NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 179 (May 2016)

Information Section p.7

Commentary

The Budget: "Rating agencies should be pleased"

Summary

The Budget wasn't boring – it was a failure of a Government's responsibility to New Zealanders. Its focus was on balancing the books and reducing debt. That is not what Governments are elected for: it is a means to an end, not an end in itself, and there are many ways to manage the government's finances responsibly. The primary objective should be to look after the present and future interests of New Zealanders: our education, our health, our security, our environment, our living standards and New Zealand's ability to improve them now and in the future.

What was missing? Anything much for low income and middle income New Zealanders. Working for Families is reducing in value, but it was not fixed. Housing is in crisis with people homeless and Auckland housing unaffordable for most working people, with unaffordability spreading around the country, yet the Budget fiddled around the edges, treating symptoms rather than underlying causes. Nothing was done to raise incomes of beneficiaries, and health and education spending are falling as a proportion of GDP, despite rapidly increasing population and evidence of social and economic needs.

The Government's version of 'social investment' was a feature of the Budget. Its underlying ideas are attractive but this version is focussed too much on saving money and not enough on the benefits of public services. Its extreme targeting could undermine the principle that a decent society looks after the needs of all.

Treasury's economic forecasts may be optimistic, but taken at face value they show slow economic growth per person, unemployment remaining high and real wages stagnant or falling over the next two years, and a falling share of income going to wage and salary earners.

But there are alternatives that would allow a progressive Government to do more while looking after the government's finances. It could raise taxes, reducing inequality and encouraging productive investment along the way. New Zealand's public debt is not high: a Government could reduce it as a proportion of GDP by just allowing a growing economy to do the work. That would free up several billion dollars to be used for sound purposes.

A progressive Government does not have to take on the straightjacket of the current government in either its version of 'social investment' or fiscal rectitude. It can be responsible socially, environmentally and economically and still be a good manager of the public finances.

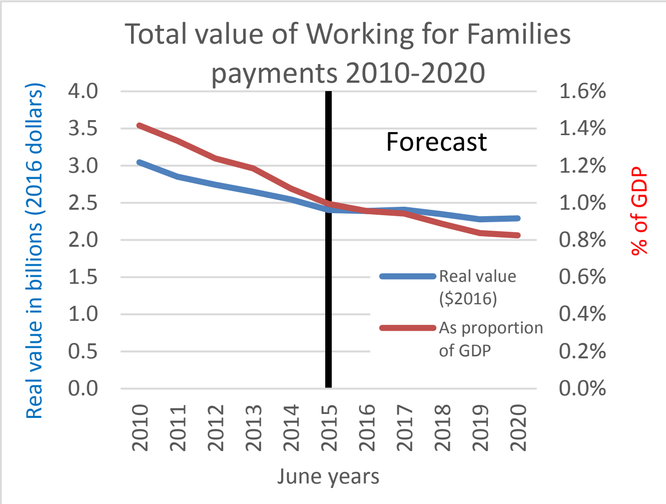
The Budget wasn't boring – it was a failure of a Government's responsibility to New Zealanders. A Bank of New Zealand commentary said "Rating agencies should be pleased". That's because its focus was on balancing the books and reducing debt. If that is the primary objective the Government has given itself, I can understand why many find it boring, but that is not what Governments are elected for and it is not responsible government. Balancing the books is a means to an end, not an end in itself, and there are many ways to manage the government's finances responsibly. The primary objective should be to look after the present and future interests of New Zealanders: our education, our health, our security, our environment, our living standards and New Zealand's ability to improve them now and in the future.

In this commentary I won't look in detail at what the Budget provided – we did that in our [Budget-day report](), and we will publish a report on the Health Vote in the next few days. Here I will look briefly at some big missing pieces, the meaning of the 'social investment' approach introduced this year, the meaning of the economic forecast the Budget presents, and how a progressive Budget could do more.

What was missing?

Anything much for low income and middle income New Zealanders.

The economic forecasts below are equally bleak for working people, but a progressive Budget could have actively boosted incomes and the social wage (public services). Though it has its faults, Working for Families was one of the most important brakes during the 2000s on growing income inequality (which was halted rather than reversed appreciably). Working for Families has been steadily weakened. In the 2011 Budget, the Government lowered the threshold at which the rate of tax credits start to reduce to $35,000 from $36,827, and increased the rate of reduction to 25 cents in the dollar compared with the previous 20 cents in the dollar. The result is that the amount paid in Working for Families tax credits has reduced in dollar terms by one-eighth (12.7 percent) from its peak in the year to June 2010 of $2.8 billion down to a forecast $2.4 billion in the year to June 2017 according the Treasury's Fiscal Strategy Model, or a 21 percent fall in real terms. Put another way, it has fallen from 1.4 percent of GDP to 0.9 percent of GDP over that period – a significant fall in the proportion of the income generated by people's work – and is forecast to continue to fall. The support for New Zealand's low wages is reducing and the Budget did nothing to put it right.



Housing is in crisis with people homeless and Auckland housing unaffordable for most working people, with unaffordability spreading around the country, yet the Budget fiddled around the edges, treating symptoms rather than underlying causes. A little more for emergency housing (some of which goes just to keep the community organisations providing it alive rather than create more beds), rushed out before the Budget in the face of public anger, and some more Crown land made available for housing does not dent the problem. Accommodation Supplements have not been increased since 2007, and providing income-related rent subsidies to private 'social housing' providers does nothing to create more low cost, good quality rental housing.

