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Commentary

The Budget and what it could do to raise wages

Summary

One of the most significant aspects of the Budget on 21 May will be what has been described as radical changes to funding of public services. For example, yesterday Bill English announced a voucher system for funding people with disabilities. Other ingredients will include applying wider use of the "investment approach", currently being trialled for managing beneficiaries. Many such policies lead to large scale contracting out and privatisation of provision of services.

We can expect more Budget announcements shortly. Here are some suggestions as to what should be done in the Budget, particularly focussing on incomes and wages.

The Government has set itself tight spending limits, determined mainly by a political agenda of shrinking government. Though it admits it could afford $1.5 billion of "new" spending in each of the next three years it is "saving" some of that up for tax cuts in the 2017 election year leaving only $1 billion. This gives tax cuts a higher priority than the mounting economic, social and environmental deficits that it has swept under the carpet for the last six years.

The Government has said it is going to do something about poverty in the Budget. This cannot be adequately addressed without raising beneficiaries' incomes significantly. That would benefit wages and salary earners too. The Children's Commissioner's report on child poverty put the cost of its recommendations in the range $1.5-2.0 billion. That shows the magnitude of the problem: it doesn't fit into $1 billion.

Neither can the pay levels of state sector employees continue to be ignored. The gap with Australia and the private sector is increasing. The government also has direct influence over large and growing areas of low wage employment that are desperate for better pay and conditions. In the residential care sector, wages and sustainable management of the sector are held down by insufficient funding. It also has to face up to Kristine Bartlett's successful equal pay case. The government will have to stump up for this and other cases that follow.

It is not so straightforward to use the Budget to encourage private sector wage rises in general. They need better legislation to encourage collective bargaining and stop unfair employment practices, a change in immigration policy and faster increases in the minimum wage.

But there are some things that the Minister of Finance could do to raise private sector wages. They include wider objectives for the Reserve Bank, more active involvement in housing to bring down prices, and taxation to raise revenue, reduce inequality and cool the housing market in the longer run.

There have been few specific announcements so far for the coming Budget on 21 May. However, one of its most significant aspects will be what has been described as radical changes to funding of public services. The announcement yesterday by Bill English of moves to a voucher system for funding people with disabilities is one signal of the direction the Government will take for other services. Other ingredients will include taking the “investment approach” (perhaps better described as a commercial insurance approach) which is currently being used for managing beneficiaries, and applying it elsewhere in public services. The changes are the subject of a major Productivity Commission inquiry into the provision of social services which released a draft report for consultation on Tuesday but it appears that the Government will move before the results of the inquiry have been reported. The Commission will be seen as the cover rather than the evidence for such policies.

Many of these policies inevitably lead to large scale contracting out and privatisation of provision. They provide an ideal mechanism to force down the cost of provision to government because it doesn’t have to face the realities of being the provider and employer. This has the effects we have seen in residential care of underfunded, stressed services forced into lowest cost provision by competition or the power of the funder. They cannot pay decent wages, look to long-term needs of clients or build the skills and experience of staff.

We can expect more Budget announcements shortly. I’m taking the opportunity to fill the void and suggest what could be done in the Budget, particularly to raise incomes and wages which will become an even more pressing issue if the above policies increase downward pressure on wages and working conditions. Later in the year the CTU will be talking more about how to raise wages.

The context

The Government has set itself a context of continuing tight spending constraints. That is determined by a political agenda of shrinking government rather than an economic or fiscal imperative. Even on its own set of policies, it admits it could afford $1.5 billion of “new” spending (the “operating allowance”) over each of the next three years. Instead it is “saving” some of that up for tax cuts in the 2017 election year. So the actual allowance will be only $1 billion. This puts a greater priority on tax cuts than the mounting economic, social and environmental deficits that have been swept under the carpet over the last 6 years. That is irresponsible. It stores up increasing problems for future Governments to address. They will then be accused of spending too much when fixing problems that can no longer be ignored.

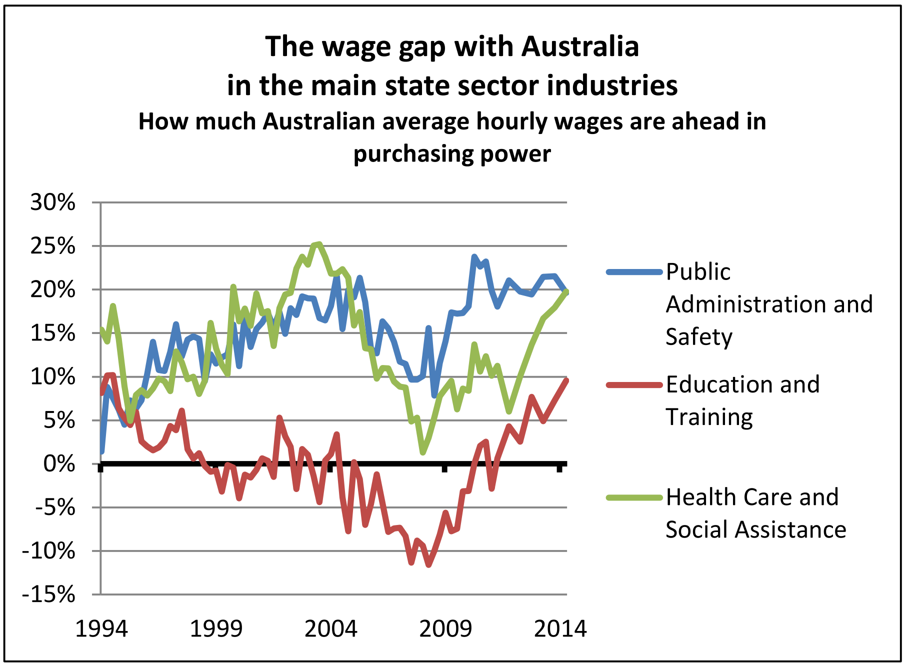
Here are some of things that need to be done with increasing urgency, just in the area of incomes and wages. To this should be added other costs of an ageing population, the increasingly obvious inadequacy of health funding, underfunding of skills and other tertiary education and training, and inadequate resources in many other areas.

