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Commentary

90 day trials – what does the research tell us?

Summary

The Government is in denial over the failure of the 90-day trials. New research commissioned by Treasury found that it did not increase employment or help disadvantaged workers. The Government now denies those were its objectives. Its professed commitment to evidence is selective and doesn't apply when employers' interests are at stake. A Cabinet paper shows it is encouraging use of the trials and MBIE "has no plans to change its monitoring of the policy".

The research is carefully designed and uses data covering just about every firm and employee in New Zealand. In statistical terms its conclusions are very reliable. In summary the research found that as a result of 90-day trials becoming available:

- Hiring did not increase: "we find the policy effect to be a precisely estimated zero".
- There was "weak evidence" of an economically significant increase in hiring for Construction and Wholesale trade. I suggest that could be the Christchurch earthquakes.
- There was no evidence of a reduction in duration of employment or increased layoffs.
- There was no evidence people were less likely to move to a firm they hadn't worked for.
- Low earners were no more or less likely to be hired than high earners.
- There is no evidence that people from disadvantaged groups were more likely to be hired (over eight different groups were checked).

Why no effect? After all, 13,700 employers sacked at least one person on a 90-trial in the most recent year surveyed. Perhaps because employers just hire the number of people they need; or that they previously used other ways (lawful and unlawful) to dismiss people.

However there are some things the research could not tell, including whether people on 90-day trials were treated better or worse, how they felt about their experiences, and longer lasting impacts. Unions have seen the hurtful impacts of unfair treatment on people. Even MBIE's research acknowledges it. The trials encourage a lazy command-and-control approach to employment relations which reduces trust and confidence. Local research shows people on 90-day trials get much less employer-funded training. Other recent research shows weak protection against dismissal can lead to poorer productivity and less innovation.

The 90-day trials policy is ineffective in meeting its stated objectives. It is short-sighted and harmful to employees, good employment relationships and productive workplaces.

The Government is in denial over the impacts of the 90-day trials ('fire at will'). New research commissioned by Treasury found that it did not increase employment or help disadvantaged workers contrary to its stated objectives. In this commentary I summarise its key findings and look at some of the issues it was unable to cover.

After the research was made public, Workplace Relations Minister Michael Woodhouse denied the policy was ever about creating jobs: ""The policy effect of increasing the number of jobs in the economy was never a material part of the 90-day trial" he said[1]. Prime Minister John Key preferred the anecdotes of small business rather than research evidence and contradicted his Minister saying "the thing they constantly tell me is the 90-day probationary period gives them the confidence to hire extra staff". As the New Zealand Association of Scientists said, "By dismissing the results of Motu's study as 'academic' and resorting to anecdote to justify the policy instead … the Prime Minister undermines his Government's stewardship of New Zealanders' private data."[2] It seems that "using evidence", which Bill English says lies at the heart of the Government's flagship 'social investment approach' [3], doesn't apply when employers' interests are at stake.

In fact when then Minister of Labour Kate Wilkinson announced the legislation to bring in the trials in December 2008 and pushed it through under urgency (not allowing the opportunity for evidence) she said it would "provide confidence for employers engaging new staff and allow struggling job-seekers to get their foot in the door, rather than languish on a benefit… The 90-day trial will provide real opportunities for people at the margins of the labour market." MBIE had the same misapprehension: its report on its annual survey of employers (whose findings government spokespeople frequently quote to defend the 90-day trials) says: "A key objective of trial periods is to encourage employers to take on employees and provide opportunities for people who might face greater disadvantage in the labour market" (Ministry of Business, Innovation and Employment, 2016a, p. 23).

The Government now appears to be arguing that lowering employer requirements for fairness and good process is good in its own right because employers like it. The policy rationale at the outset was that the loss in employee rights was balanced by an economic and social benefit: more jobs, and especially more jobs for "struggling jobseekers". The research establishes that there is no such economic and social benefit. To put it bluntly, the Government supports the policy solely because employers like it, which is class-based policy-making. We regularly see the anguish it causes people sacked under the policy. It encourages lazy hiring and poor employment practices as will be seen below. It is bad policy.

Yet the Government's response, outlined in a Cabinet paper by Bill English (English, 2016), is to blame "misleading information" and persist in encouraging use of the trials. "Officials have advised me that there is an opportunity to establish whether this policy could be of further benefit to employers, or to assist disadvantaged job seekers into sustainable work, particularly health and disability clients who do not require up-skilling." Officials will talk to employers to "better understand … any implementation barriers relating to trial periods (e.g. insufficient/misleading information)". Meanwhile MBIE, the primary government agency responsible for considering the interests of working people "has informed Treasury officials that it has no plans to change its monitoring of the policy at this time".

So what does the new research say, and what does it not say?

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[1] "Govt changes tune on 90-day trial policy", Benedict Collins, Radio New Zealand, 17 June 2016, available at http://www.radionz.co.nz/news/political/306651/govt-changes-tune-on-90-day-trial-policy

[2] "The Government's disregard for evidence is an own Goal", New Zealand Association of Scientists, 20 June 2016, available at http://www.scoop.co.nz/stories/PO1606/S00230/the-governments-disregard-for-evidence-is-an-owngoal.htm

[3] E.g. Bill English: Speech to the Institute of Public Administration New Zealand, 18 February 2016, available at https://www.beehive.govt.nz/speech/speech-institute-public-administration-new-zealand-2

The new research

The research was released on 17 June after being with Treasury for almost six months. It is reported in a paper called “The Effect of Trial Periods in Employment on Firm Hiring Behaviour”, by Nathan Chappell and Isabelle Sin of Motu, a well-respected Wellington-based research trust (Chappell & Sin, 2016).