When people fall on hard times, the social welfare system should be there to help them get on their feet and look after their families. Apart from the small adjustment last year, beneficiaries' incomes stand still in real terms year after year, falling further and further behind the rest of New Zealand. They are locked in the living standards of the 1960s. Among social security benefits, only New Zealand Superannuation (which is forecast to cost around 4.9 to 5.0 percent of GDP) and income related rents are forecast to retain or increase their share of GDP over the five years 2016 to 2020.

The other main areas of spending are falling as a proportion of GDP, despite rapidly increasing population and evidence of social and economic needs. According to Treasury's modelling, over five years Health is forecast to fall from 6.3 percent of GDP in 2012 to 6.0 percent in 2017 (down from 6.1 percent in 2016) and Education from 5.4 percent in 2012 to 5.2 percent in 2017 (5.3 percent in 2016). In all, the forecasts are for government spending to steadily reduce as a proportion of GDP: from 29.7 percent this year to 28.3 percent in 2020. By 2020 that is a $4.2 billion reduction in spending.

'Social Investment'

The Government is defending the fall in real spending by saying it's the results that count. Anyone observing the Health system will worry that the system is under stress and not providing for New Zealanders' needs as well as it should, taking into account the fact that resources are never unlimited. It illustrates an important point though: if the government does not provide these services out of revenue from taxation then individuals must either pay for it themselves or do without. Particularly in areas like health and education it is frequently more efficient and fairer to provide it publicly. Cutting public expenditure is short sighted and inefficient.

What it calls 'social investment' is part of the answer to the demand for public services from a Government which wants to reduce what government does. The Government describes 'social investment' as paying now to save money later. It hopes to do this using 'evidence' which may come from external research but is becoming focussed on increasingly sophisticated data sources to model what happened when different policies were followed in the past – and try to predict the future in order to design more effective policies. Its data sources come from linking up the government's administrative information (in Social Welfare, Health, Education, Corrections, Justice, Inland Revenue, Housing New Zealand, ACC with an increasing spread).

What 'more effective' policies are judged to be depends on the philosophy of the particular Government. This Government wants policies that target more and more narrowly who will get government assistance. It hopes that this approach will reduce government costs while assisting the most 'vulnerable' in society.

While the theory of investing now for future benefits and insisting on good evidence have many attractions and are something a progressive Government should certainly aim to do, the practicality here is different. Predominantly the future benefits this Government hopes for are reductions in government spending, with insufficient consideration given to the benefits people get from the services that money is spent on – the reason for spending at all. Modelling for public policy purposes, even using lots of administrative information, can be misleading for a number of reasons. It doesn't necessarily include many underlying causes (such as low incomes, poor private housing, inequality or intergenerational deprivation) and it frequently cannot tell cause from effect. It is only indicative so can be dangerous to apply to individuals when the policies it introduces may have profound effects on their lives. Tight targeting can leave people isolated, trap them in disadvantage since they lose state support as soon as they get to a certain threshold, and denies improved public services to the great majority, the most affected being low and middle income New Zealanders. That in turn can weaken public support for public services if people see themselves missing out from its benefits. It becomes a charity state rather than one based on the principle that a decent society looks after the needs of all.

At any rate, the Budget included a “package” of 20 ‘social investment’ initiatives totalling $151.6 million for next year and $641.6 million over the next four years. Some are old policies rebadged as ‘social investment’, such as a small extension of the “Healthy Homes” initiatives, a small and highly targeted extension of the home insulation scheme, and emergency housing provision (ironic because it is the result of this Government *not* investing). They also include the reallocation of new funds for school operational grants to schools with children ‘most at risk of not achieving’ – defined as children from families dependent on benefits over the previous five years. Many school operational grants will therefore not be fully compensated for rising costs. It is not explained why – other than administrative convenience and the lack of suitable data – other children who may be at risk are not included. It seems unlikely that there is ‘evidence’ that this very small intervention ($6 million next year and $12 million from 2018 on) will make an appreciable difference to the achievement of the 150,000 children reportedly targeted. The list of ‘social investment’ projects already has the look of Ministers grabbing an opportunity to get funding for projects from a new funding pocket.

The economic forecasts

A number of economists have questioned the optimism of Treasury’s Budget forecasts (and we need to bear in mind that they are only forecasts, less likely to be right the further out they get to 2020). A worsening international outlook could have a deep effect, though which way it will go is a matter of judgement. Brian Easton for example is more pessimistic than Treasury, and he also points out that the forecasts all but ignore the rising overseas debt. BERL’s Chief Economist Ganesh Nana notes that the forecast makes two critical assumptions: that the high net migration inflow will peak at 71,000 in the current year, slowing sharply to the long-term average of 12,000 by the June 2019 year, and that house price growth slows sharply to 2.3 percent for the year to June 2018 from the current 8.9 percent. Both seem unlikely. If they don’t occur then the Reserve Bank at least, and the Government if it behaved responsibly, would be forced to take further actions that would markedly affect the forecasts.

Even taking Treasury’s forecasts at face value, there is a lot to be concerned about, particularly as they affect current and future living standards. On the surface, Treasury’s forecast of GDP growth rising to 3.2 percent in 2018 looks strong. But fast population growth means that it is weak per head of population – which is what matters when considering the resources available to each person in New Zealand. The forecast is for only 0.5 percent growth in GDP per person in the year to June 2016, only a little stronger at 0.9 percent in the following year, and maxing out at 1.9 percent in 2018 and 2019 before falling again. Yet the average GDP growth per person between 1999 and 2008 was 2.5 percent, and at or above 1.9 percent for 6 of those 9 years.

