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Commentary

The Budget

Summary

The Government's Budget for 2016 is on 26 May. What's likely to be in it, and what should be?

The 'Operating Allowance' for new operational spending will again be just $1 billion. Usually $300-400 million is allowed for Health, though more is clearly necessary. The Government will want to make some big announcements about the review of Child, Youth and Family. That doesn't leave much for the rest. It has squeezed spending since the 2014 Budget to have $2.5 billion available to announce tax cuts next year (election year). It would be irresponsible to cut revenue despite growing funding needs which have been suppressed over the last eight years.

Forecasts in December showed net capital spending will rise only $0.5 billion. Much more is needed for deteriorating hospital and school buildings, affordable houses, the rail network, and investment in Kiwibank to compete with the big Australian banks.

The Government will feel compelled to react to the increasing public concern about plummeting housing affordability. John Key showed his Government is worried by floating the idea of a land tax. The tax is unlikely to work but it shows the Government is running out of ideas that don't threaten its property investor backers, require substantial government funding, or conflict with tax and investment treaties governments have signed.

Health will almost certainly be underfunded again despite evidence of deteriorating services in mental health, underfunding of medicines and of health centres serving low income communities, hidden surgery waiting lists, and low pay for carers in residential care.

We will be told there is 'social investment' in health, social welfare and probably education. While in theory this means an evidence-based approach to funding, and spending now to save in the future, in practice the evidence is often shaky, and, particularly in social welfare, savings may ignore human and social costs. The Government is using this approach to narrow provision of social services to a few people 'most at risk' rather than strengthening our social security system for all New Zealanders. Addressing poverty (especially child poverty) and income inequality would go a long way to resolving the problems of children at risk. The Government has shown it is not willing to face up to these ingrained failings.

Like last year this is likely to be a money-shuffling Budget. By taking from one area and announcing "new" spending in another, the Government covers its track record of underfunding. We only find out what are real cuts to services rather than 'efficiencies' much later. But like during the 1990s, chronic underfunding eventually catches up in real failures in public services.

The Government's Budget for 2016 is on 26 May. We'll be producing our usual report on the day. What's likely to be in it – and what should be in it?

How much more spending?

The Government has already announced the 'Operating Allowance' for new operational spending will again be just $1 billion. Usually $300-400 million is allowed for Health, though more is clearly necessary (see below). The Government will want to make some big announcements about progressing the review of Child, Youth and Family (CYF). That doesn't leave much for the rest. It has squeezed spending since the 2014 Budget to have $2.5 billion available to announce tax cuts next year (election year). It would be a major back-down if it doesn't do that, but it would be irresponsible to go ahead in the face of the growing funding needs that have been suppressed over the last eight years. It may indicate its direction in this year's Budget. Government expenses are forecast to fall to 30.1 percent of GDP in the year to June 2017, and then to 29.1 percent of GDP by 2020 despite increasing proportions required for New Zealand Superannuation and financing debt. Instead it should be raising more revenue.

Capital spending

The last economic forecast from Treasury was published in December and was pessimistic about growth in the economy and forecast rising unemployment. That has since proved somewhat too pessimistic though unemployment is still too high. The Reserve Bank was publicly hinting that it could do with some support from the Government in the way of spending on infrastructure because with low interest rates and the threat (now real) of a continued bubble in property prices it couldn't do much to help in a downturn. Coincidentally (at least that's what he said) Bill English announced there would more infrastructure spending in the Budget. In fact it is probably not much "more". Since the partial privatisations of SOEs were announced the Government has been using the proceeds (even before they were received) to supply its 'capital allowance' and that has now run out. The announcement by the Government in its December Budget Policy Statement was for the allowance to be increased by $1 billion. But forecasts in December showed net capital spending would rise only $0.5 billion from $5.5 billion in the current year to $6.0 billion in the year to June 2017. The 'new capital allowance' that had not already been allocated is only $300 million in the 2016 Budget. Much of this will go to replace worn out buildings and other assets. Over the next four years the biggest part, a quarter, will go on transport (mainly roads), and the remainder on the Canterbury rebuild, schools, defence, broadband, student loans and other areas.

There is no doubt that more capital spending is needed – many hospital buildings are in dire need of major work or replacement; the government should be playing a much more active role in filling the gaps left by the private sector for new affordable housing either through Housing New Zealand or something like Labour's build-and-sell proposal; the rail network needs much more investment than KiwiRail can afford; new and refurbished school buildings are needed; and Kiwibank could do with a cash injection to compete with the big Australian banks. The Government won't do enough of these because it is steadily withdrawing from ways it could make a positive difference in people's lives. Yet now is an ideal time with interest rates so low.

Housing

Even though the Government is unlikely to announce any plans to build significant numbers of new houses to help slow the rise in prices, it will feel compelled to make some announcements that show concern about plummeting housing affordability. John Key showed the Government is worried about public concern by floating the idea of a land tax. It has already announced that from 1 July it will take the income limit off its 'Homestart' scheme for withdrawing savings from KiwiSaver to buy an owner-occupied property – helping its own voters while further stoking the market. But it is running out of ideas that don't threaten its property investor backers or require substantial government funding.

The Budget is likely to announce something (at least a contingency) in the way of policy that appears to be addressing the price bubble. It may announce an acceleration of its sale of Housing New Zealand houses to 'social providers' despite lack of evidence it is going to improve the lot of those who need good quality rental housing and that fact that it does nothing to increase the number of houses available. There are problems with Key's suggestion of using a land tax to hose down speculation (see box). It shows how few effective regulatory options New Zealand governments have left to control house prices in the maze of international investment and tax agreements they have signed, especially if the TPPA goes ahead.