It is important to understand how they reached their conclusions. Recall that the new 90-day trials law first took effect on 1 March 2009 only for employers of less than 20 people, and was then expanded to all firms from 1 April 2011. Simply looking to see if employers took on more staff after law was implemented doesn’t work: there were a lot of other things going on at the same time which could have changed hiring behaviour, and changed it differently for different size employers. For example a government package of help for small businesses was brought in at about the same time as the 2009 start of the 90-trials; manufacturing was harder hit than other industries by the Global Financial Crisis (GFC), then near its height, and this tends to be larger firms. Even taking advantage of the fact that the law first applied only to employers of less than 20 people, by comparing all small employers to all larger employers doesn’t work for the same reason. Conclusions reached by the New Zealand Institute of Economic Research (NZIER) in January 2011 under the title “90-day trial periods appear successful” (Kaye-Blake, 2011) were flawed for this reason as we pointed out at the time (Rosenberg, 2011). Chappell and Sin agreed (p.46-47).

Chappell and Sin tested for employment effects by comparing two groups of employers which we would have no reason to expect would be affected differently by things other than the 90-day trials policy. One group was employers of 15 to 19 employees. These employers had 90-day trials available to them from 1 March 2009. The comparison group was employers of 20 to 24 employees. This group of employers did not have 90-day trials available until 1 April 2011. All are small employers and other policies and events such as the government small business package are unlikely to have affected them differently. What they tested was whether hiring grew faster after 1 March 2009 in the slightly smaller employers than in the slightly larger employers. If they did find the smaller employers’ hiring grew faster they were able to do a second check as to whether it was due to 90-day trials by seeing if the difference disappeared after 1 April 2011 from when the larger employers were also able to use the trials.

They used a very rich data set: Statistics New Zealand’s Integrated Data Infrastructure (IDI) which contains monthly tax records sent by employers to IRD for all employees. While these tax records contain little detail about individual employees, the IDI links to other sources that provide data on gender, age, ethnicity, and recent immigration, education and beneficiary status. It identifies the firms’ industries. So while the research is a sample of employer hiring and firing behaviour (mainly from 2005 to 2014), it covers just about every firm and employee in New Zealand. In statistical terms its conclusions are very reliable (assuming their modelling assumptions are correct).

There are some things they couldn’t tell. An important one was whether a given employee was actually on a 90-day trial. This is unfortunate, but the researchers are clear that they are testing “the effect of [employers] being legally permitted to use trial periods” which they say with some validity is more relevant from a policy perspective. However they were unable to test whether people actually on 90-trials were treated differently. There are other gaps: they don’t know if employment agreements were permanent, fixed term, or casual, individual or collective, whether employees left voluntarily or were dismissed, how many hours they worked, nor their occupation or role. Nor can they tell if someone was hired and sacked within a single calendar month. So there are still many questions despite the key questions as to whether the Government met its stated objectives having been answered.

What did the research conclude?

No increase in hiring

Chappell and Sin's answer to the question whether the availability of 90-day trials causes firms on average to increase hiring is: "we find the policy effect to be a precisely estimated zero". They check their result in different ways (such as different ranges of firm size, seasonal effects, geographic effects and delays in firms starting to use the trials) and the result still stands.

Is the effect different in some industries?

MBIE's surveys of employers suggest that 90-day trials are used much more heavily than average in the Construction and Wholesale trade industries and much less heavily in Education and training. Chappell and Sin test whether there is a greater hiring effect in the two heavy-use industries and find what appears to be a statistically and economically significant hiring increase of 10.3 percent. However the pattern of increased hiring is very erratic so they conclude there is only "weak evidence of an economically significant policy effect for construction and wholesale trade."

I have suggested to them that they look at this more closely. The statistically significant increase in hiring occurred late 2010, early 2011. Construction is easily the larger of the two high-use industries. It is possible that following the September 2010 earthquake in Canterbury, small firms were brought in quickly by EQC to carry out repairs, and larger firms came somewhat later. That could create the difference in hiring between small and large firms that their results find, rather than the 90-day trials. ACC claim statistics for the Christchurch reconstruction[1] are consistent with this pattern (though the greater risk to workers in smaller firms complicates this).

Did the trials mean more people laid off within the 90-day period?

They find no evidence of a reduction in employment that reached at least five months, although the results are muddied somewhat due to people remaining longer in jobs during the 2009-2011 period at the height of the GFC. There is the possibility that dismissals could have occurred undetected within the first month of employment, though many of the cases we know of are close to the 90 day limit.

The researchers also look at duration of employment for various periods ranging from 2 to 24 months. They find no effect of 90-day trials, although find some interesting variations in duration of employment for different employee groups and firm size.

Did 90-day trials make people more reluctant to move to other jobs?

Chappell and Sin find no evidence that people were less likely to move to a firm they had not worked for before after the trials began. They suggest as possible reasons that "employees might not be aware of trial periods or might not feel their new jobs are genuinely at risk even if they are hired with a trial period. Alternatively, previously employed workers may be able to negotiate being hired without a trial period even at firms that standardly use them, or could be offered remuneration high enough to compensate for their temporarily insecure employment. Testing for either of these latter mechanisms is beyond the scope of the current research." However there is also the likelihood that people felt they

[1] See for example http://tinyurl.com/z8q2ha2, p.4.

had no choice other than to accept a 90-day trial, especially in the high unemployment conditions at the time. An evaluation of the first year of 90-day trials by the Department of Labour found (in its few interviews with employees) that “in practice, … trial periods were included in employment agreements and the offer of employment was conditional on the employee’s acceptance of a trial period, as with other terms and conditions of the employment agreement… Employees interviewed generally thought that it was standard to start on a trial period, and did not know that legally they did not have to accept it.” (Johri & Fawthorpe, 2010, pp. 11–12). For people coming off benefits, there are also pressures of Work and Income work requirements (Sissons & Rosenberg, 2014, p. 3).

