NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 149 (August 2013)

Commentary

The economics of inequality

Summary

Over the last 30 years, income gaps have widened dramatically in New Zealand. Increasing income gaps of this kind have traditionally been defended on economic grounds by arguing that they create the incentives needed for economic growth. Recently, however, more economists have begun to question whether inequality at current levels is necessary.

This change of direction is signalled by the fact that a long list of international economic bodies – including the IMF, the OECD, UNCTAD and the World Bank – are expressing concern about growing income inequality.

There is no guarantee that income generated in unequal societies will “trickle down” from the top to the lower end. Furthermore, very high levels of inequality are not necessary for economic growth – as the often superior economic performance of more equal countries shows – and may indeed be damaging to the economy.

High inequality is closely linked to poor social mobility, which deprives the economy of many of the talents of children who grow up in poverty. It reduces the demand for the goods that an economy produces, by starving its strongest consumers, the lower and middle income earners, of spending power. It can also lead to unstable economies that are prone to asset bubbles, and a top ten percent with undue influence over political and economic decisions.

In contrast, more equal economies, based on higher levels of trust, can be more efficient. They invest in upfront measures that save money further down the line. They also increase the number of families who have the income to invest in their children’s future, and benefit from the greater social cohesion that increased equality brings.

In particular, more equal economies are better at delivering sustained economic growth – a finding that is very relevant to New Zealand’s current situation.

The economics of inequality

Over the last 30 years, income gaps have widened dramatically in New Zealand. Disposable incomes for those in the top 10 percent have doubled, while those at the bottom have increased only slightly. Incomes in the middle have not fared a great deal better.

Widening income gaps of this kind have traditionally been defended on a number of grounds. There are arguments based on morality (those at the top are more productive, and deserve more income); arguments based on pragmatism (in an increasingly mobile world, reducing top incomes would simply drive talent out of New Zealand); and arguments based on economics (inequality is needed for economic growth).

The last of these three defences is especially interesting, because it lies at the heart of so many debates about inequality in recent decades. For a long time it has also been regarded as a strong argument by many economists.

Recently, however, more economists have begun to question whether inequality at current levels is economically necessary, in the face of increasing evidence that reducing income gaps may in fact stimulate greater growth.

Inequality into the mainstream

In a recent radio interview, the World Bank's chief economist, Kashik Basu, noted that the Bank had two new goals: the first, to reduce the number of people living in extreme poverty, and the second, to promote "shared prosperity" by monitoring the income growth of the bottom 40 percent in countries around the world. "There is pretty much a shared view at the top end of the World Bank," he said, "that it would be utterly foolish just to sit back and say that growth is going to trickle down to the poor. You do need interventions by government."[1]

In making these statements, the bank has joined a long list of international economic bodies expressing concern about growing income inequality. The head of the IMF, Christine Lagarde, said earlier this year that income had to be "distributed more fairly".[2] The OECD has issued a series of major reports on inequality, and its secretary-general, Angel Gurria, has said that "ignoring increasing inequality is not an option".[3] UNCTAD has also urged measures to reduce income inequality.[4]

These bodies have become worried about inequality in part because they recognise that, beyond a certain point, inequality can have damaging economic effects. The very high levels of inequality in the English-speaking countries – notably the US and the UK, but also New Zealand and Australia – are clearly

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[1] 'Morning Report', Radio New Zealand, 28 August 2013.

[2] News.com.au, 'IMF's Lagarde warns rising income gap hurt', 16 May 2013, http://www.news.com.au/breaking-news/world/imfs-lagarde-warns-rising-income-gap-hurt/story-e6frfkui-1226644086589 (accessed 28 August 2013).

[3] OECD, 'Income inequality and poverty rising in most OECD countries', press release, 21 October 2008, http://www.oecd.org/els/soc/ incomeinequalityandpovertyrisinginmostoecdcountries.htm (accessed 8 May 2013).

