NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 164 (January 2015)

Commentary

The year ahead: unusual times

Summary

We're in unusual times. The economy is growing strongly yet deflation (falling prices) is on the cards. There are still serious problems in other developed economies which are creating great hardship for working people and could bite us through falling demand for New Zealand exports – but also contribute to falling prices. Employment in New Zealand is growing strongly but unemployment is still much too high.

We've been seeing static or falling prices for most imported goods and most recently in fuel prices. But even for domestic goods and services inflation has been subdued with the main exception of housing.

It is good that the Reserve Bank has stopped raising its Official Cash Rate may even lower it. That has helped bring down the exchange rate which is still far too high. Further interest rate reductions would help reduce the exchange rate further – but the Reserve Bank would need to take other action against speculation in housing and in financial markets.

Deflation is not necessarily a good thing. It is to be feared when an economy is contracting, people are losing their jobs and businesses are closing. That can end in a downward spiral that only government action can fix by spending financed by borrowing. While everything is not right we are certainly not in this situation. But neither can we just sit back and enjoy it.

First, falling prices aren't of much benefit if wages and incomes fall too (or rise very slowly). Secondly debt (such as mortgages) and interest rates get harder to pay off. At present, people think they are have low interest rates. That is an illusion. Because we have such low inflation, *real* interest rates are as high and higher than they were during the mid 2000s. Historically, inflation has been an important way that people and governments have dug themselves out of indebtedness, and New Zealand as a whole has high debt levels that it needs to reduce.

Lower prices can help wage and salary earners. Even with unchanging incomes, the real value of them doesn't get eaten away by rising prices as quickly. But that is not the whole story. First there is a lot of catching up due. Workers in the public sector are particularly due for a catch-up. Secondly, the statistics generally show only average wage increases. People on lower incomes have tended to get lower increases. Thirdly, there is housing: unaffordable housing needs lower prices but also higher incomes. And finally, low income households have seen faster price increases years than higher income households.

We're in unusual times. The economy is growing strongly yet deflation (falling prices) is on the cards. There are still serious problems in other developed economies which are creating great hardship for working people and, along with changes in the Chinese economy, could bite us through falling demand for New Zealand exports – but also contribute to falling prices. The weakness and political turmoil is already reflected in a big fall in dairy prices, but prices for meat continue to rise. Employment in New Zealand is growing strongly but unemployment is still much too high. These are all seemingly contradictory trends.

Underlying them are the long-standing issues which continue to go largely unaddressed: high inequality which means growth in the economy is not shared fairly and too many live in hardship; increasing environmental impacts, not least climate change; an ageing population; slow productivity growth; and an unbalanced economy with growing international liabilities only temporarily slowed by current serendipity.

In this commentary I'll look at just a few of the likely features of the coming year: low inflation or deflation, interest rates, the exchange rate and wages in this environment.

Prices, interest rates, exchange rate

There's lots of talk that New Zealand may be heading for deflation – falling price levels. I'd been talking about that for some time. It has been noticeable particularly in the prices of imported "durables" such as household appliances, electronic goods and even some furniture. Retailers in these areas have been improving their margins, their profits per employee and their return on equity (at least for 2011-2013, which are the most recent data from Statistics New Zealand available), but not to the extent that they haven't also passed on some of the price falls to consumers. They are experiencing some competition from online retailing (though probably not for the larger appliances and furnishings) but are also facing still depressed household expenditure, which is down from around 75 percent of total final consumption expenditure in the economy in the first half of the 2000s to around 73 percent since 2008.

We've been seeing static or falling prices for most imported goods and of course most recently substantial falls in fuel prices. But even for so-called "non-tradeable" goods and services – those (like health, bread, phone services and haircuts) which by and large aren't in competition with overseas suppliers – inflation has been subdued with a few notable exceptions. The exceptions are Inflation was low – 0.8 percent for the year to December 2014 – but without these housing and electricity price rises, it would have been slightly negative. The Consumer Price Index (CPI) covers all these but it doesn't cover the cost of buying an existing house nor mortgages. For many households, but for first home buyers particularly, these are hugely significant expenses.

A further area of above average price increases is education, which is largely due to government funding decisions (the very modest pay increases education workers are getting can't be blamed!). Prices rose 4.2 percent there in the last year.

What price increases we've had for some time have been in very few areas, and I have been saying we don't have an inflation problem – we have problems in housing and the electricity sector which should be addressed rather than the Reserve Bank penalising the whole economy by pushing up interest rates. (And technically, inflation is a rise in the general price level – not the ups and downs of individual prices which occur all the time.)

It is good to see the Reserve Bank has stopped raising its Official Cash Rate and suggested it may even lower it. That has undoubtedly helped bring down the exchange rate which is still far too high. That showed how sensitive the exchange rate is to the "carry trade", making money on international differences in interest rates. A further interest rate reduction would help bring down the exchange rate further – but would require the Reserve Bank to take other action against speculation in the housing market, and to keep a close eye on speculation in shares and other financial markets. It might also lead to price increases, not the end of the world in the current environment.

Some of the fall in the exchange rate has been because of the strengthening of the US dollar rather than local policies or our falling dairy prices. You can see that in the movements of the Reserve Bank's Trade Weighted Index (TWI) which is a combination of the exchange rates with New Zealand's 17 largest trading partners, weighted by the trade New Zealand has with them. The US dollar is only 12 percent of it. The TWI has not fallen nearly as far as exchange rate with the US dollar. Since the US dollar exchange rate peaked in July last year, it has fallen 15.5 percent but the TWI has fallen only 7.5 percent – half as much. So exporters are not out of the woods yet.

Deflation is not necessarily a good thing. It is to be feared when an economy is contracting, people are losing their jobs and businesses are closing. Workers will have falling incomes because they lose their jobs or hours of work, and wages are likely to be stagnant or even falling. Falling prices are then often a signal that businesses can't sell their products because people don't have the money to buy them. If people see prices falling– particularly if their incomes are insecure or falling – they delay buying and the problem gets even worse. It can end in a downward spiral that only government action can fix by spending financed by borrowing.

