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[Information](#)

[Section p.5](#)

Commentary

Budgeting for people's needs

Summary

On 25 May, the Government will announce its last Budget before the election. Budgets are always political statements whose facts are difficult to spot amid the tornado-like spin, but pre-election Budgets are even more so. But it is worth stating the obvious: Budgets should be about making lives better for New Zealanders.

Finance Minister Steven Joyce in a pre-Budget speech said there were four key areas for the Budget: better public services; more infrastructure spending; reducing government debt further than previously targeted, and tax cuts. Given the way public services have been run down, rebuilding – let alone improving – them needs revenue which will be taken away by the last two “key areas”.

The Government’s announcement that it wants to reduce net government debt beyond its 20 percent of GDP by 2020 target to “between 10 and 15 per cent of GDP by 2025” squeezes public finances even more, leaving less available for needed spending on public services. There is no magic about 20 percent, let alone 10 to 15 percent. If we measured net debt taking account of the New Zealand Superannuation Fund, debt would be around 11 percent of GDP now and 7 percent by 2020. A somewhat higher debt target, or pushing the 20 percent target date out a few years would significantly increase the funding available.

There is a long list of needs that have built up over the past 8 years as a result of the neglect of public services which are a part of our ‘social wage’: health, housing, better support for people made redundant, restoring the value of Working for Families, plugging gaps in education funding, addressing poverty, funding equal pay and other pay anomalies in the state services, environment protection and many more. Most of these are needs, not ‘nice to haves’ and are exacerbated by a rapidly growing population. The funding requirements considerably exceed a cap on spending of 30 percent of GDP or less.

It should be obvious that we cannot afford cuts in revenue – tax cuts – when the needs are so great. More revenue would allow us to both improve public services, including infrastructure, and pay off debt.

We must have a much better balance between the needs of our people and targets for debt and expenditure. Needs should drive the targets; currently the targets are suppressing the public services and support we need for a decent society.

On 25 May, the Government will announce its last Budget before the election. Budgets are always political statements whose facts are difficult to spot amid the tornado-like spin, but pre-election Budgets are even more so. Budgets should reflect values, priorities and objectives and so will always be

political and rightly so. But the rhetoric always needs to be interpreted to understand what values it really represents and the spin-doctors' jobs are to make that as difficult as possible.

The Minister of Finance, Steven Joyce, in a pre-Budget speech¹ to a business audience said there were four key areas he was thinking about for the Budget: better public services; more infrastructure spending; reducing debt further than previously targeted, and tax cuts. He didn't go into detail about "better public services", but given the way they have been run down, rebuilding – let alone improving – public services needs revenue which will be taken away by the last two "key areas".

We'll look at this in more detail below, but it is worth stating the obvious: Budgets should be about making lives better for New Zealanders. The business media has a fetish for budget surpluses, debt and tax cuts. The Government, being a government of and for business, is playing to this audience. While the management of government finances (fiscal matters) are important to consider, they are about the means, not the ends, of a Budget. There are always choices in these matters. We need to have our minds focussed on what better lives mean, including: good health, education and training to allow us and our children to fulfil our potential, healthy housing, supportive and safe communities, a clean environment, and sufficient income to live full, dignified lives and participate in society.

Infrastructure spending is needed: Steven Joyce lists roads, rail, broadband, schools, houses and hospitals. All of them are creaking as a result of either underinvestment in the past or (in the case of broadband) the need for continuing investment. He announced that capital spending over the next 4 years would rise from \$3.6 billion committed in the 2016 Budget to \$11.0 billion. This triples the spend – a huge increase. It is difficult to understand why there has been such a change of view of what is needed within less than 12 months. Rapid population growth is part of it, but there genuinely is a huge backlog, some of it due to deliberate underinvestment such as in hospitals and public housing where the problems have been well known for many years. Previous Budgets should have addressed them.

In the past, some or much of this would have been funded by debt. That is justified in that it spreads the cost over a longer time and a wider group of people, and most of these lead to increased economic activity which should expand government revenue, funding the repayment of the debt and more.

However the Government's announcement that not only does it want to reduce net government debt to 20 percent of GDP by 2020 but to go further to reduce it to "between 10 and 15 per cent of GDP by 2025" suggests that much of the investment will have to come from current revenue. The further reduction in debt, squeezes public finances even more than the 20 percent target, leaving less available for needed spending on public services. There is no magic about the 20 percent figure, let alone 10 to 15 percent. If we used a more logical measure of net debt, used by some international agencies, which takes account of the growing New Zealand Superannuation Fund, net debt would be around 11 percent of GDP now according to data from Treasury's February Financial Statement. It would be down to 7 percent of GDP by 2020. The OECD average² is currently over 70 percent of GDP (on a measure which puts New Zealand's net government debt at 5 percent of GDP) which is almost certainly too high, but shows how far from problematic New Zealand's debt level is.

¹ <https://www.beehive.govt.nz/speech/pre-budget-speech-2017-wellington-chamber-commerce>, 27 April 2017.

² General government net financial liabilities, as a percentage of GDP, *OECD Economic Outlook No 100* - November 2016.

According to Treasury’s fiscal model, even with last December’s revenue forecasts (and revenue is likely to be higher) the difference between a long term 20 percent net debt target, reached in 2021 and held to, makes \$0.5 billion a year extra available for spending on public services between 2018 and 2021, and an additional \$1 billion, and growing, from then on. A somewhat higher net debt target could easily be justified. Additional revenue would allow even more spending in those early years.

Another way to think about this is that the Government’s policies are aimed at steadily shrinking the ability of Government to do its job as a proportion of the economy (GDP). The Government’s intent, expressed in its 2017 Budget Policy Statement, is for Core Crown expenses to reduce from 29.7 percent of GDP in 2015/16 to 28.3 percent in 2019/20 while revenue stays close to constant as a proportion of GDP. That fall removes \$4 billion that could be spent on public services in 2019/20.

Expenses: Day-to-day spending on the cost of public services (such as wages and salaries, benefits, maintaining buildings and finance costs) that doesn’t acquire assets. The “Operating allowance” in each Budget is an allocation for what the Government classes as “new” expenses.

Capital expenditure: Spending on assets such as roads, buildings and broadband installation. There is also a “Capital allowance”.

Even that kind of money would be insufficient to meet the needs that have built up over the past 8 years as a result of the neglect of public services which are a part of our ‘social wage’. They include:

- I estimated last year that to bring the funding available to the creaking Health system back to where it was in 2010 as a proportion of GDP, it would need an additional \$1.85 billion in the 2017 Budget. (I will be publishing an updated estimate before the Budget.)
- Housing requires funding in a number of ways. The most direct is maintenance of existing Housing Corporation houses and building new ones. Part of that is expenses (maintenance) which is difficult to estimate, but likely in the hundreds of millions. Replacing the 4,000 state houses that were sold or demolished between 2011 and 2016¹ would cost around \$2 billion in capital and that would only bring the numbers back to where they were in 2011.
- Housing also needs funding of new homes for first home buyers, as Labour has suggested – mainly a one-off capital commitment which is paid off as families buy the houses, and then used to build the next ones.
- The Accommodation Supplement has not been increased since 2007 yet is increasingly crucial to many working and beneficiary families as rents and house prices rise and income-related rent subsidies have been made increasingly difficult to obtain. A proposal to raise it in 2010 was dismissed by the Government and would have cost an additional \$60 million more then² – and certainly much more than that now.
- There are numerous gaps in education including inadequate school operations grants, raising the standards in early childhood education so all teachers are fully trained, and special education funding needs. Tertiary education and training are long overdue additional resources.