Health, Welfare and Education

We will be releasing our regular analysis of what funding is required for the health system to keep up with rising costs before the Budget (and an evaluation afterwards) but it is likely to be at least as tight as in previous years. Pressures continue to build with evidence of services deteriorating in mental health, the pharmaceuticals budget clearly inadequate, growing pressure to be more honest about waiting lists for surgery, withdrawal of funding for health centres serving low income communities, and the equal pay and 'in between travel' cases for low-paid carers in residential care. Negotiated pay increases – the first for some time that gave health workers a (small) increase in their standard of living – are likely to be underfunded by the government. There are also capital funding needs for deteriorating hospital buildings, and some DHBs running chronic deficits, in part because of capital charges on new buildings. As in previous years, they will be told to find "efficiencies" of $100 to $200 million. Just how long the Government will continue to pretend to be adequately funding public health on this basis will be up to public opinion (or National's focus groups).

Both Health and Social Welfare will be replete with references to 'social investment' – and likely Education too. In theory this means an evidence-based approach to

A land tax?

In floating the idea of a land tax, John Key is belatedly acknowledging that the government needs to stop non-resident property buyers pushing up prices. Even a relatively small proportion of deep-pocketed buyers could have a noticeable effect on prices if they are after capital gain rather than rental income. The tax would be an annual levy on the value of land, a bit like local government rates. Key's proposal is to levy the tax only on non-residents.

A general land tax would have some advantages: it would generate revenue desperately needed for public services, and reduce the net rate of return on land, reducing its price and making other forms of investment New Zealand greatly needs more attractive, such as manufacturing or adding value to dairy products. But if other assets aren't also taxed, it could just change land speculators into financial speculators. It can be very hard on some low income home owners so good design is vital (e.g. provide equivalent increases in benefits and tax credits to low income families). While an across the board tax at say 1% could bring down property prices, one only on non-residents would have much less effect.

But reducing the general level of house prices is not the same as stopping a bubble. That would require a much higher rate – which would increase devious avoidance behaviour. Suppose you think you can buy a $500,000 property that will rise in value by 10% or $50,000 a year without you lifting a finger (Auckland prices are rising at 14%). Say land is half the value of the property (the proportion will vary). A 1% tax on the land value is $2,500 a year which still makes it worth bidding up the price to buy and quickly sell, even with tax on the capital gain too. Key has hinted at a "less than 10%" rate for non-residents. It could need 15% or more to make a difference.

funding, and spending now to save in the future. In social welfare the savings are purely savings in government expenditure with no balancing view of what the 'saving' might cost in human and social terms. Bill English has publicly said that reduced government spending is not the only criterion, but we have yet to see. The review of Child, Youth and Family (CYF) led by Paula Rebstock however has recommended continuation of the 'actuarial' approach used in the Ministry of Social Development.

Whichever approach is taken, the 'evidence' needs careful scrutiny because it frequently confuses correlation with causation (does the fact that roosters crow at dawn mean they cause the sun to rise?). For example Treasury has released a summary of research which it says shows "Four key indicators of higher risk – Children aged 0 to 14": CYF finding they were abused or neglected; being mostly supported by benefits since birth; having a parent with a prison or community sentence; and having a mother who has no formal qualifications. There can be no quarrel that these are *signs* of "higher risk" – but the researchers point out that this doesn't mean they *cause* children to have poorer education outcomes or get into trouble with the law. There are deeper causes such as low incomes, poor housing, inter-generational deprivation and dislocation from communities which require much wider changes in society and our economic system. It would be most unwise, and socially isolating for the families involved, to base policy, funding and treatment of these children and their families on such shallow misinterpretation. The Government is using this approach to narrow provision of public services to individuals and families 'most at risk'. This seems aimed more at limiting social welfare to as small a group as possible rather than strengthening our social security system for all New Zealanders.

Addressing the problems of poverty (especially child poverty) and income inequality would go a long way to resolving the problems of children at risk. That would require, among other things a much more serious increase in benefit levels than the token increase in last year's Budget, and a major increase in provision of good quality low cost housing. The funding the Government has determined will be available shows it is not willing to face up to these ingrained failings.

Shuffling the money

Understanding the real adequacy of funding levels will be more difficult because funding is being reallocated between Budget areas in large amounts. The review of CYF estimated its recommendations would cost $1,398 million per year by 2019/2020. Of that $812 million would be transferred from MSD, $421 million from Corrections, Work and Income, Health and Education and the remaining $165 million would presumably be new funding. Only a start is likely this year. It will be very difficult to tell whether this is sufficient for the new 'model', and whether the services the other agencies provide are better off or worse off from the loss of funds and responsibilities. It will make comparisons from year to year increasingly difficult. We can expect more of this in other Budget areas.

Like last year this is likely to be a shuffle Budget. By taking from one area and announcing "new" spending in another, the Government covers its track record of underfunding. We only find out what are real cuts to services rather than 'efficiencies' much later. But like during the 1990s, chronic underfunding eventually catches up in real failures in public services.

