Te Kauae Kaimahi

Monthly Economic Bulletin

February 2023: Climate Mitigation and Resilience

NEW ZEALAND COUNCIL OF TRADE UNIONS
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February 2023

NZCTU
Te Kauae Kaimahi

Greetings from the NZCTU and welcome to the February edition of the EconoLex. In this report, we examine the response to Cyclone Gabrielle — and why the government has lots of room to spend money should it need to. This edition also takes another look at the gender pay gap, examining it from new angles. We also look at the latest forecasts from the RBNZ.

We live in changing times. Within two months we have seen a change in political leadership, flooding, a major cyclone, and continuing global economic instability. Amid this, we have also seen strong employment data, good government accounts, and better than expected economic data.

We here at the NZCTU will be here with economic analysis and insight to help guide you though the data. We always welcome your feedback and any suggestions for areas of future investigation.

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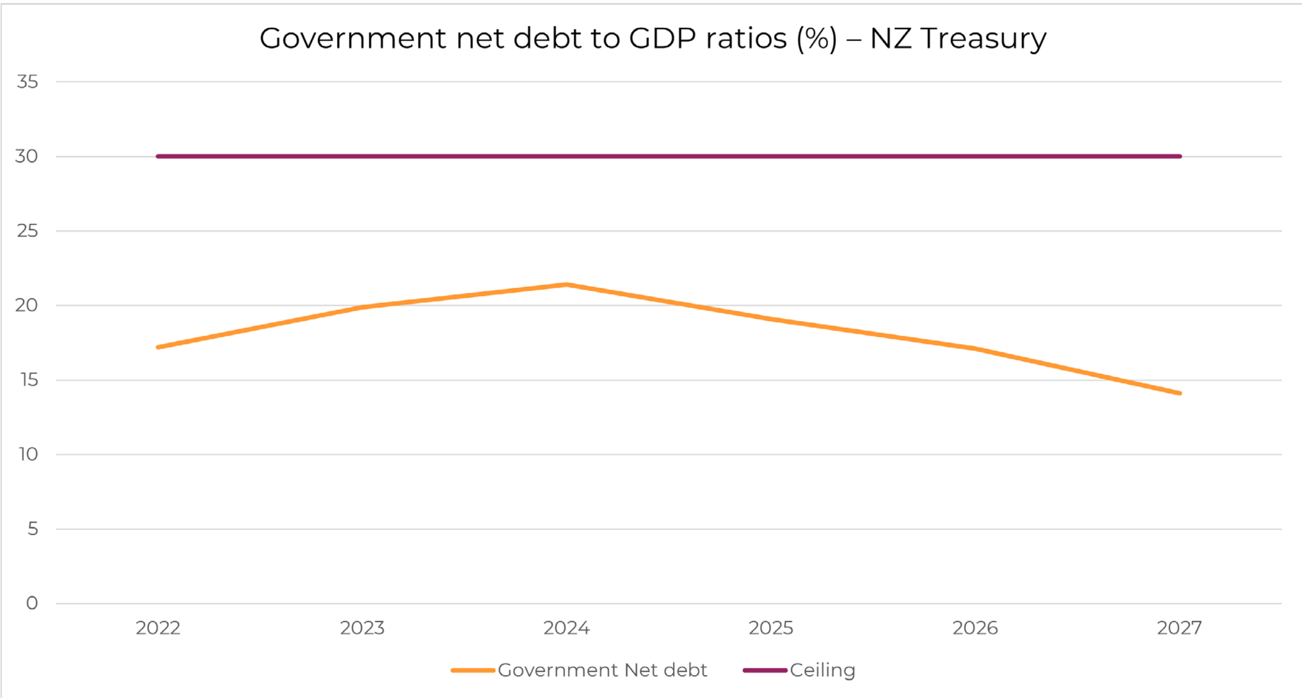
Building a Better Future: Need for calm in rebuild

Over the past two weeks, New Zealand has been slowly recognising the scale of the damage caused by both the major flooding event in Auckland, and Cyclone Gabrielle. Before we go any further, the NZCTU would like to thank the emergency services, the volunteers, and the thousands of workers – both public and private – who have gone above and beyond in their response. It is their courage and determination, then and now, which is shaping our response to this emergency.

The reconstruction from these natural disasters will be an exercise in nation-building similar to that of the Christchurch earthquakes. Many billions of dollars will be required to get affected communities back on their feet, and back to a sense of normal. Our most urgent need is to make sure that the very basics are provided – shelter, food, and communications. But meeting those short-term goals should not blind us to the long-term challenges ahead.

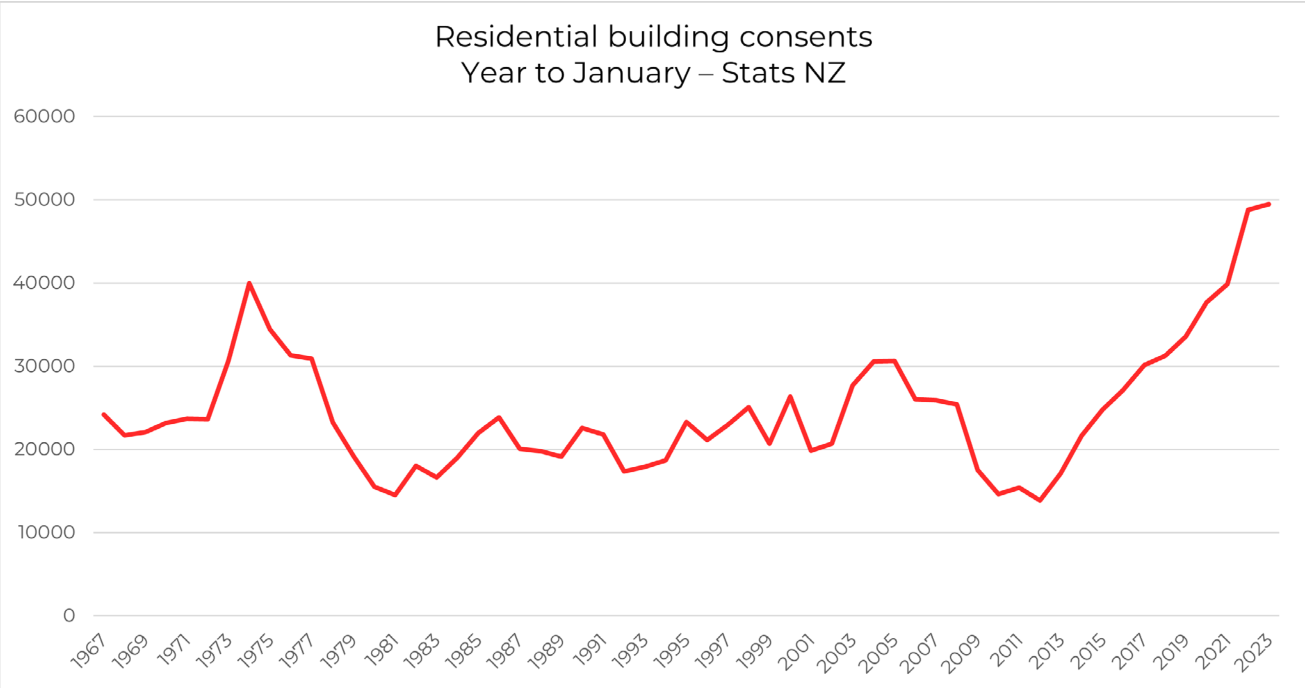


These natural disasters are forcing us once more to confront the fact that we need a better way to respond, recover, and rebuild, from this and future disasters. Naturally, many people's attention will be drawn to how the government will pay for this. Early estimates have put the cost at around $13bn, but we should be careful about that number. This will almost certainly rise as more information becomes available.

The first thing to say is that the government has no shortage of access to money. Government borrowing in New Zealand is low by international standards, and there is plenty of headroom if borrowing is needed. The government has a self-imposed 'net debt' ceiling of 30% of GDP. Currently, debt is 17.2% of GDP and is due to fall to 14.1% by 2027. The government could borrow $48bn today and still not reach its debt limit. Money is not the problem.

The biggest challenge facing the country right now in the rebuild is capacity. New Zealand is already building a massive amount of new homes – it's at a near 50-year high and 60% up from 2017. The government is investing record amounts of money into new infrastructure, with capital spending due to hit $61.3bn over the next five years — we need that investment. According to the Infrastructure Commission – we have a $210bn infrastructure gap. That represents decades of underinvestment.

That existing work is driving a shortage of workers, plant, and materials. The Construction Sector Accord forecast a shortfall of 120,000 construction workers by 2025. This is prior to the new employment that will be created during the rebuilding phase. This is also a global phenomenon. Construction workers are in demand in the US, Australia, the UK, and Europe. Simply opening the borders and importing a new workforce might be trickier than in the past.

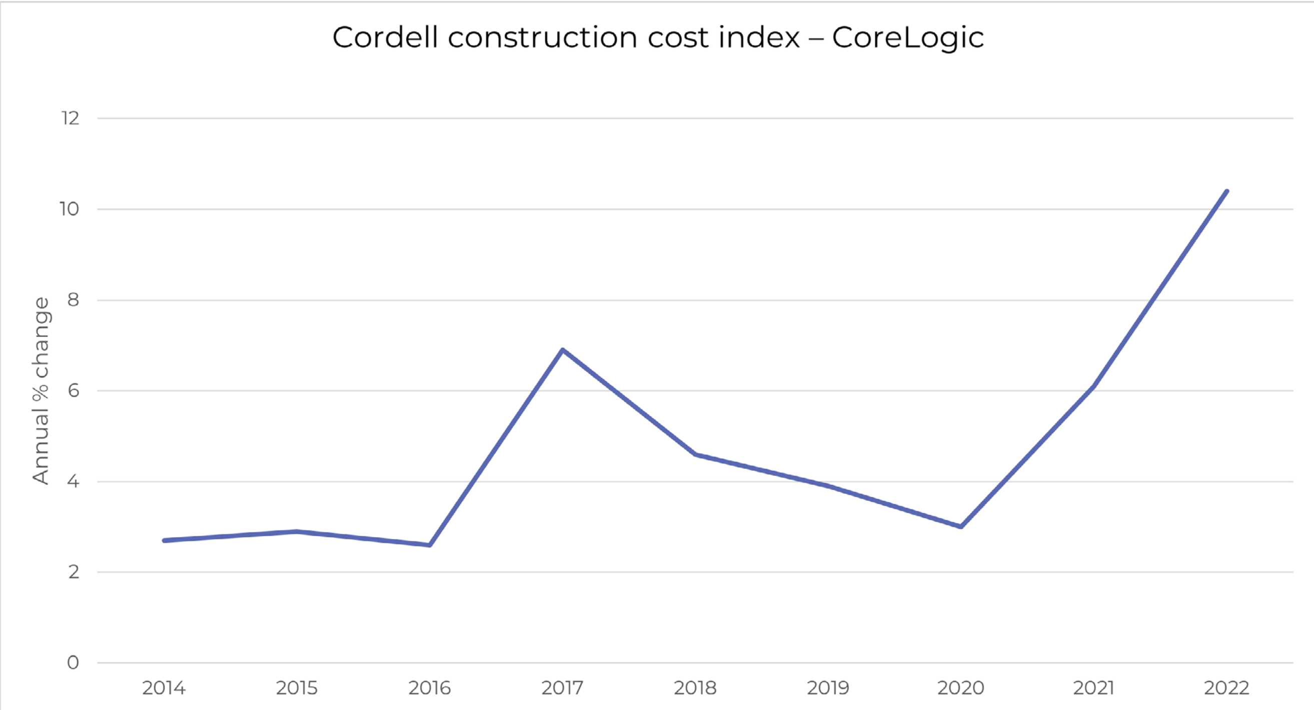


There have also been well-advertised shortages of building materials, with Gib Board, steel, timber, and a range of other products being in high demand. Inflation for building materials has been one of the key drivers of our currently high inflation, with Stats NZ stating "Housing and household utilities was the largest contributor to the December 2022 annual inflation rate. This was due to rising prices for both constructing and renting housing". According to CoreLogic, building costs rose 10.5% last year. The rebuild from our natural disasters is likely to further exacerbate demand.

The cyclone and the flooding haven't therefore created a new problem. They are simply aggravating existing challenges. We can try and spend our way out of these problems, but history suggests that there are rapidly diminishing returns to that strategy, with each extra dollar buying less and less. We also have to face the fact that climate change means we shouldn't simply seek to replace like with like. If we are to really rebuild — and 'build back better' as the PM put it — then this means thinking hard about what we build and why. In New Zealand the problem is that we haven't thought that way for some time, instead allowing our short-term needs to be paramount.

What all this suggests is that New Zealand needs a new way of tackling the rebuild ahead. Long-term planning, built from consultation with local communities. A clear set of goals for our economy, together with consistent, sustained investment to get there. Building capacity in our workforce, and in our supply chains to deal with these shorts of disasters – that is genuinely building resilience into our economy. Not cutting back on our existing investment programme, so we rob Peter to pay Paul.

When the NZCTU published its Inflation and Incomes Act in December 2022, the opening lines of the report said "The definitive history of the current Government has yet to be written. But when it is, it will be a story of crisis management. March 15th, Whakaari / White Island, and COVID-19 have profoundly affected every person who calls this country home". To this list can now be added a cyclone and major flooding. Those events simply make the recommendations of that report even more compelling.



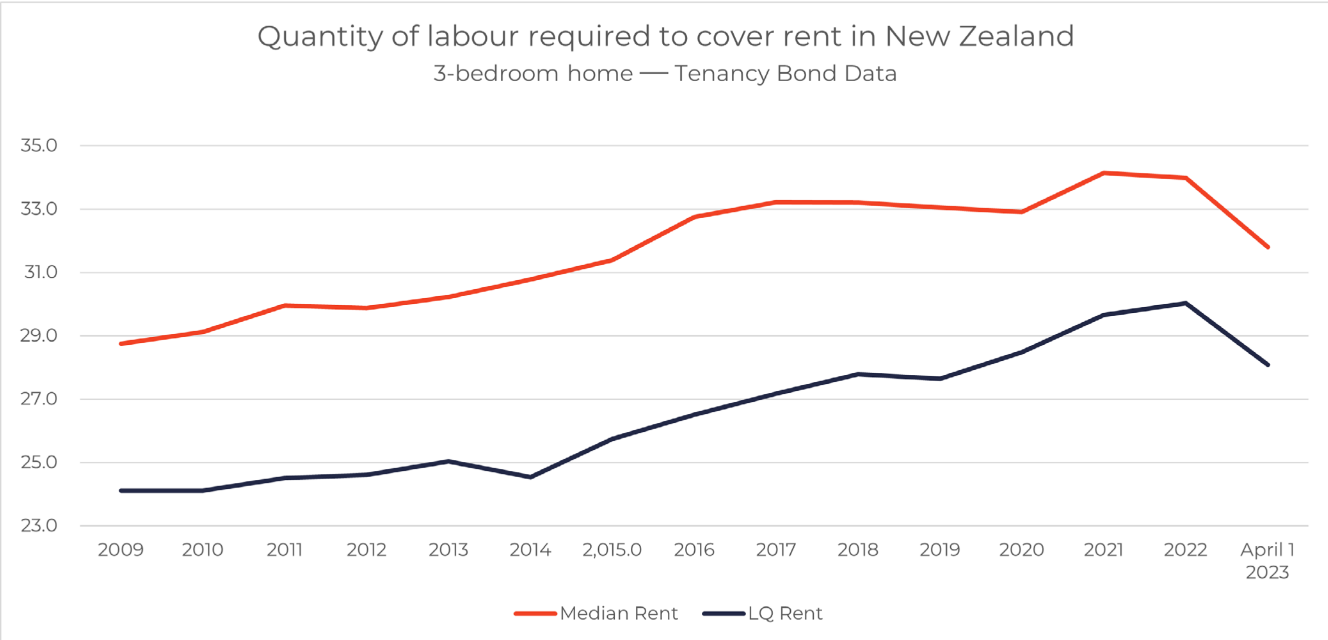
The report sets out a framework for how New Zealand might manage its transition to a long-term, low-inflation environment. This includes setting out how we will build a more equitable future without loading the costs onto low-and middle-income workers. Through the Act, the Government will set out programmes and deadlines for change so that New Zealanders can have confidence in their delivery. It's exactly the sort of long-term thinking and planning we need right now.