The weak growth is reflected in unemployment: it is forecast to remain high at 5.6 percent or 146,000 people in a year’s time (June 2017) – barely any change from the latest 5.7 percent in March 2016 – and still above 5 percent (at 5.1 percent) in June 2018. This is much too high this far into a ‘recovery’.

Labour productivity growth is also forecast to be weak – only 0.8 percent in 2016, 1.0 percent in 2017, peaking at 1.5 percent in 2018. That is a poor basis for future wage growth, even if the income from it were fairly shared.

Wage growth, after taking account of inflation, is also forecast to be weak. While there have been two years of relatively strong growth in the average wage (the average ordinary time hourly wage) at 2.4 in 2015 and 1.6 percent forecast for June 2016, it is forecast to be -0.1 percent in 2017 and 2018. From an employer's point of view, wage costs are also falling. Real unit labour costs – the cost of the labour required for every unit of goods and services produced – are forecast to fall 3.0 percent from 2016 to 2020.

The result is that working people are forecast to receive a falling share of the income their work produces. The share of wages is forecast to fall from 50.5 percent of income in June 2015 to 49.2 percent in 2020. The 1.3 percentage point fall means each wage or salary earner will be paid approximately $400 less per year by 2020 than if the wages share of income hadn't fallen.

Some alternatives

This Government has used a focus, first on getting to surplus, and now on reducing debt, in order to justify pressure to reduce expenditure. As we have seen above, it has been successful in doing that, but at the expense of public services and in reducing activity in the economy contributing to high unemployment. What choices would there be for a Government whose objectives were social improvement rather than reducing the capability of government?

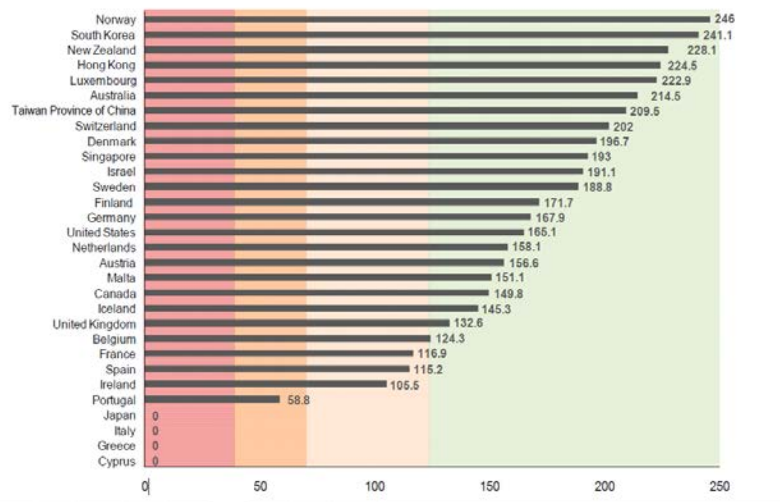
Firstly of course it could raise more revenue by raising taxes in various forms. They could also be used to reduce inequality through taxes on wealth, windfall profits or on higher incomes. More action to force multinationals to pay the full corporate tax rate is overdue. There is room to do this both alone and in cooperation with other countries. Taxation could also be used to move investment towards more productive uses than housing and financial speculation by a serious capital gains tax exempting the family home, or other forms of wealth tax (though care must be taken regarding asset-rich, income poor such as retired people). A financial transactions tax should also be considered on either or both local transactions or international financial transactions.

But even without raising taxes there is room for a progressive government to do a lot more. The Government is now aiming to reduce its particular measure of debt from an estimated 24.9 percent this year to 20 percent of GDP by 2020. The measure it uses is net core Crown debt excluding the New Zealand Superannuation Fund (NZSF) and advances such as student debt. That is not necessarily the most appropriate measure of debt. The NZSF is providing for future government expenditure and so reduces its future risk. It could use Crown Debt including NZSF which currently is estimated to be only 13.3 percent of GDP, falling to 8.3 percent of GDP by 2020. One advantage is that the net debt could be reduced not by repaying debt but by resuming payments to the NZSF. Particularly when the cost of debt is very low (the government is currently borrowing at 2.75 percent) that is an attractive proposition.

However it is not at all clear that current debt levels need to be reduced. Last year an International Monetary Fund research paper (Ostry, Ghosh, & Espinoza, 2015; and see also Ostry, Loungani, & Furceri, 2016) put New Zealand third from the top of a list of countries in terms of the "fiscal space" available to them (in the figure below, the green zone is "safe", red is "grave risk"; so top of the list is safest). That is, it considered that we were a very long way from danger in government debt levels and had plenty of room to absorb further debt in another crisis. Even if you are not as optimistic as the authors of that paper, and there are arguments about the methodology used to judge fiscal space, it is true that New

Zealand's public debt is far from danger territory. It simply should not be the top government priority that it is. That doesn't mean we can spend forever, but it does mean we can attend to other priorities.

Figure 1. Fiscal Space: Distance to Debt Limit
(percentage points)



The point the authors of the IMF paper were making was that even for countries with quite high public debt, the pain involved in reducing the debt may create higher risk than living with it. Reducing government debt can have numerous unwelcome effects including depressing the economy as government expenditure is cut, increasing inequality if care is not taken in the way it is reduced, running down productive and socially important public services, and increasing private sector debt (in which case the country may be no better off). Instead the government should use growth in the economy to reduce the debt to a safer proportion of GDP.