Bill Rosenberg

Information

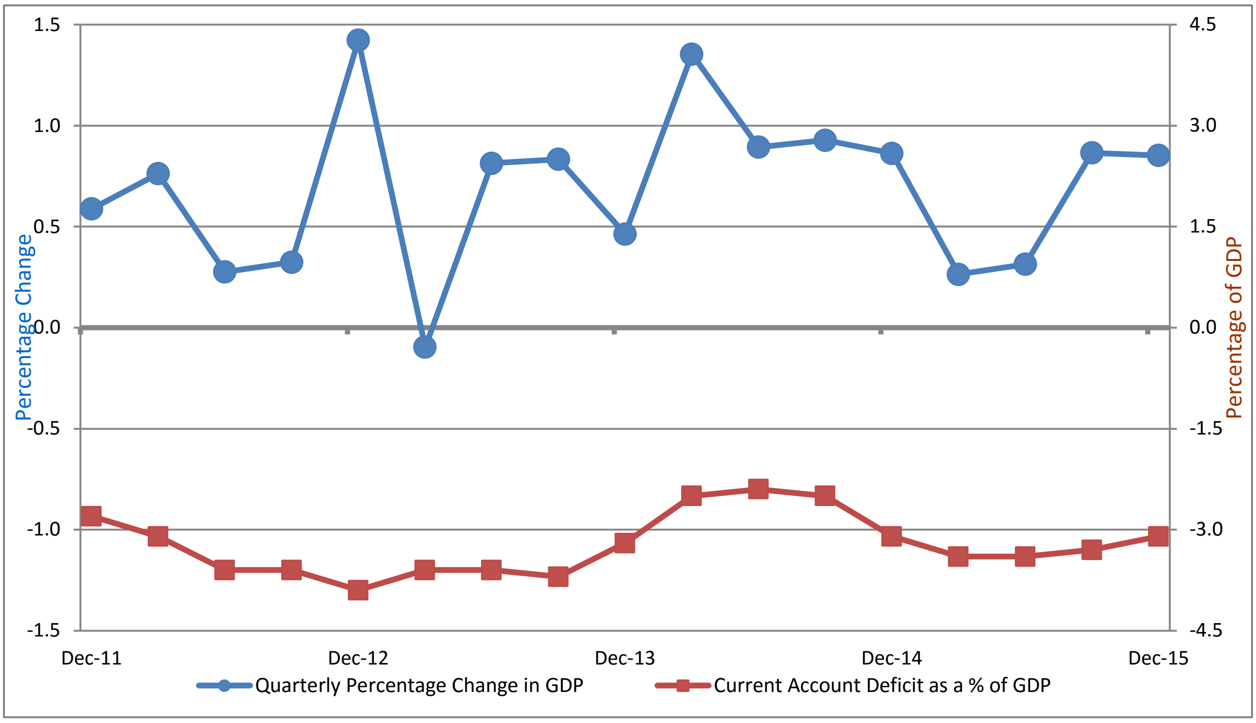
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This NZIER consensus forecast was released on 14 March 2016.

Annual Percentage Change (March Year)	**2015-16**	**2016-17**	**2017-18**	**2018-19**
GDP	2.2	2.6	3.0	2.5
CPI	0.4	1.6	1.9	1.9
Private Sector average wage	2.6	2.4	2.5	2.7
Employment	1.5	2.2	2.0	1.8
Unemployment rate	5.8	5.6	5.3	5.1

Economy



- Growth in New Zealand's economy was strong in the December 2015 quarter, with Gross Domestic Product rising by 0.9 percent, compared to 0.9 percent in the September quarter and weak quarterly increases of 0.3 percent in June and 0.3 percent in March. The growth in the latest quarter was mainly due to strong growth in Construction activity (up 2.5 percent), Retail Trade and Accommodation (up 1.7 percent), Financial and Insurance Services (up 1.2 percent), Professional, Scientific, Technical, Administration and Support (up 1.5 percent), Health Care and Social Assistance (up 0.8 percent) and Arts, Recreation, and Other Services (up 2.0 percent). Manufacturing activity fell by 0.4 percent led by a sharp fall in the largest sector Food, Beverage and Tobacco Manufacturing (down 4.1 percent) with Printing, down 3.4 percent, not far behind. Partially counterbalancing these were Textile, Leather, Clothing, and Footwear Manufacturing (up 9.4 percent) and Wood and Paper Products Manufacturing (up 4.5 percent). Agriculture (down 1.7 percent), Local government administration (down 1.5 percent), Electricity, Gas, Water, and Waste Services (down 1.3 percent), Mining (down 0.6 percent) and Forestry and Logging (down 0.3 percent) also fell. Growth for the year ended December 2015 was 2.5 percent. However GDP is barely keeping up with the rapidly growing population: GDP per person grew only 0.3 percent in the December quarter, and 0.6 percent over the year. Worse, real gross national disposable income per capita, which takes into account that some income that goes overseas in interest and dividends to overseas investors and the falling prices for some of our main exports, fell 0.1 percent in the December quarter, as it had also done in September, and fell 0.4 percent over the year. Output per hour worked in the economy grew only 0.7 percent in the year to December, indicating weak productivity growth. Business investment fell 2.6 percent over the three months and 1.4 percent over the same period last year. As a whole, the economy is undergoing deflation with the GDP deflator (a price index for revenue from the economy's production) fell 1.2 percent in the quarter following a fall of 0.7 percent in the three months to September.

- New Zealand recorded a Current Account deficit of $1.9 billion for the December 2015 quarter in seasonally adjusted terms ($2.6 billion actual), compared to a $1.7 billion deficit in the September quarter and $2.1 billion in the June quarter. There was another deficit in the goods trade ($810 million, seasonally adjusted, following a $533 million deficit in the September quarter) and a surplus of $167 million ($458 million in September) in goods and services, while the deficit on primary income (mainly payments to overseas investors) stayed steady at $2.1 billion compared to $2.2 billion in September. For the year to December 2015, the current account deficit was $7.7 billion or 3.1 percent of GDP compared to an $8.1 billion deficit in the year to September (3.3 percent of GDP). The deficit on investment income was $8.7 billion.

