



NEW ZEALAND COUNCIL OF TRADE UNIONS

Te Kauae Kaimahi

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Commentary

How far are our wages behind Australia's?

Summary

The government has recently compared wages in New Zealand and Australia again. It is now resorting to an after-tax comparison to try to show some progress. But cutting taxes doesn't increase the size of the economy. And its comparisons conveniently forget to go beyond income taxes to take into account benefits like Working for Families. Neither does it tell us what might have been lost in government services to pay for the tax cuts. Without that bigger picture it is a hollow and deceptive argument. But what we are paid by our employers does matter. What are the facts?

If Australian dollars are converted into New Zealand dollars at the current exchange rate, the gap moves around wildly, but doesn't tell us about the all-important spending power of that money. At the current exchange rate, the Australian average hourly wage was 66 percent – an incredible two-thirds – higher than the New Zealand average wage at March 2011. But not even Ozzies would claim they are that much better off.

To get a more useful picture, we need to use a different kind of exchange rate that converts purchasing power in Australia to purchasing power in New Zealand, called Purchasing Power Parity (PPP). It makes a big difference. The Australian average wage at March was about 16-19 percent ahead on that basis. If we added the generous 9 percent employer superannuation contributions all Australian employees receive, the difference would be up to 30 percent. The difference rose steadily through the 1990s and then into the early 2000's, peaking in 2005 at 26-29 percent (not counting superannuation contributions). The gap then closed quite quickly until 2008/09 when it opened again, widening by 6-8 percent to the latest value.

The 30 percent difference that Bill English has been quoting is probably the difference in GDP per capita (the average production per person from the whole economy). On a PPP basis, Australia's per capita GDP was 34 percent ahead in December 2010.

Despite rumours the government had quietly dropped its 2008 election promise of closing the income gap with Australia by 2025, it has recently compared wages in New Zealand and Australia again. It is now resorting to an after-tax comparison to try to show some progress. But cutting taxes doesn't increase the size of the economy. And its comparisons conveniently forget to go beyond income taxes to take into account benefits like Working for Families. Neither does it tell us what might have been lost in

government services to pay for the tax cuts. Until we are given that bigger picture it is a hollow and deceptive argument. But what we are paid by our employers does matter. What are the facts?

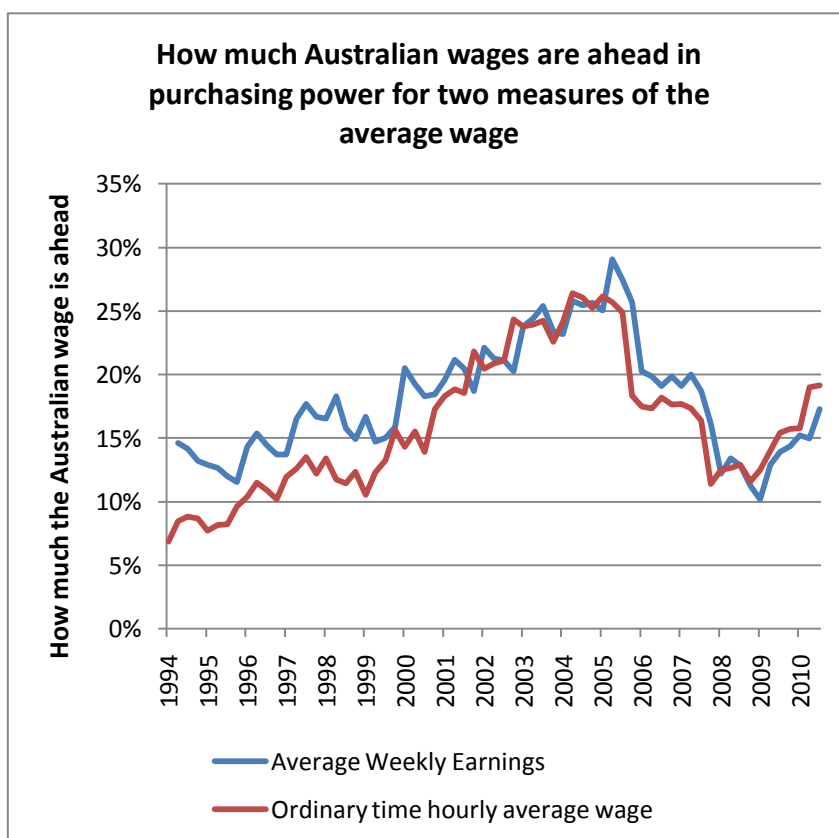
It's not a straightforward question to answer. Just comparing Australian dollar amounts with New Zealand dollar amounts means nothing. If Australian dollars are converted into New Zealand dollars at the current exchange rate, the gap moves around wildly, but doesn't tell us about the all-important spending power of that money. At the current exchange rate, the Australian average wage was 66 percent – an incredible two-thirds – higher than the New Zealand average wage at March 2011. But not even Ozzies would claim they are that much better off.