¹ Housing New Zealand's biggest loser”, by Megan Hunt, 14 July 2016,

<http://www.stuff.co.nz/national/82009360/housing-new-zealands-biggest-loser>

² <http://www.cpag.org.nz/the-slow-demise-of-the-accommodation-supplement/>

- The very weak support given to working people in New Zealand when they are made redundant was highlighted in a recent OECD report. The costs for adequate support, increasingly necessary in rapidly changing workplaces, is certainly in the tens and probably hundreds of millions of dollars.
- The value of Working for Families has fallen from \$3.1 billion in 2010 (in 2017 dollar terms) to an estimated \$2.4 billion this year. That needs to be restored – a cost of \$700 million a year – to restore incomes to families given our low wages and feeble wage setting system. It needs to be reviewed and indexed in future to wages.
- The state of poverty in New Zealand has been barely addressed. That cannot be done without raising benefit levels and indexing them to wages (like New Zealand Superannuation). Estimates for a package of services and boosts to income that would alleviate child poverty start at around \$1 billion a year.
- The Government has announced an additional 1,125 police staff including 880 police officers, costing an average of \$126 million a year over the next four years. Labour is promising to raise the 880 to 1,000 more officers.
- The Government has committed to \$1 billion on enough “prisoner places” for 1,800 prisoners. Presumably this is capital, but if built and operated privately may add to operational expenses. It will require additional staffing and other expenses in any case.
- Many pay anomalies exist in the state services and in other services the government funds. The equal pay settlement won by E Tu and Kristine Bartlett is costing the government \$303 million in the coming Budget and \$1.856 million over five years. There are other equal pay cases being negotiated and more are certain to be raised. Most state sector wages and salaries have risen at much slower rates than the private sector over the last 8 years. The Government cannot rely on continuing to suppress wage increases as it has done to hold down spending.
- Then there are various promises, including Labour’s “Future of Work” pledge of three years free tertiary education from 2019, costing \$265 million in its first year rising to \$1.2 billion a year by 2025.
- There are gaps in environmental protection and conservation, broadcasting (where Radio New Zealand, our last public broadcaster other than Māori Television, has had no increase in funding under this Government) and many other areas.

There can be arguments over priorities, but most of these are needs, not ‘nice to haves’. They are exacerbated by a rapidly growing population. They can be delayed year after year as the current Government has done, but at some point each will create a crisis that will need to be fixed – probably more expensively and less effectively than if it had been dealt with earlier. The Government’s strategy is built on a lie: that it can forever do more with (much) less. We can see that that strategy has failed, as it did in the 1990s. Instead it is low and middle income New Zealanders who lose out.

While no Government will be able to satisfy all these needs in one Budget, they clearly exceed a cap on spending of 30 percent of GDP or less. In the current year (to June 2017), raising expenses to 30 percent of GDP from its estimated 29.6 percent would have provided \$1.2 billion more. That is easily exceeded by Health needs alone. In the coming Budget year to June 2018, Treasury estimates indicate 30 percent

would provide for \$3.7 billion more operational spending than the Government said it was planning in December. But the growing population and other underlying drivers will in fact force any Government to use up some of that, because per capita GDP growth is slow. In any case even \$3.7 billion is exceeded by the need.

It should be obvious that we cannot afford cuts in revenue – tax cuts – when the needs are so great. More revenue would allow us to both improve public services, including infrastructure, and pay off debt.

We must have a much better balance between the needs of our people and targets for debt and expenditure. Needs should drive the targets; currently the targets are suppressing the public services and support we need for a decent society.

Bill Rosenberg

Information

Forecast.....	5
Economy	6
Employment.....	9
Wages and prices	14
Public Sector	17
Notes.....	18

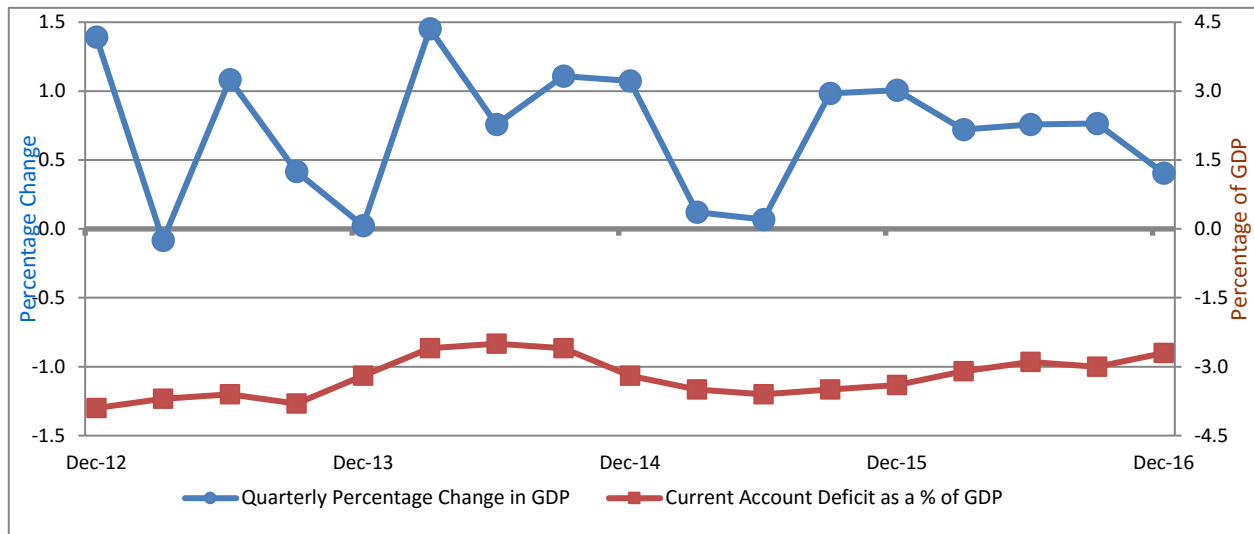
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This [NZIER consensus forecast](#) was released on 13 March 2017.

Annual Percentage Change (March Year)	2016-17	2017-18	2018-19	2019-20
GDP	3.4	3.3	3.1	2.5
CPI	1.7	1.7	2.0	2.0
Private Sector average wage	1.6	2.3	3.0	3.2
Employment	4.8	2.4	2.1	1.6
Unemployment rate (% of labour force)	5.0	4.7	4.7	4.8

Economy



- Growth in New Zealand's economy was below expectations in the December 2016 quarter, with [Gross Domestic Product](#) rising by 0.4 percent, compared to 0.8 percent in September (revised down from 1.1 percent) and 0.8 percent in the June quarter too. Average growth for the year ended December 2016 was 3.1 percent (and 2.7 percent increase between December quarters). However GDP is not keeping up with the rapidly growing population: GDP per person fell 0.2 percent in the December quarter, and 0.9 percent over the year. On the other hand, real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, rose by an exceptionally strong 2.3 percent during the December quarter and rose 2.0 percent over the year to December. I estimate¹ that production per hour worked in the economy fell by 2.4 percent compared to the same period last year and fell 0.9 percent in the December quarter, indicating falling productivity which is bad for future wage growth. Business investment growth in the three months (1.8 percent) was strong relative to a revised 0.7 percent in the September quarter and much faster than GDP growth. Investment in housing grew only 0.1 percent, a second slow quarter (0.6 percent in the September quarter) and much lower than the 5.3 percent in the June quarter. Household consumption growth was relatively weak, rising only 0.4 percent in the quarter in contrast to 1.4 percent in the previous quarter and for the year up 4.3 percent. Inflation in the economy as a whole is stronger than CPI with the GDP deflator (a price index for expenditure on the economy's production) rising 1.9 percent in the December quarter and 0.8 percent in the September quarter, with a total rise of 3.9 percent for the year.
- By industry, the largest contributors to growth in the latest quarter were Professional, scientific, technical, administration, and support (up 1.7 percent) followed by Construction (up 1.8 percent), Financial and Insurance services (up 1.3 percent), Health care and assistance (up 0.1 percent) and Arts, recreation and other services (up 3.8 percent). They were offset by falls led by Manufacturing (down 1.6 percent), Agriculture, forestry and fishing (down 0.8 percent), Mining (down 2.3 percent), and Transport, postal and warehousing (down 0.7 percent). Over the year, the biggest rise

