NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

# CTU Monthly Economic Bulletin

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Information Section p.7

## *Commentary*

## The coming Budget: between a rock and a hard place


### *Summary*

The new Government's first Budget will be announced on 17 May. What pressures is it facing?

It will be in a pincer between the spending needed to plug the gaping holes in our public services and infrastructure left by the previous Government, and its own Budget Responsibility Rules. These rules restrict its operational spending to roughly 30 percent of GDP. In fact its spending (other than on capital) will be even less. Many existing problems will fester. Even a 30 percent limit will in the longer run require cuts in public services.

It has promised not to raise taxes in this term so, even if it raised its spending limit, it would have little more to spend. Neither can it finance spending by holding or increasing debt levels because it has promised to reduce net government debt to 20 percent of GDP – despite debt being very low by international standards, and very low cost. It could for example fund more infrastructure (capital) expenditure from debt. An increasing number of commentators agree. Raising operational spending to 30 percent of GDP would provide an additional $4.2 billion.

The cap on spending and debt is leading towards poor policy decisions, like using Public Private Partnerships which are likely to cost more than government borrowing, and "Special Purpose Vehicles" which are an accounting trick to stop debt showing up on government books.

This focus on financial outcomes contradicts the Government's praiseworthy intentions to focus on "wellbeing" in future budgets. It will weigh up economic and financial objectives with the development of people's skills and knowledge ('Human Capital'), social cohesion, fairness and culture ('Social Capital'), and the environment ('Natural Capital').

To give an example – if we wanted to return to levels of inequality in New Zealand similar to those in the most equal half of the OECD, a rough estimate, comparing our social protection spending with the more equal OECD countries, is that the government would need to spend around 33 percent of GDP to achieve it. Limiting spending to 30 percent is giving away the opportunity to make New Zealand a more egalitarian country. There are other pressures that will force spending above 30 percent including rising health and superannuation costs.

I suggest a path to more balanced policies: budget rules consistent with wellbeing; raising more taxes in a more future-looking tax system; and some interim measures that will give the Government more room to do what is needed. Our society's wellbeing, seen in compromised or deteriorating social, human and natural capital, justify and demand it.


The new Government's first Budget will be announced on 17 May. We will be producing our usual Budget special that evening, analysing it. What are the pressures the Government is facing in bringing it together?

In the January *Bulletin* I pointed out the severe problems the Government will face in the pincer between the demands resulting from the gaping holes in our public services and infrastructure left by the previous Government on the one hand, and its own Budget Responsibility Rules on the other. These limit both its ability to expand its operational spending ("expenses" in accounting jargon) and capital spending.

Briefly, the pincer works like this. The Government has a self-imposed policy to restrict "its expenditure to within the recent historical range of spending to GDP ratio." That ratio is roughly 30 percent of GDP[1] which is a lid on what they allow themselves to spend. As explained in the January *Bulletin* and will be seen again below, even 30 percent is not going to be enough: existing problems will fester and in the longer run it will require cuts in public services.

**Operational funding** is the ongoing spending needed for programmes like reducing poverty, resolving the mental health crisis, meeting the severe staffing shortages in health such as among nurses, midwives and doctors, restoring higher ratios of qualified early childhood education teachers, increasing school operational grants, free tertiary education, rising NZ Superannuation costs, pay equity, and other long-suppressed state services pay increases and staffing shortages.

**Capital funding** creates or replaces long-lived assets, needed for an increasing list including replacing rundown hospital and school buildings, building affordable rental and Kiwibuild housing, roading and public transport improvements, regional and green development, and restoring contributions to the NZ Superannuation Fund.

But current spending is below 30 percent of GDP. In the Government's December Budget Policy Statement setting out its intentions for the 2018 Budget it showed Core Crown expenses falling from 28.5 per cent of GDP in the current year and 28.6 percent in this coming Budget, to 27.6 per cent of GDP in 2021/22. On top of that is capital expenditure.

Its ability to spend more is limited for two reasons. Firstly it has promised not to raise taxes in this term of Government. So, even if it raised its spending limit, it would have little more to spend. Secondly, it cannot finance spending by maintaining or increasing current debt levels because it has promised to reduce net debt to 20 percent of GDP – despite it being very low by international standards, and very low cost. It could for example fund more capital expenditure from debt, freeing up available revenue for increasingly urgent operational needs. It would be sensible to fund more capital expenditure, and social spending that reduces future costs, using the borrowing that is readily available to the

There is a growing list of commentators calling for more borrowing including ANZ Bank chief economist Sharon Zollner; business journalists Hamish Rutherford at Stuff, Liam Dann at the *Herald*, and Bernard Hickey on Newsroom Pro. Rutherford and Salvation Army researcher Alan Johnson point out that the spending cap will have to go too. Susan St John, economist and campaigner against child poverty, has complained about the treatment of the NZ Super Fund in net debt calculations. For what it is worth, even credit rating agency Standard & Poor's told Interest.co.nz that the Government could allow the debt to GDP ratio rise two or three percentage points without reducing its credit rating.

[1] It is not clear whether "expenditure" includes capital. The term "expenditure" includes capital, but the 30 percent "historical range" they quote is of expenses only. Including capital would make the limit even tighter.

government at much lower cost than to the private sector. Current government borrowing is at interest rates around 1.8 percent short term, 3.4 percent long term.

Raising operational spending to 30 percent of GDP would give the Government an additional $4.2 billion in the year to June 2019 according to Treasury forecasts. Forecast revenue for the new financial year is 29.7 percent of GDP, and this year's revenue is $700 million ahead of forecast, so it may well touch 30 percent of GDP next year, but the Government also needs to spend heavily on capital – and wants to pay off debt.

As it stands, over the next 4 years the Government has allowed for an average of only $660 million additional new spending a year (which adds up to $6.6 billion for the 4 years[1]) over and above Labour's costed promises, the Coalition Agreement with New Zealand First and the agreement with the Greens. That must pay for new Health services, new pay equity settlements, making further progress in addressing child poverty (set back by a Treasury miscalculation as to what the Families Package would achieve), the pent-up rises in state sector pay, staff shortages in multiple areas and fixes for other services stretched by population pressures and years without being compensated for rising costs.

**Attracting poor policy decisions**

Arbitrary funding caps and debt limits are bad policy (and a favourite of the political right: ACT was pushing for such rules several years ago). They create pressure for other poor decisions.

One example is already approaching: the Government is toying with using Public Private Partnerships (PPPs) for infrastructure and "Special Purpose Vehicles" (SPVs) for funding some of its transport plans. Both end up more expensive than public funding because of the higher debt costs and need for profits. "Private sector efficiencies" are elusive as the Serco-run Mt Eden prison illustrated: internationally, they are mainly due to understaffing and/or lower pay. Sensibly, the Government has counted PPPs out for new hospitals.

"Special Purpose Vehicles" in this case are not trucks designed for painting roads or four-wheel drive utes: they are financial tricks to get around the Budget rules. It seems that they will be government-owned entities ("Crown Infrastructure Partners") which are set up so that their debt doesn't appear on the government's books.[2] The idea is that they look like a private company to the lender but a public company to the government. If you think this sounds like Enron's accounting you wouldn't be far out.

A government cannot have it both ways. Either it guarantees the funding and success of the project that the "Special Purpose Vehicle" is carrying out – in which case it is a fiction that the debt is not a liability for the government – or it makes clear that the project can fail. If it can fail, lenders will charge higher private sector interest rates, increasing the cost of the project. In reality no government can let a transport service fail because the public will rightly demand that it continues. So the government may end up with the worst of both worlds – guaranteeing a high cost project.

If a Government really believes that lower debt is better, it is as wrong to increase debt by a piece of financial deception as it would be to do it out in the open, on the Crown's books.

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[1] According to the December Budget Policy Statement, p.16.
[2] See "Twyford bends budget rules", by Thomas Couglan, 23 April 2018, available at https://www.newsroom.co.nz/2018/04/22/105712/twyford-bends-budget-rules.

**Contradictory**

One of the big changes in direction the Minister of Finance will be speaking more about in his Budget speech will be the idea of a "wellbeing Budget". It will be based on the Living Standards Framework which has been developed by Treasury over several years (despite lack of enthusiasm from the previous Government), and is being worked on further for fuller implementation in 2019. The idea is an excellent one: that policy should be designed with more than economic and financial ends in mind. It should also take into account impacts on the development of people's skills and knowledge ('Human Capital'), social cohesion, fairness and culture ('Social Capital'), and the environment ('Natural Capital').