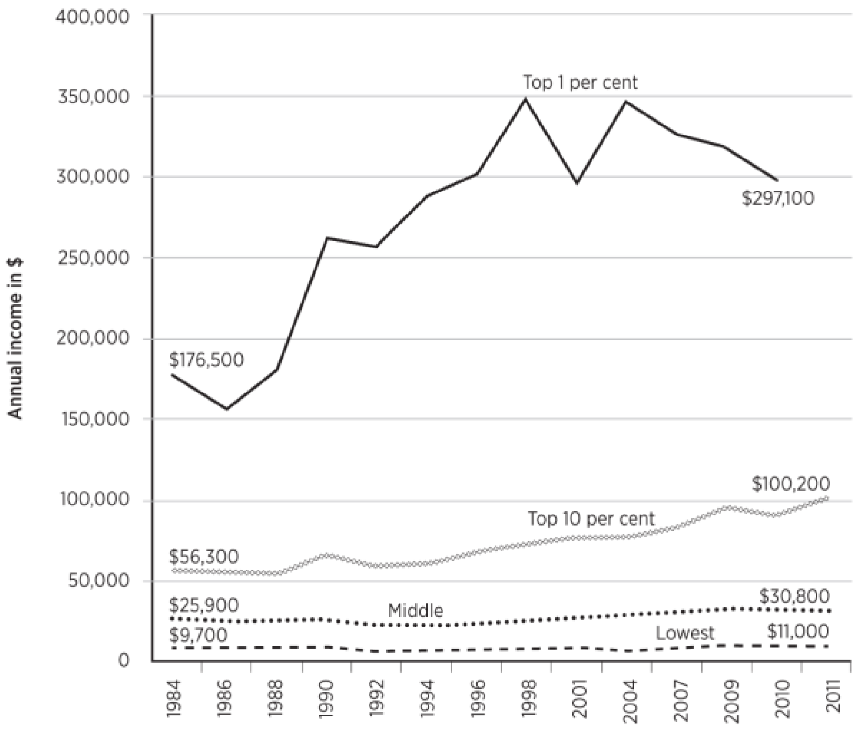
[4] UNCTAD, 'Trade and Development Report', United Nations, Geneva and New York, 2012.

not necessary for strong economic growth. In the last 30 years, these high-inequality countries have not overall had better economic growth (measured in GDP per person) than countries that have relatively more equal, such as the Scandinavian nations. (To give a sense of how much more equal these countries are, in Scandinavia, someone in the top 10 percent might be earning around five times as much as someone in the bottom 10 percent. In New Zealand, that ratio is more like nine times.)

Holding back growth

The question then is, can one go further and say that very high inequality is actively *bad* for the economy? This would be counter to much economic theory arguing that increased inequality leads to greater growth, for a number of reasons. One is simply that greater rewards (for talent, or effort, or contribution) create greater incentives for people to work hard, make of use of their talents, start-up businesses and generate more wealth. Another is that economic growth depends on savings that can be invested to increase an economy's productive capacity, so income should be directed towards top earners, who are more likely to save and invest than those lower down the ladder. Implicit in all these lines of thinking is the idea that income generated at the top will "trickle down" to those at the lower end.

Figure 2.5 The rich and the rest: how the gap widened



The bottom three lines of this graph show how much money a single-person household in the lowest tenth, the middle and the top tenth has to spend each year after tax, and how that's changed in the last three decades. The top line shows how much money the average person in the top 1 percent has to spend before tax. Figure drawn from *Inequality: A New Zealand Crisis*, published by Bridget Williams Books. Used with permission.

