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Commentary

The union pay premium, 2018

Summary

In August, the Centre for Labour, Employment and Work (CLEW) at Victoria University released their annual analysis of collective employment agreements (CEAs). It shows again that people who are part of a collective get better pay rises: the union pay premium.

For the year to June 2018 CLEW finds that on average wages in CEAs rose by 2.2 percent, which is appreciably higher than the 1.9 percent last year. Over the same period, the Labour Cost Index (LCI), which is dominated by people on individual rather than CEAs, rose less: by 1.9 percent. Private sector CEA pay rates rose 2.9 percent, the highest increase since 2013 and a big jump from the 1.9 percent increase the year before, while the private sector LCI rose only 2.1 percent, the highest since 2012 and up from 1.6 percent the previous year. Central government CEA rates rose 1.8 percent (the same as in 2017) while the central government LCI rose just 1.2, both well behind the private sector. Local government CEA pay rates rose 2.7 percent (up from 2.5 in 2017), much more than the local government LCI which rose 1.7 percent.

In every case in 2018 there was a clear union premium, confirming the longer term picture: that there is a worthwhile premium for being on a CEA, particularly in the private sector. Further, virtually all jobs on CEAs get a pay rise (only 1 percent didn't in 2018) but of those not on a CEA, only 46 percent got a rise.

Comparing by industry, CEA pay increases are again higher than those shown in the LCI. In both 2018 and over the seven years 2011 to 2018, CEA increases were higher in all industries we can compare except Health Care and Social Assistance, probably because of the way the care and support workers' pay equity settlement is measured, which took effect from 1 July 2017. The CEA and LCI increases were very close in that industry over the seven year period.

Looking at the longer run, a job on a wage of $15.00 in June 1993 (around the average hourly wage) would be paying $27.66 in June 2018 if it had risen at the rate of increase in CEAs, but only $24.94 if it had risen at the rate of the LCI, a 10.9 percent CEA premium. For the private sector, the premium is 18.0 percent. For Central Government, the premium is only 3.8 percent, which would be expected with the much higher union and collective agreement membership rates in that sector. In Local Government, the premium is 15.3 percent.

There is mixed evidence as to the number of workers directly benefitting from these union-negotiated increases. CLEW data shows a small increase in numbers in CEAs but a still falling proportion of workers. However Statistics New Zealand's Household Labour Force Surveys showed 413,000 employees said they were on CEAs in June 2018 (19.2 percent of employees), up 9.7 percent from 376,600 in June 2017 (18.2 percent). Whichever is true, it is little wonder unions are struggling to do their job of creating a fairer balance in who gets income, resources and power in New Zealand. Yet they are still doing that job, as the pay premium illustrates.

In their annual roadshow, the Centre for Labour, Employment and Work (CLEW) at Victoria University released the 2018 edition of their annual analysis of collective employment agreements (CEAs)[1] in August. Once again its data shows that people who are part of a collective do better in pay rises. Here, I update the "union premium" for 2018 – how much more people on CEAs, negotiated by unions, receive.

The pay advantage in collective agreements

As I usually do (see the September 2014 *Economic Bulletin* for more details of why) I compare the CEA increases with the Labour Cost Index (LCI) which covers all workers. I compare the LCI rather than for example the average wage because both CLEW's data for CEAs and the LCI are concerned with the rate for the job rather than the individual holding the job, whereas the average wage includes pay increases for all kinds of reasons, and is affected by changes in the composition of the labour force (such as people in low paid jobs becoming unemployed). The LCI includes CEA-negotiated pay increases, but not rises due to the merits of the individual holding the job. However it is dominated by people on individual rather than collective employment agreements. The LCI and CLEW's increase in CEAs are not calculated in the same way (see the technical note at the end of this commentary) so some of the difference found by the comparison could be due to measurement issues, but the comparison is still a useful one.

For the year to June 2018 CLEW finds that, on average, wages in collectives rose by 2.2 percent, appreciably higher than the 1.9 percent last year. Over the same period, the LCI rose less: by 1.9 percent. Private sector collective pay rates rose a strong 2.9 percent, the highest increase since 2013 and a big jump from last year (1.9 percent) which was the lowest since 2000. However the private sector LCI rose only 2.1 percent, though more than the 1.6 percent last year, but the highest since 2012. Central government CEA rates rose 1.8 percent (the same as in 2017) while the central government LCI rose just 1.2 percent. Both were again well behind the private sector after being close in 2017. Central government rises have been well behind the private sector since 2012 (2011 in the case of the LCI). Finally, local government CEA pay rates rose 2.7 percent (up from 2.5 in 2017), much more than the local government LCI which rose 1.7 percent.

In each case in 2018 there was a clear union premium. See the graphs on the next page (Figure 1). Despite the barriers the outgoing Government put in the way of negotiating CEAs, a premium remains. As will be seen below, the same was true in the great majority of industries we can compare. The year confirms the longer term picture: that there is a worthwhile premium for being on a CEA, particularly in the private sector.

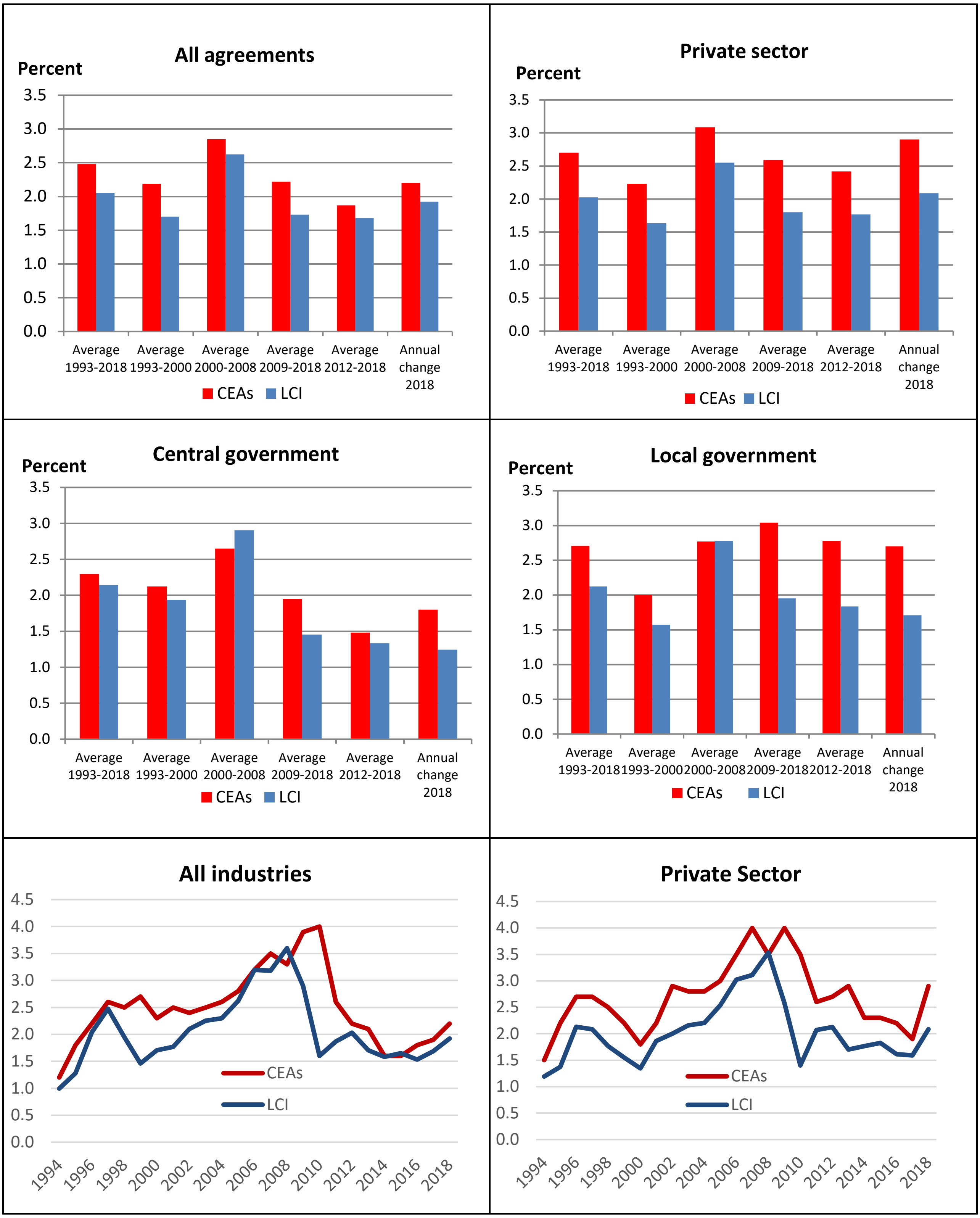
These figures understate the CEA premium because the LCI includes people on a CEA as well as those on individual agreements: if they could be separated out, the gap between CEAs and individual agreements would be even bigger.

A job on a wage of $15.00 in June 1993 (around the average hourly wage) would be paying $27.66 in June 2018 if it had risen at the rate of increase in CEAs, but only $24.94 if it had risen at the rate of the LCI, a 10.9 percent CEA premium. For the private sector, the premium is 18.0 percent: $29.21 for CEAs compared to only $24.75 for the LCI. For Central Government (which includes both core public service and

[1] Blumenfeld, S., Ryall, S., & Kiely, P. (2018). *Employment Agreements: Bargaining Trends and Employment Law Update 2017/18*. Wellington, New Zealand: Centre for Labour, Employment and Work, Victoria University of Wellington.

the wider state sector such as health and education), the premium is quite small at 3.8 percent, which would be expected as the result of much higher rates of unionisation and collective agreement membership in that sector. In Local Government, the premium is 15.3 percent.