To illustrate, New Zealand could achieve the present Government's debt target of 20 percent of GDP in just three additional years (by 2023 instead of 2020) if it left its debt in dollar terms at its 2018 peak and used the forecast increase in GDP to reduce the debt ratio. While there would be a cost in interest on the debt (though it will be refinanced at a lower cost if interest rates remain low) it is only of the order of 0.2 percent of GDP or $300 million. Given that the difference between revenue and expenses (the operating balance before gains and losses on assets) is forecast to rise from $0.7 billion in 2017 to $6.7 billion in 2020, that would give significantly more room for a number of options including new social spending and capital for infrastructure.

A further option if we are willing to increase debt modestly is to increase infrastructural spending out of borrowing while interest rates are low in order to build assets with good future economic or social returns such as public transport, rail, housing, roads, schools and hospitals.

None of this is to say we should spend without considering the social, environmental or economic value of what it achieves. It is good to invest now for future benefit and to take notice of the evidence of how effective spending will be. It is also important to repair the tears that are appearing in our social and economic fabric and do our best to ensure they do not happen again. But we do not have to take on the straightjacket of the current government in either its version of 'social investment' or fiscal rectitude. A government can be responsible socially, environmentally and economically and still be a good manager of the government's finances.

Bill Rosenberg

References

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Information

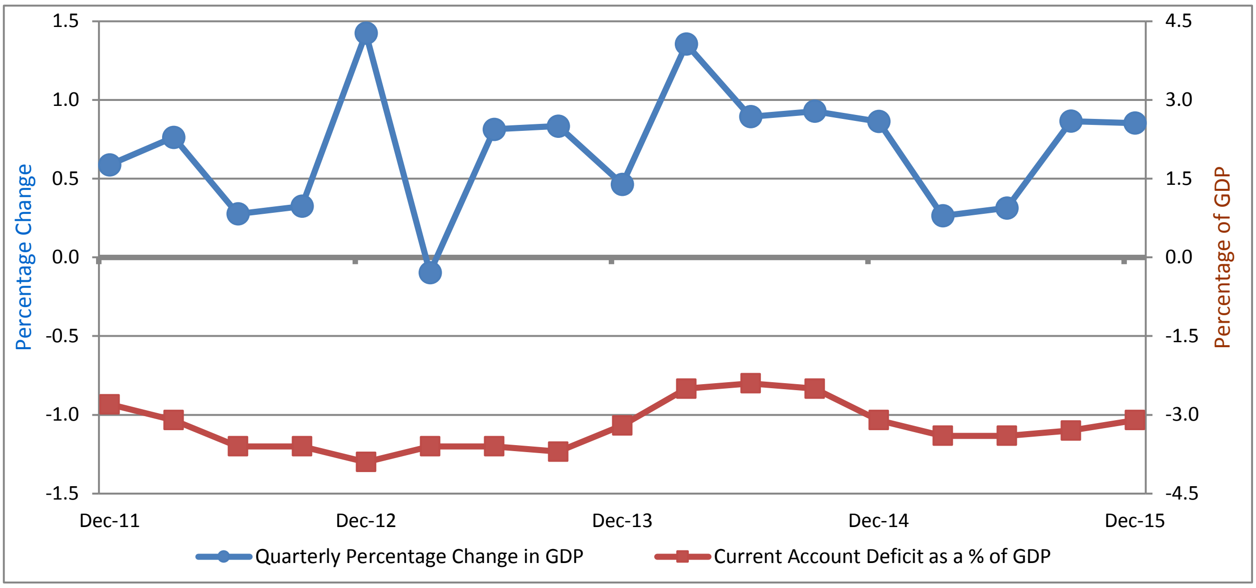
A ★ indicates information that has been updated since the last bulletin.

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 April saw exports of goods rise 4.0 percent from the same month last year while imports rose 1.5 percent. This created a trade surplus for the month of $292 million or 6.8 percent of exports. However there was a trade deficit for the year of $3.7 billion. In seasonally adjusted terms, exports rose 23.4 percent or $796 million over the month (compared to a 17.2 percent fall the previous month) led by rises in Dairy (up 9.1 percent or $73 million), Meat (up 10.5 percent or $48 million), Crude oil (not seasonally adjusted, up 131.9 percent or $30 million) and Mechanical machinery and equipment (up 17.8 percent or $24 million) but offset by a fall in Aluminium and aluminium articles (down 10.1 percent or $8 million, not seasonally adjusted) and Electrical machinery and equipment (down 6.5 percent or $6 million). Seasonally adjusted imports rose 12.2 percent or $476 million over the previous month, creating a trade deficit of $163 million compared to a $483 million deficit in the previous month. Import increases were led by Textiles and textile articles (up 11.2 percent or $21 million) and Optical, Medical and measuring equipment (up 13.3 percent or $18 million) offset by Electrical machinery and equipment (down 3.9 percent or $14 million) and Plastic and plastic articles (down 5.0 percent or $9 million).

- ★ The Performance of Manufacturing Index[1] for April 2016 was 56.5, a rise from 54.7 in the previous month. The employment sub-index was at 49.5, a rise from 48.6 in the previous month.

- ★ The Performance of Services Index[1] for April 2016 was 57.7, a rise from 55.1 in the previous month. The employment sub-index rose slightly to 53.3 from 53.1 in the previous month.