It will take a long time to rebuild from the damage of Cyclone Gabrielle, and we will have to live with the infrastructure that we rebuild for a long-time. That places a premium on getting it right. Solutions that focus on short-term outcomes, such as lowering standards, are unlikely to work and actually are likely to work against our interests in the long-run. Money isn't a problem, but capacity is. But capacity was a problem before the cyclone. Tackling the root cause of that problem – the lack of a long-term plan to deliver us that capacity – tackles not only our immediate problems but our existing ones too.

CTUs Minimum Wage to Housing Index

Government increases minimum wage by $1.50 per hour to read $22.70

The Government recently announced that from April 1 2023, the minimum wage would increase to $22.70 (7% or $1.50) — close to the level of the 2022 Living Wage rate of $22.75. However, the Living Wage rate was updated 1 September 2023 and now sits at $23.65. As the cost of living keeps increasing, no doubt the Living Wage will keep racing ahead.



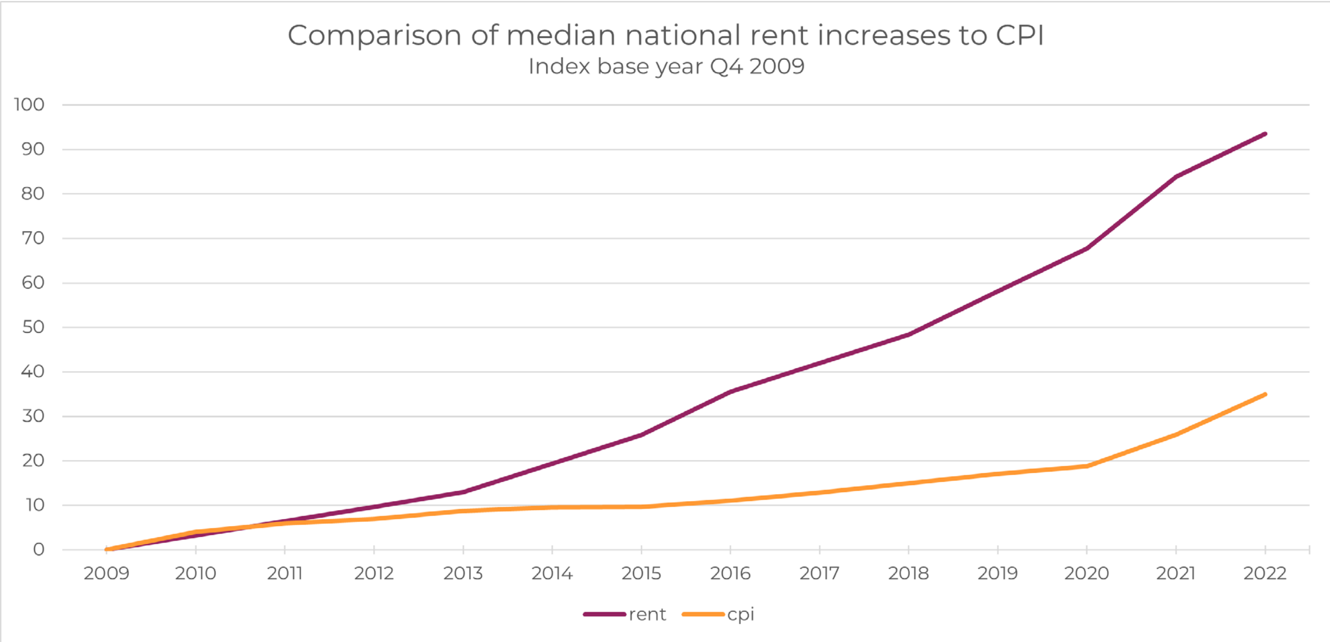
In the March 202 edition of the NZCTUs Economic Bulletin, we introduced our Minimum Wage to Housing Index. This looks at how many hours a minimum wage worker must work in order to meet median and lower quantile rents in New Zealand. This index is a good indicator of who is winning from wage increases — worker or landlord? One year on, we can say there has been relatively small change to the time a worker must trade in order to pay rent in NZ.

The most recent data from Tenancy Bond Data (October 2022), puts median national rents for a 3 bedroom house at $600 (an increase of $30 in 12 months), and lower quantile rents for these homes at $530 per week (an increase of $35 in 12 months). In 2009, the index showed that minimum wage workers needed to work 29 hours for their wages to meet median national rents. For lower quantile rents, this figure was 24 hours (lower quantile being the cheapest 25% on the market). In March 2022, that number had ballooned to 34 and 30 hours of labour, respectively.

From April 1 2023, once the new minimum wage rate takes effect, this quantity of labour required will drop to 32 and 28 hours respectively. In regard to the cost of living for median rent, this takes us back to 2016 levels of disposable income after rent. For lower quantile rents it's comparable to 2020. However, this is based on October 2022 rent data, so we will need to wait until we have new rental data to see the real impact.

Therefore in order to continue to pay lower quantile rents on 24 hours labour at minimum wage, the minimum wage would need to be set at - $27.32.

The reason we use 3 bedroom houses as the basis of our index is because it provides a like-for-like comparison. As opposed to median rents that could be heavily skewed by more single bedroom apartments entering the market and changing the makeup of the rental accommodation.



Wellington renters disposable income after rent increases by 10% since last year

TradeMe Property Data

According to the latest Trade Me Property data, national median weekly rent reached $595 in January 2023 – an increase of $25 since January 2023. Currently, minimum wage worker's weekly take-home-pay is $706.66 after tax and ACC. Theferfore, median weekly rents amount to 84% of their take home pay. Once the new minimum wage rate takes affect, a worker's take-home-pay would be $754.69 after tax and ACC. Meaning national rents will amount to 79% of a worker's take-home-pay.

Auckland rents for January sit at $630, which is 83% (down from 91% this time last year, and 86% 1 April 2022) of a minimum wage worker's take-home-pay. That's a $20 weekly rent increase in 12 months. Wellington median rents for January sit at $660 or 87% of a workers take home pay. This time last year, median rents in Wellington were $650, which is a small $10 increase over 12 months. This more stable annual rent growth, combined with the increase to minimum wages, leaves works with 10% more disposable income when we compare it to this time last year, when median Wellington rents amounted to 97% of a minimum wage worker's take-home-pay.

About the data used: *Tenancy Bond Data is what the Government most often uses when making policy decisions, however TradeMe Property Data can provide us more up-to-date data. While Tenancy Bond Data is collected by MBIE from bond lodgment forms for new rental agreements, TradeMe Property data reports the median asking price of rentals as advertised on Trade Me Property.*

Rent Price Index

After years of high rent increases, it's beginning to look as though rent price growth is cooling, and at least for new rentals, trending down. Based on Statistics New Zealand's Rent Price Index (RPI) we can see the unsustainable increases to rental housing has been declining since September.

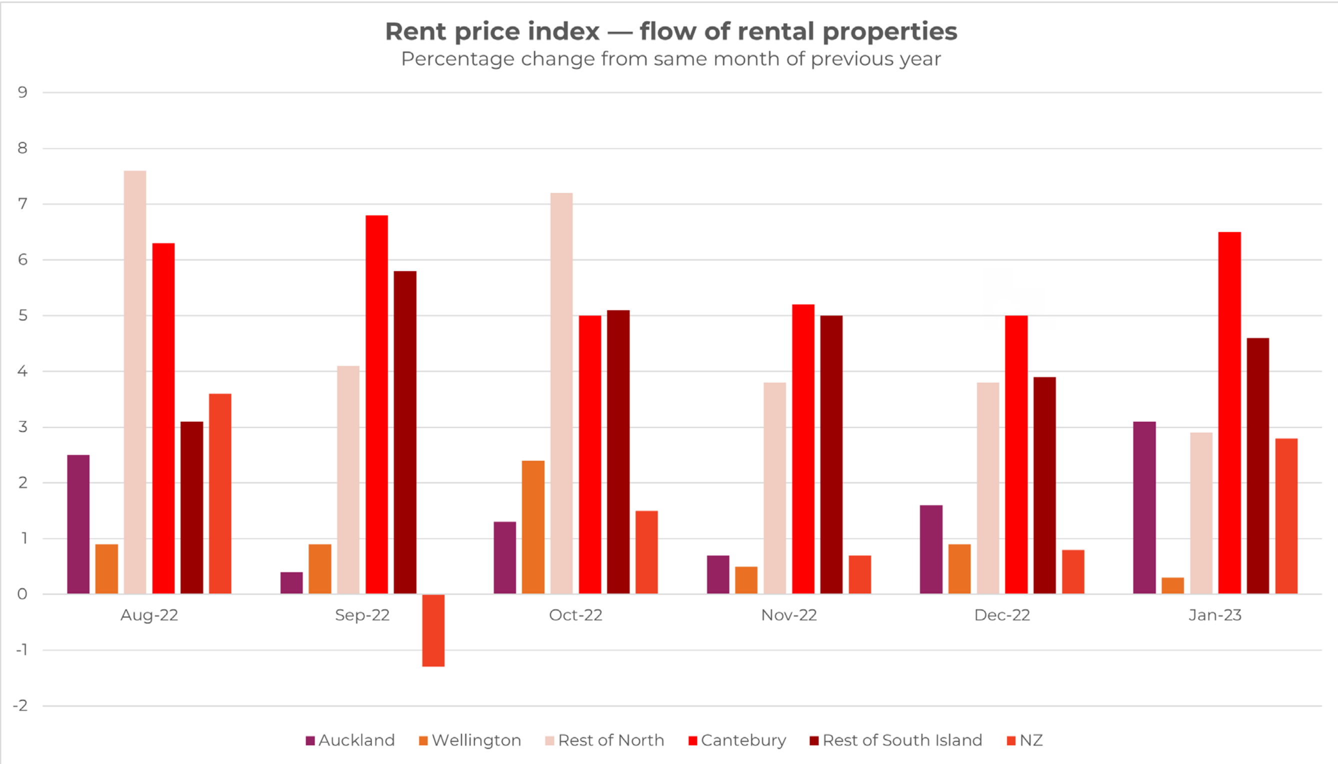
The RPI is measured in both the flow and the stock of rental housing. The flow measure captures price changes where a new tenancy started. The stock measure shows rental price changes across the whole rental population

As mentioned previously, annual wage growth, as measured by the Labour Cost Index, for the December 2022 quarter sits at 4.1%, an increase on the previous September quarter (3.7%). September 2022, was also the first month since December 2020 when wage growth was higher than the flow of rental housing. This quarter, follows this trend, as the annual nation wide growth in the flow of rental housing for December 2022 is 0.8%, which is once again lower than wage growth (4.1%).

While the LCI is updated quarterly the Rent Price Index (RPI) is released monthly.

This is good news for renters as they get to keep more of their pay check after housing costs. The latest RPI figures for January 2023, saw the annual change in NZs flow of rental properties increasing 2.8% and the stock of rental properties increasing 3.8% (each still lower than LCI).

In January 2023, the stock remains stable again, with a slight decline in growth becoming the trend. January's annual increase in the stock of housing was 3.8%, preceded by 3.9% in December, 4.0% in November and 4.1% in October.



The largest annual increase in flow was seen in Canterbury (6.8%) and the rest of the south Island (4.6%). In the North Island, the largest flow increase was seen in Auckland (3.1%) followed by the rest of the North Island (2.9%). Wellington saw a small 0.3% increase.

Labour Market Data

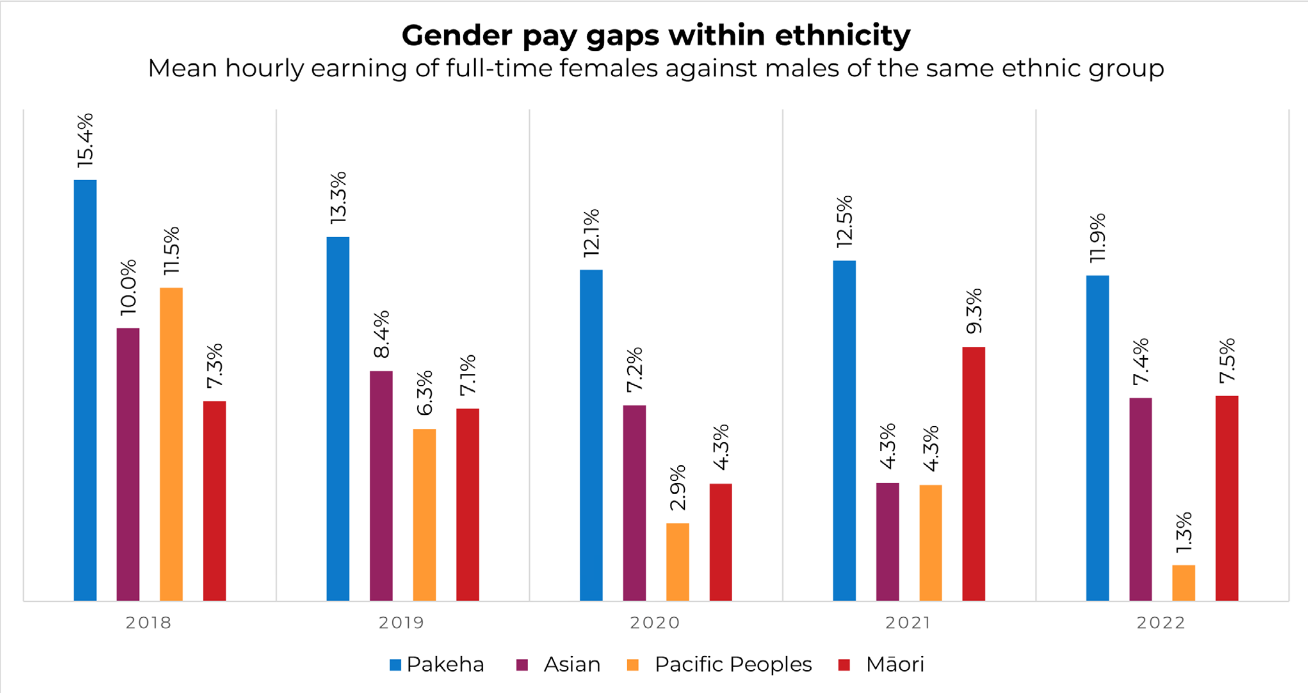
The standard gender pay gap statistics compare the pay of women in the workforce to Pakeha men (10.3%). In the previous December EconoLex, we broke down the standard gender pay gaps. In this edition, we dive a little deeper to look at pay gaps within ethnicities. We look at the mean pay gap between men and women by ethnic group, followed by the mean ethnic pay gaps, and the pay gap of Māori and Pacific women compared to Pakeha women.

