.nz/resources/information-release-high-wealth-individuals-wealth-accumulation-review

Information

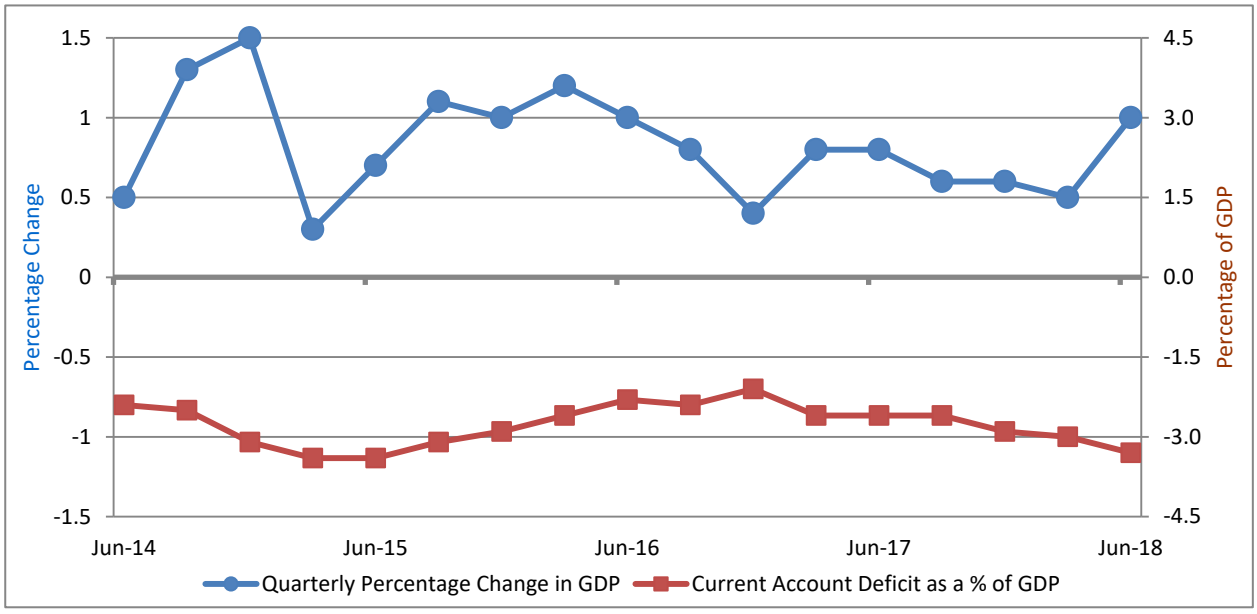
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 10 September 2018 (actuals are in red).

Annual Percentage Change (March Year)	2018-19	2019-20	2020-21	2021-22
GDP	2.8	3.1	2.9	2.7
CPI	1.9	1.8	2.0	1.9
Private Sector average hourly wage	2.7	3.0	3.5	2.9
Employment	2.0	1.7	1.6	1.5
Unemployment rate (% of labour force)	4.4	4.3	4.2	4.1

Economy



★ Growth in New Zealand's measured economy in the three months to June 2018 was strong, and higher than Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 1.0 percent, up from 0.5 percent in the previous quarter. Average growth for the year ended June 2018 was 2.7

percent (and 2.8 percent compared to the same quarter last year). Growth in GDP per person continues to be weak with a rapidly growing population (though population growth is showing signs of slowing): GDP per person was 0.5 percent in the June quarter (though up from 0.0 percent the previous quarter, and the highest for two years), and up 0.7 percent over the year. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.4 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, rose 0.4 percent over the quarter and rose 1.1 percent over the year to June.

★ I estimate that labour productivity, measured by production per hour worked in the economy, fell 1.6 percent in the year to June compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It fell 0.4% in the quarter, seasonally adjusted.

★ Business investment fell by 0.2 percent compared to the previous quarter, dominated by a fall in investment in Plant, machinery and equipment, which fell 1.3 percent following rises of 1.6 percent and 6.4 percent in the previous two quarters. Compared to the same quarter the previous year, growth was strong however at 5.1 percent, driven by Plant, machinery and equipment (up 7.2 percent) and Other (than building) construction (up 7.5 percent). Investment in housing rose 0.5 percent in the quarter following a 0.7 percent fall and 0.4 percent rise in the previous two quarters. It grew 3.0 percent year on year. Household consumption grew 1.0 percent in the June quarter in real terms, after being unchanged in the previous quarter, and it rose 3.0 percent over the same quarter in the previous year. Inflation in the economy as a whole, shown by the GDP deflator (a price index for expenditure on the economy's production, reflecting largely the revenue employers are getting for their products) rose 1.9 percent compared to the same quarter the previous year, and 0.2 percent in the most recent quarter.

★ By industry, the largest contributors to growth in the latest quarter were Agriculture, forestry and fishing (up 4.1 percent), Electricity, gas, water and waste services (up 3.7 percent), Wholesale Trade (up 1.7 percent), Retail trade and accommodation (up 1.5 percent), Transport, postal and warehousing (up 1.8 percent), Rental, hiring, and real estate services (up 0.9 percent), and Arts, recreation, and other services (up 3.5 percent). There was a contraction in Mining (down 19.9 percent). Year-on-year, the biggest rises were in Transport, postal and warehousing (up 5.1 percent), Retail trade and accommodation (up 4.9 percent), Wholesale trade (up 4.4 percent), Professional, scientific, technical, administrative and support services (up 4.4 percent), Health care and social assistance (up 4.2 percent), Public Administration and safety (up 3.6 percent), and Information media and telecommunications (up 3.6 percent). Mining contracted by 5.8 percent.

★ New Zealand recorded a Current Account deficit of $2.7 billion in seasonally adjusted terms for the June 2018 quarter, following a record $3.2 billion deficit for the previous quarter. There was a deficit in goods trade ($1.4 billion, seasonally adjusted) following a $1.7 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $95 million in goods and services (compared to a $0.4 billion deficit in the previous quarter) including a $1.5 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was a slight improvement at a deficit of $2.5 billion from a $2.6 billion deficit in

the previous quarter (seasonal adjustment not available). For the year to June 2018, the current account deficit was $9.5 billion or 3.3 percent of GDP compared to an $8.5 billion deficit in the year to March (3.0 percent of GDP). The deficit on investment income was $10.9 billion for the year.

