Te Kauae Kaimahi

Monthly Economic Bulletin

September 2022: Building a Better Future

NEW ZEALAND COUNCIL OF TRADE UNIONS
union.org.nz

Monthly Economic Bulletin
September 2022

NZCTU Te Kauae Kaimahi

Introduction

Welcome to the October edition of the EconoLex — NZCTU's Economic Bulletin. Firstly, welcome to Jack Foster who has joined the CTU this month, and has contributed to the production of this edition.

The CTU launched its Building a Better Future consultation document this month. This is our view of an alternative approach to economic development, and how we will deliver wellbeing for New Zealanders.

This edition examines the recent news around inflation and wages and looks at what is really driving inflation at this point. It also looks at some of the alternatives that may be available to address our current challenges more effectively.

This Econolex is packed with the usual updates on the economy, labour market, fiscal policy, and price changes. It feels like a very uncertain time in the global economy at the moment, and the data is moving around quickly. While we have avoided recession, the one thing that we can be certain of is more change in the future. We will keep you updated on all the key issues and on what they mean for workers in New Zealand.

As always, should you have any questions about the data or any requests for more information, please get in touch. We are always keen to discuss economic topics and any special requests for future editions.

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Building a Better Future

Creating an Economic Development Strategy Together for Aotearoa

Last week the NZCTU launched our consultation document for an alternative economic strategy for New Zealand. The Governor of the Reserve Bank of New Zealand Adrian Orr, opened the event. The event also featured a video of Nobel laureate and former head of the World Bank Joseph E . Stiglitz who discussed the importance of Fair Pay Agreements and New Zealand's Income Insurance Scheme.

Full details of the report can be found at: *https://buildingabetterfuture.org.nz.* We want your feedback on how we can build a more productive, sustainable, and inclusive economy. This report is our view of an economy that delivers for workers, alongside policy options that may assist in delivering this vision.

New Zealand's facing a turning point in our economic history — the mirage that New Zealand is or was a classless society has long since passed. The current state of the economy is characterised by growing wealth inequality on a generational, ethnic, and regional level, aided by decades of underinvestment in social and physical infrastructure.

Economics is inherently about people. It's central to the lives of all New Zealanders. Economics is often mistaken as a synonym for finance and business. However, that is only one small sub-set of economics, which at its heart is entirely about people, communities and families.

> *"The market left uncontrolled is destroying families and will destroy the very earth we rely on to survive. We need a new way of living, a new leadership and a sharp change in the incentives to do the right thing"* Helen Kelly 2015

Some of the challenges that NZ currently faces, and which our blueprint for an Alternative Economic Strategy seeks to address, include:

- Sustained underinvestment in the public realm.
- New Zealand's chronic productivity problem.
- The distribution of wealth remains unchanged since 2015.
- Real incomes are under pressure from a rising cost of living.
- Earlier this year median rent in Wellington hit 97% of a minimum wage worker's take home pay.
- In 2021, 9,500 children under 6 were hospitalised with illnesses such as respiratory tract infections and meningitis likely caused by inadequate housing.
- Gender and ethnic pay gaps remain largely unchanged.
- In 2021, a minimum wage earner on $20 per hour would need to work an additional 6 hours, almost a full day, to cover rent for the same property compared to 2009.

We can tackle these concerns and realise the opportunities available to us in a coordinated economic strategy where everyone can contribute, tackles inequities, and leaves no one behind.

This is a blueprint for an Alternative Economic Strategy. We look forward to consulting with people from all regions of the country and welcome their contribution to the ongoing development of a final Economic Strategy to be released early 2023.

Missions

The NZCTU believes that the best way to deliver this strategy is to frame our aspirations in terms of 'missions'. Missions provide both a goal and a direction. Taking a mission approach means that different actors can agree and align their actions to provide maximum benefit. They allow for the development of innovative policy solutions and a quick means of understanding whether a policy is achieving its overall goal. The NZCTU believes that New Zealand's economic strategy must deliver the following missions:

1. **Mission:** Economic equity

The NZCTU wants to see an economy built for working people, their families, and the communities in which we all live. The economy is a means to pay for the quality of life that we want for all New Zealanders. It is not a means to deliver ever-rising levels of wealth and income for a select few.

Since 2015, the wealthiest 20% of households have seen their net worth increase by more than $300,000 while the poorest 20% of households saw an increase of just $3,000. The top 10% of NZ households still hold more than 50% of all wealth. Just the top 5% alone own 37% of all New Zealand's wealth.

> *"We imagine that equality is going to occur naturally or spontaneously, a bit like a fairy tale. But the reality is that we also need political institutions, an education system, health care, a transport system and a tax system that targets the highest incomes."*
>
> Thomas Piketty, Capital in the Twenty-First Century

Growth for growth's sake is neither sustainable nor advisable. Growth built upon ever-higher levels of consumption has simply led to environmental decay, an indifference towards inequality, and the prioritisation of our short-term needs over the long-run.

Policy Proposal: A National Investment Bank to finance our central economic missions and a new state-owned default KiwiSaver provider.

This would be modeled on the Scottish National Investment Bank. It would invest in projects where the private sector is not, allow projects to focus on long term growth and sustainability, alongside positive social and environmental benefits instead of short run profits. It would also help finance some of the initiatives of the Ministry of Green Works and Just Transitions. We propose the NZNIB could be in part funded through a levy on the profits of the largest banks in New Zealand.

2. **Mission:** Adequate housing and infrastructure needs for the 21st Century

Delivering our infrastructure needs will be a huge challenge. Basic essentials, like clean drinking water, now require decades of reinvestment just to be functional. The infrastructure deficit means $104bn of roads, schools, and hospitals that should exist today do not – on top of the $106bn finance for future infrastructure needs that's currently missing.

> *"At the root of the crisis is a speculative housing market that has been supported by successive governments who have promoted homeownership as an investment, while until recently discontinuing the provision of social housing and providing inadequate tenant protection."*
>
> UN Special Rapporteur Leilani Farhare, 2020

We believe that housing should be seen first and foremost as a place to live, rather than an investment to maximize and extract profits at the expense of basic human needs.

Policy proposal: A Ministry of Green Works that delivers on our key missions

The infrastructure deficit highlights that delivering on our infrastructure needs is beyond the scale and capacity of our existing private sector. We therefore propose the establishment of a Ministry of Green Works, based in part on the work of FIRST Union, Max Harris, and Jacqueline Paul. It will be responsible for construction, urban design, architecture, and infrastructure planning, policy, and strategy

3. Mission: A Just Transition towards climate mitigation and resilience

During Covid-19, New Zealand's team of 5 million worked together to keep people safe. We demonstrated that the best economic response was in fact the best health response. It's time to learn that lesson and realise that the best climate strategy is the best economic strategy. Fortunately, investing in green infrastructure not only creates jobs, it creates more jobs per dollar invested than fossil fuel jobs.

> *"The climate crisis is both the easiest and the hardest issue we have ever faced. The easiest because we know what we must do. We must stop the emissions of greenhouse gases. The hardest because our current economics are still totally dependent on burning fossil fuels, and thereby destroying ecosystems in order to create everlasting economic growth."*
>
> Greta Thunberg, In an address to the British Parliament on April 23, 2019.

Policy proposal: An energy revolution alongside a Just Transition

An energy revolution alongside a Just Transition includes an Energy Industry Transformation Plan (ITP) which shifts heavy transport away from fossil fuels and into green electricity or hydrogen. Air NZ has already looked into the feasibility of hydrogen aircrafts having just last year signed a memorandum of understanding with Airbus to research flying zero-emission hydrogen aircrafts. An energy revolution is an opportunity to put New Zealand on the global stage, producing business opportunities and good jobs for all. We also support micro-generation and distribution, particularly where led by community and neighbourhood partnerships.

However, it must be done as part of a Just Transition in partnership with Māori, as Te Tiriti o Waitangi partners, and ensure that the workers and communities directly affected by a transition do not unfairly shoulder the burden.

Under our current climate trajectory, research shows that if the Paris Agreement and 2050 net-zero emissions targets are not met, climate change could cost the global economy 10% of GDP (equivalent to $23 trillion) by 2050. That research also predicts that if global temperature rises reach 2.6 degrees Celsius it will cost the New Zealand economy 10.4% of GDP by 2050. However, if the Paris Agreement targets are met, global GDP and New Zealand's GDP are estimated to reduce by a much smaller 4.2% and 3.7% by 20250 respectively.

The NZCTU put forward our definition of a Just Transition to the Future of Work Forum in March of this year. This definition was agreed by the social partners and now sit on MBIEs website.

The Future of Work Tripartite Forum's Definition of a Just Transition:

A Just Transition is a process run in partnership between the Government, Māori, as Te Tiriti o Waitangi partners, social partners (business and workers), local communities and local Government. The process is designed to secure rights and livelihoods when communities, industry or the country experience economic shocks or structural change.

The New Zealand economy will face uncertain future disruptions. Challenges from climate change, automation and the impacts of globalisation will occur alongside recessions, business restructuring and other international and national factors.

At times, the challenges posed by these future disruptions, the transition to the future of work, and the interaction between these will affect a community, region, or industry. If not addressed promptly and proactively they will negatively impact businesses and workers alike. The economy will be unnecessarily impacted, skills will be lost, and human capital will be destroyed in the process. These changes risk reducing the availability of decent work together with secure and livable incomes.

We can address these challenges through a just transition, towards a more productive, sustainable, and inclusive economy and society.

A Just Transition process:

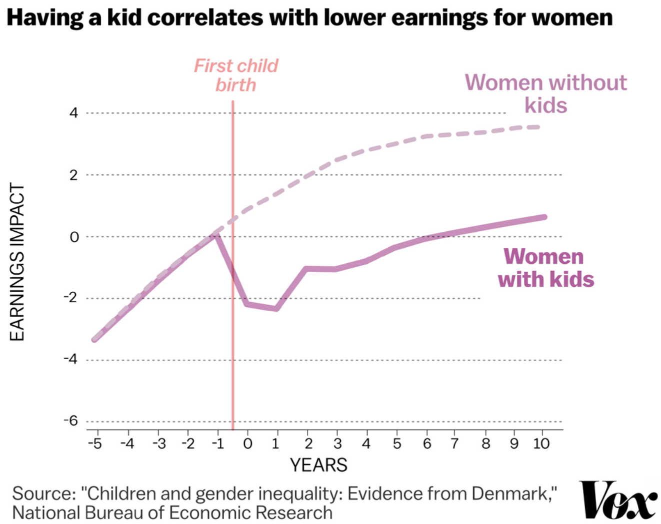
- Mitigates the negative impacts of the transition and existing change processes
- Enables valuable change to occur and capitalizes on opportunities that come about because of the transition
- Prepares New Zealand's response to future adverse shocks
- Proactively shapes the economy to minimise the future impacts of change, and builds New Zealand's social, economic, and environmental capacity to respond to threats to its wellbeing
- Seeks to determine whether a change can be mitigated by government or other action, and what sort of action is necessary
- Recognizes that not all shocks are necessarily adverse
- Strengthens the ability of communities, workforces, and industry to determine their own futures over the long term
- Seeks to equitably share the costs, benefits, and opportunities of change across society and the economy and mitigates the potential for that change to create larger economic inequality
- Is as fair and inclusive as possible to everyone concerned, creating decent work opportunities, and leaving no one behind
- Ensures that the workers directly affected by a transition do not unfairly shoulder the burden of transitions.
- Delivers for more marginalized groups and sectors of the community. It supports these groups to play a leadership role in identifying and planning for the actions that will be needed for their transition over the short-, medium- and long-term.
- Actively works to achieve these outcomes

4. Mission: Decent work and greater work/life balance

A highly productive, sustainable, and inclusive economy is only successful if wages and job security are also prioritised. For too many New Zealanders, their experience of the labour market is a story of exploitation and falling living standards.

In the March 2022 Bulletin, we calculated that median rents in Wellington had reached up to 97% of a minimum wage worker's take-home pay. We also found that in 2021, a minimum wage earner on $20 per hour would need to work an additional 6 hours, almost an extra full days labour, to cover rent for the same property compared to 2009. As a result, we introduced the **NZCTU Minimum Wage to Housing Index**, which showed that in order for the minimum wage rate to keep up with housing costs for renters, the current minimum wage rate should be $25.17.