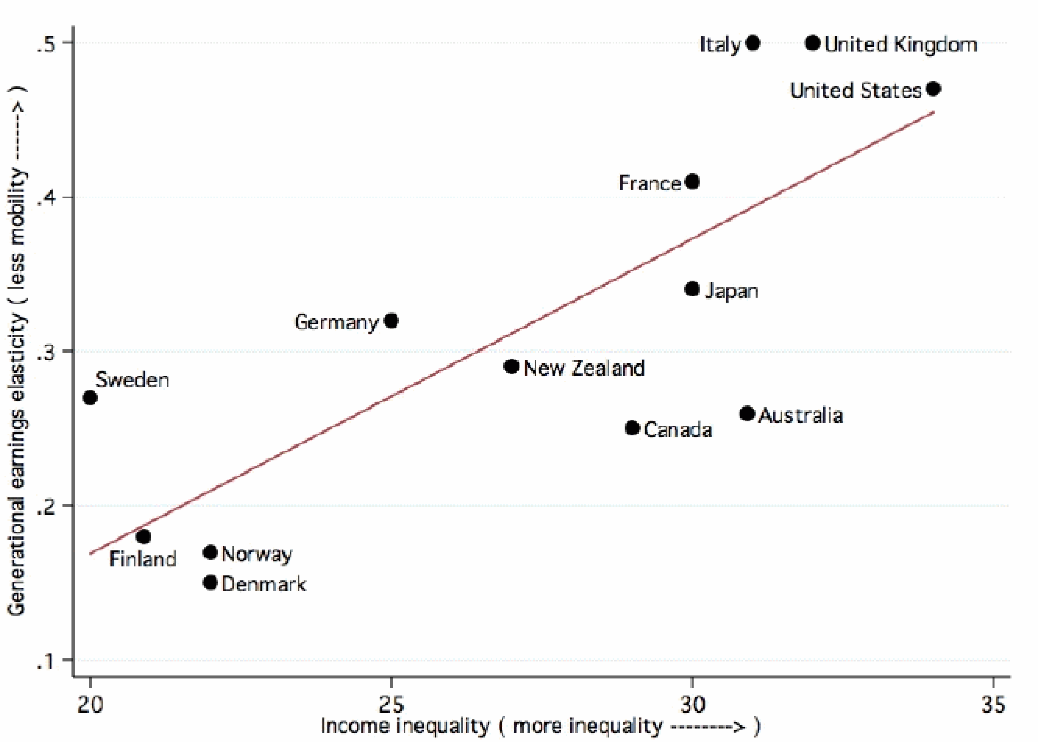
But while the literature on this subject is complex and does not show a clear trend, there are increasing reasons to doubt this account. For a start, there is no guarantee that income does trickle down. As the graph above makes clear, incomes at the lower end in New Zealand have been largely static, even while those at the top have increased sharply. A similar pattern can be seen in other countries, notably the US.

Furthermore, there are reasons to doubt that inequality increases economic growth even in aggregate. One survey of the literature notes studies showing that “more egalitarian distributions would tend to favour growth”, alongside others that are inconclusive.[5] The OECD, meanwhile, has argued that sustained inequality “inhibits growth and social cohesion”.[6]

How it works out

How might income inequality harm economic growth? There are many potential explanations. The first is that there is a very strong and widely accepted link between high income inequality and poor social mobility, as shown in the graph below, christened ‘The Great Gatsby Curve’ by Alan Krueger, Barack Obama’s principal economic adviser. The larger income gaps are, the greater the ‘generational earnings elasticity’: that is, how much of your income as an adult can be predicted from your father’s income. In the most unequal countries, around half of your income is determined by what your father earned.

Figure 1
The Great Gatsby Curve: More Inequality is Associated with Less Mobility across the Generations



The graph shows income inequality against 'generational earnings elasticity', which measures how much a father's economic status tells us about where his son will end up in adulthood. Taken from Miles Corak, 'Income Inequality, Equality of Opportunity, and Intergenerational Mobility', *Journal of Economic Perspectives,* 8 July 2013.

The reasons for this are not hard to see. When income gaps are very wide, children are brought up with quite different advantages. In very unequal societies, it becomes even harder for those born into

[5] Cesar Gallo, ‘Economic growth and income inequality: theoretical background and empirical evidence’, Development Planning Unit, University College London, Working Paper No. 119, p. 24.

[6] Angel Gurria, ‘Divided We Stand: Why Inequality Keeps Rising’, speech delivered in Paris, 5 December 2011.

poverty to make the most of their abilities. Quite apart from the evident injustice, this has clear economic effects, as the economy fails to draw on the productive capabilities of all its citizens.

Inequality also weakens the economy by compressing the incomes of its best consumers, people on low and middle incomes. Shorn of their spending power, the economy struggles to create enough demand, while the income that goes instead to those at the top is often saved or spent overseas. A strong middle class, able to invest in their children's future economic success and create the springboard for entrepreneurial success, is often one of the first casualties of widening incomes gaps.[7]

Very unequal economies are also prone to greater instability and asset bubbles. This was seen most plainly in the global financial crisis, which – according to research by two IMF economists, Michael Kumhof and Romain Rancière – was sparked at least in part by widening income gaps.[8] As inequality shifted income away from the lower and middle of the economy, those people were increasingly unable to afford the lifestyle they had previously enjoyed. They filled the gap by borrowing, especially to buy houses – and to do so they borrowed from those who had enjoyed most of the income gains in recent decades, the top ten percent. This unsustainable arrangement, its effects amplified by trading in complex financial products, was a direct contributor to the financial crisis.