This will not be fully integrated with Budget processes until the 2019 Budget according to the Minister, but officials are already using it in evaluating policy. One example is the development of poverty reduction goals. The Tax Working Group has also stated it will use it for evaluating tax policies.

Yet the Budget Responsibility Rules are defined solely in financial terms. They take only minor account of other important goals of public policy. They contradict the Government's own praiseworthy change in thinking about how to design good policy.

We can see how much a cap on spending misses the broader objectives of society in the following example.

**Getting serious about inequality**

Most New Zealanders, according to polls, are concerned about the high level of inequality in their country. It is important for social cohesion ('social capital') and fairness and there is increasing evidence of its impact on other parts of the living standards framework, particularly economic and human capital.

New Zealand household income inequality, after tax and benefits, is currently in the most unequal quarter of OECD countries[1].

What if we wanted to seriously reduce it?

Suppose we wanted to return to the most equal half of the OECD – not in in the most equal quartile (one quarter) of OECD countries, but somewhere in the second quartile, as we were in the mid-1980s shortly after rapid increases in income inequality began. We could do that by reducing inequality in our 'market' incomes – wages, salaries, self-employment income, and unearned income from investment – or by making our weak tax system more inequality-reducing, or by spending more on income support through the 'transfer' system.

Strengthened collective bargaining would help with the first, a more progressive tax system would help with the second, but inequality-reducing work would still need to be done with transfers of income by government. We can roughly estimate how much is needed by comparing ourselves to more equal OECD countries. In an international classification[2], income transfers are funding in the area of government spending known as 'social protection'. It includes some other important functions like social housing and active labour market measures which help people through job loss. So it includes not only

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[1] This and the following comparisons are based on equivalised household income inequality before and after taxes and transfers (disposable income). See OECD statistics on Income Distribution and Poverty at http://stats.oecd.org/Index.aspx?DataSetCode=IDD#

[2] Called Classification of Functions of Government (COFOG).

direct, inequality-reducing (redistributional) measures, but also the indirect assistance which contributes to that objective.

If we have no change in New Zealand's market income inequality and no improvement in the inequality-reducing power of the tax system, we have to increase social protection expenditure. In 2014, New Zealand spent 11.4 percent of GDP on social protection[1]. That year, on average, the second quartile of OECD countries spent 15.3 percent of GDP on social protection – 3.9 percentage points more than New Zealand (the top quartile averaged 18.0 percent of GDP).

That suggests that if we wanted to seriously reduce income inequality (and support people better through difficult times too), we are unlikely to be able to do it without raising government spending to around 32-33 percent of GDP from its 28.5 percent this year.

We could reduce that need if we had more equal market incomes (South Korea, with the most equal market incomes in the OECD spends the least on social protections – but there are likely to be other factors at work) and a more progressive tax system. But it is highly unlikely government spending could remain below 30 percent of GDP. Limiting spending to 30 percent is giving away the opportunity to make New Zealand a more egalitarian country.

There are other pressures that will force spending above 30 percent as Treasury has pointed out (see the January *Bulletin*) including rising health and superannuation costs, mainly the result of an aging population.

**What could the Government do?**

Clearly, the Government is confronted by a legacy left by the previous Government which reduced spending as proportion of GDP by pretending that growing problems didn't exist. That is fiscal irresponsibility at its worst. On top of that legacy, this Government has ambitions to make New Zealand a better place. It is having to delay programmes, such as promised subsidies for visits to the doctor, because of its budget rules. Barring much greater windfall revenue, pressures will intensify rather than ease over its current term in office.

What could it do to achieve more balanced policies?

Firstly it could announce that its Budget Responsibility Rules will be reviewed in time for the next election. It has ample evidence as to why that is necessary. They should be replaced with balanced objectives based on the wellbeing measures it plans to announce, so that the broader needs of society and the environment are taken into account. Fiscal and economic objectives should be among them, but they should not stand on their own. New objectives for government debt would be part of the review.

Secondly, it needs to raise more revenue to ensure we have the public services and infrastructure we New Zealanders need. Otherwise we will see the deterioration of the last decade continue. Today the CTU made a submission to the Tax Working Group which in its discussion document quoted famous US Judge Oliver Wendell Holmes: "Taxes are what we pay for civilized society". Taxation also needs to be more future-looking. If wage and salary income continues to fall as a proportion of the nation's available

[1] New Zealand is not included in these OECD statistics, so this was calculated from Statistics New Zealand's Government Financial Statistics (GFS series in the InfoShare database) and nominal GDP (Expenditure) from Statistics New Zealand's National Accounts. The year 2014 is chosen because it is the most recent year for which inequality data for most OECD countries is available.

income, under pressure from poor employment legislation, offshoring, excess profits, and increasing capital intensity replacing labour, then taxation needs to shift to put a greater responsibility on capital and less on labour.

Thirdly, there are steps the Government needs to take in the interim.

It should make its debt target more logical by including the financial assets of the New Zealand Superannuation Fund in the calculation. The international agencies include these assets when comparing countries. The Auditor-General has criticised the exclusion of these assets because they "pre-fund" future expenditure and therefore reduce New Zealand's future liabilities[1]. Including the Fund would reduce net government debt from an estimated 21.7 percent of GDP in June 2018 down to 8.5 percent of GDP according to the 2017 Half-Year Economic and Fiscal Update. The Government could reset its debt target accordingly – but even a 10 percent target would be very conservative. The improved net debt measure has the advantage that it recognises both the increase in the Fund due to resumed government contributions ($0.5 billion in this financial year, rising to $2.5 billion in the year to June 2022) and the success of the fund, which has typically grown much faster than GDP (an average 12.0 percent a year since the last government contribution in the year to June 2010). That would allow for additional prudent borrowing while keeping within a sensible debt target. It would free up revenue for operational spending.

Finally, the Government should bring into play the part of its rules which say that "surpluses will exist only once [its] policy objectives have been met". Our society's wellbeing, seen in compromised or deteriorating social, human and natural capital, justify and demand it.

**Bill Rosenberg**

*This was amended on 6 May 2018 to correct Susan St John's views on the Budget Responsibility Rules.*

[1] See https://www.oag.govt.nz/2017/long-term-fiscal-position/part4.htm, paragraphs 4.45-4.53.

# Information



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

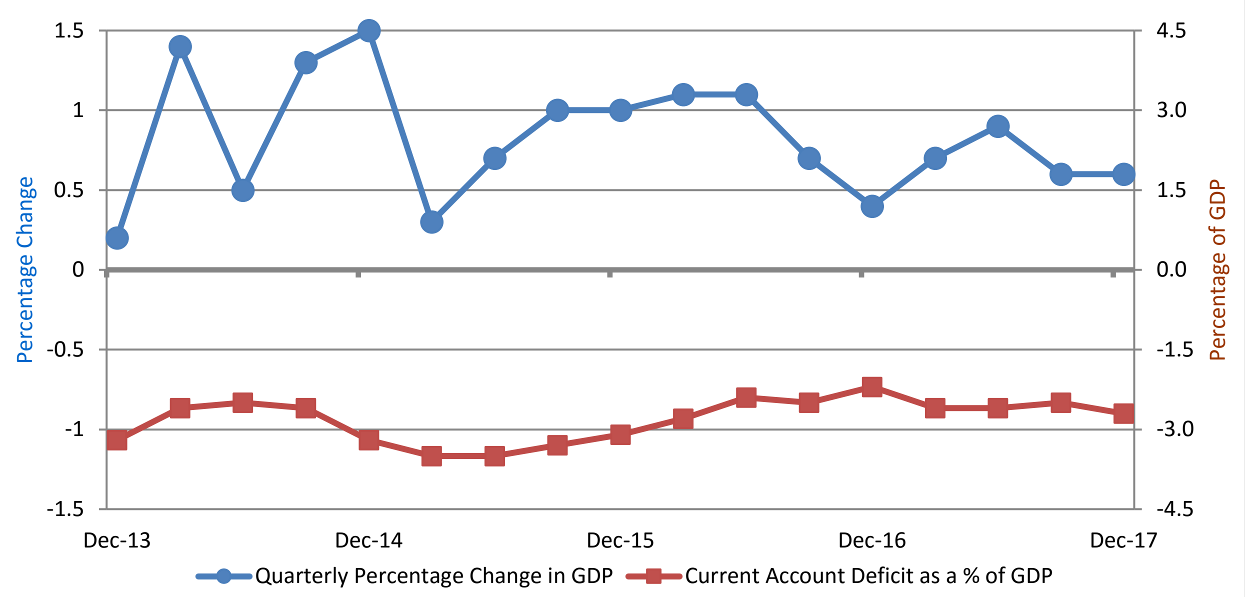
## *Forecast*

- This NZIER consensus forecast was released on 19 March 2018.