Mind the gap — Gender pay gaps within ethnicity

The graph below shows the prevalence of the gender pay gap within ethnicities. This means the pay gap between Māori women and Māori men, Pacific women and Pacific men, and between Pakeha women and Pakeha men.

The gender pay gap within ethnicities for the year ended June 2022, by ethnic group is:

- **Pakeha:** 11.9% - this gap is the highest out of the ethnic groups and is trending down. Since June 2021, it has reduced 0.6% from 12.5%. This large gap, is likely due to the higher average wages that Pakeha men earn, not that Pakeha women are more discrimated agaist than other groups.
- **Māori:** 7.5% - down from 9.3% in 2021
- **Pacific Peoples:** 1.3% - a significant reduction since June 2018 when it was the second largest gap at 11.5%
- **Asian:** 7.4% - an increase since 2021 when it was 4.3%



Ethnic pay gap

The latest data on mean hourly earning from Statistics NZ puts the ethnic pay gap for Māori and Pacific at 14.8% and 18.6% respectively. As shown in the graph below, this pay gap is relatively unchanged since 2020.

The existing NZ Treasury research suggests that educational achievement, qualifications and occupation account for a large proportion of the ethnic pay gap. For the Māori-Pākehā gap it accounts for around 68-75%. For the Pacific-Pākehā gap it accounts for around 39-55% of the gap.

The remaining, unexplained elements of this pay gap (32-25% Maori and 45-61% for Pacific workers) could be down to a combination of more detailed differences in skills and experience, field of qualification, and English language proficiency and discrimination. Another factor which may contribute to the Pacific pay gap in Treasury's study is that 54% of the Pacific wage earners in the study sample were born overseas.

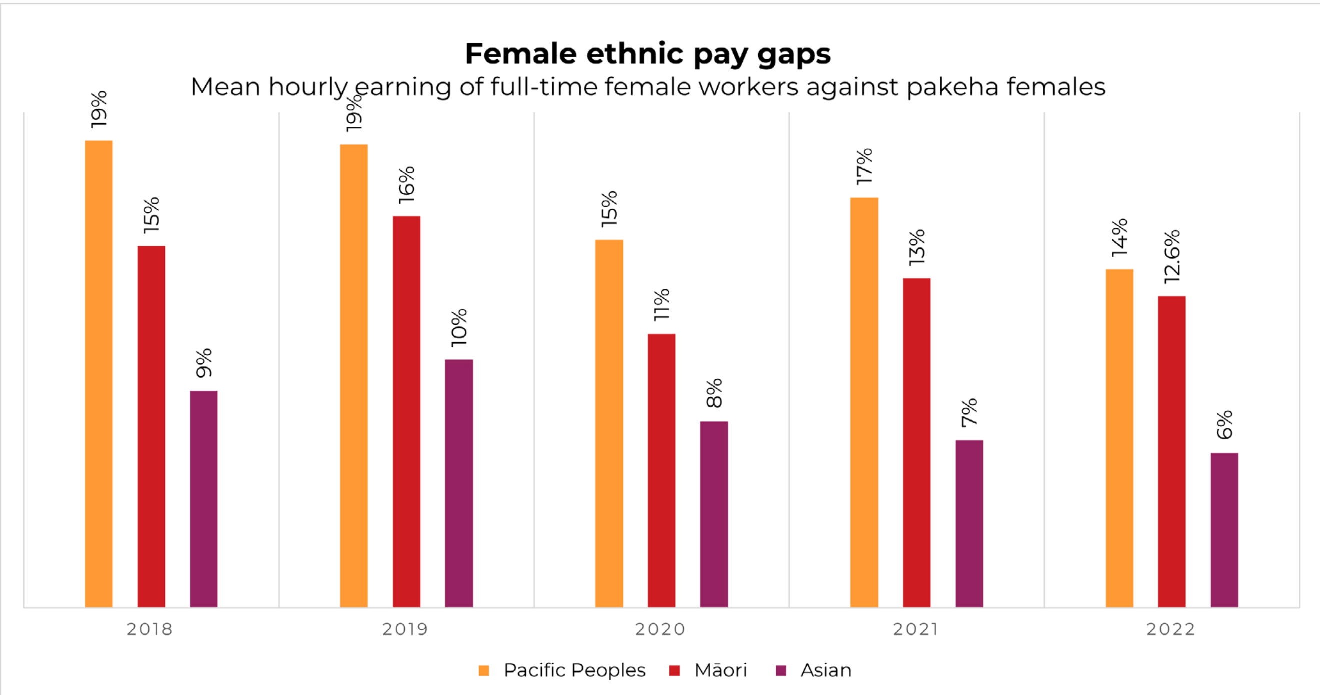
According to recent wellbeing statistics released by StatsNZ, some groups reported experiencing discrimination, in the previous 12 month, at much higher rates. These experiences are not specific to employment, rather any experience. These included:

- Māori (29.5%), Pacific (23.4%), Asian (26.7%), and European (18.3%)
- People in sexual minorities (LGBTQ+) (38.%)
- Disabled people aged 15 to 64 (34.%

Female ethnic pay gap

The current gender pay gap for StatisticsNZs median hourly earnings sits at 9.2%. For mean hourly earnings this number is larger at 10.3%.

While the gender pay gap for mean hourly earning is large (Māori 23%, Pasifika women 24%) there is also a startling ethnic pay gap between women. The graph below shows that the pay gap between Māori and Pakeha women is 12.6%, for Pacific women it is 14%, and for Asian women it is 6%. A recent (August 2022) paper by Motu Economics made the case that pay gaps in New Zealand amount to $17.6 billion dollars a year. This is made up of $7.6 billion gender pay gap and a $10 billion ethnic pay gap.



A large proportion of the gender pay gap can be attributed to women removing themselves from the workforce to care for children and the wage scarring they incur once they return to work.

The Women's Employment Action plan suggests that occupational segregation is also a main driver of the gender pay gap. Women tend to be clustered in industries that are historically (and continue to be) female-dominated. This leads to labour in these industries being undervalued and underpaid.

In New Zealand, half of all women and men work in occupations where 70% or more of workers are of the same gender. Additionally, 50% of women are employed in three industries:

- healthcare and social assistance (18.6 percent)
- retail, trade, and accommodation (16.9 percent)
- education and training (12.3 percent).

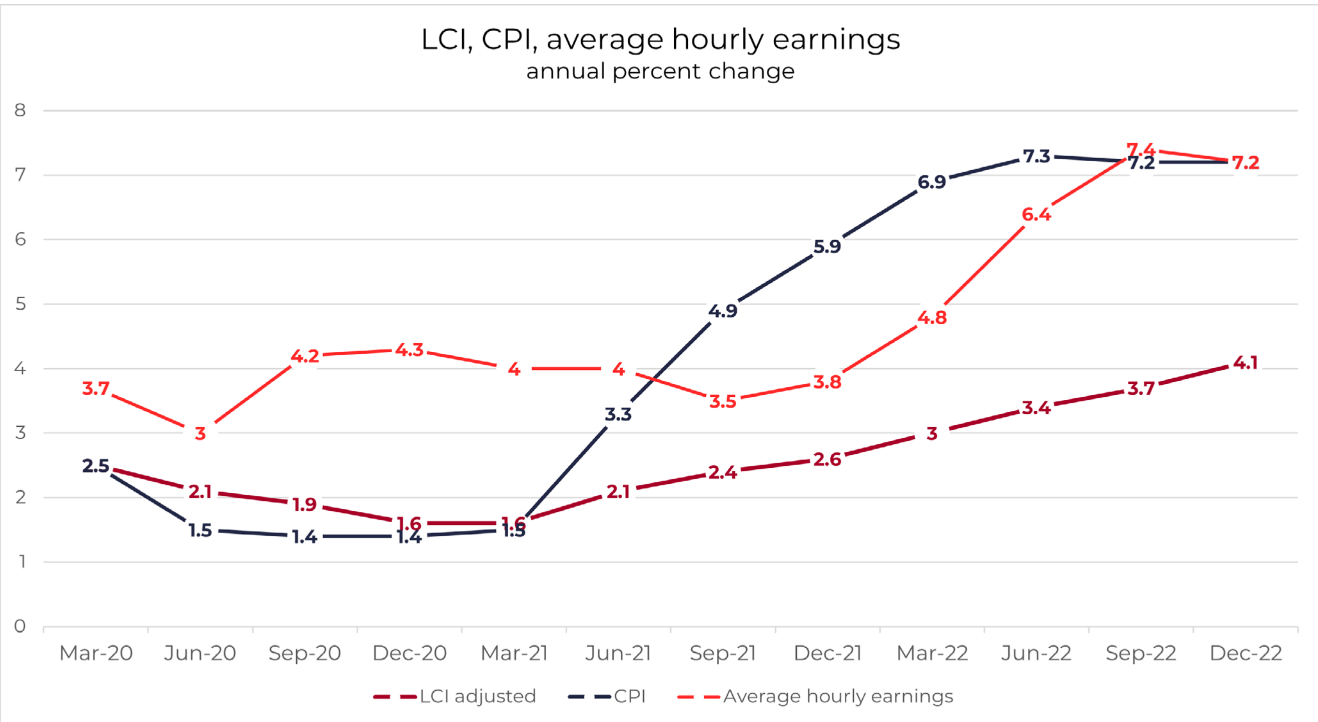
Additionally, other female dominated jobs such as cleaners, hospitality workers and retail workers offer much less flexibility in working conditions, less stability of hours, and result in higher rates of working poverty.

Wages, Labour Cost Index & Quarterly Employment Survey

Wages continue to increase in the December 2022 Quarter. The annual change in Labour Cost Index (LCI) saw an increase of 4.1%. For comparison, the annual LCI in the previous September quarter was at 3.7%, which followed by 3.4% in the June quarter.

If we breakdown the LCI into public and private sector wages, we can see that wages in the private sector have seen slightly more growth than the public sector. Annual private sector wages increased by 4.3% over the year, and public sector wages increased by 3.6% percent over the year.

For the December 2022 quarter, compared to the previous December quarter, average ordinary time hourly earnings also increased by 7.2% to $38.19 (measured by the QES). The inflation rate for December 2022 also sits at 7.2%.



Annual private sector ordinary time hourly earnings increased by 8.1% over the year, and public sector ordinary time hourly earnings increased by 4.7% over the year. While public sector wages increased by a smaller percentage amount, public sector ($45.12) average ordinary time hourly earnings already sit at $8.69 per hour above those of the private sector ($36.43).

> *LCI is often lower than the change in average ordinary time hourly earnings as measured by the Quarterly Employment Survey (QES). This is because the adjusted LCI is the price for a fixed quality and quantity of labour, such as the cost of a plumber doing the same job each time for the same amount of time. The QES average hourly ordinary time earnings measures the income received by workers and includes pay rises from promotions and switching to a different job.*

The quarterly inflation rate for December was 1.4%. In comparison the LCI was up 1.1% and the QES was up also up 1% - this means that for the December 2022 quarter, in comparison to September 2022, the purchasing power of wages from both the LCI and QES measurements has declined a small amount (0.3% and 0.4% respectively).

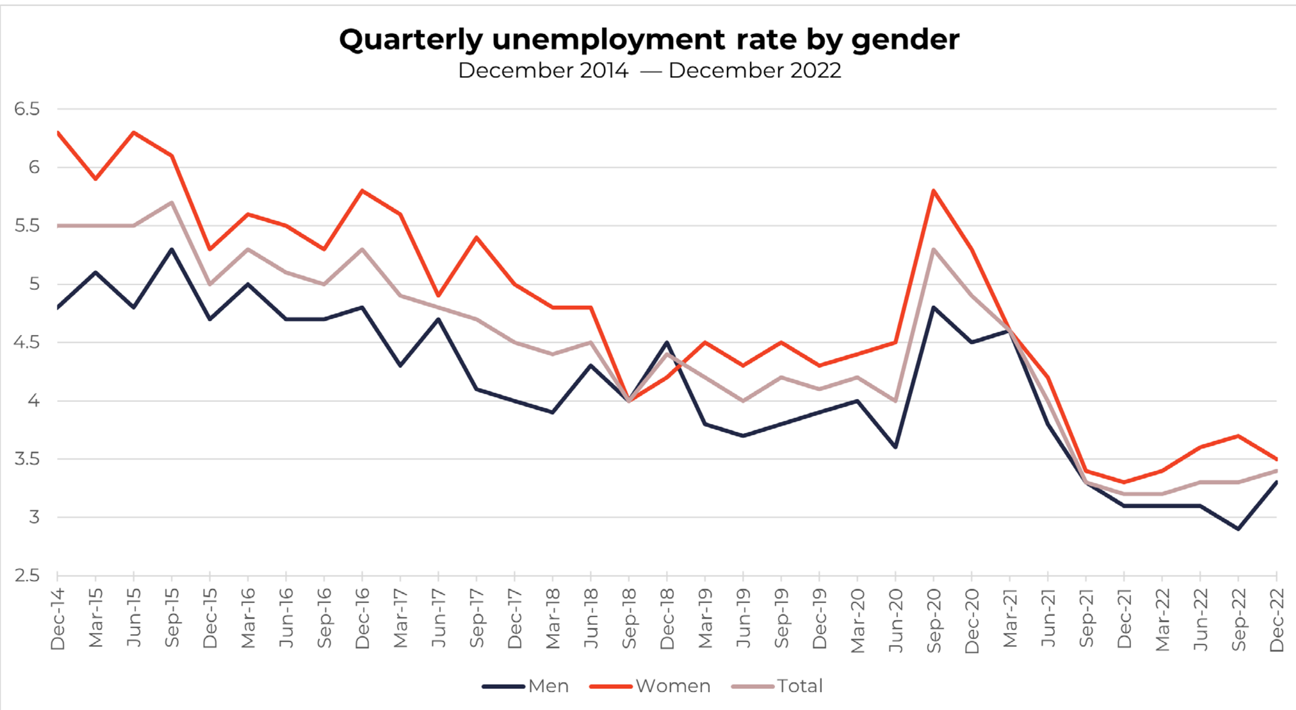
Employment and participation rates

In December 2022, the employment rate was 69.3% which is unchanged since September 2022, and up 0.6% from December 2021. This employment rate of 69.3%, represents 2,855,000 people over the age of 15 who are in some form of paid work, including part-time and casual.