★ The country's Net International Liabilities were $157.9 billion at the end of June 2018, up from $156.2 billion at the end of the previous quarter and $154.9 billion a year before. The June net liabilities were equivalent to 54.6 percent of GDP, unchanged from the previous quarter and down from 56.5 percent a year before. Net international liabilities would take 1.97 years of goods and services exports to pay off, down from 1.99 years a year before. However gross liabilities would take 5.28 years of goods and services exports to pay off. The rise in net liabilities over the quarter was due to a net $3.3 billion valuation increase offset by a $1.7 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $154.5 billion. New Zealand's international debt was $298.0 billion (other than shares; equivalent to 103.0 percent of GDP), of which 29.7 percent is due within 12 months, compared to $147.0 billion in financial assets (50.8 percent of GDP), leaving a net debt of $151.0 billion (52.2 percent of GDP). Of the net debt, $1.5 billion was owed by the government including the Reserve Bank, and $114.8 billion by the banks (39.7 percent of GDP), which owed $160.2 billion gross.

★ Overseas Merchandise Trade for the month of August 2018 saw exports of goods rise in value by 9.9 percent from the same month last year while imports rose 13.9 percent. This contributed to a trade deficit for the month of $1,484 million or 36.6 percent of exports, the largest monthly deficit on record according to Statistics New Zealand, following a $196 million deficit in the previous month. There was a trade deficit for the year of $4.8 billion or 8.5 percent of exports. In seasonally adjusted terms, exports fell 4.7 percent or $239 million over the month (compared to a 6.3 percent rise the previous month) with all major categories of exports falling except Electrical machinery and equipment (up 2.9 percent or $3 million): Dairy (down 29.3 percent or $444 million), Meat (down 1.3 percent or $9 million), Logs, wood and wood products (down 7.7 percent or $38 million), Crude oil (down 70.8 percent or $26 million, not seasonally adjusted), Mechanical machinery and equipment (down 11.4 percent or $19 million), Fruit (down 4.5 percent or $12 million), Seafood (down 5.3 percent or $8 million), Aluminium and aluminium articles (down 7.1 percent or $8 million, not seasonally adjusted), and Wine (1.4 percent or $2 million). All had risen in the previous month. Seasonally adjusted imports fell 3.4 percent or $183 million over the previous month, leaving a trade deficit of $434 million following a $378 million deficit in the previous month. The falling imports were led by Petroleum and products (down 29.2 percent or $232 million, not seasonally adjusted), Plastic and plastic articles (down 1.3 percent or $3 million) and Optical, medical, and measuring equipment (down 0.4 percent or $1 million) while rises were led by Mechanical machinery and equipment (up 3.3 percent or $25 million), Textiles (up 10.8 percent or $24 million), and Electrical machinery and equipment (up 0.7 percent or $3 million). In the year to August, 23.2 percent of New Zealand's exports went to China, 15.9 percent to Australia, 9.5 percent to the US, and 60.0 percent went to the top six countries buying New Zealand exports. This compares with 21.3 percent going to China in the year to August 2017, and 60.3 percent going to the top six destinations. Over the same period, 19.1 percent of New Zealand's imports came from China (compared to 19.6 percent in the year to August 2017), 11.5 percent from Australia, 10.6 percent from the US, and 58.1 percent from the top six countries selling to New Zealand, compared to 59.9 percent a year before. There were trade deficits with China ($1.4 billion) and Australia ($1.9 billion) but surpluses with most other major trading partners.

- The Retail Trade Survey for the three months to June 2018 showed retail sales rose 3.1 percent by volume and 3.8 percent by value compared with the same quarter a year ago. They rose 1.1 percent by volume and 1.3 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Recreational goods (up 6.2 percent), Hardware, building and garden supplies (up 4.9 percent), Clothing, footwear and accessories (up 2.7 percent), Food and beverage services (up 2.7 percent) and Department stores (up 2.5 percent). Supermarkets and grocery stores sales (easily the largest single category, with 21.3 percent of sales), fell 0.5 percent. Sales also fell in Electrical and electronic goods (down 1.0 percent, though this reflects price falls rather than falling sales: volume was up 2.0 percent) and Furniture, floor coverings, houseware and textiles (down 0.1 percent).

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.

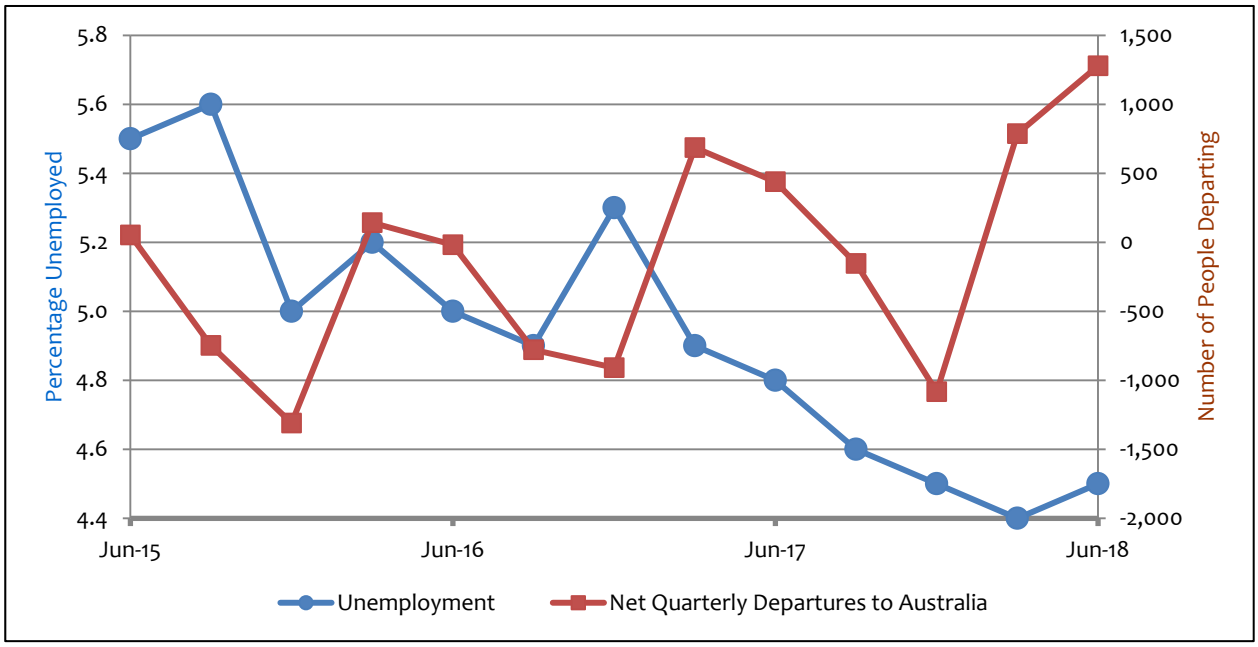
- The Performance of Manufacturing Index for August 2018 was 52.0, a rise from 51.2 in the previous month. The employment sub-index was at 48.1, a fall from 51.2 in the previous month.