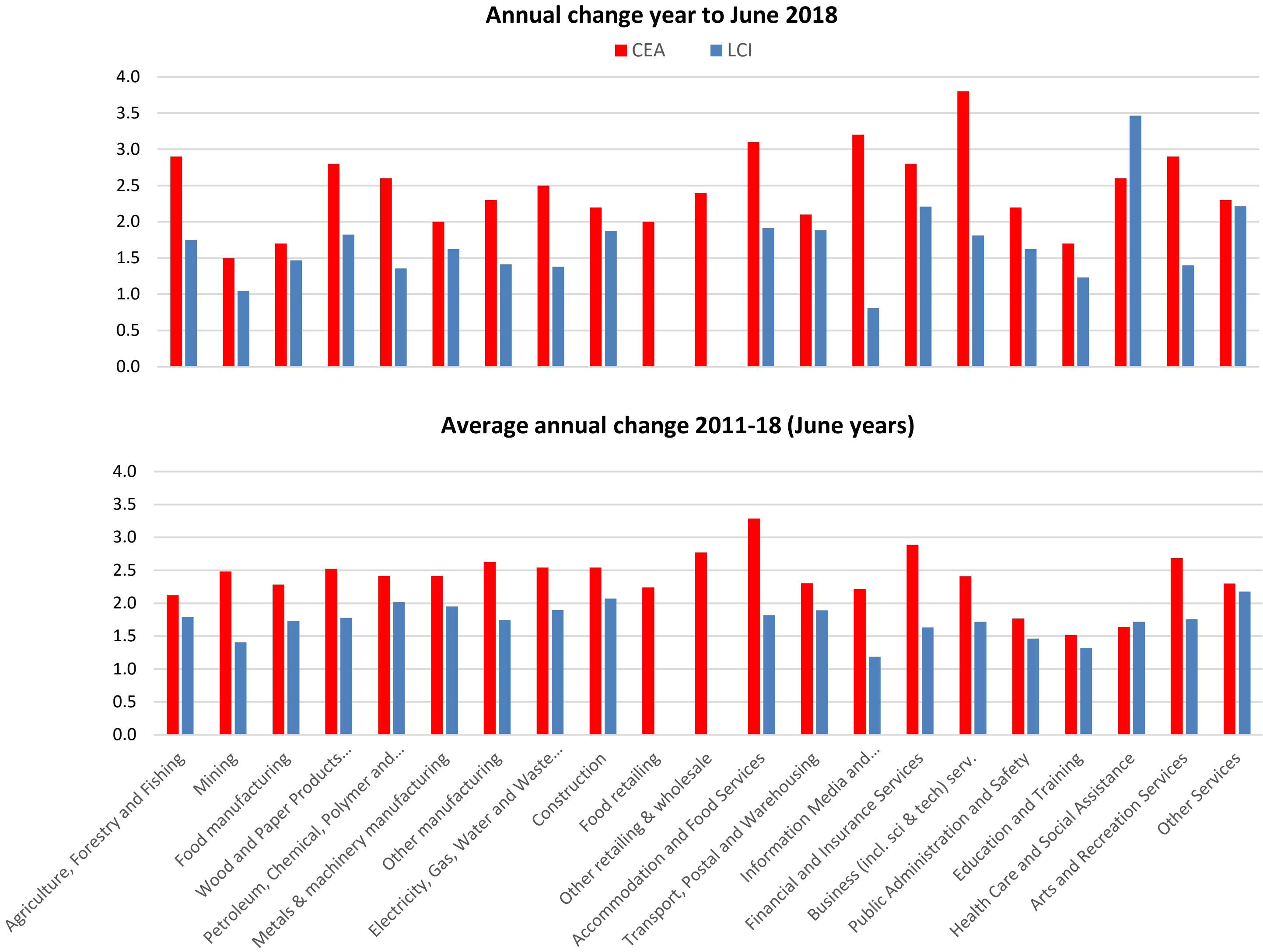
Figure 1: Average annual increases to 2018, comparing Collective Agreements (CEAs) with LCI



By industry

Comparing by industry, CEA pay increases are again higher than those shown in the LCI. Figure 2 shows the comparison for 2018 and for average annual increases from 2011 to 2018 which is as far back as CLEW data is available. In both 2018 and over the seven years 2011 to 2018, CEA increases were higher in all industries we can compare except Health Care and Social Assistance. The reason for Health Care and Social Assistance not showing a premium in 2018 is probably because the care and support pay equity settlement would not have fully reflected in the CEA increase because of the way it is measured (usually using the lowest adult rate in the agreement) but did increase the LCI. This industry has high union and collective agreement coverage, but also some high paid workers in the private sector in areas of chronic skill shortage. Nevertheless, the increases are very close over the several years from 2011 to 2018 – probably as much to do with differences in methods of measurement than a real difference.

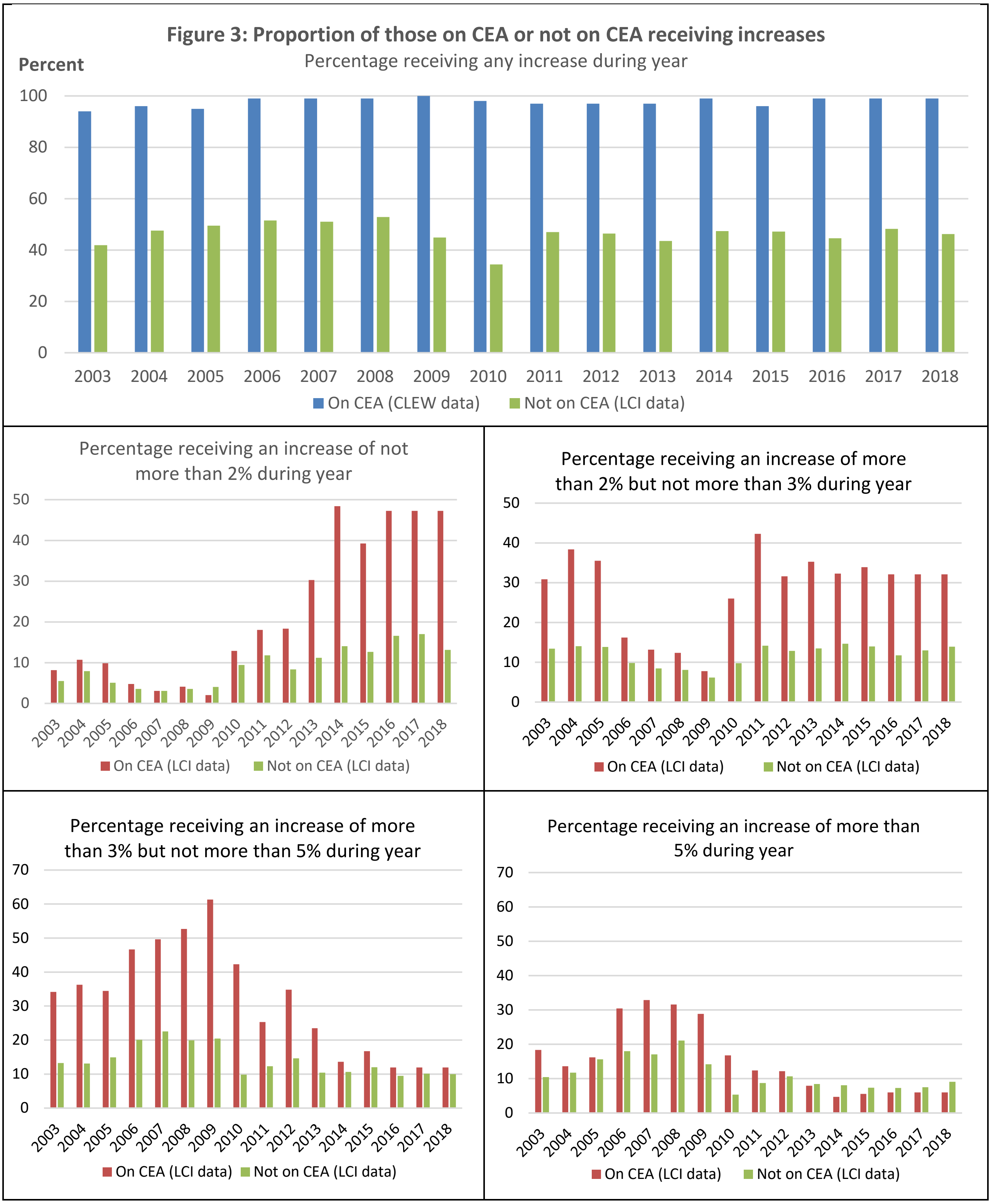
Figure 2: Annual changes in wages and salaries, comparing CEAs with LCI



Frequency of pay rises

Information from the Labour Cost Index survey enables us to estimate how frequently jobs covered by collectives get pay rises compared to other jobs. CLEW shows that virtually all jobs on CEAs get a pay rise (only 1 percent didn't in 2018) but for jobs not on a CEA, only 46 percent got a rise. In general those on CEAs are more likely to get a rise of any given size though since 2013 those on a CEA have been less likely to get an increase of greater than 5 percent, but even that gap is small. In all, jobs on CEAs are 2.1 times more likely to get a pay rise than those that are not. See Figure 3.