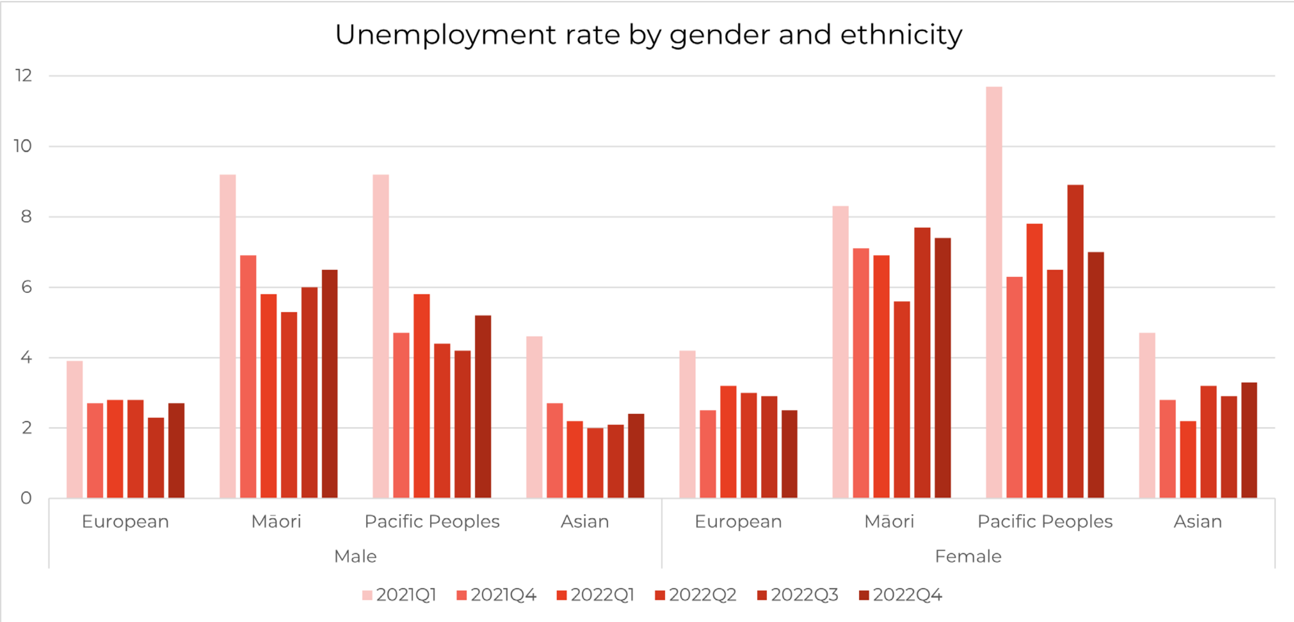
The Labour force participation rate for the December quarter is at 71.7%, which is an annual increase of 0.7% and no change from the previous quarter.

Unemployment rate

The official unemployment rate for the December quarter is 3.4% or 99,000 people, which represents an additional 3,000 people since the September quarter's unemployment rate of 3.3%.

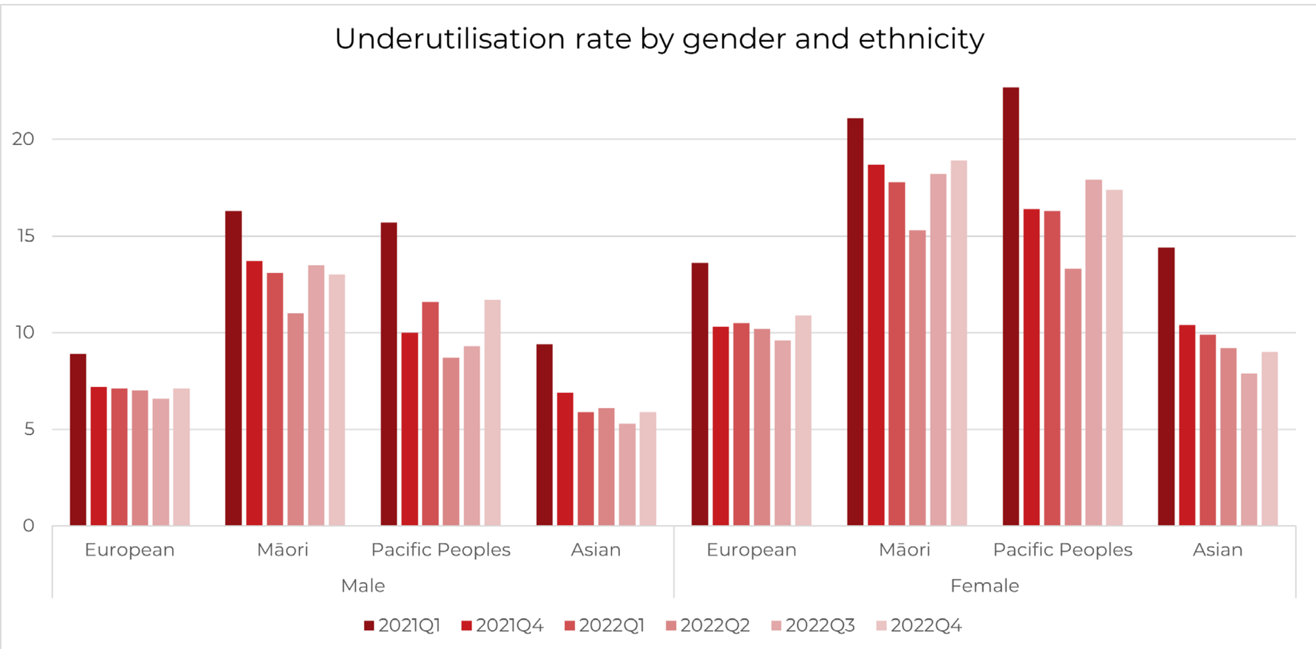


The female unemployment rate for the December quarter is down 0.2% to 3.5%, while the male unemployment rate is up 0.4% to 3.3%. These percentages represent an increase in 6,000 unemployed men, alongside 4,000 fewer unemployed women.



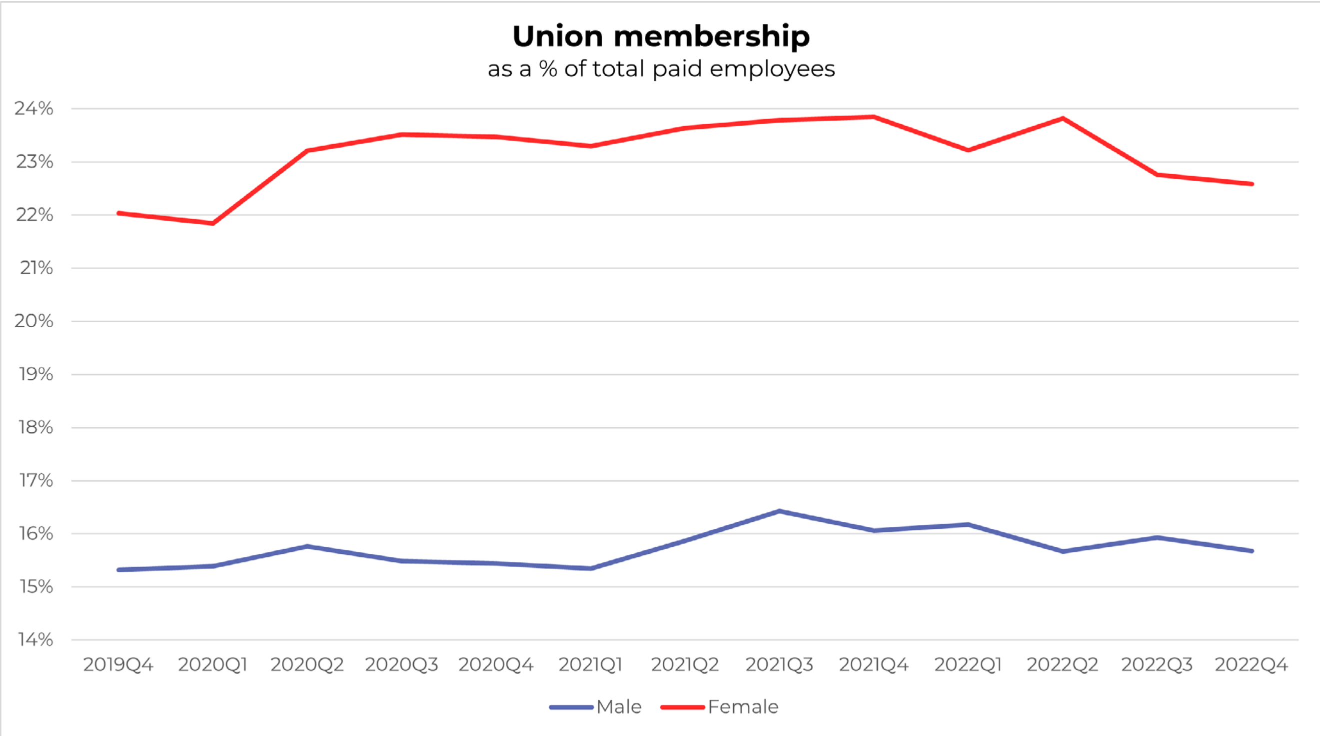
Underutilisation

The underutilisation rate for the December 2022 quarter is 9.4%, up from 9% last quarter (F: 11.4% - up 0.4%, and M: 7.5% - up 0.3%). The underutilisation rate is a broad measure of spare capacity in the labour market. It measures employed workers who are available for and wanting additional hours of work than they currently have. The total number of underutilised is made up of 4,000 extra men and 7,000 extra women than the previous quarter. This represents 285,000 people, an increase of 12,000 since the previous quarter. For comparison, the population of Wellington City is 212,700 people.



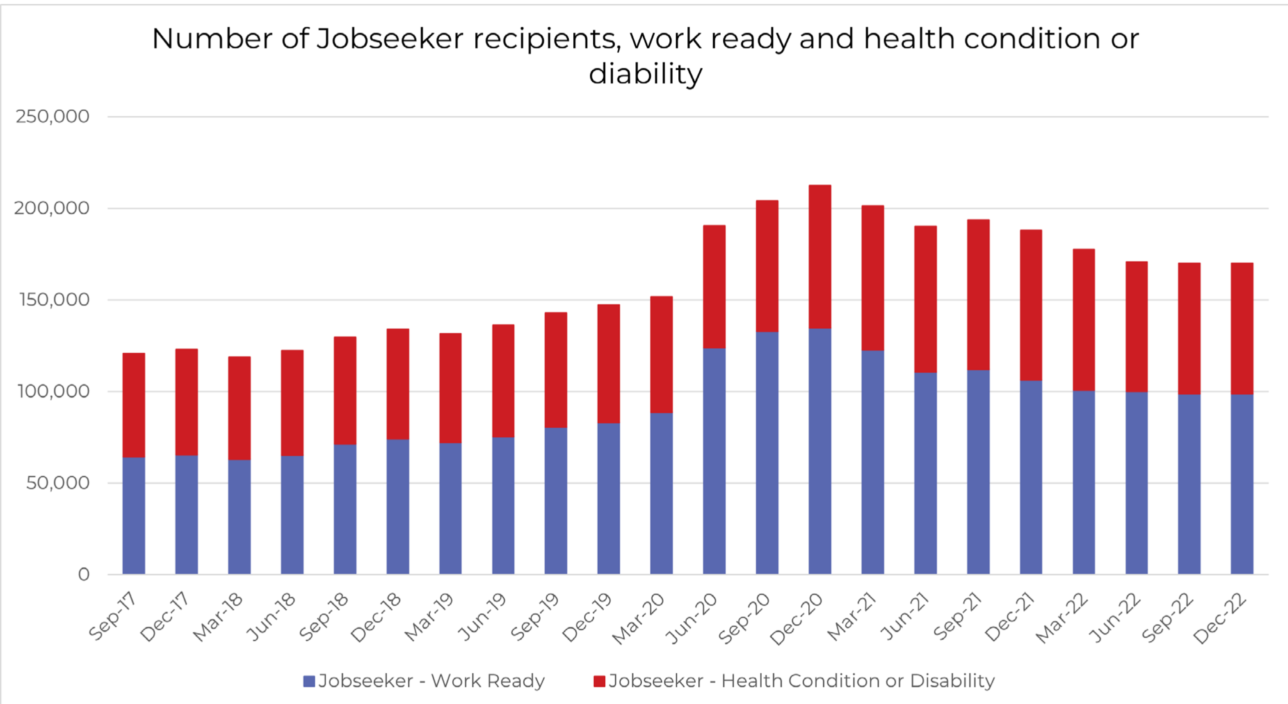
Union membership

Union membership for the December 2022 quarter is 440,200 which is 19% of the workforce, this is an decrease of 700 union members (0.2%) since the previous quarter, September 2022. This is made up of 183,900 men (15.7% of the male workforce) and 256,000 women (22.6% of the female workforce).

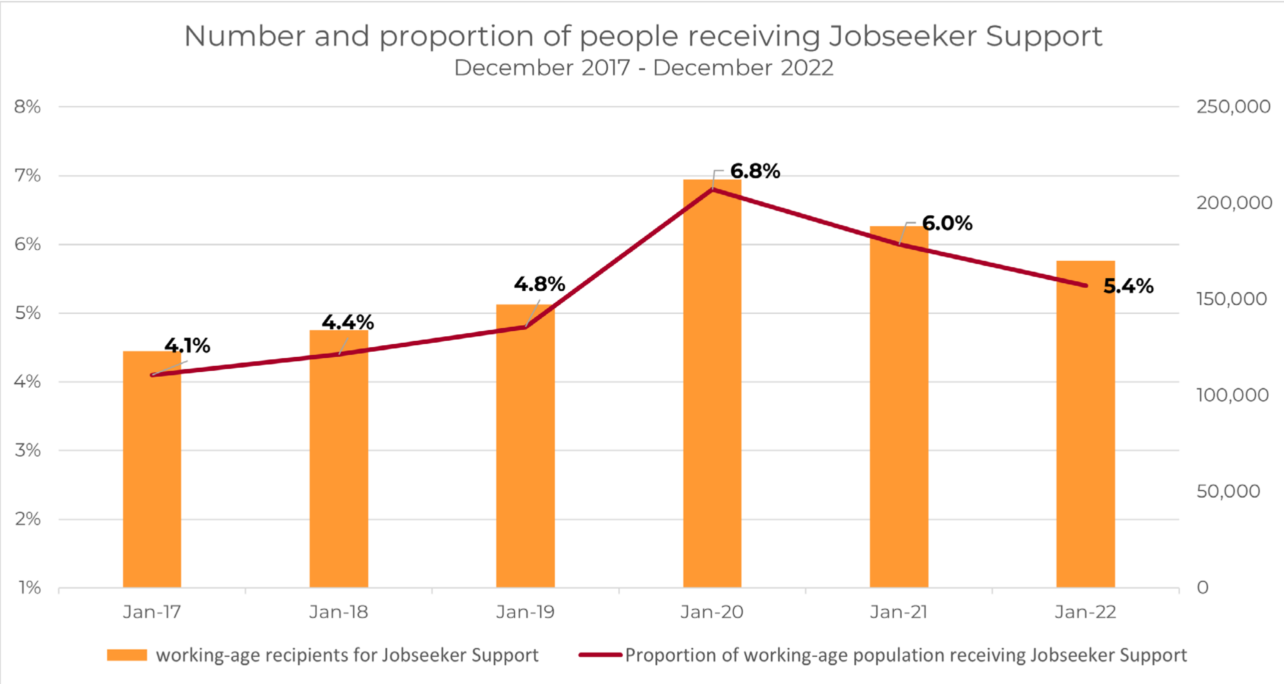


Job Seekers

As of December 2022, there were a total of 170,103 people receiving Jobseeker support, made up of 98,934 who are work ready and 71,337 people with a health condition or disability. This figure is unchanged from the previous quarter.