Benefits

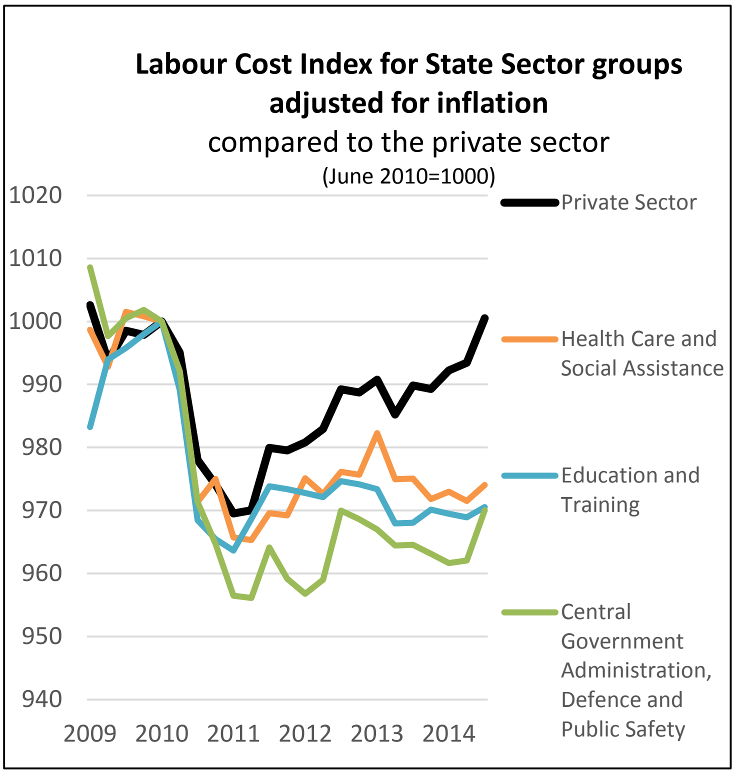
Following last year’s election, the Government said it was going to do something about poverty in the Budget. I had a look at the subject in more detail in the November Bulletin. As a growing number of groups including Child Poverty Action Group are now saying, this blight on our society cannot be addressed without raising incomes to beneficiaries significantly. They need an immediate increase and then have their benefits indexed to the average wage (like New Zealand Superannuation) rather than just indexed to inflation which leaves them further behind the rest of New Zealand society with each passing year. As I pointed out in the November Bulletin, that would be good for families relying on wages and salaries too, because wages are underpinned by the benefit level. The Children’s Commissioner’s Expert Advisory Group on Solutions to Child Poverty put the cost of their recommendations for changes to the benefit support and tax credits in the range $1.5-2.0 billion. That is the order of magnitude that is required. It doesn't fit into a $1 billion operating allowance.

State sector pay

Neither can the pay levels of state sector employees continue to be ignored. They went along with limited increases during the recession, but they cannot be expected to subsidise public services indefinitely as the Government's plans imply. They will leave for the private sector and overseas (there are still some good jobs going, even in Australia!) and it will be difficult to attract new staff. Last month I looked at the pay gap with Australia on a purchasing power basis (see the March Bulletin commentary for details). Comparing average hourly wages, across all industries (other than agriculture and fishing) the gap had risen rapidly after 2008 and was still rising though very slowly. For the main 'industries' where the state sector is concentrated, Public Administration and Safety is showing a similar trend to the average but for Education and Training, and Health Care and Social Assistance, the gap is growing fast.



The Labour Cost Index (LCI) which records changes in rates of pay for the job (not including pay rises for an employee's experience or performance), shows rates of pay for jobs in the main state sector 'industries' have fallen behind inflation since 2009. While private sector pay after taking account of inflation is not rising fast enough (in December it was still a little behind where it was in June 2009) it is at least rising in real terms. The real pay rates for state sector jobs in the main areas of Education and Training, Health Care and Social Assistance and Central Government Administration, Defence



and Public Safety, are barely ahead of where they fell to in 2011[1]. While the three areas had different pay movements in the year to June 2010, with a strong rise in Education, their pay rises (or lack of them) have been very similar since then. In Health and Education, real pay rates have fallen again since 2013.

The mechanism for increasing pay in the State Sector is straightforward: it is almost completely in Government hands, through bargaining parameters set by the State Services Commission and the provision of more funding to State Sector employers. It could also become a Living Wage employer.

Government funded work

The Government also has direct influence over some large and growing areas of low wage employment that are desperate for better pay and conditions. The number of such jobs will increase under the policy directions described at the beginning of this commentary. Most prominently there is the residential care sector. Wages are held down by insufficient funding to aged care and home care providers. As a report published this week for the Home and Community Health Association confirms, low pay is endemic. Over a third of rest-home caregivers and three-quarters of homecare workers earning under $15 an hour at the time of the survey carried out for the report a year ago (Ravenswood, Douglas, & Teo, 2015). The responsibility lies with the Government to increase funding rates, but also with District Health Boards who appear to be funding deficits in hospitals by squeezing the primary and community services they fund, often including aged and home care. However the DHBs' actions (which are self-defeating because they end up with more acute admissions to hospitals) are induced by the increasingly inadequate funding they receive and the priorities the Government requires of them through performance targets. Of course we also have experience of additional funding being provided to residential care providers in order to boost wages being used instead to boost their profits. Better funding must be accompanied by strict conditions on the funding and strengthened collective bargaining.

The same industry is the basis for the equal pay case which Kristine Bartlett, backed by the Service and Food Workers Union Nga Ringa Tota, is successfully taking through the courts. At some point the government will have to stump up for this. It will also have to face the certainty that other groups of women workers will have equal pay cases too. Some of those will be dependent on government funding.

Private sector wages

It is not so straightforward to use the Budget to encourage private sector wage rises in general. Greater private sector wage rises, given the productivity growth since 2009, need changes in employment legislation to encourage collective bargaining and stop unfair employment practices. There also needs to be change in immigration policy to stop it being used to hold down wage rates and working conditions. The Government should also increase the minimum wage more rapidly than it has done.

