NZCTU
Te Kauae Kaimahi

Monthly Economic Bulletin

December 2022: Wellbeing Edition

NEW ZEALAND COUNCIL OF TRADE UNIONS
union.org.nz

Monthly Economic Bulletin

December 2022

NZCTU Te Kauae Kaimahi

Seasons Greetings & Welcome to this bumper December 2022 edition of the EconoLex.

December is usually a time when we come together to celebrate the festive season. We see family and friends. It's the season of goodwill. Economics however is known as the dismal science – and much is being made currently of the potential for a recession and for darkening economic clouds ahead.

Given the sparkling recent employment, GDP, and fiscal news this would represent something of a turnaround. Confidence indicators may be very negative right now, but the actual data is very good. One of these will continue to be right in the long run.

This edition covers a range of stories from monetary policy to student loan repayments. As ever, if there are areas of the economy that you would like us to cover, or any economic data that you would like us to examine, please just let us know.

Can we take this opportunity to thank everyone who has helped us pull this together during the year, and to wish all readers a peaceful break. We would particularly like to thank NZCTU's Tali Williams for her endless energy and contribution to this year's real Christmas present – Fair Pay Agreements

Craig Renney
Policy Director & Economist
craigr@nzctu.org.nz

Jack Foster
Policy Analyst
Jackf@nzctu.org.nz

Diana Russell
Policy Analyst &
Programme Organiser
dianar@nzctu.org.nz

Contents

Wellbeing Report

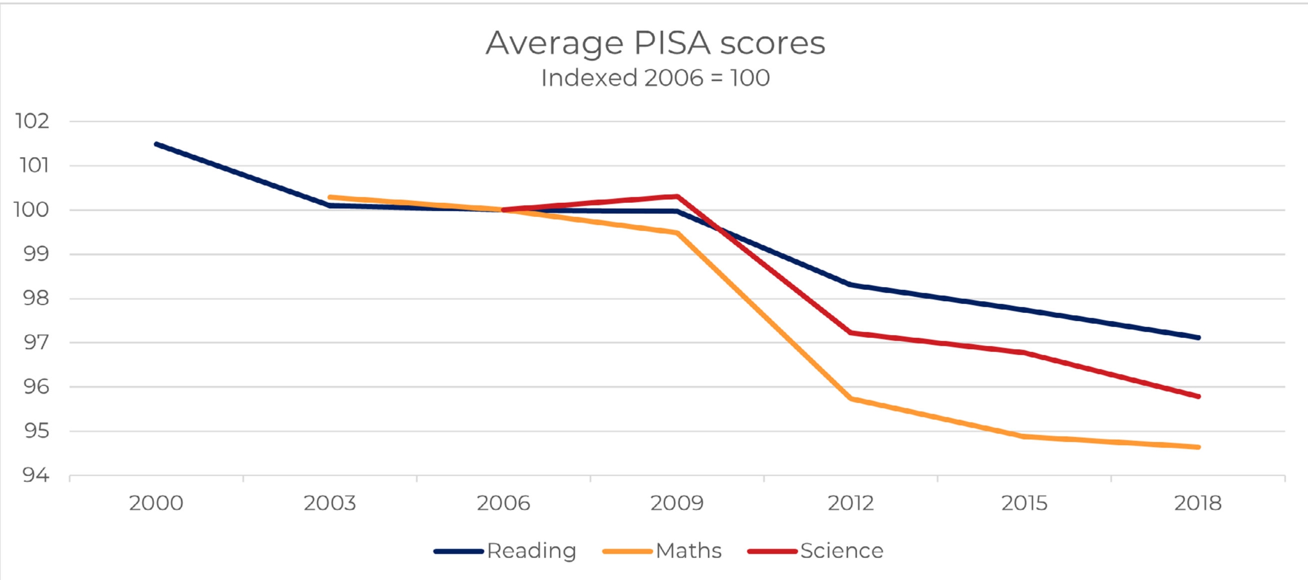
Poor mental health, falling educational achievement, and housing stress are undermining wellbeing

Since Budget 2018, the Government has moved to delivering "wellbeing budgets". This is a welcome change, as the wellbeing budgets take a wider view of progress than the narrow view of economic growth provided in GDP figures. However, there remains a disconnect between the aspirations of the wellbeing approach and the delivery of the policy. The indicators get brought out once a year at Budget time but have little traction in between.

The Treasury recently released the first of its wellbeing reports, entitled *Te Tai Waiora*. The report takes stock of the state of individual and collective wellbeing in New Zealand, judged according to the Treasury's Living Standards and He Ara Wairora frameworks, and identifies how we compare against other rich nations.

According to the report, on average we enjoy a better standard of living than previous generations, and score high overall on a number of wellbeing metrics. However, there are significant differences in the wellbeing of different demographics across the country. Wellbeing, in short, is not evenly distributed and this inequality is reproduced across generations.

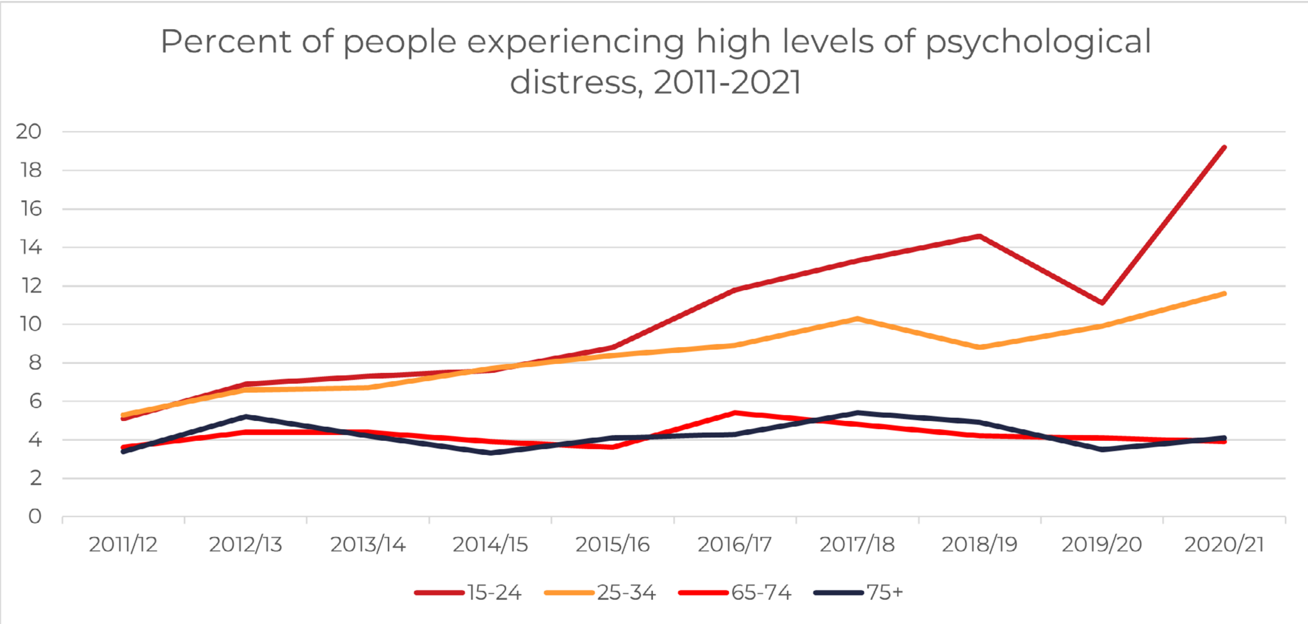
The central focus of the Treasury's report is the increasingly stark gap between the wellbeing of younger and older generations. Three areas of concern stand out for young New Zealanders, particularly for young Māori and Pasifika: poor mental health, declining educational achievement, and a lack of quality and affordable housing.



Psychological distress has increased for all age groups over recent years, but especially for young New Zealanders, as the graph above shows. As for education, year-on-year we are seeing increasing numbers of children reach the age of 15 without achieving basic levels of literacy and numeracy. Reading, science, and mathematics proficiency have all declined over the past decade in New

Zealand. We also have a larger-than-average gap for an OECD country between high-achieving and low-achieving students. While this gap has been narrowing in recent years, this is because the achievement levels at the top end of the scale have fallen, rather than those of the bottom end of the scale rising – a case of "leveling down" rather than "leveling up".

The third issue, housing unaffordability, is a well-known problem. The past two decades have seen both house prices and the house-price-to-income ratio grow faster in New Zealand than anywhere else in the OECD. It now takes twice as long to save for a housing deposit than it did a decade ago, and the upshot is that more New Zealanders are renting into their 30s and 40s. However, they are having to do so in one of the most expensive rental markets in the OECD. Renters are also more likely to live in poor-quality and over-crowded housing than owner-occupiers, which can negatively impact their physical and mental wellbeing.



It turns out that compared to many other OECD countries, New Zealand is quite a good place to be old. The same is not true of being young. Strikingly, the Treasury goes as far as to suggest that young New Zealanders may end up on average worse off than previous generations if these issues are not addressed. This would be a reversal of one of the fundamental trends of modern capitalism – the continual improvement of living standards for each generation.

Addressing these issues needs to be a top priority for the Government. Not only do poor mental health, flagging educational achievement, and housing stress undermine individual wellbeing, they also undermine our wellbeing as a society. For example, as the report notes, declining educational achievement "matters for the economy because Aotearoa New Zealand's jobs are increasingly focused on the service sector, where high paying jobs require high skills". If we do not have a sufficiently skilled population, then productivity and growth will suffer and so too will wages. To deliver a high-wage economy in which decent work is available to all, it is therefore essential that we reverse these trends.

Enabling the Enduring Wellbeing of New Zealanders

The CTU has put out for consultation its Alternative Economic Strategy for New Zealand, Building a Better Future. It calls for an economy where working people see tangible rewards from the value they create, and an economy that has wellbeing and equity at its centre.

The Alternative Economic Strategy calls for New Zealand to 'Enable the Enduring Wellbeing of New Zealanders'. Currently, we care about the cost of everything, but the value of nothing. It's time for that to change. Too often we look at the cost of an investment and ignore the cost that will be born from choosing to forgo on an investment.