What is the effect of earnings?

The researchers find no range of earnings was more or less likely to be hired as a result of the availability of 90-day trials. As they said (p.37), “Disadvantaged workers, the intended beneficiaries of the policy, are more likely to be lower earners” but there was no sign that hiring of lower paid workers increased any more or less than other pay ranges. Note however that because only monthly earnings were available, someone with low earnings could be a part time worker with a high hourly rate.

Were ‘disadvantaged’ people more likely to be hired?

Chappell and Sin tested whether 90-day trials had an effect on the rate of hiring of “people who have received benefit income in the past year, people who have received the jobseeker benefit in the past year, people who have not received wage or salary income in the past year, migrants who had their visas approved within the past two years, those under 25 years old, Māori or Pasifika under 25 years old, and those who left education in the past year.” They tested a number of other groups as well. “In each case, … there is no evidence that trial periods caused firms to be more likely to hire any of these types of workers” (p.40). There may be a small effect for firms smaller than 10 employees hiring under 25s and (even less so) Māori and Pasifika under 25, but explanations other than the trials could not be ruled out.

Why no effect on hiring and firing?

Given employers reportedly like 90-day trials, many use them, and MBIE’s National Surveys of Employers find large numbers of people fired under them, why does the research find no increase in people leaving jobs in around the first 90 days or in job duration. In 2014-15 for example, 13,700 employers sacked at least one person on a 90-day trial (calculated from Table 10, Ministry of Business, Innovation and Employment, 2016b, p. 13), so the number of people dismissed is likely to be much higher. Chappell and Sin’s main explanation is that employers had ways to dismiss people before the 90 trials including using casual and fixed term contracts as employment trials (unlawfully) or dismissing employees as employers are entitled do as long as fair and proper process is followed. They suggest it is also possible that the 90-day trials didn’t reduce dismissal costs as much as touted, or that firms just hire the number of workers they need so making dismissal easier has no effect.

The bad effects of 90 day trials

What the researchers did not explore in any depth was the possibility that 90-day trials have negative effects that mean they are bad policy whether or not they lead to more hiring (and they don’t).

The most immediate negative effect is on the person who is dismissed from their job without fair process or satisfactory reason given. Jeff Sissons and I have written about this in the *Employment Law*

Bulletin (Sissons & Rosenberg, 2014). It includes verbatim accounts of dismissals. Even the MBIE researchers' limited interviews with dismissed employees (Johri & Fawthorpe, 2010, p. 25) found that

> Employees who felt they would not have been dismissed were it not for the trial period were annoyed by the dismissal. They felt they had been disadvantaged by being on the trial period and treated unfairly by the employer, either because they had not been given a reason or explanation for the dismissal, or because they had been dismissed even though, in their opinion, they were performing better than other employees who were not on a trial period and thus could not be dismissed so easily.
>
> *… the fact that they did get rid of me just like that did make me really bitter.* Employee

The impacts on future confidence, trust and attitudes to work of people affected in this way have not been explored. Ananish Chaudhuri, Professor of Experimental Economics at the University of Auckland (2010), points to research by himself and colleagues that suggests that the use of trust and reciprocity in employment relationships rather than penalties (such as threat of dismissal) can have better results. He says "provision of explicit penalties in the contract might actually lead to a reduction in voluntary cooperation among the workers". He quotes other research which finds that the "carrot-and-stick based approach" has the highest rates of employees quitting their job, while a "commitment" approach has the lowest rates.

There are other bad effects. Stephen Blumenfeld, Director of the Centre for Labour, Employment and Work at Victoria University (2015), finds that people on 90-day trials are less than half as likely to receive employer-funded training as those who are not on a 90-day trial, whether permanent, casual or fixed term employees, after taking account of other factors that might affect training opportunities such as length of service to the employer.

In general, the trials encourage a lazy 'command and control' approach to employment relations: rather than actively seeking the best person for the job and helping them to succeed, they encourage employers to think of good practice as a "compliance cost" to be minimised. The economic cost of laws making dismissal easier can be seen in recent research which found that stronger employment protection led to employees doing more complex jobs and having more control over their work, increasing their contribution to the particular firm or industry and raising productivity. The evidence also suggested that higher employment protection "leads firms to raise their hiring standards" (Kahn, 2016). Protection against dismissal also spurs employees' innovation according to US research (Acharya, Baghai, & Subramanian, 2010). It gives employees confidence by protecting them against dismissal after short-run failures (common in innovative activities) and after successful innovation to prevent them sharing the proceeds. While the threat of dismissal in the first 90 days may have somewhat different impacts, they cannot be ignored.

The 90-day trials policy is ineffective in meeting its stated objectives. It is short-sighted and harmful to employees, good employment relationships and productive workplaces.