While everything is not right with the economy in New Zealand yet, it is certainly not in this kind of situation, and falling prices are not on the whole due to lack of demand for the products the economy produces. So perhaps we should sit back and enjoy it? Not necessarily.

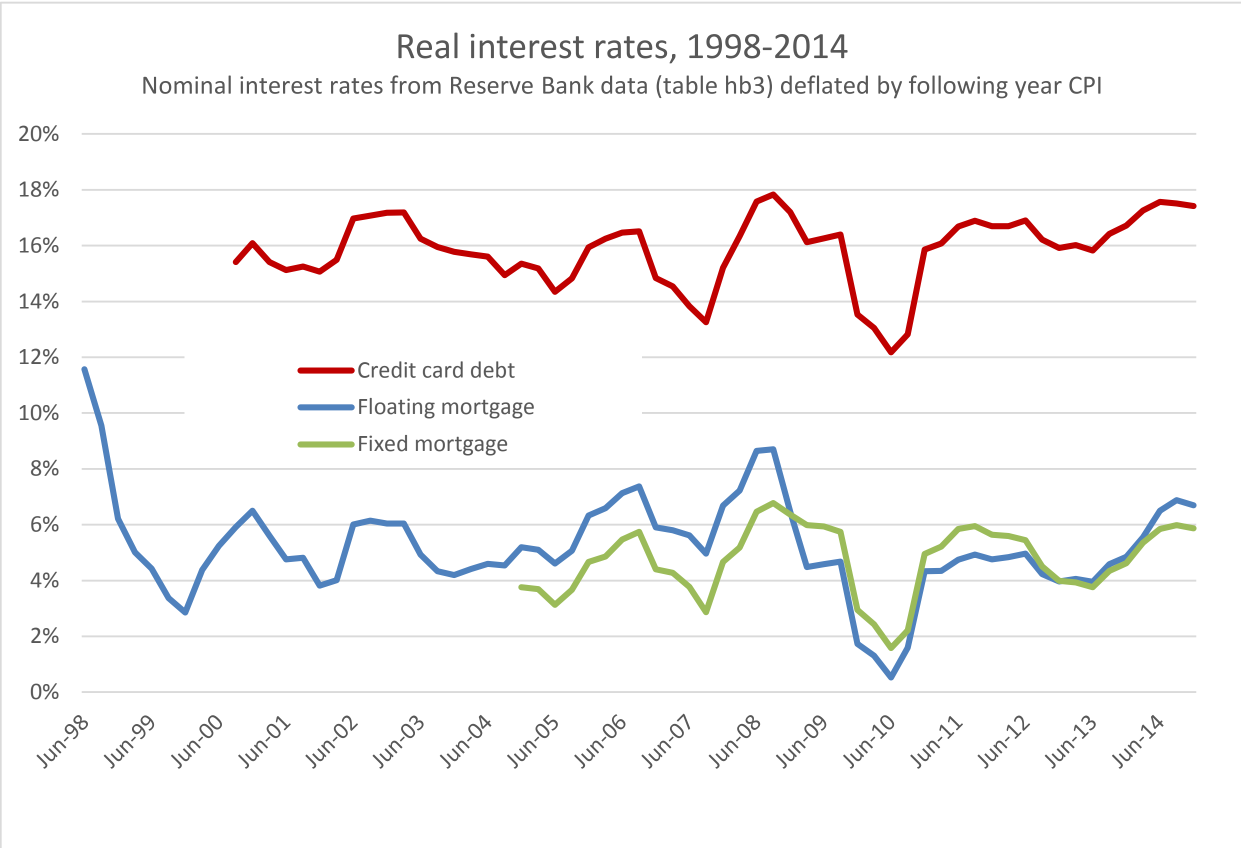
First, falling prices aren't of much benefit if wages and incomes fall too. While wages aren't actually falling, they are barely rising at the moment – something I come to in more detail below – so wage and salary earners aren't sharing in the growth of the economy as they should. Secondly some prices are essentially fixed (at least for the medium term) and if other prices fall, they become relatively more expensive; if wages just keep up with prices, those costs get harder to pay.

An important example is debt (such as a mortgage) and interest rates. Once you take on a debt such as borrowing to buy a house, the amount you owe is fixed in dollar terms until you pay it off. Historically, inflation has been the friend of people who borrow (and the enemy of people who have money in the bank or bonds). You can think about this in two ways. One is "opportunity cost". Say a litre of petrol costs $2.00. Then each $100 of debt you owe and have to pay off sometime could instead be used to buy 50 litres of petrol. If the petrol price goes up to $2.50 then you could only buy 40 litres with that $100 of debt. In other words the cost to you of that debt in terms of what else you could do with the money has fallen because of inflation. On the other hand, if the price of petrol falls to say $1.67, you could buy 60 litres with that $100 of debt – your opportunity cost has risen and it is more painful to pay off that debt.

The other way of looking at it is from the point of view of the income you have to pay off the debt. If you income is rising – even if it is rising only as fast as inflation, or even less – you need a smaller proportion of it to pay off $100 of debt. It becomes easier to pay. The opposite is true if your income is stagnant or falling – it becomes an increasing burden.

It is similar with interest. After you take out that mortgage, the interest rate is largely out of your control and for some loans is fixed for anything up to 5 years. What is important is the *real* interest rate: the interest rate less the inflation you expect over the period you are paying interest.

At present, people think they are paying low interest rates. That is an illusion. As the graph below shows, *real* interest rates are as high and higher than they were during the mid 2000s when nominal interest rates (the rate at which you pay interest to the bank) were 9 or 10 percent. That's because inflation (and wage increases) were higher then. Real mortgage interest rates were highest in the 1990s when there was both high nominal interest rates and low inflation. Mortgage debt is looking bad enough, but real interest rates on credit cards have been trending up and is now almost at the peak of September 2008. Note that I needed to estimate inflation for the year to December 2015 to calculate current real interest rates. My estimate was negative 0.1 percent: petrol prices will drag CPI down in the first two quarters of next year. This could be higher if a falling dollar pushes up import prices.



The warning here is that you need to look beyond nominal interest rates when taking on debt. A low inflation environment – especially if it is accompanied by low wage increases – could make it harder to pay off debt.