¹ Because of the changes to the Household Labour Force Survey, there is a break in the hours-worked series in June. I estimated the increase for June using the historical relationship with hours paid from the more limited Quarterly Employment Survey.

was in Construction (up 10.5 percent), followed by Retail trade and accommodation (up 5.3 percent), Professional, scientific, technical, administration, and support (up 4.7 percent), Health care and assistance (up 4.7 percent) and Arts, recreation and other services (up 4.7 percent). However Agriculture, forestry and fishing was down 0.4 percent over the year and Mining was down 9.2 percent.

- New Zealand recorded a [Current Account](#) deficit of \$1.6 billion in seasonally adjusted terms for the December 2016 quarter (but an actual deficit of \$2.3 billion) following a revised \$5.0 billion deficit for the September 2016 quarter. There was another deficit in the goods trade (\$833 million, seasonally adjusted, following a \$703 million deficit in the September quarter, with deficits in all quarters back to September 2014). There was a surplus of \$375 million in goods and services (\$332 million in September), while the deficit on primary income (mainly payments to overseas investors) improved to \$2.0 billion from \$2.2 billion in September (not seasonally adjusted). For the year to December 2016, the current account deficit was \$7.1 billion or 2.7 percent of GDP compared to a \$7.6 billion deficit in the year to September (3.0 percent of GDP). The deficit on investment income was \$8.1 billion for the year. During the year to March, foreign direct investors (those with a degree of control of the companies they hold shares in) were paid dividends at the rate of 10.6 percent after tax, compared to 11.8 percent the year before. By comparison they received a rate of return of only 2.6 percent after tax on debt owed to them by their companies. Portfolio investors received returns of 4.2 percent on shares and 2.0 percent on debt.
- The country's [Net International Liabilities](#) were \$156.5 billion at the end of December 2016, down from \$166.1 billion at the end of September and up from \$153.8 billion a year before. The December net liabilities were equivalent to 59.9 percent of GDP, compared to a revised 64.8 percent in September and 62.2 percent a year before. They would take 2.24 years of goods and services exports to pay off, up from 2.21 years a year before. The fall in net liabilities was due to a \$3.3 billion net outflow of investment plus \$6.3 billion in valuation changes (mainly in market valuations) without which the net liabilities would have been \$162.8 billion. Part of the net outflow of investment was due to insurance companies running down overseas investments to pay for claims from the November earthquakes. The largest part of the outflow was banks increasing their investment assets overseas. New Zealand's international debt was \$289.0 billion (110.6 percent of GDP), of which 32.4 percent is due within 12 months, compared to \$143.1 billion in financial assets (other than shares; 54.8 percent of GDP), leaving a net debt of \$145.9 billion (55.9 percent of GDP). Of the net debt, \$6.5 billion was owed by the government including the Reserve Bank (equivalent to 2.5 percent of GDP and down from \$11.4 billion in September) and \$107.8 billion by the banks (41.3 percent of GDP), which owed \$158.4 billion gross. Total insurance claims made on overseas reinsurers from the Canterbury earthquakes are estimated at \$20.2 billion, and at 31 December 2016, \$19.5 billion of these claims had been settled, leaving \$0.6 billion outstanding. For the Kaikōura earthquakes, out of an estimated \$694 million of claims, \$14 million had been settled.
- ★ [Overseas Merchandise Trade](#) for the month of March saw exports of goods rise 10.6 percent from the same month last year while imports rose 7.6 percent. This created a trade surplus for the month of \$332 million or 7.1 percent of exports. There was a trade deficit for the year of \$3.7 billion or 7.5 percent of exports, a slight improvement on the 7.7 percent deficit in the year to the same month in 2016. In seasonally adjusted terms, exports fell 3.6 percent or \$144 million over the month (compared to a 2.8 percent fall the previous month) led by falls in Crude oil (down 41.0 percent or \$27 million, not seasonally adjusted) and Meat (down 7.5 percent or \$39 million), offset

by rises led by Fruit (up 28.4 percent or \$59 million), Seafood (up 34.8 percent or \$38 million), Logs, wood and wood articles (up 9.1 percent or \$29 million) and Milk powder, butter and cheese (up 1.1 percent or \$11 million). Seasonally adjusted imports fell 4.6 percent or \$209 million over the previous month, creating a trade deficit of \$426 million compared to a \$490 million deficit in the previous month. The imports were led by falls in Petroleum and products (not seasonally adjusted, down 32.5 percent or \$153 million) and Textiles (not seasonally adjusted, down 9.2 percent or \$21 million), offset by rises in Mechanical machinery and equipment (not seasonally adjusted, up 12.9 percent or \$71 million), Plastic and plastic articles (up 9.7 percent or \$17 million) and Electrical machinery and equipment (up 3.7 percent or \$13 million).

★ The [Performance of Manufacturing Index](#) for March 2017 was 57.8, a rise from 55.7 in the previous month. The employment sub-index was at 53.4, a rise from 51.4 in the previous month.

★ The [Performance of Services Index](#) for March 2017 was 59.0, up slightly from 58.7 the previous month. The employment sub-index was 52.8, down from 54.7 in the previous month.

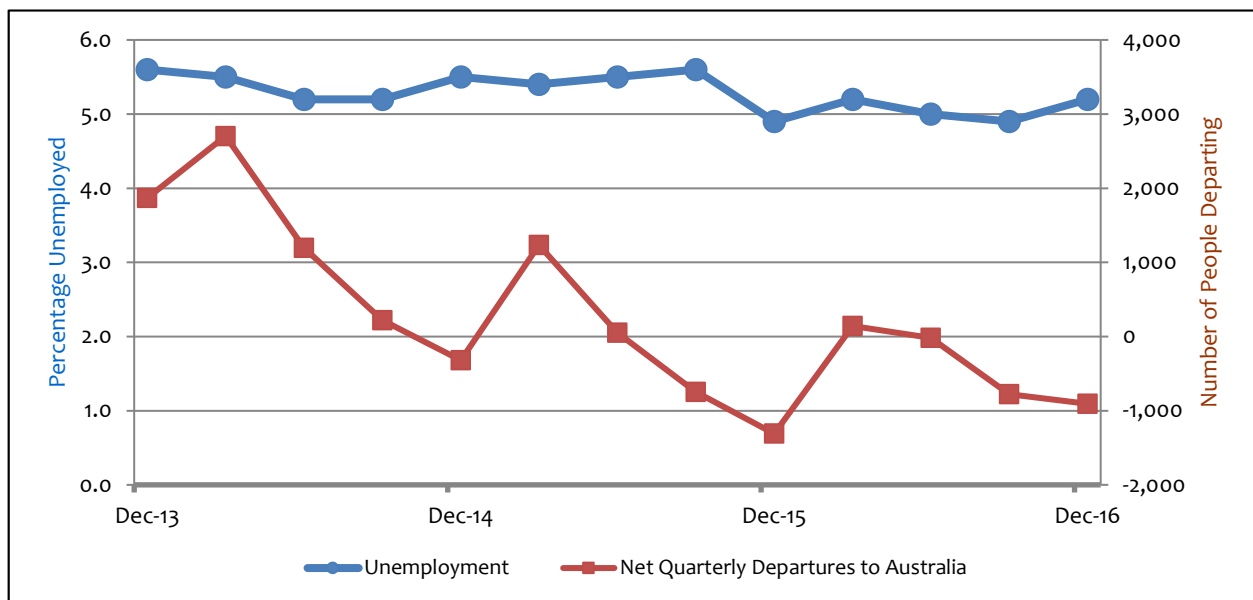
For these two indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