One clear example is Dunedin Hospital, we can tell you the cost of building Dunedin Hospital everyday for the next 10 years, down to every screw, fastener, piece of steel and lump of concrete. What we don't know is the cost of having *not* built that hospital. The opportunity cost that is associated with the health, employment, training and wellbeing outcomes that we don't measure in NZ — when things don't get measured they don't get done.

Cost of living

Petrol, housing, and grocery products in New Zealand have been outstripping our OECD counterparts for decades. This is nothing new, but we can do something about it. The Government's response to COVID-19 has shown that there are better ways.

Too often our responses ask those on the lowest incomes to bear the brunt of the impact. The Reserve Bank's scramble to reduce inflation by hiking the OCR is, on an individual level, asking those least able to afford it to take the biggest hit. Increasing unemployment to keep inflation low will see those on low-incomes and minimum wage much more likely to lose their jobs. Just as first home buyers with larger mortgages will be the most out-of-pocket because of interest rate hikes. (We discuss this in more detail in the next section).

As the NZCTU wrote for the NZ Herald this month, those born in the 1980s and 90s entered the world of work during the Asian Financial Crisis or Global Financial Crisis. From 2012-2016, youth unemployment averaged 21% to 24%. That same group is now often paying 12% of their income in Student Loan Repayments, for the mere privilege of entry into our low-wage job market. Alongside a housing crisis, they are trying to form families and relations through a global pandemic, a climate crisis, and now a cost-of-living crisis — if you're part of that group, you might question the success of our status quo approach to economic growth.

In a bid to help New Zealanders get through the cost of living crisis, the Government has cut taxes on petrol, rolled out its Cost of Living Payment and National were proposing tax cuts for the wealthy (which they've now walked back).

Alongside this cost-of-living crisis, according to official statistics 679,947 people face weekly student loan repayments.

University student support

Recently, the final report from the Green Party's petition calling for better support for students including a Universal Student Allowance was tabled in Parliament. Equitable access to education and opportunity are vital if we wish to see an economy that is truly productive, sustainable and inclusive. The CTU believes it's past due for New Zealand to remove barriers to education and ensure equitable access to lifelong learning for all New Zealand workers.

Supporting people through the current challenges is the right thing to do. But is it the right thing to be normalising and encouraging teenagers to take on a lifetime of debt in order to pay their basic costs of living? Essentials like housing, groceries, and power? If we agree, that housing is a human right, why are we asking students to add further to their debt with inflated, often substandard housing?

Many students, past-present-and future, seek higher education on the premise that a university degree is a step to a financially stable future. We tell our kids that the cost is an investment - the increased future earning potential will more than pay for the loan.

The amount student loan borrowers must repay each year is 12% of every dollar earned over the repayment threshold – meaning that the effective real income tax rate for earnings above $70,000 is 45%. For the 2022/23 tax year, the annual repayment threshold is $21,268. That means someone on the median wage of $61,692 is paying $93 a week in student loans.

For comparison, someone earning the same in Australia on $56,180 AUD (based on current exchange rates) would be making repayments of 2% or $21.6AUD per week. A New Zealand worker on the Living Wage of $49,192 NZD would be paying $64 per week in student loan repayments, while their Australian counterpart would be paying $0 in student loan repayments.

In the Parliamentary Student Support Report, the Government stated they "expect students and their families to contribute towards the costs of tertiary education". However, when New Zealand has one of the lowest average wages in the OECD (below Australia, UK, USA, Canada, Ireland) what perceived benefit is that exactly? What would an economy for New Zealand look like where working people are not burdened with a lifetime of debt they can't afford, for the mere privilege of gaining access to the job market? We should aspire to better.

The recent inquiry into student wellbeing found that two thirds of students receive no financial support from their parents. Roughly only one third of domestic full-time students receive a Student Allowance and part-time students are not eligible. This creates a barrier to access as many people cannot afford to leave employment to take on full-time study. It's likely, therefore, no coincidence that two thirds of the 4,593 students who took part in the People's Inquiry into Student Wellbeing, stated that they regularly struggle to afford the basics like rent, food and power.

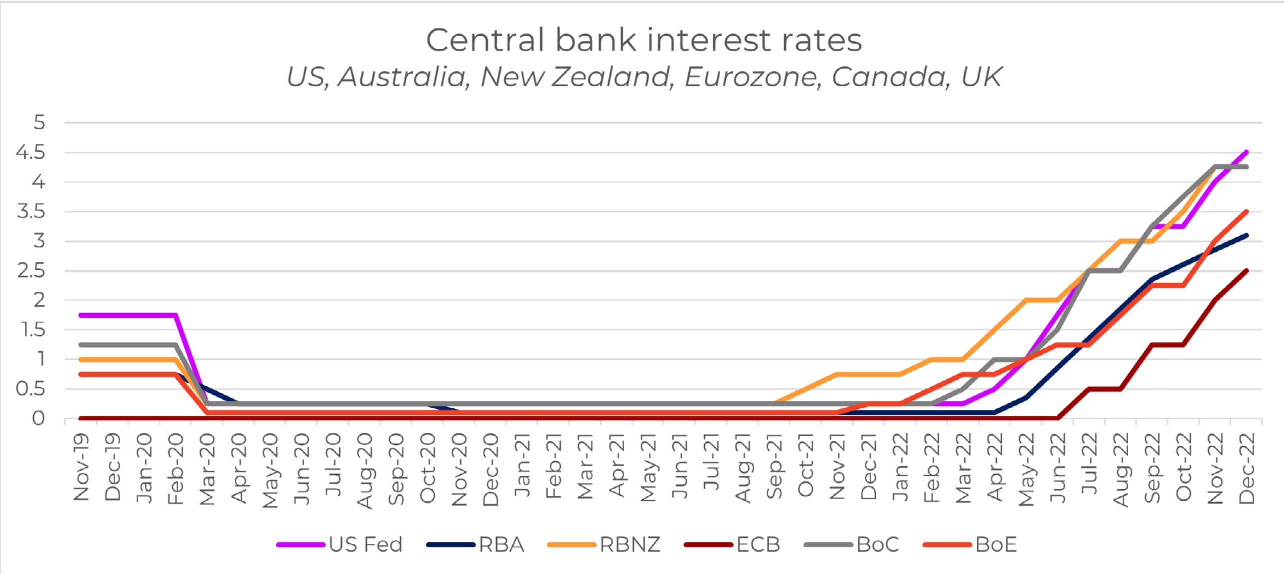
Student poverty isn't calculated by the government. But it's evidenced by simple maths. The maximum Student Loan Living Costs that a full-time student can receive is $281.96 per week. Victoria University of Wellington in their 2023 Student Handbook advise that a single student living in a share flat should budget $479 per week for rent, power, transport, internet and other bills. That includes weekly rent of $230 for a triple occupancy flat.

Poverty does not need to be a right of passage for students in New Zealand. The NZCTU stands strong on our position that lifelong learning opportunities should be equitably accessible to all, regardless of ethnicity, religion, disability, immigration status, or gender. We would support any measure that would increase access to learning, and re-learning opportunities.

Monetary policy and inflation

The *Monetary Policy Statement*, released in November, saw the Reserve Bank amp up its inflation-fighting action and rhetoric. The bank argues that a significant reduction in aggregate demand (consumer spending) is needed to bring inflation back to its target range of 1–3% per annum.

In its quest to crush demand, the bank has increased the Official Cash Rate (OCR) a further 75 basis points, from 3.5% to 4.25%, and is now forecasting that the OCR will peak at 5.5% in late 2023. This rapid and harsh monetary tightening is expected to drive the New Zealand economy into a long recession next year and to force unemployment up to 5.7% by early 2025.



Is engineering a recession and driving tens-of-thousands of Kiwis out of work really the best way to lower inflation? There are at least three reasons to answer in the negative.

First, as we have noted in previous Bulletins, inflation in New Zealand has primarily been driven by the "supply shocks" caused by the pandemic and the war in Ukraine — shipping lines were gummed up by lockdowns, goods bottlenecks developed as consumers shifted away from buying services to buying "things", and key inputs like petrol, gas, grain, and metals (what economists call "commodities") shot up in price.

This imported inflation accounts for around half of total CPI in New Zealand. But just as important, the rising costs of imported goods has been a major factor driving up the costs of *domestic* goods and services. This is because imported commodities like petrol, wheat, and metals are key inputs for all kinds of domestic goods and services. When these key inputs rise in price, they start to eat away at firms' profit margins. As a result, New Zealand firms start to raise their own prices. This makes it look like inflation is becoming "home-grown". But in reality, it is simply a matter of international price rises being passed on domestically. Ultimately, the Reserve Bank is powerless to control these international dynamics. This means that the only way it can lower inflation is by going extra-hard on beating down consumer spending in New Zealand. It's a cure worse than the disease.

Second, shocking the New Zealand economy into recession to reduce inflation will put tens-of-thousands of New Zealanders out of work. Despite our low unemployment rate of 3.3%, around 100,000 Kiwis are currently unemployed, and another 176,000 are "underutilised" (either underemployed or unemployed but not currently seeking work). Driving unemployment up to the forecast 5.7% means kicking approximately *70,000 more* New Zealanders into unemployment, and the same again into underutilisation.

These job losses will not be experienced evenly across demographics. Those who are at the highest risk of losing their job as the economy cools are Māori, Pasifika, the young, and the low-paid – in short, those groups of New Zealanders who are already on the bottom rungs of the socio-economic ladder will be kicked down a few rungs further.

In this context, it is important to get the New Zealand Income Insurance Scheme up and running as quickly as possible. If the Government is serious about meeting its wellbeing goals, it needs to prioritise supporting Kiwis who are forced into unemployment in what is expected to be a difficult economic period.

Third, beyond the socially destructive impacts of aggressive OCR hikes, there is a very real risk that the Reserve Bank, by continuing to raise rates, is on course for an "overcorrection". Three dynamics are worth mentioning here.

First, changes to the OCR take between 12–24 months to be fully felt in the wider New Zealand economy – what economists call the "long and variable lags" of monetary policy. One of the main channels through which OCR changes are felt is in mortgage rates. Because around 90% of New Zealand mortgages are on fixed-term rates, changes to the OCR are not widely felt until the majority of mortgage holders have had to refix. The Reserve Bank has now raised rates a cumulative 400 basis points since late 2021, sending the OCR from 0.25% to 4.25% in little over a year. But the full effects of this huge monetary policy shock are yet to be felt.