Historically, inflation has been an important way that people and governments have dug themselves out of indebtedness. Low inflation, and especially deflation, can help trap people, firms and countries in high debt situations, and New Zealand as a whole has high debt levels that it needs, somehow, to reduce. The government's debt is higher than before the global financial crisis and the Canterbury earthquakes, but far from danger levels. It is finding it harder to pay it off because low inflation and weak growth in people's incomes means its tax take is not rising as fast as it expected. Paying it off without lowering overall debt levels in the economy effectively means shifting the debt to the rest of the community.

Regarding Europe, many economists are now saying that government debt levels are at levels that cannot be paid off by current policies. Austerity (cuts in government expenditure) is killing economies, extending high unemployment and falling real wages, and in Greece a depression at least as bad as the 1930s. Even if economic growth were at normal levels it would take far too long to pay off debt. The economists are now talking about the need for higher inflation and financial regulation (some call it "financial repression") This uses measures such as writing off debt, reduced interest rates and longer terms for public debt, controls on the import and export of capital, and requiring banks and investment funds to put money in low interest government debt. Just the most recent in a series of such research papers is one by Carmen Reinhart and Belen Sbrancia (2015)[1], published by the research department of the International Monetary Fund (IMF), who show that such measures were and still are the ways that both developed and developing countries have got out of debt traps. Financial liberalisation in the last 20 years has raised interest rates and made it more difficult to get out of debt by preventing the use of such policies (sometimes imposed through the IMF's rules and international trade and investment agreements).

Wages and incomes

Lower prices can help wage and salary earners. Even with unchanging incomes, the real value of them doesn't get eaten away by rising prices as quickly. But that is not the whole story.

First there is a lot of catching up due. The economy's productivity has grown faster than real wages since the bottom of the recession in 2009. That has reflected in a falling labour share of the nation's income over that period (from 51.2 percent to 50.0 percent). Many people have had few, if any pay rises. Secondly, the statistics generally show only average wage increases. People on lower incomes have tended to get lower increases. The difference between the median (middle) wage and the average wage is growing. In addition there are big pay equity issues, demonstrated by the aged care workers case that women are systematically underpaid in that sector. Thirdly, there is housing, which ranges from over a quarter of household spending for the lowest income 20 percent of households to 15 percent for the highest income 20 percent. Including interest payments, it's around a quarter of spending on average for households across most income ranges, though it is closer to 30 percent for low income households. Unaffordable housing needs prices to be tamed, but also needs higher incomes. And finally, the CPI reflects the increases in prices that an average household faces – but not every household is average. In particular, low income households tend to have seen more rapid price increases in recent years (2.6 percent per year between June 2008 and September 2012 for the lowest income 20 percent of households compared to 1.3 percent per year for the highest 20 percent according to Statistics New Zealand).

As well as people on low incomes, workers in the public sector are particularly due for a catch-up. In the year to September 2014, the pay rates of health care and social assistance workers went up only 0.7 percent, and central government administration, defence and public safety workers only 0.8 percent according to the Labour Cost Index (LCI). This compares to 1.0 percent CPI inflation. All except workers

[1]Reinhart, C., & Sbrancia, M. B. (2015). *The Liquidation of Government Debt* (Working Paper No. WP 15/7). Washington DC, USA: International Monetary Fund. Retrieved from http://www.imf.org/external/pubs/cat/longres.aspx?sk=42610.0

in the Electricity, Gas, Water and Waste Services sector have fallen behind inflation over the period June 2009 to September 2014.

What is holding pay rises back? It is obvious for government funded employers: there is an explicit policy to hold back wages and salaries despite increasing signs of stress, particularly in the health sector.

In the private sector there are a number of factors. Unemployment at 5.4 percent or 134,000 people, continues to be high for an economy growing at its current rate, whether compared with the levels before the recession (3.5 percent in 2007) or other countries which we are told we are doing as well or better than economically. That makes it harder for workers to ask for a pay rise. It's partly caused by welfare policies which push people into work when there are not enough jobs (and certainly not enough decent ones). The Reserve Bank described the situation in its December Monetary Policy Statement as: "some excess labour supply remains, with elevated net immigration and high labour force participation boosting labour supply." Employers are using immigration to avoid training needs and paying higher wages. And finally of course, the Government has over several years weakened collective bargaining which improves workers' bargaining power, much weakened in these conditions. While only 2 percent of workers on collective agreements got no pay rise in the year to June 2014, 52 percent of those not on a collective got no pay rise.

However these policies are also weakening the long run prospects for the economy. The "boosted labour supply" has meant that employers have continued their practices of relying on low wages rather than improving productivity to grow. Treasury estimated there was just 0.7 percent labour productivity growth in the year to March 2014 and forecast 0.2 percent in the year to March 2015. That is not the basis for good wage growth nor a higher value economy.

The year will see building pressures for wage rises and decent well-paid jobs. Inequality will continue to build as an issue but the Government's promised measures in the Budget to address poverty look likely to be limited to those in most desperate hardship, without addressing the need for higher incomes. Housing will continue to be a major issue with no short term policies in sight to address the shortage of affordable homes in Auckland, prices continuing to rise much faster than CPI, and the likelihood of further tightening of mortgage availability by the Reserve Bank. There may be relief for exporters in a falling dollar, but it could be negated for commodity exporters by low or falling prices. Perhaps that will have the benefit of starting to rebalance exports towards higher value products.

We're in unusual times.