Additionally, the gender pay gap remains a serious problem in New Zealand and has negative consequences for equity, wellbeing, quality of living and national productivity. The latest figures have the median earnings gender pay gap at 9.2% and the mean gender pay gap at 10.3%. Research shows that 80% of the gender pay gap can be attributed to wage scarring due to mothers removing themselves from the workforce to raise children and the impact that has on earning potential once they return to the workforce. The graphs below — reproduced by Vox.com from a study by Princeton University economist Henrik Kleven, titled *Children and Gender Inequality: Evidence from Denmark* — show that the salaries of women without children are comparable with men's salaries and that once women re-enter the workforce they slowly start to close that gap later in life. We therefore need to take steps to reduce the effects of wage scarring that working parents often experience upon re-employment.



Policy proposal: A Decent Work Act, pilot a four-day work week, and free high-quality Early Childhood Education

A Decent Work Act would replace the Employment Relations Act and include mechanisms to increase the bargaining power of workers, better recognise unions, pay equity claims, ratification of the remaining ILO core conventions – Convention 87 'Freedom of Association and the Protection of the Right to Organise'; Convention 138 which sets minimum wages for work; Convention 187 on health and safety at work; and Convention 190 on preventing violence in the workplace.

We're also proposing a four-day work week pilot, undertaken at a sector level, on the same 100/80/100 basis as the UK. The 100/80/100 model means that workers receive 100% of their pay for working 80% of their five-day week, in exchange for a commitment to maintain 100% productivity.

To help reduce the gender pay gap we also propose:

- Progressively extending the provision of public ECE services to be free to all children; decoupling parental leave so each partner's leave is independent; adapting NZIIS (NZ Income Insurance Scheme) to include parental leave and mandatory pay gap reporting.

5. Mission: Ensuring the enduring wellbeing of New Zealand

Economic development, wellbeing and mental health go hand in hand. Increasingly insecure and flexible economies have had a profound impact on rates of anxiety. Mental illness leads to unemployment, worker absenteeism, and reduced productivity. Recent estimates for OECD countries are that mental illness reduces the size of our economy by approximately 5%. New Zealand's wealthiest 1% control a quarter of the nation's wealth, inequality is embedding itself further into our social fabric. Inequality between ethnicities, particularly between Māori and Pākehā, persists.

> *"For me wellbeing means giving people the capabilities to live lives of purpose, balance and meaning to them. For too long we have defined our success as a country solely on our rate of GDP growth"* – Hon. Grant Robertson

The current government's drive to address child poverty has made only small inroads. Creating a fairer economy needs more far-reaching policies than those currently employed. We need to bring together our wellbeing goals with our economic goals, so they are not traded off against each other.

Policy proposal: Work with central government economic agencies to build and embed a genuine wellbeing approach to economic development

Our current approaches to economic development place the price of action upfront, but hide the costs of inaction — that needs to change. We want to work with central government agencies to build and embed a genuine long-term wellbeing approach. This includes:

- Considering the role that each of the central government economic agencies can play.
- Working on a better value for money approach within government, that consider both the financial consequences alongside the social and community consequences.
- Value for money should also highlight the cost and opportunity costs of non-investment.

Engagement

We will be holding virtual and in-person meetings around New Zealand until March 2023. We want to engage with voices that are often not heard. We will liaise specifically with Māori and Pasifika communities to make sure that their voices are centred in our report. This is the very beginning of our journey. We know delivering on our economic aspirations will take a long time. We anticipate that the proposals we set out in the final report will be rolled out over several years. This journey, and the proposals that we develop, will be shared on the NZCTU website at *buildingabetterfuture.org.nz*. It will also be available as a printed report which will be published ahead of the next Budget in 2023

Inflation and the 'Price-Wage Spiral'

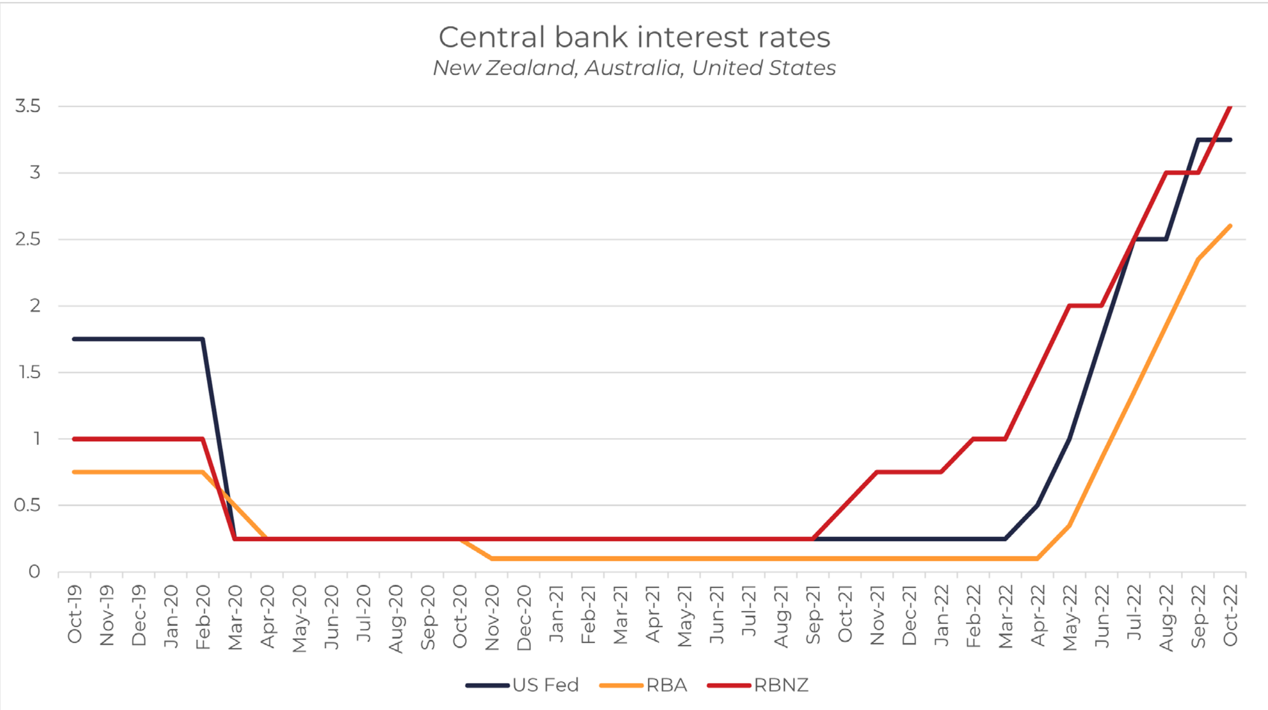
The consumer price index (CPI) currently sits at 7.3% – the largest since June 1990, when CPI reached 7.6%. It's commonly agreed by economists that high levels of inflation are economically and socially destructive if they persist for too long. But there is not a similar level of agreement by economists about the best way to get inflation under control.

Recently, it has become fashionable to argue that a tight labour market and rising wages are driving inflation and threatening to entrench a 'wage–price spiral' in New Zealand. A wage–price spiral is when rising prices cause workers to need higher wages; in turn, businesses pass on the costs of a rising wage bill to the consumer, causing another round of price rises. The name itself is misleading, as demands for higher wages are made *in response to* rising prices. Really, it should be called a price–wage spiral.

In this note, we look at how inflation is managed in New Zealand, how this approach is ill-suited to manage the kind of inflation we have been experiencing since 2021, and what an alternative approach could look like.

New Zealand's inflation management regime

Since 1989, the Reserve Bank has been charged with keeping inflation low and stable. The idea is that low inflation is good for economic development in the long run, as it provides a stable and predictable investment environment for business. Low and stable inflation benefits everyone because more investment means more jobs and more growth.



Since 2018 the Reserve Bank has had a dual mandate – to keep inflation low and stable *and* to support 'maximum sustainable employment (MSE)'. However, MSE does not mean full employment, rather,the Reserve Bank interprets MSE to mean "the level of employment at which the job market is tight, but not so tight that inflation is rising out of control".

The rationale for MSE not meaning full employment is that low unemployment increases the bargaining power of workers, which drives up wages. In turn, businesses pass on the costs of a rising wage bill to the consumer. If this process becomes entrenched, then price rises get locked in — we are back to the idea that it is a tight labour market and demand for higher wages that drives inflation. As a result, the Reserve Bank's 'maximum sustainable employment' mandate is conditional on low and stable inflation. When push comes to shove, Reserve Bank decision makers are willing to send unemployment up in order to bring inflation down.

To lower inflation, the Reserve Bank's weapon of choice is the Official Cash Rate (OCR), which helps to determine the cost of borrowing in the country. The Reserve Bank began raising the OCR in October 2021, which raises the cost of borrowing for businesses and households. Higher interest rates mean people must spend more of their income servicing their mortgage, meaning they have less money to spend on purchasing goods and services. Higher interest rates also discourage firms from investing and hiring. As a consequence, economic activity slows, unemployment goes up and prices should drop.

As the Reserve Bank noted last month in its *Monetary Policy Statement*, 'Employment is well above its maximum sustainable level' and 'a period of more moderate growth is needed to better match demand with production capacity in New Zealand'.[1]

There are two big problems with this approach. Firstly, the current bout of inflation is not driven by a labour market that is 'too tight'. Therefore, raising the OCR to drive unemployment up is not an appropriate response.

Second, hiking the OCR simply heaps more economic pain on working people who are already struggling with the rising cost of living — it's certainly not a Just Transition response to an economic shock as it asks those who can least afford it to shoulder the burdern via unemployment, heaping interest onto mortgage payments, and potentially dropping us into a recession.

New Zealand's current way of managing inflation is underpinned by a perverse logic. Not only does inflation hurt workers the most – meaning their money buys less of the essential goods and services they need to survive – but the orthodox response to managing rising inflation negatively impacts workers the most, by driving unemployment up and restricting wage growth. The current regime is a lose–lose for workers.

What's really driving inflation?

An appropriate response to rising inflation needs to start from a realistic analysis of what's actually driving the cost of living up. A tight labour market and wage growth are not the main causes – as the Reserve Bank notes in its August *Monetary Policy Statement*, hourly wages are rising more slowly than inflation.[2] Instead, as is widely acknowledged, three main dynamics have been driving the cost of living up since 2021 – two global and one domestic.

First, Covid-19 and the public health response to it has caused ongoing supply chain disruptions around the world. Shipping goods from one part of the world to another has simply become more difficult and more expensive. At the same time, while face-to-face business was suspended during lockdowns, people started buying more goods from the comfort of their living rooms. People bought

1 RBNZ, 'Monetary Policy Statement, August 2022', p. 13, 10, https://www.rbnz.govt.nz/-/media/088b0ccf70764f04b35ea20f73620d76.ashx
2 RBNZ, 'Monetary Policy Statement, August 2022', p. 5, https://www.rbnz.govt.nz/-/media/088b0ccf70764f04b35ea20f73620d76.ashx

more computers, books, and clothes and less restaurant meals, holidays, and trips to the movies. This further increased pressure on global supply chains, driving the price of goods up.

Second, the war in Ukraine has driven the price of energy (oil and gas) and other commodities (like wheat and metals) up. This is because both Russia and the Ukraine are among the world's biggest exporters of commodities. And because these commodities are key inputs for other goods and services, when they go up in price this feeds through into the rest of the economy.

Third, on the domestic front there was a strong economic policy response from government and the Reserve Bank to the Covid-19 pandemic. The government wage subsidies in 2020 and 2021 helped to sustain incomes for workers over lockdowns, preventing high levels of unemployment and a collapse in consumer purchasing power. This was a good thing. The Reserve Bank lowered the OCR, bought $53 billion in government debt, and lent close to $12.5 billion to commercial banks through the Funding for Lending programme.[3] This helped to keep the cost of borrowing low, which supported economic activity. However, it added to the explosive and socially destabilising growth in house prices through 2020 and 2021.

In sum, the inflation we are currently experiencing is not driven by a labour market that is 'too tight' or by workers demanding higher wages. Rather, the global shocks of Covid-19 and the war in Ukraine have driven the price of imported goods up while the domestic policy response to the pandemic has supported the purchasing power of New Zealand households to an extent. These forces have been driving inflation. And this means that OCR hikes are not the right tool for the job. After all, crushing consumer demand and driving unemployment up in New Zealand will have no effect on global shipping costs or the conflict in Ukraine.

Alternatives

What would an appropriate and socially progressive response to the current inflation problem look like? A response that is appropriately targeted at the actual drivers of inflation and that doesn't disproportionately harm workers and their families?

There are two main planks of such a response:

1. targeted taxes that reduce demand; and
2. redistributing that into large-scale public investment that builds the long-term productive capacity of the New Zealand economy.