- The Performance of Services Index for August 2018 was 53.2, a fall from 54.8 the previous month. The employment sub-index was unchanged at 49.9.

- On 27 September 2018 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. In a relatively brief statement, the Governor announced that the OCR will remain "at this level through 2019 and into 2020. The direction of our next OCR move could be up or down." There was little change in the Bank's views on the economic outlook, but "While GDP growth in the June quarter was stronger than we had anticipated, downside risks to the growth outlook remain." It also expected "ongoing spending and investment, by both households and government" supporting growth. The Governor's statement concluded, as it did last time: "We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation." The next OCR announcement will be on 8 November 2018.

- According to REINZ, over the year to August the national median house price rose $19,000 or 3.6 percent to $549,000 and REINZ's house price index rose 4.1 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price fell 0.4 percent seasonally adjusted while the house price index was unchanged. In Auckland over the year the median price was up $12,000 or 1.4 percent at $852,000 while the house price index rose 0.2 percent. Over the month, Auckland's median price rose 1.4 percent seasonally adjusted, and the house price index fell 0.8 percent. Excluding Auckland, over the year the national median price rose $26,500 to $455,000 or 6.2 percent while the house price index rose 8.0 percent. Over the month the median price excluding Auckland was up 0.3 percent seasonally adjusted, and the house price index rose 0.9 percent. There were record median prices in Waikato (up 9.4 percent over the year to $525,000), Gisborne (up 42.6 percent to $335,000), Manawatu/Whanganui (up 10.5 percent to $315,000), Tasman (up 24.3 percent to $615,000) and Hawke's Bay (up 9.9 percent to $445,000). Median prices fell over the year in Canterbury (down 0.5 percent) and Southland (down 4.0 percent). Seasonally adjusted median prices fell over the month in Northland (down 6.4 percent), Bay of Plenty (down 2.4 percent), Taranaki (down 9.1 percent), Nelson/Marlborough/Tasman (down 0.8 percent), Canterbury (down 1.2 percent), and Southland (down 4.0 percent). Sales rose in all but three of REINZ's 14 regions over the month, seasonally adjusted, while over the year, sales fell in 6 regions, averaging a rise of 3.1 percent.

Employment



- According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the June 2018 quarter rose to 4.5 percent or 124,000 people, compared to 4.4 percent three months before (120,000 people), seasonally adjusted. If it were the 3.3 percent it was in December 2007, 33,000 more people would have jobs. The seasonally adjusted female unemployment rate fell to 4.7 percent from 4.9 percent three months before, but was still considerably higher than for men (4.3 percent) whose unemployment rate rose from 4.0 percent. Māori unemployment fell from 11.0 percent a year before to 8.8 percent in June 2018, while Pacific people's unemployment fell from 9.1 percent to 8.3 percent over the year. Compared to OECD unemployment rates, New Zealand fell one place from 13th to 14th lowest (out of 35 countries). However New Zealand had the third-highest employment rate at 77.4 percent for 15-64 year olds.

- **Youth unemployment** for 15-19 year olds was 19.7 percent in June, up from 19.0 percent three months before, but down from 20.4 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; small differences may not be statistically significant). For Māori 15-19 year olds in June 2018, the unemployment rate was 29.0 percent, down from 34.5 percent a year before. For 15-19 year old Pacific Peoples it was 12.6 percent, down from 22.8 percent a year before. For 20-24 year olds, youth unemployment was 7.7 percent, down from 8.1 percent three months before, and from 8.8 percent a year before. For Māori 20-24 year olds the unemployment rate was 8.3 percent, a sharp fall from 16.6 percent a year before. For 20-24 year old Pacific Peoples it was 12.9 percent, down from 20.1 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 9.9 percent three months before and from 8.9 percent a year before. For Māori 15-19 year olds the rate was 10.6 percent, down from 14.6 percent a year before and for Pacific Peoples it was 6.5 percent, down from 10.9 percent a year before. For 20-24 year olds the NEET rate was 14.1 percent, down from 14.6 percent three months before but up from 13.3 percent a year before. For Māori 20-24 year olds the rate was 20.9 percent, lower than the 25.5 percent a year before, and for Pacific Peoples it was 22.6 percent, down from 26.2 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (14.9

percent) than those not in education (10.1 percent). There were 73,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, down from 83,000 three months before, and from 75,000 a year before.

- By **region**, in the North Island, unemployment rates fell compared to a year ago in all of the eight regions except Taranaki (which rose from 5.0 percent to 5.3 percent) and Manawatu-Whanganui (which rose from 4.7 percent to 6.6 percent), which also had the worst national unemployment rate. All other North Island regions had unemployment rates under 5 percent. Auckland's unemployment rate was 4.2 percent, down from 4.5 percent a year before, and with Waikato, the lowest in the North Island. The South Island was more mixed, but it continues to have lower unemployment on average: Tasman/Nelson/Marlborough/West Coast at 4.7 percent was up from 3.8 percent a year before, Canterbury at 4.0 percent was up from 3.8 percent a year before, Otago at 3.4 percent was down from 4.4 percent a year before, and Southland had the country's lowest unemployment rate at 3.0 percent, down from 4.6 percent a year before.