Bill Rosenberg

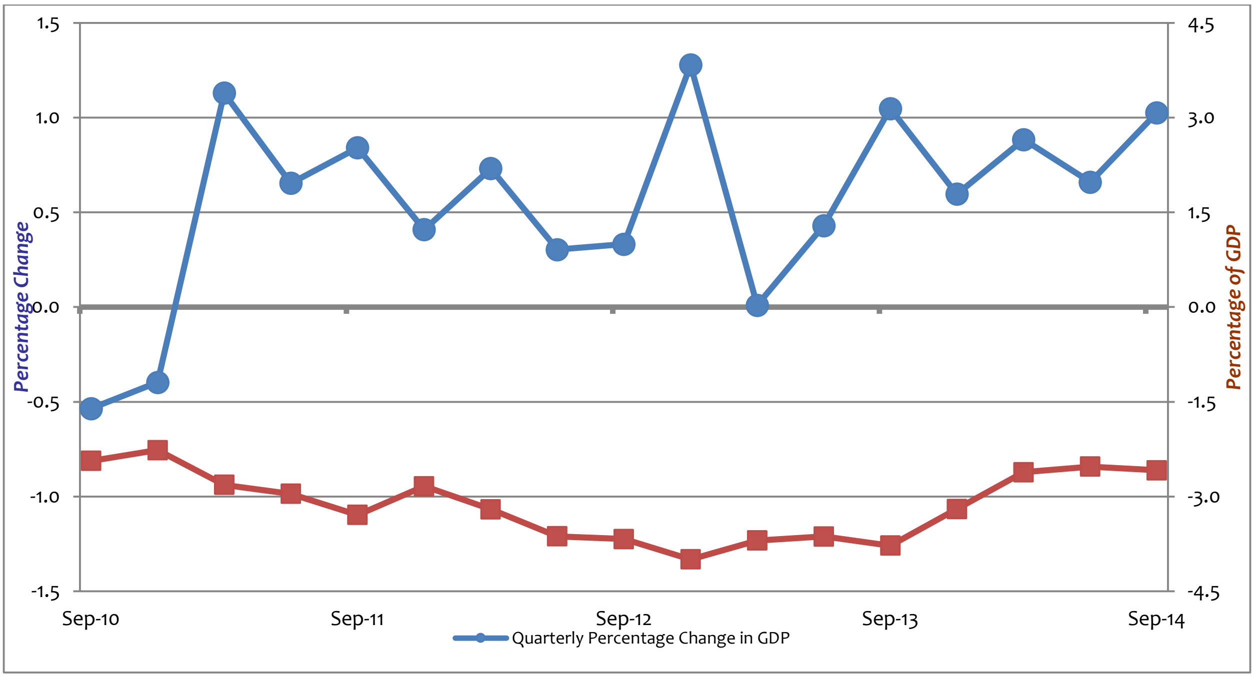
Forecast

★ This NZIER forecast was released on 15 December 2014.

Annual Percentage Change (March Year)	**2014-15**	**2015-16**	**2016-17**	**2017-18**
GDP	3.3	3.0	2.3	2.1
CPI	1.2	2.1	2.2	2.0
Private Sector average wage	3.1	3.4	3.4	3.3
Employment	2.5	1.9	1.5	0.9
Unemployment rate	5.3	5.1	4.9	5.1

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

Economy



★ Growth in New Zealand's economy increased strongly in the September 2014 quarter, with Gross Domestic Product growing at 1.0 percent, compared to quarterly increases of 0.7 percent in June, and 0.9 percent in March and 0.6 percent in December 2013, both revised downwards. Growth for the year ended September 2014 was 2.9 percent. The September 2014 quarter was 3.2 percent up on the same quarter in 2013, and growth between the June 2013 and 2014 quarters has been revised down to 3.2 percent. However GDP per person is barely increasing by some measures: it stood still in the quarter in dollar terms, though it rose 0.6 percent in volume terms. So production is increasing but falling prices mean it is not showing as increased spending. The largest quarterly rises by industry were in Mining (up 8.0 percent), Agriculture, Forestry and Fishing (up 5.1 percent), and Information media and telecommunications (up 3.5 percent). Manufacturing rose 2.0 percent. On the other hand, Transport, postal and warehousing fell 2.6 percent, Professional, scientific, technical, administrative and support services fell 2.0 percent, and Construction fell 1.2 percent. The result was that Primary Industries rose 5.8 percent, Goods producing industries (which includes

Construction) rose 0.9 percent and Service industries rose 0.3 percent. Over the year though (comparing September quarters), all industries expanded except Forestry and logging (which fell 7.8 percent), Food, beverage, and tobacco manufacturing (down 2.1 percent), Printing (down 2.2 percent), Petroleum, chemical, polymer, and rubber product manufacturing (down 1.3 percent), Furniture and other manufacturing (down 1.4 percent), and Transport, postal, and warehousing (down 0.4 percent). Non-metallic mineral product manufacturing led the expansion, rising 17.0 percent over the year followed by Mining (up 16.7 percent), Transport equipment, machinery and equipment manufacturing (up 8.4 percent), Construction (up 11.5 percent), and Accommodation and food services (up 6.0 percent). Household consumption expenditure rose 1.5 percent in real terms in the quarter and 4.0 percent from the September 2013 quarter. Expenditure on non-durable goods (such as groceries) rose 1.7 percent in real terms during the quarter and 2.7 percent during the year while durables (such as appliances) rose 4.0 percent in the quarter and boomed at 10.0 percent growth over the year. Business investment rose 3.8 percent in the quarter with large increases in Transport equipment (16.1 percent), Plant, machinery and equipment (9.3 percent) and non-residential buildings (4.4 percent). Residential buildings activity was flat.

- Annual data on National Income showed strong growth in the year to March 2014, but only a quarter of the growth went to employees ("Compensation of Employees" which includes wages, employer contributions to employees' superannuation and other employee benefits). Over half went to Operating Surplus, or payments to owners of capital which includes dividends, interest, royalty payments and self-employed income. The higher profits were mainly in agriculture, construction and finance. The rest of the increase went to higher government revenue from taxes on production such as GST, tariffs on imports, EQC and fire service levies, duties on fuels and road user charges. The result was that employees' share of national income (the "labour share") fell during the year from 51.3 percent to 50.0 percent. Revisions to the National Accounts show household saving as having occurred at a higher rate than previously estimated. It was increasingly negative from 1995, bottomed out in 2003, becoming positive in 2010 and remaining so. The revisions now classify weapons delivery systems such as fighter aircraft and tanks as "investments". They also treat research and development expenditure as an investment instead of an expense. The result of the accounting changes is to push up estimates of New Zealand's GDP between 1972 and 2011 by between 0.5 and 1.4 percent.