According to CLEW, the number of working people directly benefitting from these union-negotiated increases is falling. (Other workers may well benefit because in many firms and some industries the collective agreements set the benchmark for pay rises.) It was close to static between 2017 and 2018, but



the number of employees was growing so the proportion of employees covered by a CEA was falling. CLEW found 327,100 people covered by a CEA in June 2018 compared to 326,700 in 2017. That is 15.4 percent (about one in seven) of employees at June 2018, compared to 15.9 percent at June 2017. It fell in both the private and public sector: private sector coverage rose slightly from 136,000 to 136,300 and public sector coverage fell rose 190,600 to 190,800.

However a significantly more optimistic picture comes from Statistics New Zealand's Household Labour Force Surveys which showed 413,000 employees said they were on CEAs in June 2018 (19.2 percent), up from 376,600 in June 2017 (18.2 percent). That was a 9.7 percent increase in the number reporting themselves on a collective, with an even greater increase in the numbers reporting they were union members: 12.6 percent over the year.

Whichever is true, it is little wonder unions are struggling to do their job of creating a fairer balance in who gets income, resources and power in New Zealand. Yet they are still doing that job, as the pay premium illustrates.

Technical note: Measurement of the LCI and CEA increase

Labour Cost Index (LCI)

The data for the LCI is gathered from a survey of employers. Each is asked to select employees or positions on a salary scale (based on job descriptions) and report increases in their pay and hours worked from quarter to quarter and the reasons for those increases. Statistics New Zealand states:

> The LCI is a price index that measures change in pay rates for a fixed quality and quantity of labour input. We show price-related change in rates reported by respondents, such as those to reflect the cost of living, to match market rates, to retain staff, and to attract staff. We don't show changes in reported rates that are the result of service increments, merit promotions, increases (and decreases) relating to the performance of individual employees, and change in hours worked are not shown in the index, as they are considered to represent quality or quantity change. (http://tinyurl.com/y87cvffn)

In effect, the LCI reports on pay increases for the job rather than for the individual, though this is based on the employer's view of both the reason for the increase and whether or not the job has changed. Some of those pay increases are due to an increase in the rates in a CEA.

Collective Employment Agreement (CEA)

The Centre for Labour, Employment and Work calculates increases based on the movement in the minimum adult rate in the CEA. We use data reported in Table 3.2 of their report which is the weighted mean level of annualised wage change. It excludes agreements that expired prior to the beginning of the year (e.g. expired before June 2017 for the year to June 2018), or do not include wage rates, or for which it is not possible to calculate the increase from preceding agreements (such as if there is too big a gap between settlements, it is an establishment agreement, or the wage structure has changed).

Bill Rosenberg

Information

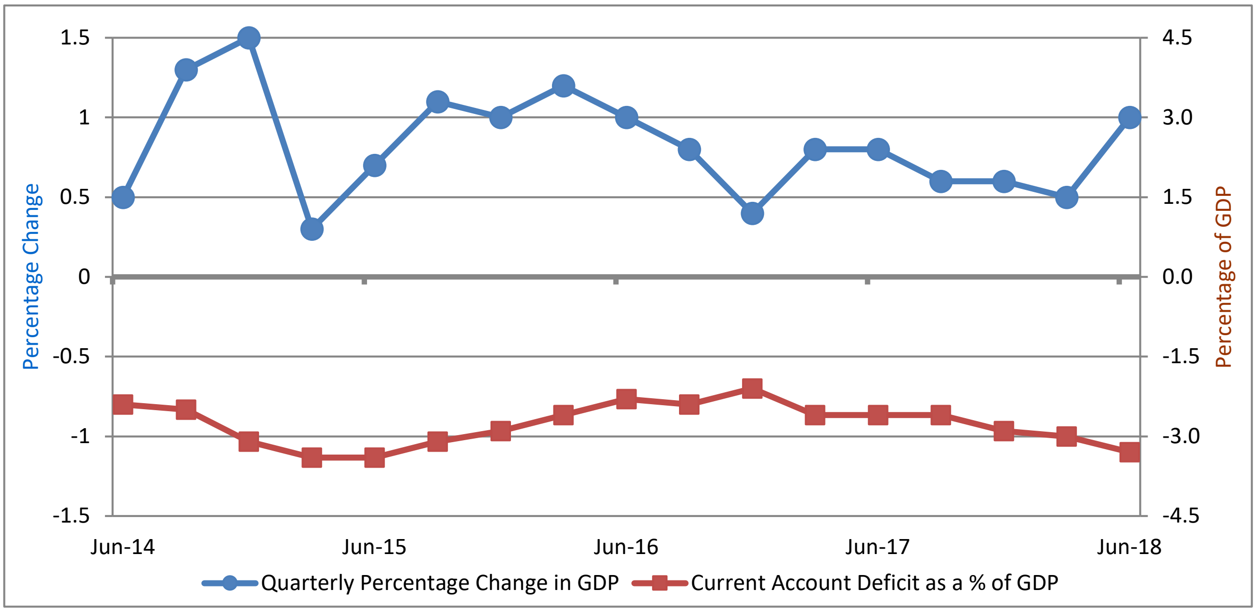
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This NZIER consensus forecast was released on 10 September 2018.

Annual Percentage Change (March Year)	2018-19	2019-20	2020-21	2021-22
GDP	2.8	3.1	2.9	2.7
CPI	1.9	1.8	2.0	1.9
Private Sector average hourly wage	2.7	3.0	3.5	2.9
Employment	2.0	1.7	1.6	1.5
Unemployment rate (% of labour force)	4.4	4.3	4.2	4.1

Economy



- Growth in New Zealand's measured economy in the three months to June 2018 was strong, and higher than Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 1.0 percent, up from 0.5 percent in the previous quarter. Average growth for the year ended June 2018 was 2.7 percent (and 2.8 percent compared to the same quarter last year). Growth in GDP per person continues to be weak with a rapidly growing population (though population growth is showing signs of slowing): GDP per person was 0.5 percent in the June quarter (though up from 0.0 percent the previous quarter, and the highest for two years), and up 0.7 percent over the year. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.4 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, rose 0.4 percent over the quarter and rose 1.1 percent over the year to June.

- I estimate that labour productivity, measured by production per hour worked in the economy, fell 1.6 percent in the year to June compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It fell 0.4% in the quarter, seasonally adjusted.
- Business investment fell by 0.2 percent compared to the previous quarter, dominated by a fall in investment in Plant, machinery and equipment, which fell 1.3 percent following rises of 1.6 percent and 6.4 percent in the previous two quarters. Compared to the same quarter the previous year, growth was strong however at 5.1 percent, driven by Plant, machinery and equipment (up 7.2 percent) and Other (than building) construction (up 7.5 percent). Investment in housing rose 0.5 percent in the quarter following a 0.7 percent fall and 0.4 percent rise in the previous two quarters. It grew 3.0 percent year on year. Household consumption grew 1.0 percent in the June quarter in real terms, after being unchanged in the previous quarter, and it rose 3.0 percent over the same quarter in the previous year. Inflation in the economy as a whole, shown by the GDP deflator (a price index for expenditure on the economy's production, reflecting largely the revenue employers are getting for their products) rose 1.9 percent compared to the same quarter the previous year, and 0.2 percent in the most recent quarter.
- By industry, the largest contributors to growth in the latest quarter were Agriculture, forestry and fishing (up 4.1 percent), Electricity, gas, water and waste services (up 3.7 percent), Wholesale Trade (up 1.7 percent), Retail trade and accommodation (up 1.5 percent), Transport, postal and warehousing (up 1.8 percent), Rental, hiring, and real estate services (up 0.9 percent), and Arts, recreation, and other services (up 3.5 percent). There was a contraction in Mining (down 19.9 percent). Year-on-year, the biggest rises were in Transport, postal and warehousing (up 5.1 percent), Retail trade and accommodation (up 4.9 percent), Wholesale trade (up 4.4 percent), Professional, scientific, technical, administrative and support services (up 4.4 percent), Health care and social assistance (up 4.2 percent), Public Administration and safety (up 3.6 percent), and Information media and telecommunications (up 3.6 percent). Mining contracted by 5.8 percent.
- New Zealand recorded a Current Account deficit of $2.7 billion in seasonally adjusted terms for the June 2018 quarter, following a record $3.2 billion deficit for the previous quarter. There was a deficit in goods trade ($1.4 billion, seasonally adjusted) following a $1.7 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $95 million in goods and services (compared to a $0.4 billion deficit in the previous quarter) including a $1.5 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was a slight improvement at a deficit of $2.5 billion from a $2.6 billion deficit in the previous quarter (seasonal adjustment not available). For the year to June 2018, the current account deficit was $9.5 billion or 3.3 percent of GDP compared to an $8.5 billion deficit in the year to March (3.0 percent of GDP). The deficit on investment income was $10.9 billion for the year.