- The country's Net International Liabilities were $151.2 billion at the end of December 2015 (61.9 percent of GDP) similar to the $151.1 billion (61.4 percent of GDP) at the end of September, but down from the $153.8 billion (64.6 percent of GDP) in December 2014. The rise in liabilities was due to a $2.5 billion net outflow of investment partially offset by market value changes without which the net liabilities would have been $153.1 billion. New Zealand's international debt was $276.1 billion (112.2 percent of GDP), of which 31.3 percent is due within 12 months, compared to $136.8 billion in financial assets (other than shares; 55.6 percent of GDP), leaving a net debt of $139.3 billion (56.6 percent of GDP). Of the net debt, $11.6 billion was owed by the government including the Reserve Bank (equivalent to 4.7 percent of GDP and up from $9.6 billion in September) and $98.5 billion by the banks (40.0 percent of GDP), which owed $58.6 billion to related parties. Total insurance claims owed by overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 31 December 2015, $17.5 billion of these claims had been settled, leaving $2.6 billion outstanding.

- ★ Overseas Merchandise Trade for the month of March saw exports of goods fall 14.3 percent from the same month last year while imports fell only 3.7 percent. This created a trade surplus for the month of $117 million or 2.8 percent of exports. However there was a trade deficit for the year of $3.8 billion which Statistics New Zealand says is the largest annual trade deficit since April 2009. In seasonally adjusted terms, exports fell 17.2 percent or $701 million over the month (compared to a 8.5 percent fall the previous month) led by falls in Dairy (down 12.2 percent or $112 million), Meat (down 10.9 percent or $55 million), Wine (down 16.1 percent or $24 million), Mechanical machinery and equipment (down 8.7 percent or $13 million), Logs and wood (down 3.1 percent or $10 million) and Electrical machinery and equipment (down 10.5 percent or $10 million) but offset by a rise in Fruit (up 55.4 percent or $78 million). Seasonally adjusted imports fell 5.2 percent or $218 million over the previous month, creating a trade deficit of $588 million compared to a $105 million deficit in the previous month. Imports rose in Petroleum and Products (up 23.8 percent or $79 million) and Mechanical machinery and equipment (up 11.1 percent or $54 million), but falls were led by Textiles and textile articles (down 31.4 percent or $85 million) and Electrical machinery and equipment (down 3.1 percent or $12 million).

- ★ The Performance of Manufacturing Index[1] for March 2016 was 54.7, a fall from 55.9 in the previous month. The employment sub-index was at 48.6, a further fall from 48.8 in the previous month.

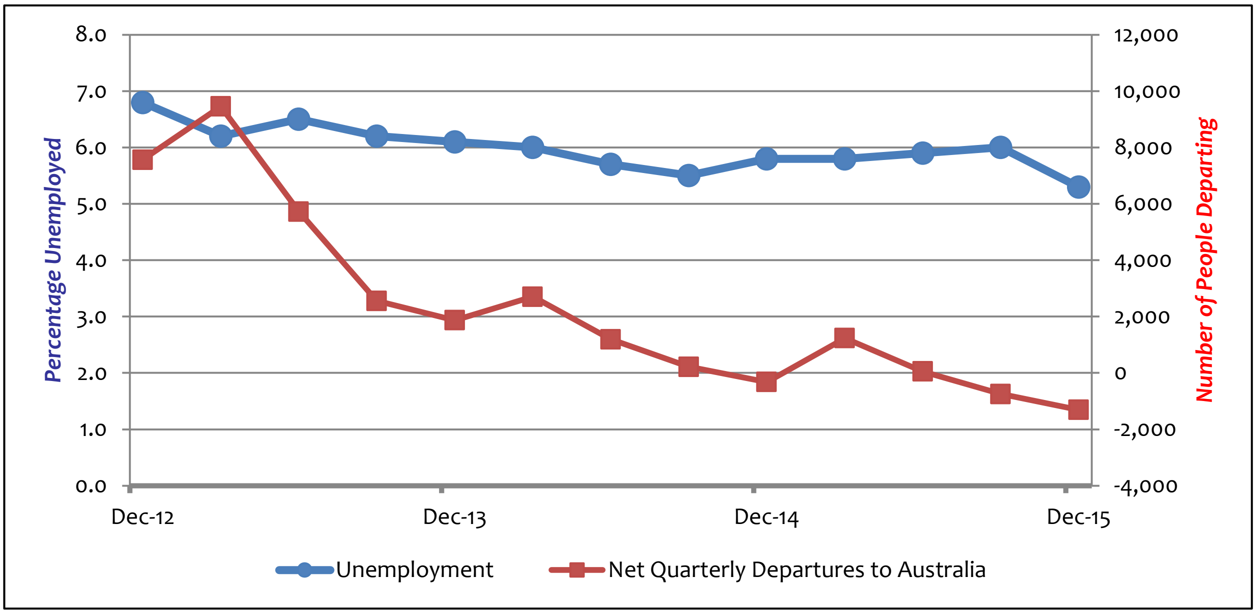
- ★ The Performance of Services Index[1] for March 2016 was 54.8, a fall from 56.7 in the previous month. The employment sub-index fell to 53.0 from 53.6 in the previous month.

- The Retail Trade Survey for the three months to December 2015 showed retail sales rose 5.3 percent by volume and 4.4 percent by value compared with the December 2014 quarter. They rose 1.2 percent by both volume and value in the quarter, seasonally adjusted. By value, the largest positive contributors to the increase in the quarter were Specialised food (up 2.9 percent), Non-store and commission retailing (which includes internet purchases) which was up 3.7 percent, Hardware, building and garden supplies (up 5.5 percent), Accommodation (up 6.0 percent), and Fuel (up 2.5 percent). The largest fall was in Recreational goods (down 2.6 percent). Supermarket and grocery stores, the largest single sector, was static at 0.0 percent change by value and 0.1 percent rise by volume.