Bill Rosenberg

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Information

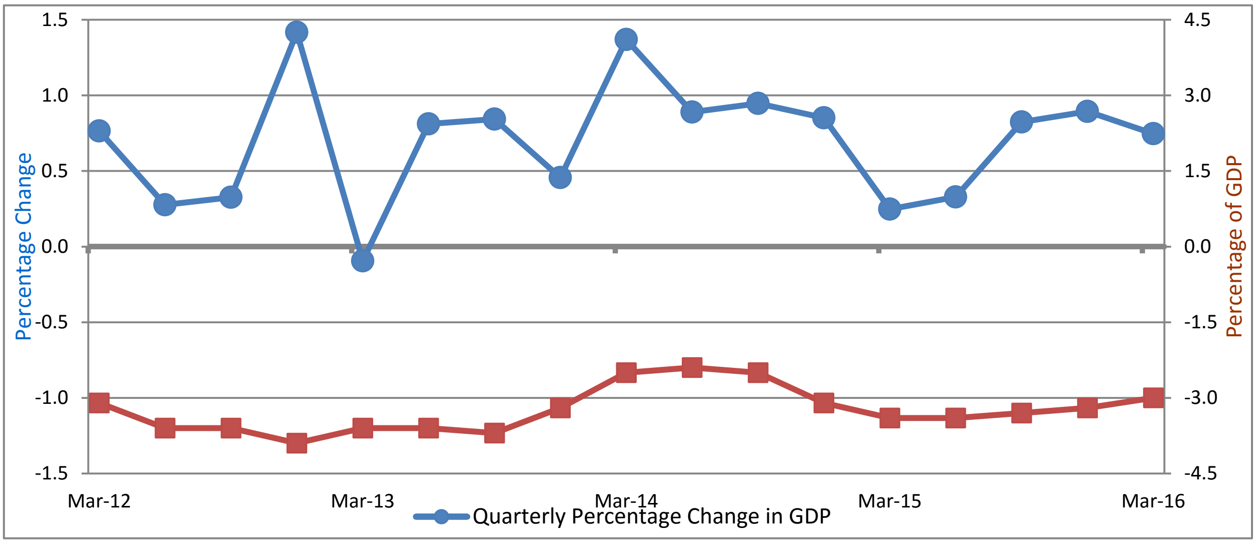
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 13 June 2016.

Annual Percentage Change (March Year)	**2016-17**	**2017-18**	**2018-19**
GDP	2.7	2.9	2.6
CPI	1.5	1.9	2.0
Private Sector average wage	2.3	2.4	2.7
Employment	2.2	2.1	1.6
Unemployment rate	5.5	5.2	5.1

Economy



★ Growth in New Zealand's economy moderated in the March 2016 quarter, with Gross Domestic Product rising by 0.7 percent, compared to 0.9 percent in the December 2015 quarter. Growth for the year ended March 2016 was 2.4 percent. However GDP is barely keeping up with the rapidly growing population: GDP per person grew only 0.1 percent in the March quarter, and 0.5 percent over the year. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors and the falling prices for some of our main exports, did not change (it rose 0.0 percent) over the March year. It fell in the September 2015 and December 2015 quarters though grew strongly (1.6 percent) the March quarter. Production per hour worked in the economy grew only 0.5 percent compared to the same period last year and fell 0.2 percent in the March quarter, indicating very weak productivity growth. Business investment growth is also weakening. It rose 1.4 percent over the year compared to 9.0 percent the previous year, though it rose 2.0 percent over the three months. Household consumption growth also moderated to 0.4 percent in the quarter, though was relatively strong for the year, up 2.4 percent. The growth in the latest quarter was mainly due to strong growth in Construction (up 4.9 percent) and Health Care and social assistance (up 2.7 percent) followed by Retail Trade and Accommodation (up 1.3 percent), Transport, postal, and warehousing (up 1.5 percent), Financial and Insurance Services (up 0.9 percent), and Professional, Scientific, Technical, Administration and Support (up 0.6 percent). There were also stronger than average rises for Electricity, gas, water, and waste services (up 1.4 percent), Information media and telecommunications (up 1.1 percent) and Public administration and safety (up 1.0 percent). Manufacturing activity fell by 0.4 percent in the quarter (though it rose weakly by 1.4 percent in the year) led by a further fall in the largest sector Food, Beverage and Tobacco Manufacturing (down 1.3 percent after a 4.0 percent fall in the previous quarter) with Furniture and other manufacturing down a huge 12.0 percent and Non-metallic mineral product manufacturing (down 6.2 percent) also contributing. Offsetting those were Textile, Leather, Clothing, and Footwear Manufacturing (up 5.4 percent) and Transport equipment, machinery and equipment manufacturing (up 2.4 percent). In all, production fell in five manufacturing subsectors and it rose in four. Agriculture (down 0.1 percent), Mining (down 3.3 percent), Wholesale trade (down 0.2 percent) and Rental, hiring and real estate services (down 0.1 percent) also fell. Inflation returned to the economy as a whole with the GDP deflator (a price index for expenditure on the economy's production) rising 1.5 percent in the March quarter after falling for six months, with a total rise of 0.7 percent for the year.

★ New Zealand recorded a Current Account deficit of $1.5 billion for the March 2016 quarter in seasonally adjusted terms (but an actual surplus of $1.3 billion), compared to a $2.2 billion deficit in the December 2015 quarter and $1.7 billion in the September quarter. There was another deficit in the goods trade ($515 million, seasonally adjusted, following a $760 million deficit in the December 2015 quarter) and a surplus of $624 million in goods and services ($211 million in December), while the deficit on primary income (mainly payments to overseas investors) fell to $1.7 billion from $2.1 billion in December (not seasonally adjusted). For the year to March 2016, the current account deficit was $7.5 billion or 3.0 percent of GDP compared to an $8.0 billion deficit in the year to September (3.2 percent of GDP). The deficit on investment income was $8.4 billion for the year.