Very unequal countries are also prone to 'state capture', in which the wealthy exert an undue influence over politics. Not only does this have democratic implications; it also results in the wealthy obtaining policies that benefit their own economic interests at the expense of the wider economy. Joseph Stiglitz, in his recent book *The Price of Inequality*, lists many examples of this, including monopolies that go unchallenged, excessively generous patent laws and mining concessions that are allocated at less than their true value.[9] Finally, at the company level, there is plentiful evidence that large income gaps are demoralising to lower-paid workers, and harmful to company performance.[10] (Whether this effect operates at the country level is an interesting question.)

In contrast, there are good reasons why a more equal society would perform better economically. There is the simple fact that money spent on reducing inequality often operates like the proverbial fence at the top of the cliff – a much cheaper option than the ambulance at the cliff's bottom. Money invested in high-quality early childhood education, for instance, could save New Zealand anywhere between $3 and $17 for each dollar spent, given the lower health, criminal and other costs incurred by healthy, well-educated children.[11]

More equal economies also benefit from higher levels of trust and social cohesion. Speaking at the launch of the OECD's 2011 report *Divided We Stand*, which links high inequality with economic problems, Gurria noted that the social compact "is starting to unravel in many countries. Uncertainty and fears of social decline and exclusion have reached the middle classes in many societies."[12] Closer to

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[7] Joseph E. Stiglitz, *The Price of Inequality*, Allen Lane, London, 2012.

[8] Michael Kumhof and Romain Rancière, 'Inequality, Leverage and Crises', IMF Working Paper, November 2010.

[9] Stiglitz, *The Price of Inequality*.

[10] High Pay Commission, *Cheques with Balances: Why Tackling High Pay is in the National Interest*, London, November 2011, p.43.

[11] ECE Taskforce, *An Agenda for Amazing Children: Final Report of the ECE Taskforce*, June 2011, p.63.

[12] Gurria, 'Divided We Stand: Why Inequality Keeps Rising'

home, New Zealand economist Tim Hazledine has shown that increasing inequality can be highly inefficient as it diminishes trust – and this in turn creates greater transaction costs in the form of increased legal and contractual issues and a large hierarchy of managers and other forms of monitoring.[13] Conversely, at the company level, there is strong evidence that better paid workers are more productive – an example of how reducing inequality can be a form of investment in future success.[14]

A marathon, not a sprint

Much of this thinking is drawn together in an intriguing piece of research, published in 2011 by two IMF economists, Andrew Berg and Jonathan Ostry.[15] It shows that although most countries around the world have been able to generate short spurts of economic growth, relatively few have achieved sustained periods of economic growth. What marks out the countries achieving sustained growth is that they are much more likely to have low levels of inequality. (This relationship is statistically valid as the paper demonstrates.)

Berg and Ostry suggest three likely reasons for this relationship. First, as argued above, inequality tends to reduce the ability of people at the lower end to invest in their education or "human capital", thus lowering growth. High inequality is correlated with low levels of high school achievement. Second, in more unequal countries, citizens will use their political power to attack the interests of the rich, which can in itself damage growth and can also lead to those elites responding with "vote buying and other corrupt behaviour". Third, income inequality increases the risks of political instability, reducing incentives to invest and thus impairing growth. Unequal countries, suffering from low levels of trust, social cohesion and shared 'buy in' to national goals may also struggle to respond quickly and nimbly to external shocks. These findings are especially relevant to New Zealand, which has, economically speaking, been falling behind its OECD competitors for many decades, and needs not a short-term burst of growth but a long, sustained spell of economic progress.

In conclusion

The evidence continues to mount that high levels of inequality have serious and severe consequences. In the field of health and social outcomes, *The Spirit Level* has shown the links between large income gaps and poor performance on issues such as life expectancy, imprisonment and literacy levels. Much work now underway in economics now amounts to a similar marshalling of evidence. The unprecedented attention from all the major international bodies signals a widespread view that there are large economic costs associated with rapidly rising inequality.

Max Rashbrooke

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[13] Tim Hazledine, *Taking New Zealand Seriously: The Economics of Decency*, HarperCollins, Auckland, 1998.

[14] David MacLeod and Nita Clarke, *Engaging for Success: Enhancing Performance Through Employee Engagement,* Department for Business, Innovation and Skills, London, 2009.