Targeted wealth and consumption taxes on luxury goods, and a higher income tax on those earning over $180,000 per annum would help to reduce demand from the wealthier segments of New Zealand society without negatively impacting lower-income New Zealanders. This is because those in higher income brackets tend to account for a greater proportion of consumer spending.[4] They are also able to absorb the impact of rising prices more easily. While people lower down the income scale find themselves priced out of more and more goods and services, those higher up the income scale continue to spend even as inflation climbs.

Redistributing that tax revenue could help fund the second part of a progressive response to inflation:

3 RBNZ, Open Market Operations (D3), https://www.rbnz.govt.nz/statistics/series/reserve-bank/open-market-operations; RBNZ, Standing Facilities (D12), https://www.rbnz.govt.nz/statistics/series/reserve-bank/standing-facilities

4 Rana Foroohar, 'Everyone Pays the Cost as the Rich Keep Spending', Financial Times, 29 August 2022, https://www.ft.com/content/38b2097d-dc42-4058-958a-55b7fd2c2b91

investing in green energy and infrastructure to grow our productive potential. In the longer term, growing the productive capacity of the New Zealand economy is the best way to prevent high levels of inflation. Decades of underinvestment in infrastructure and social services, and the absence of an overarching economic strategy for New Zealand has held back economic development in this country. Engineering a broad-based economic contraction in New Zealand will do nothing to fix this problem and will only further undercut productivity over the long run.

There is scope for a broad and ambitious national investment programme. For example, significant public investment should be made to build out New Zealand's renewable energy capacity. A necessary component of this would be regulations to reduce the market power of New Zealand's electricity providers. Currently, a lack of competition in this sector enables electricity providers to price gouge. This would not only help New Zealand meet its emissions reduction goals, it would also minimise our exposure to energy-price shocks overseas, such as that caused by Russia's invasion of Ukraine. A programme to retrofit New Zealand's housing stock with better insulation would mean people need to use less energy to heat their homes. This would not only reduce the cost of living for workers – it would also help us to reduce emissions, create jobs, and improve wellbeing. Likewise, investing in public transport options such as light rail would help to reduce New Zealanders' reliance on cars, saving workers money at the petrol pump as well as greening our cities.

It's important to note, that a large contributor to New Zealand's food prices is a result of the duopoly power of Foodstuffs and Woolworth that has been a growing issue for the past two decades. In March, the Commerce Commission advised that "competition isn't working well for consumers, and if competition was more effective, retailers would face stronger pressure to deliver the right prices, quality and range". The Government has begun taking steps to break-up this duopoly — time will tell how effective their interventions are.

Nobel laureate Joseph E . Stiglitz was recently asked what he would do to reduce inflation caused by supply shortages of food, energy, and labour. Stiglitz stated that it's essential to first diagnose the cause of the problem and target policies to respond to that, including:

- Investing in and increasing green energy
- Helping women get back to work by giving them better childcare
- Introducing a windfall profit tax on the energy companies that have made massive profits resulting from the war in Ukraine
- Introducing corporate tax policies designed to disincentive price hikes, price gauging and protect workers wages.

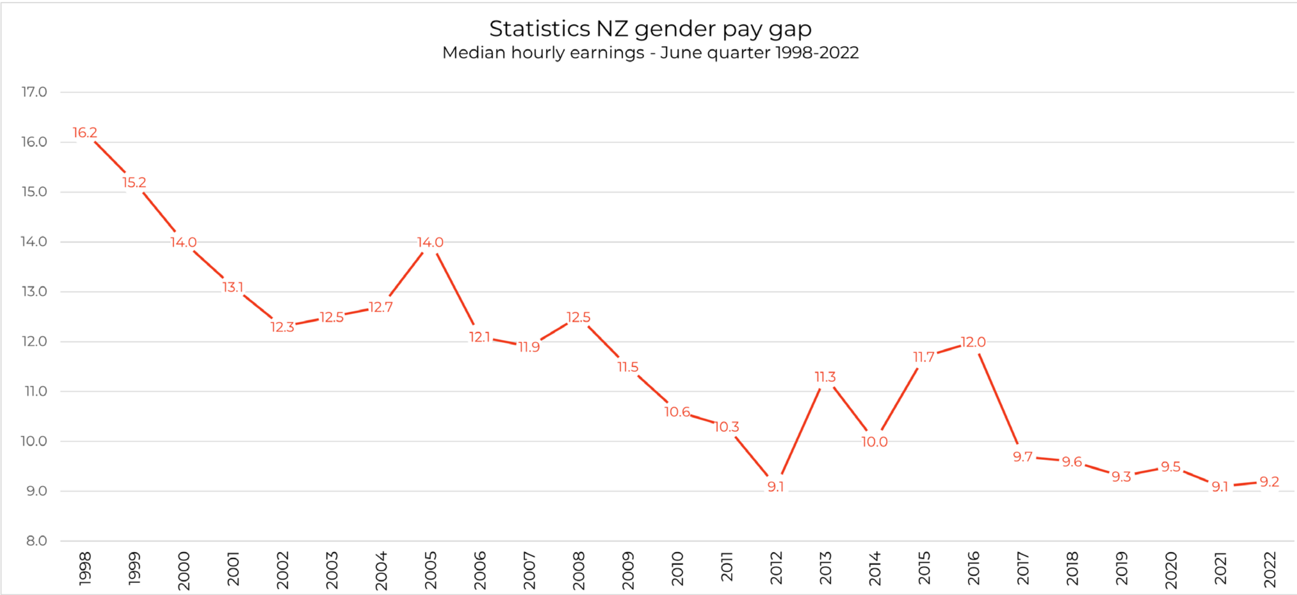
> *"Raising interest rates is not going to bring in more food, more energy and so it's not going to bring down those prices. What I worry about is the focus on the wrong solution means there will be continued inflation and interest rates will continue to increase until you get a recession"* Joseph E . Stiglitz

These kinds of policies are about actively growing New Zealand's economic capacity to make the country more resilient to price shocks that leave workers struggling with the cost of living. Driving unemployment up to bring inflation down will do nothing to help us realise such a future – it will only set us back.

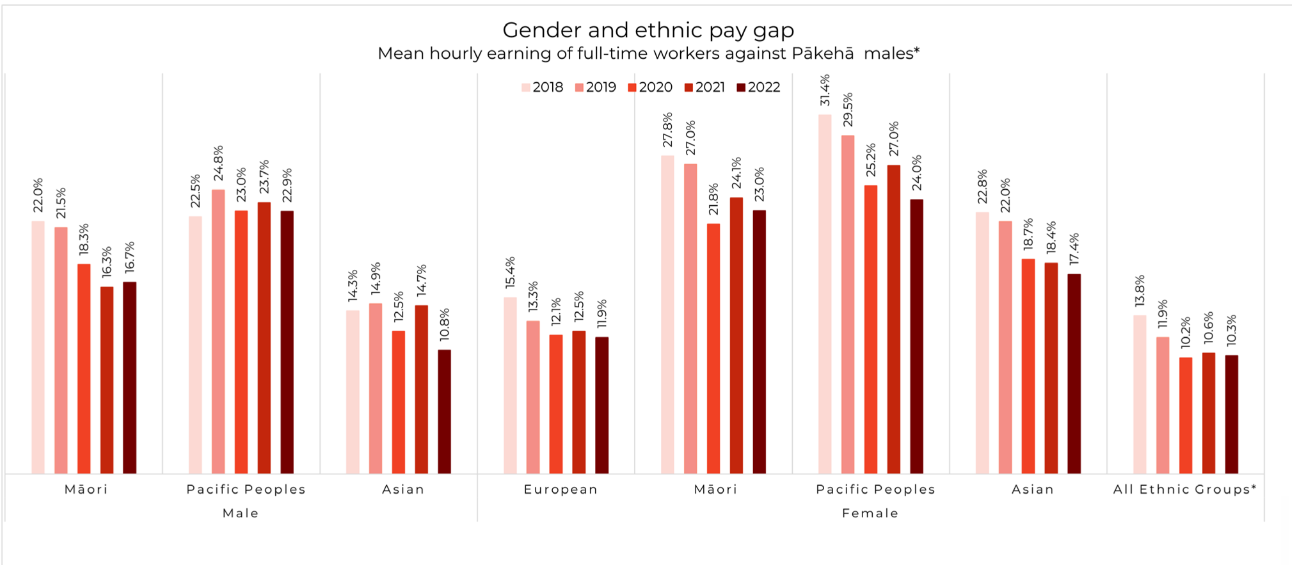
Labour Market Data

Gender and ethnic pay gaps

In the March Bulletin, the NZCTU discussed gender and ethnic pay gaps and commented on how the pay gaps had remained largely unchanged since 2017. The latest figures, released last month for the year ended June 2022, have the StatsNZ gender pay gap up 0.1% from last year. 20th October marks 50 years since the passing of the Equal Pay Act - its time we closed this gap for good.



This is also why it is important to get behind policy initiatives like those we have included in the Decent Work chapter of our Alternative Economic Strategy. The CTU has called for mandatory pay gap reporting, free high-quality Early Childcare Education, greater paid parental leave and the decoupling of parental leave to help reduce wage scarring, increase choice and opportunity and to break down the gender roles that contribute to the pay gap.

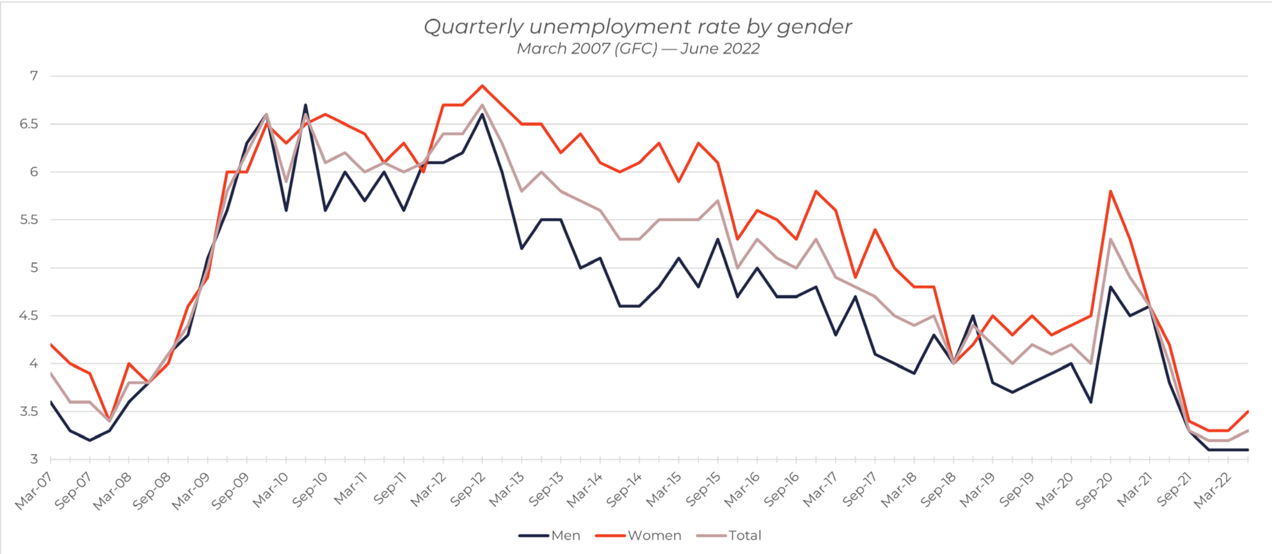


Gender and ethnic pay gaps for average hourly pay still remain largely unchanged. The largest and most persistent pay gaps appear to be between Pākehā men and Māori (23% down from 24.1%) and Pasifika women (24% down from 27%).