But there are some things that the Minister of Finance could do to raise private sector wages. The Reserve Bank is watching wage rates closely for signs of the inflation that it worries has gone missing. As Governor of the Reserve Bank said in today's Official Cash Rate (OCR) announcement, leaving the interest rate unchanged at 3.5%, "The timing of future adjustments in the OCR will depend on how

[1] The steep fall in real wage and salary levels in 2010-11 is due to Government policies including the October 2010 rise in GST pushing up inflation to over 5%. The LCI for the public sector is published only from June 2009.

inflationary pressures evolve in both the non-traded and traded sectors. It would be appropriate to lower the OCR if demand weakens, and wage and price-setting outcomes settle at levels lower than is consistent with the inflation target". In other words, if wages don't go up as fast as the Reserve Bank's inflation target of 2% they'll reduce the interest rate to increase inflation. In effect it's saying: if you want a lower dollar to support exporters, and you want lower interest rates, don't go for higher wages. This is the logical companion to longstanding Reserve Bank practice: when wages grew strongly they would take it as a sign of inflation getting out of hand, and interest rates would be pushed up in an attempt to screw down the economy. If wages rises greatly exceed inflation plus productivity gains in an economy operating at the limits of its capacity, they can of course become inflationary. But that is not necessarily true during a recession and it is perfectly reasonable for a government to have a policy of significantly raising wage levels. Current monetary policy operates to hold down wages unnecessarily.

In current circumstances, it is not clear what effect reducing interest rates would have on wages. It would help lower the exchange rate, leading to more jobs in export industries, some of which pay good wages. It would encourage business investment. Both could provide a lift for wages. But with high net immigration, welfare policies pushing beneficiaries into jobs, unemployment still at 5.7% and weak collective bargaining, the result may be continuing weak wage growth.

The Government could broaden the objectives of the Reserve Bank in setting monetary policy and include among them raising living standards, in particular allowing real wages to increase at least as fast as productivity growth over the medium term. Reserve Bank policy should recognise that wages are not just prices but the main mechanism for moving the income generated by the economy into households.

The Reserve Bank is wary of reducing its official cash rate for fear it will stoke the house price bubble in Auckland, even though almost all other indicators say that interest rates should be lower. In real terms, mortgage interest rates are not low: they are around the levels of the mid-2000s. The overvalued exchange rate, which in the short run is very sensitive to the difference between interest rates here and in other countries, is making exporting and competing with imports very difficult, putting further pressure on wages in the tradable sector of the economy. Banks are reducing interest rates anyway to attract prospective mortgagors, taking advantage of low interest rates overseas and falling rates on bank deposits. The Government could encourage lower interest rates by being much more active in the housing market: building quality affordable houses for resale or rent, and regulating to force improvement in the quality of private rental houses such as housing Warrants of Fitness.

The Government could also use taxation to take some heat out of the housing market and raise revenue for the programmes that require additional funding. The Deputy Governor of the Reserve Bank, Grant Spencer, recently called for a capital gains tax (Spencer, 2015). While its impact on house prices would be long term, by making investment elsewhere in the economy more attractive rather than immediately reversing a bubble, it would be useful for a number of other reasons, especially raising revenue and reducing inequality. For the same reason, income tax should also be raised at the top rates. Bringing back stamp duties for purchases of properties that are not owner-occupied should also be considered.

During the Election, Bill English said the average wage would move from $55,000 to $62,000 over the next four years. That was simply a Treasury forecast. He should be doing his best to make it come true – and exceed the forecast.

Bill Rosenberg

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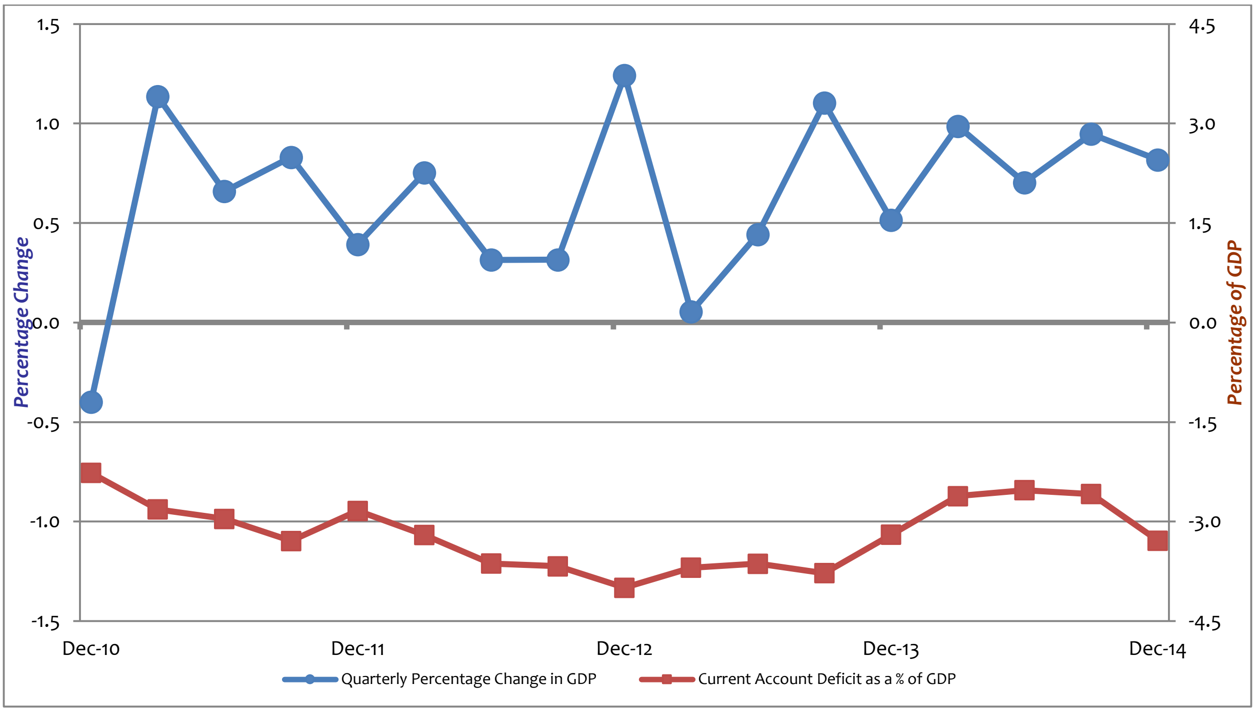
Forecast

- This [NZIER forecast] was released on 16 March 2015.