[15] Andrew G. Berg and Jonathan D. Ostry, 'Inequality and Unsustainable Growth: Two Sides of the Same Coin?', IMF staff discussion note, April 2011.

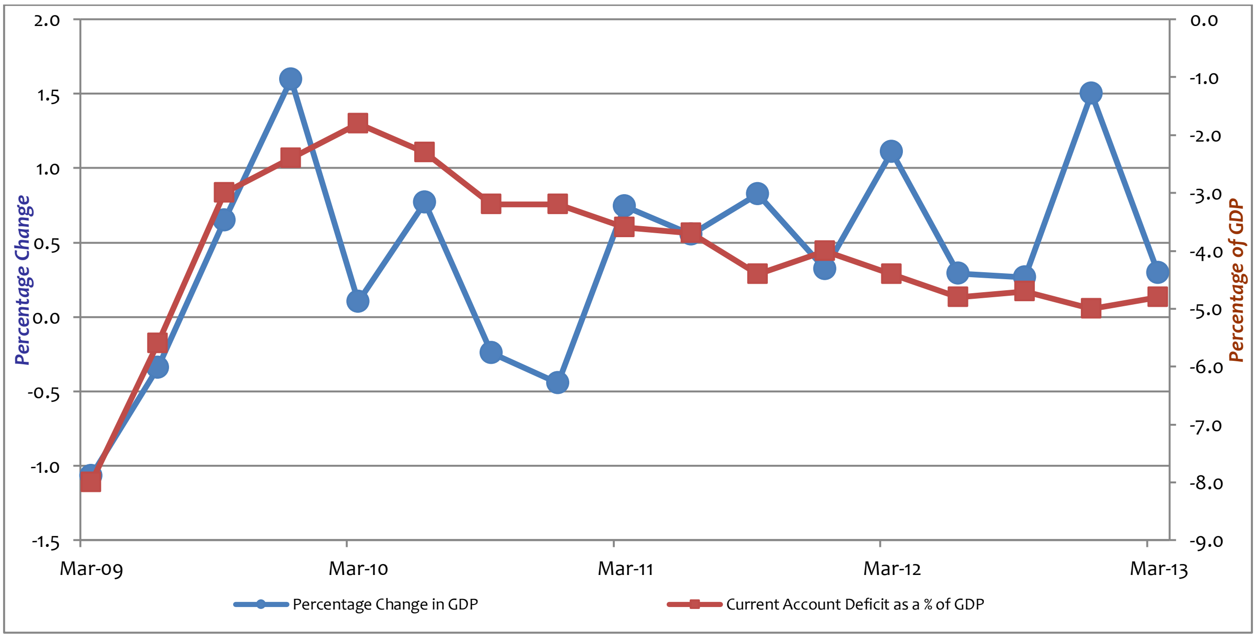
Forecast

- This [NZIER forecast] was released on 17 June 2013.

Annual Percentage Change (March Year)	**2013-14**	**2014-15**	**2015-16**
GDP	2.7	3.1	2.3
CPI	1.6	2.1	2.3
Private Sector Wages	2.7	3.1	3.3
Employment	1.8	2.0	1.1
Unemployment rate	6.0	5.5	5.3

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

Economy



- New Zealand's economy grew more slowly than forecast in the March 2013 quarter, with Gross Domestic Product growth returning to the same level (0.3 percent) as the September 2012 quarter after a December quarter of exceptional growth (1.5 percent). Growth for the year ended March 2013 was 2.5 percent. The largest quarterly rises by industry were in Construction (5.5 percent), Professional, scientific, technical, administration, and support (3.9 percent) and Mining (4.2 percent). However, Agriculture, forestry and fishing fell 4.8 percent, Electricity, gas, water, and waste services fell 4.4 percent, and Information media and telecommunications fell 3.1 percent. Manufacturing grew 0.2 percent in the quarter, but excluding Food, beverage and tobacco it fell by about 1 percent. The result was that Primary Industries fell 3.0 percent, Goods producing industries rose 1.0 percent and Service industries rose 0.5 percent. Over the year though, Agriculture, forestry and fishing rose 6.5 percent, Mining 4.5 percent, Construction 10.8 percent, Retail trade and accommodation 3.1 percent, Professional, scientific, technical, administration, and support 3.4 percent, and Health care and social assistance 3.6 percent. The only falls over the year were Electricity, gas, water, and waste services (3.4 percent), Information media and telecommunications (1.1 percent) and Arts, recreation, and other services (1.1 percent). Over the year, Manufacturing rose 1.5 percent, again boosted by the Food sector though with strong growth also in Textiles, leather, clothing, and footwear (rising 10.6 percent), and Non-metallic mineral product manufacturing (up 8.5 percent). Printing fell 10.4 percent over the year. Household consumption expenditure rose a 0.4 percent in the quarter and 2.4 percent in the year. Expenditure on non-durable goods (such as groceries) rose more strongly at 1.0 percent for the quarter, and durables 0.4 percent, the reverse of the position for the year where non-durables rose 0.9 percent while durables rose 4.0 percent. Business investment fell 2.2 percent in the quarter and 1.2 percent for the year.