★ New Zealand recorded a Current Account deficit of $2.5 billion for the September 2014 quarter in seasonally adjusted terms ($5.0 billion actual), compared to a $2.0 billion deficit in the June quarter. The deterioration was driven by move to deficit in the goods trade of $405 million (compared to $300 million surplus in June) while the deficit on income and transfers rose to $2.75 billion from $2.69 billion. For the year to September 2014, the deficit was $6.1 billion or 2.6 percent of GDP compared to a $5.8 billion deficit in the year to June. The deficit on investment income was

$9.9 billion, which is rising because of increased outward flows of income on foreign investment in New Zealand.

★ The country's Net International Liabilities were $152.3 billion at the end of September 2014 (64.3 percent of GDP) up from $151.5 billion (64.7 percent of GDP) at the end of June, and $147.6 billion (67.1 percent of GDP) in September 2013. The rise in net liabilities in the quarter was due mainly to net financial inflows of $2.1 billion, but was significantly offset by changes in the market valuation of assets and liabilities. Without the market value changes, the net liabilities would have been $154.7 billion. Assets rose in value from $186.1 billion to $200.1 billion almost solely because of exchange rate and valuation changes; financial flows accounted for only $72 million of the $13.9 billion increase. All but $2.2 billion of the $14.7 billion increase in liabilities (to $352.3 billion) was due to valuation changes. New Zealand's international debt was $265.2 billion (112.0 percent of GDP), compared to $121.1 billion in financial assets (other than shares; 51.2 percent of GDP), leaving a net debt of $144.1 billion. Of the net debt, $8.8 billion was owed by the government (equivalent to 3.7 percent of GDP) and $101.7 billion by the banks (43.0 percent of GDP), which owed $57 billion to related parties. Total insurance claims owed by overseas reinsurers from the Canterbury earthquakes are estimated at $19.8 billion, and at 30 September 2014, $15.3 billion of these claims had been settled, leaving $4.4 billion outstanding.

★ Overseas Merchandise Trade for the month of December saw exports of goods fall 6.9 percent from the same month last year while imports rose 7.6 percent. This created a trade deficit for the month of $159 million or 3.6 percent of exports. In seasonally adjusted terms, exports fell 5.2 percent or $216 million over the month (compared to a 2.5 percent rise the previous month) influenced by falls in Milk Powder, Butter, and Cheese (down 1.1 percent), Logs and wood products (down 0.6 percent), Mechanical machinery and equipment (down 1.3 percent), Seafood (down 2.7 percent) and Aluminium and aluminium articles (down 5.6 percent, not seasonally adjusted). The largest rise was in Crude oil (up 30.6 percent, not seasonally adjusted), followed by Fruit (up 19.9 percent), Electrical machinery (up 9.3 percent), Meat (up 8.0 percent) and Wine (up 6.9 percent). Seasonally adjusted imports rose 5.9 percent or $247 million, creating a trade deficit of $447 million compared to a $15 million deficit in the previous month. Imports grew fastest in Petroleum and products (up 25.2 percent), Plastic and plastic articles (up 11.9 percent) and Electrical machinery and equipment (up 11.1 percent). Exports to China rose just 0.3 percent in the year to December and fell 3.9 percent to Australia. However exports to China fell by 28.3 percent between the month of December 2014 and the same month in the previous year while exports to Australia fell 4.8 percent. Our top six export destinations accounted for 59.3 percent of our exports in the year (of which China accounts for 19.9 percent), compared to 60.4 percent in the previous year (China 20.7 percent). Imports from China rose 5.1 percent in the year to December, and fell 2.8 percent from Australia, but in the month imports from China rose 26.3 percent while imports from Australia rose 6.8 percent compared to the same month in the previous year.

★ The Performance of Manufacturing Index[1] for December 2014 was 57.7, a rise from 55.6 in November. The employment sub-index was at 49.4, a steep fall from 54.6 in November.

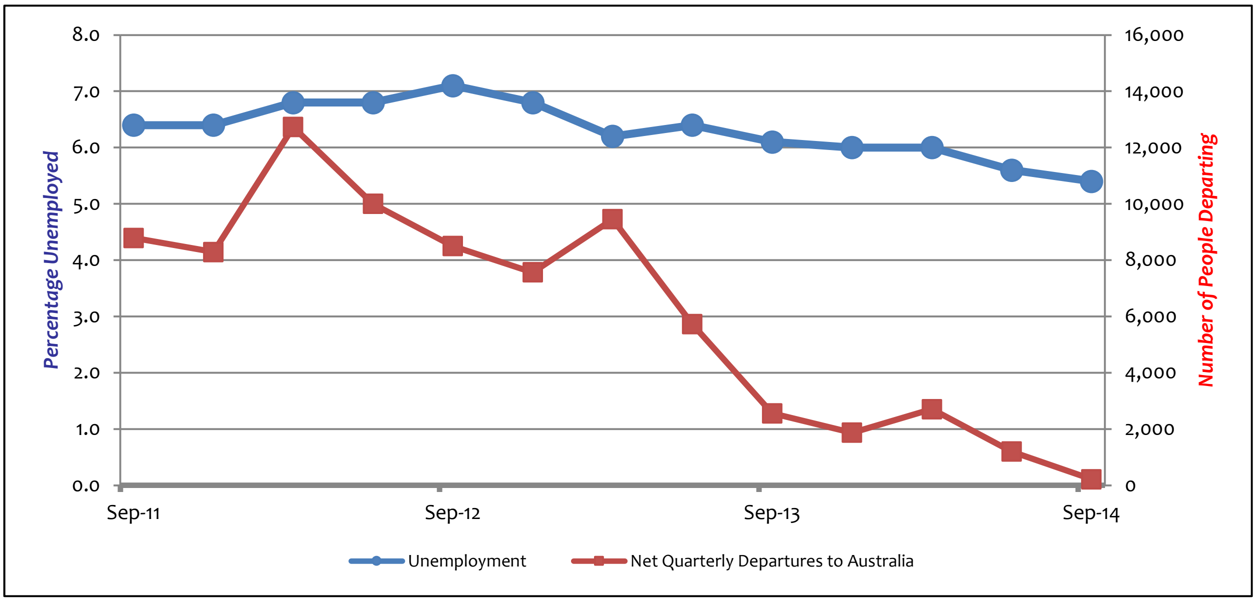
★ The Performance of Services Index[1] for December 2014 was 56.5, a rise from 54.7 in November. The employment sub-index fell to 51.9 from 53.2 in November.