★ The country's Net International Liabilities were $157.0 billion at the end of March 2016, up from $151.9 billion at the end of December 2015 and $152.2 billion a year before. The March net liabilities were equivalent to 63.1 percent of GDP, compared to 61.8 percent in December and 63.5 percent a year before. The rise in liabilities was due to a $1.5 billion net inflow of investment adding to $3.6 billion in market value changes (led by a $2.7 billion change in market price attributable according to Statistics New Zealand to high share market prices) without which the net liabilities would have been $153.4 billion. New Zealand's international debt was $292.7 billion (117.7 percent of GDP), of which 30.7 percent is due within 12 months, compared to $150.2 billion in financial assets (other than shares; 60.4 percent of GDP), leaving a net debt of $142.4 billion (57.3 percent of GDP). Of the net debt, $10.1 billion was owed by the government including the Reserve Bank (equivalent to 4.1 percent of GDP and down from $11.6 billion in December) and $101.2 billion by the banks (40.7 percent of GDP), which owed $62.9 billion to related parties. Total insurance claims owed by overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 31 March 2016, $18.5 billion of these claims had been settled, leaving $1.7 billion outstanding.

★ Overseas Merchandise Trade for the month of May saw exports of goods rise 5.1 percent from the same month last year while imports rose 5.7 percent. This created a trade surplus for the month of $358 million or 7.8 percent of exports. However there was a trade deficit for the year of $3.6 billion. In seasonally adjusted terms, exports fell 0.6 percent or $25 million over the month (compared to a 23.7 rise the previous month) led by falls in Dairy (down 3.2 percent or $28 million), Mechanical machinery and equipment (down 13.7 percent or $22 million) and Crude oil (down 18.6 percent or $10 million but not seasonally adjusted) – offset by rises in Meat (up 7.1 percent or $38 million), Logs, wood and wood articles (up 11.2 percent or $37 million), Aluminium and aluminium articles (up 19.0 percent or $14 million, not seasonally adjusted) and Fruit (up 4.4 percent or $10 million). Seasonally adjusted imports fell 1.3 percent or $58 million over the previous month, creating a trade deficit of $93 million compared to a $125 million deficit in the previous month. Import falls were led by Textiles and textile articles (down 6.8 percent or $14 million) and Optical, Medical and measuring equipment (down 2.3 percent or $4 million) – offset by Petroleum and products (up 13.1 percent or $43 million not seasonally adjusted), Mechanical machinery and equipment (up 6.9 percent or $36 million), and Electrical machinery and equipment (up 6.7 percent or $24 million).

★ The Performance of Manufacturing Index[1] for May 2016 was 57.1, a rise from 56.6 in the previous month. The employment sub-index was at 52.8, a rise from 50.0 in the previous month.

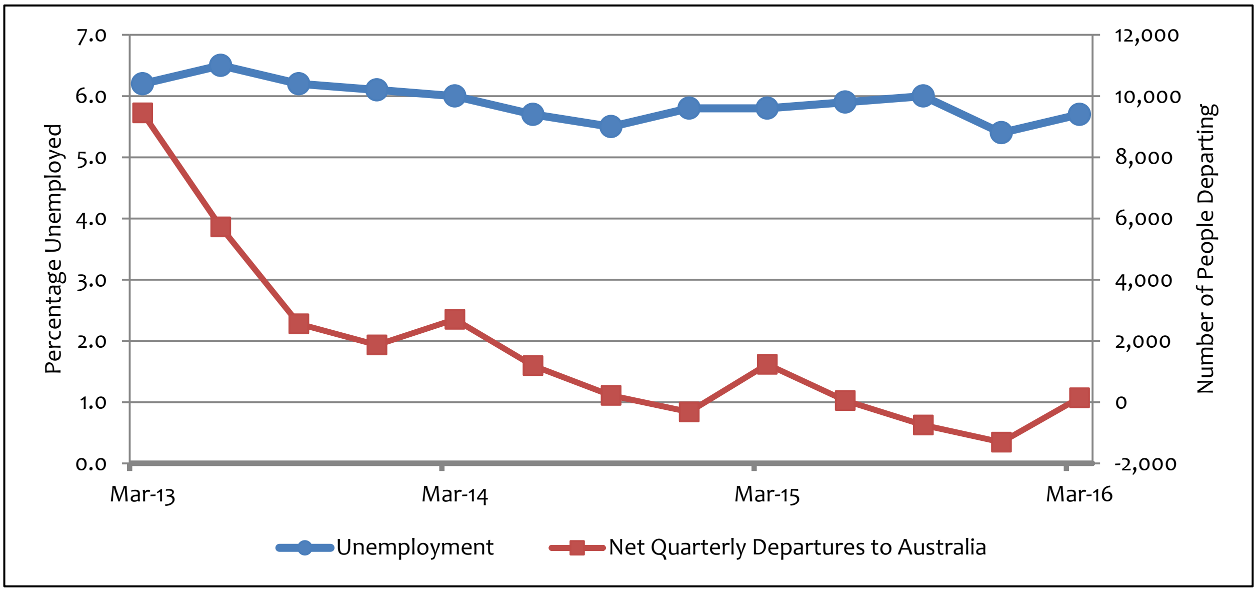
★ The Performance of Services Index[1] for May 2016 was 56.9, a fall from 57.8 in the previous month. The employment sub-index rose to 54.5 from 53.8 in the previous month.