- The country's Net International Liabilities were $157.9 billion at the end of June 2018, up from $156.2 billion at the end of the previous quarter and $154.9 billion a year before. The June net liabilities were equivalent to 54.6 percent of GDP, unchanged from the previous quarter and down from 56.5 percent a year before. Net international liabilities would take 1.97 years of goods and services exports to pay off, down from 1.99 years a year before. However gross liabilities would take 5.28 years of goods and services exports to pay off. The rise in net liabilities over the quarter was due to a net $3.3 billion valuation increase offset by a $1.7 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $154.5 billion. New Zealand's international debt was $298.0 billion (other than shares; equivalent to 103.0 percent of GDP), of which 29.7 percent is due within 12 months, compared to $147.0 billion in financial assets (50.8 percent of GDP), leaving a net debt of $151.0 billion (52.2 percent of GDP). Of the net debt, $1.5 billion was owed by the government including the Reserve Bank, and $114.8 billion by the banks (39.7 percent of GDP), which owed $160.2 billion gross.

- ★ Overseas Merchandise Trade for the month of September 2018 saw exports of goods rise in value by 14.1 percent from the same month last year while imports rose 18.8 percent. This contributed to a trade deficit for the month of $1,560 million or 36.0 percent of exports, the largest monthly deficit on record according to Statistics New Zealand, following a then-record $1,470 million deficit in the previous month (though it is higher than September's as a proportion of exports). September typically shows a large deficit: in September 2016 the deficit was 40.0 percent of exports. There was a trade deficit for the year of $5.2 billion or 9.1 percent of exports. In seasonally adjusted terms, exports rose 9.2 percent or $442 million over the month (compared to a 5.8 percent fall the previous month) with rises led by Dairy (up 9.7 percent or $101 million), Fruit (up 47.6 percent or $129 million), Crude oil (up 577 percent or $61 million, not seasonally adjusted), Logs, wood and wood products (up 6.6 percent or $29 million), and Mechanical machinery and equipment (up 11.2 percent or $16 million), offset by falls led by Meat (down 10.0 percent or $70 million). Seasonally adjusted imports rose 11.6 percent or $605 million over the previous month, leaving a trade deficit of $579 million following a $416 million deficit in the previous month. The rising imports were led by Petroleum and products (up 61.1 percent or $299 million, not seasonally adjusted) and Electrical machinery and equipment (up 2.3 percent or $10 million), offset by falls led by Mechanical machinery and equipment (down 6.4 percent or $49 million) and Textiles (down 5.2 percent or $13 million). In the year to September, 23.1 percent of New Zealand's exports went to China, 15.9 percent to Australia, 9.5 percent to the US, and 60.1 percent went to the top six countries buying New Zealand exports. This compares with 21.6 percent going to China in the previous year, and 60.5 percent going to the top six destinations. Over the same period, 19.1 percent of New Zealand's imports came from China (compared to 19.6 percent in the previous year), 11.4 percent from Australia, 11.0 percent from the US, and 58.2 percent from the top six countries selling to New Zealand, compared to 59.6 percent a year before. There were trade surpluses with China ($1.3 billion) and Australia ($1.9 billion) but deficits with most other major trading partners.

- The Retail Trade Survey for the three months to June 2018 showed retail sales rose 3.1 percent by volume and 3.8 percent by value compared with the same quarter a year ago. They rose 1.1 percent by volume and 1.3 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Recreational goods (up 6.2 percent), Hardware, building and garden supplies (up 4.9 percent), Clothing, footwear and accessories (up 2.7 percent), Food and beverage services (up 2.7 percent) and Department stores (up 2.5 percent). Supermarkets and grocery stores sales (easily the largest single category, with 21.3 percent of sales), fell 0.5 percent. Sales also fell in Electrical and electronic goods (down 1.0 percent, though this reflects price falls rather than falling sales: volume was up 2.0 percent) and Furniture, floor coverings, houseware and textiles (down 0.1 percent).

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.

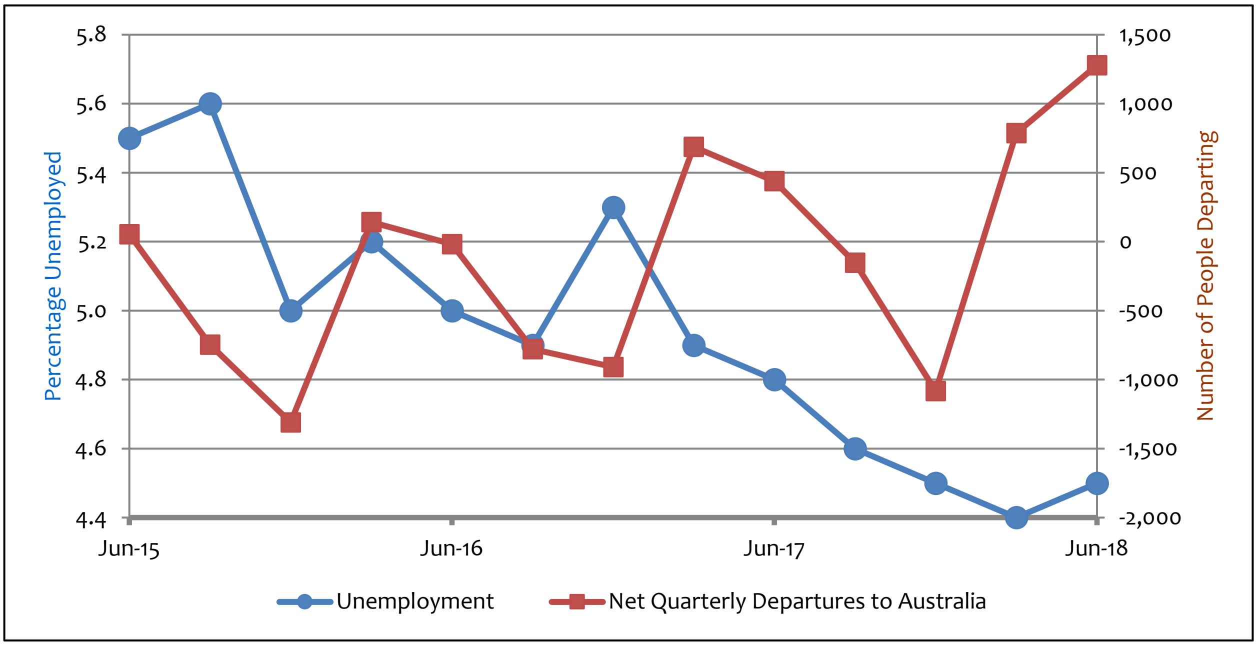
- ★ The Performance of Manufacturing Index for September 2018 was 51.7, a slight fall from 52.0 in the previous month. The employment sub-index was at 50.5, a rise from 49.0 in the previous month.

- ★ The Performance of Services Index for September 2018 was 53.9, up from 53.3 the previous month. The employment sub-index was down at 49.4 from 49.9 the previous month.

- On 27 September 2018 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. In a relatively brief statement, the Governor announced that the OCR will remain "at this level through 2019 and into 2020. The direction of our next OCR move could be up or down." There was little change in the Bank's views on the economic outlook, but "While GDP growth in the June quarter was stronger than we had anticipated, downside risks to the growth outlook remain." It also expected "ongoing spending and investment, by both households and government" supporting growth. The Governor's statement concluded, as it did last time: "We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation." The next OCR announcement will be on 8 November 2018.

- ★ According to REINZ, over the year to September the national median house price rose $31,000 or 5.9 percent to $556,000 and REINZ's house price index rose 4.0 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 0.4 percent seasonally adjusted while the house price index rose 0.8 percent. In Auckland over the year the median price was unchanged at $850,000 while the house price index rose 0.4 percent. Over the month, Auckland's median price was up 0.3 percent seasonally adjusted, and the house price index rose 0.9 percent. Excluding Auckland, over the year the national median price rose $36,750 to $466,750 or 8.5 percent while the house price index rose 7.4 percent. Over the month the median price excluding Auckland was up 1.1 percent seasonally adjusted, and the house price index rose 0.6 percent. There were record median prices in Northland (up 12.2 percent over the year to $505,000), Gisborne (up 26.9 percent to $342,500), Hawke's Bay (up 13.5 percent to $445,000), Manawatu/Whanganui (up 18.9 percent to $321,000), and Nelson (up 23.1 percent to $592,000). Median prices fell over the year in Taranaki (down 2.8 percent) and West Coast (down 4.1 percent). Seasonally adjusted median prices fell over the month in Waikato (down 1.9 percent), Bay of Plenty (down 1.8 percent), Taranaki (down 2.3 percent), Wellington (down 1.6 percent), West Coast (down 14.3 percent), and Otago (down 3.0 percent). Sales fell in 8 of REINZ's 14 regions over the month, seasonally adjusted, while over the year, sales fell in 10 regions, averaging a fall of 3.0 percent.

Employment



- According to the [Household Labour Force Survey (HLFS)]() the **unemployment** rate in the June 2018 quarter rose to 4.5 percent or 124,000 people, compared to 4.4 percent three months before (120,000 people), seasonally adjusted. If it were the 3.3 percent it was in December 2007, 33,000 more people would have jobs. The seasonally adjusted female unemployment rate fell to 4.7 percent from 4.9 percent three months before, but was still considerably higher than for men (4.3 percent) whose unemployment rate rose from 4.0 percent. Māori unemployment fell from 11.0 percent a year before to 8.8 percent in June 2018, while Pacific people's unemployment fell from 9.1 percent to 8.3 percent over the year. Compared to OECD unemployment rates, New Zealand fell one place from 13th to 14th lowest (out of 35 countries). However New Zealand had the third-highest employment rate at 77.4 percent for 15-64 year olds.