- The Retail Trade Survey for the three months to September 2014 showed retail sales rose 1.5 by volume and 0.9 percent by value compared with the June 2014 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Supermarket and grocery stores, Food and beverage services, Furniture, floor coverings, houseware and textile goods retailing and Department stores. Only three of the fifteen industries had lower sales volumes: Accommodation, Clothing, footwear and accessories, and Non-store and commission-based retailing (which includes internet purchases).

★ On 29 January 2015 the Reserve Bank left the Official Cash Rate (OCR) at 3.50 percent and signalled that a change was unlikely for some time, with the possibility of a fall as well as a rise. The next OCR review will be announced on 12 March 2015 along with a Monetary Policy Statement.

★ The REINZ Housing Price Index fell 1.0 percent in the month of December 2014. Auckland rose 0.3 percent, Christchurch fell 4.6 percent and Wellington fell 2.3 percent. The index was up 6.0 percent compared to the same month a year before. For the year, Auckland prices rose 13.5 percent, Christchurch rose 3.7 percent and Wellington rose 1.6 percent. The national median house price fell $5,750 or 1.3 percent compared to November to $450,000. It is $23,000 or 5.4 percent higher than a year ago with median prices rising in six regions. Auckland accounted for 98 percent of the increase. There were 402 or 15.7 percent more sales under $400,000 compared to December 2013, but a rise of 220 to 629 in the $1 million plus range and 441 more (to 1,577) in the $600,000 to $999,999 range. Sales under $400,000 accounted for 41.8 percent of sales in December 2014 but 44.0 percent in December 2013.

Employment



- According to the Household Labour Force Survey the unemployment rate in the September 2014 quarter fell to 5.4 percent from 5.6 percent in June. Seasonally adjusted female unemployment at 6.3 percent was higher than for men (4.6 percent). In the North Island, only Taranaki (4.6 percent) and Wellington (5.6 percent) have unemployment below 6.0 percent. The South Island looks considerably better, but had low unemployment throughout the 2000s and has yet to regain the low levels of 2007 despite the Canterbury rebuild. The unemployment rate in Canterbury was 3.2 percent, down from 4.2 percent in September 2013. Almost half of the annual increase in employment came from Canterbury (34,500), with 91 percent of it coming from just three regions: Auckland, Waikato and Canterbury. Employment fell in Wellington and Bay of Plenty. By industry, over the year almost than half of the increase in employment came from Construction (33,500 workers compared to 70,400 overall), with Agriculture, Forestry and Fishing, Manufacturing, Retail, Accommodation and Food Services, Transport, Postal and Warehousing and Education all reducing employment. Construction, public administration and arts and recreation together accounted for over 90 percent of the increase in employment. There were 228,600 people jobless, including 134,300 people unemployed, and there were 92,000 part-timers who wanted more work. Māori unemployment did not fall compared to September 2013, and was still at 12.2 percent, and while Pacific people's unemployment did fall from 15.7 percent in September last year, it was still high at 11.7 percent. The labour force participation rate at 69.0 percent is up 0.1 percentage point from the previous quarter and up 0.4 percentage points for the year. There are 41,300 unemployed people who have been out of work for more than 6 months (down from 44,000 in September 2013), but as a proportion of the unemployed they have risen from 29.7 percent to 30.8 percent over the year. Those out of work for more than a year have risen from 11.6 percent of the unemployed to 12.9 percent over the year. Compared to OECD unemployment rates, New Zealand is 9th lowest (out of 34 countries), the same as in June.

- Youth unemployment for 20-24 year olds was 10.4 percent, down from 10.9 percent in the June quarter and 11.0 percent a year before, again in seasonally adjusted terms. The NEET rate was 15.0 percent, up from 14.5 percent in the previous quarter and 14.1 percent in September 2013. The unemployment rate among (15-19 year olds) was 19.5 percent in September, down from 20.7 percent in June and from 23.1 percent a year before, in seasonally adjusted terms. It was slightly lower for those in education (19.0 percent) than those not (20.4 percent), and the 7,000 increase in employment over the year was almost entirely among people in education (6,000 increase) while those not rose only 1,000. The not in employment, education, or training (NEET) rate fell from 7.5 percent in June to 7.2 percent. There were 72,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 11.4 percent of people in that age group, up from 11.2 percent in June and 11.3 percent a year before.

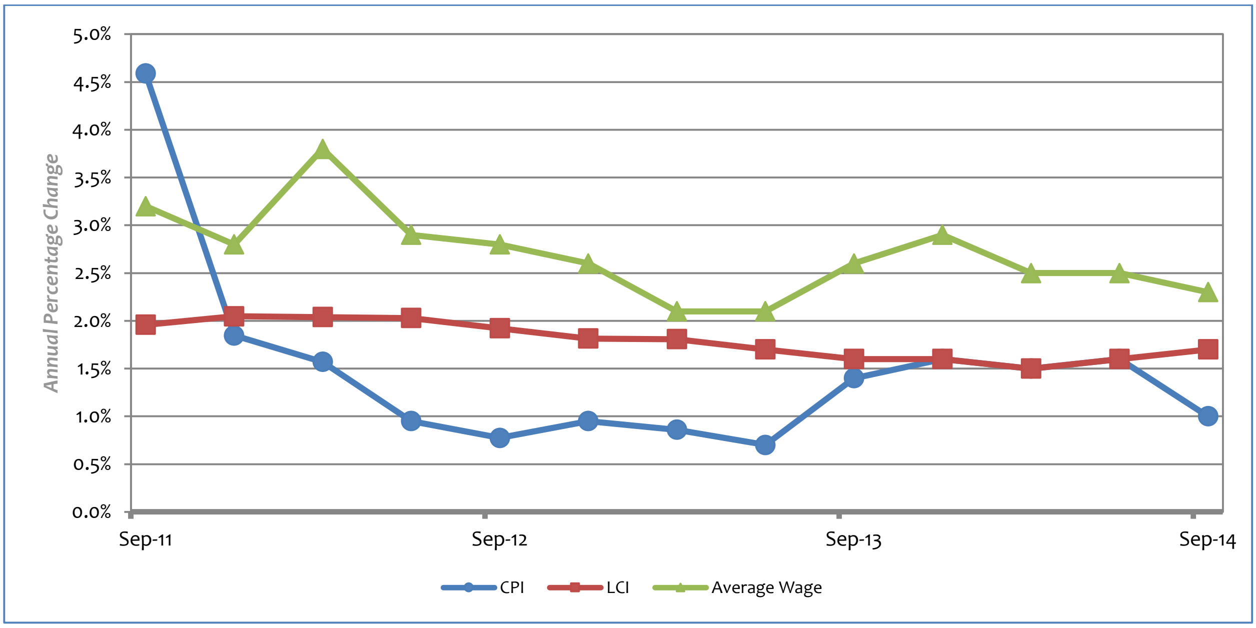
★ The Ministry of Social Development reports that at the end of December 2014 there were 124,631 working age people on the Jobseeker benefit, a rise of 1,498 from 123,133 in September 2014 and a fall of 5,594 from December 2013. Of those at December 2014, 69,155 were classified as 'Work Ready', and 55,475 were classified as 'Health Condition or Disability'. A total of 309,145 were on 'main' benefits, 14,824 more than September 2014 and 12,724 fewer than December 2013. It was 22,969 more than in December 2008.