So to get a more useful picture, we need to use a different kind of exchange rate that converts purchasing power in Australia to purchasing power in New Zealand. That's called Purchasing Power Parity (PPP), and the OECD provides a version of the conversion factors. Using it makes a big difference. The Australian average wage at March was only about 16-19 percent ahead on that basis (we'll come to the details shortly).

So where does the 30 percent difference that Bill English has been quoting come from? It's probably the difference in GDP per capita (the average production per person from the whole economy). On a PPP basis, Australia's per capita GDP was 34 percent ahead in December 2010.

A word of warning: PPPs are constantly revised. Different ways of calculating it can make big differences to these calculations. The trend is more important than the exact numbers.

GDP shows the productive capacity of the economy, and per capita GDP tells us something about its productivity, but it doesn't tell us much about how the income it generates is shared, and who benefits from that production. Wages and salaries are the most meaningful comparison for most of us, so what is the best measure of wages to use? I've looked around and come back to the average wage. It's not the best measure of what people earn, but it is measured similarly enough in Australia and New Zealand, to make it a valid

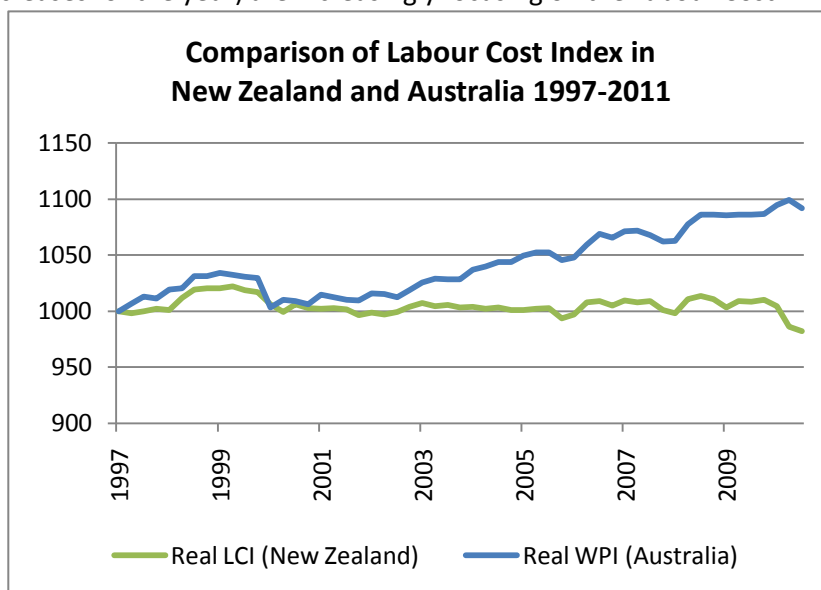


comparison. There are several different measurements of the average wage available. The government likes to use the average weekly wage based on a rough estimate of the number of full-time equivalent employees (all part time employees are assumed to be half time), but there is no direct Australian equivalent. I'm using the ordinary time hourly wage and the average weekly wage including overtime. I've explained the reasons for these choices (and their problems) at the end of this commentary.

Both of these wage measures give a similar picture, going back to 1994 (the earliest readily available for Australia), as you can see in the first graph. The difference rose steadily through the 1990s and then into the early 2000's, peaking in 2005 at 26 percent ahead for the hourly wage and 29 percent ahead for the weekly wage. The gap then closed quite quickly until mid 2008 for the hourly wage and mid 2009 for the weekly wage when it started to open up again. For the average ordinary time hourly wage, the gap increased from 11 percent in June 2008 to 19 percent in March 2011. For the average weekly wage the gap increased from 10 percent in June 2009 to 16 percent in March. However we shouldn't forget the generous 9 percent employer superannuation contributions all Australian employees receive based on their ordinary time earnings. Including that would take the latest difference to as much as 30 percent.