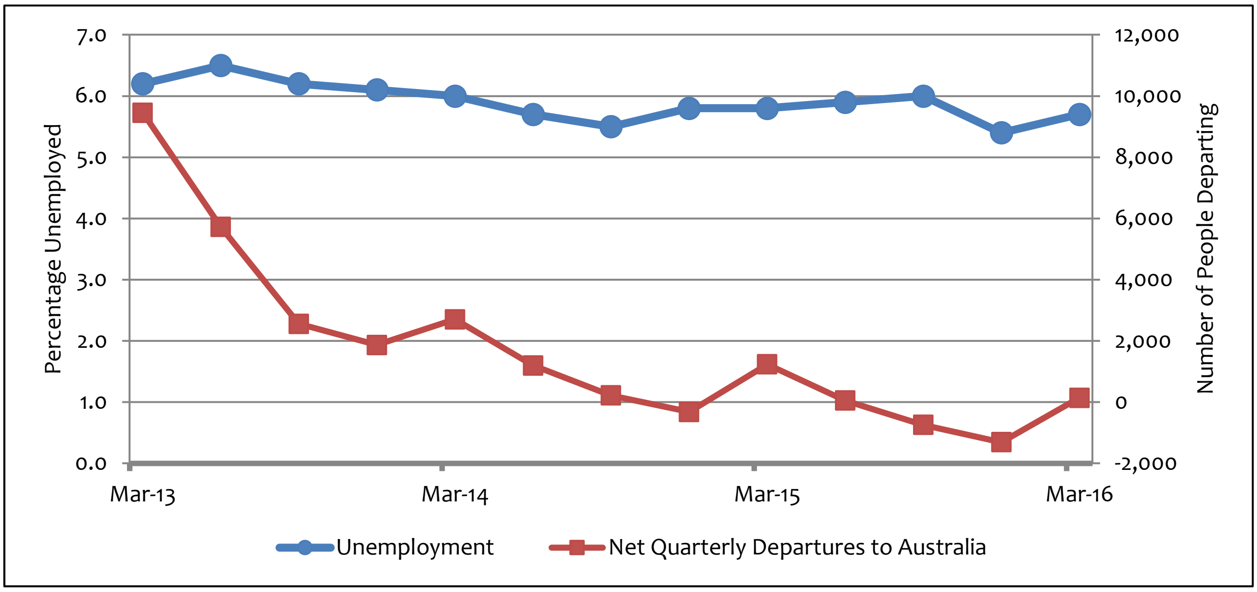
- ★ The Retail Trade Survey for the three months to March 2016 showed retail sales rose 4.8 percent by volume and 4.7 percent by value compared with the same quarter a year ago. They rose 0.8 percent by volume and 0.6 percent by value in the quarter, seasonally adjusted. By value, the largest positive contributors to the increase in the quarter were Non-store and commission retailing (which includes internet purchases) which was up 9.8 percent, Electrical and electronic goods (up 3.7 percent), and Accommodation (up 2.8 percent). The largest falls were in Specialised food (down 3.3 percent) and Fuel (down 4.9 percent). Supermarket and grocery stores, the largest single sector, rose only 0.6 percent by value and 0.3 percent 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 $35,000 or 7.7 percent to $490,000 in the year to April 2016 but fell by $5,000 or 1.0 percent on the previous month. The Auckland median price rose 12.8 percent over the year but fell 1.0 percent on the previous month. Excluding

Auckland the national median price rose $29,000 or 8.2 percent to $382,000 compared to a year before. There were 255 more sales under $400,000 compared to the same month a year ago taking the number to 3,254, a rise of 306 to 1,085 in the $1 million plus range, and 597 more to 2,202 in the $600,000 to $999,999 range. Sales under $400,000 accounted for 37.9 percent of sales in the month but 41.3 percent in the same month a year before and those in the $1 million plus range rose from 10.8 percent to 12.7 percent of sales.

Employment



★ According to the Household Labour Force Survey the unemployment rate in the March 2016 quarter rose to 5.7 percent or 144,000 people, compared to a revised 5.4 percent in December (134,000 people), seasonally adjusted. Treasury and other forecasters had predicted a substantial rise to March so the fall in December was a surprise and it was expected to rise in the March quarter, though not as much as it did. Before December it had been rising since September 2014 and the March rise brings it back above September 2014's 5.5 percent. It is still more than half as much again than the 3.4 percent it was in December 2007. It is 5.9 percent actual (not seasonally adjusted) or 152,300 people, only down 500 from 152,800 or 6.1 percent a year before. The unemployed were not the only people looking for work: there were 279,300 people jobless (including the officially unemployed), up 11,600 from 267,700 a year before, and there were 101,000 part-timers who wanted more work, down 2,600 from a year before. A total 380,000 people are not finding the work they want. The participation rate (the proportion of the working age population either in jobs or officially unemployed) rose from 68.5 percent to 69.0 percent over the three months, but it was down from 69.4 percent a year before, all in seasonally adjusted terms. There are 34,900 unemployed people who have been out of work for more than 6 months (down from 38,900 a year before), and they are 22.9 percent of the unemployed compared to 25.5 percent a year before. Those out of work for more than a year is at 10.2 percent of the unemployed compared to 11.7 percent a year before. Compared to OECD unemployment rates, New Zealand has 12th lowest (out of 34 countries), a deterioration on the 10th equal in December.