● The [Retail Trade Survey](#) for the three months to December 2016 showed retail sales rose 3.9 percent by volume and 4.7 percent by value compared with the same quarter a year ago. They rose 0.6 percent by volume and 1.1 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Accommodation (up 4.0 percent), Pharmaceutical and other store-based retailing (up 3.1 percent), Motor vehicles and parts (up 2.7 percent), Furniture, floor coverings, houseware, textiles (up 2.4 percent), and Recreational goods (up 2.2 percent). There were falls in Non-store and commission retailing (which includes internet purchases) which was down 4.8 percent, and Clothing, footwear, and accessories (down 1.0 percent). Both also fell in volume. Supermarket and grocery stores, the largest single sector, rose just 0.1 percent by value (up \$4 million) and fell 0.5 percent by volume.

● On 23 March 2017 the Reserve Bank left the [Official Cash Rate \(OCR\)](#) at its record low of 1.75 percent. It indicated that the rate is likely to be in place for a considerable time unless there were unforeseen events: “Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly”. It considered that the international outlook had improved with a recovery in commodity prices, but there was still “extensive geo-political uncertainty” and surplus capacity (high unemployment and underused production capacity) abroad. Inflation was increasing internationally. The exchange rate had fallen “partly in response to weaker dairy prices and reduced interest rate differentials. This is an encouraging move, but further depreciation is needed to achieve more balanced growth.” Economic growth in New Zealand in the December quarter was weaker than expected but that may be temporary. It is based on “on-going accommodative monetary policy, strong population growth, and high levels of household spending and construction activity. Dairy prices have been volatile in recent auctions and uncertainty remains around future outcomes.” The Bank considered that house price rises had moderated, partly due to its loan-to-value ratio restrictions and tighter lending conditions, but was not sure that the moderation would be sustained because house building wasn’t keeping up with demand. With CPI inflation at 1.3 percent in the year to December 2016, it was back in the Bank’s target band, and the Bank considered it would rise to 2 percent. The next OCR announcement will be on 11 May 2017.

★ According to [REINZ](#), over the year to March the national median house price rose \$51,000 or 10.3 percent to \$546,000 and REINZ’s house price index rose 10 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 1.7 percent seasonally adjusted while the house price index was unchanged. In Auckland, over the year, the median price rose 8.5 percent or \$70,000 to \$890,000 and the house price index rose 8.3 percent. Over the month the median price rose 4.9 percent seasonally adjusted, though the house price index fell 0.3 percent. Excluding Auckland, over the year the national median price rose \$45,000 to \$30,000 or 11.7 percent while the house price index rose 13 percent. Over the month the median price was up 3.2 percent on the previous month seasonally adjusted, and the house price index was up 0.6 percent. Eight regions had record median prices: Northland (\$445,000, up 27 percent over the year), Auckland (\$890,000, up 8.5 percent), Waikato/Bay of Plenty (\$487,000, up 17 percent), Hawke’s Bay (\$385,000, up 24 percent), Taranaki (\$370,000, up 18 percent), Manawatu/Whanganui (\$270,000, up 16 percent), Canterbury/Westland (\$440,000, up 3.5 percent) and Otago (\$320,000, up 14 percent). There was a rise from 1,301 to 1,360 in the number of sales in the \$1 million plus range over the year and from 2,354 to 2,399 in the \$600,000 to \$1 million range but a fall from 3,524 to 2,657 valued under \$400,000. Under \$400,000 now constitutes only 31.2 percent of sales compared to 37.0 percent a year ago while sales of houses over \$1 million has risen from 13.7 percent to 16.0 percent. Total sales were down 10.7 percent from 9,527 a year ago to 8,504 in March 2017.

Employment



- According to the [Household Labour Force Survey \(HLFS\)](#) the unemployment rate in the December 2016 quarter rose to 5.2 percent or 139,000 people, compared to 4.9 percent in September (129,000 people), seasonally adjusted. It is more than half as much again than the 3.3 percent it was in December 2007, which would mean 51,600 more people would have jobs. The unemployed were not the only people looking for work: “underutilisation” includes the officially unemployed as above, people looking for work who are not immediately available or have not looked sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours

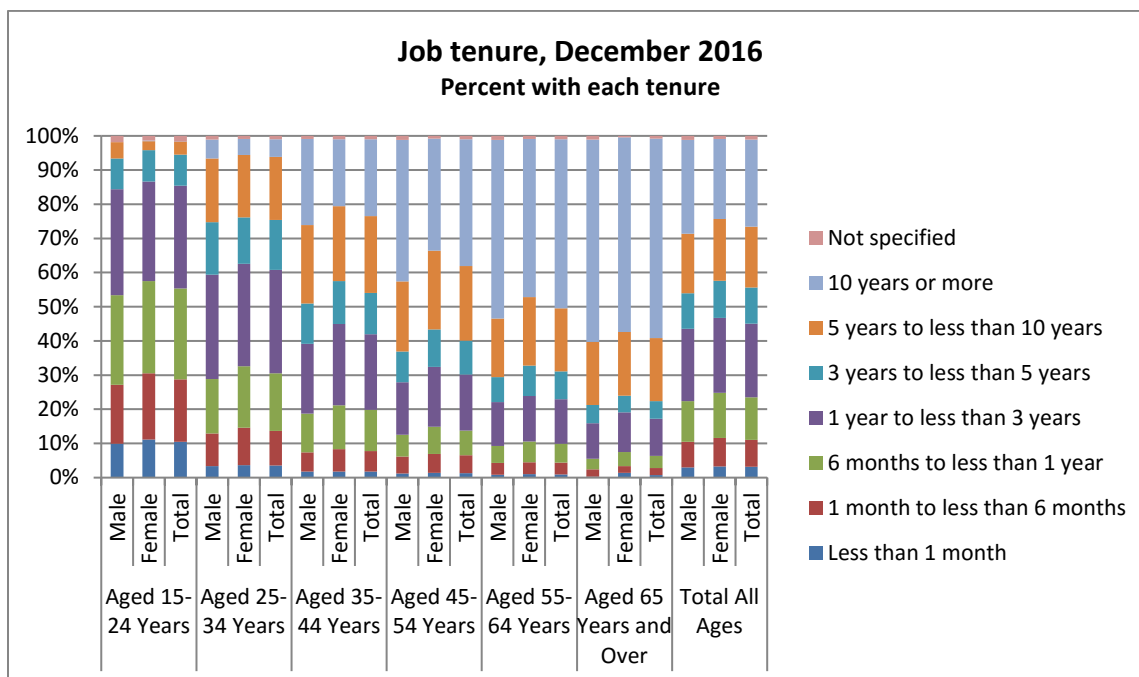
("underemployed"). In the December quarter there were a total of 343,900 people looking for work classed as "underutilised", or 12.8 percent of the labour force extended to include these people. Of them, 115,200 were underemployed, 138,100 were officially unemployed, and 101,600 were additional jobless people looking for work (these figures are not seasonally adjusted). The 12.8 percent underutilisation rate is the same as a year before and considerably higher than in September 2007 when it was 8.8 percent. It is higher for women at 15.7 percent than for men (10.2 percent). Excluding the officially unemployed, the underutilisation rate is 7.8 percent. There are 45,100 unemployed people who have been out of work for more than 6 months. This is apparently a large increase from the 35,300 a year before but a change in the survey question could have contributed to this. This is 32.7 percent of the unemployed compared to 28.7 percent a year before, and has not been previously reached in a December quarter since 1999. Those out of work for more than a year are 11.6 percent of the unemployed compared to 11.3 percent a year before (again possibly affected by the changed survey question). Compared to OECD unemployment rates, New Zealand had 13th lowest (out of 34 countries), compared to 10th in September.