Annual Percentage Change (March Year)	**2014-15**	**2015-16**	**2016-17**	**2017-18**
GDP	3.3	2.9	2.8	2.4
CPI	0.5	1.6	2.0	2.1
Private Sector average wage	3.0	3.3	3.4	3.3
Employment	2.9	2.1	1.4	0.9
Unemployment rate	5.5	5.4	5.0	5.1

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

Economy



- Growth in New Zealand's economy continued in the December 2014 quarter, with Gross Domestic Product rising by 0.8 percent, compared to quarterly increases of 0.9 percent in September, 0.7 percent in June, 1.0 percent in March and 0.5 percent in December 2013, revised downwards. Growth for the year ended December 2014 was 3.3 percent. The December 2014 quarter was 3.5 percent up on the same quarter in 2013. However GDP per person is barely increasing by some measures: it fell 0.1 percent in the quarter in dollar terms, though it rose 0.3 percent in volume terms. So production per person is increasing but falling prices mean it is not showing as increased spending. Real gross national disposable income per capita, which takes into account the income that goes overseas in interest and dividends to overseas investors, and the falling prices for some of our main exports, fell 1.0 percent. The largest quarterly rises by industry were in "Furniture and other manufacturing" (up 8.2 percent after six months of falling production), Printing (up 6.5 percent after nine months of falling production), Petroleum, chemical, polymer, and rubber product manufacturing (up 5.4 percent), Fishing, aquaculture and primary industry support services (up 4.9 percent), and Accommodation and Food Services (up. 3.4 percent). Manufacturing rose 1.0 percent and its largest subsector, Food, beverage and tobacco manufacturing rose 1.5 percent. There were significant falls in Wood and paper products manufacturing (down 5.2 percent), Textile, leather, clothing, and footwear manufacturing (down 4.6 percent), Electricity, gas, water, and waste services (down 2.5 percent), Metal product manufacturing (down 2.5 percent) and "Other services" (down 1.8 percent). The result was that Primary Industries fell 0.3 percent, Goods producing industries (which includes Construction) rose 0.3 percent and Service industries rose 0.8 percent. Over the year (comparing December quarters), all industries expanded except Forestry and Logging (down 0.8 percent), Food, beverage, and tobacco manufacturing (down 0.8 percent), Textile, leather, clothing, and footwear manufacturing (down 3.5 percent), Printing (down 3.3 percent), Electricity, gas, water, and waste services (down 2.2 percent), and "Other Services" (down 0.1 percent). Construction led the expansion, rising 11.7 percent over the year followed by Non-metallic mineral product manufacturing (up10.3 percent), Accommodation and food services (up 10.3 percent), Fishing, aquaculture and primary industry support services (up 9.2 percent), Petroleum, chemical, polymer, and rubber product manufacturing (up 9.1 percent), Mining (up 5.6 percent), and Retail Trade (up 5.5 percent). Household consumption expenditure rose 0.6 percent in real terms in the quarter and 3.7 percent from the December 2013 quarter. Expenditure on non-durable goods (such as groceries) fell 0.2 percent in real terms during the quarter and rose 2.2 percent during the year while durables (such as appliances) rose 1.0 percent in the quarter and boomed at 8.2 percent growth over the year. Business investment fell 0.9 percent in the quarter but rose 4.6 percent from the previous December quarter. There were falls in Transport equipment (down 6.1 percent), Non-residential buildings (down 4.2 percent) and Other Construction (down 1.5 percent), while Residential buildings increased strongly at 5.2 percent.

- New Zealand recorded a Current Account deficit of $2.6 billion for the December 2014 quarter in seasonally adjusted terms ($3.2 billion actual), compared to a $2.4 billion deficit in the September quarter. There was another deficit in the goods trade ($458 million, seasonally adjusted, following a $356 million deficit in the September quarter) while the deficit on income (mainly payments to overseas investors) rose to $2.6 billion from $2.5 billion. For the year to December 2014, the current account deficit was $7.8 billion or 3.3 percent of GDP compared to a $6.1 billion deficit in the year to September. The deficit on investment income was $10.1 billion, which is rising because of increased outward flows of income on foreign investment in New Zealand.

- The country's Net International Liabilities were $153.9 billion at the end of December 2014 (64.7 percent of GDP) up from $152.0 billion (64.2 percent of GDP) at the end of September, and $145.1 billion (64.4 percent of GDP) in December 2013. The rise in net liabilities in the quarter was due mainly to net financial inflows of $3.7 billion, but was partly offset by changes in the market valuation of assets and liabilities. Without the market value changes, the net liabilities would have been $155.7 billion. Assets fell in value from $200.0 billion to $198.9 billion mainly because of exchange rate and valuation changes; financial flows accounted for only $423 million of the $1.5 billion fall. Liabilities rose only $449 million to $352.8 billion with financial inflows largely cancelled out by valuation changes. New Zealand's international debt was $261.6 billion (109.9 percent of GDP), compared to $117.9 billion in financial assets (other than shares; 49.5 percent of GDP), leaving a net debt of $143.7 billion. Of the net debt, $12.4 billion was owed by the government (equivalent to 5.2 percent of GDP) and $99.5 billion by the banks (41.8 percent of GDP), which owed $57.9 billion to related parties. Total insurance claims owed by overseas reinsurers from the

Canterbury earthquakes are estimated at $20.2 billion, and at 31 December 2014, $15.8 billion of these claims had been settled, leaving $4.4 billion outstanding.