A couple of other comparisons are worth mentioning. Employers (including the State Services Commission in its control of wage increases for the year) are increasingly focusing on the Labour Cost

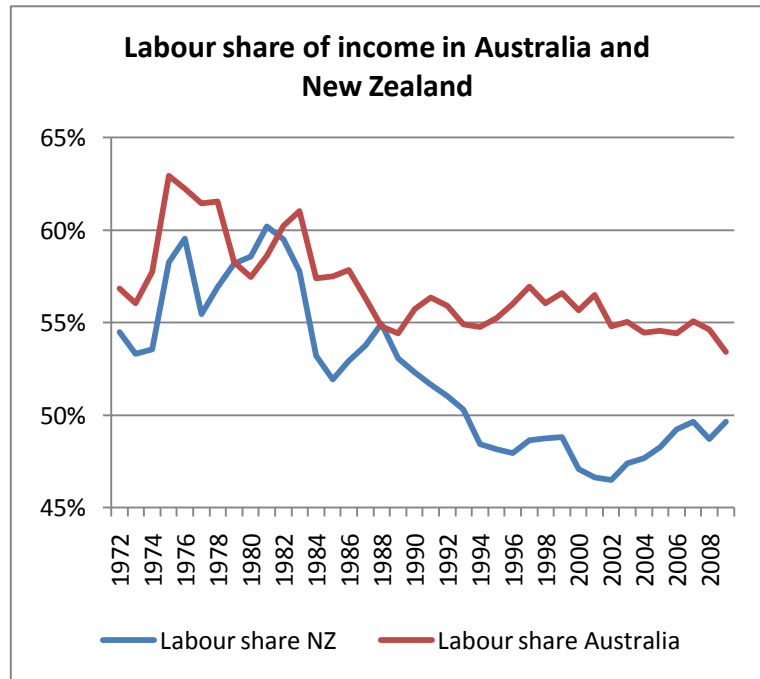
Index (LCI). It is specifically designed to measure wage and salary changes for a specific job or position, excluding any changes that recognise the skills, experience, productivity or other quality of the person in that job. The Australians have a very similar measure called the Wage Price Index (WPI). The LCI has, since it began in 1992, risen at about the same rate as CPI inflation. There is a view in some circles that that is the way it



should be: all "real" increases should be to recognise the individual in the position. However after inflation, the Australian WPI has risen 9.2 percent since 1997 (the oldest value available). The second graph shows the difference. It plots the two indexes after the increase in the CPI has been taken out. The gap itself doesn't have any meaning for these indexes because they only measure change in wage levels, but the rate at which they change does matter. Once again the Australians are drawing away, and have been on this measure for most of the time since 1997.

It is likely that these are reflections of the significance differences in Australia's wage setting and bargaining environment. One other interesting comparison is the share that employees receive of the total income produced in the economy – the "labour share". Most of this is wages and salaries; the rest is superannuation contributions, ACC, annual leave, and the like. What doesn't benefit employees goes

into “operating surplus” (profits). The split is affected by a number of things including the relative bargaining power between employees and employers, and how capital intensive the economy is. The last graph shows that the labour share in Australia has been consistently higher than in New Zealand since 1972, with only a short diversion in the early 1980s. Worse, throughout the 1990s, the New Zealand labour share fell, recovering weakly during the 2000s. Over the same period, the Australian labour share held at a fairly constant level of about 55 percent of GDP though dipping in 2009 to 53 percent.



However in New Zealand, labour share has been below 50 percent since 1993. Its low level is not explained by capital intensity. Over the 1990s, New Zealand’s capital-labour ratio rose more slowly than Australia’s.

Has the current government closed the gap with Australia? You be the judge.