★ In the North Island, only Bay of Plenty (5.1 percent) has unemployment below the 5.9 percent average for the country (not seasonally adjusted). It fell in statistically significant terms in Bay of

Plenty from 7.8 percent a year before, although it had worsened from 5.7 percent in December 2014 to 6.2 percent in December 2015. Northland with 8.4 percent (but 9.9 percent a year before) Gisborne/Hawkes Bay with 8.4 percent (7.3 percent a year before), and Manawatu-Whanganui with 7.7 percent (7.4 percent a year before) are particularly hard hit. Auckland's unemployment rate was 6.6 percent (compared to 6.9 percent a year before). The South Island on the whole looks considerably better, but unemployment rose in all but Canterbury with a statistically significant rise in Tasman/Nelson/Marlborough/West Coast to 6.0 percent from 4.4 percent a year before, Otago at 4.8 percent (up from 3.8 percent) and Southland at 4.6 percent (up from 4.2 percent). Canterbury was down slightly to 3.0 percent from 3.1 percent a year before.

★ By industry, over the year the 48,100 increase in employment could be accounted for by Agriculture, forestry and fishing (up 14,600), Construction (17,600 workers), and Professional, scientific, technical, administrative, and support service (17,500 workers). There were also strong rises in the Wholesale trade (up 8,000) and Education and training (11,200 people). However this was offset by falls in several industries led by Manufacturing (down 12,300 people) and Arts, recreation, and other services (down 8,000 people). Employment rose 20,800 during the March quarter.

★ The seasonally adjusted female unemployment rate at 6.2 percent was considerably higher than for men (5.2 percent), but both rose from the previous quarter (5.8 percent and 5.0 percent respectively). Māori unemployment rose from 12.6 percent in March 2015 to 12.8 percent, and Pacific people's unemployment fell from 12.5 percent to 10.2 percent over the year.

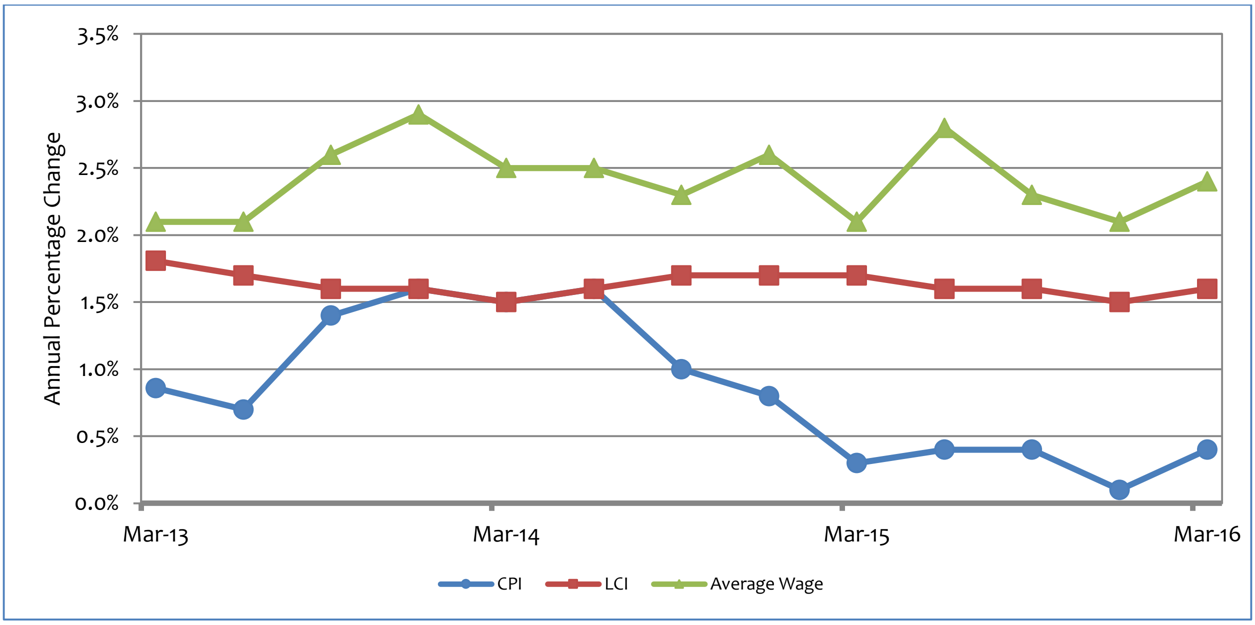
★ Youth unemployment for 15-19 years was 24.0 percent, up from 23.0 percent in December and 21.6 percent a year before; for 20-24 year olds it was 10.2 percent, up from 9.3 percent in December and down from 11.1 percent a year before, all in seasonally adjusted terms. The Not in employment, education, or training (NEET) rate for 15-19 year olds was 8.8 percent, up sharply from 6.6 percent in December and up also from 8.2 percent a year before while for 20-24 year olds it was 15.7 percent, up from 15.1 percent in December and also 15.1 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (17.9 percent) than those not in education (12.9 percent). There were 82,000 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 April 2016 showed the number of job vacancies rose by 8.1 percent in the month and rose 13.5 percent over the same month a year previously in seasonally adjusted terms, though the trend rose only 0.6 percent for the month. Over the year, vacancies in Auckland rose 16.8 percent, Wellington 13.5 percent, rest of the North Island 17.3 percent, South Island other than Canterbury 20.5 percent, while Canterbury fell 2.8 percent. Over the month vacancies rose in all regions. By industry, the greatest annual increases were in Education and training which rose 29.8 percent, Construction and engineering which rose 17.3 percent, hospitality and tourism which rose 13.2 percent and Healthcare and medical which rose 11.6 percent. Information Technology fell 1.9 percent (though it rose 8.4 percent in the month). Since the previous month, vacancies all eight identified industry groups rose. By occupation, the greatest rise over the year was in Labourers (up 29.4 percent) followed by Machinery drivers (up 23.7 percent), Technicians and Trades workers (up 19.0 percent), Clerical and administration (up 14.4 percent) and Managers (up 13.6 percent). Sales occupation vacancies fell 3.9 percent. Over the month, vacancies rose in all occupational groups other than Sales. All the above are in seasonally adjusted terms.