★ Overseas Merchandise Trade for the month of March saw exports of goods fall 2.0 percent from the same month last year while imports rose 4.1 percent. This created a trade surplus for the month of $631 million or 13 percent of exports. In seasonally adjusted terms, exports rose 6.1 percent or $238 million over the month (compared to a 3.7 percent fall the previous month) influenced by rises in all top categories except Logs, wood and wood articles (down 9.8 percent or $32 million) and Crude oil (down 35.2 percent or $24 million), led by dairy products (up 19.4 percent or $170 million), Fruit (up 9.4 percent or $14 million), Aluminium products (up 17.1 percent or $14 million), Meat products (up 2.4 percent or $13 million) and Wine (up 11.0 percent or $13 million). Seasonally adjusted imports rose 2.0 percent or $83 million over the previous month, creating a trade deficit of $189 million compared to a $342 million deficit in the previous month. Imports grew in Petroleum and products (up 24.0 percent or $98 million) and Mechanical machinery and equipment (up 10.6 percent or $51 million) but fell in other leading categories including textiles (down 19.7 percent or $50 million). Exports to China fell 23.1 percent in the year to March and fell 4.1 percent to Australia. Australia has returned to the top spot in export destinations for the year even though their value fell. Exports to Australia were $8,650 million in the year to March, compared to $8,600 million to China (down from $11,183 million the previous year). Our top six export destinations accounted for 58.4 percent of our exports in the year (of which China accounts for 17.6 percent), compared to 60.4 percent in the previous year (China 22.4 percent). Imports from China rose 7.8 percent in the year to March, and rose 0.6 percent from Australia, but in the month imports from China rose 24.4 percent while imports from Australia fell 2.2 percent compared to the same month in the previous year. China remains easily our top source of imports but the trade balance has moved from a $645 million surplus in the year to March 2014 to a deficit of $374 million in the year to March 2015, a turnaround of more than $1 billion.

★ The Performance of Manufacturing Index[1] for March 2015 was 54.5, a fall from 56.1 in February. The employment sub-index was at 49.5, a fall from 52.3 in February and the lowest since December 2012.

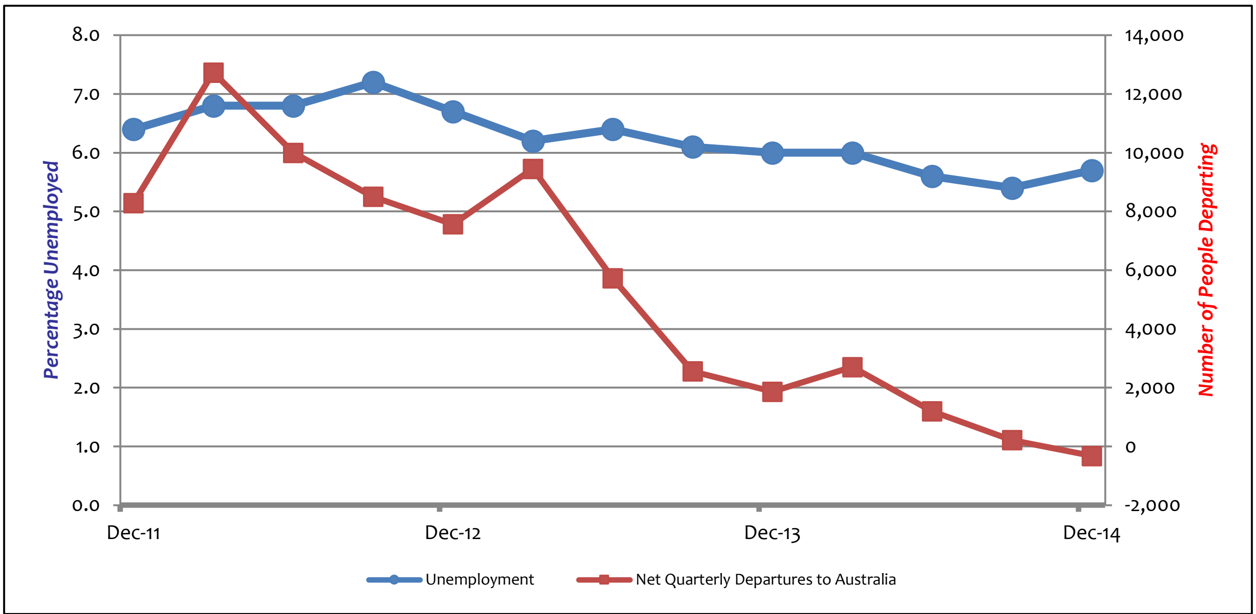
★ The Performance of Services Index[1] for March 2015 was 57.6, a rise from 56.0 in February. The employment sub-index rose to 54.8 from 52.8 in February.

○ The Retail Trade Survey for the three months to December 2014 showed retail sales rose 1.7 by volume and 1.6 percent by value compared with the September 2014 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Food and beverage services, Clothing, footwear and accessories, Electrical and electronic goods, Hardware, building and garden supplies, Non-store and commission retailing (which includes internet purchases), Accommodation and Recreational goods. Supermarket and grocery stores experienced the only significant fall.

★ On 30 April 2015 the Reserve Bank left the Official Cash Rate (OCR) at 3.50 percent and signalled that any change was likely to be downwards. It said: "The timing of future adjustments in the OCR will depend on how inflationary pressures evolve in both the non-traded and traded sectors. It would be appropriate to lower the OCR if demand weakens, and wage and price-setting outcomes settle at levels lower than is consistent with the inflation target." The next OCR review will be announced on 11 June 2015 and will be accompanied by a Monetary Policy Statement.

★ The REINZ Housing Price Index rose 6.7 percent in the month of March 2015. Auckland rose 4.6 percent, Christchurch rose 0.8 percent and Wellington rose 1.4 percent. The index was up 9.5 percent compared to the same month a year before. For the year, Auckland prices rose 20.2 percent, Christchurch rose 5.0 percent and Wellington rose 3.8 percent. The national median house price rose $45,000 or 10.5 percent compared to February to $475,000. It is $35,000 or 8.0 percent higher than a year ago. However there was no increase over the month and only $5,000 over the year in the median price for New Zealand excluding Auckland, whose median price rose 13% during the year. There were 295 or 9.4 percent more sales under $400,000 compared to March 2014, a rise of 426 to 1,023 in the $1 million plus range (the first time the number has exceeded 1,000) and 510 more (to 2,126) in the $600,000 to $999,999 range. Sales under $400,000 accounted for 39.2 percent of sales in March 2015 but 43.1 percent in March 2014.