★ Job Vacancies Online showed a seasonally adjusted rise in skilled job vacancies of 0.7 percent in December after a rise of 1.8 percent in November. All job vacancies rose by 0.8 percent in December, after a rise of 0.7 percent in November. In the year to October, skilled vacancies rose 9.1percent. All vacancies rose by 10.9 percent.

★ International Travel and Migration data showed 8,830 permanent and long-term arrivals to New Zealand in December 2014 and 4,730 departures in seasonally adjusted terms, a net gain of 4,100.

There was an actual net gain of 50,922 migrants in the year to December. Net migration to Australia in the year to December was 3,797 departures, with 27,072 departures and 23,275 arrivals. For the month of December, the seasonally adjusted net loss to Australia was 220 compared to 870 a year before.

Wages and prices



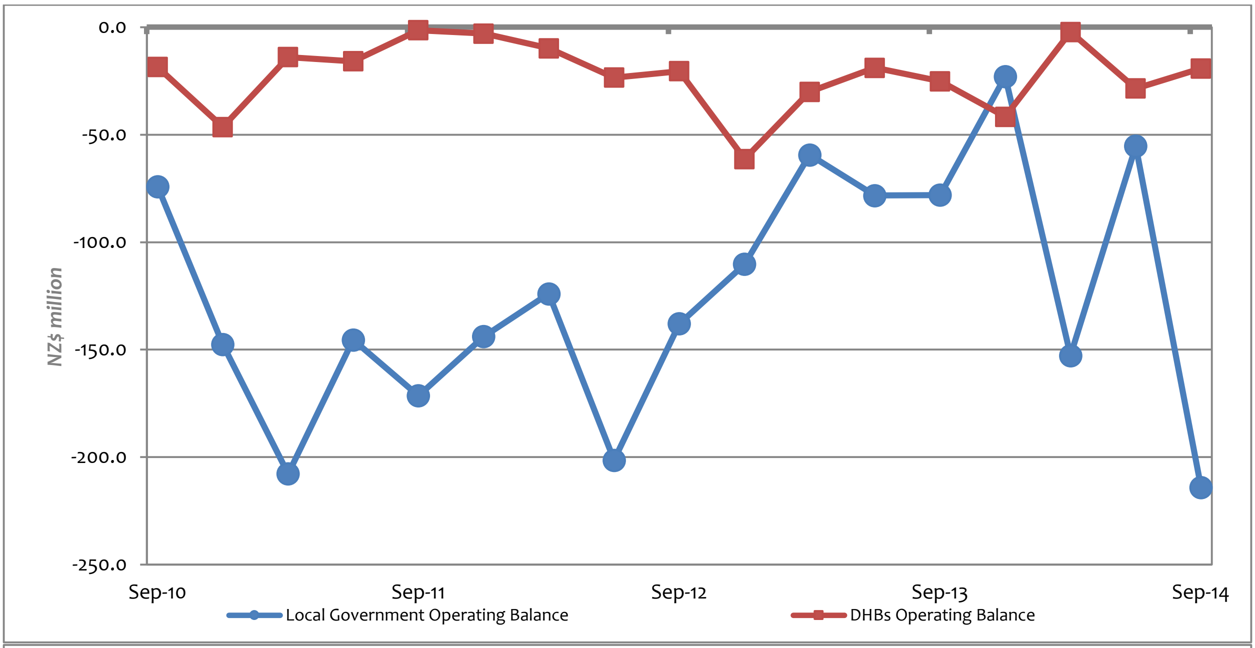
- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to September 2014. The LCI increased 1.7 percent in the year to September, ahead of the 1.0 increase in the CPI. It increased 0.3 percent in the public sector and 0.5 percent in the private sector in the three months to September. Over the year to September it rose 1.1 percent in the public sector and 1.9 percent in the private sector. During the year, 43 percent of jobs surveyed did not receive a pay rise. For the 57 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.5 percent and the average increase was 3.3 percent. The median increase in the public sector was 1.5 percent and in the private sector 2.5 percent. We estimate that those jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those who were not.