Technical note: The Australian Bureau of Statistics (ABS, the counterpart to Statistics New Zealand) does not publish an average hourly wage. It does publish an average ordinary time weekly wage for adult full time employees (including employees under 21 on an adult wage). On average, full time workers in Australia work approximately 38 hours a week according to the Australian Employee Earnings and Hours Survey. I have calculated the average hourly ordinary time wage from this. Since it is for adult full-time employees only, I have added a factor of 7.5 percent to the New Zealand ordinary time average hourly wage to reflect the fact that it includes part timers (the approximate margin shown for median hourly wages in the New Zealand Income Survey). However it also includes younger workers, and this may have dragged it down, particularly when youth rates were prevalent. It is not easy to estimate the effect of this. Both ABS and Statistics New Zealand also publish an average weekly wage covering all employees and all earnings including overtime. While this is problematic there may be differences between countries in the proportion of overtime, and the number of hours worked in a week, it is at least defined the same way in both countries. The fact that both measures give similar Australia-New Zealand comparisons suggests that these problems are not too great, as long as the results are taken as approximate. A couple of other technical points: the PPP series used for the GDP comparison is the GDP PPP, and for the wages comparison is that for “actual individual consumption”. Both are annual series and I have created interpolated quarterly figures for the individual consumption series and extended it to March 2011 using the two countries’ CPIs, so the 2011 wage comparison must be regarded as an estimate. We use GDP expenditure rather than GDP production as it has more recent data.

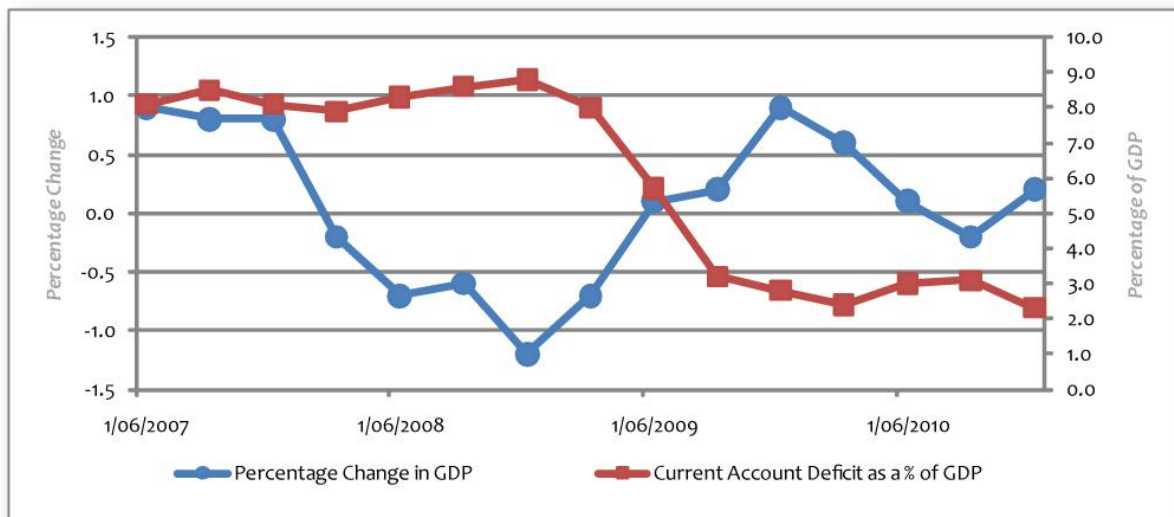
Forecast

This [NZIER consensus forecast](#) was published on 20 June 2011.

Annual Percentage Change (March Year)	2010-11	2011-12	2012-13
GDP	1.1	2.1	4.0
CPI	4.5	2.8	2.7
Private Sector Wages	1.5	2.9	3.5
Employment	1.7	1.3	2.5
Unemployment	6.6	6.1	5.3