Employment



- According to the Household Labour Force Survey the unemployment rate in the December 2014 quarter rose to 5.7 percent or 143,000 people, from 5.4 percent in September (135,000 people), seasonally adjusted. Seasonally adjusted female unemployment at 6.5 percent was higher than for men (5.0 percent). In the North Island, only Taranaki (4.8 percent) has unemployment below the average for the country, and Northland, with 8.0 percent unemployment, Gisborne/Hawkes Bay with 7.8 percent, and Manawatu-Whanganui with 9.0 percent are particularly hard hit. However, unemployment fell over the year in all but Gisborne/Hawkes Bay and Manawatu-Whanganui which rose from 7.3 percent and 5.7 percent respectively. The South Island looks considerably better, with only Tasman/Nelson/Marlborough/West Coast above average at 6.1 percent, but that was a rise from 4.2 percent a year before. Canterbury had low unemployment throughout the 2000s and has yet to regain the low levels of 2007 despite the Canterbury rebuild. The unemployment rate in Canterbury was 3.5 percent, a slight rise from 3.4 percent in December 2013 (though not statistically significant). The unemployment rate outside Canterbury is 6.0 percent. By industry, over the year almost a third of the increase in employment came from Construction (25,800 workers compared to 81,300 overall), with Public administration and safety, Health care and social assistance, and Arts, recreation, and other services the main other contributors (another 39,800 employed). Wholesale trade, Transport, postal and warehousing, Financial and insurance services, and Rental, hiring and real estate services all reduced employment over the year. There were 256,800 people jobless, including 141,600 people unemployed, and there were 112,800 part-timers who wanted more work. Māori unemployment fell slightly from 12.8 percent in December 2013, and was at 12.0 percent, and Pacific people's unemployment fell from 13.7 percent in December 2013 to 11.2 percent. The labour force participation rate at 69.7 percent is up 0.7 percentage points from the previous quarter and up 0.8 percentage points for the year. There are 40,600 unemployed people who have been out of work for more than 6 months (down from 44,600 in December 2013), and they are 28.7 percent of the unemployed compared to 30.7 percent a year before. Those out of work for more than a year have risen from 10.8 percent of the unemployed to 11.1 percent over the year. Compared to OECD unemployment rates, New Zealand is 10th equal lowest (out of 34 countries), worsening from 9th in September.

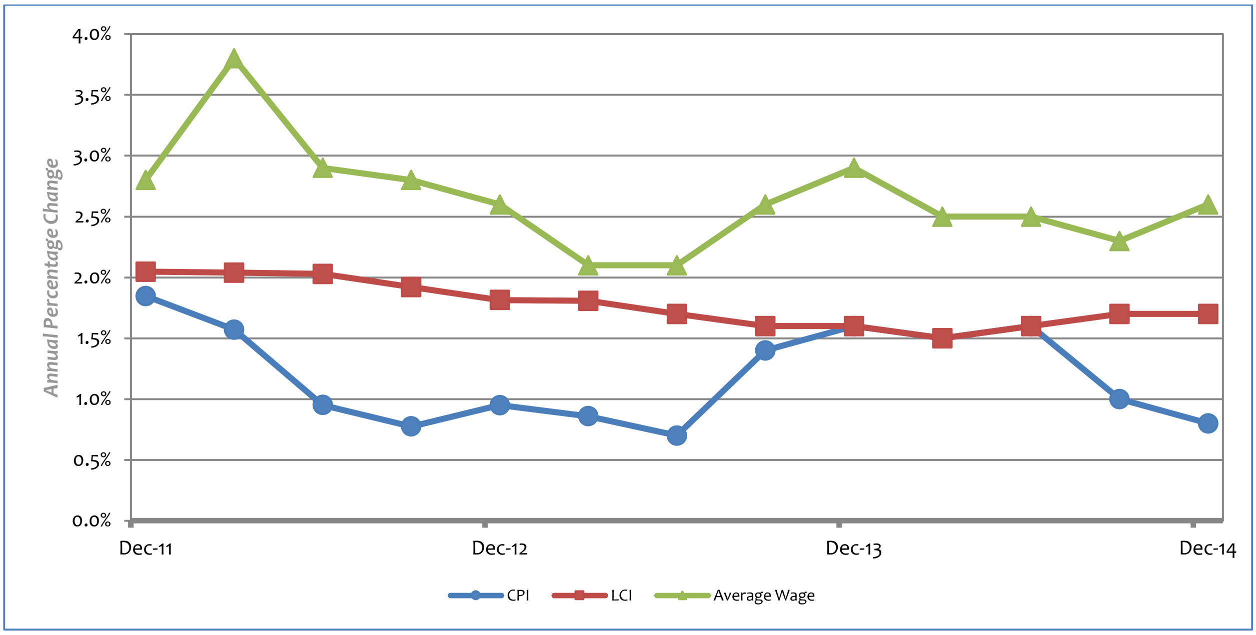
- Youth unemployment for 20-24 year olds was 11.0 percent, up from 10.4 percent in the December quarter and down from 11.2 percent a year before, all in seasonally adjusted terms. The NEET rate was 14.5 percent, down from 14.9 percent in the previous quarter and equal to 14.5 percent a year before. The unemployment rate among 15-19 year olds was 21.1 percent in December, up from 19.5 percent in September and down from 24.5 percent a year before, in seasonally adjusted terms. It was lower for those in education (20.2 percent) than those not (22.6 percent), and the 11,000 increase in employment over the year was almost entirely among people in education (10,000 increase) while those not rose only 1,000. The not in employment, education, or training (NEET) rate rose from 7.2 percent in June to 7.7 percent, though down on a year ago (7.9 percent). There were 72,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 11.3 percent of people in that age group, the same as in September and a year before.