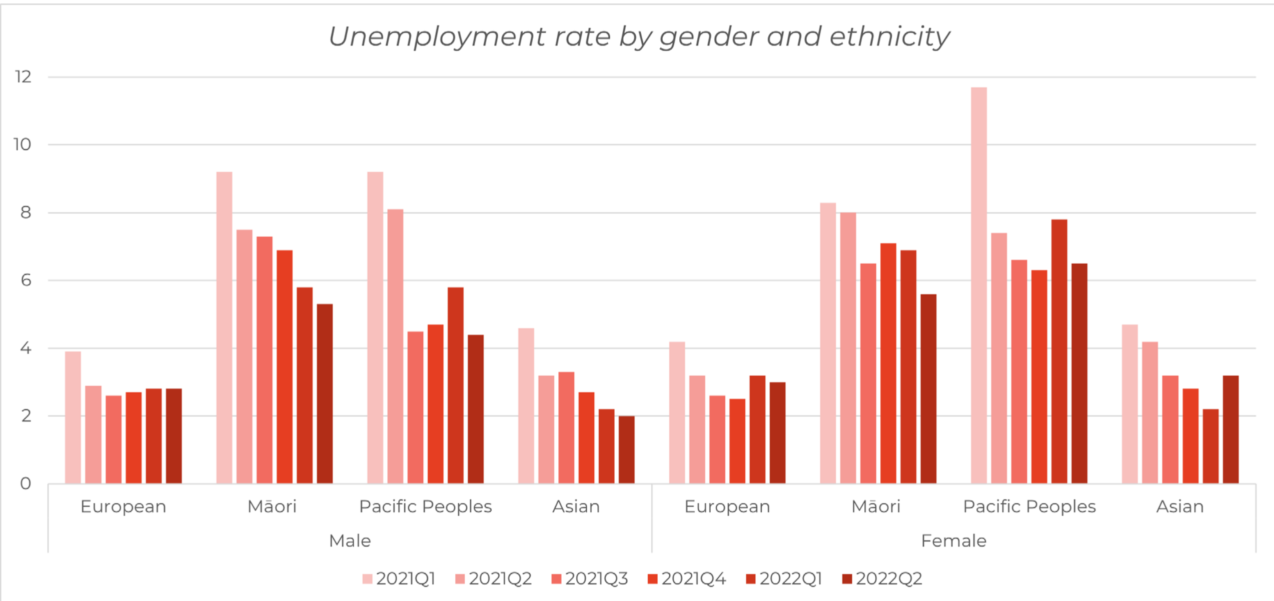
As you can see from the graph above, pay gaps from the year June 2020-June 2021 increased slightly for most groups, but came back down again in 2022. However for Māori women, 2022s gap saw an increase from 2020 - up 1.2%.

Unemployment remains stable

The latest unemployment statistics for the June 2022 quarter has New Zealand's official unemployment rate at 3.3% or 96,000 people. This is an increase of 2,000 unemployed people since last quarter, which at 3.2%, was the lowest unemployment rate since the Household Labour Force Survey (HLFS) began in 1986.



However, while the unemployment rate increased by 2,000 people for this quarter, the number of people in full-time employment increased by 27,000 people (1.0%). In June 2022, the employment rate was 68.5% which is 2,820,000 people over the age of 15 who were in some form of paid work, including part-time and casual.

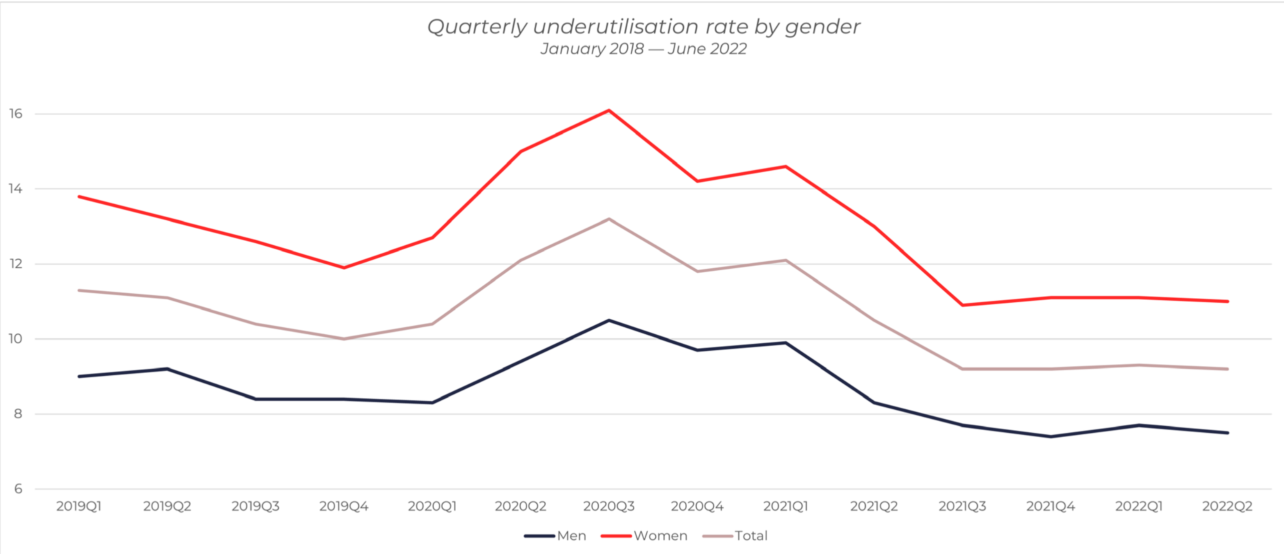


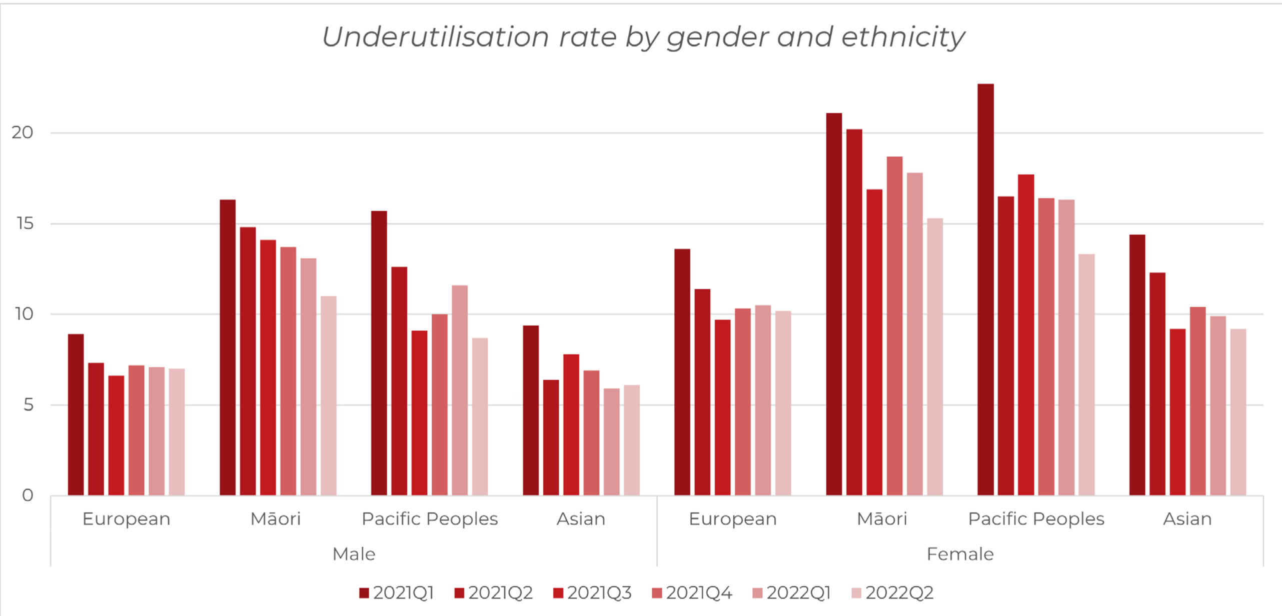
For the June 2022 quarter female unemployment is at 3.4%, up from 3.3% last quarter, while male unemployment remains stable at 3.1%, which is no change from the previous March 2022 and December 2021 quarters.

Māori unemployment improved this quarter. The unemployment rate for Māori men declined from 7.5% last quarter to 5.3% , and the rate for Māori women declined from 8% last quarter to 5.6%.

Underutilisation

The underutilisation rate for the June 2022 quarter is 9.2% (F: 11.% and M: 7.5%), down from 9.3% last quarter. This represents 276,000 people, larger than the population of Wellington City. The underutilisation rate measures employed workers who are available for and wanting additional hours of work than they currently have.





The underutilisation rate (using data from StatsNZ's Household Labour Force Survey) provides a broader measure of untapped potential in the labour market. It includes:

- the unemployed
- those who are working part-time but would prefer to be working more hours or in full-time employment
- those who want a job and are available to work, but are not actively looking; and

- those who are unavailable to start work but are looking for a job as they will be able to start work within the next month.

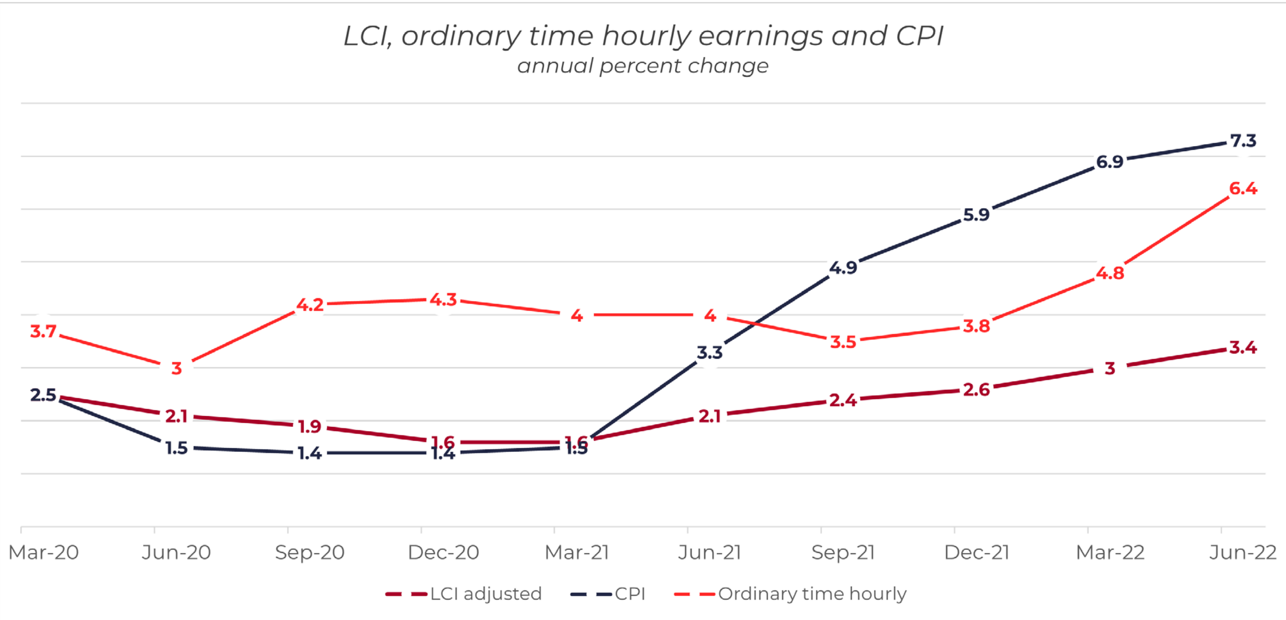
Youth employment

According to the household labour force survey released by StatsNZ for the June 2022 quarter, the proportion of young people between 15-24 years old not in education, employment, or training (NEET) increased to 12.1% from 11.6%.

When broken down by gender the NEET rate was 13% for men (up from 11.8%) and 11.2% for women (down from 11.4%). Among the 15-19 year age group, there are now 13,500 more young people in education or training this quarter than the previous quarter.

Wages, Labour Cost Index & Quarterly Employment Survey

For the June 2022 quarter, the Labour Cost Index (LCI) increased 3.4% in comparison to June 2021. This was the largest increase since 2008. Private sector LCI increased 3.4% while public sector LCI increased 3.0%.



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.

QES average hourly ordinary time earnings in June 2022 is $36.97 up 6.4% since June 2021 or 2.2% from the previous quarter ($36.18). So while wages are up 2.2% from last quarter, CPI is only 1.7% meaning wages for that period have out stripped CPI for the quarter.