- There were 37,200 unemployed people in June 2018 who had been **out of work for more than 6 months** compared to 44,600 a year before. This is 30.9 percent of the unemployed compared to 36.2 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 12.5 percent of the unemployed compared to 16.9 percent 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 numbers are now closer to pre-June 2016, though with a still-rising trend, particularly for those out of work more than 12 months.

- The unemployed were not the only people looking for work: "**underutilisation**" includes the officially unemployed as above, people looking for work who are not immediately available or have not looked for work sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours ("underemployed"). In the June quarter there were a total of 344,000 people looking for work classed as "underutilised", or 12.0 percent of the labour force extended to include these people. Of them, 117,000 were underemployed, 124,000 were officially unemployed, and 103,000 were additional jobless people looking for work. The 12.0 percent underutilisation rate is up slightly on the previous quarter (seasonally adjusted 11.9 percent) and also 11.9 percent a year before. It is higher for women at 14.3 percent than for men (10.0 percent).

- The number recorded as **employed** rose by 13,000 over the three months to June 2018 (seasonally adjusted). It rose by 94,000 over the year. The employment rate remained at 67.7 percent over the three months. It was 62.8 percent for women and 72.8 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 70.8 percent to 70.9 percent, all in seasonally adjusted terms.

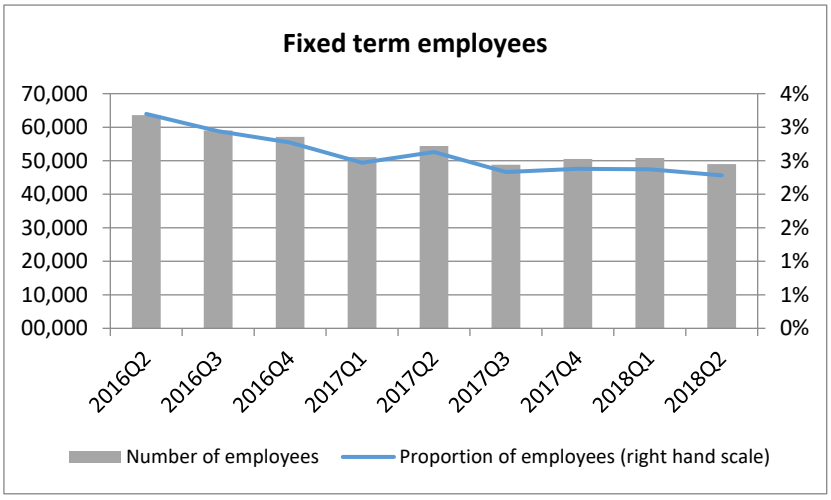
- **By industry**, the actual fall in employment of 2,900 in the three months to the June 2018 quarter (not seasonally adjusted) was made up of both gains and losses. The biggest gains were of 9,200 in Health Care and Social Assistance, 8,300 in Information Media and Telecommunications, and 6,600 in Professional, Scientific, Technical, Administrative and Support Services. These were offset by falls led by 16,100 in Retail Trade and Accommodation, 8,500 in Arts, Recreation and Other Services, and 4,900 in Construction. Over the year, the biggest contributors to the 93,000 additional jobs were 26,200 in Health Care and Social Assistance, 23,800 in Professional, Scientific, Technical, Administrative and Support Services, 12,200 in Public Administration and Safety, 8,100 in Retail

Trade and Accommodation, and 6,600 in each of Construction and Manufacturing, with falls only Wholesale trade (down 6,100) and Arts, Recreation and Other Services (down 4,300).

- In the June quarter, total **union membership** was estimated at 413,700, a 1.4 percent increase from 408,200 in the previous quarter and up a hefty 11.2 percent from 372,200 a year before. The membership is 19.3 percent of employees compared to 19.1 percent three months before and 18.0 percent a year before. Women make up 58.2 percent of the membership compared to being 49.4 percent of all employees. As a result, the proportion of female employees who are in unions is higher than for males: 22.7 percent compared to 15.9 percent. The increase in numbers was greater for females (up 12.6 percent over the year) than males (up 9.2 percent) so the pay equity settlement is a strong factor (see the industry breakdown below), but not the only one. There were rises in all age groups: 15-24 (up 31.2 percent in the year, 0.4 percent in the quarter), 25-34 (up 12.7 percent in year, 2.9 percent in the quarter), 35-44 (up 6.9 percent in the year, 2.1 percent in the quarter), 45-54 (up 4.7 percent in the year, but down 1.5 percent in the quarter), 55-64 year olds (up 14.0 percent in year, 2.5 percent in the quarter), and 65 years and over (up 14.9 percent in the year and 3.3 percent in the quarter, with female membership rising 41.6 percent in the year while male fell 10.9 percent). By industry, the rises in numbers over the year to June were led by Health Care and Social Assistance (up 14,100 though density fell from 44.2 percent to 42.9 percent), Education and Training (up 10,800, density rising from 42.5 percent to 43.9 percent), Public Administration and Safety (up 4,700, density falling from 36.5 percent to 35.6 percent), and Construction (up 3,400, density rising from 6.7 percent to 7.7 percent). However numbers and density fell by small amounts (probably not statistically significant) in a number of industries. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.

- In the June 2018 quarter, total **collective employment agreement** coverage was estimated at 413,000 employees, which makes 19.2 percent of employees who said their employment agreement was a collective compared to 19.0 percent three months before and 18.2 percent (376,600) a year before. An estimated 68.8 percent (1,477,500) said they were on an individual agreement compared to 68.1 percent three months before and 67.8 percent a year before, and 5.7 percent or 121,600 said they had no agreement (which is illegal), compared to 6.3 percent three months before and 7.6 percent a year before. A further 6.3 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.4 percent for men and 22.1 percent for women. There were rises in all age groups: 15-24 (up 32.9 percent in the year, 8.4 percent in the quarter), 25-34 (up 7.9 percent in year, 3.6 percent in the quarter), 35-44 (up 2.8 percent in the year, 2.1 percent in the quarter), 45-54 (up 4.9 percent in the year, but down 1.6 percent in the quarter), 55-64 year olds (up 10.4 percent in year, 0.3 percent in the quarter), and 65 years and over (up 13.8 percent in the year and 0.4 percent in the quarter). By industry, the largest rise was in Health Care and Social Assistance (up 8,900 for the year, or 11.1 percent), and there were also large rises in Public Administration and Safety (up 6,100 or 13.6 percent), Manufacturing (up 4,800 or 11.4 percent), Education and Training (up 3,500 or 4.4 percent), and Construction (up 3,100 or 22.3 percent). As with union membership, numbers and density fell by small amounts (probably not statistically significant) in a number of industries, the most notable being Accommodation and Food Services (down 1,100 or 8.3 percent) and Financial and Insurance services (down 900 or 11.4 percent).