- **Youth unemployment** for 15-19 year olds was 19.7 percent in June, up from 19.0 percent three months before, but down from 20.4 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; small differences may not be statistically significant). For Māori 15-19 year olds in June 2018, the unemployment rate was 29.0 percent, down from 34.5 percent a year before. For 15-19 year old Pacific Peoples it was 12.6 percent, down from 22.8 percent a year before. For 20-24 year olds, youth unemployment was 7.7 percent, down from 8.1 percent three months before, and from 8.8 percent a year before. For Māori 20-24 year olds the unemployment rate was 8.3 percent, a sharp fall from 16.6 percent a year before. For 20-24 year old Pacific Peoples it was 12.9 percent, down from 20.1 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 7.2 percent, down from 9.9 percent three months before and from 8.9 percent a year before. For Māori 15-19 year olds the rate was 10.6 percent, down from 14.6 percent a year before and for Pacific Peoples it was 6.5 percent, down from 10.9 percent a year before. For 20-24 year olds the NEET rate was 14.1 percent, down from 14.6 percent three months before but up from 13.3 percent a year before. For Māori 20-24 year olds the rate was 20.9 percent, lower than the 25.5 percent a year before, and for Pacific Peoples it was 22.6 percent, down from 26.2 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (14.9

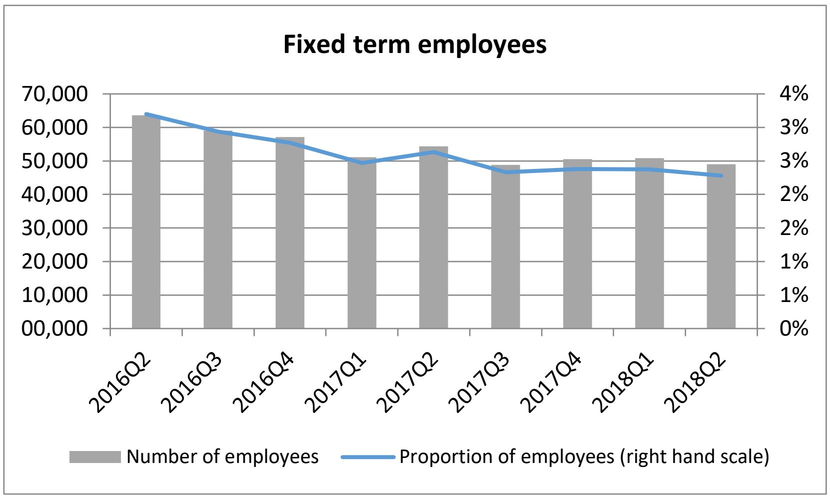
percent) than those not in education (10.1 percent). There were 73,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, down from 83,000 three months before, and from 75,000 a year before.

- By **region**, in the North Island, unemployment rates fell compared to a year ago in all of the eight regions except Taranaki (which rose from 5.0 percent to 5.3 percent) and Manawatu-Whanganui (which rose from 4.7 percent to 6.6 percent), which also had the worst national unemployment rate. All other North Island regions had unemployment rates under 5 percent. Auckland's unemployment rate was 4.2 percent, down from 4.5 percent a year before, and with Waikato, the lowest in the North Island. The South Island was more mixed, but it continues to have lower unemployment on average: Tasman/Nelson/Marlborough/West Coast at 4.7 percent was up from 3.8 percent a year before, Canterbury at 4.0 percent was up from 3.8 percent a year before, Otago at 3.4 percent was down from 4.4 percent a year before, and Southland had the country's lowest unemployment rate at 3.0 percent, down from 4.6 percent a year before.
- There were 37,200 unemployed people in June 2018 who had been **out of work for more than 6 months** compared to 44,600 a year before. This is 30.9 percent of the unemployed compared to 36.2 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 12.5 percent of the unemployed compared to 16.9 percent 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 numbers are now closer to pre-June 2016, though with a still-rising trend, particularly for those out of work more than 12 months.
- 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 June quarter there were a total of 344,000 people looking for work classed as "underutilised", or 12.0 percent of the labour force extended to include these people. Of them, 117,000 were underemployed, 124,000 were officially unemployed, and 103,000 were additional jobless people looking for work. The 12.0 percent underutilisation rate is up slightly on the previous quarter (seasonally adjusted 11.9 percent) and also 11.9 percent a year before. It is higher for women at 14.3 percent than for men (10.0 percent).
- The number recorded as **employed** rose by 13,000 over the three months to June 2018 (seasonally adjusted). It rose by 94,000 over the year. The employment rate remained at 67.7 percent over the three months. It was 62.8 percent for women and 72.8 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 70.8 percent to 70.9 percent, all in seasonally adjusted terms.
- **By industry**, the actual fall in employment of 2,900 in the three months to the June 2018 quarter (not seasonally adjusted) was made up of both gains and losses. The biggest gains were of 9,200 in Health Care and Social Assistance, 8,300 in Information Media and Telecommunications, and 6,600 in Professional, Scientific, Technical, Administrative and Support Services. These were offset by falls led by 16,100 in Retail Trade and Accommodation, 8,500 in Arts, Recreation and Other Services, and 4,900 in Construction. Over the year, the biggest contributors to the 93,000 additional jobs were 26,200 in Health Care and Social Assistance, 23,800 in Professional, Scientific, Technical, Administrative and Support Services, 12,200 in Public Administration and Safety, 8,100 in Retail

Trade and Accommodation, and 6,600 in each of Construction and Manufacturing, with falls only Wholesale trade (down 6,100) and Arts, Recreation and Other Services (down 4,300).

- In the June quarter, total **union membership** was estimated at 413,700, a 1.4 percent increase from 408,200 in the previous quarter and up a hefty 11.2 percent from 372,200 a year before. The membership is 19.3 percent of employees compared to 19.1 percent three months before and 18.0 percent a year before. Women make up 58.2 percent of the membership compared to being 49.4 percent of all employees. As a result, the proportion of female employees who are in unions is higher than for males: 22.7 percent compared to 15.9 percent. The increase in numbers was greater for females (up 12.6 percent over the year) than males (up 9.2 percent) so the pay equity settlement is a strong factor (see the industry breakdown below), but not the only one. There were rises in all age groups: 15-24 (up 31.2 percent in the year, 0.4 percent in the quarter), 25-34 (up 12.7 percent in year, 2.9 percent in the quarter), 35-44 (up 6.9 percent in the year, 2.1 percent in the quarter), 45-54 (up 4.7 percent in the year, but down 1.5 percent in the quarter), 55-64 year olds (up 14.0 percent in year, 2.5 percent in the quarter), and 65 years and over (up 14.9 percent in the year and 3.3 percent in the quarter, with female membership rising 41.6 percent in the year while male fell 10.9 percent). By industry, the rises in numbers over the year to June were led by Health Care and Social Assistance (up 14,100 though density fell from 44.2 percent to 42.9 percent), Education and Training (up 10,800, density rising from 42.5 percent to 43.9 percent), Public Administration and Safety (up 4,700, density falling from 36.5 percent to 35.6 percent), and Construction (up 3,400, density rising from 6.7 percent to 7.7 percent). However numbers and density fell by small amounts (probably not statistically significant) in a number of industries. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.
- In the June 2018 quarter, total **collective employment agreement** coverage was estimated at 413,000 employees, which makes 19.2 percent of employees who said their employment agreement was a collective compared to 19.0 percent three months before and 18.2 percent (376,600) a year before. An estimated 68.8 percent (1,477,500) said they were on an individual agreement compared to 68.1 percent three months before and 67.8 percent a year before, and 5.7 percent or 121,600 said they had no agreement (which is illegal), compared to 6.3 percent three months before and 7.6 percent a year before. A further 6.3 percent of employees didn’t know what kind of employment agreement they had. Coverage by collective agreement was 16.4 percent for men and 22.1 percent for women. There were rises in all age groups: 15-24 (up 32.9 percent in the year, 8.4 percent in the quarter), 25-34 (up 7.9 percent in year, 3.6 percent in the quarter), 35-44 (up 2.8 percent in the year, 2.1 percent in the quarter), 45-54 (up 4.9 percent in the year, but down 1.6 percent in the quarter), 55-64 year olds (up 10.4 percent in year, 0.3 percent in the quarter), and 65 years and over (up 13.8 percent in the year and 0.4 percent in the quarter). By industry, the largest rise was in Health Care and Social Assistance (up 8,900 for the year, or 11.1 percent), and there were also large rises in Public Administration and Safety (up 6,100 or 13.6 percent), Manufacturing (up 4,800 or 11.4 percent), Education and Training (up 3,500 or 4.4 percent), and Construction (up 3,100 or 22.3 percent). As with union membership, numbers and density fell by small amounts (probably not statistically significant) in a number of industries, the most notable being Accommodation and Food Services (down 1,100 or 8.3 percent) and Financial and Insurance services (down 900 or 11.4 percent).