There are also signs that the drivers of imported inflation are easing significantly. The supply chain bottlenecks caused by COVID-19 are loosening up and shipping costs have fallen back close to their pre-pandemic levels. While oil was trading at around $120 a barrel in the middle of the year, it is currently at just over $70 a barrel, which is close to its pre-pandemic level. Wheat prices have also fallen significantly from their peak, although are still somewhat elevated by pre-pandemic standards. Likewise, key metals like aluminium and copper have fallen significantly from their 2022 peaks. The latest inflation figures in the United States indicate that these international developments are feeding through into domestic prices there. For the November month, inflation was only 0.1% in the US – as President Biden noted, inflation is "heading in the right direction".

Finally, organisations such as the OECD and the IMF are now forecasting that global growth will slow markedly over 2023, with some of the major economies expected to go into recession (see below). This should also act to cool inflation. In this context, as the OECD notes, there is a "risk that policy rates could be tightened more than strictly necessary, or for longer than necessary to bring down inflation".

The Reserve Bank argues that the risk of overcorrection is outweighed by the risk of a "wage–price spiral" becoming entrenched. Leaving aside the misleading naming of the "wage–price spiral" (see our discussion in the September Bulletin), this argument doesn't wash. The key point is that wage growth continues to lag inflation in New Zealand; indeed, workers have, on average, experienced *declining* real wages over the past year. And this is a global phenomenon. As the ILO's recent *Global Wage Report* details, there is currently "no evidence of a wage–price spiral either in high-income countries or in middle- and low-income ones". In short, the dreaded wage–price spiral is not a credible threat upon which to base policy.

Given the above, the prudent course of action would be for the Reserve Bank to halt any further rate hikes. Continuing to hike the OCR only raises the risk of sending the New Zealand economy spinning into a ditch. Here, the Reserve Bank could learn a trick from its cousin across the Tasman. Although inflation is running at 7.3% over there, the Reserve Bank of Australia has only raised rates by 300 basis points over the past year, from 0.10% to 3.10%. The RBA appears to be prioritising protecting Australia's low rate of unemployment (3.4%), and recognises that monetary policy operates with a substantial lag, meaning it will take some time for the effects of its rate hikes to show up in inflation numbers.

But beyond the Reserve Bank halting further rate hikes, the bigger task at hand is finding more equitable and sustainable ways of dealing with inflation in the first place. As we argued in the September Bulletin, there are two main planks to such an approach: (1) taxes targeted at reducing demand among the higher-income demographics, whose spending is relatively resilient to rising prices; and (2) actively investing in, and supporting the growth of, New Zealand's productive capacity in key sectors to make us more resilient to the kinds of price shocks we have experienced over the past couple of years and will see more of in the future.

In the short-term, it is also necessary to support the households that are most affected by rising prices. This means providing targeted support to lower-income households who have to spend a higher proportion of their incomes on essential goods and services, and therefore have less disposable money left over at the end of the week to absorb rising prices. With wage growth lagging inflation in New Zealand, a first step here could be to immediately increase the minimum wage ($21.20) to the living wage ($23.65). Fair pay agreements have a role to play here as well, helping to lift wages and improve conditions for workers across entire sectors.

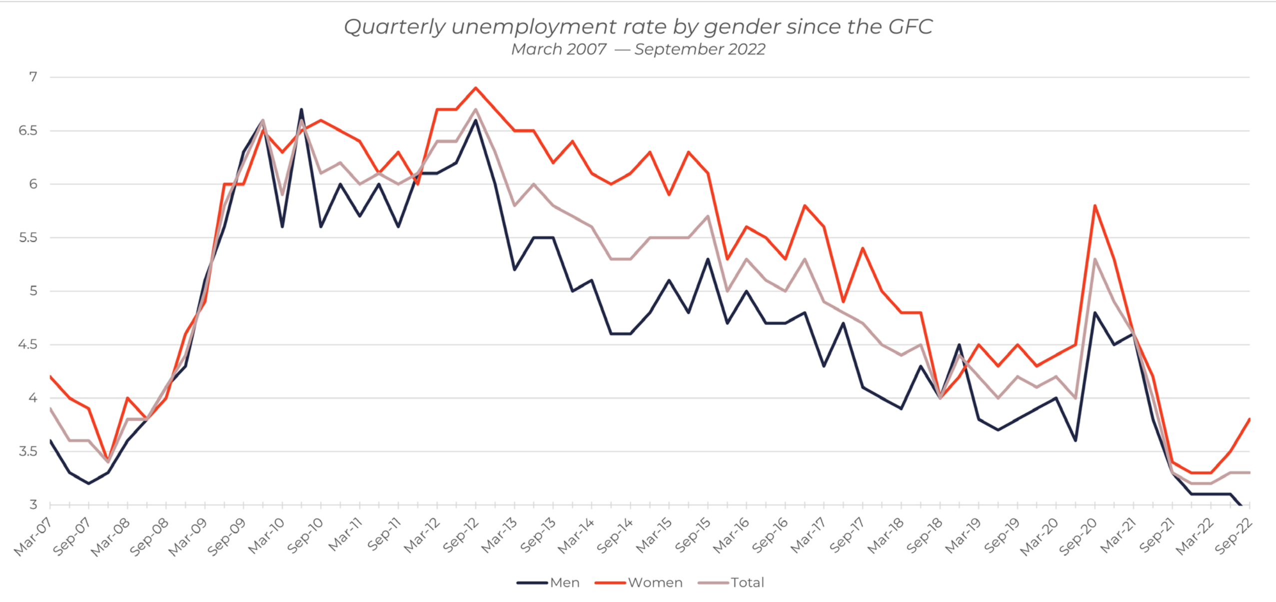
Taking this approach to managing inflation would be more equitable, easing the burden of inflation on more vulnerable groups. It would also be more sustainable, helping to future-proof New Zealand against other inflationary shocks. By driving unemployment up and the economy into recession, OCR shock therapy will only restrict the growth of New Zealand's productive capacity. As Nobel Prize winning economist Joseph Stiglitz points out, this will make us *less* resilient to inflation in the long run.

It's time for a different approach. To this end, the NZCTU has been doing some work on how inflation could be controlled in a manner that takes our long-term needs and wellbeing goals seriously. Today we released the Inflation and Incomes Act, a report which addresses long-term inflation and seeks to help increase the disposable incomes of working people.

Labour Market Data

Unemployment

The official unemployment rate remains unchanged since the previous bulletin of 3.3% for the September Quarter. The next batch of labour market statistics are set to be released on February 1 for the December Quarter.



Filled jobs

Business Employment Data was released early this month and includes information on filled jobs and earnings.

The number of filled jobs nationwide increased by 2.2% for the year ended September 2022. The total number of filled jobs were 2.19 million. The regions with the highest growth in filled jobs were the Selwyn district in Canterbury (6%) and Central Otago 4.2%.

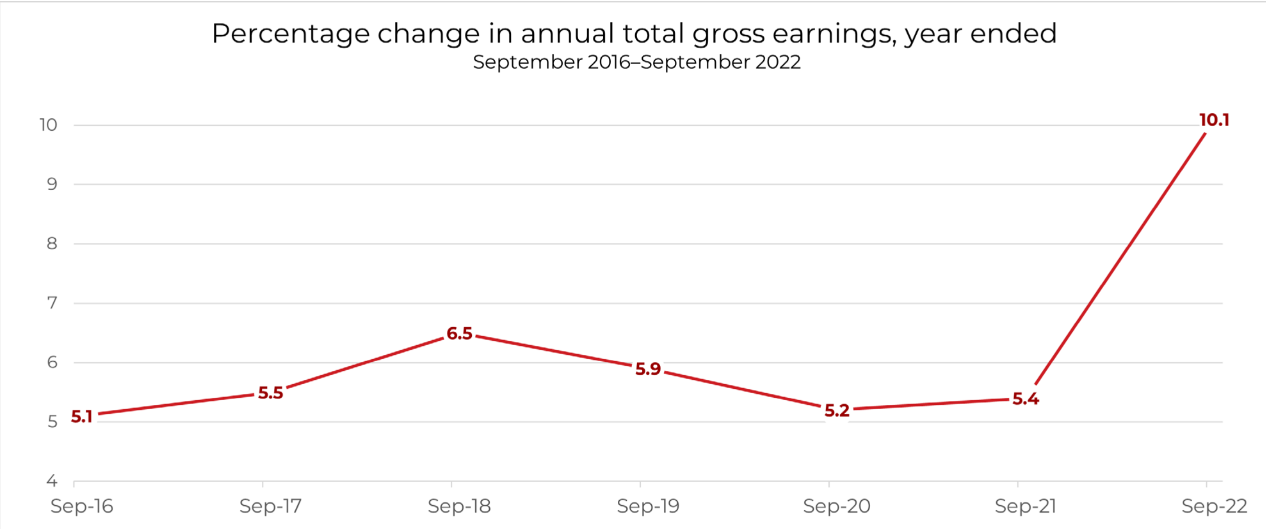
The region associated with a filled job is defined by the home address of the survey participant rather than business address and therefore includes people living in one area, but commuting to work in another.