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

Economy

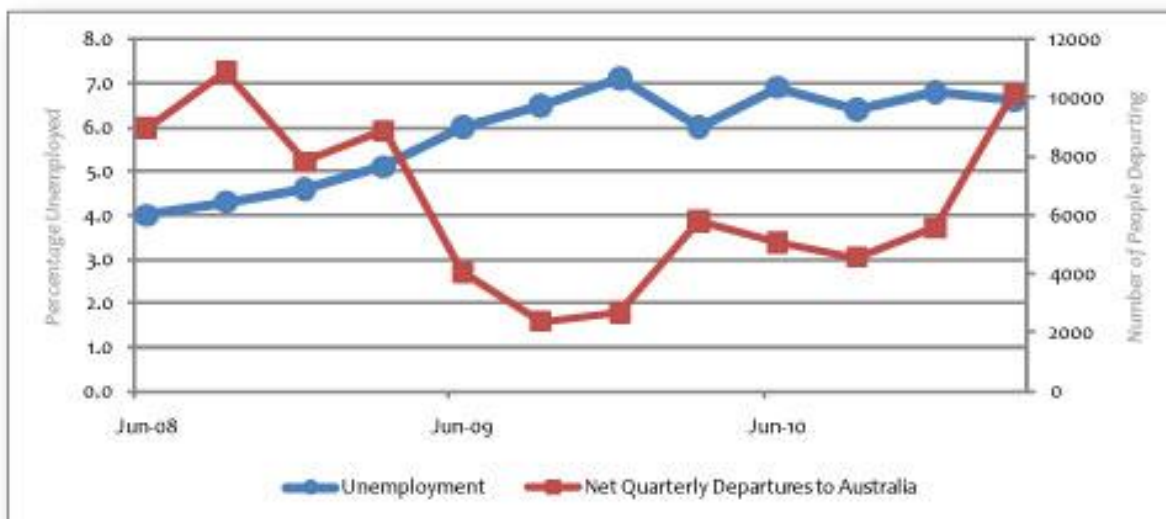


- [Gross Domestic Product](#) was up 0.2 percent in the December 2010 quarter, leaving GDP growth for the year to December 2010 at 1.5 percent.
- ★ New Zealand recorded a [Current Account](#) deficit of \$1.8bn for the March 2011 quarter and a deficit for the year to March of \$8.3bn (4.3 percent of GDP). This compares with a current account deficit of \$4.5 billion (2.4 percent of GDP) for the year ended March 2010. Statistics New Zealand states that \$1.6bn of that difference is due to “unusual banking-sector tax transactions” in 2009-10 year. Without those transactions, the annual deficit is \$2.2 billion higher than the previous year, mainly due to increased profits and interest going to overseas investors plus a deficit in services trade and a reduction in non-resident withholding tax received.
- ★ The country’s [Net International Liabilities](#) were \$148.2bn at the end of March 2011 – 76.2 percent of GDP and \$10.4bn less than at the end of December 2010. This was the lowest since 30 June 2007, in part a result of an additional \$7.6 billion due for outstanding reinsurance claims from the February earthquake. In all an estimated \$11.1 billion is now due from reinsurance covering the September 2010 and February 2011 earthquakes. The government was still not a

contributor to the net international liabilities – it had \$3.3 billion more overseas assets than liabilities.

- ★ For May 2011 [Overseas Merchandise Trade](#) recorded a \$605 million surplus – 13.0 percent of the value of exports for the month. For the year to May 2011, New Zealand recorded a surplus of \$1.1bn (2.3 percent of exports). A spike in the sale of pleasure boats contributed to a \$99m increase in the export of ships, boats and floating structures in May – the largest increase in a particular commodity category for the month. However this was closely followed by a \$73m increase in the export of dairy products and a \$72m increase in the export of meat products. In terms of imports, petroleum and aircraft again recorded the biggest increases.
- ★ The [Performance of Manufacturing Index](#) for May 2011 rose to 54.7¹, up from 52.0 in April. The employment sub-index rose into positive territory at 50.8.
- ★ The [Performance of Services Index](#) for May 2011 was 52.8¹, up 0.2 from April. The employment sub-index was down 2.2 to 50.8.
- ★ The [Retail Trade Survey](#) found retail sales were up 2.0 percent between the December 2010 and March 2011 quarters and up 3.4 percent on the March quarter in 2010.
- ★ On June 9, 2011 the Reserve Bank left the [Official Cash Rate](#) unchanged at 2.50 percent. The next review will be on 28 July 2011.
- ★ The [REINZ Housing Price Index](#) recorded a 1.8 percent fall in house prices for the month of May 2011, with the median house price falling \$10,000 to \$350,000. House prices are also down 0.7 percent for the year to May.