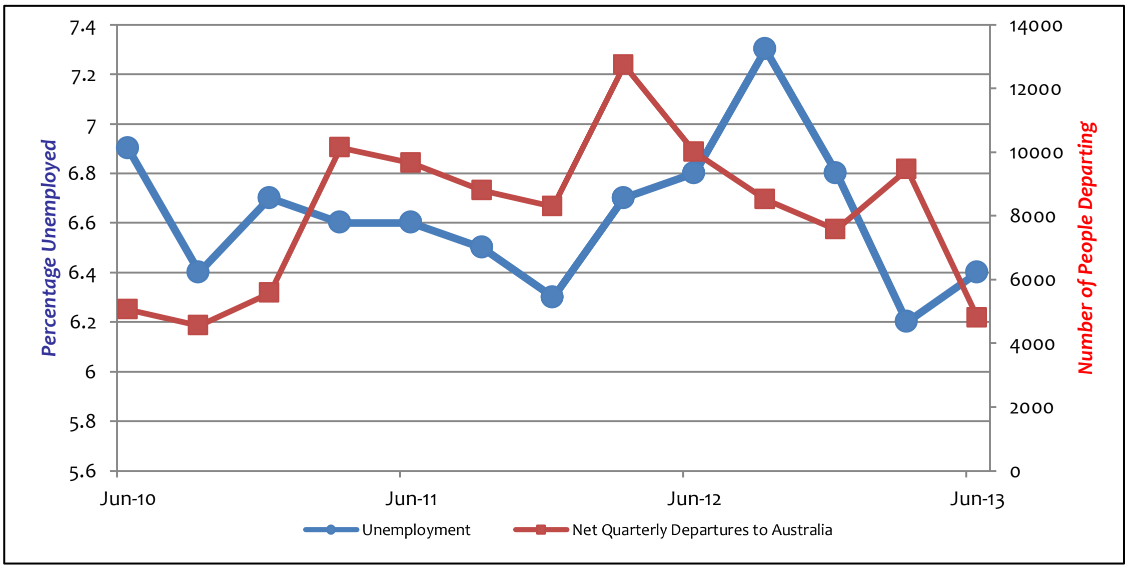
- New Zealand recorded a Current Account deficit of $2.2 billion for the March 2013 quarter in seasonally adjusted terms, $0.3 billion less than the December 2012 quarter. The reduction was driven by increased exports of goods and services due mainly to higher dairy exports and rising overseas visitors' expenditure. Income going to foreign investors was similar to the previous quarter. However in actual dollars (not seasonally adjusted), the deficit is only $0.7 billion, with surpluses in both goods and services trade but a $2.6 billion deficit on investment income. For the year to March 2013 the deficit was $10.1 billion, virtually equal to the negative balance on investment income of $10.2 billion. This deficit is 4.8 percent of GDP, down from the 5.0 percent in the year to December 2012.

- The country's Net International Liabilities were $146.7 billion at the end of March 2013 (69.3 percent of GDP) down from $150.0 billion (71.4 percent GDP) at the end of December 2012 due to rising overseas share prices, but up as a proportion of GDP from the $145.0 billion (70.4 percent GDP) in March 2012. Of this, $12.0 billion was owed by the government (equivalent to 5.7 percent of GDP) and $98.1 billion by the banks (46.4 percent of GDP). Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes have been re-estimated at $18.6 billion (up from $17.9 billion estimated in December), and at 31 March 2013, $9.2 billion of these claims had been settled, leaving $9.5 billion outstanding. Without these, net international liabilities would have been $156.1 billion or 73.8 percent of GDP. New Zealand's gross international liabilities were $324.0 billion in March, against $177.3 billion in overseas assets.