Filled jobs by industry (seasonally adjusted) September Quarter		
	%	no. of jobs
Transport, postal, and warehousing	▲2.9%	2,470
Manufacturing	▲1.0%	2,150
Administrative and support services	▲1.6%	1,524
Education and training	▲0.7%	1,404
Wholesale trade	▲1.1%	1,203

Total gross earnings

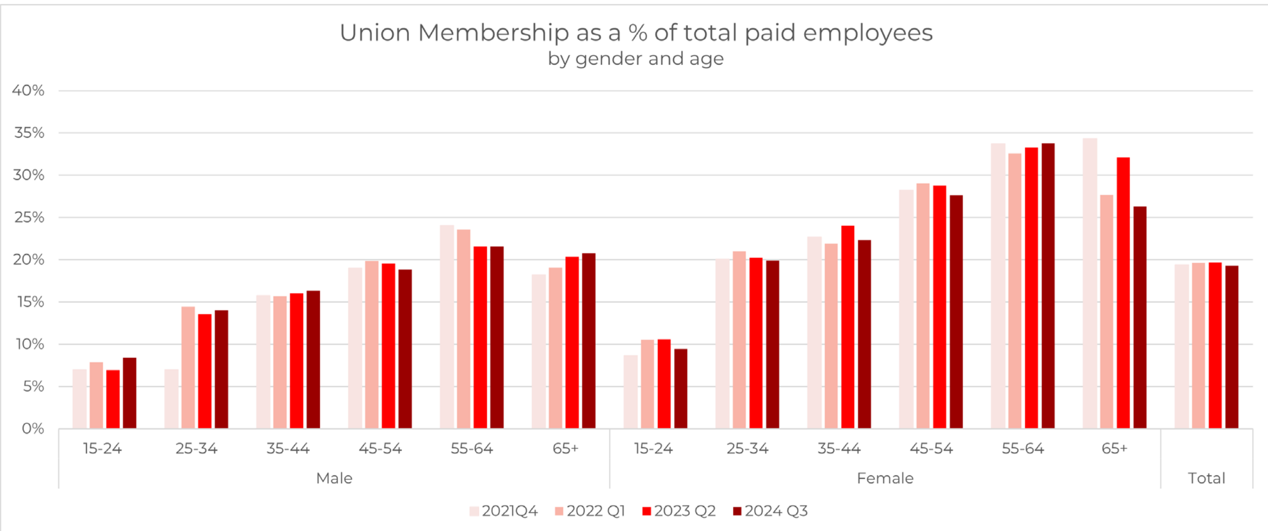
Total gross earnings were up 10% for the September 2022 Quarter in comparison to September 2021, amounting to $13.9 billion across the economy.

Gross earnings were up 14%, equal to $2.2 billion, in healthcare and social assistance. Followed by Professional, scientific, and technical services up 14% ($2 billion), and construction up 13% ($1.5 billion).



Union membership

Union membership for the September 2022 quarter is 441,000 workers, which is 19.% of the workforce, this is an decrease of 11,500 union members since September 2021.

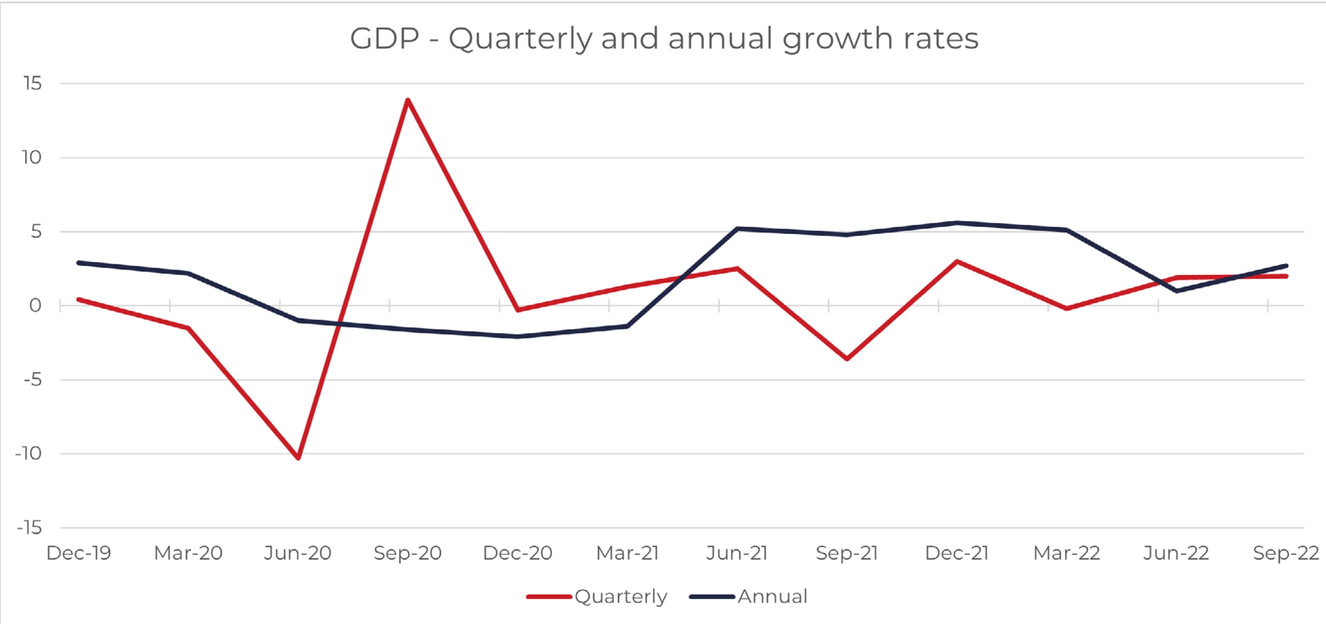


Economic Indicators

Gross domestic product

GDP was up 2.0% for the September quarter. This surprisingly rapid expansion comes off the back of 1.9% growth in the June quarter. On an annual basis, this means that the New Zealand economy has expanded 2.7% since September 2021.

For the quarter, goods-producing industries grew 2.4%, while service industries – which make up close to three-quarters of GDP – grew 2.0%. Meanwhile, there was a minor contraction in primary industries, which fell by 0.2% for the quarter.

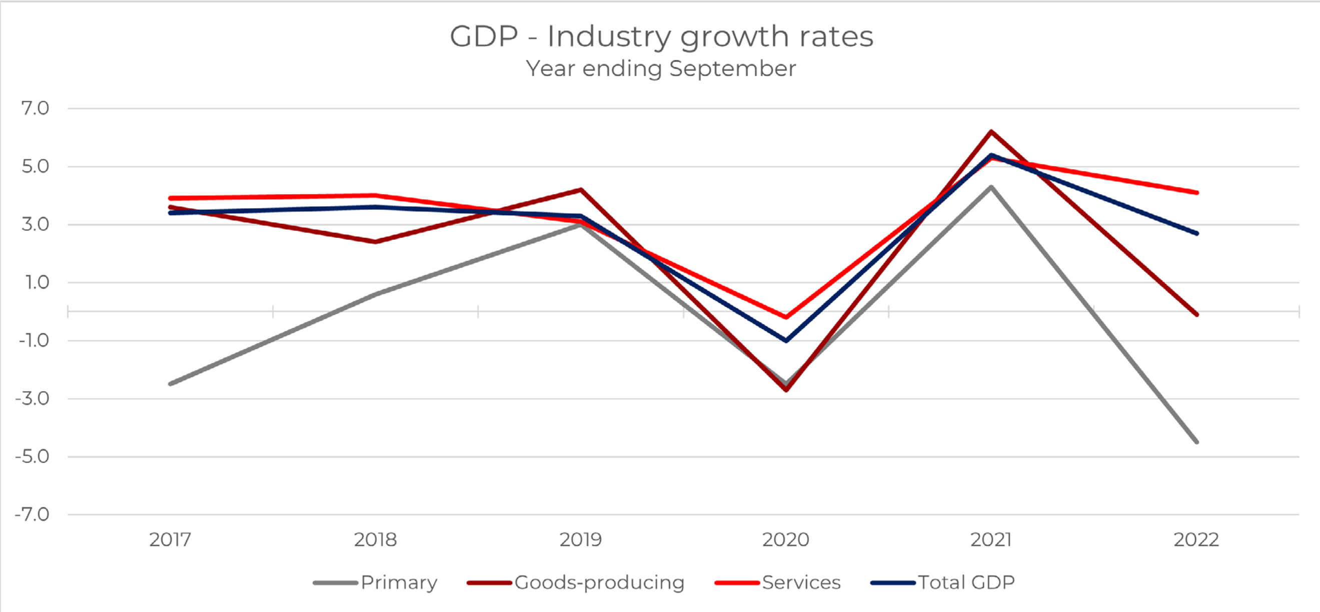


Encouragingly, much of the quarter's growth came from investment, with gross capital formation rising 1.6% while both private consumption expenditure (-0.1%) and central government expenditure (-1.8%) declined from the June quarter.

For primary industries, mining bounced back from its 8.7% contraction in the June quarter, growing 6.1% in the September quarter. But this was offset by a 0.8% contraction in the far larger agriculture, forestry, and fishing sector. All up, for the year ending September 2022, primary industries have contracted by 4.5% overall, with agriculture, forestry, and fisheries shrinking 4.5% and mining shrinking 6.8%.

Goods-producing industries also reversed their poor June quarter performance (-3.9%), with manufacturing growing 0.1%, electricity, gas, water, and waste services growing 2.9%, and construction growing a healthy 5.1%, driven by expansion in heavy construction and civil engineering. For the year ending September 2022, growth in goods-producing industries has effectively been stagnant, contracting by 0.1%. This has been driven by a 3% contraction in manufacturing, which has been offset by moderate expansions in the other two sectors.

The engine of growth over the past year has been services, which make up the majority of New Zealand's output. Except for retail trade and accommodation (-0.7%) and public administration and safety (-0.5%), all service industries registered growth for the September quarter. The largest expansions were in transport, postal, and warehousing, which grew 9.7%, and healthcare and social assistance, which grew 5.1%. All up, for the year ending September 2022 services have expanded a healthy 4.1%.



On a comparative basis, this quarter's expansion was exceptionally strong. The majority of our OECD peers recorded far weaker expansions in the September quarter. Australia grew 0.6%, Canada 0.4%, France 0.2%, Germany 0.3%, and the US 0.6%. Meanwhile, the UK shrunk 0.2% for the quarter. Along with our low rate of unemployment and comparatively lower rate of inflation to most other OECD countries, this robust growth in output provides a strong platform for 2023.