| Annual Percentage Change (March Year) | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|
| **GDP** | 2.9 | 3.1 | 3.3 | 2.9 |
| **CPI** | 1.2 | 1.8 | 1.9 | 2.0 |
| **Private Sector average hourly wage** | 2.3 | 3.0 | 3.0 | 2.9 |
| **Employment** | 3.2 | 2.0 | 1.6 | 1.4 |
| **Unemployment rate (% of labour force)** | 4.5 | 4.3 | 4.3 | 4.3 |

## *Economy*

- Growth in New Zealand's measured economy in the three months to December 2017 was similar to




Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 0.6 percent, the same as in the previous quarter. Average growth for the year ended December 2017 was 2.9 percent (and 2.7 percent compared to the same quarter last year). However growth in GDP per person continues to be weak with a rapidly growing population: GDP per person rose only 0.1 percent in the December quarter (down marginally from 0.2 percent the previous quarter), and 0.7 percent over the year, though the revisions to GDP estimates (see note to the right), has raised estimates for previous years – for example 1.8 percent in 2016. Nonetheless, GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.3 percent a year. Since 2011 it has averaged 1.5 percent per year. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, grew somewhat more strongly: it rose by 0.9 percent over the quarter and 1.3 percent over the year to December.

*Note that there have been major revisions of GDP estimates, largely affecting data since 2013, with significant effects in 2016 and 2017. The estimate of annual GDP growth in the year to March 2016 was raised by 1.2 percentage points (from 2.4 percent to 3.6 percent) and in the year to March 2017 by 0.8 percentage points (from 2.9 percent to 2.7 percent).*

- I estimate[1] that labour productivity measured by production per hour worked in the economy was little changed in the year to December (up just 0.1 percent) compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It is little

[1] Because of the changes to the Household Labour Force Survey, there is a break in the hours-worked series in June. I estimated the increase for June 2016 using a recent Statistics New Zealand estimate that the changes in the survey created a jump in the series by 50,000 people or 2,550,000 actual hours worked per week: see Anand-Kumar, V., Penny, R., & Gordon, M. (2017). *Investigation on the impact of the 2016 redevelopment on the Household Labour Force time series.* Wellington, New Zealand: Statistics New Zealand, p.11. Available at http://on-cue.co.nz/Vinyak%20Anand-Kumar.pdf

different in December 2017 than it was in December 2012. Statistics New Zealand's official productivity statistics for the year to March 2017 are summarised below.

- Business investment rose by 3.7 percent compared to the previous quarter driven mainly by construction of Non-residential buildings, Plant, machinery and equipment, and Transport equipment. Growth compared to the same quarter last year was strong at 6.6 percent, driven by Plant, machinery and equipment, Transport equipment and Intangible fixed assets. Investment in housing rose 0.5 percent in the quarter following a 3.0 percent rise and 0.6 percent fall in the previous two quarters. It grew only 1.3 percent over the same quarter last year. Household consumption growth strengthened a little to 1.2 percent in the December quarter in real terms, after rising 1.0 percent in the previous quarter, and rose 4.3 percent over the same quarter in the previous year. Inflation in the economy as a whole is considerably higher than CPI, with the GDP deflator (a price index for expenditure on the economy's production, reflecting largely the revenue employers are getting for their products) rising 2.9 percent from the same quarter last year, and 1.0 percent in the most recent quarter.
- By industry, the largest contributors to growth in the latest quarter were Professional, scientific, technical, administrative and support services (up 2.3 percent), Wholesale trade (up 2.2 percent), Retail trade and accommodation (up 1.6 percent), Transport, postal and warehousing (up 1.7 percent), and Rental, hiring and real estate services (up 0.8 percent). There were contractions in Agriculture, forestry and fishing (down 3.2 percent), and Arts, recreation and other services (down 1.9 percent). Manufacturing production fell 0.1 percent. Compared with the same quarter last year, the biggest rises were in Retail trade and accommodation (up 6.2 percent), Wholesale trade (up 5.4 percent), Transport, postal and warehousing (up 5.4 percent), and Public Administration and safety (up 3.6 percent). Mining contracted by 2.4 percent and Arts, recreation and other services fell 1.0 percent.
- New Zealand recorded a Current Account deficit of $2.0 billion in seasonally adjusted terms for the December 2017 quarter (but an actual deficit of $2.8 billion) following a revised $1.5 billion deficit for the previous quarter. There was a deficit in goods trade ($465 million, seasonally adjusted) following a $80 million deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $0.7 billion in goods and services (compared to a $1.1 billion surplus in the previous quarter) including a $1.2 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) worsened to $2.7 billion from $2.5 billion in the previous quarter (seasonal adjustment not available). For the year to December 2017, the current account deficit was $7.7 billion or 2.7 percent of GDP compared to a $7.0 billion deficit in the year to September (2.5 percent of GDP). The deficit on investment income was $9.6 billion for the year.
- The country's Net International Liabilities were $155.2 billion at the end of December 2017, down from a revised $156.2 billion at the end of the previous quarter and down from $157.7 billion a year before. The December net liabilities were equivalent to 54.8 percent of GDP, compared to a revised 56.0 percent in the previous quarter and 59.3 percent a year before. Net international liabilities would take 2.03 years of goods and services exports to pay off, down from 2.12 years a year before. However gross liabilities would take 5.31 years of goods and services exports to pay off. The fall in net liabilities over the quarter was due to a net $2.5 billion valuation increase (mainly $2.0 billion in market price valuations) offset by a $1.5 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $157.7 billion. New Zealand's international debt was

$287.6 billion (equivalent to 101.5 percent of GDP), of which 29.2 percent is due within 12 months, compared to $139.1 billion in financial assets (other than shares; 49.1 percent of GDP), leaving a net debt of $148.5 billion (52.4 percent of GDP). Of the net debt, $4.2 billion was owed by the government including the Reserve Bank (equivalent to 1.5 percent of GDP and up from $3.5 billion at the end of the previous quarter) and $109.2 billion by the banks (38.5 percent of GDP), which owed $153.4 billion gross.

- ★ Overseas Merchandise Trade for the month of March 2018 saw exports of goods rise in value by 5.8 percent from the same month last year while imports rose 14.1 percent. This created a trade deficit for the month of $86 million or 1.8 percent of exports, following a surplus in February. There was a trade deficit for the year of $3.4 billion or 6.2 percent of exports, higher than the 5.7 percent deficit in the year to the same month in 2017. In seasonally adjusted terms, exports fell 2.6 percent or $120 million over the month (compared to a 15.9 percent fall the previous month) led by falls in Meat (down 8.4 percent or $50 million), Crude oil (down 49.6 percent or $34 million, not seasonally adjusted), and Seafood (down 3.6 percent or $5 million), offset by rises led by Dairy (up 10.5 percent or $115 million), Fruit (up 13.2 percent or $28 million), Aluminium and aluminium articles (up 23.8 percent or $21 million, not seasonally adjusted) and Electrical machinery and equipment (up 19.8 percent or $18 million). Seasonally adjusted imports rose 5.3 percent or $258 million over the previous month, creating a trade deficit of $652 million following a $275 million deficit in the previous month. The rising imports were led Petroleum and products (up 40.5 percent or $183 million, not seasonally adjusted) and Mechanical machinery and equipment (up 12.1 percent or $74 million, not seasonally adjusted), offset by falls led by Textiles and textile articles (down 13.6 percent or $33 million). In the year to March, 22.4 percent of New Zealand's exports went to China, 16.4 percent to Australia, 9.8 percent to the US, and 62.2 percent went to the top seven countries buying New Zealand exports. This was up from 20.4 percent going to China in the year to March 2017, and 61.9 percent going to the top seven destinations. Over the same period, 19.2 percent of New Zealand's imports came from China (compared to 19.7 percent in the year to March 2017), 12.0 percent from Australia, 10.7 percent from the US, and 62.6 percent from the top seven countries selling to New Zealand, compared to 64.2 percent a year before.
- The Retail Trade Survey for the three months to December 2017 showed retail sales rose 5.4 percent by volume and 6.3 percent by value compared with the same quarter a year ago. They rose 1.7 percent by volume and 1.9 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Specialised food (up 5.5 percent), Liquor (up 4.1 percent), Food and beverage services (also up 4.1 percent), Pharmaceutical and other store-based retailing (up 4.0 percent), and Fuel (up 3.8 percent). Food retail encompassing Supermarket and grocery stores (easily the largest single category, with 21 percent of sales), Specialised food, and Food beverage services, together made up almost half of the increase for the quarter ($211 million out of the $444 million total). There were sales falls in Department stores (down 1.2 percent) and Hardware, building, and garden supplies (down 0.8 percent) with Accommodation (up 0.6 percent) also particularly weak. We noted last quarter that September was the first quarter when Statistics New Zealand collected retail trade data under a new design which uses GST data wherever possible, surveying only the larger retail businesses. This quarter they announced some major revisions to Supermarket sales for September and previous quarters. For example, they now estimate that Supermarket sales rose 5.6 percent rather than the 2.9 percent previously published.