- The number recorded as employed rose by 19,000 between the September and December 2016 quarters (seasonally adjusted). The recorded employment rate rose from 66.7 percent to 66.9 percent over the three months. It was 61.6 percent for women and 72.4 percent for men. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) rose from 70.1 percent to 70.5 percent, all in seasonally adjusted terms.
- In the North Island, unemployment rates rose compared to a year ago in four out of the eight regions but only in Taranaki was the rise statistically significant (that is, for the other regions the error in the estimates of unemployment means it cannot be ruled out that the rises were in fact zero). In the North Island, Gisborne/Hawke's Bay has the worst unemployment rate at 8.1 percent while Northland, previously the worst, is now second at 7.3 percent. Bay of Plenty at 4.9 percent has the best (lowest). Auckland is at 5.1 percent (the same as a year before) and Wellington 5.6 percent (up from 5.3 percent a year before). The South Island looks considerably better, with Tasman/Nelson/Marlborough/West Coast at 4.1 percent (4.0 percent a year before), Canterbury at 3.7 percent (3.3 percent a year before), and Otago at 4.0 percent (4.2 a year before) and Southland at 5.0 percent (4.0 percent a year before).
- By industry, the increase in employment of 54,900 since the September quarter was made up of both gains and losses. The biggest gains were of 21,900 in Retail trade, accommodation and food services, and 17,100 both in Construction and in Professional, scientific, technical, administrative, and support services. The biggest loss was 30,300 among people with no industry specified. These are not seasonally adjusted.
- The seasonally adjusted female unemployment rate at 5.7 percent in December was higher than for men (4.8 percent), and both rose from the previous quarter (5.2 percent and 4.7 percent respectively). Māori unemployment rose from 10.3 percent in December 2015 to 11.9 percent in December 2016, and Pacific people's unemployment rose from 9.2 percent to 9.7 percent over the year.
- **Youth unemployment** for 15-19 year olds was 22.0 percent in December, up from 19.1 percent in September, and similar to the 22.1 percent in December 2015 (these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not). For Māori 15-19 year olds in December 2016 the unemployment rate was 30.7 percent and

for Pacific Peoples it was 31.1 percent, both higher than a year before. For 20-24 year olds youth unemployment was 9.4 percent, up from 9.1 percent in September and 8.3 percent a year before. For Māori 20-24 year olds in December 2016 it was 15.9 percent and for Pacific Peoples it was 11.3 percent, both higher than a year before. The proportion of 15-19 year olds “not in employment, education, or training” (the NEET rate) for 15-19 year olds was 9.6 percent, up from 7.2 percent in September and 6.6 percent a year before. For Māori 15-19 year olds in December 2016 the rate was 14.8 percent and for Pacific Peoples it was 14.1 percent, both higher than a year before. For 20-24 year olds the NEET rate was 17.3 percent, up from 14.8 percent in September and 15.0 percent a year before. For Māori 20-24 year olds in December 2016 the rate was 28.2 percent and for Pacific Peoples it was 22.3 percent. For the whole 15-24 year old group, unemployment was higher for those in education (17.3 percent) than those not in education (12.3 percent). There were 91,000 people aged 15-24 years who were not in employment, education, or training (NEET), up from 75,000 in September and 72,000 a year before.

- From the June quarter, the HLFs started surveying **union membership** and having a **collective employment agreement**. In the December 2016 quarter, total union membership was estimated at 377,900, a 0.7 percent rise from 375,400 in the September quarter but lower than the 379,300 in the June quarter. The membership is 18.3 percent of employees (or slightly higher if those who didn't know were discounted) compared to 18.7 percent in the September quarter and 19.1 percent in the June quarter. Women make up 58.7 percent of the membership compared to 49.3 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.8 percent compared to 15.0 percent. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends. Regarding coverage by a collective employment agreement, 19.2 percent of employees (395,300, which is larger than the estimated number of union members) said their employment agreement was a collective in December compared to 19.5 percent in September and 20.6 percent (410,300) in June; 65.9 percent (1,358,400) said it was an individual agreement compared to 65.0 percent in September and 62.9 percent in June, and 7.8 percent or 160,000 said they had no agreement (which is illegal), compared to 7.9 percent in September and 8.6 percent in June. While the proportion has fallen slightly, there is still a large number that flout the law. A further 7.0 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.4 percent for men and 22.1 percent for women. Again, these figures could be affected by seasonal variations in numbers.
- For the first time in June the HLFs also reported on “**employment relationship**”. In the December 2016 quarter, 89.3 percent of employees (1,840,300) reported they were permanent, 5.2 percent casual (107,400), 2.8 percent fixed term (57,100), 1.4 percent seasonal (28,700), and 0.5 percent employed through a “temporary agency” (10,200). The proportion reporting they were permanent was down from 4.8 percent (1,804,100) in September and 5.4 percent (1,762,900) in June. Women were slightly less likely to be permanent employees: 88.2 percent of women were permanent compared to 90.4 percent of men. Instead, women were more likely to be casual (5.2 percent of them compared to 4.6 percent of men) or fixed term (3.4 percent of women compared to 2.1 percent of men). However somewhat more men were in seasonal work than women – 1.6 percent of men (16,600) compared to 1.2 percent of women (12,100). Of the temp agency employees, 4,500 were men and 5,700 women. Women make up 49.3 percent of employees. Employment relationships may have seasonal variations, so we should be cautious about seeing trends in quarterly comparisons. In addition, small differences may not be statistically significant.

- For the first time in June the HLFS also reported on **duration of employment (job tenure)**. In the December quarter, 23.5 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.1 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 18.1 percent had been in their job for at least five but less than ten years, and 25.5 percent had been in their jobs for 10 years or more. Women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 27.4 percent of men had been in their jobs for more than 10 years, but only 23.4 percent of women. But the differences may not be statistically significant. As would be expected, age is a significant factor as the graph below shows.