Over the past 12 months to December 2022, there are now 17,886 fewer people receiving Jobseeker support payments. 7,596 of those who moved off Jobseeker in the past 12 months were work ready. There are also 10, 290 fewer people receiving Health Condition or Disability Jobseeker compared to this time last year. The number of recipients on Jobseeker Work Ready has been consistently declining since June 2021.



For the December 2022 quarter, 11.3% of the working-age population were receiving a main benefit, this is an annual decrease of 0.4%. The proportion of the working-age population receiving Jobseeker Support this quarter is 5.4%, down 0.6%. The reason 5.4% of the labour force is receiving a Jobseeker Support benefit, while the unemployment rate is lower at 3.4%, is because you can receive Jobseeker alongside part-time paid work.

For the December 2022 quarter, there was also a decline of 13,599 people receiving Jobseeker Support for longer than one year in comparison to December 2021.

Economic Indicators

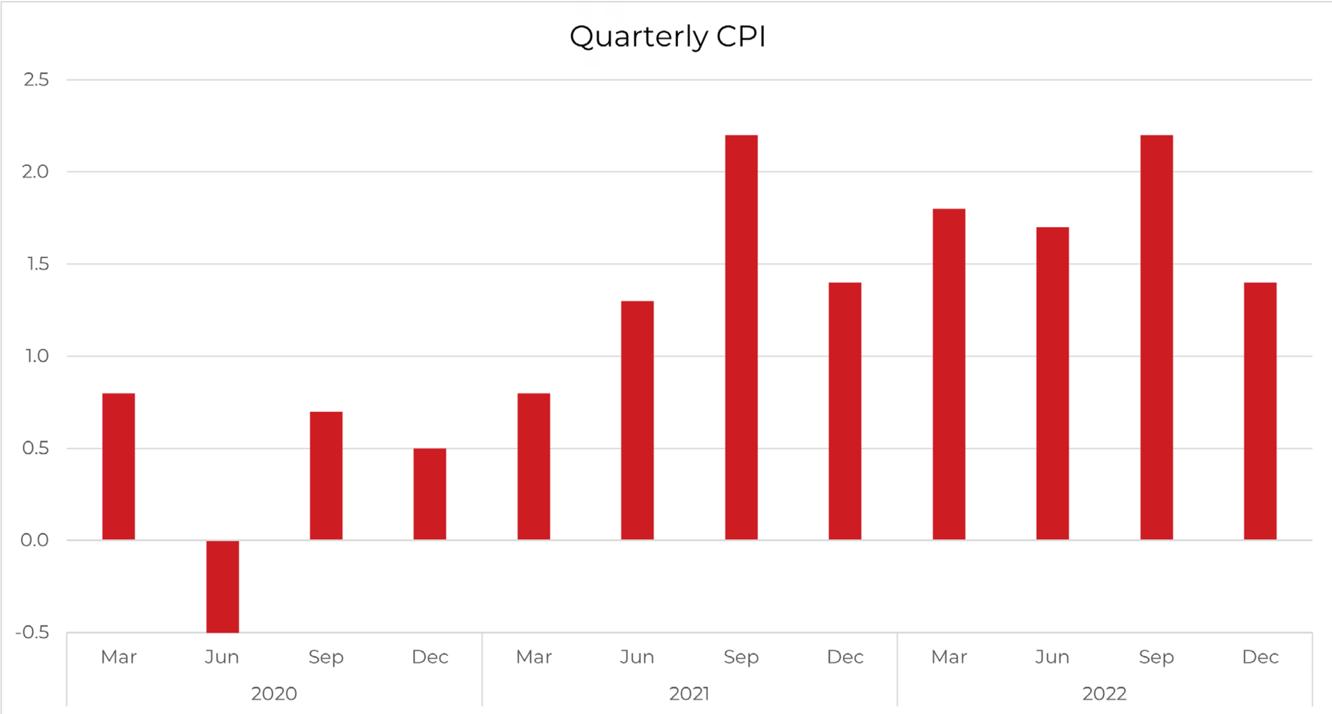
Consumer price inflation

Annual consumer price inflation held steady for the December 2022 quarter, at 7.2%. The largest contributions to annual CPI for the December 2022 quarter were:

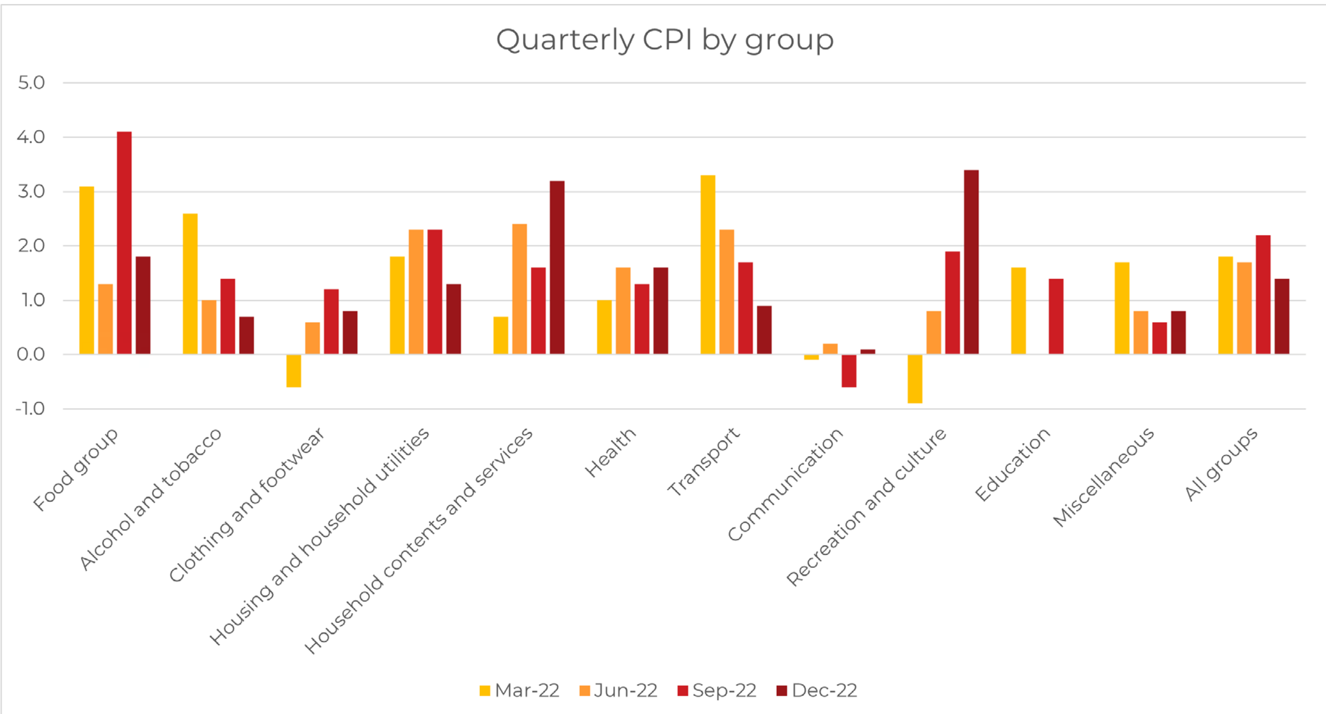
Food, 11% – driven by a huge 20% increase in the price of fruit and veges, a 10.2% rise in the cost of grocery food, and a 10.8% rise in the cost of meat and fish. All up, food accounts for 26.7% of total CPI (or 1.92 percentage points of the 7.2).

Transport, 8.4% – driven largely by a 12.6% increase in passenger transport costs. All up, transport accounts for 15.6% of total CPI (or 1.12 percentage points of the 7.2).

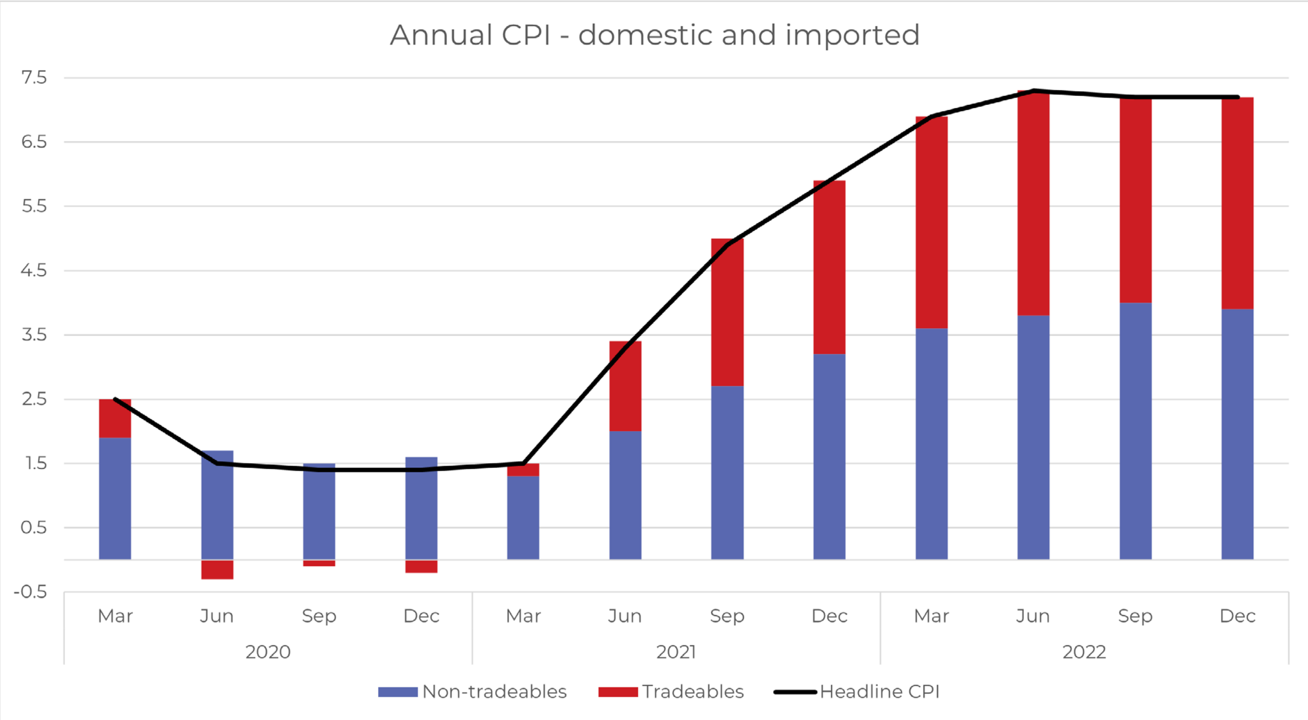
Housing and household utilities, 8% – driven by a 14.1% increase in the cost of construction and 7.2% increase in cost of property maintenance. All up, this group accounts for a whopping 31.5% of total CPI (or 2.27 percentage points of the 7.2).



Inflation continues to be imported to a significant degree. As the graph below shows, around half of total inflation is driven by "tradeables" – goods and services that are imported or are exposed to international competition. As for non-tradeable (domestic) inflation, construction costs have been the biggest driver, accounting for a full 34% of total non-tradeable inflation in the December quarter.



Although annual inflation remained high, quarterly inflation started to trend down, from 2.2% in the September quarter to 1.4% for the December quarter. Together with slower card spending, falling retail sales, a gloomy outlook for both the domestic and world economy, and the levelling off of inflation expectations, this indicates that inflation has likely peaked and is beginning to moderate.



Food prices

For the year ended January 2023, food prices increased 10.3%, outstripping overall consumer price inflation. Fruit and veges have seen the largest increase, at 15.7%. Keen eyed readers will note that this differs from the figure given in the CPI, this is because the CPI is a selected basket of good while the Food Price Index covers all food and grocery items.

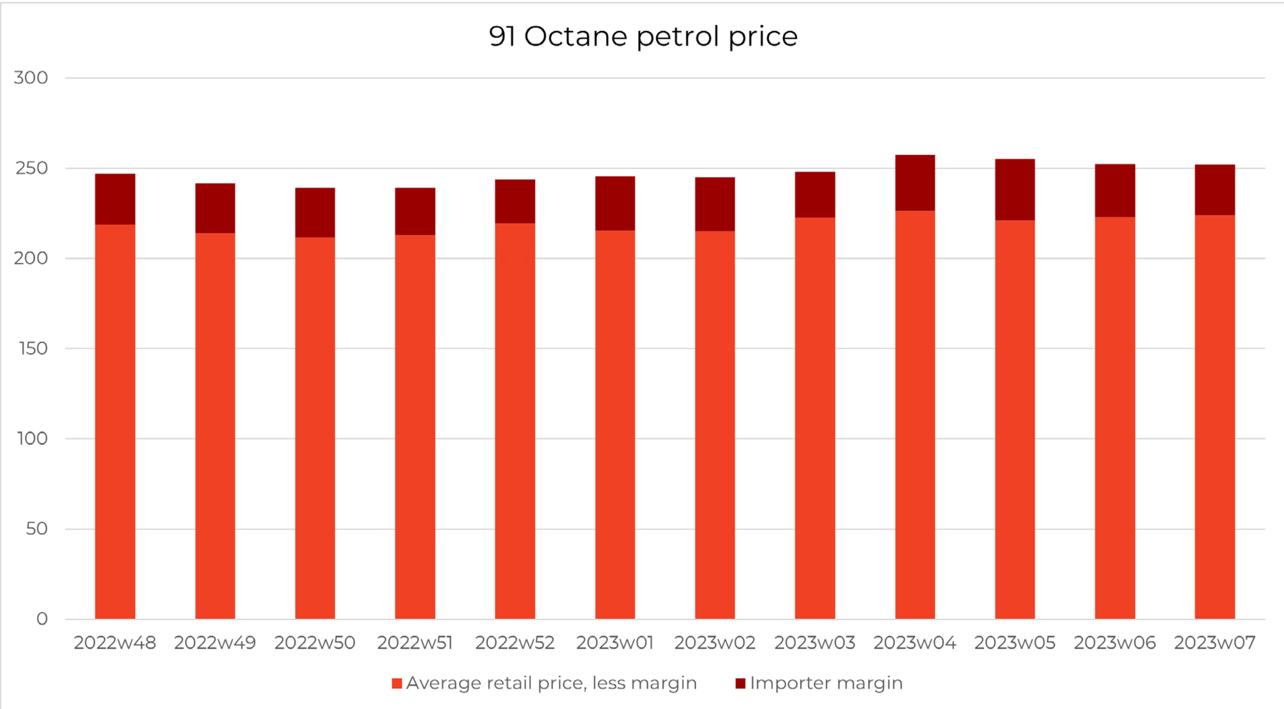
Food Price Index – Monthly Percentage Change (seasonally adjusted)				
	Oct 22	Nov 22	Dec 22	Jan 22
Fruit and vegetables	▲ 1.2%	▲ 0.9%	▲ 3.5%	▼ 0.8%
Meat, poultry, fish	▲ 2.7%	▲ 1.2%	▼ 1.2%	▲ 1.9%
Grocery food	▲ 2.0%	▲ 0.8%	▲ 1.5%	▲ 0.9%
Non-alcoholic beverages	▲ 2.0%	▲ 0.8%	▼ 1.7%	▲ 2.1%
Restaurant and ready-to-eat food	▲ 1.0%	▲ 0.5%	▲ 0.6%	▲ 0.7%
Arrows refer to direction of change				

Grocery food has seen the next largest rise, with cheese and eggs leading the charge with whopping increases of 21.9% and 33.8% respectively; meanwhile, the cost of bread has increased 7.5%. The meat, poultry, and fish group have increased by 9.2% overall, with the cost of poultry rising 13.5%, fish 12.4%, and beef and veal 6.7%. The cost of non-alcoholic beverages has increased 7.1%, while restaurant meals and takeaways have increased 8.3%.