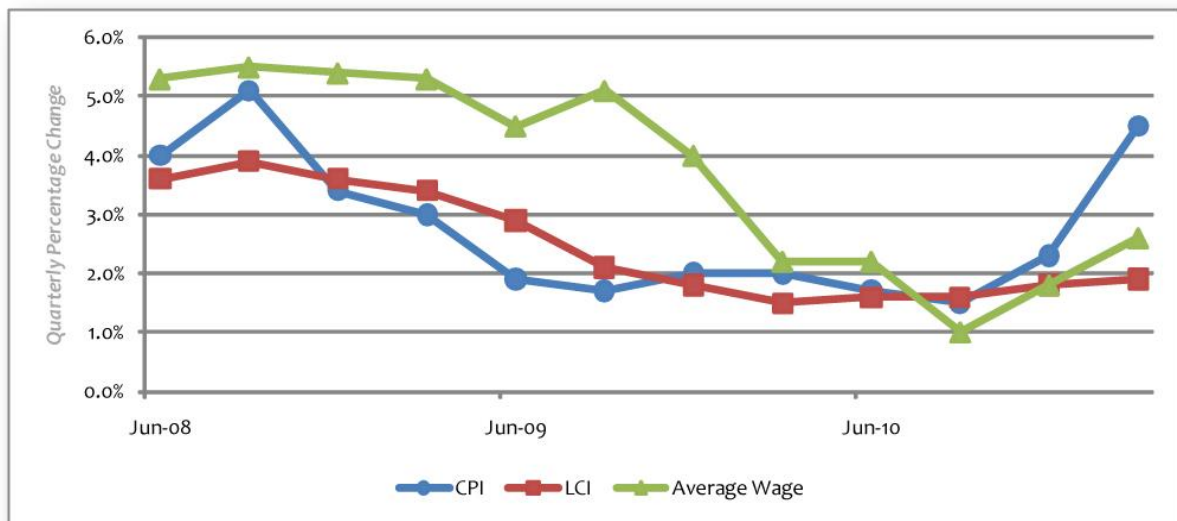
Employment



- According to the [Household Labour Force Survey](#) the unemployment rate in the March quarter was 6.6 percent, down 0.1 percent on the December quarter. The participation rate was 68.7 percent – up 0.8 percent on December. Māori unemployment was 16.1 percent, Pacific unemployment was 14.0 percent, Asian unemployment was 9.3 percent and European/Pakeha unemployment was 4.9 percent. Youth unemployment (15-19 year olds) was 27.5 percent.

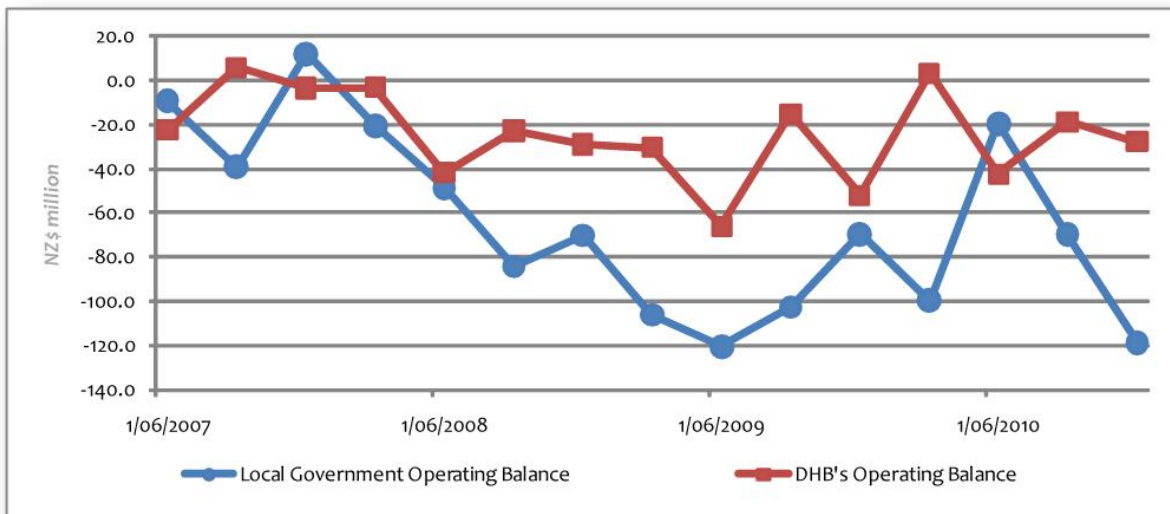
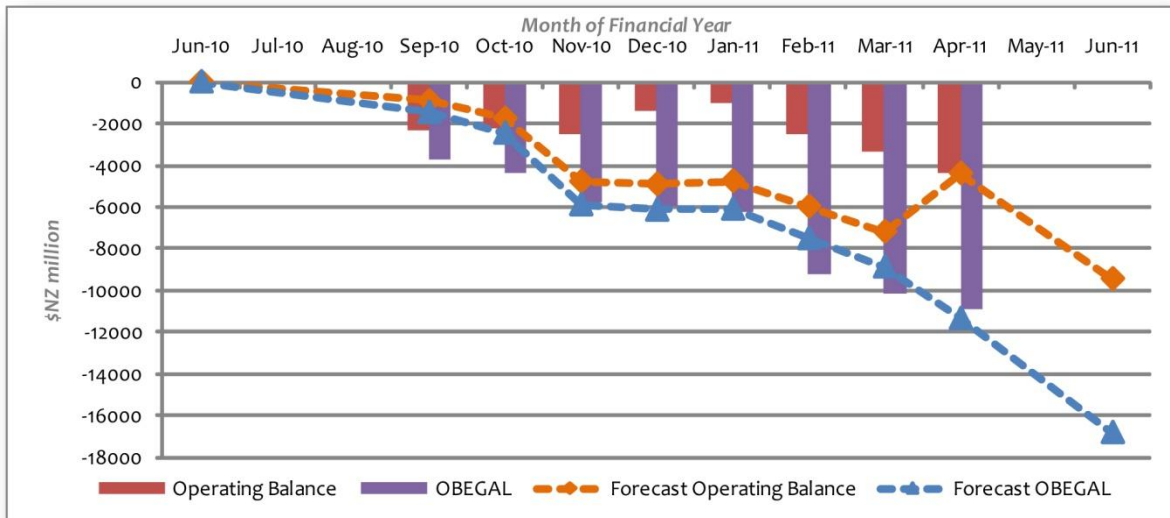
- ★ At the end of May 2011 there were 56,509 people on the Unemployment Benefit, a decline of 1,685, or 2.9 percent, from April 2011. (Quarterly figures on [Unemployment Benefit](#) numbers are available from the MSD website.)
- ★ In the three months to the end of May 2011 [Job Vacancies Online](#) increased 2.3 percent and advertised vacancies for skilled jobs increased 1.9 percent.
- ★ [International Travel and Migration](#) figures show 5,340 permanent and long-term arrivals to New Zealand in May 2011 and 7,483 departures. Net migration in the year to May 2011 was 4,625 arrivals. Net migration to Australia in the year to April was 27,783 departures.