Economic Indicators

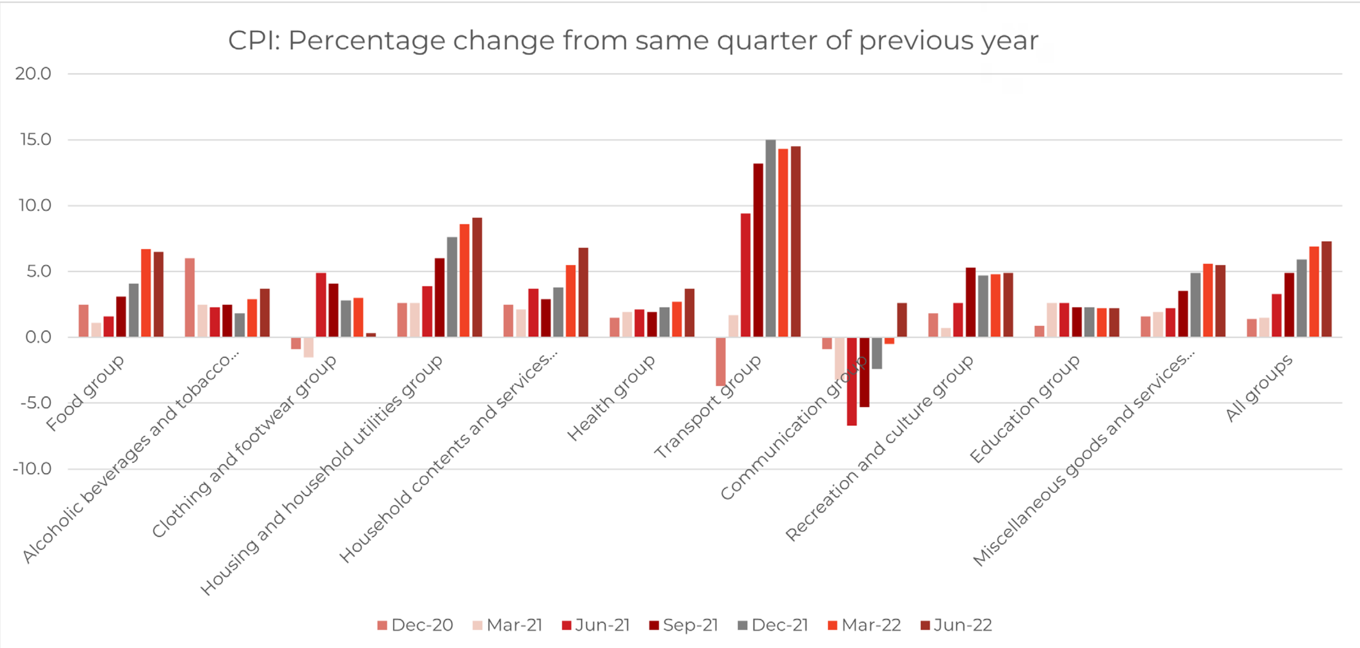
Consumers price index

As discussed on page 10, Consumer price inflation continued to climb, rising to 7.3% for the June quarter, a slight increase from 6.9% in the March quarter. The Reserve Bank forecasts that inflation has now peaked and that it expects inflation will begin to fall over the rest of the year and through 2023. Both ANZ Bank and ASB Bank have made similar forecasts. According to KPMG's Financial Institutions Performance Survey, released in September, "the consensus from economists is that inflation will stay above 5% for the remainder of 2022 before seeing a decline below 3% as we approach mid-2024".

Contributions to CPI

The largest contributions to annual CPI for the June quarter were:

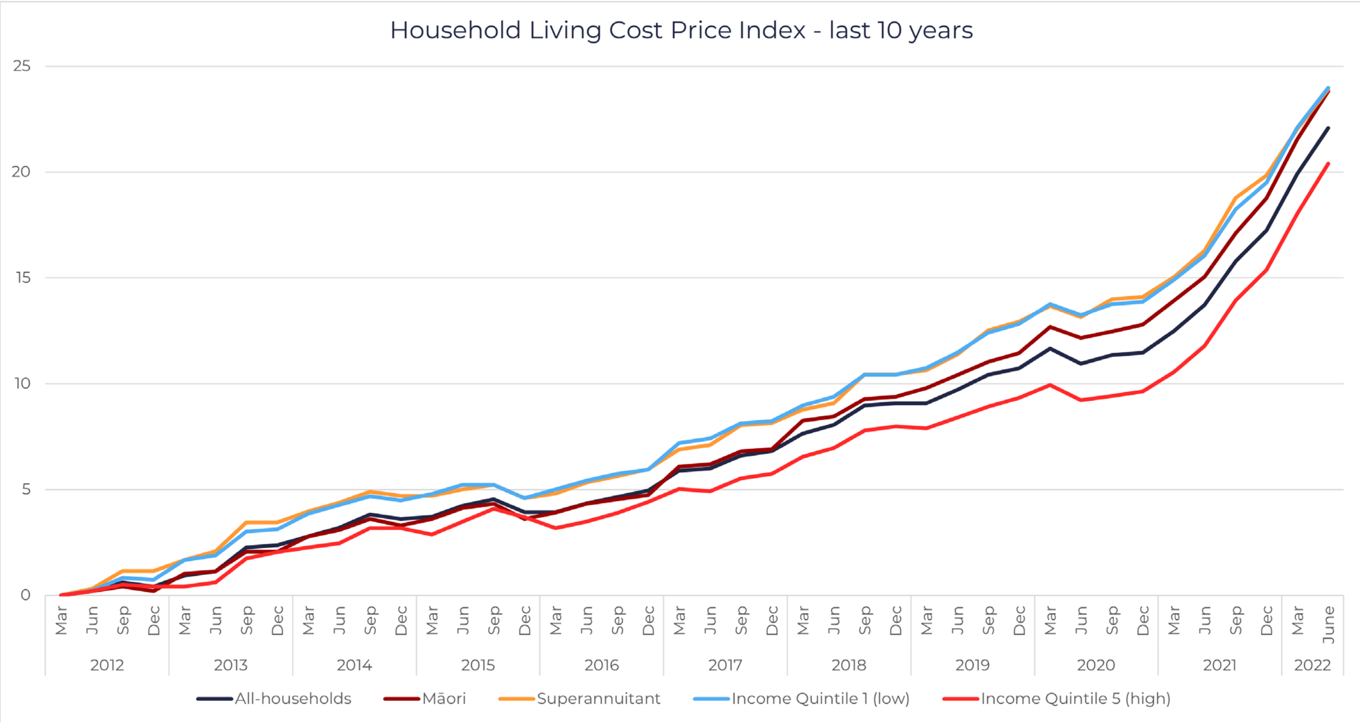
- Transport (14.5%) — driven by private transport supplies and services (24.6%)
- Housing and household utilities group (9.1%) — driven by increases in higher prices for purchase of new housing (18.3%), property maintenance (8%) and property rates and related services (7.1%)
- Household contents and services group (6.8%) — driven by increases in, Furniture, furnishings, and floor coverings (9.2%); textiles (6.5%); tools and equipment for house and garden (9.75%); other supplies and services (7.4%).
- Food group (6.5%) — *a full breakdown of the Food Price Index can be found on page 20*

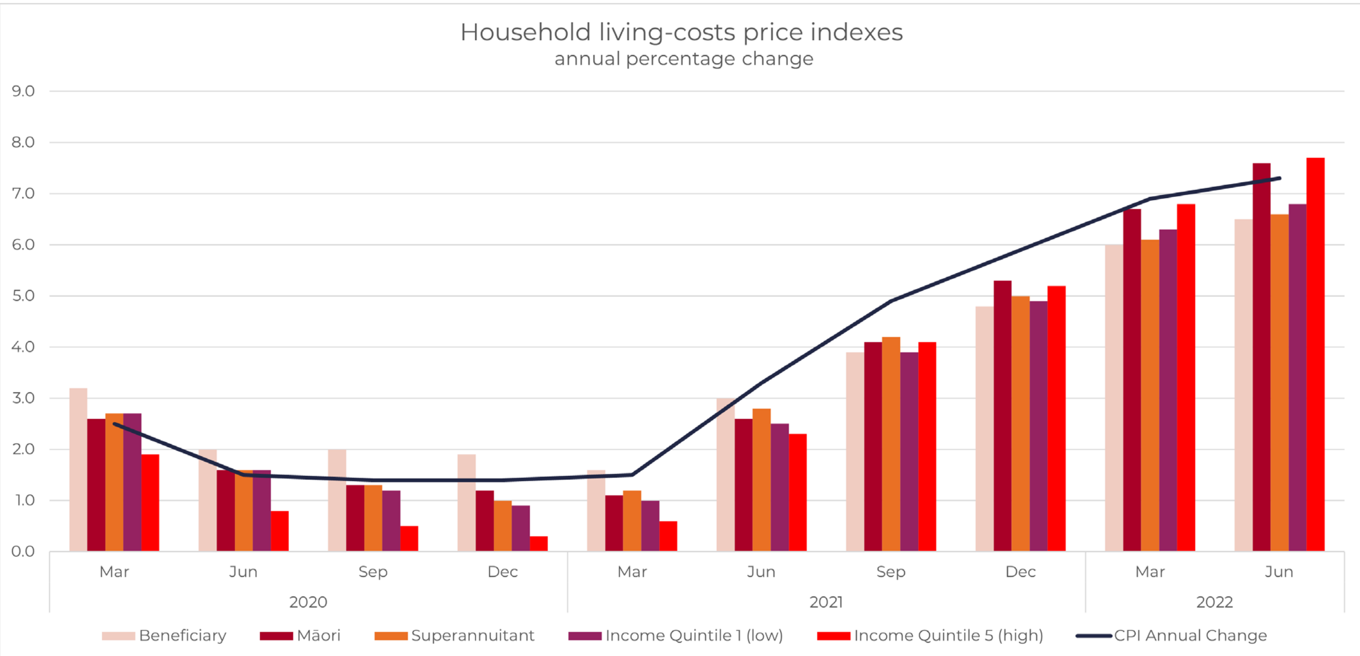


Household living cost price index

Low-income households continue to be the most affected by the cost-of-living crisis, according to recent data from StatsNZ. The below graph shows a ten-year long trend of low-income groups bearing the brunt of inflation.

For low-income groups, the struggle to keep up with the cost of living is nothing new. This data once again proves low-income groups experience the impact of inflation much more than high-income groups. However, since the beginning of this year, higher income earners have begun to feel the strain of inflation. Issues like inflation and the cost of living cannot only be issues when they impact high-income earners.





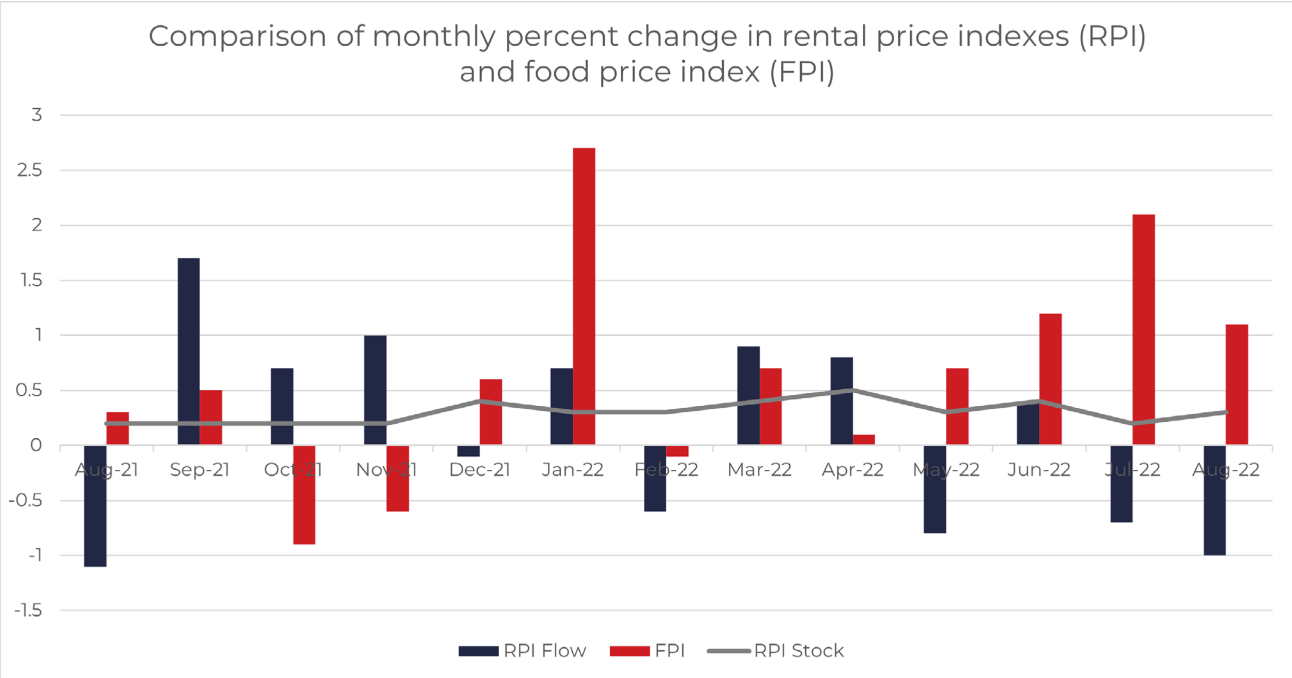
Rent and food price index

The annual Labour Cost Index sits at 3.4% for the June 2022 quarter, which is once again lower than the Rent Price Index (RPI) (flow 3.6%; stock 4%), meaning wages continue to be stretched further in order to meet the same housing costs.