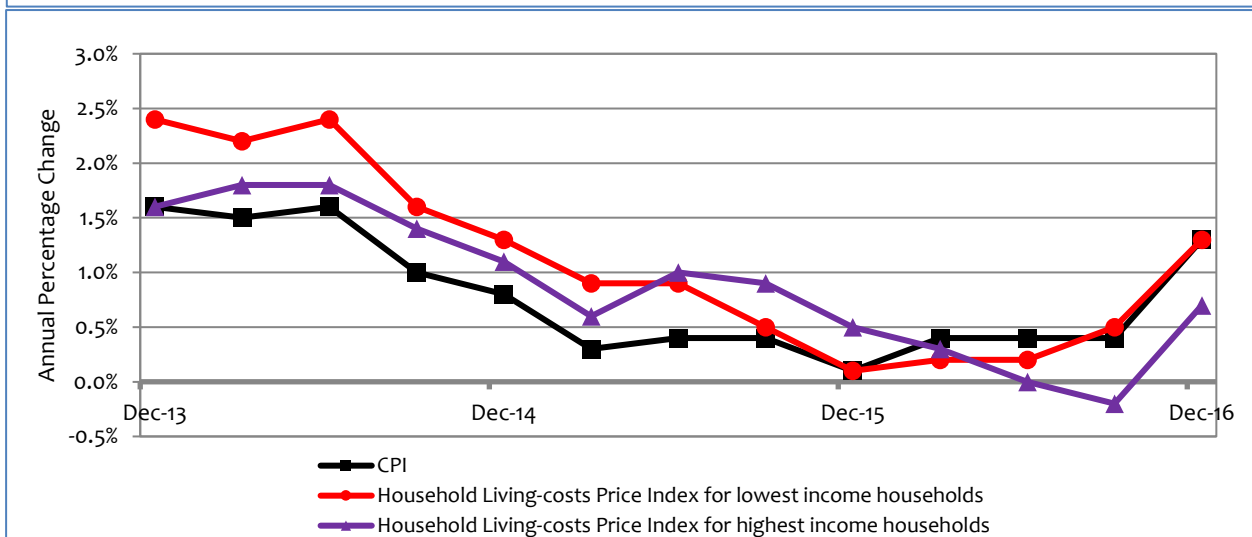
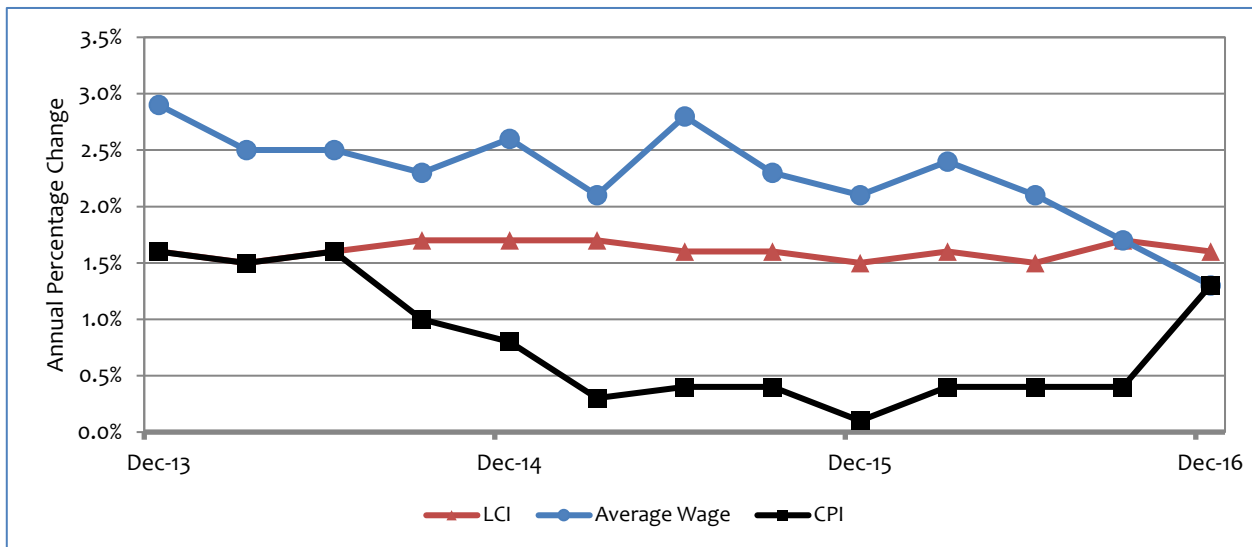


- ★ The [Ministry of Social Development](#) reports that at the end of March 2017 there were 119,405 working age people on the Jobseeker benefit, 2,271 more than a year before but a fall of 4,906 from 124,311 in December. At March 2017, 63,945 were classified as ‘Work Ready’, and 55,460 were classified as ‘Health Condition or Disability’. A total of 278,236 were on ‘main’ benefits, 1,655 fewer than a year before, mainly due to 4,175 fewer on Sole Parent Support, and 18,744 lower than December, mainly because of over 10,000 coming off a ‘Jobseeker Support Student Hardship’ benefit during the three months. The Minister welcomed the fall in numbers on Sole Parent Support, attributing it to the Budget 2015 package that “set new requirements for sole parents and partners of beneficiaries to look for part-time work of 20 hours a week when their youngest child turns 3, instead of 5”. She inaccurately claimed that “the proportion of the population on a main benefit (9.6 per cent) [is] the lowest it’s been in a March quarter since 1997”. In fact it was at 9.0 percent of the population (she means those aged 15 to 64) in March 2008 when it was 22,482 lower. Of the 52,826 benefits cancelled during the three months to March, 22,344 or 42.3 percent obtained work, 11.1 percent transferred to another benefit and 13.7 percent became full time students.
- ★ [Job Vacancies Online](#) for March 2017 showed the seasonally adjusted number of job vacancies rose by 2.6 percent in the month and rose 20.5 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Auckland rose 18.2 percent, Wellington 15.7

percent, the rest of the North Island 30.0 percent, Canterbury 9.5 percent and the rest of the South Island 43.3 percent. Over the month, vacancies rose in Auckland by 0.6 percent, Wellington by 2.2 percent, the rest of the North Island by 2.2 percent, Canterbury by 3.7 percent and in the rest of the South Island by 7.8 percent. By industry, the fastest annual increases were in Education and training (up 41.3 percent), Hospitality and tourism (up 30.2 percent), Healthcare and medical (up 23.0 percent), Construction and engineering (up 21.9 percent), and Sales, retail, marketing and advertising (up 16.8 percent). IT (Information Technology) rose just 0.6 percent. Over the month, the fastest increases were in Education and training (up 22.3 percent) and Hospitality and tourism (up 11.9 percent), while Accounting, HR, legal and administration fell 1.0 percent. By occupation, the fastest rises over the year were for Machinery Drivers (up 39.1 percent), Labourers (up 27.9 percent), Community and Personal Services (up 24.2 percent), Sales (up 20.2 percent), Professionals (up 18.9 percent), and Managers (up 18.7 percent). Over the month the fastest risers were Community and Personal Services (up 6.9 percent), and Professionals (up 5.0 percent) while Managers fell 0.8 percent.

★ [International Travel and Migration](#) statistics showed 10,800 permanent and long-term arrivals to New Zealand in March 2017 and 4,700 departures in seasonally adjusted terms, a net gain of 6,100. There was a record actual net gain of 71,932 migrants in the year to March, the highest ever. Net migration to Australia in the year to March was 1,018 arrivals, with 24,539 departures and 25,557 arrivals. However there was a net loss of 4,206 New Zealand citizens to Australia over the year and a net loss of 437 to all countries. For the month of March, there was a seasonally adjusted net gain from Australia of 100, compared to a gain of 120 a year before. In March, 14.2 percent of the arrivals had residence visas, 16.0 percent student visas, 37.5 percent work visas, and 4.9 percent visitors. A further 26.7 percent were New Zealand or Australian citizens.