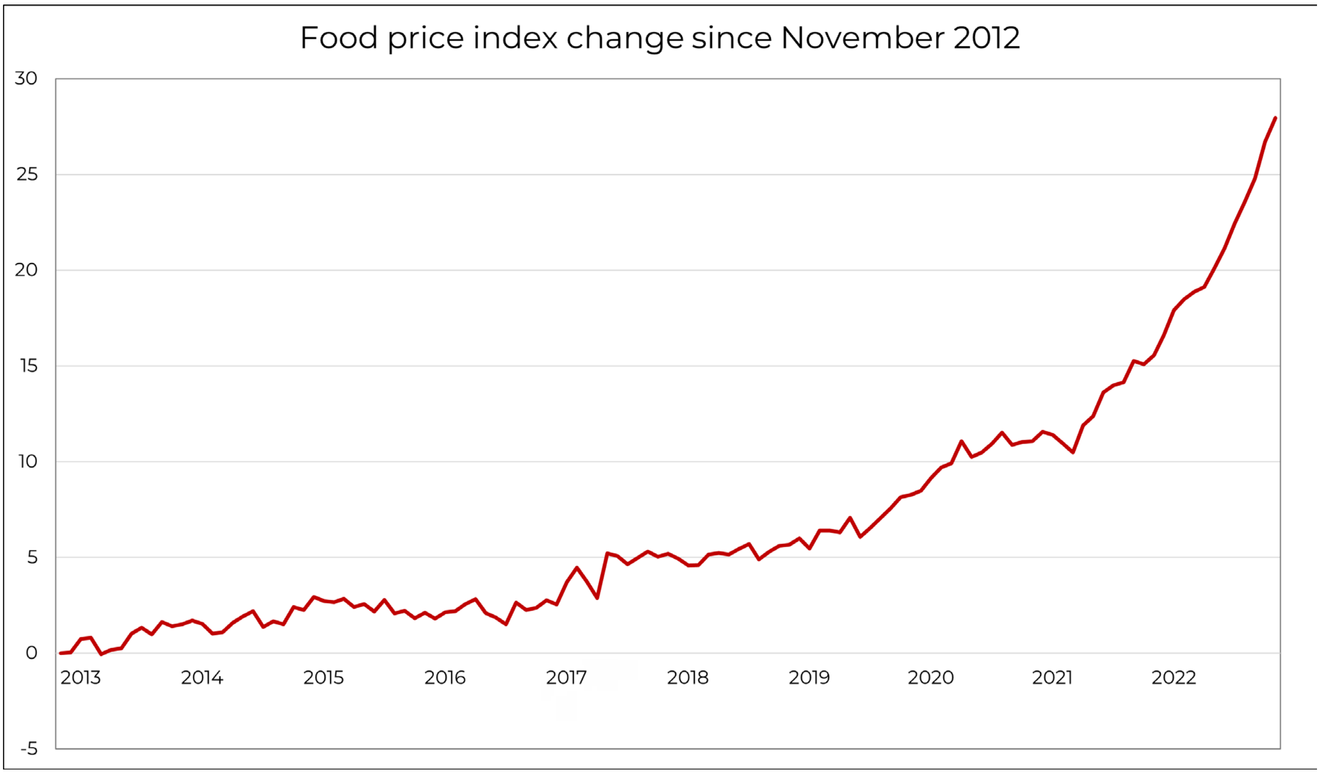
Ensuring that all sectors of the New Zealand economy are growing, and that the benefits of this growth extend to all New Zealand households, will be key to realizing sustainable and equitable economic development in the coming years. enduring prosperity here.

Food price index

Food has continued to rise in price, up 1.5% after seasonal adjustment from September to October, and then 1.0% from October to November. A breakdown of the seasonally adjusted monthly movements is provided in the table below.

Annually, food prices have increased 10.7% since November 2021, outstripping overall consumer price inflation. Fruit and vegetables have seen the largest increase, at 20%. Vegetables have led the charge here, increasing 20.7% overall, with fruit close behind on 17.8%. The meat, poultry, and fish group is in second place, rising 11.7% since November last year. Poultry has been the biggest contributor here, rising 17.9% for the year; by contrast, the price of both pork and lamb has barely moved. Grocery food has also risen steeply in price over the past year, up 10.2% overall. Pastry-cook products (23.7%), yogurt (19.4%), eggs (15.7%), and cheese (14%) have seen the largest increases in price in this group; meanwhile, bread has risen 7.3%.

Food Price Index – Monthly Percentage Change (seasonally adjusted)					
	Jul 22	**Aug 22**	**Sep 22**	**Oct 22**	**Nov 22**
Fruit and vegetables	▲ 3.7	▲ 3.2	▲ 3.7	▲ 1.2	▲ 0.9
Meat, poultry, fish	▲ 1.2	▲ 1.2	▲ 1.0	▲ 2.7	▲ 1.2
Grocery food	▲ 0.9	▲ 1.2	▼ 0.2	▲ 2.0	▼ 0.8
Non-alcoholic beverages	▲ 0.5	▼ 0.9	▲ 1.8	▲ 2.0	▲ 0.8
Restaurant and ready-to-eat food	▲ 0.6	▲ 0.3	▲ 0.6	▲ 1.0	▲ 0.5
arrows refer to direction of change from last forecast					



Rent price index

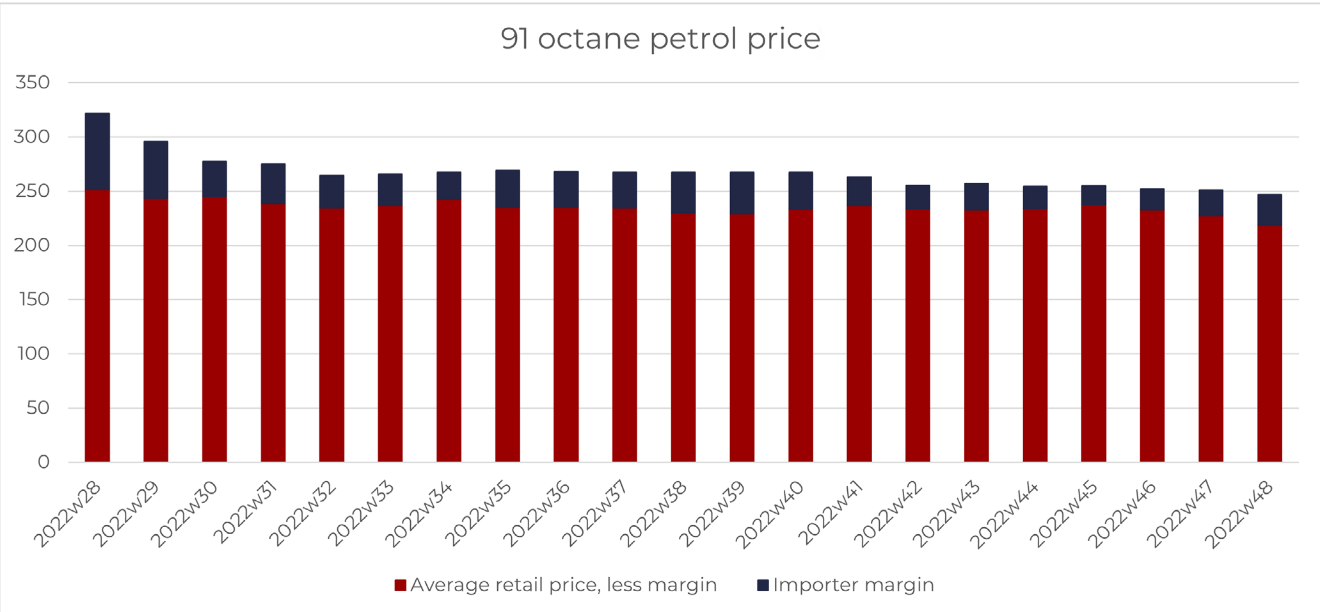
The annual increase for November 2022, in comparison to November 2021 for the stock measure of rental property prices increased 4.0% The index for the flow measure of rental property prices increased 0.7 percent. - For comparison, the Labour Cost Index for the most recent September Quarter update sits at 3.7%.

The flow measure captures price changes where a new tenancy started. The stock measure shows rental price changes across the whole rental population.

Rent Price Index - flow of rental properties					
	Jul-22	**Aug-22**	**Sep-22**	**Oct-22**	**Nov-22**
New Zealand Average - flow	*4.0*	*3.6*	*-1.3*	*1.5*	*0.7*
Auckland, flow of rental properties	1.1	2.5	0.4	1.3	0.7
Wellington, flow of rental properties	4.2	0.9	0.9	2.4	0.5
Rest of North Island, flow of rental properties	6.2	7.6	4.1	7.2	3.8
Canterbury, flow of rental properties	7.4	6.3	6.8	5.0	5.2
Rest of South Island, flow of rental properties	7.7	3.1	5.8	5.1	5.0
New Zealand Average - stock	3.9	4.0	4.1	4.1	4.0

Petrol prices

Petrol prices have fallen slightly since our last Bulletin, well down from the mid-year high of $3.28 per litre for 91 octane petrol. MBIE's weekly fuel-price monitoring has 91 octane petrol at $2.47 per litre, 95 octane at $2.64 per litre, and diesel at $2.41 per litre for the week ending 23 October.



Cheaper petrol at the pump has been driven by falling oil prices internationally, as well as the Government's ongoing petrol levy cut. The drop in oil prices is partially due to growing fears of recession, which reduces the demand for oil around the world. The Government recently extended the 25c/litre petrol levy cut until the end of March 2023, but has signaled this will likely be the final exemption. This means that prices at the pump may rise in the second quarter of 2023, just as the OCR hikes are beginning to really bite.

Economic Forecasts

Domestic outlook

According to the Reserve Bank's *Monetary Policy Statement*, released on 23 November, New Zealand's GDP is forecast to shrink 0.5% in 2023 before growing a paltry 0.1% in 2024. Inflation is forecast to peak at 7.5% in late 2022 before dropping to 5% by the end of 2023 and then to 2.6% by the end of 2024. Unemployment is forecast to hit a low of 3.2% in the final quarter of this year and then to start shifting up, ending at 4.8% in the final quarter of 2023 before peaking at 5.7% in 2025. Finally, the bank is now forecasting that the OCR will rise to a peak of 5.5% by the third quarter of 2023, before gradually moderating through 2024.

RBNZ Projections, Annual Percent Change (calendar year)				
	2022	**2023**	**2024**	**2025**
GDP	▲ 2.9	▼ -0.5	▼ 0.1	2.2
CPI	N/C 6.9	▲ 7.5	▲ 3.8	▼ 2.4
Employment	▼ 2.6	▲ 1.5	▼ -0.5	▼ 0.4
Unemployment	N/C 3.2	▼ 3.6	▲ 5.0	▲ 5.7
OCR	N/C 0.5	▲ 3.2	▲ 5.5	▲ 5.4
arrows refer to direction of change from last forecast				

NZIER's consensus forecast, which is an average of New Zealand economic forecasts, was released on 12 December. While it is slightly more optimistic than the Reserve Bank's forecast, it predicts that GDP growth will be weak through 2023-2026 and unemployment will rise over this period to 5.1%. Private sector wages, however, are expected to continue growing strongly, and inflation is expected to fall back to within the Reserve Bank's target range by 2024.