- The Performance of Manufacturing Index for March 2018 was 52.2, a fall from 53.3 in the previous month. The employment sub-index was at 53.5, a fall from 54.7 in the previous month.

- The Performance of Services Index for March 2018 was 58.8, a sharp rise from 55.3 the previous month. The employment sub-index was 50.5, little changed from 50.6 in the previous month.

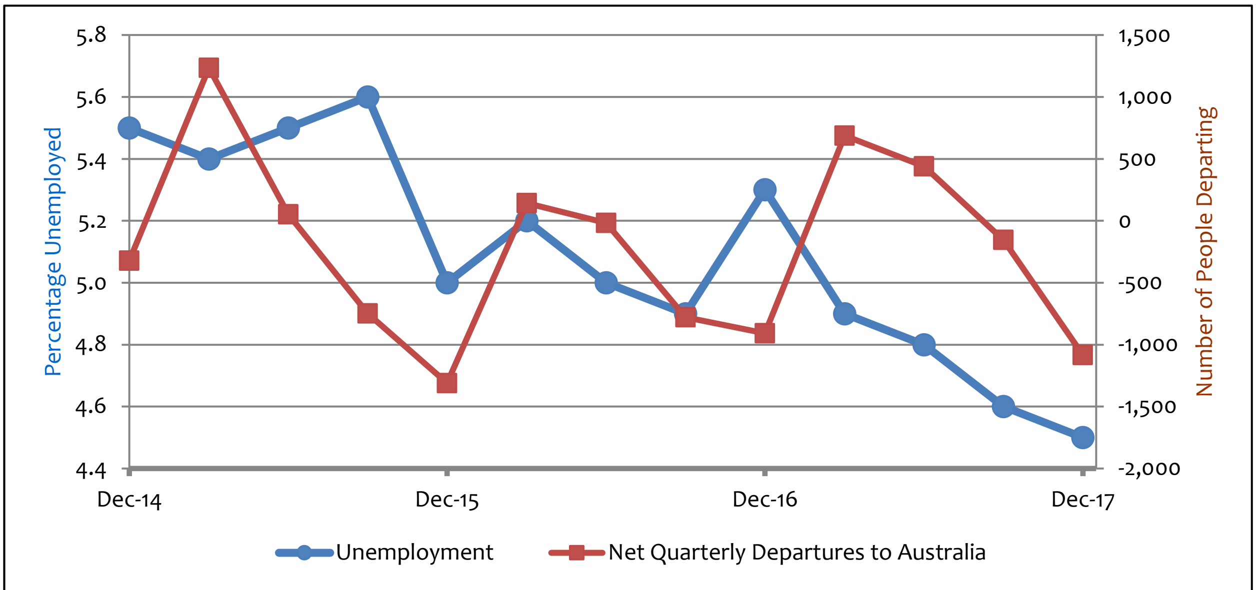
*For these indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.*

- On 22 March 2018 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. The Bank indicated, as it has for many months, that the rate is likely to be in place for a considerable time unless there were unforeseen events: "Monetary policy will remain accommodative for a considerable period.  Numerous uncertainties remain and policy may need to adjust accordingly". It continued its more relaxed view of the international situation but with more optimism for agricultural prices: "The outlook for global growth continues to gradually improve. While global inflation remains subdued, there are some signs of emerging pressures. Commodity prices have continued to increase and agricultural prices are picking up." It was not worried about the GDP growth in the December quarter being a little lower than expected: "GDP was weaker than expected in the fourth quarter, mainly due to weather effects on agricultural production. Growth is expected to strengthen, supported by accommodative monetary policy, a high terms of trade, government spending and population growth. Labour market conditions are projected to tighten further." Housing is still a concern: "Residential construction continues to be hindered by capacity constraints. The Kiwibuild programme is expected to contribute to residential investment growth from 2019. House price inflation remains moderate with restrained credit growth and weak house sales." It dropped comments on low interest rates, record high share prices and the exchange rate. It expected consumer price inflation to fall further due to falling food and energy prices and "adjustments to government charges" but as always, they expect inflation to eventually get to their target of 2 percent. The next OCR announcement will be on 10 May 2018 and will include a Monetary Policy Statement.

- According to REINZ, over the year to March the national median house price rose $10,000 or 1.8 percent to $560,000 and REINZ's house price index rose 4.2 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 5.7 percent seasonally adjusted while the house price index rose 0.7 percent. In Auckland over the year the median price was down $20,000 or 2.2 percent at $880,000 while the house price index rose 1.0 percent. Over the month Auckland's median price rose 2.9 percent seasonally adjusted, and the house price index rose 0.4 percent. Excluding Auckland, over the year the national median price rose $27,000 to $450,000 or 6.2 percent while the house price index rose 7.2 percent. Over the month the median price excluding Auckland was up 2.2 percent on the previous month seasonally adjusted, and the house price index rose 0.9 percent. There was another record median price in Hawke's Bay (up 11.7 percent over the year to $445,000), and records also in Gisborne (up 17.9 percent to $330,000) and Wellington (up 10.0 percent to $583,000). Median prices fell over the year in Northland (down 0.3 percent), Auckland (down 2.2 percent) and Taranaki (2.7 percent) and in 8 of the 14 regions over the month, seasonally adjusted.  Sales fell in all regions except Waikato and Gisborne over the month, seasonally adjusted, while over the year, sales fell in 11 regions, averaging a fall of 9.9 percent.

- Annual Productivity statistics for the year to March 2017 showed weak labour productivity growth of 0.9 percent in the latest year in the 'measured sector' (largely the commercial or market sector of the economy), but significantly revised data showed faster labour productivity growth in recent years prior to 2017. The change in 2016 was reversed from a 0.7 percent fall to a 1.6 percent rise, and an outlier at 3.7 percent growth in the year to March 2010 was up from 3.2 percent. Nevertheless, labour productivity growth averaged a relatively weak 1.1 percent between 2008 and 2017. Capital productivity grew 1.1 percent in the latest year but its growth averaged 0.0 percent over the 2008-2017 period, dragged down by sharp falls in the 2009 and 2010 years. Multifactor productivity (in theory what cannot be explained by labour and capital, such as greater skills and experience; in practice including any errors in estimates of labour and capital productivity) rose 1.0 percent in the latest year and 0.6 percent over the 2008-2017 period. The capital-labour ratio remained almost unchanged over the period 2010-2017 (that is, there was little capital deepening). Nonetheless, Real unit labour costs, the labour costs per unit of production, which are closely related to labour's share of New Zealand's income but include labour of the self-employed, fell 6.3 percent between 2009 and 2016 (latest available) in the measured sector, and 0.8 percent in the year to March 2016. For the whole economy, real unit labour costs fell 6.1 percent over the same period, and 5.2 percent over the period 2008 to 2017.