- ★ On 28 April 2016 the Reserve Bank left the Official Cash Rate (OCR) at 2.25 percent, having reduced it from 2.5 percent to 2.25 percent on 10 March signalling further reductions. The Bank's announcement mentioned continuing deterioration in the economic outlook internationally, the local economy being supported by strong net immigration, construction, tourism and "accommodative" monetary policy, and the exchange rate remaining too high. It worried about signs house prices in Auckland might be accelerating, with increasing pressures in other regions. Though inflation remains low "annual core inflation remains within the target range". It said that further cuts in the OCR may be required. The next OCR review will be announced on 9 June 2016 and will be accompanied by a Monetary Policy Statement.

- ★ According to REINZ, the national median house price rose $20,000 or 4.2 percent to $495,000 in March 2016 compared to a year before and up sharply by $45,000 or 10.0 percent on the previous month. The Auckland median price rose 13.9 percent over the year and 9.3 percent on the previous month. Excluding Auckland the national median price rose $35,000 or 10.0 percent to $385,000 compared to a year before. There were 74 more sales under $400,000 compared to the same month a year ago taking the number to 3,524, a rise of 278 to 1,301 in the $1 million plus range (in Auckland, over a third of sales, 35 percent, were over $1 million), and 228 more to 2,354 in the $600,000 to $999,999 range. Sales under $400,000 accounted for 37.0 percent of sales in the month but 39.2 percent in the same month a year before.

Employment



- According to the Household Labour Force Survey the unemployment rate in the December 2015 quarter unexpectedly fell to 5.3 percent or 133,000 people, compared to 6.0 percent in September (150,000 people), seasonally adjusted. Treasury and other forecasters had predicted a substantial rise. It would not be a surprise if it rose again in the March quarter. This is the first fall since September 2014 and has not been this low since March 2009, though is still more than half as much again than the 3.4 percent it was in December 2007. It is also 5.3 percent actual (not seasonally adjusted) or 132,500 people, down a relatively modest 9,400 from 141,900 or 5.5 percent a year before. By contrast, there were 259,400 people jobless (including the officially unemployed), up 2,200 from 257,600 a year before, and there were 92,800 part-timers who wanted more work, down 20,200 from a year before. Part of the reason for the fall in official unemployment appears to be a fall in the participation rate, including people discouraged from looking for work. The participation rate (the proportion of the working age population either in jobs or officially unemployed) fell from 68.7 percent to 68.4 percent over the three months, and from 69.4 percent a year before, all in seasonally adjusted terms. There are 37,100 unemployed people who have been out of work for more than 6 months (down from 40,800 a year before), and they are 28.0 percent of the unemployed compared to 28.8 percent a year before. Those out of work for more than a year is at 10.9 percent of the unemployed compared to 11.1 percent a year before. Compared to OECD unemployment rates, New Zealand has 10th equal lowest (out of 34 countries), an improvement on the 15th equal in September.

- In the North Island, only Waikato (5.1 percent) and Taranaki (4.1 percent) has unemployment below the 5.3 percent average for the country (not seasonally adjusted), though it fell over the year in all but Bay of Plenty where it worsened from 5.7 percent in December 2014 to 6.2 percent in December 2015. Gisborne/Hawkes Bay with 6.7 percent (8.0 percent a year before), and Manawatu-Whanganui with 6.8 percent (9.2 percent a year before) are particularly hard hit. Auckland's unemployment rate was 5.4 percent (compared to 5.8 percent a year before). The South Island looks considerably better, with Tasman/Nelson/Marlborough/West Coast at 4.2 percent, Canterbury at 3.9 percent, Otago at 4.5 percent and Southland at 4.1 percent. All except Tasman/Nelson/Marlborough/West Coast are higher than a year ago.

- By industry, over the year 85 percent of the increase in employment came from Construction (27,500 workers out of a 32,200 increase), followed by Professional, scientific, technical, administrative, and support service (7,200 people) and Education and training (7,900 people). However this was offset by falls led by Arts, recreation, and other services (down 4,100 people), Transport, postal, and warehousing (down 5,100 people) and Wholesale trade (down 3,100 people). During the December quarter however, employment increased in all industries except Mining, and Wholesale trade, creating an increase in employment following six months of falls. Over the year, employment in the Services sector was static, it fell by 1,000 in the Primary sector, but rose by 29,300 in the Goods sector (mainly due to Construction).

- The seasonally adjusted female unemployment rate at 5.7 percent was considerably higher than for men (5.0 percent), though both fell from the previous quarter (6.5 percent and 5.5 percent respectively). Māori unemployment fell from 12.2 percent in December 2014 to 10.6 percent, and Pacific people's unemployment fell from 11.4 percent to 9.7 percent over the year.