- By **employment relationship**, in the June 2018 quarter, 90.9 percent of employees (1,952,900) reported they were permanent, 4.4 percent casual (93,600), 2.3 percent fixed term (49,000), 1.3 percent seasonal (29,000), and 0.5 percent employed through a "temporary agency" (11,600). The proportion reporting they were permanent was up from 90.2 percent (1,930,500) three months before and from 90.6 percent (1,873,000) a year before. Women were slightly less likely to be permanent employees: 89.9 percent of women were permanent compared to 91.9 percent of men. Instead, women were more likely to be casual (4.8 percent of them compared to 3.9 percent of men) or fixed term (3.0 percent of women compared to 1.6 percent of men). However more men were in seasonal work than women – 1.6 percent of men compared to 1.1 percent of women. Of the temp agency employees, 4,800 were men and 11,300 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. However, in the two years this data has been available the number and proportion of fixed term employees measured by this survey has fallen reasonably steadily, starting in June 2016 with 63,600 and in June 2018 down to 49,000. The number of Temporary Agency employees has increased in the same period from 6,600 to 11,600, but this has been a bumpy road so it is too early to say there is a trend.



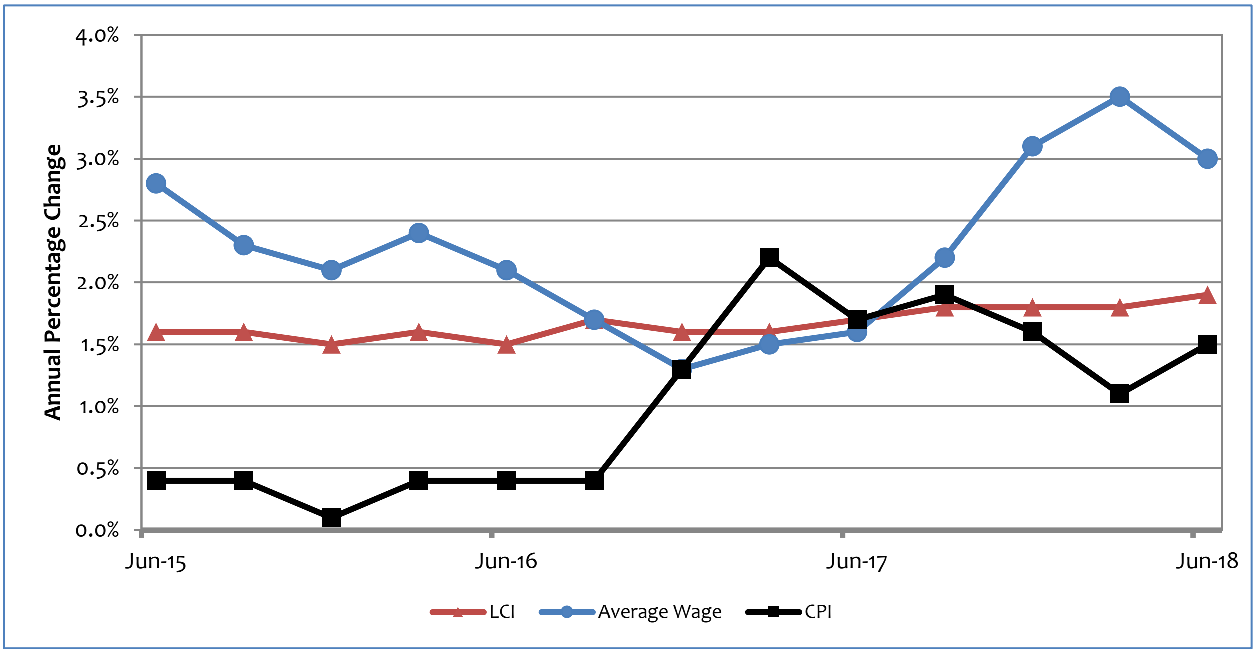
- By **duration of employment (job tenure)**, in the June 2018 quarter, 23.3 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.3 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 16.5 percent had been in their job for at least five but less than ten years, and 26.1 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, 27.9 percent of men had been in their jobs for more than 10 years, but only 24.0 percent of women. Age is a significant factor as would be expected: 52.5 percent people aged 15 to 24 had been in their jobs for less than a year, and 30.9 percent of 25-34 year olds, but only 14.8 percent of 45-54 year olds and 9.7 percent of 55-64 year olds. Small differences may not be statistically significant.

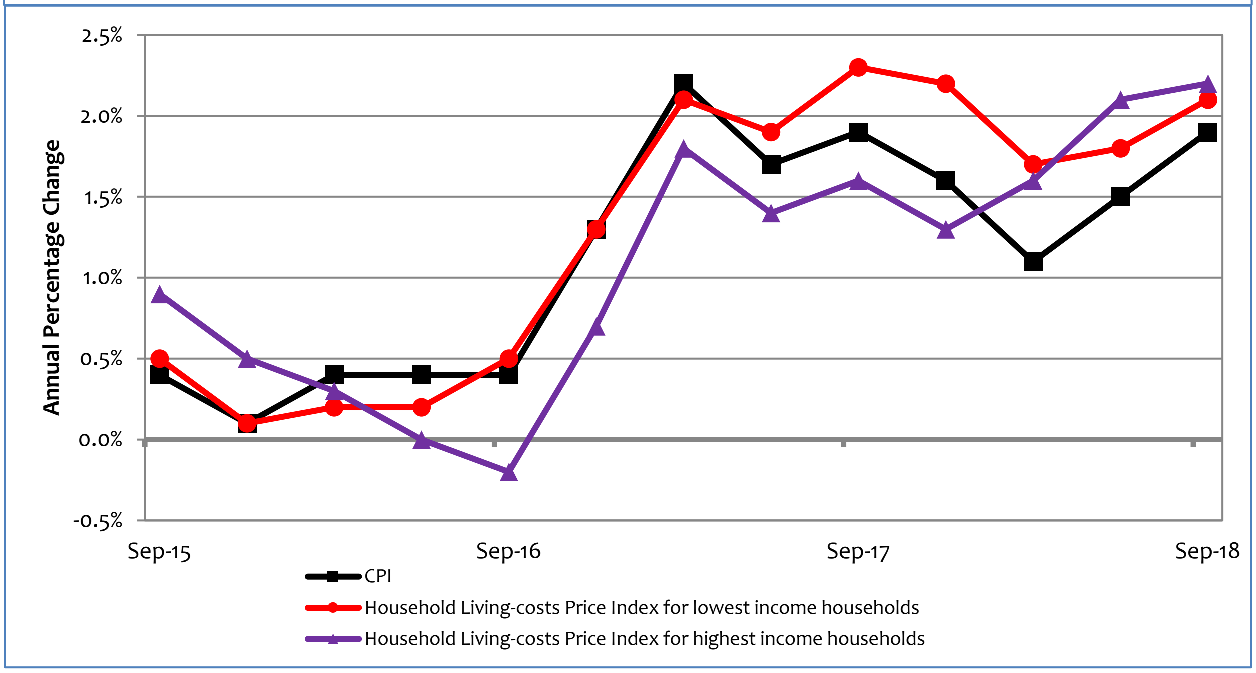
★ The Ministry of Social Development reports that at the end of September 2018 there were 129,643 working age people on the Jobseeker benefit, 8,917 more than a year before and 7,130 more than three months before. At that time, 71,409 were classified as 'Work Ready', and 58,234 were classified as 'Health Condition or Disability'. A total of 284,315 were on 'main' benefits, 6,905 more than a year before, with 229 fewer on Supported Living Payments partially counteracting the increase in Jobseeker benefits. There were 7,095 more on main benefits than three months earlier, mainly because of the rise in Jobseeker benefits. Of the 35,835 benefits cancelled during the three months to September, 15,271 or 42.6 percent of the people obtained work, 14.9 percent transferred to another benefit and 6.7 percent became full time students. A further 2,244 (6.3 percent) left on their 52 week reapplication or annual review. A total of 9,504 suffered sanctions (down 22.2 percent), the majority (8,214) on a Jobseeker benefit. Of the people sanctioned, 44.8 percent were Māori, though only 36.3 percent of working-age benefit recipients were Māori.

★ Job Vacancies Online for the three months to September 2018 showed the seasonally adjusted number of job vacancies rose by 1.9 percent in the quarter and rose 8.4 percent over the same quarter a year previously. All the following are seasonally adjusted, though it should be borne in mind that many jobs are still filled by word of mouth, social networks and through recruitment agencies rather than the job advertisements surveyed for these statistics. Over the quarter, highly skilled vacancies rose 2.8 percent while semi-skilled vacancies rose 0.9 percent and unskilled vacancies rose 0.9 percent, but over the year, highly skilled vacancies rose 12.2 percent while semi-skilled vacancies rose 1.8 percent and unskilled vacancies rose 8.8 percent. Over the quarter, vacancies in Gisborne/Hawke's Bay were up 7.0 percent, Northland up 5.5 percent, Manawatu-Whanganui/Taranaki up 4.6 percent, Wellington up 4.1 percent, Waikato up 2.8 percent, Auckland up 2.2 percent, Bay of Plenty up 2.2 percent, Otago/Southland up 1.9 percent, Marlborough/Nelson-Tasman/West Coast up 1.8 percent, and Canterbury was down 2.1 percent. By industry for the quarter, vacancies rose fastest in Health Care and Medical (up 6 percent), and Primary Industries (up 3.8 percent), while they rose slowest in Construction and Engineering (down 0.2 percent) and Sales, Retail, Marketing and Advertising (down 0.1 percent). There was a similar pattern over the year with Health Care and Medical up 32.9 percent, and Primary Industries up 11.2 percent, though Information Technology outpaced Primary Industries, with vacancies growing 14.1 percent. Construction and Engineering vacancies grew only 0.9 percent over the year. By occupation, Professionals' vacancies grew fastest over the quarter at 2.3 percent, followed by Machinery Operators and Drivers at 2.0 percent, while Sales vacancies fell 1.1 percent, as did Technicians and Trades, Community and Personal Services, and Managers. Over the year, the fastest growing vacancies were for Labourers (11.8 percent increase), followed by Professionals (9.6 percent), with Sales growing only 1.6 percent.