## *Employment*




- According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the December 2017 quarter fell to 4.5 percent or 122,000 people, compared to 4.6 percent in September (126,000 people), seasonally adjusted. If it were the 3.3 percent it was in December 2007, 32,000 more people would have jobs. The seasonally adjusted female unemployment rate fell to 5.0 percent from 5.3 percent in September but was still considerably higher than for men (4.0 percent) whose unemployment rate was unchanged. Māori unemployment fell from 11.9 percent in December 2016 to 9.0 percent in December 2017, a nine-year low, while Pacific people's unemployment fell from 9.7 percent to 7.7 percent over the year. Compared to OECD unemployment rates, New Zealand remained at 13th lowest (out of 35 countries). However New Zealand had the third-highest employment rate at 77.9 percent for 15-64 year olds, again unchanged since September.

- **Youth unemployment** for 15-19 year olds was 20.3 percent in December, up from 19.3 percent in September, and down a little from 20.7 percent a year before (these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not). For Māori 15-19 year olds in December 2017 the unemployment rate was 24.9 percent, down from 30.7 percent a year before. For 15-19 year old Pacific Peoples it was 32.5 percent, up from 31.1 percent a year before. For 20-24 year olds, youth unemployment was 8.6 percent, down a little from 9.0 percent in September and from 9.4 percent a year before. For Māori 20-24 year olds in December 2017 the unemployment rate was 8.9 percent, a fall from 15.9 percent a year before. For 20-24 year old Pacific Peoples it was 11.9 percent, up from 11.3 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 8.5 percent, up from 7.2 percent in September but down from 9.5 percent a year before. For Māori 15-19 year olds in December 2017 the rate was 12.4 percent, down from 14.8 percent a year before and for Pacific Peoples it was 12.1 percent, down from 14.1 percent a year before. For 20-24 year olds the NEET rate was 14.8 percent, the same as in September but down from 17.1 percent a year before. For Māori 20-24 year olds in December the rate was 21.5 percent, down sharply from 28.2 percent a year before, and for Pacific Peoples it was 21.9 percent, down a little from 22.3 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (16.1 percent) than those not in education (10.7 percent). There were 80,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, up from 76,000 in September but down 10,000 from 90,000 a year before.
- By **region**, in the North Island, unemployment rates fell compared to a year ago in all of the eight regions except Bay of Plenty (which rose slightly from 4.9 percent to 5.1 percent). Taranaki had the worst unemployment rate at 6.4 percent, while Manawatu/Whanganui had 5.7 percent (5.9 percent a year ago), Northland was at 5.6 percent (from 7.3 percent a year ago), and Gisborne/Hawke's Bay was also at 5.6 percent (8.1 percent a year ago). Auckland's unemployment rate was 4.1 percent, down from 5.1 percent a year before. The lowest North Island unemployment was in Wellington at 3.7 percent (down from 5.6 percent a year before). The South Island looked better with Tasman/Nelson/Marlborough/West Coast at 3.5 percent (from 4.1 percent a year before), Canterbury at 4.0 percent (3.7 percent a year before), Otago at 4.5 percent (4.0 percent a year before), and Southland had 3.7 percent unemployment (5.0 percent a year before).
- There were 36,700 unemployed people in December 2017 who had been **out of work for more than 6 months** compared to 45,100 a year before. The numbers appeared to increase sharply after June 2016, a possible contributor being a change in the survey questions from that date, but December brings numbers closer to pre-June 2016. This is 30.3 percent of the unemployed compared to 32.7 percent a year before, but is still at a much higher level than most of the 2000s. Those out of work for more than a year are 13.5 percent of the unemployed compared to 11.6 percent a year before and is the highest in a December quarter since 2001.
- The unemployed were not the only people looking for work: "**underutilisation**" includes the officially unemployed as above, people looking for work who are not immediately available or have not looked for work sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours ("underemployed"). In the December quarter there were a total of 343,000 people looking for work classed as "underutilised", or 12.1 percent of the labour force extended to include these people. Of them, 122,000 were underemployed, 122,000 were officially unemployed, and 99,000 were additional jobless people looking for work. The 12.1 percent

underutilisation rate is not much more than in the previous quarter (seasonally adjusted 12.0 percent) and down on 12.4 percent a year before. It is higher for women at 15.2 percent than for men (9.4 percent).

- The number recorded as **employed** rose by 12,000 between the September and December 2017 quarters (seasonally adjusted). It rose by 93,000 over the year. The employment rate remained at 67.8 percent over the three months. It was 62.4 percent for women and 73.4 percent for men. Similarly the participation rate (the proportion of the working age population, those aged 15 years and over, either in jobs or officially unemployed) changed little from 71.1 percent to 71.0 percent, all in seasonally adjusted terms.
- **By industry**, the actual rise in employment of 44,800 since the September quarter was made up of both gains and losses. The biggest gains were of 13,800 in Retail trade, and accommodation and food services, 8,600 in Professional, scientific, technical, administrative, and support services, 8,200 in Wholesale trade, and 7,800 in Construction, offset by falls led by Rental, hiring, and real estate services (down 3,900) and Public administration and safety (down 2,700). These are not seasonally adjusted. Over the year, the biggest contributor to the 92,600 additional jobs was 25,900 in Professional, scientific, technical, administrative, and support services.
- In the December 2017 quarter, total **union membership** was estimated at 397,000, a 4.1 percent increase from 381,500 in the September quarter and up 5.1 percent from 377,900 a year before. The membership is 18.7 percent of employees compared to 18.2 percent three months before and 18.3 percent a year before. Women make up 57.8 percent of the membership compared to them being 49.4 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.9 percent compared to 15.6 percent. The increase in numbers was greater for males (up 7.2 percent over the year) than females (up 3.6 percent) so this isn't just due to the pay equity settlement. The rise was in three age groups: 15-24 (up 7.9 percent in the year, 11.0 percent in the quarter), 25-34 (up 18.4 percent in year, 11.3 percent in quarter), and 55-64 year olds (up 9.2 percent in year, 3.6 percent in quarter). The other age groups fell over the year. By industry, the rises in both numbers and union density over the year to December were led by Manufacturing (up 5,400 and density rising from 19.8 percent to 21.7 percent), Construction (up 3,400, density rising from 5.7 percent to 7.4 percent), Education and Training (up 5,700, density rising from 40.2 percent to 42.6 percent), Health Care and Social Assistance (up 7,400, density up from 41.4 percent to 43.4 percent). However numbers and density fell in a number of industries, notably Transport, Postal and Warehousing (down 1,900, density falling from 29.9 percent to 26.1 percent). There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.
- In the December 2017 quarter, total **collective employment agreement** coverage was estimated at 389,800 employees, which makes 18.4 percent of employees who said their employment agreement was a collective compared to 18.1 percent three months before and 19.2 percent (395,300) a year before. An estimated 67.8 percent (1,439,900) said they were on an individual agreement compared to 68.5 percent three months before and 65.9 percent a year before, and 6.6 percent or 140,600 said they had no agreement (which is illegal), compared to 6.9 percent three months before and 7.8 percent a year before. A further 7.1 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.7 percent for men and 21.1 percent for women. The biggest fall in collective agreement membership was among 15-24 year olds – down 7.3 percent over the year, though the proportion rose 8.3 percent over the

quarter. Those aged 65+ fell 6.0 percent in the year but rose 1.9 percent in the quarter. But there was a strong rise for 55-64 year olds – up 5.6 percent in the year and 1.9 percent in the quarter. Collective agreement membership grew in all age groups except 35-44 year olds over the quarter. By industry, one of the largest falls over the year was Public Administration and Safety (down 2,600, density falling from 37.0 percent to 33.5 percent), and the largest rises were in Health Care and Social Assistance (up 3,800, density rising from 34.7 percent to 35.3 percent) and Manufacturing (up 3,000 and density up from 19.5 percent to 20.3 percent). Again, these figures could be affected by seasonal variations in numbers.