Wages and prices



- The [Labour Cost Index](#) (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to December 2016 and increased 1.6 percent in the year, ahead of the 1.3 percent increase in the CPI. The LCI increased 0.5 percent in the public sector and 0.4 percent in the private sector in the three months to December. Over the year it rose 1.8 percent in the public sector and 1.6 percent in the private sector. During the year, 45 percent of jobs surveyed did not receive a pay rise, and 47 percent of private sector jobs got no rise. For the 55 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.2 percent and the average increase was 3.1 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 2.5 percent and in the private sector 3.1 percent. We estimate that over the year, jobs on collective employment agreements were 2.2 times as likely to get a pay rise as those which were not, and are more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent but are 20 percent less likely to get one of more than 5 percent. Only 45 percent of jobs that were not on a collective got a pay rise during the year whereas the Centre for Labour, Employment and Work reports 99 percent of those on a collective got a pay rise. In the construction industry, after falling behind for almost two years, salary and ordinary time wage rates in Canterbury rose more quickly in the quarter than in the rest of the country: 0.8

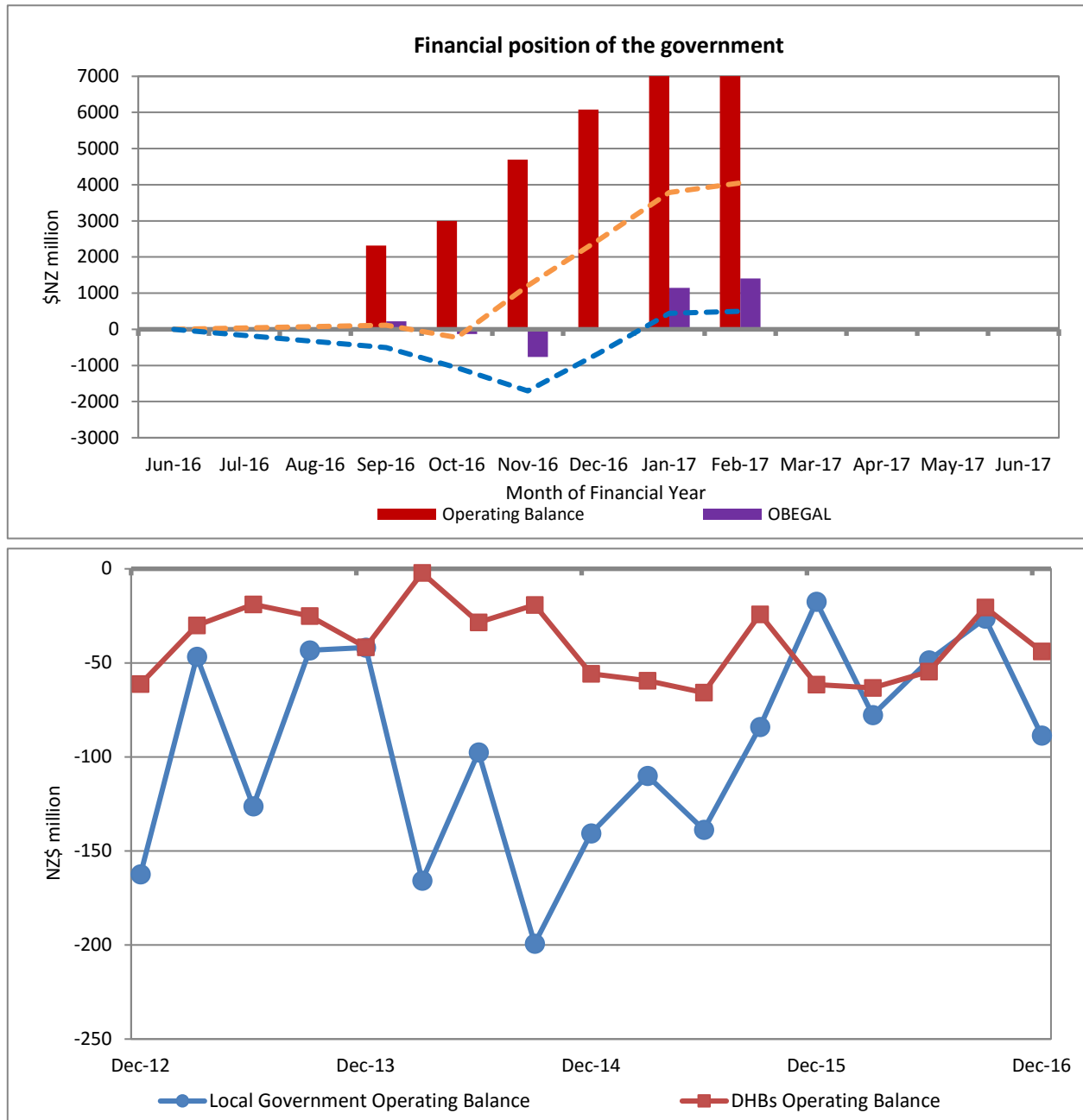
percent in Canterbury but 0.4 percent in the rest of the country; but over the year to December, wage rates rose faster in the rest of the country: 1.4 percent in Canterbury compared to 2.2 percent elsewhere. For those getting a rise, Canterbury wage rates rose 4.0 percent in the year compared to 3.6 percent elsewhere.

- The [Quarterly Employment Survey](#) for the three months to December 2016 found the average hourly wage for ordinary-time work was \$29.75, down 0.1 percent on the previous quarter and up just 1.3 percent over the year (the lowest increase since 2010 when the country was just coming out of recession). Female workers (at \$27.51) earned 13.2 percent less than male workers (at \$31.68) for ordinary time hourly earnings. The average ordinary-time wage was \$27.74 in the private sector (down 0.3 percent in the quarter and up just 1.1 percent in the year) and \$37.63 in the public sector (up 0.5 percent in the quarter and up 3.0 percent in the year). Average total hourly wages (including overtime) ranged from \$19.05 in Accommodation and food services, and \$20.81 in Retail trade, to \$41.82 in Finance and insurance services, and \$40.26 in Information, media and telecommunications in December. In Accommodation and food services, 61 percent of employee jobs were part time, and in Retail trade, 44 percent were part time; 44 percent were also part time in Health care and social assistance, 41 percent in Arts, recreation and other services, and 31 percent in Education and training. Together these five industries made up 68 percent of all part time work. (The QES does not include agriculture or fishing and excludes very small businesses.)
- ★ The [Consumer Price Index](#) (CPI) rose 1.0 percent in the March 2017 quarter compared with the December 2016 quarter, and also 1.0 percent in seasonally adjusted terms. It increased 2.2 percent for the year to March, the largest annual increase since 2011 (which was boosted by the GST increase). For the quarter, the largest upward influence was Fruit (up 15.8 percent), and Food together accounted for 42.8 percent of the rise with rising prices of Grocery food contributing almost as much as Fruit. The annual rises in the tax on cigarettes and tobacco increased their prices by 9.7 percent, contributing nearly one third (29.3 percent) of the total rise. Petrol prices, rising 4.1 percent, contributed another 19.0 percent of the total rise. There were falls in International air transport (down 10.7 percent), Package holidays (down 7.5 percent) and Telecommunications services and equipment (down 1.2 percent and 1.0 percent respectively). Over the year, Housing and household utilities was easily the biggest driver in the rise, up 3.3 percent and contributing for over one third (38.4 percent) of the increase with new housing up 6.7 percent and all the other components rising faster than overall CPI: Property maintenance (up 2.6 percent), Property rates and services (up 3.3 percent), rents (up 2.3 percent) and Household energy (up 2.3 percent). Not part of the Housing group but also related to housing are house insurance (up 5.4 percent), and Real estate services (up 11.6 percent). Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in March (down 1.7 percent in the quarter and 8.9 percent over the year) though there are signs it is beginning to rise again. Other major contributors to the annual increase were petrol, accounting for nearly a quarter (23.2 percent) of the total, rising 12.2 percent, Food (up 1.6 percent) and Cigarettes and tobacco (up 9.8 percent). In seasonally adjusted terms, the CPI rose 1.0 percent from December, Food rose 1.2 percent, Alcoholic beverages and tobacco rose 1.0 percent, Clothing and footwear rose 0.2 percent, Housing and household utilities rose 0.8 percent, Communications fell 1.5 percent, Recreation and culture fell 0.1 percent, and Education fell 0.1 percent. Inflation in Canterbury for the year was 1.9 percent and it was 2.0 percent in the rest of the South Island. In Auckland prices rose 2.4 percent, Wellington 2.2 percent and 2.1 percent in the North Island other than Auckland and Wellington. Auckland's