★ The Ministry of Social Development reports that at the end of March 2015 there were 116,893 working age people on the Jobseeker benefit, a fall of 7,738 from 124,631 in December 2014 and a fall of 5,060 from March 2014. Of those at March 2015, 63,063 were classified as 'Work Ready', and 53,830 were classified as 'Health Condition or Disability'. A total of 284,260 were on 'main' benefits, 24,885 fewer than December 2014 and 11,060 fewer than March 2014. It was 28,506 more than in March 2008.

★ Job Vacancies Online showed a seasonally adjusted rise in skilled job vacancies of 2.1 percent in March after a fall of 0.1 percent in the previous month. All job vacancies rose by 2.2 percent in March, after a fall of 0.2 percent in the previous month. In the year to March, skilled vacancies rose 6.7 percent. All vacancies rose by 5.7 percent.

★ International Travel and Migration data showed 9,880 permanent and long-term arrivals to New Zealand in March 2015 and 4,890 departures in seasonally adjusted terms, a net gain of 5,000. There was an actual net gain of 56,275 migrants in the year to March. Net migration to Australia in the year to March was 2,328 departures, with 25,990 departures and 23,662 arrivals. For the month of March, the seasonally adjusted net loss to Australia was 150 compared to 340 a year before. In March, 12.5 percent of the arrivals had residence visas, 20.9 percent student visas, 32.6 percent work visas, and 4.9 percent visitors. A further 28.5 percent were New Zealand or Australian citizens.

Wages and prices



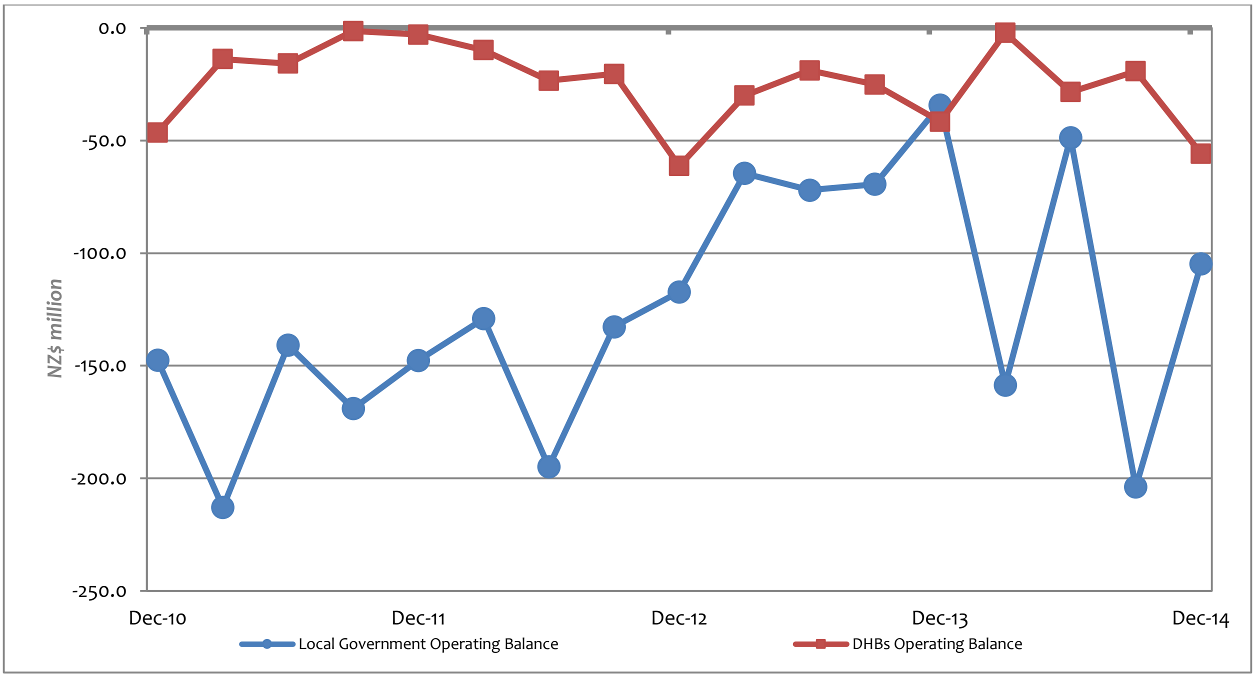
- The [Labour Cost Index](#) (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to December 2014. The LCI increased 1.7 percent in the year to December, ahead of the 0.8 increase in the CPI. It increased 0.4 percent in the public sector and 0.5 percent in the private sector in the three months to December. Over the year to December it rose 1.1 percent in the public sector and 1.8 percent in the private sector. During the year, 41 percent of jobs surveyed did not receive a pay rise, and 43 percent did not in the private sector. For the 59 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.5 percent and the average increase was 3.2 percent. For those jobs that received increases, the median increase in the public sector was 1.8 percent and in the private sector 2.5 percent; the average increase in the public sector was 2.2 percent and in the private sector 3.5 percent. We estimate that jobs on collective employment agreements were 2.0 times as likely to get a pay rise as those who were not.