- By **employment relationship**, in the December 2017 quarter, 89.8 percent of employees (1,906,500) reported they were permanent, 5.3 percent casual (112,300), 2.4 percent fixed term (50,500), 1.4 percent seasonal (29,500), and 0.4 percent employed through a "temporary agency" (8,900). The proportion reporting they were permanent was down from 90.7 percent (1,898,500) three months before and from 89.3 percent (1,840,300) a year before. Women were slightly less likely to be permanent employees: 88.7 percent of women were permanent compared to 90.9 percent of men. Instead, women were more likely to be casual (6.0 percent of them compared to 4.6 percent of men) or fixed term (3.1 percent of women compared to 1.7 percent of men). However more men were in seasonal work than women – 1.6 percent of men (17,000) compared to 1.2 percent of women (12,600). Of the temp agency employees, 5,100 were men and 3,800 women. Employment relationships may have seasonal variations, so we should be cautious about seeing trends in quarterly comparisons. In addition, small differences may not be statistically significant.

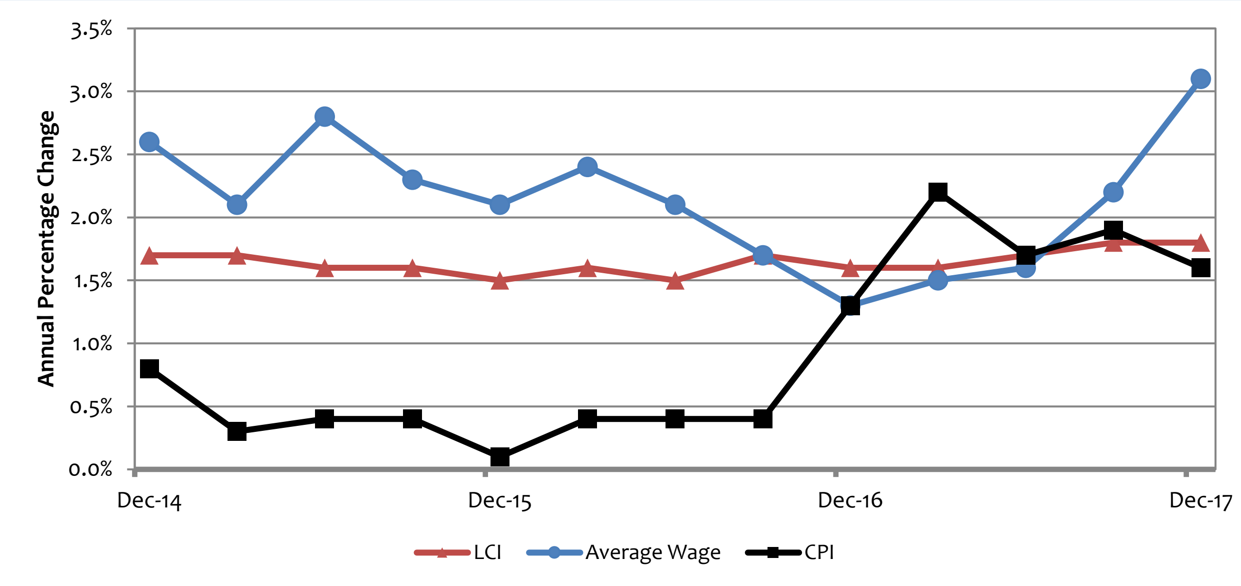
- By **duration of employment (job tenure)**, in the December 2017 quarter, 24.4 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.3 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 16.8 percent had been in their job for at least five but less than ten years, and 25.4 percent had been in their jobs for 10 years or more. Women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 26.8 percent of men had been in their jobs for more than 10 years, but only 23.9 percent of women. Age is a significant factor as would be expected: 55.3 percent people aged 15 to 24 had been in their jobs for less than a year, and 32.4 percent of 25-34 year olds, but only 14.9 percent of 45-54 year olds and 9.5 percent of 55-64 year olds. Small differences may not be statistically significant.

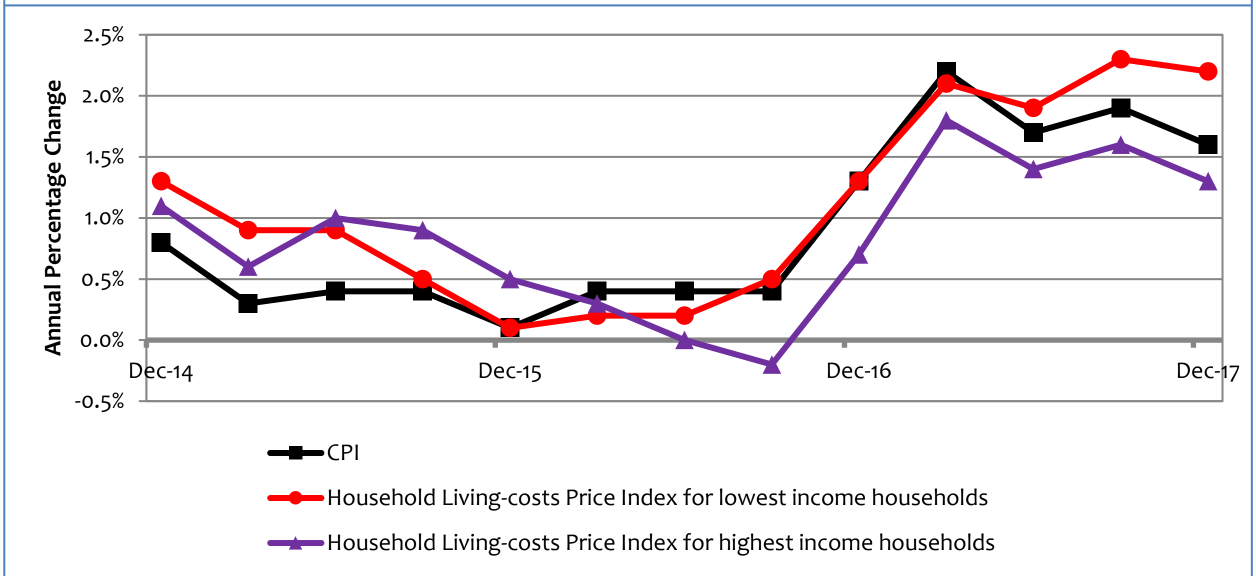
★ The Ministry of Social Development reports that at the end of March 2018 there were 118,755 working age people on the Jobseeker benefit, 650 fewer than a year before and 4,286 fewer than three months before. At March, 63,048 were classified as 'Work Ready', and 55,707 were classified as 'Health Condition or Disability'. A total of 273,387 were on 'main' benefits, 4,849 fewer than a year before, mainly due to 3,382 fewer on Sole Parent Support, and 16,401 fewer than three months earlier, mainly because over 8,900 left the Jobseeker Support Student Hardship benefit with the start of teaching in tertiary institutions. Of the 51,649 benefits cancelled during the three months to March, 21,945 or 42.5 percent of the people obtained work, 11.0 percent transferred to another benefit and 13.4 percent became full time students. A further 2,475 (4.8 percent) left on their 52 week reapplication or annual review. A total of 14,705 suffered sanctions, the majority (12,032) on a Jobseeker benefit. Of the total sanctioned, 44.5 percent were Māori, though 35.7 percent of working-age benefit recipients were Māori.

- Job Vacancies Online for the three months to March 2018 showed the seasonally adjusted number of job vacancies rose by 3.5 percent in the quarter and rose 6.9 percent over the same quarter a year previously. All the following are seasonally adjusted. Over the quarter, vacancies in Auckland were up 1.7 percent, in Bay of Plenty up 4.4 percent, Canterbury up 1.3 percent, Gisborne/Hawke's Bay up 3.3 percent, Manawatu-Whanganui/Taranaki up 3.0 percent, Marlborough/NelsonTasman/West Coast up 3.3 percent, Northland up 1.7 percent, Otago/Southland up 5.0 percent, Waikato up 5.8 percent and Wellington up 0.2 percent. By industry, Accounting was up 2.0 percent, Construction rose 1.4 percent, Education rose 0.6 percent, Health rose 4.0 percent, Hospitality rose 2.4 percent, IT rose 5.8 percent, Manufacturing rose 2.0 percent, Primary was unchanged, Sales rose 2.8 percent, and Other fell 5.2 percent. By occupation, Manager vacancies rose 2.5 percent, Professionals rose 4.0 percent, Technicians and Trades rose 1.5 percent, Community and Personal Services rose 6.5 percent, Clerical and Administration rose 1.5 percent, Sales rose 3.3 percent, Machinery Drivers rose 1.3 percent, and Labourers rose 15.1 percent.