Month-on-month, food prices have largely continued to rise, although January 2023 saw the smallest monthly increase since April 2022. A breakdown of the seasonally adjusted monthly movements is provided in the table below.

Petrol prices

Petrol prices have remained steady over the past couple of months. Thanks to the ongoing 25c/litre petrol levy cut, which has been extended until June 2023, the price at the pump is reasonably close to its pre-pandemic levels. MBIE's weekly fuel-price monitoring has 91 octane petrol at $2.52 per litre, 95 octane at $2.69 per litre, and diesel at $2.20 per litre for the week ending 19 February.

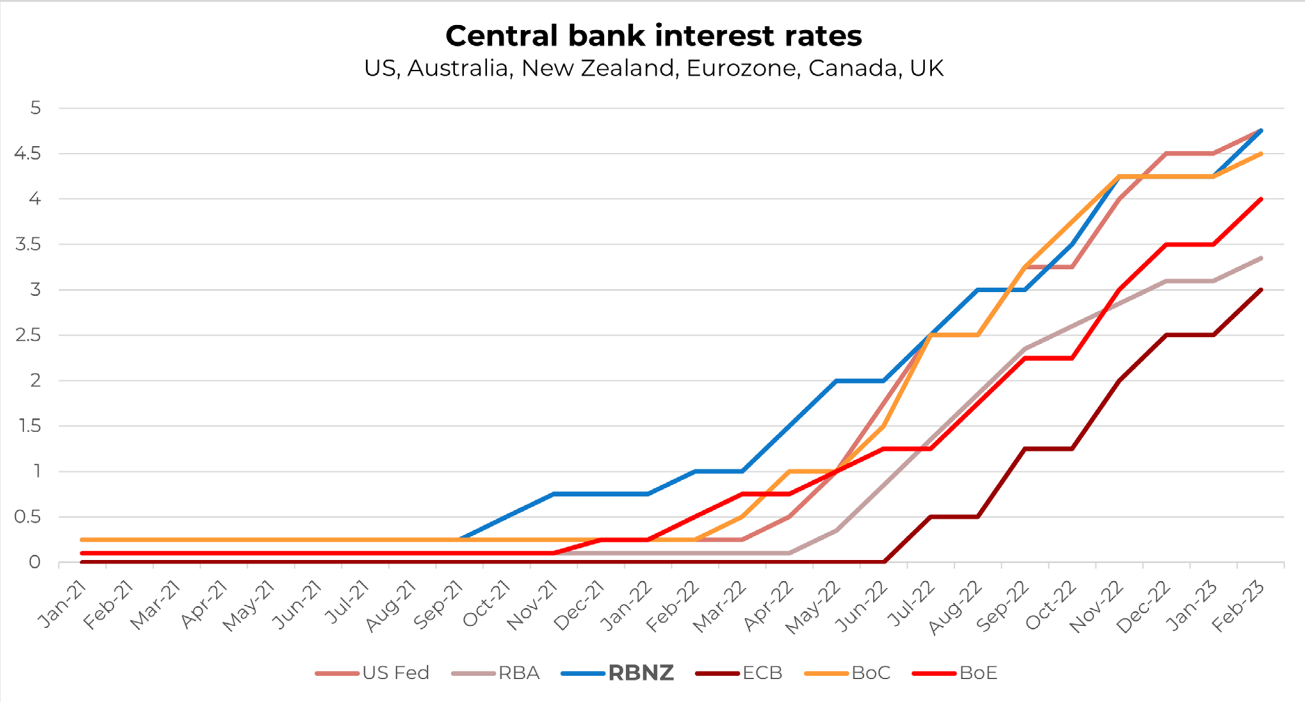


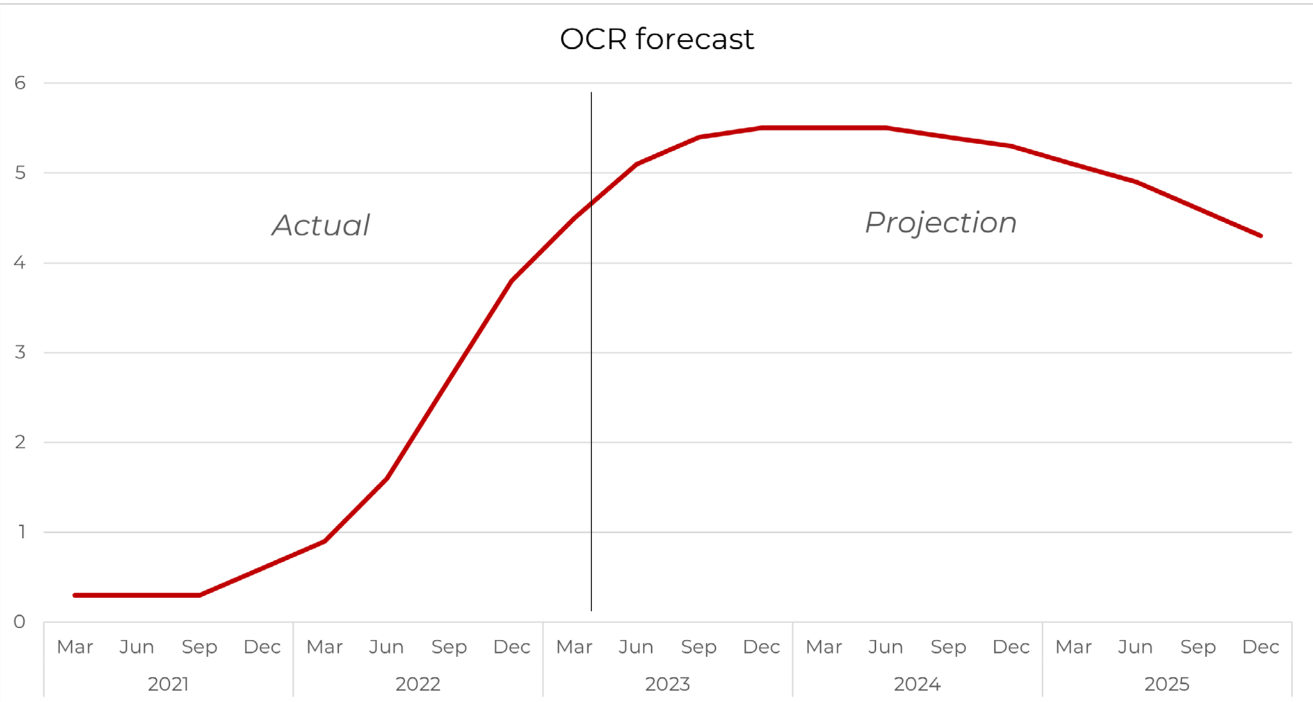
Lower prices at the pump have also been driven by falling oil prices globally. As the below graph shows, oil prices spiked following the Russian invasion of Ukraine, peaking at $120 per barrel during the middle of last year, before falling back to $80 per barrel by November. In the short-term, this is welcome news for households struggling with rising costs; however, ongoing geopolitical turbulence means there is a risk of further oil price spikes in 2023.

Economic Outlook

Domestic outlook

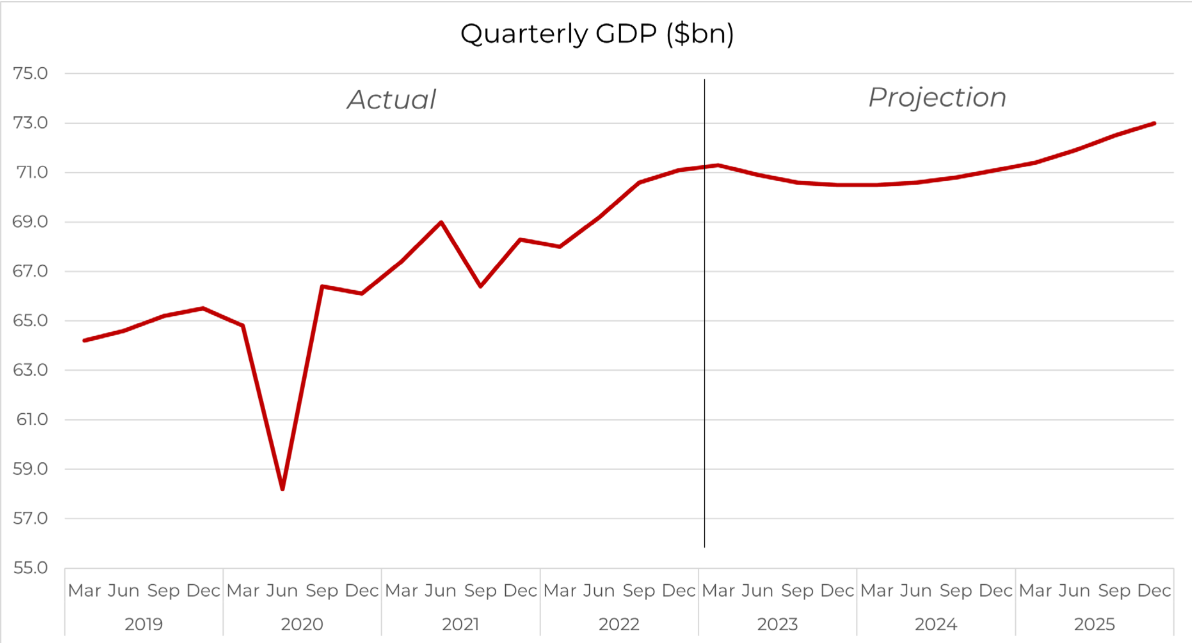
The Reserve Bank has hiked the Official Cash Rate (OCR) again, increasing it from 4.25% to 4.75% on 22 February. The OCR is forecast to peak at 5.5% later this year, and to stay above 5% through 2024. So far, the Reserve Bank has raised interest rates higher and faster than most other developed economy central banks. In its latest *Monetary Policy Statement*, the bank notes that monetary policy is now actively restrictive – meaning that interest rates have reached a level where they are holding back business investment and consumer spending.





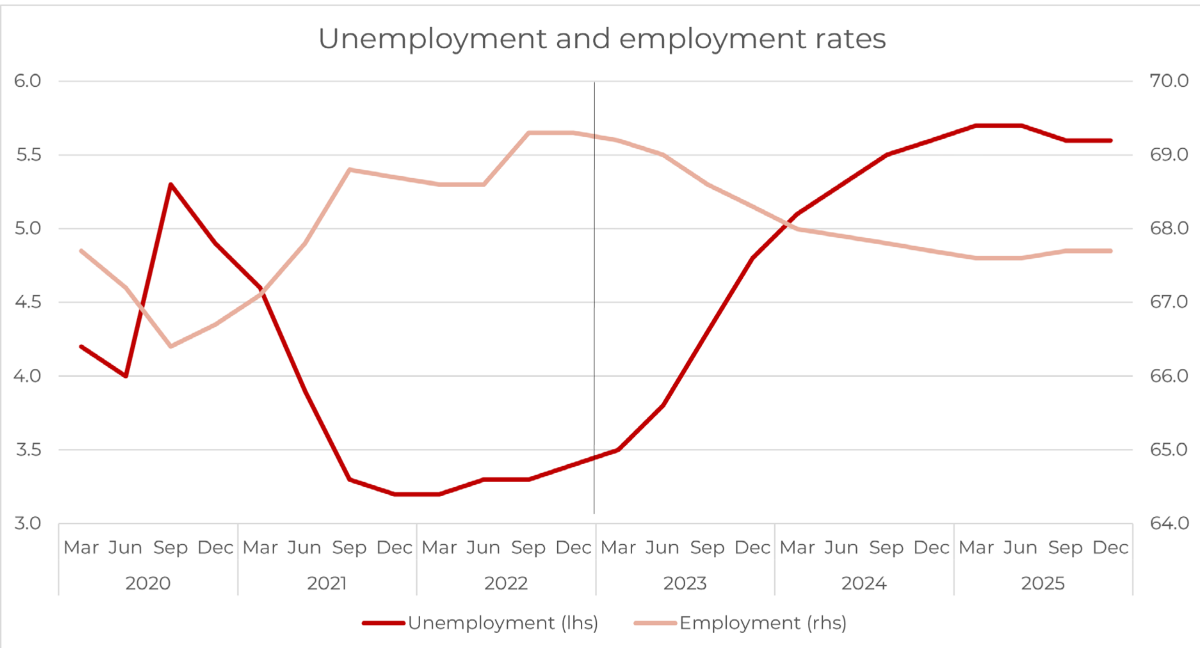
Source: RBNZ

The Reserve Bank continues to argue that a higher OCR is needed to dampen aggregate demand (essentially, consumer spending) and to drive the unemployment rate higher. At this stage, the full impact of this monetary tightening is yet to be felt. However, the expected upshot is a shallow but reasonably lengthy recession through 2023. The Reserve Bank is forecasting negative GDP growth for the June, September, and December quarters. Growth is expected to be sluggish through 2024, before picking up steam again in 2025. The Treasury and NZIER released similar forecasts late last year.