However, the rental market overall appears stable and the annual change in flow and stock are cooling.

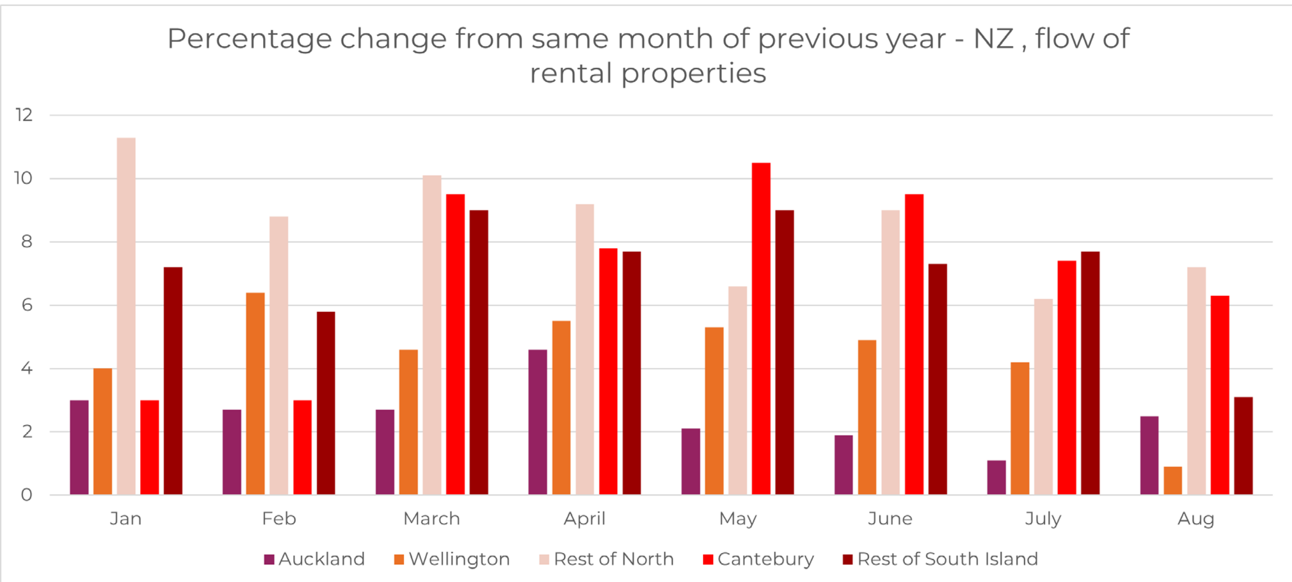
The flow measure captures price changes where a new tenancy started. The stock measure shows rental price changes across the whole rental population. Monthly flow data shows its second consecutive month of decline (down 0.8% in May, up 0.4% in June, and down in both July 0.8%, and August 1%). Annual flow shows its fourth consecutive month of decline.

The RPI stock is up 4%, which has been a consistent increase all year, fluctuating between 3.8%-4% (up 0.1% from last month). The monthly change in stock of housing has been fairly stable with 0.3%, 0.4%, 0.2% and 0.3% increases per month. RPI stock for August is 0.3%, up from 0.2% last month.



The largest increase in flow was seen outside of major cities, which has been a consistent pattern all year. For August, the largest annual increase was felt in the North Island excluding Auckland and Wellington at 7.6% - this follows 6.2%, 9.0%, 6.6% and 9.2% monthly increases.

The RPI increases in the North Island was more than three times that of Auckland (2.5%) and Wellington (0.9%). Earlier this year in April, the RPI flow increased 6.9%, however, the latest figures for August show rent increasing at a much smaller rate of 3.6%.



Largest food price hike in over a decade

The cost of food was up 8.8% on August last year and up from 7.4% last month. This is the largest food price increase in 13 years, since July 2009, when annual food prices increased 8.4%.

The largest contributor was the cost of fruit and veges up 15% annually, driven by potatoes, capsicum and onions (annually); and tomatoes, capsicums, and cabbage (monthly).

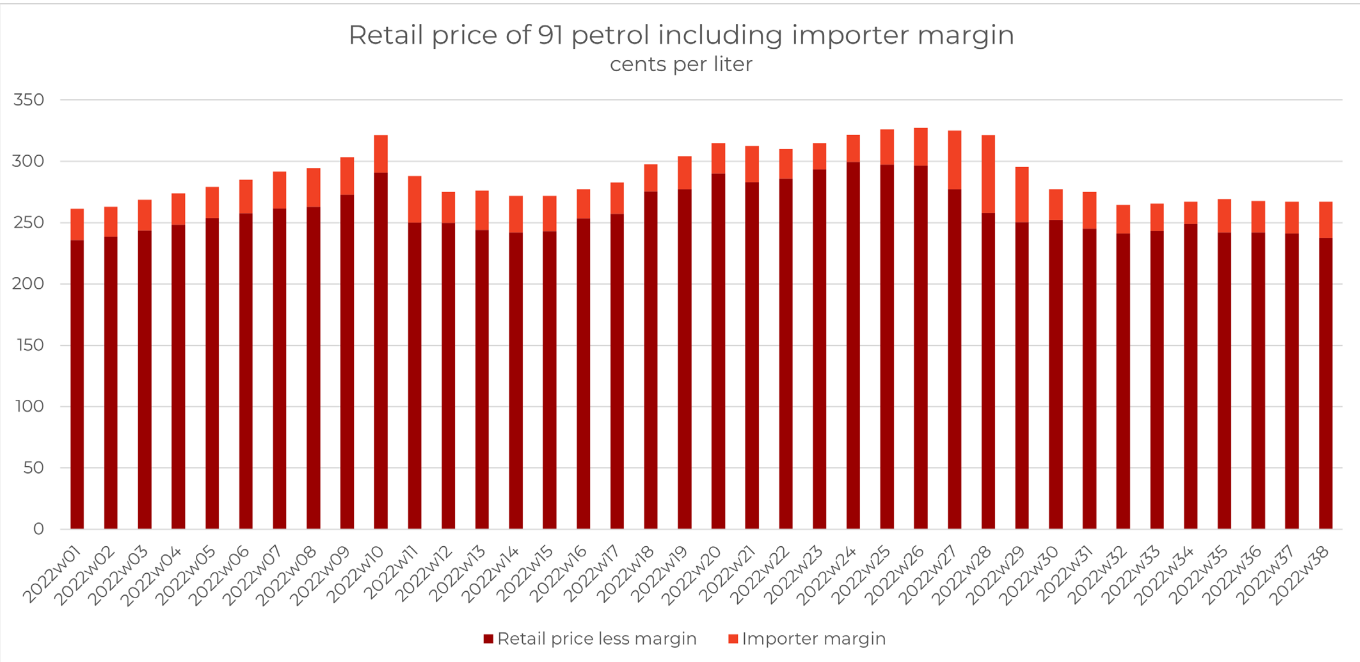
Grocery food was the second largest contributor to the increase, up 8.7%, driven by the increased cost of eggs (up 6.7%), yoghurt (up 4.7%), and chocolate biscuits (up 7.1%).

Food Price Index Monthly Change (seasonally adjusted) %					
	April 22	**May 22**	**June 22**	**July 22**	**Aug 22**
Fruit and vegetables	▼3.2	▲0.3	▲0.7	▲3.1	▲2.3
Meat, poultry, and fish	▼0.4	▼0.5	▲0.9	▲1.2	▲1.2
Grocery food prices	▲0.8	▲1.2	▲0.5	▲1.0	▲1.1
Non-alcoholic beverage prices	▼0.8	▲1.1	▲1.4	▲0.5	▼0.9
Restaurant meals and ready-to-eat food	▲1.4	▲1.0	▲0.7	▲0.6	▲0.3

Petrol prices fall

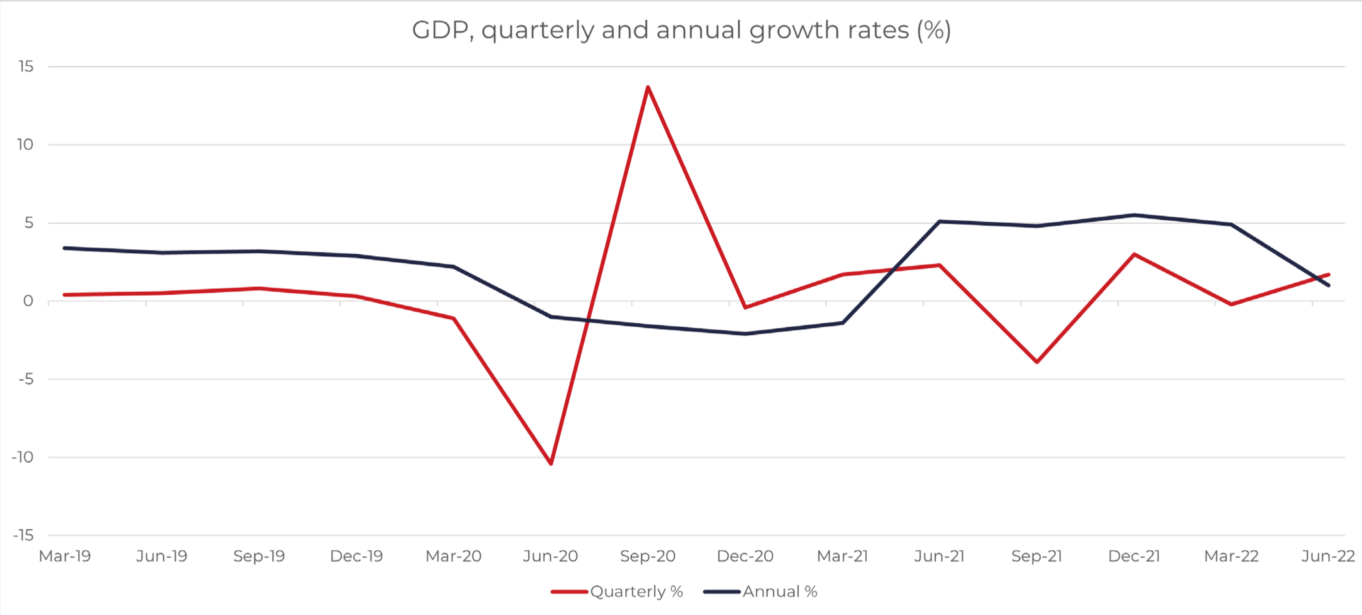
Petrol prices have fallen since our last Economic Bulletin in June. This has been driven by a broad decline in oil prices internationally. The drop in oil prices is partially due to growing fears of recession reducing demand for oil. Increasing inflation, and the ongoing Covid-19 restrictions in China have all served to curb demand, bringing prices down.

MBIE's weekly fuel price monitoring has regular 91 octane petrol at $2.67 per litre, premium 95 octane at $2.83 per litre, and diesel at $2.63 per litre for the week ending 25 September. Prices have remained steady around these levels for the past 7 weeks. Importer margins for the week ending 25 September were $0.23, $0.34, and $0.38 respectively.