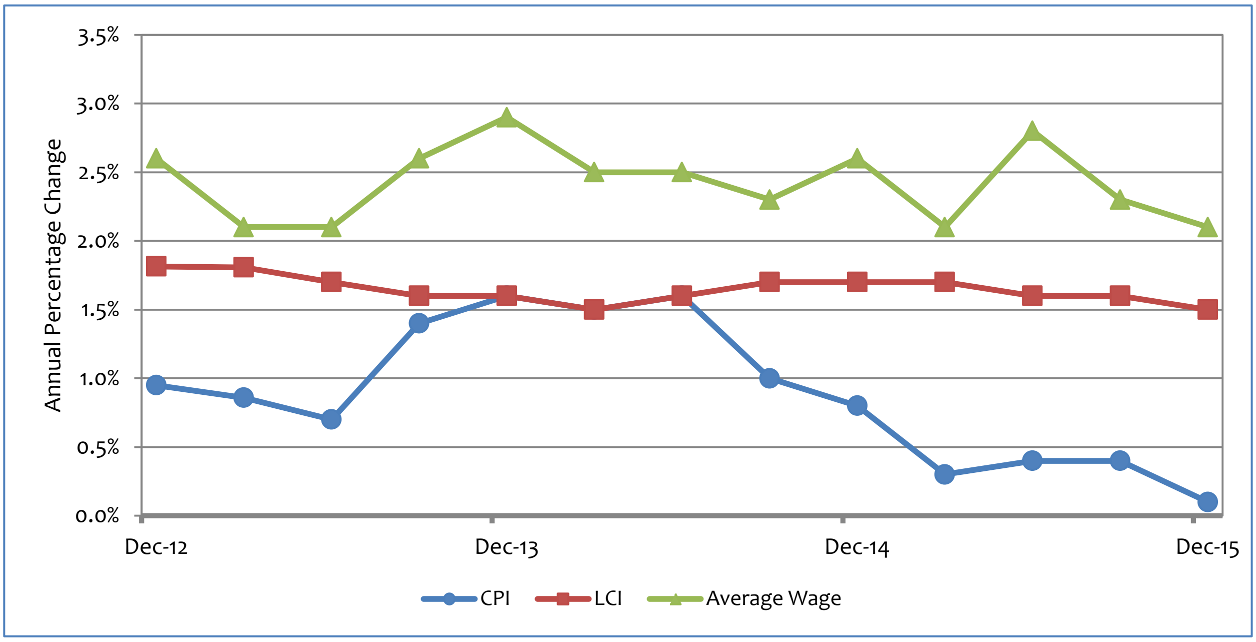
- Youth unemployment for 15-19 years was 23.0 percent, up from 21.4 percent in September and 21.2 percent a year before; for 20-24 year olds it was 9.0 percent, down from 11.6 percent in September and 11.5 percent a year before, all in seasonally adjusted terms. The Not in employment, education, or training (NEET) rate for 15-19 year olds was 6.5 percent, down from 6.7 percent in September and 7.8 percent a year before while for 20-24 year olds it was 15.0 percent, barely changed from 14.9 percent in September and 14.8 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (17.6 percent) than those not in education (11.1 percent). There were 71,000 people aged 15-24 years who were not in employment, education, or training (NEET).

★ The Ministry of Social Development reports that at the end of March 2016 there were 117,134 working age people on the Jobseeker benefit, a rise of 241 from a year before but a fall of 5,793 from 122,927 in December 2015. At March 2016, 64.066 were classified as 'Work Ready', and 53,068 were classified as 'Health Condition or Disability'. A total of 279,891 were on 'main' benefits, 4,369 fewer than a year before and 7,296 fewer than December 2015. It was 24,137 more than in March 2008. Of the 49,907 benefits cancelled during the three months to March, 19,730 or 39.5 percent obtained work, 11.5 percent transferred to another benefit and 15.1 percent became full time students.

★ Job Vacancies Online for March 2016 showed the number of job vacancies fell by 0.7 percent in the month and rose 1.8 percent over the same month a year previously in seasonally adjusted terms. Over the year, vacancies in Auckland rose 7.5 percent, Wellington 0.8 percent, rest of the North Island 2.1 percent, South Island other than Canterbury 1.8 percent, while Canterbury fell 12.0 percent. However over the month vacancies fell in all regions except the North Island outside Auckland and Wellington, which rose just 0.1 percent. By industry, the greatest annual increases were in Construction and engineering which rose 8.3 percent, Education and training which rose 8.4 percent, and Sales, retail, marketing and advertising which rose 4.6 percent. Healthcare and medical fell 8.4 percent and Information Technology fell 12.1 percent. Since the previous month, vacancies in five of the eight identified industry groups fell. By occupation, the greatest rise over the year was in Labourers (up 13.5 percent), Technicians and Trades workers (up 10.3 percent), and Managers (up 3.6 percent). Over the month, vacancies fell in all occupational groups other than Labourers and Technicians and Trades workers. All the above are in seasonally adjusted terms.

★ International Travel and Migration data showed 9,870 permanent and long-term arrivals to New Zealand in March 2016 and 4,540 departures in seasonally adjusted terms, a net gain of 5,330. There was an actual net gain of 67,619 migrants in the year to March. Net migration to Australia in the year to March was 1,862 arrivals, with 23,905 departures and 25,767 arrivals. However there was still a net loss of 3,664 New Zealand citizens. For the month of March, there was a seasonally adjusted net gain from Australia of 120 compared to a loss of 90 a year before. In March, 16.1 percent of the arrivals had residence visas, 17.0 percent student visas, 32.9 percent work visas, and 5.0 percent visitors. A further 28.3 percent were New Zealand or Australian citizens.