- By **employment relationship**, in the June 2018 quarter, 90.9 percent of employees (1,952,900) reported they were permanent, 4.4 percent casual (93,600), 2.3 percent fixed term (49,000), 1.3 percent seasonal (29,000), and 0.5 percent employed through a "temporary agency" (11,600). The proportion reporting they were permanent was up from 90.2 percent (1,930,500) three months before and from 90.6 percent (1,873,000) a year before. Women were slightly less likely to be permanent employees: 89.9 percent of women were permanent compared to 91.9 percent of men. Instead, women were more likely to be casual (4.8 percent of them compared to 3.9 percent of men) or fixed term (3.0 percent of women compared to 1.6 percent of men). However more men were in seasonal work than women – 1.6 percent of men compared to 1.1 percent of women. Of the temp agency employees, 4,800 were men and 11,300 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. However, in the two years this data has been available the number and proportion of fixed term employees measured by this survey has fallen reasonably steadily, starting in June 2016 with 63,600 and in June 2018 down to 49,000. The number of Temporary Agency employees has increased in the same period from 6,600 to 11,600, but this has been a bumpy road so it is too early to say there is a trend.



- By **duration of employment (job tenure)**, in the June 2018 quarter, 23.3 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.3 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 16.5 percent had been in their job for at least five but less than ten years, and 26.1 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, 27.9 percent of men had been in their jobs for more than 10 years, but only 24.0 percent of women. Age is a significant factor as would be expected: 52.5 percent people aged 15 to 24 had been in their jobs for less than a year, and 30.9 percent of 25-34 year olds, but only 14.8 percent of 45-54 year olds and 9.7 percent of 55-64 year olds. Small differences may not be statistically significant.

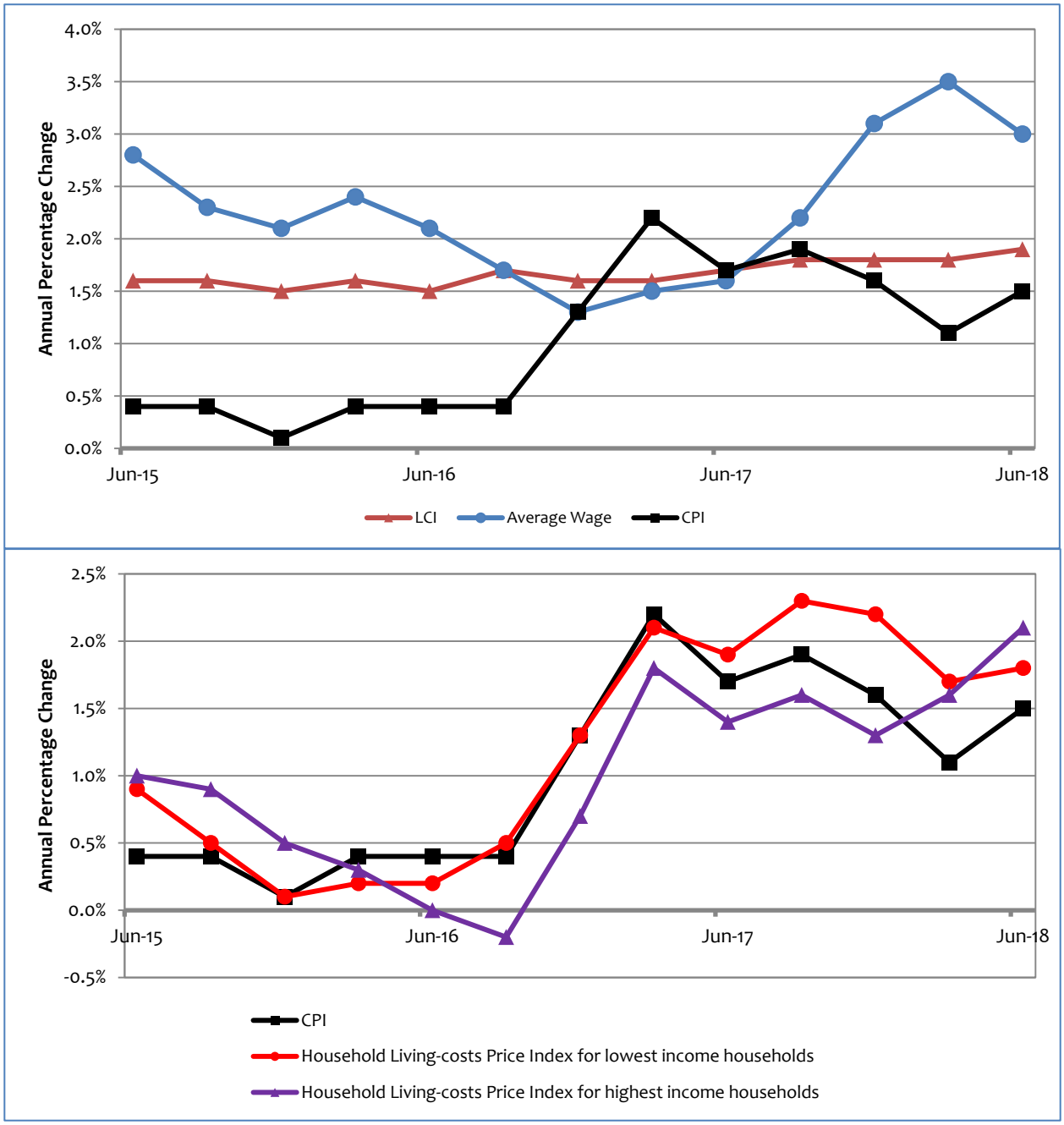
- The Ministry of Social Development reports that at the end of June 2018 there were 122,513 working age people on the Jobseeker benefit, 3,758 more than a year before and 3,737 more than three months before. At June, 65,264 were classified as 'Work Ready', and 57,249 were classified as 'Health Condition or Disability'. A total of 277,410 were on 'main' benefits, 1,079 more than a year before, with 2,072 fewer on Sole Parent Support partially counteracting the increase in Jobseeker benefits. There were 4,023 more on main benefits than three months earlier, mainly because of the rise in Jobseeker benefits. Of the 44,281 benefits cancelled during the three months to June, 18,668 or 42.2 percent of the people obtained work, 11.8 percent transferred to another benefit and 3.9 percent became full time students. A further 5,219 (5.5 percent) left on their 52 week reapplication

or annual review. A total of 12,214 suffered sanctions (down 25.9 percent), the majority (10,002) on a Jobseeker benefit. Of the people sanctioned, 45.0 percent were Māori, though only 35.8 percent of working-age benefit recipients were Māori.