housing costs rose 3.9 percent over the year, the fastest in the country; Wellington's rose 2.6 percent, the North Island (outside Auckland and Wellington) rose 3.3 percent, Canterbury's rose 2.0 percent and rest of the South Island rose 3.0 percent, with the national average movement of 3.3 percent exceeded only by Auckland.

- ★ In November, Statistics New Zealand published its first quarterly release of several new price series, the [Household Living-costs Price Indexes](#) (HLPis). These show price increase like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by different types of households. There is a total of fourteen indexes: for "all households", Beneficiary households, Māori households, Superannuitant households, five for households ranked by income (five "income quintiles"), and five for households ranked by expenditure ("expenditure quintiles"). The incomes and expenditures are calculated to take account of household size and composition ("equivalised"). They are not strictly comparable to the CPI because they use a different methodology. See the commentary in the November 2016 Bulletin for more detail. The February release shows that over the year to December 2016, the All households HLPI index rose 1.0 percent, the Beneficiary households index rose 1.4 percent, the Māori households index rose 1.1 percent, and the Superannuitant households index rose 1.3 percent. By income quintile, the index for the lowest income households (quintile 1) rose 1.3 percent, quintile 2 rose 1.0 percent, quintile 3 rose 0.8 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.7 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 1.4 percent, quintile 2 rose 1.1 percent, quintile 3 rose 0.9 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.6 percent. Over the December quarter, the All households HLPI index rose 0.3 percent, the Beneficiary households index rose 0.1 percent, the Māori households index rose 0.2 percent, and the Superannuitant households index rose 0.3 percent. By income quintile, the index for the lowest income households (quintile 1) rose 0.2 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.3 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.5 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.3 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.2 percent, quintile 4 rose 0.5 percent, and quintile 5 rose 0.5 percent. The next release is on 4 May.
- ★ The [Food Price Index](#) fell by 0.3 percent in the month of March 2017 (and fell 0.4 percent in seasonally adjusted terms). Food prices rose 1.3 percent in the year to March. Compared with the previous month, fruit and vegetable prices fell 3.0 percent (and fell 2.0 percent seasonally adjusted); meat, poultry, and fish prices rose 0.3 percent; grocery food prices rose 0.2 percent (also up 0.2 percent seasonally adjusted); non-alcoholic beverage prices fell 0.4 percent; and restaurant meals and ready-to-eat food prices rose 0.1 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector



- ★ According to Treasury’s Financial Statements of the Government of New Zealand for the eight months to 28 February 2017, core Crown tax revenue was \$462 million (1.0 percent) higher than forecast in the 2016 Half Year Economic and Fiscal Update (HYEFU 16). In the November statement, Treasury adjusted its forecasts to estimate the fiscal cost of the Kaikōura earthquakes which were “expected to be between \$2 billion and \$3 billion. As a result, \$1 billion was added to the HYEFU 16 forecasts in relation to estimated costs that could not be met by insurance proceeds, reprioritisation or existing budget allowances.” The results reported need to be read in this light. Corporate tax was \$551million above forecast. Treasury comments that this indicated that “profits in the 2016 tax year were higher than forecast and that this has continued into the 2017 tax year”. Customs and excise duties were \$990 million (2.7 percent) above forecast, mainly due to tobacco

and fuel duties. However PAYE was \$147 million (0.8 percent) below forecast. Overall core Crown revenue was \$383 million or 0.7 percent higher than forecast, the increased tax revenue being “partially offset by lower than expected interest and dividend revenue of \$144 million (7.9 percent)”. Core Crown expenses were \$395 million (0.8 percent) below forecast, mainly because spending on the Kaikōura earthquakes have yet to be quantified. As a result, the Operating Balance before Gains and Losses (OBEGAL) was \$1,410 million in surplus, \$912 million better than forecast. The Operating Balance was a \$10.6 billion surplus, \$6.5 billion higher than expected “largely due to actuarial gains on the ACC and GSF liabilities being \$2,901 million and \$1,460 million above forecast respectively, reflecting a decrease in the ACC claims liability and GSF liability mostly due to an increase in the discount rate used to convert future cash into present day dollars”. Net debt at 23.5 percent of GDP (\$61.3 billion) was \$865 million better than forecast. Gross debt at \$87.7 billion (33.6 percent of GDP) was \$3.0 billion less than forecast. The Crown’s net worth in financial terms was \$6.6 billion higher than forecast at \$100.0 billion. Net capital spending was \$482 million lower than forecast.

- ★ [District Health Boards](#) had 597 full time equivalent staff fewer than planned at the end of February 2017 (62,226 compared to 62,823 planned). While all categories of staff were affected except Nursing (which was 269 over plan), the largest shortfalls were in Allied Health Personnel (336 short), Medical Personnel (doctors – 234 short), and Management/Administration staff (233 short). Average costs per full time equivalent staff were very close to those planned (\$93,300 compared to \$92,800). The DHBs recorded combined deficits of \$11.9 million in the eight months to February. This is \$23.6 million worse than their plans. The Funder arms were in surplus by \$130.3 million, and Provider arms (largely their hospitals) in deficit by \$143.1 million, \$72.1 million worse than planned. The Northern region was \$6.0 million behind plan with a surplus of \$20.7 million and all four DHBs in surplus. The Midland region was \$10.3 million behind plan with a surplus of \$6.4 million and three of the five DHBs in deficit. Central region was \$3.3 million behind plan with a combined \$10.3 million deficit and three of the five DHBs in deficit. The Southern Region was \$4.0 million behind plan with a \$28.7 million deficit and three of the five DHBs in deficit, with Canterbury showing a \$23.4 million deficit and Southern \$8.5 million. In all, 11 of the 20 DHBs were in surplus but only four ahead of plan. The DHB furthest ahead of plan was Southern by \$1.9 million, and Auckland was furthest behind, by \$6.3 million. Capital expenditure across all DHBs was behind plan with \$431.6 million spent out of \$563.8 million planned. Only MidCentral and Nelson Marlborough were ahead of their capital expenditure plans.
- [Local Government](#) recorded a 2.2 percent (\$53.7 million) fall in operating income in seasonally adjusted terms and a 0.3 percent rise in operating expenditure (\$8.3 million) including a 0.8 percent fall in employee costs (down \$4.5 million) for the December 2016 quarter compared to September 2016. This resulted in an operating deficit of \$88.5 million in the December quarter, compared with a deficit of \$26.4 million in the September quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

This bulletin is available online at <http://www.union.org.nz/economicbulletin188>.

For further information contact [Bill Rosenberg](#).