- International Travel and Migration statistics showed 10,860 permanent and long-term arrivals to New Zealand in March 2018 and 5,380 departures in seasonally adjusted terms, a net gain of 5,480 which was up 550 on the previous month. There was a seasonally adjusted net loss to Australia of 30, compared to a gain of 120 a year before. It was made up of a net loss of 420 New Zealand citizens offset by a net gain of 390 citizens of other countries. There was an actual net gain of 67,984 migrants in the year to March, down from 71,932 in the year to March 2017, but up from 67,619 the previous March year. Net migration from Australia in the year was 8 arrivals, with 24,737 departures and 24,745 arrivals. However there was a net loss of 5,194 New Zealand citizens to Australia over the year and a net loss of 1,081 to all countries. In March, 11.9 percent of the arrivals had residence visas, 14.9 percent student visas, 39.5 percent work visas, and 5.6 percent visitors. A further 27.4 percent were New Zealand or Australian citizens.

## *Wages and prices*




- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to December 2017 and increased 1.8 percent in the year. It rose a little more than the 1.6 percent increase in the CPI but that was due to the pay equity increase in June. Statistics New Zealand says: "The Care and Support Worker (Pay Equity) Settlement Act (2017) continues to contribute to annual wage growth in the healthcare and social assistance industry. Had this Act not come into effect, LCI wages and salaries would have increased 1.6 percent in the year to the December 2017 quarter." The LCI increased 0.5 percent in the public sector and 0.4 percent in the private sector in the three months. Over the year it rose 1.5 percent in the public sector and 1.9 percent in the private sector. During the year, 49 percent of jobs surveyed did not receive a pay rise, and 51 percent of private sector jobs got no rise. For the 51 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.5 percent and the average increase was 3.7 percent. For those jobs in the public sector that received increases, the median increase was 2.0 percent and in the private sector 2.5 percent; the average increase in the public sector was 2.7 percent and in the private sector 3.9 percent. We estimate that over the year, jobs on collective employment agreements were 2.2 times as likely to get a pay rise as those which were not, and were more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent. Only 45 percent of jobs that were not on a collective got a pay rise during the year whereas the Centre for Labour, Employment and Work reports 99 percent of those on a collective stating pay rates got a pay rise in the year to June 2017.

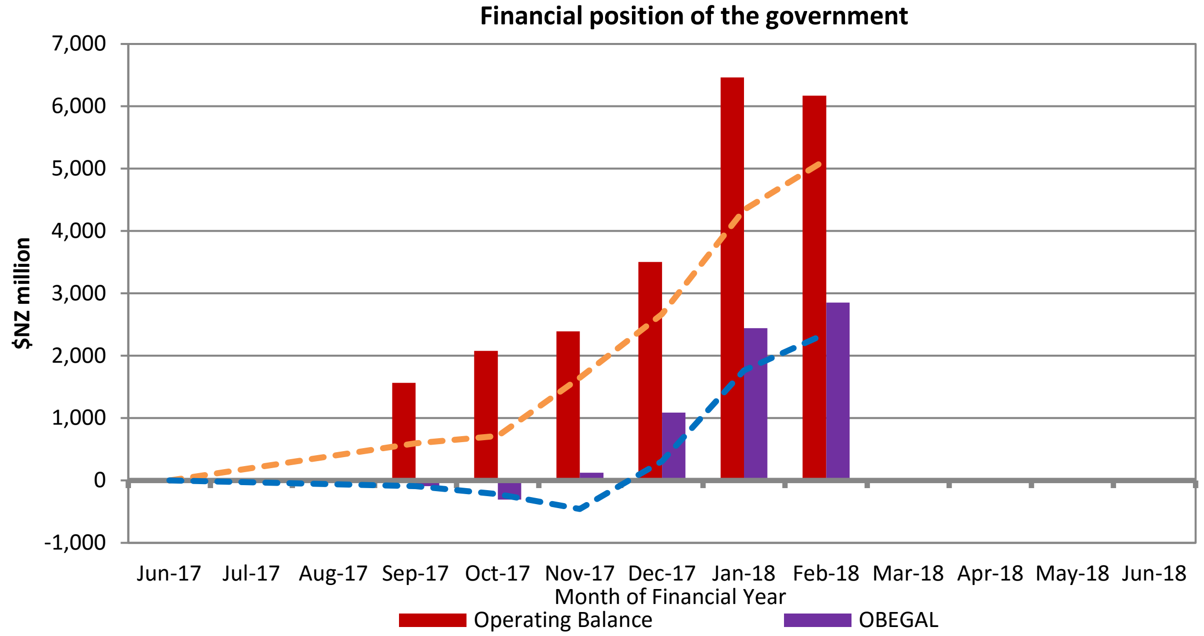
- The Quarterly Employment Survey for the three months to December 2017 found the average hourly wage for ordinary-time work was $30.68, up 0.8 percent on the previous quarter and up 3.1 percent over the year, significantly more than the 1.6 percent rise in the CPI. Female workers (at $28.63) earned 11.7 percent less than male workers (at $32.41) for ordinary time hourly earnings. The average ordinary-time wage was $28.60 in the private sector (up 0.8 percent in the quarter and 3.1 percent in the year) and $38.85 in the public sector (up 0.4 percent in the quarter and 3.2 percent in the year). Average total hourly wages (including overtime) ranged from $19.50 in Accommodation and food services and $21.44 in Retail trade, to $42.33 in Finance and insurance services, and $40.67 in Information, media and telecommunications. In Accommodation and food services, 58.2 percent of employee jobs were part time, and in Health care and social assistance 43.0 percent were part time; in Retail trade 42.3 percent were part time; 39.1 percent were also part time in Arts, recreation and other services, and 31.2 percent in Education and training. Together these five industries made up 68.6 percent of all part time work. (However the QES does not include agriculture or fishing and excludes very small businesses.)

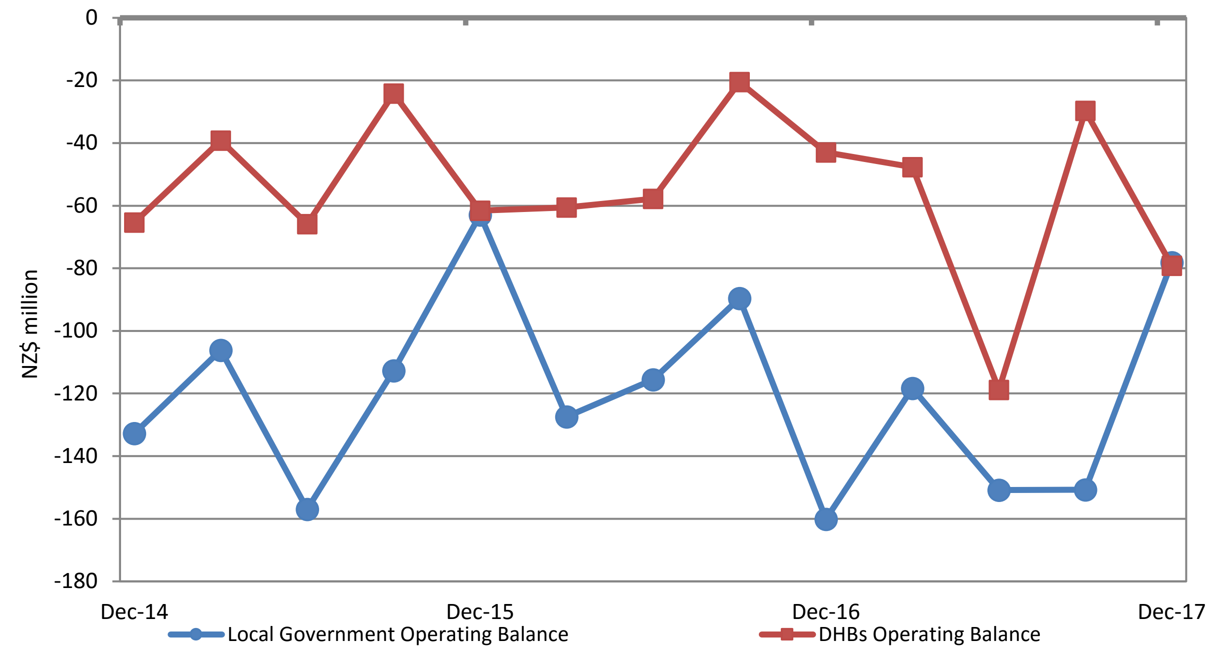
- ★ The Consumer Price Index (CPI) rose 0.5 percent in the March 2018 quarter compared with the December 2017 quarter. It also rose 0.5 percent in seasonally adjusted terms. It increased 1.1 percent for the year to March. For the quarter, the largest single upward influence was Alcoholic beverages and tobacco (up 4.3 percent due to the annual rise in taxes on tobacco) contributing over half – 58.8 percent – of the rise. Next was Housing and household utilities contributing 28.8 of the total rise, and up 0.6 percent (mainly due to rent rises), followed by Food making up 19.7 percent of the rise (up 0.5 percent), driven mainly by Fruit rising 7.6 percent. Transport on average fell 0.2 percent, after a big rise in the December quarter, but it was a mixed bag: new vehicle prices went up 2.7 percent, contributing 23.9 percent of total CPI rise, and similarly Petrol rose 2.7 %, making 22.6 percent to the CPI rise. However International air transport fell 14.4 percent, subtracting 57.4 percent from the CPI rise, so the effect of the Transport group as a whole was almost neutral, reducing the CPI by 6.6 percent. Over the year, Housing and household utilities were easily the biggest driver in the rise, up 3.1 percent and contributing almost two-thirds (65.4 percent) of the CPI increase with new housing up 4.7 percent, rents up 2.1 percent, and all the other subgroups rising faster than overall CPI: Property maintenance up 4.4 percent, Property rates and services up 3.0 percent and Household energy up 2.7 percent. The next largest contributor to the CPI rise was Alcoholic beverages and tobacco (up 4.5 percent, making up 27.0 percent of the CPI rise), while the Miscellaneous group contributed another 16.0 percent mainly due to insurance rising 5.1 percent (with house insurance up 14.9 percent), but Real estate services, which rose 4.7 percent, contributed too. Rents rose fastest in Wellington but fell in Canterbury; new house prices rose fastest in Auckland, and slowest in Canterbury. Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in March (down 0.2 percent in the quarter and 1.1 percent over the year) though the fall is slowing. In seasonally adjusted terms, the CPI rose 0.5 percent over the last three months, Food fell 0.6 percent, Alcoholic beverages and tobacco rose 1.3 percent, Clothing and footwear rose 0.3 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.8 percent, Recreation and culture rose 0.8 percent, and Education fell 6.7 percent (under the influence of free first year tertiary fees). Over the year, in Auckland consumer prices fell 0.6 percent, Wellington rose 0.5 percent and they fell 1.1 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was negative 0.1 percent but prices rose 0.9 percent in the rest of the South Island.