- ★ Overseas Merchandise Trade for the month of July 2013 saw higher goods imports lead to a deficit of $774 million ($636 million seasonally adjusted), the largest for a July month since 2008. A major factor was the import cost of $250 million for helicopters. The annual deficit was $1.69 billion. The following are in seasonally adjusted terms. By value, exports fell 5.9 percent or $237 million and imports rose 12 percent or $473 million compared to June. Exports rose by volume for Meat (2.1 percent), Dairy (9.1 percent), Wine (25.8 percent) and Seafood (4.4 percent). They fell for Aluminium (77.2 percent), Wood (6.6 percent) and Crude oil (56.8 percent). By value, Dairy was up 13.2 percent, Machinery by 7.3 percent and Meat by 3.5 percent. Wood was down 3.8 percent and Crude oil by 58.1 percent. Imports rose by value in all major categories. Exports to China rose 25.2 percent in the year to July, and fell 9.9 percent to Australia, and 16.9 percent to Japan. Imports from China rose 2.6 percent in the same period, and fell 8.4 percent from Australia.

- ★ The Performance of Manufacturing Index[1] for July 2013 was 59.5, a rise from a revised 55.2 in June. The employment sub-index at 53.1 was up from 51.9 in June but lower than 55.3 in May.
- ★ The Performance of Services Index[1] for July 2013 was 58.1 up from 55.0 in June. The employment sub-index rose from 50.1 in June to 52.2.
- ★ The Retail Trade Survey for the three months to June 2013 showed retail sales rose 1.7 percent by volume and 0.9 percent by value in the quarter compared with the March 2013 quarter, seasonally adjusted. By volume, the largest contributors to the increase were food and beverage services, up 4.5 percent, motor vehicle and parts retailing, up 3.0 percent and department stores, up 5.4 percent. There was a 5.0 percent fall in the fuel retailing industry. By value the largest contributors were food and beverage services, up 4.6 percent ($83 million), hardware, building, and garden supplies, up 4.0 percent ($52 million), accommodation up 3.6 percent, motor vehicle and parts retailing, up 2.0 percent ($47 million), and department stores, up 4.6 percent ($44 million). Supermarket and grocery sales were up by 0.9 percent. Fuel retailing was down 7.5 percent ($150 million) and pharmaceutical sales were down by 3.0 percent.
- On 25 July 2013 the Reserve Bank left the Official Cash Rate unchanged at 2.5 percent. The next review will be announced on 12 September 2013, in conjunction with a Monetary Policy Statement.
- ★ The REINZ Housing Price Index fell 0.5 percent in the month of July 2013. The index was up 8.6 percent compared to July 2012. The national median house price fell to $385,000 from $394,000 in June 2013, but it is still $24,000 higher than in July 2012.

Employment



- ★ According to the Household Labour Force Survey the unemployment rate in the June 2013 quarter rose to 6.4 percent from 6.2 percent in the March 2013 quarter. Seasonally adjusted female unemployment at 7.1 percent is higher than for men (5.8 percent). The unemployment rate in Canterbury was 4.4 percent; down from 6.5 percent in June 2012. There were 153,000 people unemployed and the number of jobless people (which includes those discouraged from seeking employment) was 245,400. There were 63,900 people seeking additional hours. Māori unemployment fell from 13.9 percent in March 2013 to 12.8 percent but Pacific unemployment rose from 15.2 percent in March 2013 to 16.3 percent. Youth unemployment (15-19 year olds) was 24.1 percent, and the unemployment rate among 20-24 year olds was 11.1 percent, up slightly from 10.9 percent in the March 2013 quarter. There were 77,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 12.1 percent of people in that age group, down from a revised 12.6 percent in the March 2013 quarter or 80,000 people (seasonally adjusted). The labour force participation rate continued to pick up and at 68.0 percent is up 0.1 percent from the previous quarter but is down by 0.4 percent for the year. The number of unemployed people who have been out of work for more than 6 months was 37,800 (down from 40,900 in March 2013 and down by 7,200 from June 2012). Compared to OECD unemployment rates, New Zealand has fallen from 11th equal position in March 2013 to 12th (out of 34 countries).