- Job Vacancies Online for the three months to June 2018 showed the seasonally adjusted number of job vacancies rose by 1.6 percent in the quarter and rose 7.7 percent over the same quarter a year previously. All the following are seasonally adjusted. Over the quarter, skilled vacancies rose 2.0 percent while unskilled vacancies rose 0.9 percent, but over the year, skilled vacancies rose 5.9 percent while unskilled vacancies rose 10.2 percent. Over the quarter, vacancies in Auckland were up 0.3 percent, in Bay of Plenty up 4.2 percent, Canterbury down 0.4 percent, Gisborne/Hawke's Bay up 8.5 percent, Manawatu-Whanganui/Taranaki up 5.5 percent, Marlborough/Nelson-Tasman/West Coast up 3.9 percent, Northland up 3.8 percent, Otago/Southland up 3.2 percent, Waikato up 4.1 percent and Wellington up 4.4 percent. By industry, Accounting was up 2.1 percent, Construction fell 0.2 percent, Education rose 3.1 percent, Health rose 7.8 percent, Hospitality rose 3.0 percent, IT rose 3.0 percent, Manufacturing fell 0.3 percent, Primary rose 2.0 percent, Sales rose 2.2 percent, and Other rose 5.2 percent. By occupation, Manager vacancies rose 1.8 percent, Professionals rose 2.5 percent, Technicians and Trades rose 1.3 percent, Community and Personal Services rose 1.3 percent, Clerical and Administration rose 3.1 percent, Sales rose 1.3 percent, Machinery Drivers did not change, and Labourers rose 0.5 percent.

- ★ International Travel and Migration statistics showed 10,790 permanent and long-term arrivals to New Zealand in August 2018 and 5,780 departures in seasonally adjusted terms, a net gain of 5,010 which was up 260 on the previous month. There was a seasonally adjusted net loss to Australia of 290, compared to a loss of 110 a year before. It was made up of a net loss of 660 New Zealand citizens offset by a net gain of 380 citizens of other countries. There was an actual net gain of 63,288 migrants in the year to August, down from 72,072 in the year to August 2017. Net migration from Australia in the year was 1,216 departures, with 24,233 departures and 25,449 arrivals. However there was a net loss of 6,105 New Zealand citizens to Australia over the year and a net gain of 4,889 from citizens of other countries. In August, 10.2 percent of the arrivals had residence visas, 14.1 percent student visas, 40.2 percent work visas, and 6.3 percent visitors. A further 28.3 percent were New Zealand or Australian citizens.

Wages and prices



- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to June 2018 and increased 1.9 percent in the year. It rose more than the 1.5 percent increase in the CPI and that was helped by the $0.75 increase in the minimum wage to $16.50 as from 1 April 2018 and the Care and Support Workers' pay equity increase from 1 July last year. Statistics New Zealand calculates that if neither of these had occurred, the quarterly increase in June would have been only 0.4 percent and the annual increase only 1.5 percent. The main effect in the June quarter was the minimum wage increase (without which it would have been 0.4 percent), and the main effect in the year to June was the pay equity settlement (without which the annual increase would have been 1.6 percent). Statistics New Zealand says: "Around 3 percent of all wages were influenced at least partly by the minimum wage increase… The impact of the minimum wage change was most noticeable in the retail trade, and accommodation and food services industries, increasing

0.9 and 1.1 percent, respectively, for the June 2018 quarter. It also affected occupations such as clerical and administrative workers, labourers, and sales workers." The LCI increased 0.2 percent in the public sector and 0.6 percent in the private sector in the three months. Over the year it rose 1.3 percent in the public sector and 2.1 percent in the private sector. Without the minimum wage rise and pay equity settlement, the private sector rises would have been 0.4 percent in the quarter and 1.6 percent over the year. Regarding the lower public sector rise, Statistics New Zealand comments: "Pay negotiations for both nurses and teachers continue, contributing to the weaker wage growth in the public sector for the year to June 2018." During the year, 48 percent of jobs surveyed did not receive a pay rise, and 49 percent of private sector jobs got no rise. For the 52 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 2.6 percent; the average increase in the public sector was 2.7 percent and in the private sector 4.0 percent. We estimate that over the year, jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those which were not, and were more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent, but somewhat less likely to get one over 5 percent. Only 46 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 that 99 percent of those on a collective stating pay rates got a pay rise in the year to June 2018.

- The Quarterly Employment Survey for the three months to June 2018 found the average hourly wage for ordinary-time work was $31.0, up just 0.1 percent on the previous quarter and up 3.0 percent over the year, significantly more than the 1.5 percent rise in the CPI. Female workers (at $28.98) earned 11.4 percent less than male workers (at $32.71) for ordinary time hourly earnings. This pay deficit has fallen from 13.2 percent two years ago in June 2016. The average ordinary-time wage was $28.97 in the private sector (up 0.2 percent in the quarter and 3.3 percent in the year). In the public sector the average ordinary-time wage was $39.04 which was down 0.5 percent in the quarter and up 1.5 percent in the year. There is a regular pattern of the average wage in the public sector falling in the June quarter, going back to 2002. It is not obvious what the reason is; seasonal employment of a large number of low paid workers would have this effect. Average total hourly wages (including overtime) ranged from $20.06 in Accommodation and food services and $22.14 in Retail trade, to $45.00 in Finance and insurance services, and $40.16 in Information, media and telecommunications. In Accommodation and food services, 57.3 percent of employee jobs were part time, and in Health care and social assistance 43.5 percent were part time; in Retail trade 40.2 percent were part time; 36.9 percent were also part time in Arts, recreation and other services, 26.5 percent in Professional, scientific, technical, administration and support services, and 32.6 percent in Education and training. Together these six industries made up 82.5 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 0.4 percent in the June 2018 quarter compared with the March 2018 quarter. It rose 0.3 percent in seasonally adjusted terms. It increased 1.5 percent for the year to June. For the quarter, the largest single upward influence was Housing and household utilities group (up 0.9 percent due to above-average rises in the costs of new housing, rents and electricity) contributing over half – 59.6 percent – of the rise. Increases in housing costs also came from an increase of 4.0 percent in house insurance and 1.0 percent in contents insurance over the quarter. Next was Alcoholic beverages and tobacco, mainly due to a 3.4 percent increase in the price of beer,