Wages and prices



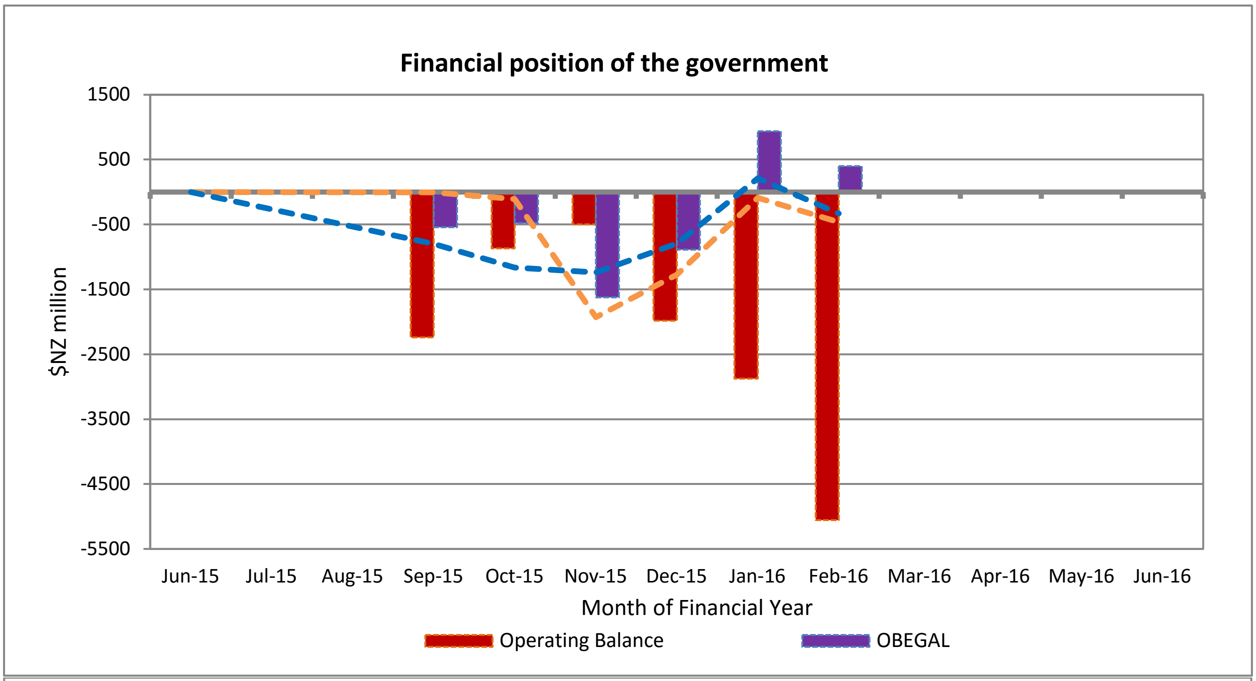
- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to December 2015. The LCI increased 1.5 percent in the year to December, ahead of the 0.1 percent increase in the CPI. It increased 0.5 percent in the public sector and 0.4 percent in the private sector in the three months to December. Over the year it rose 1.3 percent in the public sector and 1.6 percent in the private sector. During the year, 46 percent of jobs surveyed did not receive a pay rise, and 49 percent did not in the private sector. For the 54 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.4 percent and the average increase was 3.0 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.5 percent; the average increase in the public sector was 2.3 percent and in the private sector 3.2 percent. We estimate that jobs on collective employment agreements were 2.3 times as likely to get a pay rise as those who were not, and are more likely to get a pay rise of any size ranging from less than 2 percent to more than 5 percent. Only 43 percent of jobs that were not on a collective got a pay rise during the year. In the construction industry, salary and ordinary time wage rates in Canterbury are now rising more slowly than in the rest of the country: 0.4 percent in the quarter in Canterbury compared to 0.5 percent in the rest of the country; and over the year to December, 1.3 percent in Canterbury compared to 1.9 percent elsewhere. For those getting a rise, Canterbury wage rates rose 3.6 percent compared to 4.0 percent elsewhere.

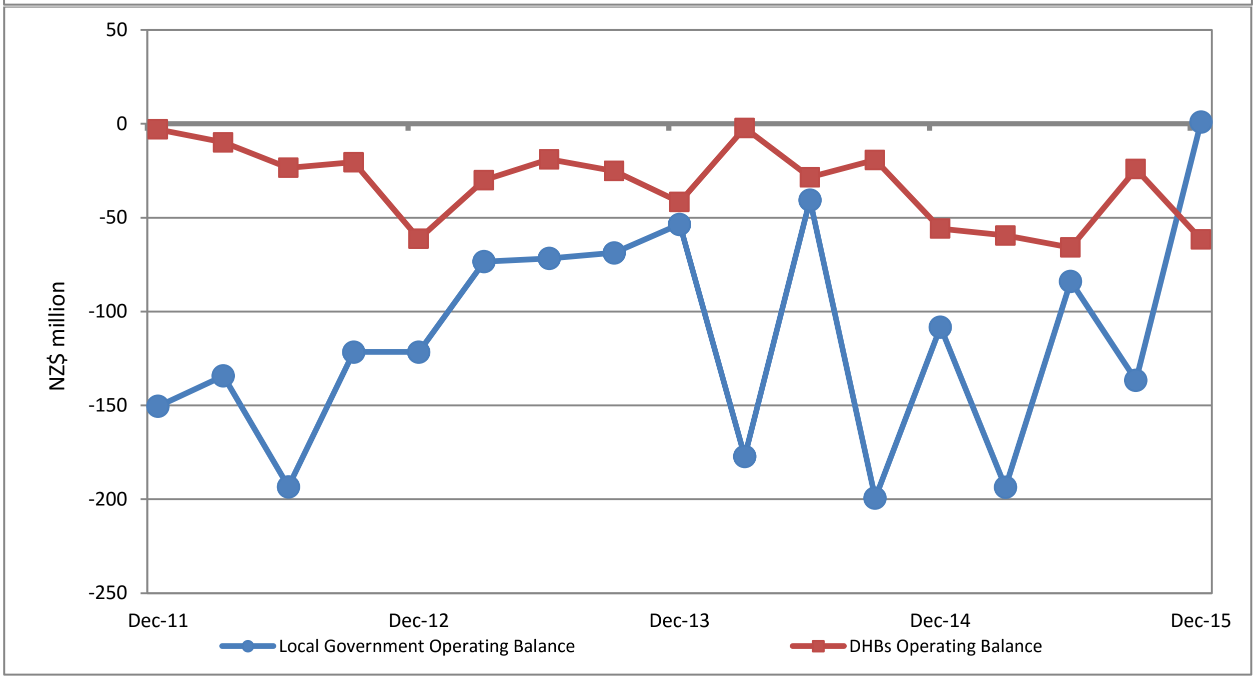
- The Quarterly Employment Survey for the three months to December 2015 found the average hourly wage for ordinary-time work was $29.38, up 0.3 percent on the previous quarter and up 2.1 percent over the year. The average ordinary-time wage was $27.44 in the private sector (up 0.2 percent in the quarter and up 2.5 percent in the year) and $36.53 in the public sector (up 0.4 percent in the quarter and up 1.5 percent in the year). Female workers (at $27.14) earned 13.3 percent less than male workers (at $31.30) for ordinary time hourly earnings.