- The Household Living-costs Price Indexes (HLPIs) for the year to December 2017 again showed lower income households experiencing faster price rises than higher income households. Lowest spending households saw their living costs rise 2.2 percent over the year while prices for the highest spending households rose only 1.3 percent. The difference occurs because they spend their money on different things. Prices for the necessities of housing and food dominate low income households' spending: 53.7 percent of the expenditure of the lowest income one-fifth of households went on Food and Housing and household utilities in 2017, and the increases in those costs made up 77 percent of the increase in their living costs, compared to being only 33.3 percent of the expenditure of the highest income one-fifth, making up 59 percent of the increase in their living costs over the year. High income households also received more relief from falling prices for Clothing and footwear, Household contents and services, Communications, and Recreation and culture, which together removed 34 percent of their costs increases compared to just 9 percent of the costs of low income households. Over the year, the All households HLPI index rose 1.8 percent, the Beneficiary households index rose 2.4 percent, the Māori households index rose 2.1 percent, and the Superannuitant households index rose 2.1 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.2 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.5 percent, and quintile 5 (the highest incomes) rose 1.3 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.4 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.5 percent, and quintile 5 rose 1.3 percent. Over the December quarter, the All households HLPI index rose 0.2 percent, the Beneficiary households index rose 0.2 percent, the Māori households index rose 0.1 percent, and the Superannuitant households index rose 0.1 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 0.1 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.1 percent, quintile 4 rose 0.2 percent, and quintile 5 rose 0.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.1 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.2 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.3 percent.

*HLPIs show price increases like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by fourteen different types of households. See the commentary in the November 2016 Bulletin for more detail. Weights reflecting the proportion of different products bought by households were updated starting from the December 2017 release.*

★ The Food Price Index rose 1.0 percent in the month of March 2018 (and rose 0.5 percent in seasonally adjusted terms). Food prices rose 1.4 percent in the year to March 2018. Compared with the previous month, fruit and vegetable prices rose 5.8 percent (and were up 7.0 percent seasonally adjusted); meat, poultry, and fish rose 1.2 percent; grocery food prices were unchanged (and unchanged when seasonally adjusted); non-alcoholic beverage prices were also unchanged; and restaurant meals and ready-to-eat food prices rose 0.1 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)




★ According to Treasury's Financial Statements of the Government of New Zealand for the eight months to 28 February 2018, core Crown tax revenue was $0.7 billion (1.4 percent) higher than forecast in the 2017 Half-Year Economic and Fiscal Update (HYEFU 17). PAYE and GST revenue were respectively $0.2 billion and $0.3 billion higher than forecast "primarily as the levels of employment and residential investment were above forecast". Customs and excise duties were above forecast by $0.2 billion. Overall core Crown revenue was $0.7 billion or 1.3 percent higher than forecast. Core Crown expenses were $87 million (0.2 percent) higher than forecast with $0.2 billion expenses converted to capital for roading but impairment of student loans was $0.1 billion higher than expected. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $0.5 billion better than forecast, with a $2.9 billion surplus instead of the $2.4 billion forecast. However as usual there were substantial unforecast gains and losses, with net investment gains of $4.4 billion, $1.4 billion more than forecast, offset by a $1.2 billion increase in estimates of future liabilities, mainly an increase of ACC's claims liability due to lower than expected discount rates. "The Emissions Trading Scheme also recognised a loss of $0.2 billion due to an increase in carbon prices." The result was that the Operating Balance was $1.0 billion better than forecast with a $6.2 billion surplus. Net debt at 21.1 percent of GDP ($59.7 billion) was $1.7 billion lower than forecast. Gross debt at $86.3 billion (30.5 percent of GDP) was $0.8 billion more than forecast. The Crown's net worth in financial terms was $1.0 billion higher than forecast at $116.7 billion.

- ★ District Health Boards had 421 fewer full time equivalent staff than planned at the end of February 2018 (64,192 compared to 64,613 planned). Exceptions were Medical Personnel (doctors – 103 over plan) and Nursing (260 over plan), but there were shortfalls in Allied Health Personnel (465 short), Management/Administration staff (257 short), and Support Personnel (62 short). Average costs per full time equivalent staff were $500 below those planned ($94,800 compared to $95,300). The DHBs had accumulated combined deficits of $73.2 million in the eight months to February. This is $27.3 million worse than their plans. The Funder arms were in surplus by $89.6 million, $26.6 million more than the $63.0 million surplus planned, and Provider arms (largely their hospitals) in deficit by $168.0 million, $56.9 million worse than planned. The Northern region was $1.2 million behind plan with a surplus of $4.2 million and two of the four DHBs in deficit. The Midland region was $12.5 million behind plan with a deficit of $16.5 million and all of the five DHBs in deficit. Central region was $4.9 million behind plan, a combined $25.5 million deficit and all of the six DHBs in deficit. The Southern Region was $8.7 million behind plan with a $35.4 million deficit and three of the five DHBs in deficit, with Canterbury showing a $25.7 million deficit and Southern $9.7 million. In all, just four of the 20 DHBs were in surplus and just three were ahead of plan. The DHB furthest ahead of plan was Counties Manukau by $0.4 million, and Southern was furthest behind, by $4.9 million. Capital expenditure across all DHBs was behind plan with $225.3 million spent out of $365.0 million planned.
- Local Government in the December 2017 quarter recorded a 3.5 percent ($85.2 million) increase in operating income in seasonally adjusted terms and a 0.5 percent rise in operating expenditure ($12.6 million) including a 0.8 percent fall in employee costs (down $4.6 million) compared to the previous quarter. This resulted in an operating deficit of $78.1 million in the quarter, compared with a deficit of $150.7 million in the previous quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

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## Notes

*This bulletin is available online at http://www.union.org.nz/economicbulletin199.*

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