and then Food, driven mainly by a 7.0 percent rise in the prices of vegetables. Petrol rose 3.2 percent and bicycles 3.9 percent but the cost of used cars fell 3.3 percent. Other falls included Domestic air transport (down 12.5 percent), Road passenger transport (down 5.9 percent), Telecommunications equipment (down 9.2 percent), and Audio-visual and computing equipment (down 7.6 percent). Over the year, Housing and household utilities were easily the biggest driver in the rise, up 3.1 percent and contributing over half (51.1 percent) of the CPI increase with new housing up 3.9 percent, rents up 2.5 percent, and all the other subgroups rising faster than overall CPI: Property maintenance up 4.1 percent, Property rates and services up 3.1 percent and Household energy up 2.8 percent. The next largest contributor to the annual CPI rise was Alcoholic beverages and tobacco (up 5.6 percent, making up 27.2 percent of the CPI rise, mainly due to a 10.7 rise in the price of tobacco products resulting from the annual tax increase on them), Transport (up 2.0 percent, making up 19.9 percent of the rise, mainly due to fuel increases), and the Miscellaneous group contributed another 16.4 percent mainly due to insurance rising 5.7 percent (with house insurance up 17.9 percent), but Real estate services, which rose 4.4 percent, contributed too. Rents rose fastest in Wellington (4.2 percent for the year) and slowest in Canterbury (up 0.3 percent for the year) and on average 2.5 percent over the whole country; new house prices rose fastest in the North Island outside Auckland and slowest in Canterbury. Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in June (down 0.4 percent in the quarter and 1.2 percent over the year). In seasonally adjusted terms, the CPI rose 0.3 percent over the last three months, Food rose 0.5 percent, Alcoholic beverages and tobacco rose 1.8 percent, Clothing and footwear rose 0.1 percent, Housing and household utilities rose 0.7 percent, Communications fell 1.8 percent, Recreation and culture fell 0.9 percent, and Education rose 0.5 percent. Over the year, in Auckland consumer prices fell 0.5 percent, in Wellington they rose 0.9 percent and they fell 1.1 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 1.2 percent and prices rose 1.7 percent in the rest of the South Island.

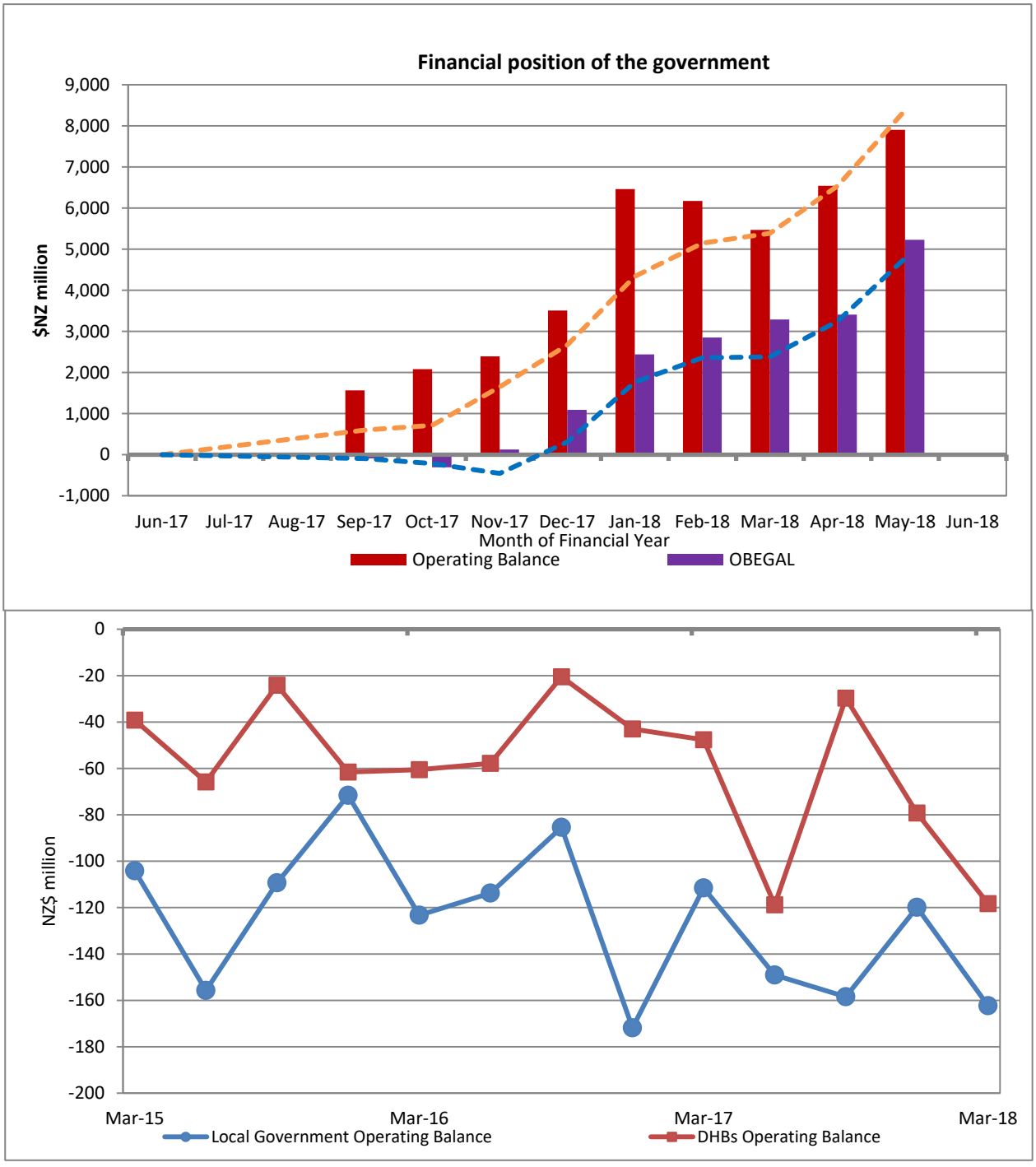
- The Household Living-costs Price Indexes (HLPIs) for the year to June 2018 unusually showed lower income households experiencing (slightly) slower price rises than higher income households over the year, and in the latest three months. By expenditure, the lowest spending households saw their living costs rise 1.9 percent over the year while prices for the highest spending households rose 1.8 percent. The difference occurs because different households spend their money on different things. For example, prices for the necessities of housing and food dominate low income households' spending: 54.5 percent of the expenditure of the lowest income one-fifth (quintile) of households went on Food and Housing and household utilities in 2018, compared to being only 32.7 percent of the expenditure of the highest income one-fifth. Over the year, the All households HLPI index rose 1.9 percent, the Beneficiary households index rose 2.1 percent, the Māori households index rose 2.1 percent, and the Superannuitant households index rose 1.9 percent. By income quintile, the index for the lowest income households (quintile 1) rose 1.8 percent, quintile 2 rose 1.9 percent, quintile 3 rose 2.0 percent, quintile 4 rose 2.2 percent, and quintile 5 (the highest income) rose 2.1 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 1.9 percent, quintile 2 rose 1.9 percent, quintile 3 rose 2.2 percent, quintile 4 rose 1.9 percent, and quintile 5 rose 1.8 percent. Over the June quarter, the All households HLPI index rose 0.4 percent, the Beneficiary households index rose 0.5 percent, the Māori households index rose 0.2 percent, and the Superannuitant