★ International Travel and Migration statistics showed 10,490 permanent and long-term arrivals to New Zealand in September 2018 and 5,850 departures in seasonally adjusted terms, a net gain of 4,640 which was down 350 on the previous month. There was a seasonally adjusted net loss to Australia of 500, compared to a loss of 60 a year before. It was made up of a net loss of 850 New Zealand citizens offset by a net gain of 350 citizens of other countries. There was an actual net gain of 62,733 migrants in the year to September, down from 70,986 in the year to September 2017. Net migration from Australia in the year was 1,575 departures, with 24,135 departures and 25,710 arrivals. However there was a net loss of 6,386 New Zealand citizens to Australia over the year and a net gain of 4,811 from citizens of other countries. In September, 8.9 percent of the arrivals had residence visas, 12.9 percent student visas, 46.2 percent work visas, and 4.7 percent visitors. A further 26.8 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 June 2018 and increased 1.9 percent in the year. It rose more than the 1.5 percent increase in the CPI and that was helped by the $0.75 increase in the minimum wage to $16.50 as from 1 April 2018 and the Care and Support Workers' pay equity increase from 1 July last year. Statistics New Zealand calculates that if neither of these had occurred, the quarterly increase in June would have been only 0.4 percent and the annual increase only 1.5 percent. The main effect in the June quarter was the minimum wage increase (without which it would have been 0.4 percent), and the main effect in the year to June was the pay equity settlement (without which the annual increase would have been 1.6 percent). Statistics New Zealand says: "Around 3 percent of all wages were influenced at least partly by the minimum wage increase… The impact of the minimum wage change was most noticeable in the retail trade, and accommodation and food services industries, increasing 0.9 and 1.1 percent, respectively, for the June 2018 quarter. It also affected occupations such as clerical and administrative workers, labourers, and sales workers." The LCI increased 0.2 percent in the public sector and 0.6 percent in the private sector in the three months. Over the year it rose 1.3 percent in the public sector and 2.1 percent in the private sector. Without the minimum wage rise and pay equity settlement, the private sector rises would have been 0.4 percent in the quarter and 1.6 percent over the year. Regarding the lower public sector rise, Statistics New Zealand comments: "Pay negotiations for both nurses and teachers continue, contributing to the weaker wage growth in the public sector for the year to June 2018." During the year, 48 percent of jobs surveyed did not receive a pay rise, and 49 percent of private sector jobs got no rise. For the 52 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 2.6 percent; the average increase in the public sector was 2.7 percent and in the private sector 4.0 percent. We estimate that over the year, jobs on collective employment agreements were 2.1 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, but somewhat less likely to get one over 5 percent. Only 46 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 that 99 percent of those on a collective stating pay rates got a pay rise in the year to June 2018.

- The Quarterly Employment Survey for the three months to June 2018 found the average hourly wage for ordinary-time work was $31.0, up just 0.1 percent on the previous quarter and up 3.0 percent over the year, significantly more than the 1.5 percent rise in the CPI. Female workers (at $28.98) earned 11.4 percent less than male workers (at $32.71) for ordinary time hourly earnings. This pay deficit has fallen from 13.2 percent two years ago in June 2016. The average ordinary-time wage was $28.97 in the private sector (up 0.2 percent in the quarter and 3.3 percent in the year). In the public sector the average ordinary-time wage was $39.04 which was down 0.5 percent in the quarter and up 1.5 percent in the year. There is a regular pattern of the average wage in the public sector falling in the June quarter, going back to 2002. It is not obvious what the reason is; seasonal employment of a large number of low paid workers would have this effect. Average total hourly wages (including overtime) ranged from $20.06 in Accommodation and food services and $22.14 in Retail trade, to $45.00 in Finance and insurance services, and $40.16 in Information, media and telecommunications. In Accommodation and food services, 57.3 percent of employee jobs were part time, and in Health care and social assistance 43.5 percent were part time; in Retail trade 40.2 percent were part time; 36.9 percent were also part time in Arts, recreation and other services, 26.5 percent in Professional, scientific, technical, administration and support services, and 32.6 percent in Education and training. Together these six industries made up 82.5 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 0.9 percent in the September 2018 quarter compared with the June 2018 quarter. It rose 0.8 percent in seasonally adjusted terms. It increased 1.9 percent for the year to September. For the quarter, the largest single upward influence was Transport, with petrol rising 5.5 percent, and sharp rises also in domestic and international air transport. It contributed over a third of the increase in the index (37.5 percent). Close behind was Housing and household utilities (up 1.1 percent) due to above-average rises in the costs of new housing, property maintenance materials, refuse disposal and recycling, and local authority rates, and contributing a third – 32.4 percent – of the rise. Increases in housing costs also came from an increase of 4.4 percent in house insurance and 1.1 percent in contents insurance over the quarter. Food contributed 15.1 percent of the rise, mainly from an 11.1 percent increase in vegetable prices though this was offset by a 10.3 percent fall in fruit prices. Over the year, Housing and household utilities and Transport were neck-and-neck in contributing to the rise, responsible for 41.7 percent and 41.3 percent of the rise respectively. In Housing and household utilities, which rose 3.1 percent overall, rents rose 2.3 percent, purchase of new housing rose 4.1 percent, property maintenance rose 3.7 percent, property rates and related services rose 4.5 percent, and household energy rose 2.4 percent. In addition, house insurance rose 16.0 percent and contents insurance rose 4.3 percent. In Transport, which rose 5.6 percent overall, most of the pain came from petrol, up 18.6 percent and other vehicle fuels and lubricants, up 27.6 percent. Meanwhile vehicle insurance rose 5.6 percent. Rents rose fastest in Wellington (up 3.8 percent for the year) and slowest in Canterbury (up 0.4 percent for the year) and on average 2.3 percent over the whole country; new house prices rose fastest in the North Island outside Auckland and slowest in Canterbury. Not part of the CPI (though in the Household Living Cost Indexes) is interest payments, which were still falling in September (down 0.5 percent in the quarter and 1.2 percent over the year). In seasonally adjusted terms, the CPI rose 0.8 percent over the last three months, Food rose 0.1 percent, Alcoholic beverages and tobacco rose 0.7 percent, Clothing and footwear rose 0.2 percent, Housing and household utilities rose 0.9 percent, Communications fell 1.8 percent, Recreation and culture rose 0.3 percent, and Education fell 0.2 percent. Over the year, in Auckland consumer prices fell 0.1 percent, in Wellington they rose 1.2 percent and they fell 0.8 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 1.8 percent and prices rose 2.0 percent in the rest of the South Island.

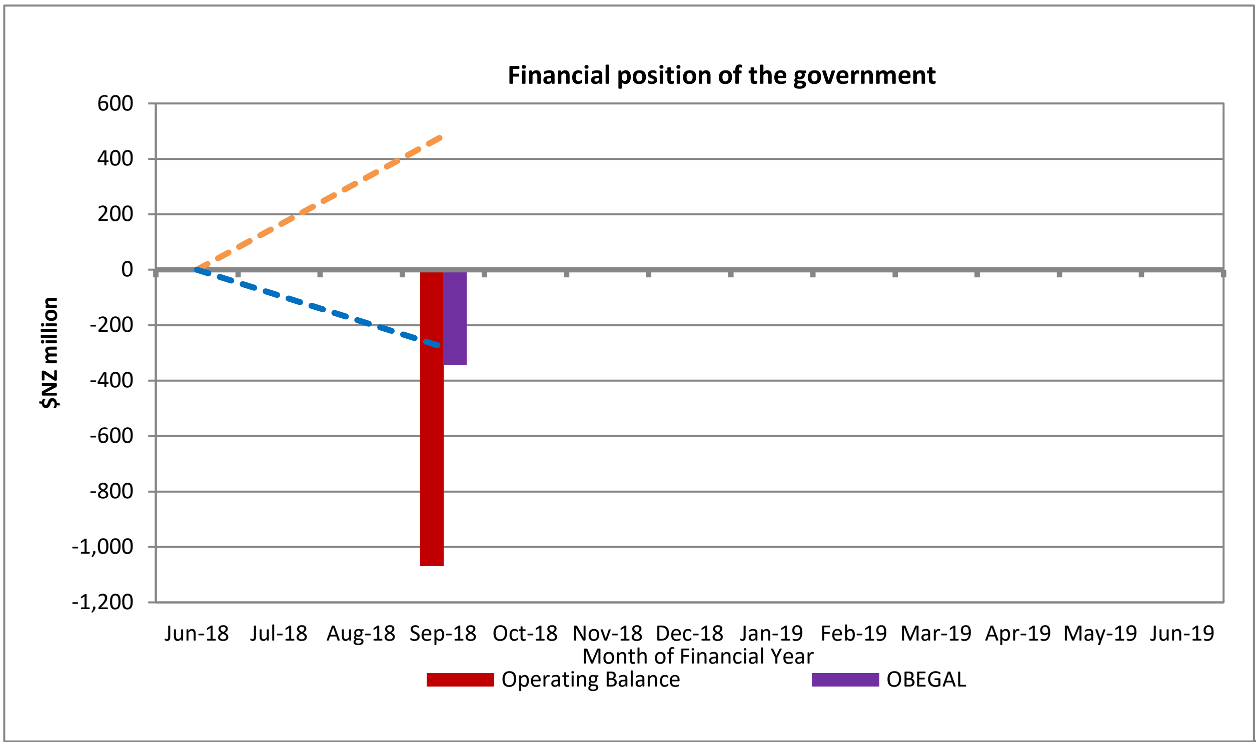
★ The Household Living-costs Price Indexes (HLPIs) for the year to September 2018 again, like in the June year, showed lower income households experiencing (slightly) slower price rises than higher income households over the year, though they experienced higher cost rises in the latest three months, which is the normal pattern. By income, the lowest income households saw their living costs rise 2.1 percent over the year while the highest income households living costs rose 2.2 percent. However, by expenditure, the lowest spending households saw their living costs rise 2.2 percent over the year while prices for the highest spending households rose 1.9 percent. The difference in cost increases occurs because different households spend their money on different things. For example, prices for the necessities of housing and food dominate low income households' spending: 54.5 percent of the expenditure of the lowest income one-fifth (quintile) of households went on Food and Housing and household utilities in 2018, compared to being only 32.7 percent of the expenditure of the highest income one-fifth. Over the year, the All households HLPI index rose 2.2 percent, the Beneficiary households index rose 2.4 percent, the Māori households index rose 2.4 percent, and the Superannuitant households index rose 2.2 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.1 percent, quintile 2 rose 2.1 percent, quintile 3 rose 2.2 percent, quintile 4 rose 2.4 percent, and quintile 5 (the highest income) rose 2.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.2 percent, quintile 2 rose 2.4 percent, quintile 3 rose 2.3 percent, quintile 4 rose 2.2 percent, and quintile 5 rose 1.9 percent. Over the September quarter, the All households HLPI index rose 0.9 percent, the Beneficiary households index rose 0.8 percent, the Māori households index rose 0.9 percent, and the Superannuitant households index rose 1.2 percent. By income quintile, over the quarter the index for