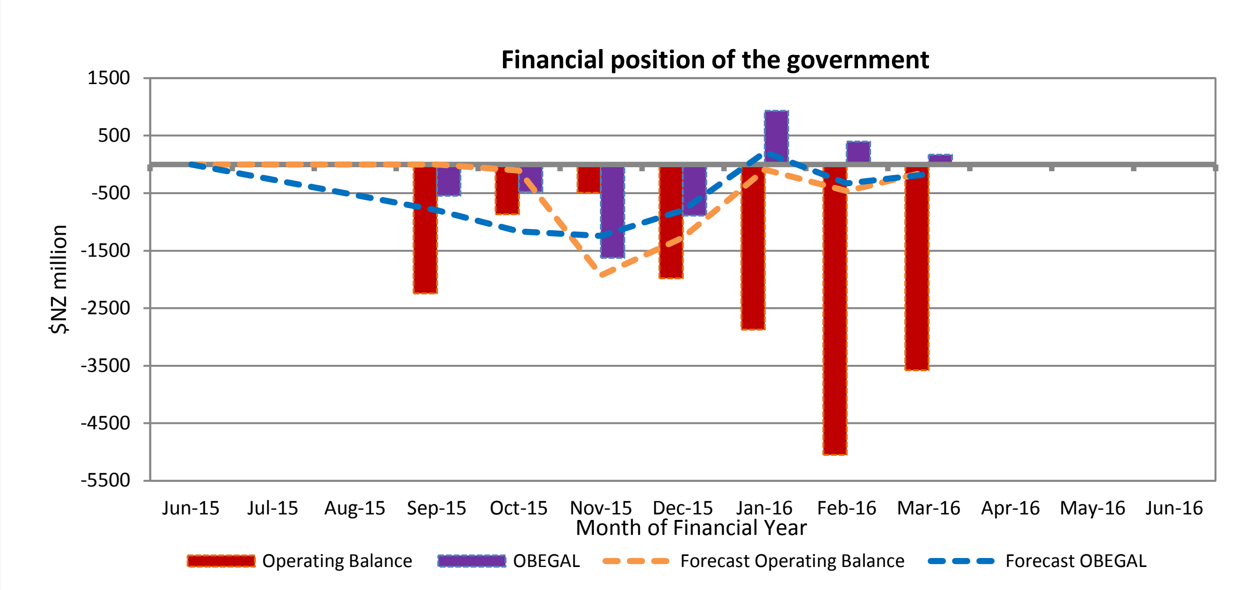
★ International Travel and Migration data showed 10,440 permanent and long-term arrivals to New Zealand in April 2016 and 4,920 departures in seasonally adjusted terms, a net gain of 5,520. There was an actual net gain of 68,110 migrants in the year to April. Net migration to Australia in the year to April was 1,721 arrivals, with 24,110 departures and 25,831 arrivals. However there was still a net loss of 3,744 New Zealand citizens. For the month of April, there was a seasonally adjusted net loss to Australia of 40 compared to a gain of 130 a year before. In April, 15.1 percent of the arrivals had residence visas, 16.3 percent student visas, 32.3 percent work visas, and 5.0 percent visitors. A further 30.9 percent were New Zealand or Australian citizens.