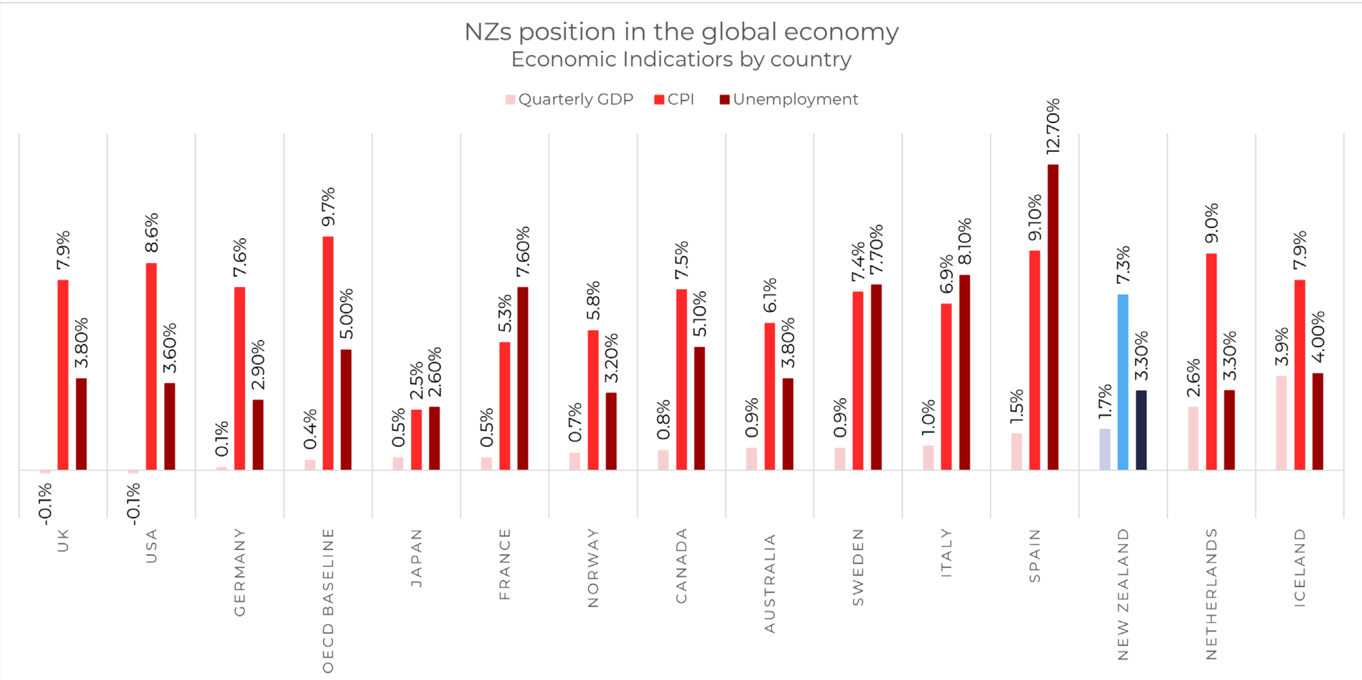


Gross domestic product

Quarterly GDP growth was 1.7% for the June quarter, up from -0.2% for the March quarter. This means New Zealand avoided a technical recession, often defined by economists as two successive quarters of negative GDP growth.



Most OECD peers recorded weaker expansions, with Australia growing 0.9%, Canada 0.8%, and the Eurozone 0.7%; meanwhile, both the US and the UK economies contracted by 0.1%. The below graph presents the quarterly GDP figures for New Zealand, alongside inflation and unemployment figures in comparison to other nations and the OECD baseline. This comparatively strong quarterly growth rate, along with a very low rate of unemployment, indicates the relative resilience of the New Zealand economy. New Zealand's economic position within the global context remains strong.



However, sectoral data shows that growth came mostly in service industries, which expanded 2.7% overall. This was led by transport, postal, and warehousing, which grew by 19.7%, and retail trade and accommodation, which grew by 5.9%. Together, these two sectors, which are driven by volatile consumer spending in areas such as hospitality, tourism, and travel, accounted for over 65% of the overall GDP growth for the quarter.

The numbers were not so good for primary and goods-producing industries. While agriculture, forestry, and fishing grew by 1.1%, there were significant contractions in mining (-7.9%), manufacturing (-5.9%), and construction (-2.4%), and electricity, gas, water, and waste services registered zero growth. In all, this means that New Zealand's primary industries grew by $6 million (0.2%) while goods-producing industries contracted by $467 million (-3.8%). This comes off the back of a weak March quarter for primary and goods-producing industries, which contracted by 1.2% and 0.1% respectively.

In all, the June quarter saw growth in 10 out of the 16 sectors of the New Zealand economy. Growth was registered in agriculture, forestry, and fishing; wholesale trade; retail trade; transport, postal, and warehousing; finance and insurance; rental, hiring, and real estate; professional services; health care; and arts and recreation. Industries that registered contraction are mining; manufacturing; construction; media and communication; public administration and safety; and education and training. Meanwhile, electricity, gas, water, and waste saw no growth.

Weakness in the primary and goods-producing sectors indicate that New Zealand's growth prospects for the remainder of 2022 and into 2023 remain somewhat fragile. 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 enduring prosperity here.

Economic Forecasts and Confidence

NZIER consensus forecast

The NZIER consensus forecast was released on 12 September 2022. Some key indicators are summarised in the table below.

Annual Percentage Change (March Year)	2022/23	2023/24	2024/25	2025/26
GDP	▼ 2.5	▼ 1.0	▼ 1.5	2.2
CPI	▲ 4.8	▲ 2.7	▼ 2.3	2.1
Private Sector average hourly wage	▲ 6.4	▲ 5.4	▲ 4.2	3.3
Employment	▼ 0.5	▼ 0.2	▼ 1.0	1.3
Unemployment rate (% of labour force)	▲ 3.5	▲ 4.3	▲ 4.7	4.8
arrows refer to direction of change from last survey				

NZIER expects GDP growth to slow to 1% per annum through 2023/24, before rising to 1.5% through 2024/25 and 2.2% through 2025/26. Consumer price inflation is forecast to slowly come back towards the Reserve Bank's target range of 1-3% per annum through 2023/24. The good news is that this would see wage growth outstripping inflation over this period, as indicated in the table above. The bad news is that employment is forecast to fall, and unemployment is forecast to rise, over this same period. This negative outlook for employment rates is driven largely by the tightening of monetary policy.

Official Cash Rate projections

On 5th September, the Reserve Bank once again hiked the OCR by 0.5 basis points to 3.5%. This marks the RBNZs eighth consecutive rise in the official cash rate, with another 0.5 basis point rise predicted for next month. There are also expectations that the OCR will continue to increase next year with 0.25 basis point increases until the OCR hits 4.5%.

In the August Monetary Policy Statement (MPS), the Reserve Bank indicated that monetary tightening should be expected to continue and that the OCR will peak at 4.1 % in mid-2023, an upward revision from the prediction of 3.9% in the May MPS. However, in its August Quarterly Economic Forecast, ANZ Bank suggests that the OCR may have to be pushed higher if the Reserve Bank is to meet its inflation target of 1-3% per annum. A very high degree of uncertainty, driven by global economic and geopolitical turbulence and the novelty of the post-Covid economic situation, underpins these forecasts, which should be taken with a large pinch of salt.

The Reserve Bank continues to estimate that the neutral OCR rate – the rate at which the OCR is neither constraining nor stimulating economic activity – is about 2%. This means that by continuing to hike the OCR, the Reserve Bank is deliberately aiming to slow economic growth and bring inflation back to its 1–3% target range. As the Reserve Bank stated in the August MPS: “a higher period of more moderate growth is needed to better match demand with production capacity in New Zealand. Higher interest rates are intended to slow the pace of household and business spending growth”.

As we discussed in the opening section of this Bulletin, the OCR is not the right tool for dealing with the current inflationary pressures. Crushing domestic demand is the wrong way to get control of an inflationary impulse that is primarily driven by global supply chain problems and the war in Ukraine.

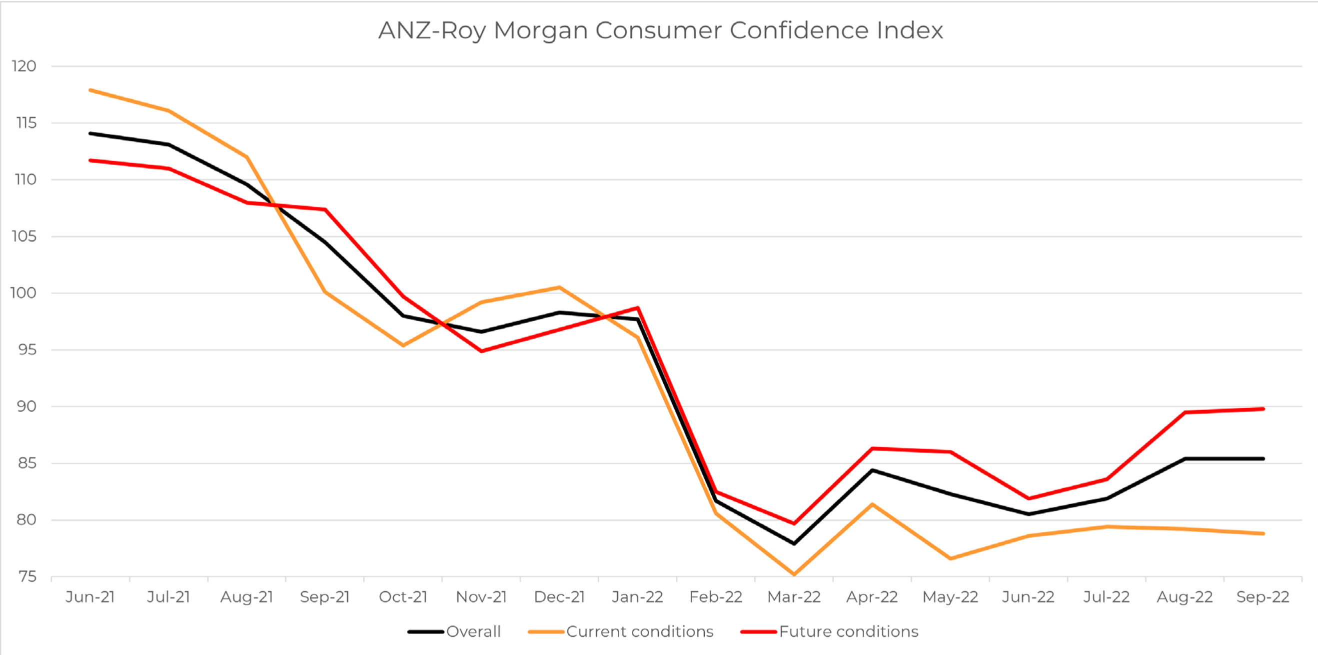
Consumer confidence

The ANZ–Roy Morgan Consumer Confidence Index for September indicates that consumer confidence remains very low in 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. Although the index has risen by 4.4 points to 85.4 over the past three months, it remains near the record low of 77.9 recorded in March of this year.

ANZ notes that 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. For September 2022, a net 25% of people surveyed thought it was a bad time to buy a major household item, an improvement from the low of 30% in May 2022. Meanwhile, a net 4% surveyed reported that they expected to be better off financially one year from now, up 3 points from the August survey.

Despite these relative improvements in consumer confidence since May, a net 18% of people surveyed reported that they were financially worse off than the same time last year and a net 32% thought that economic conditions in New Zealand would be bad over the next 12 months.



Retail sales

StatsNZ's retail trade survey for the June 2022 quarter, released in August, showed that the total volume of sales – seasonally adjusted and accounting for price effects – declined by 2.3% from the March 2022 quarter. This comes off the back of a 0.9% decrease in the previous quarter. However, the total value of seasonally adjusted retail sales remained steady, at $29 billion.

Without accounting for price effects and seasonal patterns, the total volume of sales decreased by 1.8% ($472 million) from the March 2022 quarter, while the total value of retail sales increased marginally, up 0.3% ($95 million) from the March 2022 quarter.

In all, lower seasonally adjusted sales volumes were recorded in 10 of the 15 retail industries for the June 2022 quarter, compared with the March 2022 quarter.

The largest movements in sales volumes by industry were:

- electrical and electronic goods retailing – down 6.1%
- motor vehicle and parts retailing – down 5.8%
- hardware, building, and garden supplies – down 5.3%
- supermarket and grocery stores – down 2.9%
- food and beverage services – up 3.3%

Card spending

The seasonally adjusted total value of electronic card spending increased by $63 million from July to August 2022, a 0.7% increase. Spending has been relatively steady over the past 5 months, hovering around $8.6 billion per month.

All up, total retail card spending rose 0.9% ($55 million), while non-retail card spending increased 1% ($20 million) from July to August 2022.

There was a total of 156 million transactions across all industries, with an average $56-spend per transaction. The month-on-month increase was primarily driven by hospitality (up $45 million), non-retail industries (up $20 million), and consumables (up $18 million).