NZIER Consensus Forecast, Annual Percent Change (financial year)				
	2022/23	**2023/24**	**2024/25**	**2025/26**
GDP	▲ 3.1	▲ 1.1	▼ 0.1	▼ 1.6
CPI	▲ 6.3	▲ 3.4	▲ 2.4	▲ 2.2
Employment	▲ 1.9	N/C 0.2	▼ 0.9	▼ 1.1
Unemployment	N/C 3.5	▲ 4.4	▲ 5.0	▲ 5.1
Wages (private sector avg. hourly earnings)	▲ 7.4	▲ 6.6	▲ 5.5	▲ 4.1
arrows refer to direction of change from last forecast				

Finally, on 14 December, the Treasury released its Half Year Economic and Fiscal Update, which provides analysis of New Zealand's economic situation and likely trajectory over the next couple of years. Like the Reserve Bank and NZIER, the Treasury expects growth to slow significantly in 2023, with the economy shrinking by 0.8% over three quarters. Unemployment is also expected to rise, peaking at 5.5% in 2024 and staying above 5% through 2025. In concrete terms, this means that "From the final quarter of 2022 until mid-2024, the number of people in paid employment is forecast to fall by around 50,000".

Meanwhile, CPI inflation is expected to moderate through 2023 and 2024, coming back within the Reserve Bank's target range of 1–3% by 2025. But the same is not true for house price inflation. The Treasury expects that house prices will fall 13% for the year ending June 2023, and then a further 2% for the year ending June 2024. However, house price inflation is expected to pick up again after that, rising 9.7% for the year ending June 2025 and continuing strongly after that.

Domestically, a number of factors are driving this pessimistic outlook. The Reserve Bank's aggressive OCR hikes will begin to be felt acutely through 2023. As Westpac bank noted in early November, because OCR hikes are only felt once mortgage holders refix their loans, the average interest rate people are actually paying is currently only around 3.3%. However, more than half of all mortgages are due to be refixed in the next 12 months; this will see the average interest rate shoot upwards, driven higher by the OCR. This will cut into households' disposable income and therefore into consumer spending.

Falling house prices will also drag down spending. When people see their asset prices rising, they tend to spend more freely (the so-called "wealth effect"); the reverse is true when asset prices are declining. Nationally, house prices have declined 12.4% on average over 2022, with particularly large falls registered in the major centres of Auckland and Wellington. As the Treasury's forecasts show, house prices are expected to continue declining through 2023.

Because wages are not keeping pace with rising prices, consumer purchasing power is also being eroded. This will act as a further drag on the economy through 2023, especially when combined with higher mortgage rates and falling house prices. The worsening global economic outlook may also weigh on New Zealand's growth prospects, an issue we discuss further below. Finally, COVID-19 related Government expenditure is also expected to tail off, which will further act to constrain demand.

All up, as usual, these forecasts should be taken with a healthy pinch of salt. The current economic situation is historically novel and incredibly dynamic, making forecasts even less reliable than they usually are.

Global outlook

The OECD Economic Outlook, which provides analysis of economic trends in OECD countries and globally, was released in November. The OECD forecasts that global growth will be 2.2% in 2023, which is notably less than the 2.7% forecast by the IMF in October. The OECD paints a dark picture of the world economy in 2023. "Tighter monetary policy and higher real interest rates, elevated energy prices, weak household income growth and declining confidence are all expected to take a toll on growth", writes the organisation.

Across the world's major economic blocs, only the East Asian countries are expected to do well next year, with Europe and the Americas expected to slump. GDP growth in the US is forecast to fall to 0.5% in 2023 and then rise to 1.0% in 2024, while unemployment is expected to rise a full percentage point over this period. However, the majority of economists recently surveyed by the University of Chicago

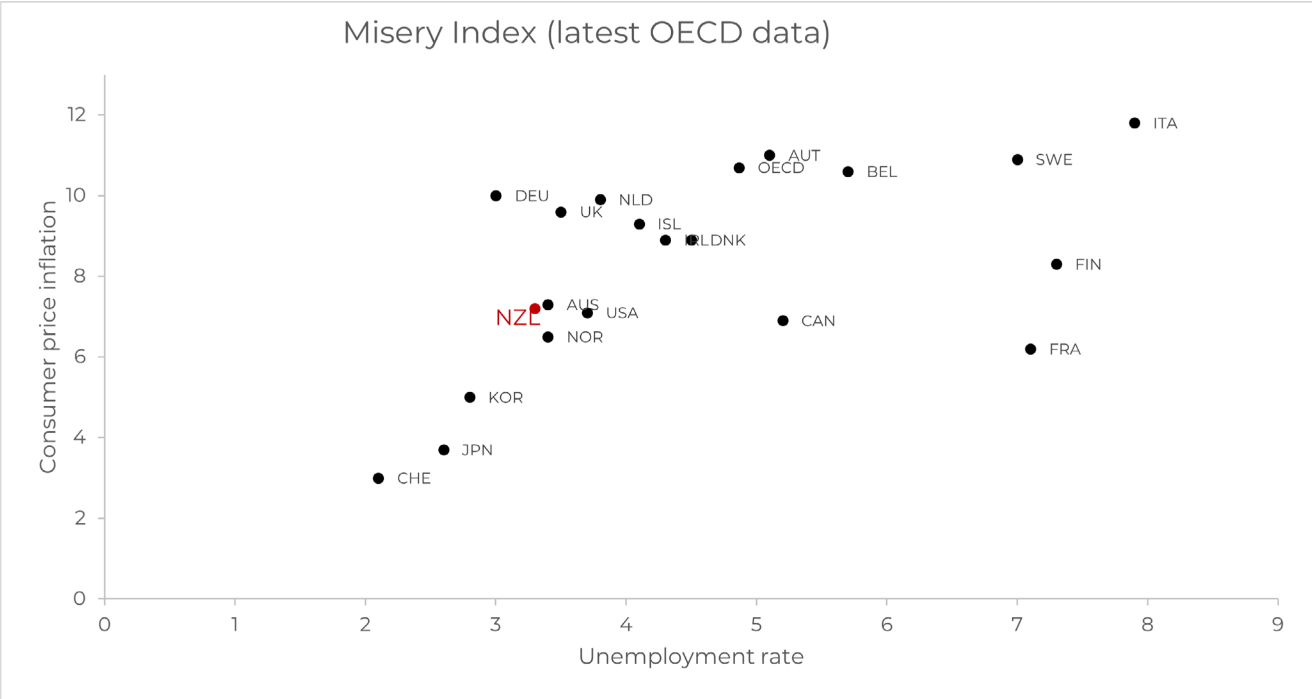
Booth School of Business now expect the US to tip into outright recession in 2023. Growth in the Eurozone is expected to also slow to 0.5% in 2023 and then pick up to 1.4% in 2024. Inflation is expected to stick around for some time in Europe, with energy costs remaining high due to the war in Ukraine. Meanwhile, the UK is expected to enter recession in 2023, contracting by 0.4% before growing a paltry 0.2% in 2024.

Across the OECD at large, unemployment is expected to increase from 5% to 5.5% by 2024, while inflation is expected to gradually moderate, from 9.4% in 2022 to 5.1% in 2024. However, there is considerable variance between countries, as the table below shows. The OECD's forecast has inflation staying higher for longer than the IMF's October forecasts, which predicted that global inflation would peak at 8.8% in 2022, before dropping to 6.5% in 2023 and then 4.1% in 2024. As the OECD notes, the expectation that inflation will remain elevated is largely because of the ongoing war in Ukraine.

OECD Forecasts, Major Economies

	GPD		Inflation		Unemployment	
	2023	2024	2023	2024	2023	2024
AUS	1.9	1.6	4.5	2.5	3.5	4.0
CAN	1.0	1.3	4.1	2.4	5.7	6.0
CHN	4.6	4.1	2.2	2.0	–	–
DEU	-0.3	1.5	8.0	3.3	3.5	3.5
EURO	0.5	1.4	6.8	3.4	7.1	7.1
FRA	0.6	1.2	5.7	2.7	7.7	8.1
ITA	0.2	1.0	6.5	3.0	8.3	8.5
JAP	1.8	0.9	2.0	1.7	2.5	2.4
UK	-0.4	0.2	6.6	3.3	4.3	4.8
US	0.5	1.0	–	–	4.2	4.7

This relatively gloomy economic outlook sets New Zealand's current economic situation in perspective. As our "misery index" graph below shows, New Zealand is currently in a better position regarding both inflation and unemployment than most developed economies. As discussed above, the worsening global outlook also gives the Reserve Bank further reason to halt its rate hikes – if the global economy does slow as predicted in 2023, this will help to drag down both growth and inflation in New Zealand. If the bank keeps hiking interest rates through 2023, it risks a massive overcorrection, which will cause unnecessary suffering and negatively impact the wellbeing of both individual New Zealanders and the country as a whole.



Consumer confidence and spending

Seemingly in line with the relatively gloomy forecasts discussed above, the [ANZ–Roy Morgan Consumer Confidence Index] fell to 80.7 in November, down nearly 5 points from its October level. It then fell a further 7 points in the December survey, hitting an all-time low of 73.8. This indicates that consumers are highly pessimistic about the near-term economic outlook for New Zealand. A score above 100 on the index demonstrates that consumers have confidence. Less than 100, and they are pessimistic about the future. The last time the index was above 100 was in September 2021, at 104.5.

According to ANZ, the most reliable indicator of consumer confidence in its survey is whether households think it is a good time to buy a major household item. A net 33% of people surveyed in December think it is a bad time to buy a major household item, down from -22% in October and -33% in November. Overall, confidence in both current and future conditions has fallen over the past two months. Confidence in current conditions has dropped from its October high of 80.5 to 72.1; meanwhile, confidence in future conditions has dropped to 74.9, down from its September high of 89.8.