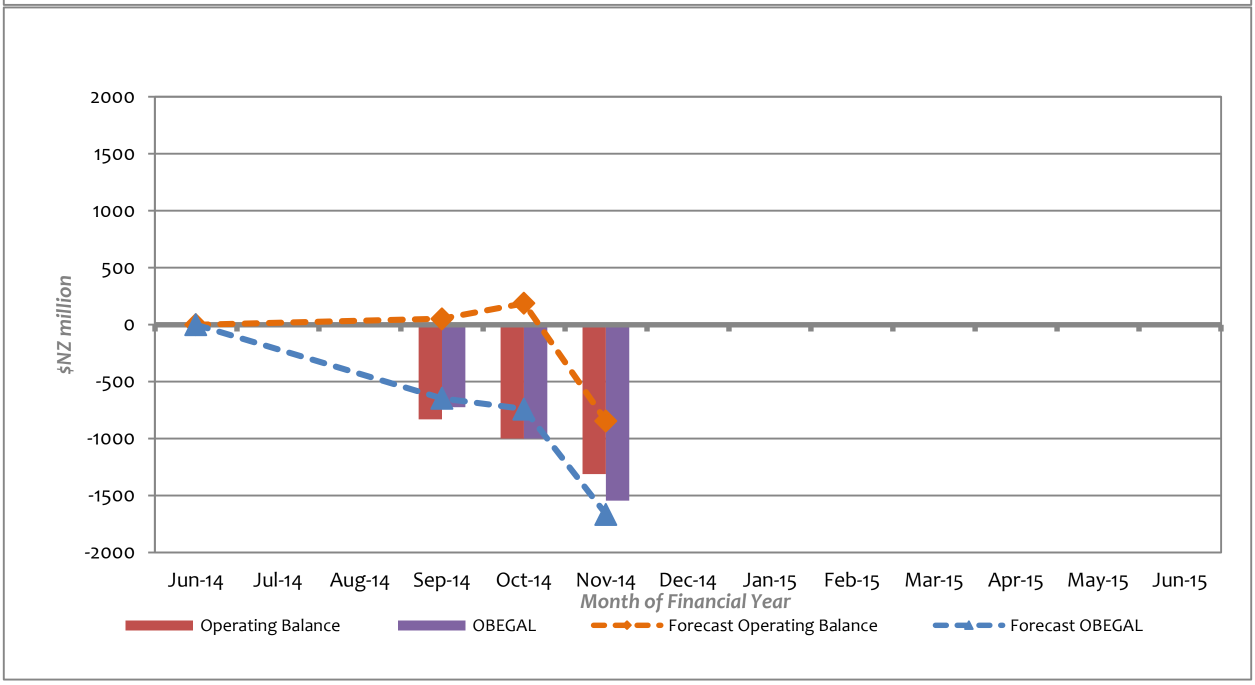
- The Quarterly Employment Survey for the three months to September 2014 found the average hourly wage for ordinary-time work was $28.62, up 1.4 percent on the June quarter and up 2.3 percent over the year. The average ordinary-time wage was $26.67 in the private sector (up 1.4 percent in the quarter and up 2.9 percent in the year) and $35.67 in the public sector (up 1.1 percent in the quarter and up 1.0 percent in the year). Female workers (at $26.49) earned 12.9 percent less than male workers (at $30.43) for ordinary time hourly earnings.

- ★ The Consumer Price Index fell 0.2 percent in the December 2014 quarter compared with the September 2014 quarter driven by falling food and petrol prices, and increased 0.8 percent for the year to December. For the quarter, Housing and household utilities were again the largest influence, rising 0.4 percent. Over the year, 80 percent of the increase came from housing and household utilities which rose 3.2 percent and without which the CPI would have fallen by 0.1 percent. Inflation in Canterbury for the year was 1.2 percent compared with 0.8 percent in Wellington and 0.6 percent in Auckland. Housing costs hit particularly hard in Canterbury, rising 4.8 percent for the year compared to 2.7 to 3.2 percent elsewhere.

★ The Food Price Index rose by 0.3 percent in the month of December 2014, following a 0.5 percent fall in November. Food prices rose 1.0 percent in the year to December 2014. Compared with November, fruit and vegetable prices rose 1.4 percent; meat, poultry, and fish prices rose 0.9 percent; grocery food prices fell 0.7 percent; non-alcoholic beverages rose 1.6 percent; and restaurant meals and ready-to-eat food rose 0.2 percent.

Public Sector





- According to Treasury's Financial Statements of the Government of New Zealand for the five months ended 30 November 2014, core Crown tax revenue was $94 million or 0.4 percent lower than forecast in the December 2014 Half Year Economic and Fiscal Update (HYEFU), and 6.7 percent higher than the same period in 2013, due to "positive macroeconomic conditions leading to growth largely in source deductions, GST and corporate tax". However GST, source deductions (PAYE) and corporate tax were "collectively" $138 million less than forecast in the last five months. Expenses were $67 million (0.2 percent) below forecast. Net debt at 26.5 percent of GDP ($62.6 billion) was $220 million lower than the $62.9 billion forecast. The Operating Balance before Gains and Losses (OBEGAL) was a $1,543 million deficit, $121 million lower (better) than forecast. The Operating Balance was a $1,312 million deficit compared to a forecast deficit of $846 million, the difference being mainly due to actuarial losses on the ACC liability of $706 million, resulting from changes in short term discount rates. Gross debt at $85.4 billion was $782 million above forecast, "mainly due to a number of unsettled trades".

- District Health Boards recorded combined deficits of $39.2 million for the month to October 2014. This is $4.1 million worse than their plans. The Northern region was $0.3 million ahead of plan with a deficit of $1.0 million dominated by a $0.8 million deficit at Auckland offset by a surplus in Waitemata, the Midland region was $0.5 million behind plan with a combined deficit of $9.6 million and all DHBs in deficit, Central region was $2.5 million behind plan and all in deficit totalling $9.1 million, and the Southern Region was $1.4 million behind plan with a $19.6 million deficit and three of the five DHBs in deficit including Canterbury at $12.4 million and Southern at $9.4 million. The DHB furthest ahead of plan was Nelson Marlborough by $1.3 million, and Southern was furthest behind, by $2.2 million.

- Local Government recorded a 3.2 percent ($66.1 million) fall in operating income and a 4.3 percent rise in operating expenses ($92.7 million) including an increase of 2.4 percent ($11.5 million) in employee costs for the September 2014 quarter compared to June. This resulted in an operating deficit of $214.1 million in the September quarter, compared with a deficit of $55.3 million in the June quarter, and deficits in all the last 26 quarters back to March 2008 with the exception of June 2010, all in seasonally adjusted terms. Note that the September quarter results are provisional and many previous figures have been revised.

Notes

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

This bulletin is available online at http://www.union.org.nz/economicbulletin164.

For further information contact Bill Rosenberg.