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.

households index rose 0.3 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 0.4 percent, quintile 2 rose 0.4 percent, quintile 3 rose 0.3 percent, quintile 4 rose 0.4 percent, and quintile 5 rose 0.4 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.3 percent, quintile 2 rose 0.4 percent, quintile 3 rose 0.3 percent, quintile 4 rose 0.4 percent, and quintile 5 rose 0.4 percent.

★ The Food Price Index fell 0.5 percent in the month of August 2018 and fell 0.8 percent in seasonally adjusted terms. Food prices fell 0.1 percent in the year to August 2018. Compared with the previous month, fruit and vegetable prices fell 2.1 percent (and were down 4.6 percent seasonally adjusted); meat, poultry, and fish fell 1.4 percent; grocery food prices rose 0.5 percent (and rose 0.9 percent when 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 eleven months to 31 May 2018, core Crown tax revenue was $42 million (0.1 percent) higher than forecast in the 2018 Budget Economic and Fiscal Update (BEFU 18). Corporate tax was $0.2 billion below forecast due to temporary seasonal fluctuations and PAYE deductions were $0.3 billion ahead of forecast "with recent data releases indicating that the labour market may be a little stronger than was forecast in the 2018 Budget". Overall core Crown revenue was $233 million or 0.3 percent higher than forecast with higher than expected interest and dividend income. Core Crown expenses were $439 million (0.6 percent) below forecast with variations across several departments. The resulting Operating Balance before Gains and Losses (OBEGAL) was $0.4 billion better than forecast after

taking into account higher than forecast expenses at ACC, leaving the OBEGAL with a $5.2 billion surplus instead of the $4.8 billion forecast. The Operating Balance was $0.5 billion below forecast, due to higher than forecast "losses on non-financial instruments" leaving a $7.9 billion surplus. Net debt at 20.1 percent of GDP ($57.5 billion) was $1.1 billion lower than forecast. Gross debt at $87.4 billion (30.5 percent of GDP) was $0.9 billion higher than forecast. The Crown's net worth in financial terms was $0.4 billion lower than forecast at $118.6 billion.

- District Health Boards had more full time equivalent staff than planned at the end of June 2018 (99 more: 64,611 compared to 64,812 planned) for the first time in many years. Medical Personnel (doctors) were 151 more than planned and Nursing Personnel were 549 more than planned, but these were offset by shortfalls in Allied Health Personnel (382 short), Management/Administration staff (164 short), and Support Personnel (54 short). Average costs per full time equivalent staff were very close to plan ($96,134 compared to $95,850) with only Medical Personnel costs under plan. The DHBs had accumulated combined deficits of $239.5 million in the twelve months to June (an unaudited full year). This is $96.0 million worse than their plans. The Funder arms were in surplus by $120.9 million, $50.9 million more than the $70.1 million surplus planned, and Provider arms (largely their hospitals) in deficit by $370.2 million, $153.4 million worse than planned. The Northern region was $1.1 million behind plan with a deficit of $29.6 million and two of the four DHBs in deficit. The Midland region was $48.7 million behind plan with a deficit of $67.2 million and all of the five DHBs in deficit including Waikato whose deficit was $37.5 million. Central region was $24.1million behind plan, a combined $54.5 million deficit and all of the six DHBs in deficit. The Southern Region was $22.0 million behind plan with a $88.2 million deficit and three of the five DHBs in deficit, with Canterbury showing a $64.0 million deficit and Southern $21.4 million. In all, just four of the 20 DHBs were in surplus and five were ahead of plan. The DHB furthest ahead of plan was Capital and Coast by $2.8 million though with a deficit of $18.2 million, and Canterbury was furthest behind, by $10.3 million with a deficit of $64.0 million. Capital expenditure across all DHBs was $188.5 million behind plan with $382.7 million spent out of $571.2 million planned.

- Local Government in the June 2018 quarter recorded a 6.5 percent ($159.7 million) rise in operating income in seasonally adjusted terms and a 2.8 percent rise in operating expenditure ($72.9 million) including a 0.1 percent fall in employee costs (down $0.7 million) compared to the previous quarter. This resulted in an operating deficit of $55.7 million in the quarter, compared with a deficit of $142.4 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 all are seasonally adjusted figures which are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin203.

For further information contact Bill Rosenberg.