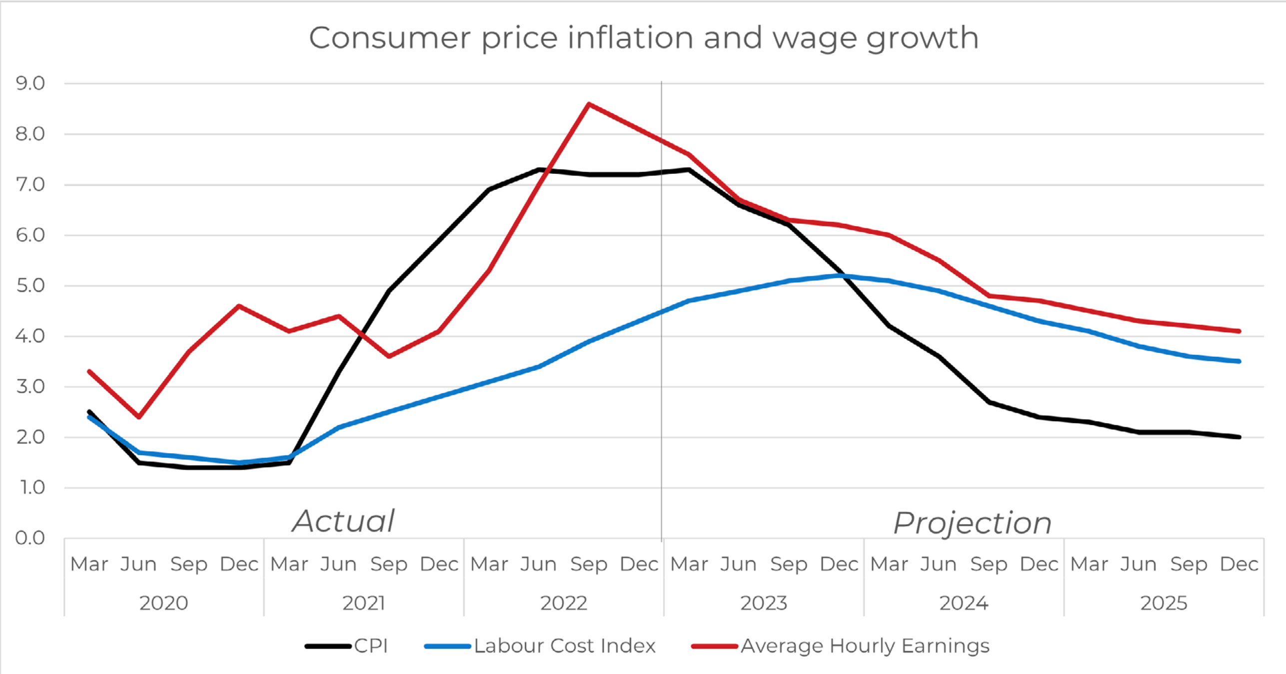
Source: RBNZ

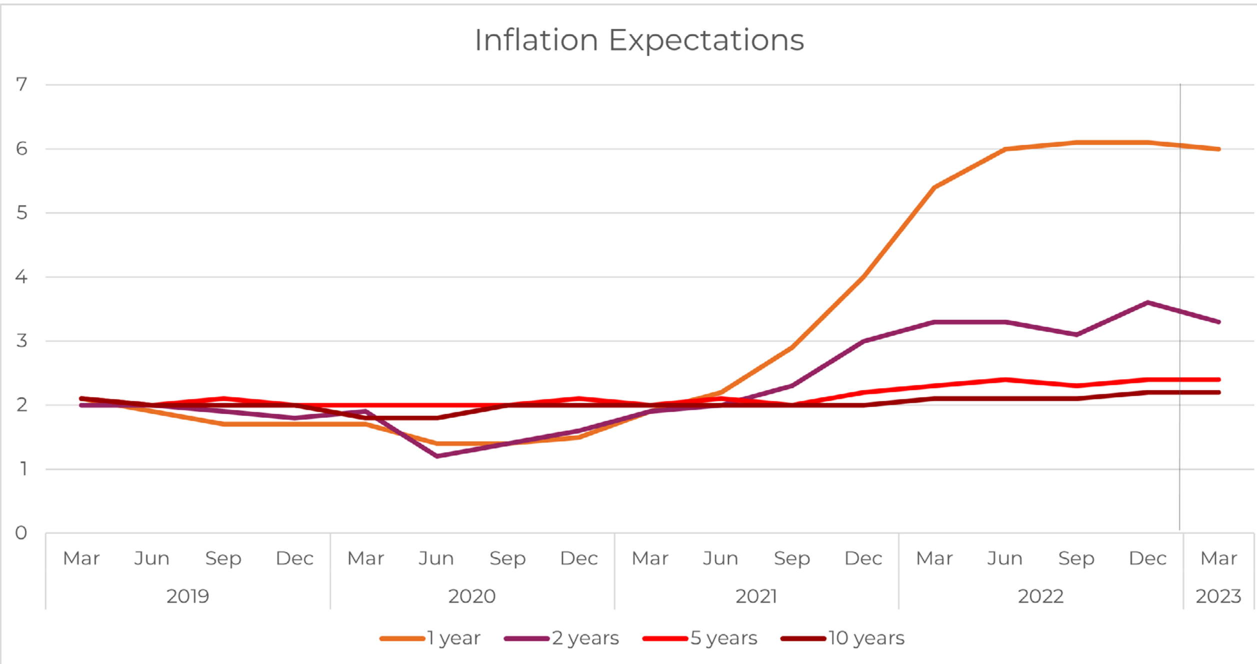
Through this period, unemployment is expected to rise, hitting 4.8% by the end of 2023, and peaking at 5.7% in early 2025. At the same time, the employment rate is expected to fall, coming off its peak of 69.3% in 2022 to reach 68.3% by the end of 2023; it is expected to level off around 67.6% in early 2025.



In concrete terms, an unemployment rate of 5.7% means approximately 70,000 more New Zealanders in unemployment; these job losses will likely be concentrated among low-income and precarious workers. It's therefore important that Government prioritises supporting unemployed and underutilised workers through this period. Ensuring that effective active labour market programmes are in place to get people back into work should be top of the to-do list.

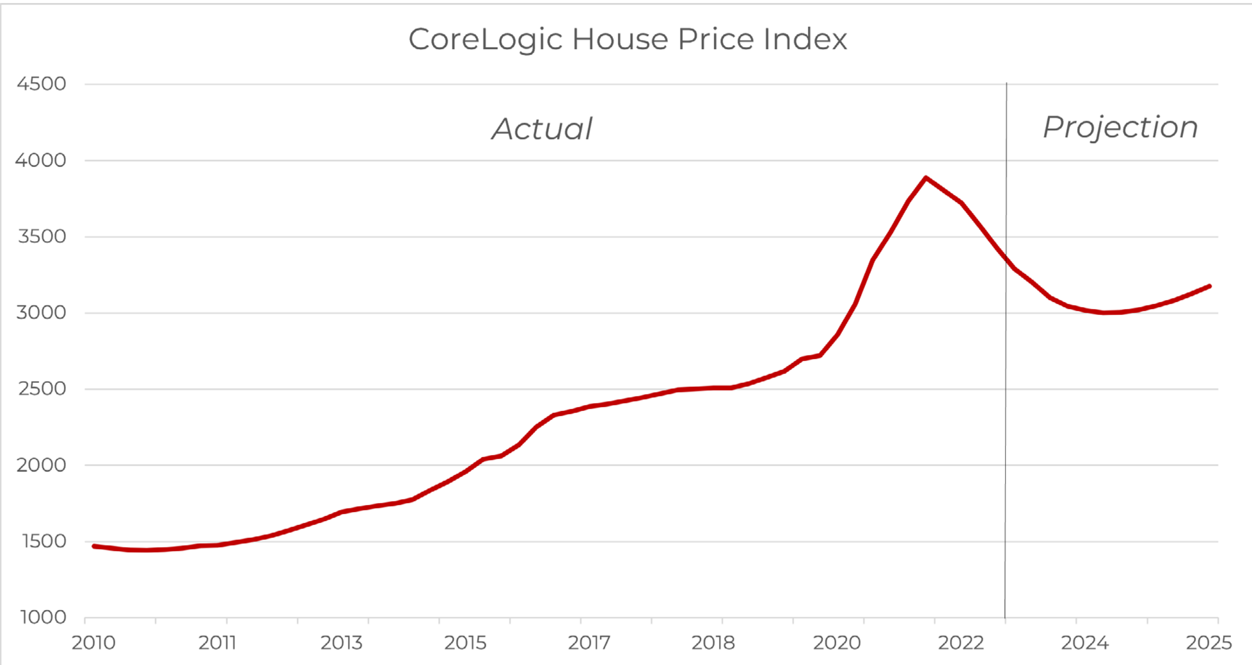
With economic activity contracting and unemployment rising, consumer price inflation is expected to decline through the rest of the year, reaching 5.3% per annum in the December quarter. It is forecast to continue trending down through early 2024, coming back within the Reserve Bank's target band of 1-3% per annum by the middle of that year. Meanwhile, wages are expected to outstrip inflation through most of this forecast period, meaning that many workers can expect to see real wage rises over this period.





This is supported by the inflation expectations data. Although 1-year inflation expectations increased as the inflationary shock of 2021 and 2022 unfolded, they appear to have peaked. Meanwhile, 2-year expectations have started to trend back down, and both 5-year and 10-year expectations remain firmly anchored within the Reserve Bank's target range of 1-3% per annum. This indicates that businesses and consumers expect inflation to moderate over 2023 and 2024.

House prices continue to fall across the country. To date, house prices have fallen around 15% from their late-2021 high, and the Reserve Bank expects them to fall by 23% in total, bottoming out in mid-2024 before beginning to climb northward again. This forecast is shared by ANZ bank, which expects house prices to fall a total of 22% from their peak. The ongoing deflation of the housing bubble will likely weigh down consumer confidence and spending through 2023.



As always, these forecasts are highly uncertain. One of the big unknowns right now is how the cyclone will impact domestic economic activity. In the short-term, we can expect it to dampen growth and put further inflationary pressure on the price of goods such as construction materials, cars, household appliances, and fruit and veges. Weaker export earnings should also be expected as a result. Over the medium term, however, the rebuild effort will likely boost economic activity, which may help to offset recessionary tendencies elsewhere in the economy.

Beyond these forecasts, it's important to reiterate that deliberately engineering a recession and driving unemployment up – which is exactly what the Reserve Bank is doing right now – will cause unnecessary economic and social pain for tens-of-thousands of Kiwis. As we have outlined in previous Bulletins, and in our Inflation and Incomes Act, there are more effective and sustainable ways to manage inflation in New Zealand. Our priority should be building long-term resilience to domestic and international price shocks.

Global outlook

Due to central bank rate hikes and the ongoing war in Ukraine, global economic growth is also expected to be sluggish through 2023. However, forecasts have lifted slightly since our last Bulletin, largely because of the reopening of the Chinese economy, Europe's better-than-expected ability to find alternative energy sources to Russian gas, and the ongoing resilience of the US labour market.

The IMF's World Economic Outlook, released in January, forecasts that global growth will fall from 3.4% in 2022 to 2.9% in 2023, before rising again to 3.1% in 2024. The slowdown is expected to be sharpest in the wealthy economies, which are forecast to grow by only 1.2% in 2023 and 1.4% in 2024.

Of the biggest economies, the US is expected to grow by 1.2% in 2023, the Eurozone by 0.7%, and China by 5.2%. Meanwhile, the UK is expected to register negative growth, contracting by 0.5% in 2023. With weak GDP growth and high interest rates, inflation is forecast to moderate over 2023 and 2024, coming down fastest in the wealthy economies.

All in all, the international outlook is more optimistic than it was late last year. But the global economic and geopolitical environment remains volatile. The most obvious risks to global economic development are the potential for the Chinese economy to buckle under the weight of Covid, escalation in the Ukraine war, and the emergence of debt crises in the Global South, sparked by rising interest rates.

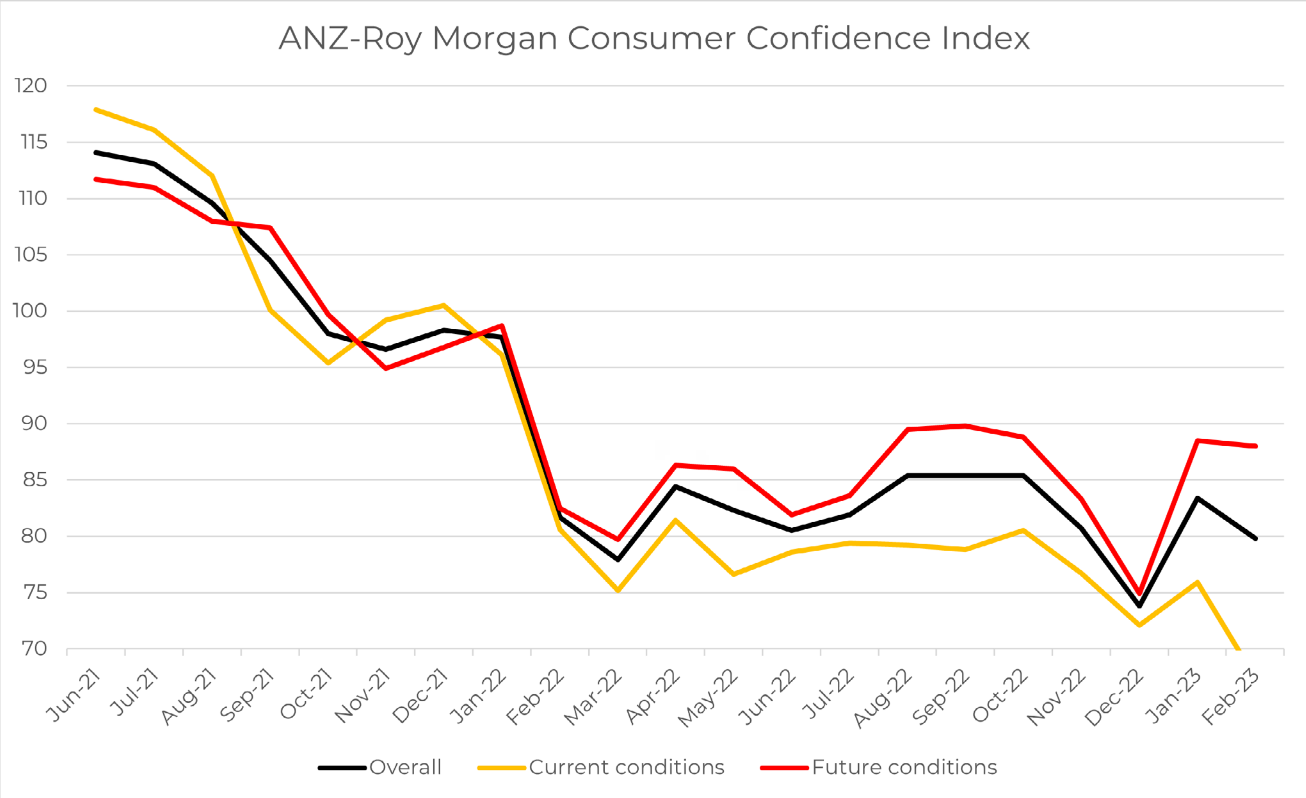
Other Economic Indicators

Consumer and business confidence

Both consumer and business confidence remain very low – as they were for most of 2022. The ANZ-Roy Morgan Consumer Confidence Index for February was 79.8, an improvement from the record-low of 73.8 in December 2022, but still deeply pessimistic. Confidence in current economic conditions is extremely low, at 67.4, while confidence in future conditions is somewhat higher, at 88. A score above 100 on the index demonstrates that consumers have confidence. Less than 100, and they are pessimistic about the future. A net 35% of those surveyed reported it was a bad time to buy a major household item, while a net 41% were pessimistic about the economic outlook for 2023. On the bright side, a net 7% of respondents reported that they expect to be better off financially one year from now.

Meanwhile, business confidence is also slightly up from last year, though still rather low. The gloomiest sectors in the January 2023 survey were agriculture and construction, which have seen the largest drops in activity compared to January 2022.

Last year, pessimism about economic conditions went hand-in-hand with carefree consumer spending. But recent data indicates that retail spending is slowing as interest rate hikes start to bite, suggesting that this dynamic is coming to an end. As ANZ bank note: "consumer wariness in an environment of high income growth and strong job security is one thing, but wariness against a backdrop of a slowing economy and deteriorating job security is quite another".



Retail sales and card spending

StatsNZ's retail trade survey for the December 2022 quarter shows that the total volume of retail sales – seasonally adjusted and accounting for price effects – was $26.02 billion, a slight decrease of 0.6% from the September quarter. Retail sales volumes have hovered around these levels for the last three quarters. On an annual basis, the total volume of retail sales fell by 4% ($1 billion) from December 2021 to December 2022.