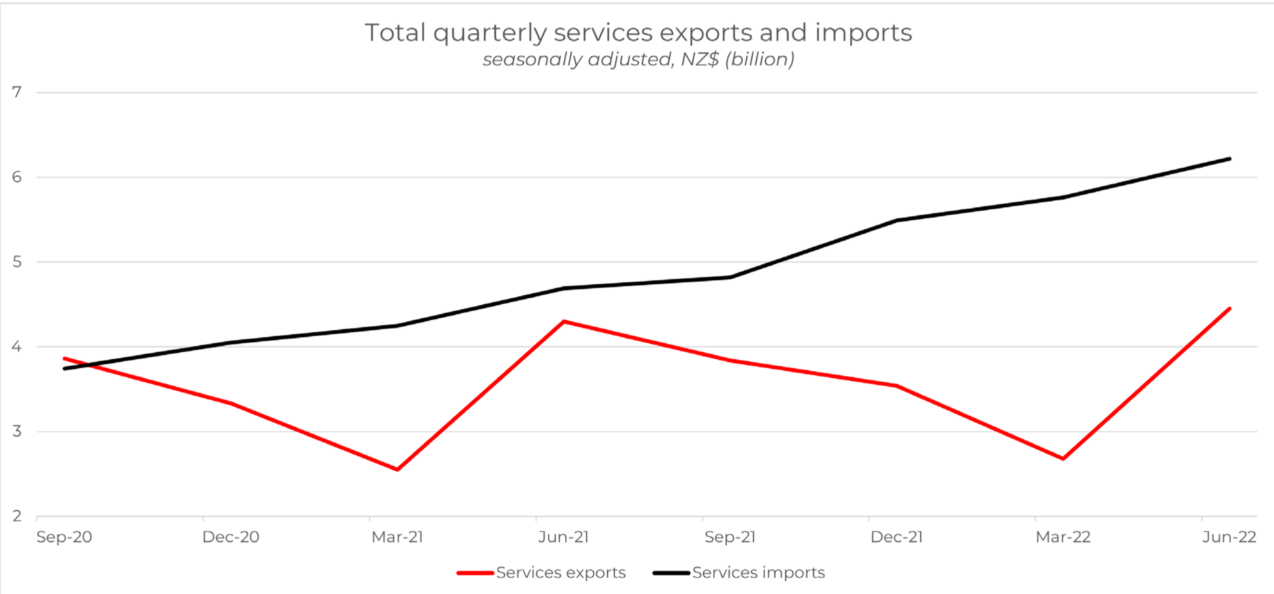
International and Trade Figures

International trade in services

Total services exports for the year ended 30 June 2022 increased 3.4% ($488 million) from June 2021. Transportation rose from $1.4 billion to $1.6 billion, intellectual property costs from $1.5 billion to $1.7 billion, communication services $1.5 billion to $1.7 billion, and other business services from $2.2 billion to $2.4 billion. Meanwhile, travel fell from $4.6 billion to $3.8 billion.

Total services imports for the year ended June 2022 increased 25% ($5.5 billion) from March 2021. This was largely driven by a 46.5% increase in transportation imports, from $3.3 billion to $6.1 billion. Travel imports rose 25%, up from $1.3 billion to $1.8 billion; this is still far behind the 2019 figure of $6.6 billion, however.

Total imports of services are now close to pre-pandemic levels, while exports continue to lag, down 47% on pre-pandemic levels. The largest area of exported services was travel (27%), while the largest area of imported services was transportation (27.5%).



Balance of payments and international investment position

[StatsNZ figures](#) for the June 2022 quarter show:

- New Zealand's net international liabilities rose 9.9%, from $161.6 billion at the end of the March 2022 quarter to $179.3 billion at the end of the June 2022 quarter. This is close to the high of $181 billion reached in June 2020.
- As a percent of GDP, net international liabilities and net external debt both increased from the March 2022 quarter, rising from 45.6% to 49.9% and 47.6% to 49.5% respectively. All told, net external debt was $177.9 billion at 30 June 2022.
- New Zealand's seasonally adjusted current account deficit narrowed from $8.5 billion in the March 2022 quarter to $7.1 billion in the June 2022 quarter.
- The narrowing of the seasonally adjusted current account deficit was primarily driven by a $737 million narrowing of the goods deficit and a $1.3 billion narrowing of the services deficit. Seasonally adjusted goods imports increased $324 million, due largely to increases in the price of diesel, petrol, and aviation fuel; seasonally adjusted goods exports increased $1.06 billion, largely due to

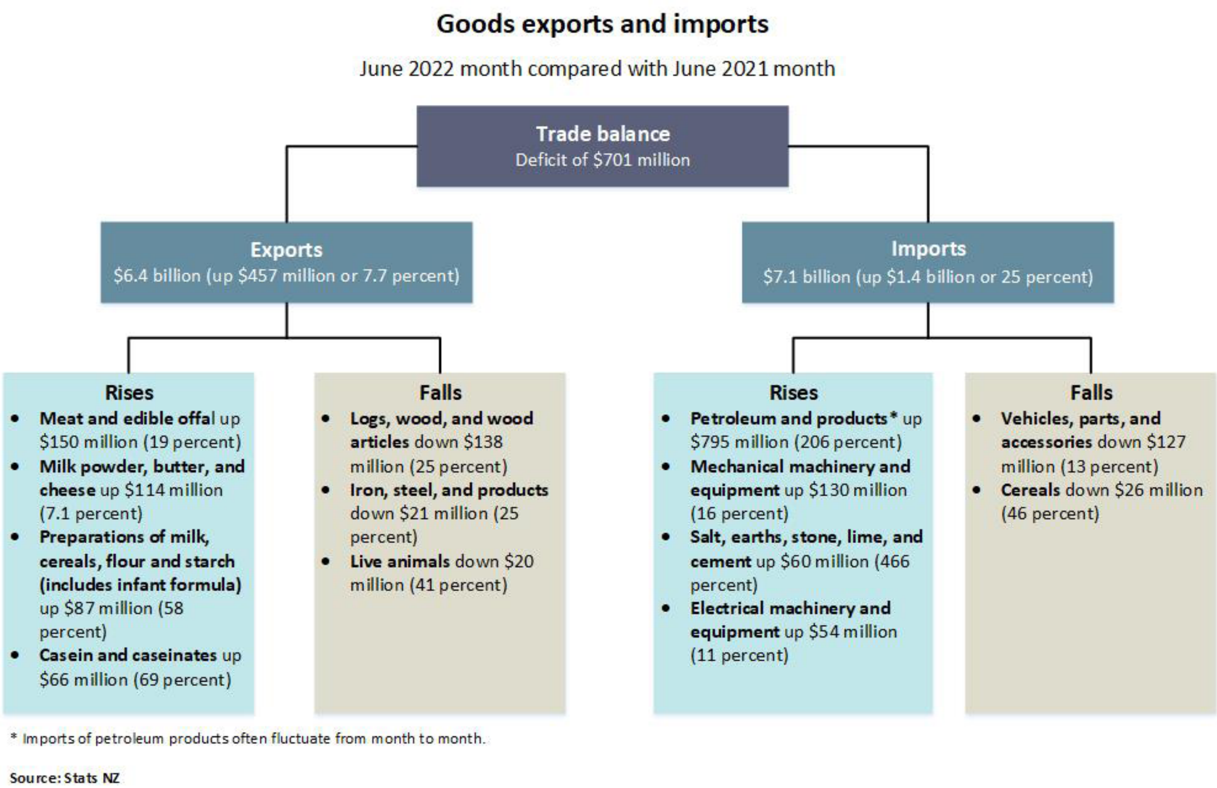
increases in core exports like meat and fruit.

- The seasonally adjusted services deficit narrowed $1.3 billion, with services exports increasing $1.8 billion, mostly driven by travel services, and services imports increasing $461 million, with travel services a significant driver again.
- The current account deficit for the year ended 30 June 2022 grew to $27.8 billion (7.7% of GDP), a large increase from the $11.5 billion deficit for June 2021 year (3.4% of GDP).

The overseas merchandise trade statistics

Comparing the June 2022 month with the June 2021 month, goods exports rose $457 million to $6.4 billion (a 7.7% increase); goods imports increased $1.4 billion to $7.1 billion (a 25% increase).

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



Other economic indexes

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 tightened monetary policy. Further monetary tightening, both domestically and globally, may see yields climb higher.

As of 30 September, yields for 2-year New Zealand Government bonds were at 4.22%, while yields for 10-year New Zealand Government bonds were 4.29%.

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.

Source: *https://tradingeconomics.com/new-zealand/government-bond-yield*

BNZ BusinessNZ 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 August 2022 index rose to 54.9, continuing a string of month-on-month increases since June 2022 and signaling the highest level of activity since July 2021. The sub-index tracking new orders rose to 59.2, its highest level since July 2021.

According to Business NZ, “Despite the lift in overall expansion levels, manufacturers have continued to have a more negative mindset, although the proportion of negative comments was down from

62.1% in July to 53.6% in August. Staff retention/shortages continue to dominate comments made by manufacturers".

The BNZ–Business NZ Performance of Services Index (PSI) for August was at 58.6, up 4.2 points from July. The PSI has been above the long-term average of 53.5 for four consecutive months now. The two sub-indexes that saw the largest increases were activity/sales, up 12.7 points to 67.1 and new orders/business, up 13.1 points to 66.5. The employment sub-index remained low, at 50.8.

Real estate

The Real Estate Institute of NZ (REINZ) House Price Index, which measures the changing value of residential property in New Zealand, fell 1.3% for the August month, and 5.8% for the year ending August 2022. Regionally, the largest decline by far was registered in Wellington, which fell 3.6% for the August month, and 17.1% for the year.

According to REINZ's *Monthly Property Report* for August, the median price for a residential property has continued to decrease, month on month, falling 1.2% from July to August 2022. For the year ending August 2022, the median price has fallen by 5.9% from $850,000 to $800,000.

Outside of Auckland, there was a month-on-month decrease of 2.8%, from $720,000 to $700,000, bringing median prices back to August 2021 levels.

All up, Auckland (-8.3%), Wellington (-9.3%), Manawatu/Whanganui (-6.6%), and Northland (-1.2%) have seen annual median price declines, while all other regions have seen annual median price increases.

Residential property sales are also down, falling from 5,983 to 4,891 (18.3%) for the year ending August 2022. Annual percentage decreases were largest in Auckland (-38.9%), Marlborough (-30%), Waikato (-18.1%), and the West Coast (-15%).

According to Jen Baird, Chief Executive of REINZ, "While affordability and access to finance remain an issue for many, these factors are compounded by rises in mortgage rates, recession fears and high inflation which are also curtailing activity. Vendors are increasingly realistic with their asking prices, however, demand remains dampened due to mortgage rates and continued affordability concerns".

Listings across New Zealand have increased 15.2% for the year ending August 2022. Excluding Auckland, listings have increased 21.3%, with Bay of Plenty leading the charge, up 62%. According to Baird, "The number of available properties for sale has continued to increase since the end of 2021, primarily because stock is staying on the market longer. The median days to sell a property nationally is now 49 days – up 18 days compared to the same time last year".

Summary of key price movements, year ending August 2022:
Median house prices, year-on-year

- **National:** $800,000 – down from $850,000 (-5.9%)
- **New Zealand, excl. Auckland:** $700,000 – unchanged from $700,000
- **Auckland:** $1,100,000 – down from $1,200,000, (-8.3%)
- **Wellington:** $780,000 – down from $860,000 (-9.3%)

Median house prices, July/August

- **National:** $800,000 – down from $810,000 (-1.2%)

- **New Zealand, excl. Auckland:** $700,000 – down from $720,000 (-2.8%)
- **Auckland:** $1,100,000 – up from $1,090,000 (+0.9%)
- **Wellington:** $780,000 – down from $809,100 (-3.6%)

Government Finances

The Government accounts released this week (5 October) demonstrated the strength of the economic recovery from Covid-19 with expenses down, revenue up, and the forecast OBEGAL deficit nearly halved. Net debt was broadly as forecast, and expenditure on Covid-19 was less than anticipated. Without our Covid-19 response, government spending overall was less than took place under the previous National government.

As expected, this was a much stronger set of accounts than had been predicted in May. The Government has a much stronger financial position heading into the end of the year. This bodes well for the next Budget, and for our continued financial recovery from Covid-19.

The strength of the labour market is demonstrated through a fall in the expected spending on Jobseeker benefits, and an 11% increase in taxation from wages. This reflects the low levels of unemployment, and rising wages. Taxable profits rose 26.2% this year, showing that companies had another very successful year despite the COVID restrictions. Companies also received $9.6bn in COVID support during the last year.

In a difficult economic environment, New Zealand has a strong financial position. Our debt levels are well below those of our international peers, and our incoming revenue is positive. This should give the Government confidence that it can invest in long-term challenges such as housing, poverty, and our $104bn infrastructure gap.