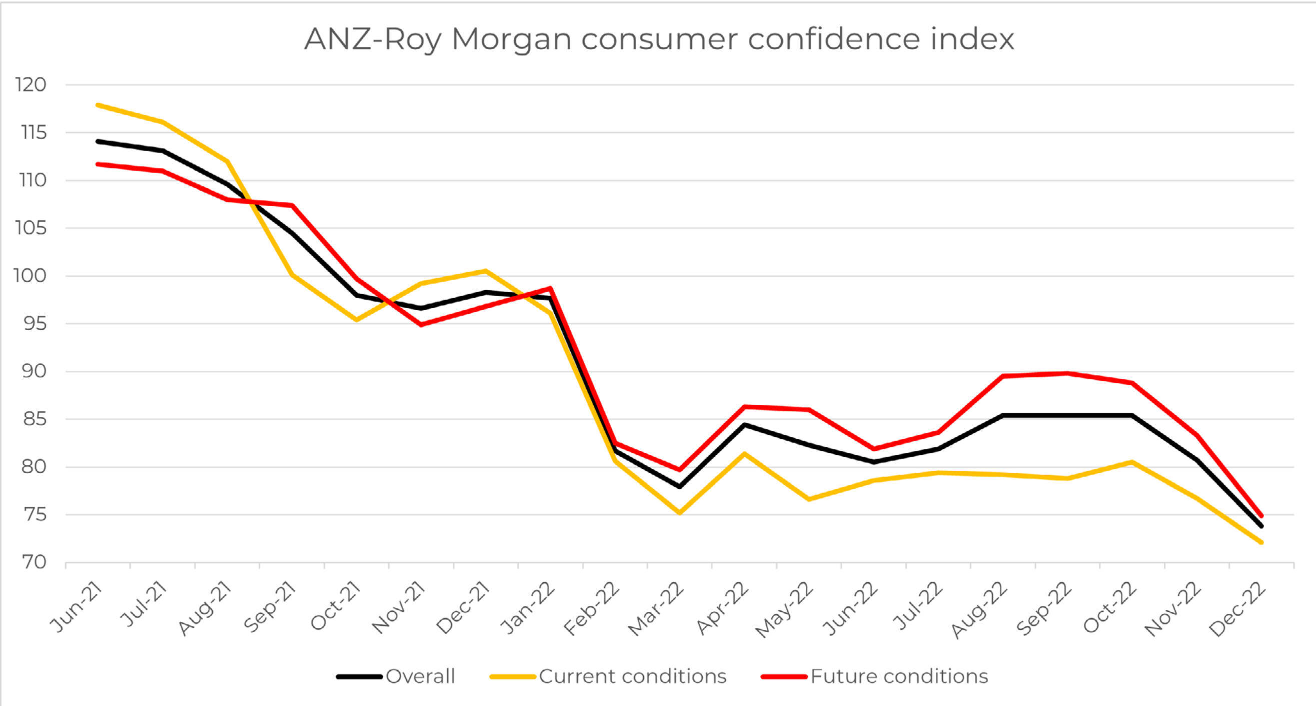
A net 23% of people surveyed in December reported that they were now financially worse off than at this time last year. This is no surprise, given the cost-of-living squeeze that households have been grappling with over the past year. However, a net 10% of people surveyed also expect to be worse off one year from now.

Respondents also remain very pessimistic about the economic conditions that the wider New Zealand economy will experience over the next year, with a net 54% of respondents expecting that we will experience "bad times" financially. This measure has grown steadily more pessimistic since September. Meanwhile, inflation expectations have remained steady, with respondents expecting that CPI inflation will be around 5.2% over the next two years.

As ANZ notes, this highly pessimistic outlook is likely driven by the Reserve Bank's aggressive hiking of the OCR, which is expected to send the New Zealand economy into recession in 2023. The Reserve

Bank has been aiming to scare households into battening down the hatches, and the low consumer confidence recorded in December suggests that this strategy is working.

However, this pessimistic outlook continues to conflict with the data we have for consumer spending, which has been very robust over 2022. It remains to be seen whether or not this divergence between reported confidence and actual spending will last much longer. However, it does serve as a reminder that consumer confidence is an indicator that reflects a "vibe" more than anything else, and this vibe feeds off self-reinforcing narratives in the media.



Retail sales and card spending

StatsNZ's retail trade survey for the September 2022 quarter shows that the total volume of sales – seasonally adjusted and accounting for price effects – was $26 billion, a slight increase of 0.4% from the June 2022 quarter. Retail sales volumes have hovered around these levels for the past year. Meanwhile, the total value of seasonally adjusted retail sales (a measure that is not adjusted for inflation) rose 2.5% from the June quarter to $30 billion.

All up, nine of the 15 industries recorded higher seasonally adjusted sales volumes. The largest movements in sales volumes by industry were:

- department stores – up 18% ($312 million)
- clothing, footwear, and personal accessories – up 5.1% ($62 million)
- fuel retailing – up 3.2% ($49 million)
- pharmaceutical and other store-based retailing – up 2.8% ($47 million)
- electrical and electronic goods retailing – down 15% ($392 million)

The seasonally adjusted total value of electronic card spending for November was $8.93 billion, down $38 million (-0.4%) from October. Retail card spending, however, rose slightly, up $21 million to $6.64 billion (a 0.3% increase from October). By spending category, the biggest movements were:

- consumables – up 0.6% ($16 million)
- fuel – up 1.1% ($6.8 million)
- apparel – up 0.8% ($2.8 million)
- motor vehicles – down 1.6% ($3.3 million)
- durables – down 1.1% ($18 million)

This continued strength in both retail sales volumes and card spending indicates that actual consumer activity is somewhat out of step with the reported levels of consumer confidence. While there has been a proliferation of gloomy economic narratives over the past year, this is not yet reflected in the actions of New Zealand households. This is likely to change in 2023 as interest rate hikes begin to eat into households' disposable income.

Other Economic Indicators

Balance of payments and international investment position

StatsNZ's latest balance of payments figures show that New Zealand's current account deficit has continued to widen, from 7.7% of GDP in the June quarter to a record 7.9% of GDP in the September quarter. This means that, for the year ending in September 2022, imports exceeded exports by $29.7 billion. As a percent of GDP, this is the largest current account deficit recorded in New Zealand, the previous record being 7.8% of GDP ($14.7 billion) in December 2008.

On a seasonally adjusted quarterly basis, New Zealand's goods exports rose by 9.5% ($1.7 billion) for the September quarter, up from $18 billion in the June quarter. This was mainly driven by increases in primary exports such as meat and dairy. Goods imports also rose, up 7.5% ($1.5 billion) from the June quarter. This was driven primarily by increases in petrol and diesel imports. Services exports increased by 27.5%, up from $4.3 billion to $5.5 billion, with this increase largely driven by travel services. Services imports also increased, up 6% from $6.2 billion to $6.6 billion, with this mostly due to increased transportation services.

For the year ended September 2022, total services exports increased by 13%, up to $15.5 billion. This is still far below the pre-pandemic level of $27.3 billion that was recorded in 2019. The majority of this short-fall is accounted for by the decline in revenues from tourism. Meanwhile, services imports are now above their pre-pandemic levels, up 35% to $24.1 billion.

New Zealand's net international liability position also widened, moving from $182.7 billion in the June quarter to $193.7 billion in the September quarter. The international investment position shows the value of financial claims held by New Zealand residents on non-residents against the financial liabilities of New Zealand residents to nonresidents.

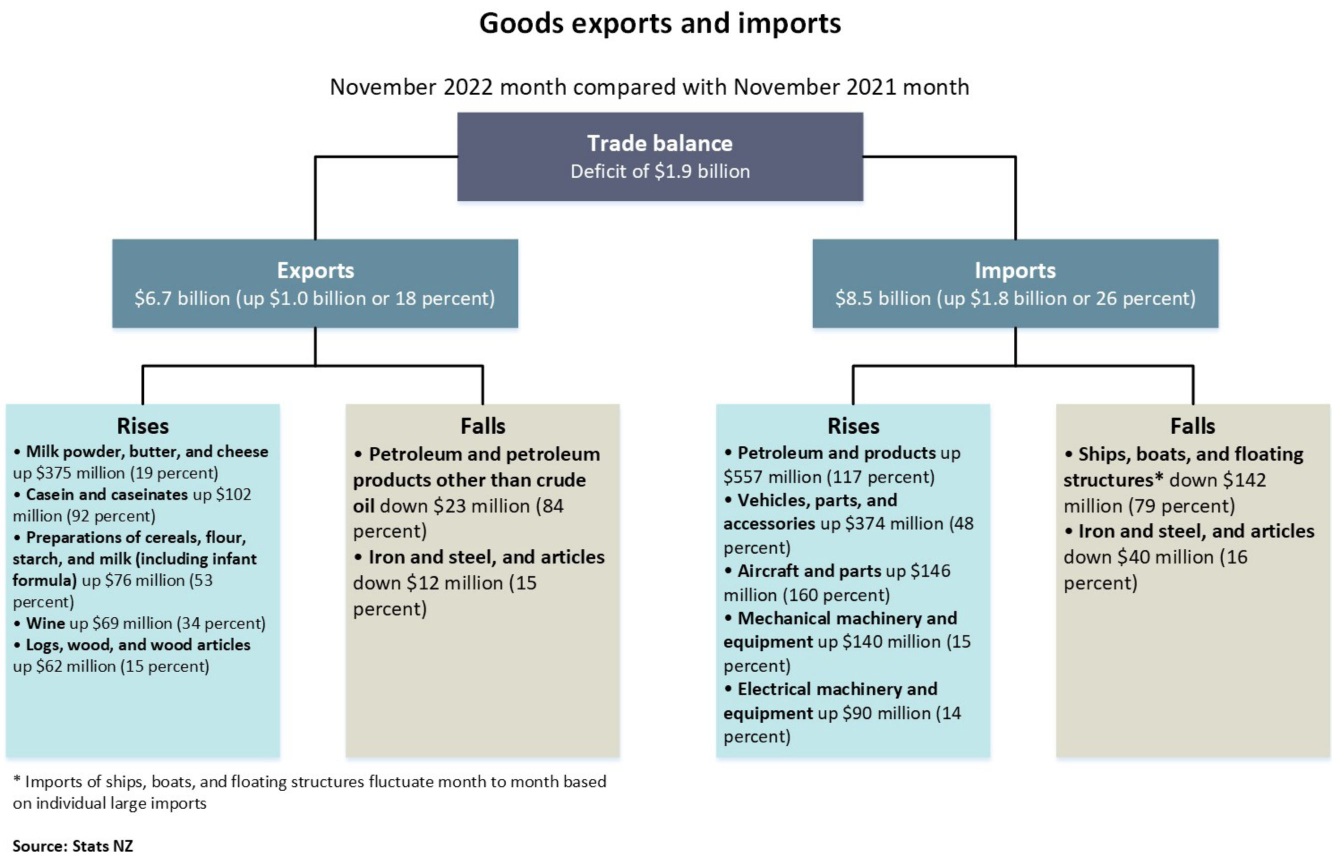
All told, New Zealand's net international debt position for the year ending September 2022 was a deficit of $193.8 billion. The lion's share of this deficit is accounted for by the commercial banks, which recorded a deficit of $138 billion. Meanwhile, general government recorded a deficit of $29.6 billion and the Reserve Bank recorded a surplus of $12.6 billion.