○ 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 9 June 2016 the Reserve Bank left the Official Cash Rate (OCR) at 2.25 percent, signalling the possibility of further reductions to raise inflation to its target of around 2 percent. It was accompanied by a Monetary Policy Statement. The Bank's announcement mentioned that while volatility in international financial markets had reduced and there had been a "modest recovery" in commodity prices since its last statement on 28 April, the economic outlook internationally remained weak with "significant risks" of deterioration. The statement repeated that the local economy was being supported by strong net immigration, construction, tourism and "accommodative" monetary policy, and the exchange rate remaining too high. Dairy export prices were "below break-even levels for most farmers". House prices in Auckland – and now other regions – added to concerns about financial stability. "Auckland house prices in particular are at very high levels, and additional housing supply is needed." The Bank expects inflation to strengthen and the dollar to fall. The next OCR review will be announced on 11 August 2016. The Bank recently published an assessment of its forecasting performance. This showed that while it was the best of fourteen forecasters in forecasting inflation, it overestimates the correct value on average by 0.6 percentage points (for example 1.6 percent when it turns out to be 1.0 percent) when forecasting one year ahead and by 0.8 percentage points two years ahead.

★ According to REINZ, in seasonally adjusted terms the national median house price rose $46,000 or 10.0 percent to $506,000 in the year to May 2016 – passing $500,000 for the first time – and rose $16,000 (3.3 percent) on the previous month. The Auckland median price rose 7.5 percent over the year to $805,000 but fell 0.9 percent on the previous month. Excluding Auckland the national median price rose $36,000 or 10.3 percent to $385,000 compared to a year before. Five regions had record high median prices – Waikato/Bay of Plenty, Taranaki, Wellington, Canterbury/Westland and Central Otago Lakes. There were just 47 more sales under $400,000 compared to the same month a year ago taking the number to 3,280, a rise of 300 to 1,235 in the $1 million plus range, and 494 more to 2,320 in the $600,000 to $999,999 range. Sales under $400,000 accounted for 36.1 percent of sales in the month but 40.5 percent in the same month a year before and those in the $1 million plus range rose from 11.7 percent to 13.6 percent of sales.

Employment



★ Note: the next release of Household Labour Force statistics on 3 August will reflect a major revision of the survey. It will include a changed definition of "unemployment" and interesting new statistics on union membership, type of employment agreement (collective or individual), employment type (casual, seasonal, fixed term, temp agency, permanent etc) and job tenure.

- 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.

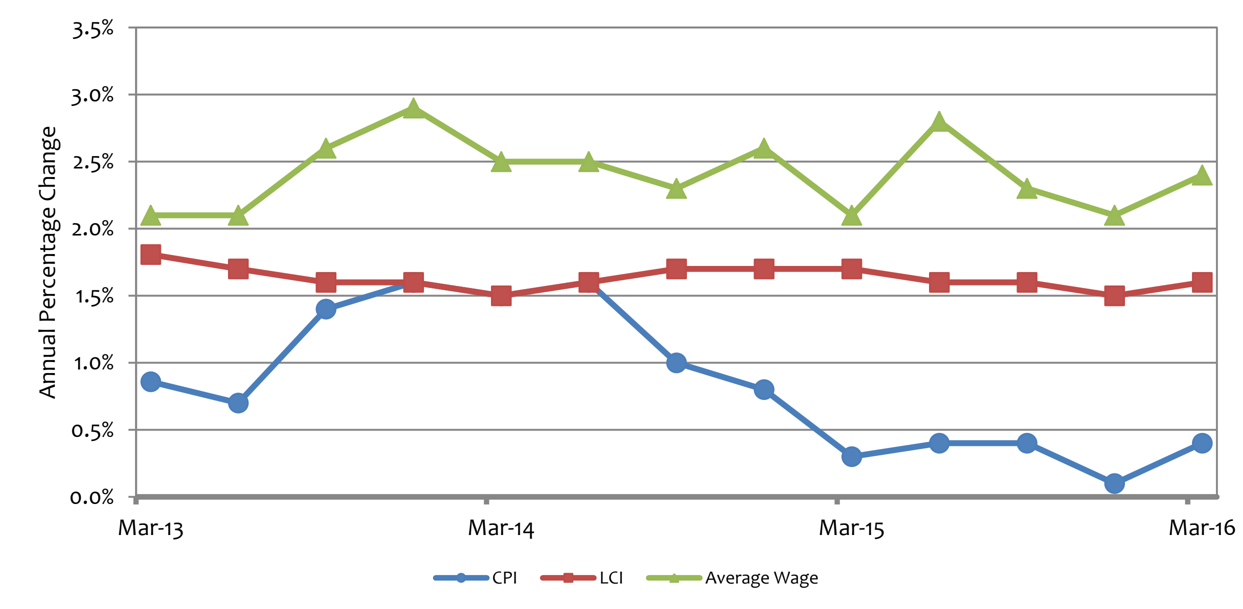
- Youth unemployment for 15-19 years was 24.0 percent, up from 23.0 percent in December and 21.6 percent a year before; for 20-24 year olds it was 10.2 percent, up from 9.3 percent in December and down from 11.1 percent a year before, all in seasonally adjusted terms. The Not in employment, education, 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 May 2016 showed the number of job vacancies rose by 0.7 percent in the month and rose 15.1 percent over the same month a year previously in seasonally adjusted terms. Over the year, vacancies in Auckland rose 18.1 percent, Wellington 12.7 percent, rest of the North Island 24.4 percent, South Island other than Canterbury 19.5 percent, while Canterbury fell 5.0 percent. Over the month vacancies fell in Wellington (by 1.1 percent) and Canterbury (by 3.9 percent) but rose in the other regions. By industry, the greatest annual increases were in Construction and engineering which rose 22.8 percent, Hospitality and tourism which rose 21.4 percent and Accounting, HR, legal and administration which rose 16.4 percent. Information Technology fell 2.8 percent (though it rose 1.2 percent in the month). Since the previous month, vacancies six of the eight identified industry groups rose but Education and training fell 16.5 percent and Healthcare and medical fell 6.6 percent. By occupation, the greatest rise over the year was in Labourers (up a huge 40.5 percent), followed by Technicians and Trades workers (up 26.7 percent), Machinery drivers (up 25.2 percent), Clerical and administration (up 17.9 percent) and Managers (up 16.2 percent). Over the month, vacancies rose in all occupational groups other than Community and Personal Services which fell 4.3 percent. All the above are in seasonally adjusted terms.