- ★ The Consumer Price Index rose 0.2 percent in the March 2016 quarter compared with the September quarter, and increased 0.4 percent for the year to March. For the quarter, Alcoholic beverages and tobacco (up 3.7 percent due to increased tax), Food (up 1.2 percent), Housing and household utilities (up 0.6 percent), including Home ownership (up 0.8 percent) and rents (up 0.6 percent), and Household contents and services (up 1.7 percent)were the largest upward influences. Those offsetting them were led by Transport (down 3.6 percent), and Recreation and Culture (down 0.9 percent). Transport's fall was driven largely by falling petrol prices (down 7.7 percent) and other fuels and lubricants (down 14.6 percent) which likely contributed to the fall in air travel (4.8 percent domestic and 11.9 percent international) but was reduced by rising costs of vehicles, rail and road passenger transport. In seasonally adjusted terms, the CPI rose 0.2 percent from December, Food rose 0.6 percent, Clothing and footwear rose 0.1 percent, Housing and household utilities rose 0.7 percent, Communications rose 0.1 percent, Recreation and culture did not change, and Education rose 0.2 percent. Inflation in Canterbury for the year was 0.0 percent, and has been rising more slowly than the national average for a full year after rising faster from June 2011. It rose 0.2 percent in Wellington and 0.2 percent in the rest of the South Island. In Auckland it rose 0.6 percent and 0.5 percent in the North Island other than Auckland and Wellington. Canterbury's housing costs rose over the year more slowly than the average rate of 3.0 percent at 2.5 percent, but only Auckland (at 4.0 percent) rose faster.

- ★ The Food Price Index rose by 0.5 percent in the month of March 2016 (rising 0.8 percent in seasonally adjusted terms). Food prices fell 0.1 percent in the year to March. Compared with the previous month, fruit and vegetable prices rose 1.9 percent (but rose 4.6 percent seasonally adjusted); meat, poultry, and fish prices fell 0.2 percent; grocery food prices rose 0.3 percent (up 0.4 percent seasonally adjusted); non-alcoholic beverages rose 1.9 percent; and restaurant meals and ready-to-eat food prices rose 0.1 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector





★ According to Treasury's [Financial Statements of the Government of New Zealand] for the eight months ended 29 February 2016, core Crown tax revenue was $828 million higher than forecast in the 2015 Half Year Economic and Fiscal Update (HYEFU). Company tax was $244 million (4.3 percent) above forecast, PAYE was $184 million (1.1 percent) above forecast due to labour income being higher than forecast, customs and excise duty was $106 million (3.4 percent) above forecast due to higher than forecast production and import of tobacco products, and GST was $306 million (2.6 percent) above forecast due to consumer purchasing being above forecast. Core Crown revenue was $606 million (0.5 percent) above forecast, the higher tax revenue being offset by interest revenue being $279 million or 1.3 percent below forecast "largely due to some financial derivatives being replaced at maturity, whereas they had been forecast to mature into interest-bearing deposits”. Core Crown expenses were $113 million (0.2 percent) below forecast. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $398 million in surplus, $730 million better than forecast. The Operating Balance was a $5.1 billion deficit, $463 million worse than expected, “largely due to $3.1 billion of larger than expected actuarial losses on the ACC liability arising from the impact of changes in valuation assumptions (primarily discount rates) used in the forecast. In addition, NZSF had losses on financial instruments of $1.8 billion more than forecast, reflecting unfavourable market conditions.” Net debt at 25.3 percent of GDP ($62.4 billion) was $1.5 billion better than the $63.9 billion forecast. Gross debt at $84.9 billion was $1.7 billion better than forecast.

★ District Health Boards recorded combined deficits of $27.9 million for the eight months to February 2016. This is $11.1 million worse than their plans. The Northern region was $1.3 million behind plan with a surplus of $13.4 million and three of the four DHBs in surplus (Northland being the exception). The Midland region was $2.0 million behind plan with a combined deficit of $9.8 million and all DHBs in deficit. Central region was $11.0 million behind plan and all DHBs in deficit except Whanganui including Capital and Coast at $5.3 million and Hawke’s Bay at $5.3 million, for a total $17.9 million. The Southern Region was $3.1 million ahead of plan with a $13.6 million deficit and three of the five DHBs in deficit, with big turnaround for Canterbury from a $8.2 million deficit in January to a $850,000 deficit this month, and Southern at $14.7 million deficit. The DHB furthest ahead of plan was Southern by $5.4 million and Capital and Coast was furthest behind, by $6.2 million. The Funder arms were in surplus by $81.2 million, and Provider arms in deficit by $111.6 million.

○ Local Government recorded a 5.7 percent ($122.8 million) rise in operating income and a 0.6 percent fall in operating expenditure ($14.8 million) including a 1.8 percent fall in employee costs for the December 2015 quarter compared to September 2015. This resulted in an operating surplus of $0.9 million in the December quarter, compared with a deficit of $136.6 million in the September quarter, and deficits in all the quarters back to March 2008 with the exception of June 2010, all in seasonally adjusted terms. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

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/economicbulletin178.

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