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

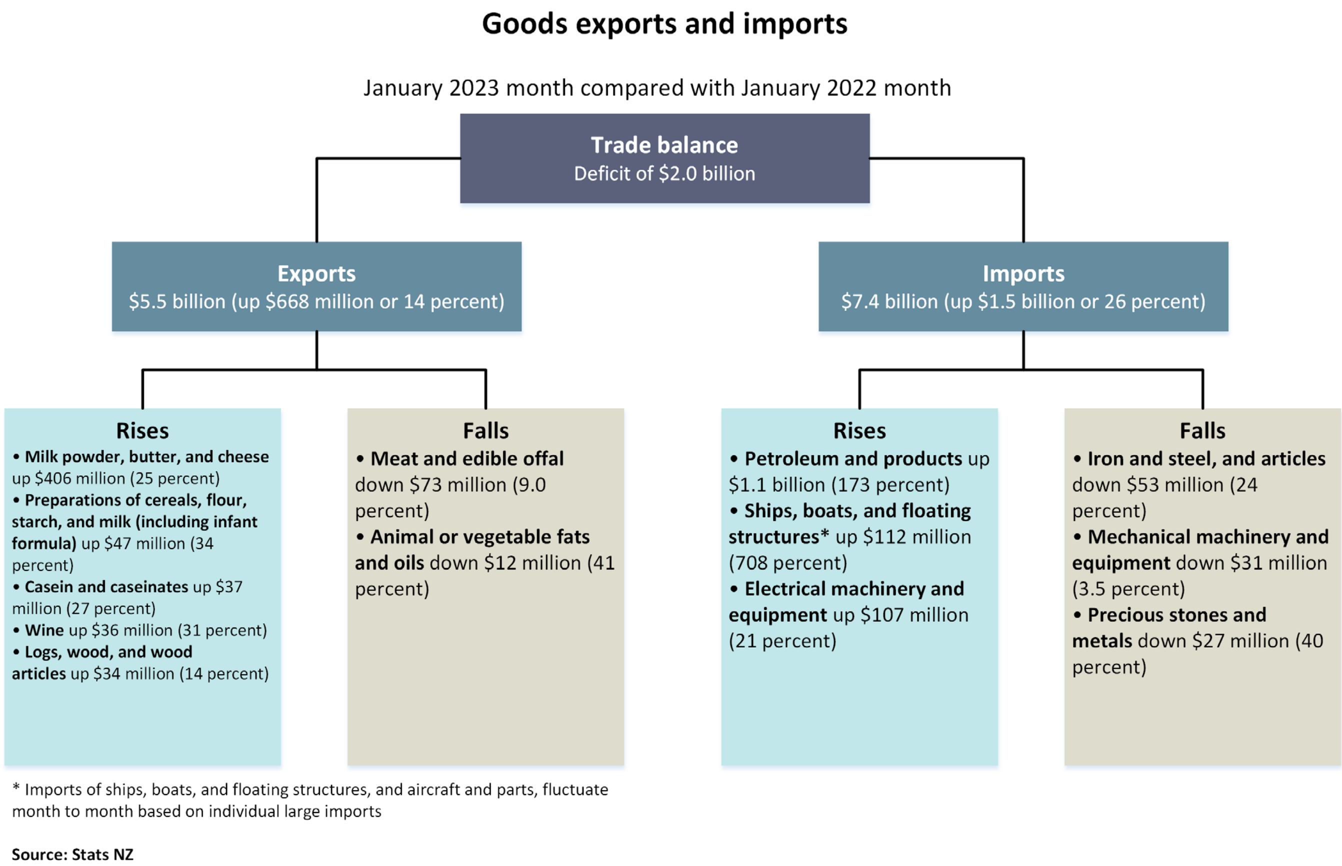
- **Electrical and electronic goods retailing** – down $222 million (9.7%)
- **Furniture, floor coverings, houseware, and textile goods** – down $39 million (5.2%)
- **Food and beverage services** – up $64 million (3.2%)
- **Fuel retailing** – up $43 million (2.6%)

International trade

Total exports of goods and services were $24.7 billion for the December 2022 quarter, up 20% from December 2021. Milk powder, butter, and cheese accounted for just over 25% of total exports, with $6.3 billion of dairy products traded in the December 2022 quarter. With the tourism recovery underway, travel was the second largest export, at $2.7 billion (10.9% of total exports).

Total imports of goods and services was $31 billion for the December 2022 quarter, up 21% from December 2021. The three largest imports for the quarter were vehicles and vehicle parts, at $3.2 billion (10.3% of total imports); machinery and equipment, at $3 billion (9.6% of total imports); and petroleum, at $2.2 billion (7.2% of total imports).

More recent trade data on goods comes from the monthly overseas merchandise trade series. Comparing January 2023 with January 2022, goods exports increased 14% to $5.5 billion. Diary exports accounted for much of the rise, up $406 million to $2 billion – a 25% increase. Goods imports also increased, up 26% to $7.4 billion. Petroleum products drove much of this rise, up $1.1 billion to $1.7 billion – a huge increase of 173%. The most significant movements are captured in the figure below from StatsNZ.

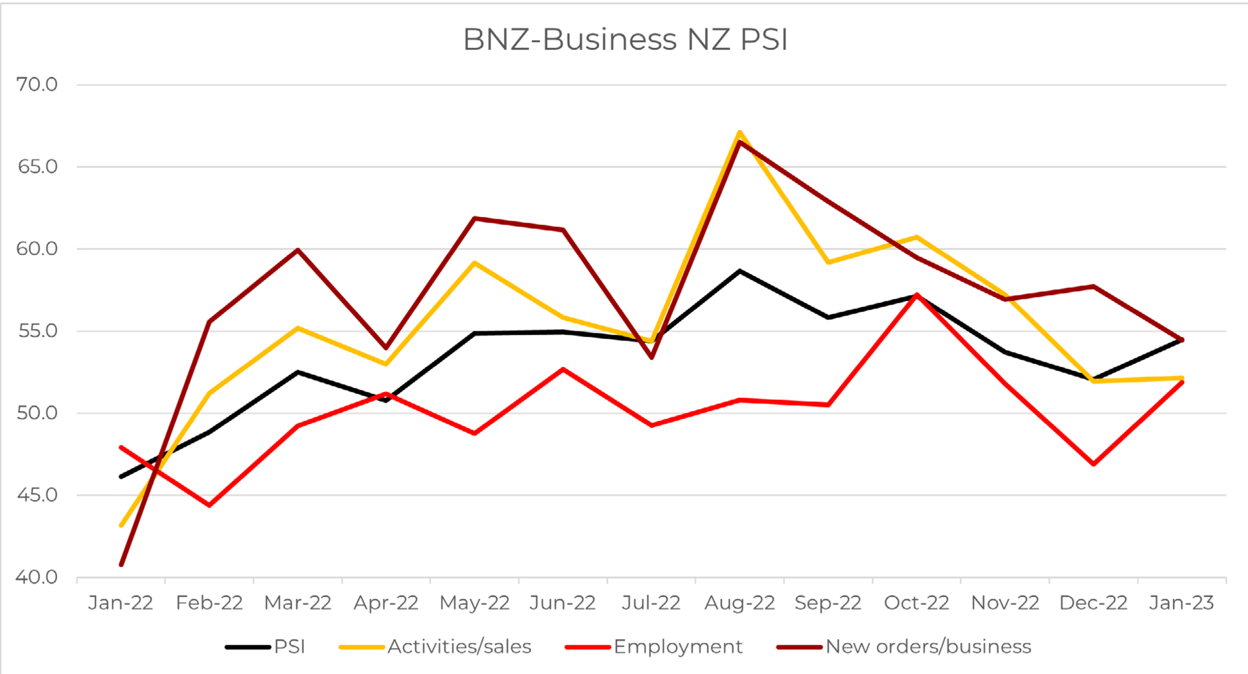


Performance indexes

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.

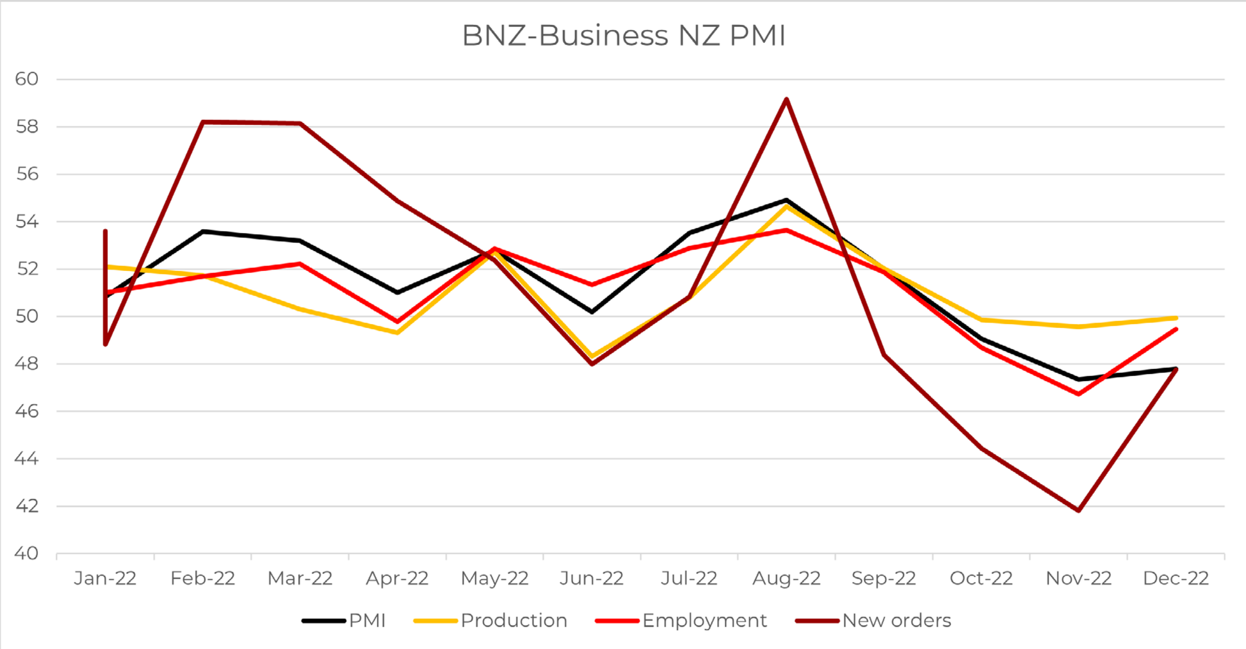
After three months of contraction, the January index rose 3 points to 50.8, suggesting that manufacturing activity is expanding weakly. This rise in the PMI was driven by an increase in production (up 2 points to 52.1), employment (up 1.5 points to 51), finished stocks (up 2.5 points to 52.6) and deliveries (up 3 points to 51.6). However, the important sub-index of new orders remained in negative territory, at 48.8.

As Business NZ note, "Despite the lift in activity, the negative mindset of manufacturers continued to pick up pace, with the proportion of negative comments at 69.9% for January". Ongoing supply chain problems, labour shortages, and falling orders are all cited as top of mind for manufacturing firms.



The BNZ–Business NZ Performance of Services Index also lifted in January, up 2.5 points from December to 54.5. Across the sub-indexes, activity/sales (52.1), employment (51.9), and stocks/inventories (54.2) all rose. However, new orders/business fell 3 points to 54.5, and supplier deliveries fell 2 points to 52.

Despite an expansionary PSI, the proportion of negative comments from firms rose to 61.7%, up from 58.2% in December and 47.3% in November. According to Business NZ, labour shortages are a common concern, as is the general uncertainty of the economic outlook.



Real estate

As discussed above, house prices are continuing to fall across most of the country. As of January 2023, REINZ's House Price Index has fallen 16.2% from its peak, with the biggest drops coming in Wellington (-24.4%) and Auckland (-21.4%).

As of January 2023, the national median house price has fallen to $762,500, down 13.3% year-on-year, and down 17.6% from its peak. The median price in Auckland has fallen 21.7%, dropping below $1 million (to $940,000) for the first time in two years. Meanwhile, Wellington has fallen 16.4% year-on-year, to $765,000. Except for Gisborne (up 3.8%), Taranaki (up 0.8%), and the West Coast (up 5.3%), all other regions have also registered declines.

Year-on-year, listings are down 16% and sales are down 27%. Houses are also hanging around on the market for longer, with 53 days to sell on average (up 16 days year-on-year).

Median House Price, Jan 2023 – Percentage Change (REINZ data)				
	Price	**Monthly**	**Annually**	**From Peak**
National	$762,500	▼ 3.5%	▼ 13.3%	▼ 17.6%
National excl. Auckland	$679,000	▼ 3.0%	▼ 9.3%	▼ -12.3%
Auckland	$940,000	▼ 10.0%	▼ 21.7%	▼ -27.7%
Wellington	$765,000	▼ 3.8%	▼ 16.4%	▼ -23.5%
Arrows refer to direction of change				

Government fiscal position

As discussed in the opening article of this month's Bulletin, the Government has plenty of fiscal capacity to support the cyclone recovery and rebuild process. The Interim Financial Statements of the Government for the seven months ending 31 January 2023 show that net Crown debt sits at 18.9% of GDP ($70.5 billion), which is very low by international standards. Net debt is $3.5 billion lower than was forecast in the December 2022 HYEFU (half-year economic and fiscal update), with Treasury reporting this is largely due to rising government asset values and lower-than-expected borrowing.

Tax revenue is $0.4 billion lower than forecast in the HYEFU, at $64.7 billion. GST revenue was $0.3 billion below forecast, potentially indicating that consumer spending is beginning to weaken. However, corporate tax revenue was $0.1 billion higher than forecast, suggesting that firm profitability continues to be strong.

Core Crown expenses were also below forecast, by $0.2 billion. Treasury reports that spending has been lower than expected in health ($0.3 billion), core government services ($0.3 billion), and social welfare ($0.2 billion).

Comparing the January 2023 accounts to the January 2022 accounts, tax revenue is up by $5 billion (8.3%). This has primarily been driven by a $3 billion (12.6%) rise in income tax revenue – the result of a strong labour market – and a $1.9 billion (12.5%) rise in GST revenue – the result of higher consumer prices.

Meanwhile, core Crown expenses are $0.4 billion lower than in January 2022. The composition of expenses has changed significantly over this period. The biggest change has been the ending of Covid-era wage-subsidy payments. All else equal, this means expenses for the seven months ending January 2023 were $7.4 billion lower than for the seven months ending January 2022. However, this has been offset by greater spending elsewhere: the cost-of-living payment and the reduction in fuel excise duties have increased spending by $1 billion, debt-servicing costs are up $2 billion, health expenditure is up $1.2 billion, and NZ Superannuation payments are up $1 billion.

Government accounts for the seven months to January 2023

	Compared to Jan 2022		Compared to HYEFU	
	Jan 22	**Jan 23**	Forecast	**Actual**
Tax revenue ($m)	59,706	**64,674**	65,108	**64,674**
Total revenue ($m)	64,589	**71,274**	71,902	**71,274**
Total expenses ($m)	72,058	**71,651**	71,815	**71,651**
Net debt (% of GDP)	15.2%	**18.9%**	19.8%	**18.9%**
OBEGAL* ($m)	-7,999	**-2,363**	-2,283	**-2,363**

** OBEGAL = operating balance before gains and losses*