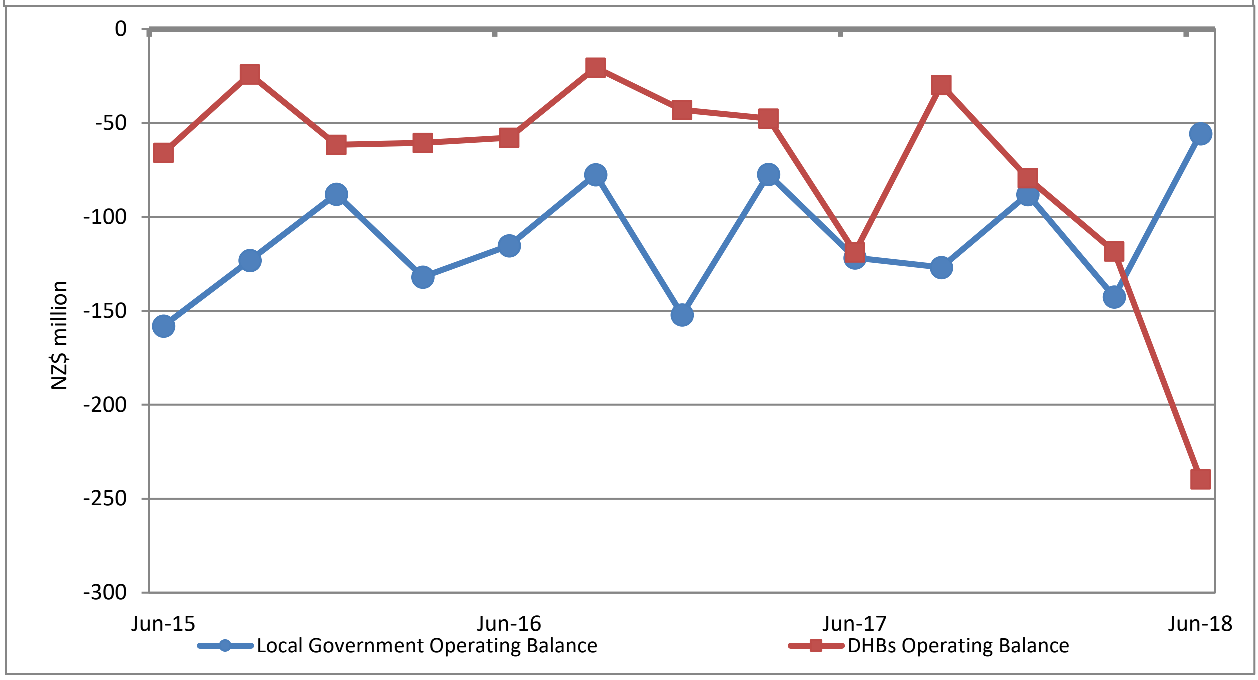
HLPIs show price increases like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by fourteen different types of households. See the commentary in the November 2016 Bulletin for more detail. Weights reflecting the proportion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

the lowest income households (quintile 1) rose 1.0 percent, quintile 2 rose 0.9 percent, quintile 3 rose 0.9 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.8 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 1.0 percent, quintile 2 rose 1.0 percent, quintile 3 rose 0.9 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.7 percent.

★ The Food Price Index fell 0.1 percent in the month of September 2018 and rose 0.3 percent in seasonally adjusted terms. Food prices rose 0.1 percent in the year to September 2018. Compared with the previous month, fruit and vegetable prices fell 5.4 percent (and were down 0.7 percent seasonally adjusted); meat, poultry, and fish rose 1.7 percent; grocery food prices rose 0.9 percent (and rose 0.9 percent when seasonally adjusted); non-alcoholic beverage prices rose 0.4 percent; and restaurant meals and ready-to-eat food prices rose 0.2 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand for the three months to 30 September 2018, core Crown tax revenue was $109 million (0.6 percent) lower than forecast in the 2018 Budget Economic and Fiscal Update (BEFU 18). Corporate tax revenue was $0.3 billion below forecast due to the impact of income tax assessments since June and the way they are dealt with under accrual accounting conventions; in cash terms, corporate tax is on forecast and up 8.2 percent on last year. GST was $0.1 billion or 2.5 percent above forecast, "mainly due to stronger-than-forecast residential investment". Overall core Crown revenue was $65 million or 0.3 percent below forecast. Core Crown expenses were $223 million (1.0 percent) below forecast, in part because of "the Working for Family Tax Credit being lower than expected by $0.1 billion". The resulting $343 million deficit in the Operating Balance before Gains and Losses (OBEGAL) was $64 million more than forecast and the Operating Balance, a $1.1 billion deficit, was $1.6 billion below the forecast $0.5 billion surplus. This was due to unexpected investment gains of $0.8 billion which were more than offset by losses on "non-financial instruments" of $2.3 billion, $2.2 billion higher than forecast, mainly due to changes in discount rates used to calculate the ACC claim liability, plus a loss of $0.5 billion in the Emissions Trading Scheme due to an increase in carbon price. Net debt at 20.9 percent of GDP ($60.4 billion) was $2.2 billion lower than forecast. Gross debt at $88.9 billion (30.7 percent of GDP) was $1.5 billion higher than forecast. The Crown's net worth in financial terms was $10.6 billion higher than forecast at $129.3 billion.

- District Health Boards had more full time equivalent staff than planned at the end of June 2018 (99 more: 64,611 compared to 64,812 planned) for the first time in many years. Medical Personnel (doctors) were 151 more than planned and Nursing Personnel were 549 more than planned, but these were offset by shortfalls in Allied Health Personnel (382 short), Management/Administration staff (164 short), and Support Personnel (54 short). Average costs per full time equivalent staff were very close to plan ($96,134 compared to $95,850) with only Medical Personnel costs under plan. The DHBs had accumulated combined deficits of $239.5 million in the twelve months to June (an unaudited full year). This is $96.0 million worse than their plans. The Funder arms were in surplus by $120.9 million, $50.9 million more than the $70.1 million surplus planned, and Provider arms (largely their hospitals) in deficit by $370.2 million, $153.4 million worse than planned. The Northern region was $1.1 million behind plan with a deficit of $29.6 million and two of the four DHBs in deficit. The Midland region was $48.7 million behind plan with a deficit of $67.2 million and all of the five DHBs in deficit including Waikato whose deficit was $37.5 million. Central region was $24.1million behind plan, a combined $54.5 million deficit and all of the six DHBs in deficit. The Southern Region was $22.0 million behind plan with a $88.2 million deficit and three of the five DHBs in deficit, with Canterbury showing a $64.0 million deficit and Southern $21.4 million. In all, just four of the 20 DHBs were in surplus and five were ahead of plan. The DHB furthest ahead of plan was Capital and Coast by $2.8 million though with a deficit of $18.2 million, and Canterbury was furthest behind, by $10.3 million with a deficit of $64.0 million. Capital expenditure across all DHBs was $188.5 million behind plan with $382.7 million spent out of $571.2 million planned.
- Local Government in the June 2018 quarter recorded a 6.5 percent ($159.7 million) rise in operating income in seasonally adjusted terms and a 2.8 percent rise in operating expenditure ($72.9 million) including a 0.1 percent fall in employee costs (down $0.7 million) compared to the previous quarter. This resulted in an operating deficit of $55.7 million in the quarter, compared with a deficit of $142.4 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 all are seasonally adjusted figures which are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin204.

For further information contact Bill Rosenberg.