Overseas merchandise trade

Comparing the October 2022 month with the October 2021 month, goods exports rose $758 million to $6.1 billion (a 14% increase). Dairy products continue to be the largest contributor here, with milk powder, butter, and cheese up a combined $503 million to $2.0 billion (a 34% increase). Fruit exports fell by 30%, down from $229 million to $160 million. Meanwhile, wine exports rose 46%, up from $191 million to $278 million.

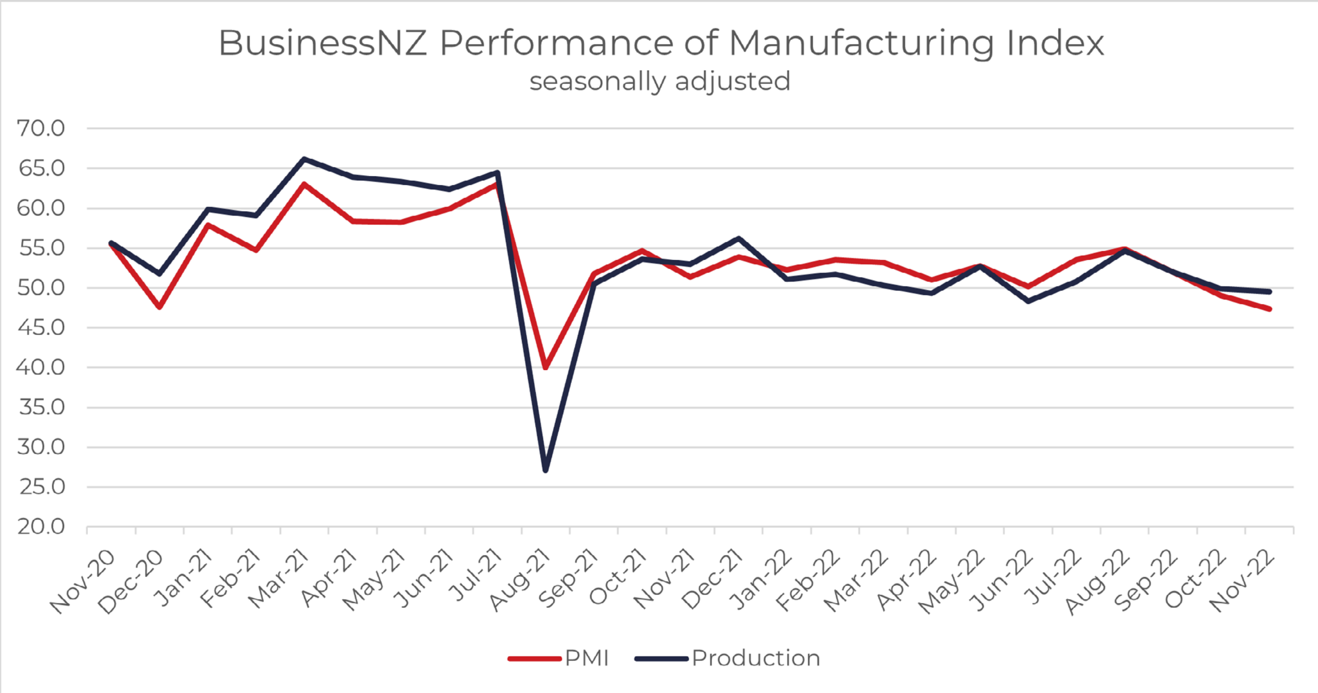
Goods imports rose $1.6 billion to $8.3 billion (a 24% increase). Vehicles and vehicle parts were the largest contributor, up $323 million (37%), with electric vehicles accounting for a third of this increase. The next largest contributor was petroleum, up $289 million (44%) from October 2021.

A breakdown of highlights is provided in this table from StatsNZ:



Performance Indexes

The BNZ–Business NZ Performance of Manufacturing Index (PMI) provides an indication of the levels of activity in the domestic manufacturing sector. A figure above 50 indicates that manufacturing activity has been generally expanding, while a figure under 50 indicates that it has been generally declining; the long-term average of the index is 53.1.



The index fell 1.7 points in November, moving down to 47.4. This is the third consecutive month in which the PMI has fallen since registering 54.9 in August 2022. This fall in the PMI was driven by a drop in production (down 0.3 points to 49.6), employment (down 2.0 points to 46.7), new orders (down 2.6 points to 41.8), and deliveries (down 4.7 points to 50.7).

According to BusinessNZ's Catherine Beard, "overall activity levels in New Zealand are now starting to mirror the global trend of contraction, which may indicate a tough start to 2023 for manufacturers". On average, the mindset of manufacturers was negative in November, with the proportion of negative comments judged to be 58.4% – a slight drop from the October and September surveys. Top of mind for manufacturing companies was the general economic slowdown in manufacturing both domestically and internationally, and ongoing skilled labour shortages, according to BusinessNZ.

Real estate

The Real Estate Institute of NZ (REINZ) House Price Index, which measures the changing value of residential property in New Zealand, is down 13.7% on an annual basis. Wellington and Auckland continue to register the steepest declines, down 19.5% and 18.4% annually. Large annual falls in the HPI have also been registered in the other major centres of Hamilton (-12.3%), Tauranga (-12.7%), Christchurch (-7.0%), and Dunedin (-11.1%). The sub-region that has experienced the biggest fall is Lower Hutt City, where the HPI has come down a whopping 24.4%

According to REINZ's *Monthly Property Report* for November, the median price for a residential property in New Zealand has decreased 12.4% annually, down from $925,000 in November 2021 to $810,000. Again, Auckland and Wellington have seen the biggest falls in price. The median price for a property in Auckland has declined by 18.1%, down from $1,300,000 to $1,065,000. Meanwhile, in Wellington the median price has dropped by 17.4%, down from $962,000 to $795,000. All up, annual median price declines have been registered in every region of the country except for Southland (+10.5%) and the West Coast (+20.0%), which have actually recorded record median prices.

According to Jen Baird, Chief Executive of REINZ, in 2022 "several compounding factors have created uncertainty and hesitancy in the market where there was confidence and urgency last year – rising interest rates and the cost of living, tax legislation and property regulation, tightened lending criteria, and global events with macro-economic impacts".

In the long run, a fall in house prices is necessary. Fast-rising property prices over the past decade has put homeownership out of reach for many New Zealanders. However, the combination of fast-rising mortgage rates and rapidly falling house prices raises the risk of mortgagee sales. This risk will be further heightened if unemployment begins to rise, as it is forecast to do. If mortgagee sales happen on a large enough scale, they can catalyse a vicious downward spiral in house prices. This would be socially and economically destructive if it were to happen. It is therefore important that the decline in house prices happens in a slow and orderly fashion.

Summary of key price movements, October 2022 – REINZ data
Median house price, year-on-year:

- **National:** $810,000 – down from $925,000 (-12.4%)
- **New Zealand, excl. Auckland:** $715,000 – down from $770,000 (-7.1%)
- **Auckland:** $1,065,000 – down from $1,300,000, (-18.1%)
- **Wellington:** $795,000 – down from $962,000 (-17.4%)

Median house price, month-on-month:

- **National:** $810,000 – down from $820,000 (-1.2%)
- **New Zealand, excl. Auckland:** $715,000 – down from $725,000 (-1.4%)
- **Auckland:** $1,065,000 – down from $1,082,000 (-1.6%)
- **Wellington:** $795,000 – down from $833,000 (-4.6%)

Government bond yields

Yields on New Zealand Government bonds have risen steadily through late 2021 and into 2022, as inflation has remained persistent and the Reserve Bank has continued to tighten monetary policy. After climbing above 4.5% for the first time in close to a decade, the yield for 10-year New Zealand Government bonds has fallen back slightly over November and early December. On Tuesday 13 December, the yield on 10-year bonds was 4.18%.

Yield refers to the expected rate of return that an investor will receive for the duration they own a debt security such as a government bond. Government bond yields are a useful indicator of how risky investors consider government debt to be. When confidence is high, yields will tend to fall. They also affect the cost of government borrowing. As yields rise, so too do government debt repayments.

Government Accounts

Half year economic and fiscal update (HYEFU)

The Government's books show it can both support the economy and New Zealanders during any slowdown. The governments books are showing the strength needed to support the economy during the predicted post-COVID-19 economic slowdown. Treasury accounts showed that the government had plenty of fiscal space to deal with any challenges – government debt is forecast to be at less than 50% of its limit by 2027. The government returns to surplus in 2025, with taxation and expenditure remaining stable across forecast period.

The HYEFU painted a picture of an economy that was likely to tread water over the next year. GDP was predicted to fall by 0.3% by mid-2024, and the number of people in paid work was predicted to fall by 50,000 – although the numbers claiming unemployment benefit rises by a much smaller number. Inflation has already peaked according to the Treasury, with interest rates due to peak at around 5%. Both business and residential investment remain elevated in the future.

Inflation is forecast to fall, and the economy is due to slow. With fewer people in work, there is both space and opportunity to make investments that will benefit the economy in the long-run. We should be using the opportunity provided by this set of forecasts to tackle issues such as our infrastructure gap, climate change, productivity, and our housing crisis. This would not only benefit our economy in the long-run, it would help mitigate any risks that the slowdown is any worse than predicted. It would also help to manage our long-term inflation challenges.

The NZCTU welcomes the commitment of the government to the wellbeing objectives, particularly around the need to deliver a just transition, managing the changing future of work, and supporting Māori and Pacific Peoples. To genuinely deliver on these aspirations will require sustained and targeted investment. The HYEFU accounts should provide a platform for delivering on these investments.