Wages



- The [Labour Cost Index \(Wage and Salary Rates\)](#) (LCI) rose 1.9 percent for the year to March 2011 and 0.5 percent for the March quarter. For those surveyed who received an increase in their salary or wage rate during the year, the median increase was 3.0 percent.
- The March 2011 [Quarterly Employment Survey](#) found the average hourly earnings for ordinary-time work was \$25.93, up 0.4 percent on the December quarter. The average ordinary-time wage was \$23.93 in the private sector (up 0.3 percent in the quarter and 2.5 percent in the year) and \$33.46 in the public sector (up 2.3 percent in the quarter and 2.8 percent in the year). Per hour, female workers earned 87.5 percent of what male workers earned.
- The [Consumer Price Index](#) for the March 2011 quarter rose 0.8 percent, and 4.5 percent for the year to March.
- ★ The [Food Price Index](#) rose 0.5 percent in the month of May, contributing to a 7.4 percent increase in food prices between May 2010 and May 2011.

Public Sector



- ★ According to Treasury's [Month End Financial Statement](#) for the ten months to the end of April 2011, government revenue was down \$79m (0.2 percent) on the forecast in the Budget Economic and Fiscal Update (BEFU) and expenditure was up \$525m (0.9 percent). The operating deficit before gains and losses (OBEGAL) was \$10.9bn, \$406m lower than forecast. The operating deficit was \$4.3bn, \$62m better than forecast. The Government's net debt is 21.3 percent of GDP, 0.2 percentage points better than budgeted in the BEFU.
- [District Health Boards](#) recorded an increased deficit of \$27.9m for the December 2010 quarter compared to the September quarter's deficit of \$18.7m. Employment costs were \$1.2bn, up 1.0 percent for the quarter, compared to total expenses of \$3.2bn up 0.1 percent.
- [Local Government](#) recorded a 5.7 percent increase in income and an 8.1 percent increase in costs for the December 2010 quarter, resulting in a deficit for the quarter of \$118.8m.

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.

An online version of this bulletin is available at <http://www.union.org.nz/economicbulletin125>

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