- ★ International Travel and Migration statistics showed 10,210 permanent and long-term arrivals to New Zealand in May 2016 and 4,710 departures in seasonally adjusted terms, a net gain of 5,500. There was an actual net gain of 68,432 migrants in the year to May. While this is a new high, total monthly net gains peaked in November last year (taking account of seasonal variations), and peaked in January to and from Australia. Net migration to Australia in the year to April was 1,739 arrivals, with 23,951 departures and 25,690 arrivals. However there was still a net loss of 3,664 New Zealand citizens to Australia over the year and a net loss of 3,503 to all countries. For the month of May, there was a seasonally adjusted net gain to Australia of 110, the same gain as a year before. In May, 15.7 percent of the arrivals had residence visas, 16.3 percent student visas, 33.0 percent work visas, and 5.0 percent visitors. A further 29.5 percent were New Zealand or Australian citizens.

Wages and prices

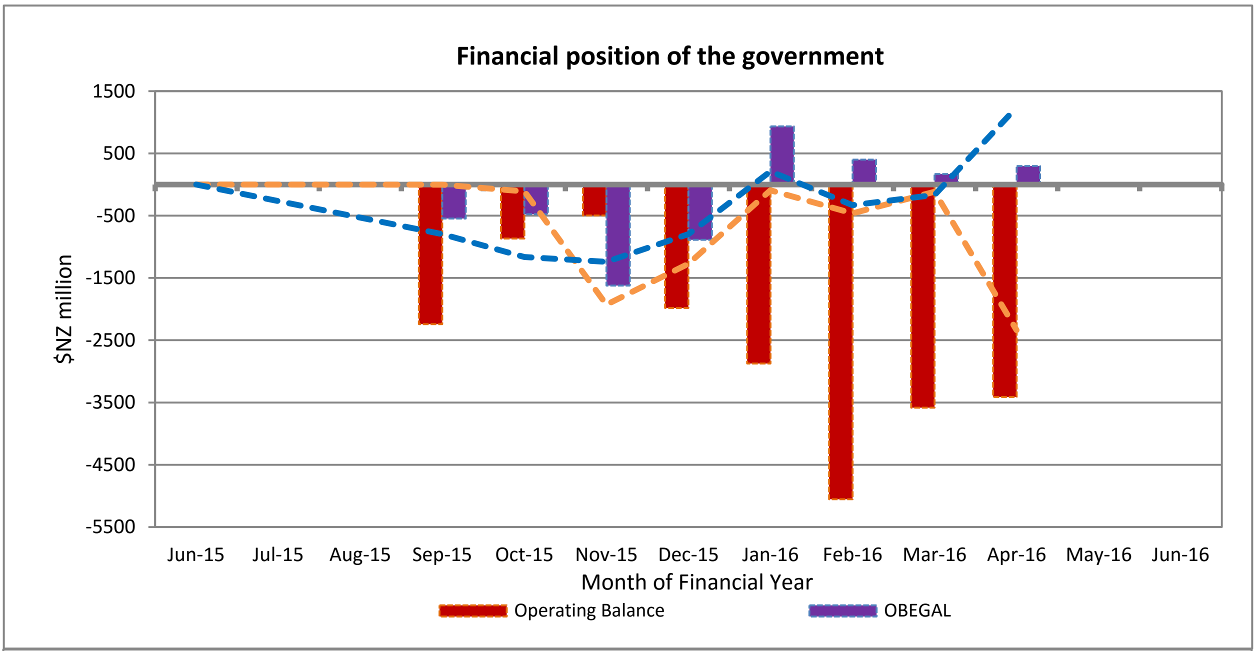


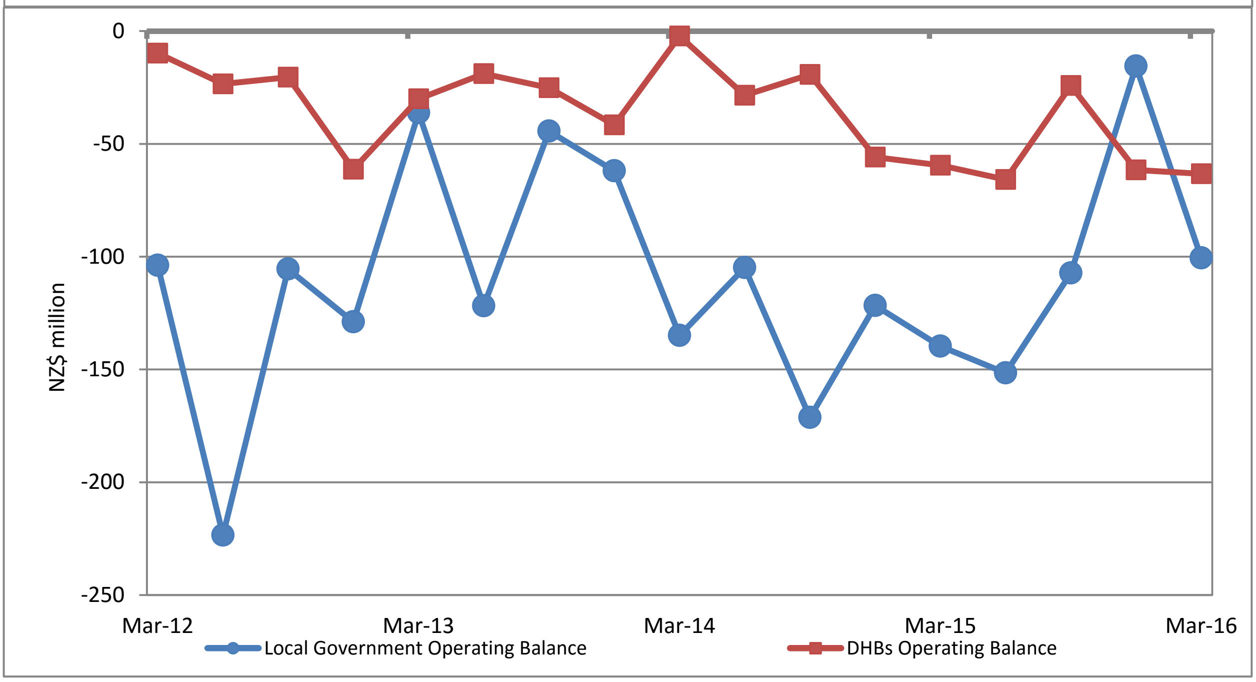
- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to March 2016. The LCI increased 1.6 percent in the year to March, ahead of the 0.4 percent increase in the CPI. It increased 0.4 percent in the public sector and 0.4 percent in the private sector 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 fell by 0.5 percent in the month of May 2016 (also falling 0.5 percent in seasonally adjusted terms). Food prices fell 0.3 percent in the year to May. Compared with the previous month, fruit and vegetable prices fell 2.6 percent (and fell 3.7 percent seasonally adjusted); meat, poultry, and fish prices rose 0.2 percent; grocery food prices were unchanged (up 0.5 percent seasonally adjusted); non-alcoholic beverage prices fell 1.2 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.)





★ According to Treasury's Financial Statements of the Government of New Zealand for the ten months ended 31 April 2016, core Crown tax revenue was $1,122 million lower than forecast in the 2016 Budget Economic and Fiscal Update (BEFU). Corporate tax was $1.4 billion (14.6 percent) below forecast, largely because of later filing of tax assessments than expected; PIE (Portfolio Investment Entity) tax was $200 million lower than forecast; and PAYE was $202 million or 0.9 percent above forecast. Total revenue was $1,070 million below forecast because of the lower tax take. Core Crown expenses were $64 million (just 0.1 percent) below forecast with underlying expenses $244 million lower than forecast with the biggest contributor MSD being $67 million (0.4 percent) below forecast resulting from lower than expected benefit payments and impairment of benefit debt due to lower interest rates. On the other hand, Inland Revenue had $106 million higher than forecast bad debt write-offs. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $297 million in surplus, $941 million worse than forecast. The Operating Balance was a $3.4 billion deficit, $1.1 billion worse than expected, which is $113 million worse than the OBEGAL shortfall on forecast. This was "largely due to higher than expected losses on the emissions trading scheme liability due to an increase in the carbon price, partly offset by higher-than-forecast gains from the Crown's investment portfolios". Net debt at 26.3 percent of GDP ($64.6 billion) was $0.3 billion better than the $64.9 billion forecast. Gross debt at $86.6 billion was $0.3 billion worse than forecast.

★ District Health Boards recorded combined deficits of $63.3 million for the nine months to April 2016. This is $40.0 million worse than their plans. The Funder arms were in surplus by $119.6 million, and Provider arms (largely their hospitals) in deficit by $185.9 million. The Northern region was $6.6 million ahead of plan with a surplus of $5.9 million and all but Northland in surplus. The Midland region was $11.4 million behind plan with a combined deficit of $21.7 million and all DHBs in deficit. Central region was $9.8 million behind plan and all DHBs in deficit including Capital and Coast at $9.1 million and three others above $4 billion, for a total deficit of $24.1 million. The Southern Region was $25.2 million behind plan with a $23.3 million deficit and three of the five DHBs in deficit, with Canterbury in deficit by $2.5 million and Southern at a $22.5 million deficit. In all only five of the 20 DHBs are not in deficit. The DHB furthest ahead of plan was Nelson Marlborough by $4.5 million, and Southern was easily furthest behind, by $27.3 million.

★ Local Government recorded a 2.0 percent ($45.5 million) fall in operating income and a 1.7 percent rise in operating expenditure ($39.5 million) including a 3.9 rise in employee costs for the March 2016 quarter compared to December 2015. This resulted in an operating deficit of $100.6 million in the March quarter, compared with a deficit of $15.6 million in the December quarter, and deficits in all the quarters back to June 2007 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/economicbulletin180.

For further information contact Bill Rosenberg.