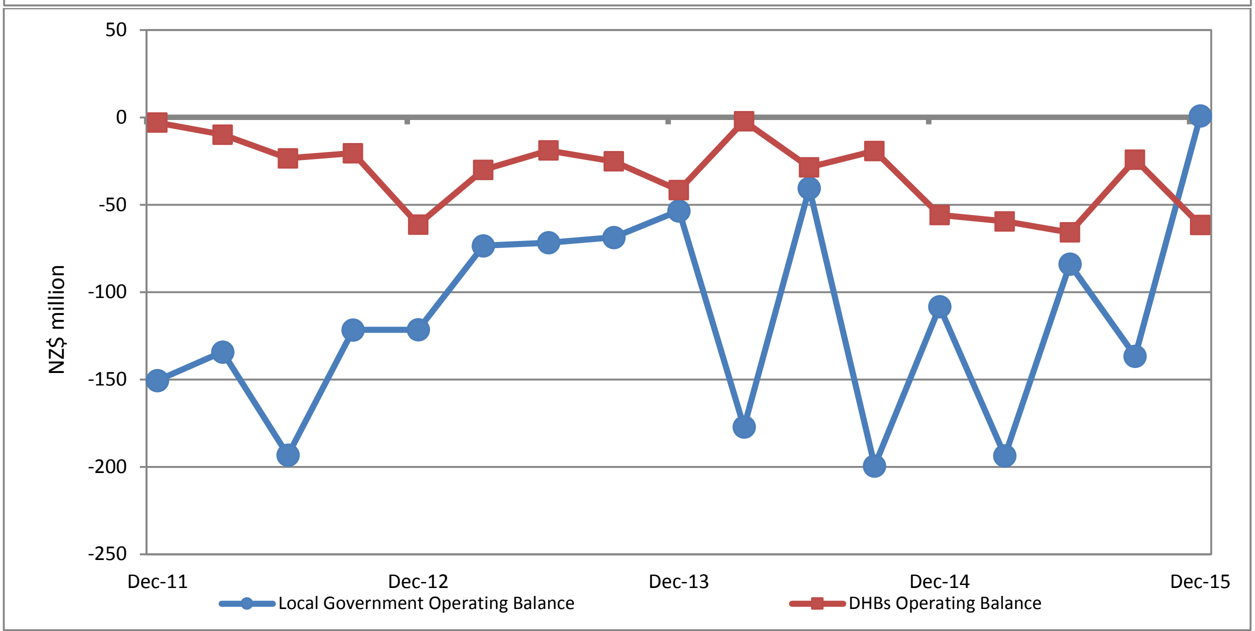
Wages and prices



★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to March 2016. The LCI increased 1.6 percent in the year to March, ahead of the 0.4 percent increase in the CPI. It increased 0.4 percent in the public sector and 0.4 percent in the private sector in the three months to March. Over the year it rose 1.4 percent in the public sector and 1.8 percent in the private sector. During the year, 43 percent of jobs surveyed did not receive a pay rise, and 45 percent did not in the private sector. For the 57 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.2 percent and the average increase was 2.9 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.2 percent; the average increase in the public sector was 2.2 percent and in the private sector 3.1 percent. We estimate that jobs on collective employment agreements were 2.2 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 5 percent and just as likely to get one of more than 5 percent. Only 46 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 rising considerably more slowly than in the rest of the country: 0.1 percent in the quarter in Canterbury compared to 0.8 percent in the rest of the country; and over the year to March, 1.3 percent in Canterbury compared to 2.4 percent elsewhere. For those getting a rise, Canterbury wage rates rose 3.5 percent compared to 4.0 percent elsewhere.

- ★ The Quarterly Employment Survey for the three months to March 2016 found the average hourly wage for ordinary-time work was $29.47, up 0.3 percent on the previous quarter and up 2.4 percent over the year. The average ordinary-time wage was $27.51 in the private sector (up 0.3 percent in the quarter and up 2.5 percent in the year) and $37.22 in the public sector (up 1.9 percent in the quarter and up 2.7 percent in the year). This is the first time since September 2013 that public sector wages have had a larger annual pay rise than the private sector. Female workers (at $27.29) earned 12.8 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 0.3 percent in the month of April 2016 (rising 0.2 percent in seasonally adjusted terms). Food prices rose 0.5 percent in the year to April. Compared with the previous month, fruit and vegetable prices rose 3.9 percent (but rose 4.4 percent seasonally adjusted); meat, poultry, and fish prices fell 1.7 percent; grocery food prices rose 0.1 percent (up 0.2 percent seasonally adjusted); non-alcoholic beverage prices fell 0.2 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.)





- According to Treasury's [Financial Statements of the Government of New Zealand] for the nine months ended 31 March 2016, core Crown tax revenue was $702 million higher than forecast in the 2015 Half Year Economic and Fiscal Update (HYEFU). PAYE was $295 million or 1.5 percent above forecast due to total labour income growth being faster than forecast, GST was $245 million or 1.8 percent above forecast as a result of domestic consumption being higher than forecast, and customs and excise duty was $99 million or 2.9 percent above forecast due to higher than expected production and importation of tobacco products. However total revenue was only $206 million above forecast due to lower than forecast revenue from dividends and from interest (because of "some financial derivatives being replaced at maturity, whereas they had been forecast to mature into interest-bearing deposits"). Core Crown expenses were $134 million (just 0.2 percent) below forecast mainly due to delays in Treaty settlements, land acquisition and anchor projects in Christchurch, grants and benefit payments, and unfavourable weather at the start of the year. However in addition, Education expenses were $127 million below less than forecast mainly due to "lower than expected student enrolments and timing differences for several grant programmes that are expected to reverse by year end". As a result, the Operating Balance before Gains and Losses (OBEGAL) was $167 million in surplus, $334 million better than forecast. The Operating Balance was a $3.6 billion deficit, $3.5 billion worse than expected, "largely due to $3.6 billion of larger than expected actuarial losses on the ACC and GSF liabilities arising from the impact of changes in valuation." Net debt at 25.7 percent of GDP ($63.3 billion) was $1.3 billion better than the $64.6 billion forecast. Gross debt at $84.5 billion was $1.8 billion better than forecast.

- ★ District Health Boards recorded combined deficits of $60.5 million for the nine months to March 2016. This is $17.0 million worse than their plans. The Northern region was $1.3 million behind plan with a surplus of $2.9 million and two of the four DHBs in surplus. The Midland region was $6.7 million behind plan with a combined deficit of $19.7 million and all DHBs in deficit. Central region was $12.5 million behind plan and all DHBs in deficit including Capital and Coast at $9.6 million and three others above $4 billion, for a total deficit of $24.5 million. The Southern Region was $3.4 million ahead of plan with a $19.2 million deficit and three of the five DHBs in deficit, with Canterbury back up to $2.7 million and Southern at an $18.2 million deficit. In all only four of the 20 DHBs are not in deficit. The DHB furthest ahead of plan was Southern by $5.8 million and Capital and Coast was furthest behind, by $8.0 million. The Funder arms were in surplus by $96.0 million, and Provider arms in deficit by $159.8 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/economicbulletin179.

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