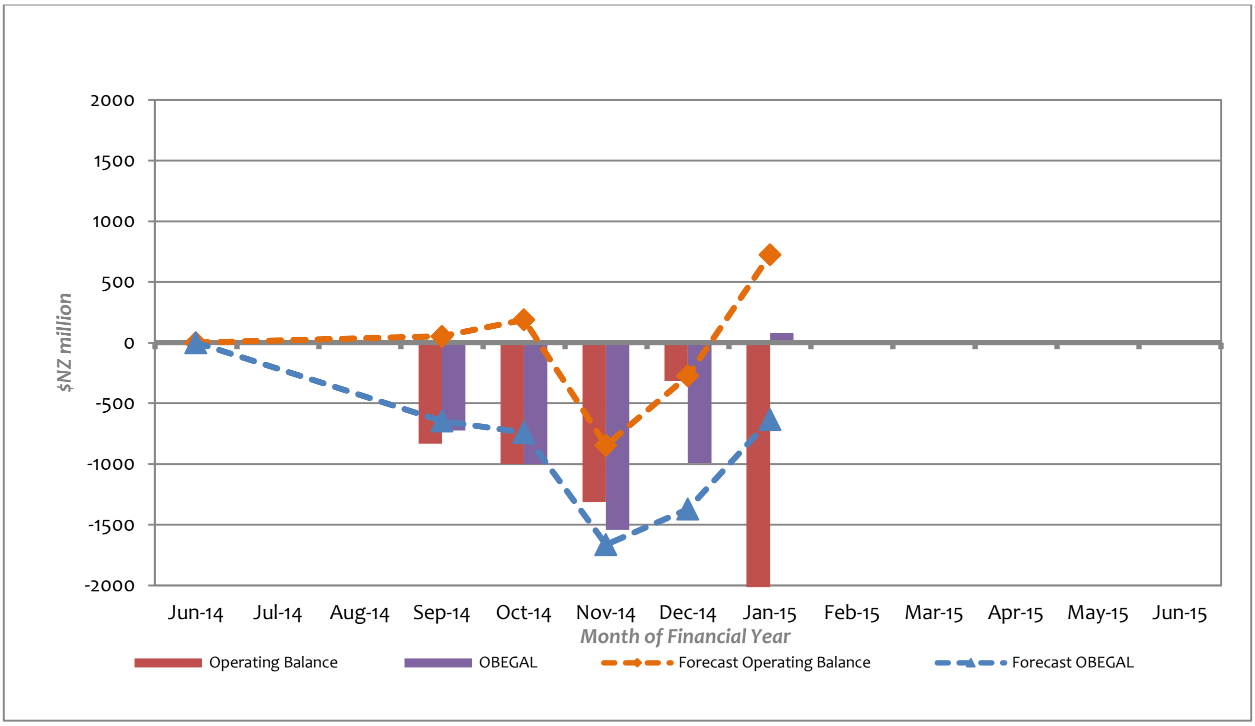
- The [Quarterly Employment Survey](#) for the three months to December 2014 found the average hourly wage for ordinary-time work was $28.77, up 0.5 percent on the September quarter and up 2.6 percent over the year. The average ordinary-time wage was $26.77 in the private sector (up 0.4 percent in the quarter and up 3.0 percent in the year) and $35.98 in the public sector (up 0.9 percent in the quarter and up 2.0 percent in the year). Female workers (at $26.58) earned 13.3 percent less than male workers (at $30.64) for ordinary time hourly earnings.

- ★ The [Consumer Price Index](#) fell 0.3 percent in the March 2015 quarter compared with the December 2014 quarter driven by falling petrol prices, and increased 0.1 percent for the year to March. For the quarter, Food (rising 0.9 percent), Alcoholic beverages and tobacco (up 4.7 percent due mainly to rising taxes on them), Housing and household utilities (rising 0.4 percent) and Education (up 3.2 percent) were the largest upward influence. Overpowering them were Clothing and footwear (down 1.2 percent), Household contents and services (down 1.3 percent), Transport (down 5.3 percent, including petrol down 10.6 percent and international air travel, down 14.7 percent), and Recreation and culture (down 1.1 percent). Inflation in Canterbury for the year was 0.7 percent compared with 0.3 percent in Wellington and 0.0 percent in Auckland. Housing costs hit particularly hard in Canterbury, rising 4.1 percent for the year compared to 2.4 to 3.9 percent elsewhere.

★ The [Food Price Index] rose by 0.1 percent in the month of March 2015, following a 0.7 percent fall in February. Food prices rose 1.9 percent in the year to March 2015. Compared with February, fruit and vegetable prices fell 3.1 percent; meat, poultry, and fish prices rose 0.4 percent; grocery food prices rose 1.2 percent; non-alcoholic beverages fell 0.6 percent; and restaurant meals and ready-to-eat food fell 0.6 percent.

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand for the eight months ended 28 February 2015, core Crown tax revenue was $162 million or 0.4 percent higher than forecast in the December 2014 Half Year Economic and Fiscal Update (HYEFU). Main contributors were higher than expected corporate ($91 million) and 'other individuals' ($217 million) tax, offset by GST revenue being lower than forecast by $216 million due to higher than expected earthquake related refunds and weaker than expected growth in household spending in the economy (nominal consumption). Net debt at 26.7 percent of GDP ($63.5 billion) was $687 million lower than the $64.2 billion forecast. The Operating Balance before Gains and Losses (OBEGAL) was a $269 million deficit, $343 million better than forecast. The Operating Balance was a $952 million deficit compared to a forecast surplus of $941 million, the difference being mainly due to $4.3 billion in unexpected actuarial losses on the ACC and GSF liabilities due to weaker interest rates and lower inflation forecasts partly offset by unexpected $1.7 billion net gains on unidentified financial instruments. Gross debt at $87.5 billion was $3.5 billion above forecast.

★ District Health Boards recorded combined deficits of $26.4 million for the month to February 2015. This is $17.6 million worse than their plans. The Northern region was $0.4 million ahead of plan with a surplus of $10.9 million and all DHBs in surplus, the Midland region was $5.3 million behind plan with a combined deficit of $11.3 million and all DHBs in deficit, almost half ($5.1 million) due to Waikato, Central region was $4.9 million behind plan and four of the six DHBs in deficit for a total $7.8 million, and the Southern Region was $7.8 million behind plan with a $18.1 million deficit and three of the five DHBs in deficit including Canterbury at $9.8 million and Southern at $11.9 million. The DHB furthest ahead of plan was South Canterbury by $1.4 million, and Southern was furthest behind, by $5.8 million. The funder arms were in surplus by $93.0 million, but Provider arms in deficit by $119.4 million.

- Local Government recorded a 2.8 percent ($56.2 million) increase in operating income and a 1.9 percent fall in operating expenses ($42.8 million) including an increase of 0.7 percent ($3.5 million) in employee costs for the December 2014 quarter compared to September. This resulted in an operating deficit of $104.8 million in the December quarter, compared with a deficit of $203.8 million in the September quarter, and deficits in all the last 27 quarters back to March 2008 with the exception of June 2010, all in seasonally adjusted terms. Note that the December quarter results are provisional and many previous figures have been revised.

Notes

1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

This bulletin is available online at http://www.union.org.nz/economicbulletin167.

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