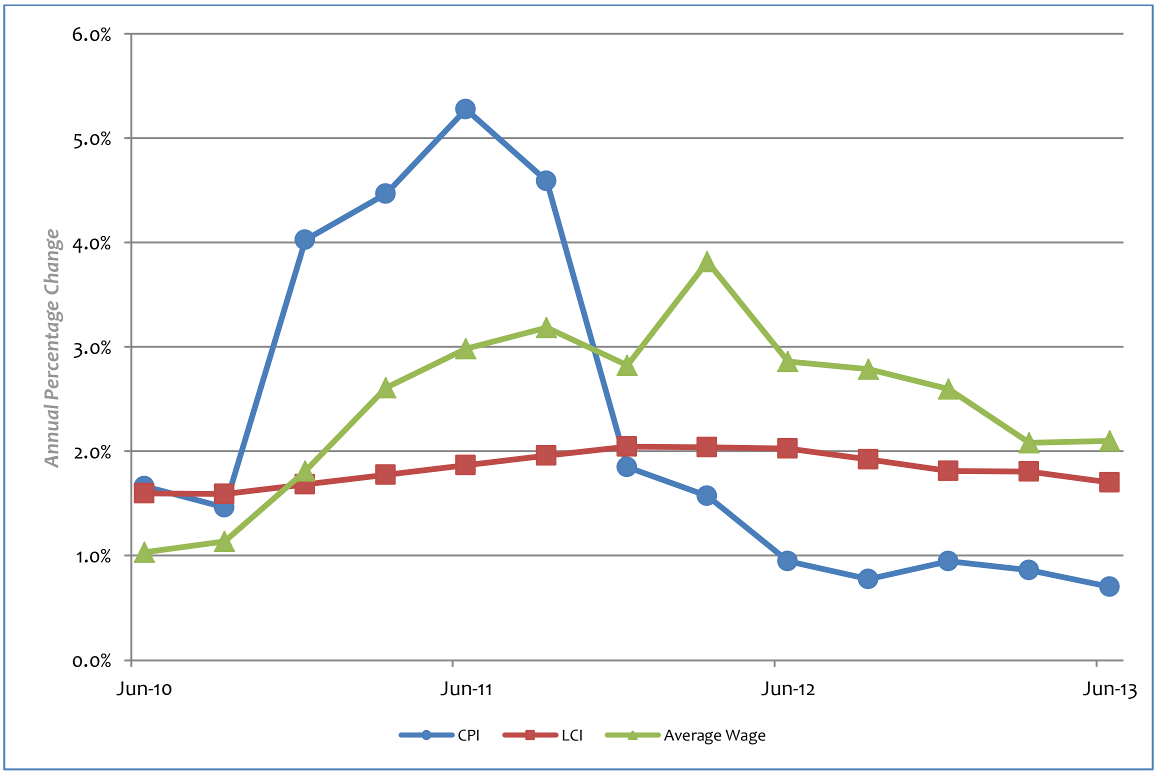
- At the end of June 2013 there were 48,756 working age people on the unemployment benefit, a decrease of 1,184 from June 2012. From July, benefits have been renamed and several are now classified as "Jobseeker" which includes what used to be the unemployment benefit, sickness benefits and some Domestic Purposes benefits. The others are "Sole Parent Support", covering sole parents with youngest child under 14 years old and widows, "Supported Living Payment" including invalids' benefits, and those caring after the "sick or infirm", Youth and other benefits. Data is now available only quarterly (see Unemployment Benefit numbers on the MSD website). Jobseeker numbers will not be available until mid-October.

- ★ Job Vacancies Online shows, in seasonally adjusted terms that skilled job vacancies grew by 7.5 percent in July, following a decrease in June. All job vacancies rose by 8.3 percent, after a 2.8 percent fall last month. Over the year to July, skilled vacancies increased by 9.4 percent. All vacancies increased by 13.2 percent.

- ★ International Travel and Migration data showed 7,740 permanent and long-term arrivals to New Zealand in July 2013 and 5,760 departures in seasonally adjusted terms, a net gain of 1,980. There was an actual net gain of 10,569 migrants in the year to July. Net migration to Australia in the year to July was 29,175 departures, with 46,314 departures and 17,139 arrivals. For the month of July, the seasonally adjusted net loss to Australia was 1,230.

- ★ The New Zealand General Social Survey for 2012 showed that 87 percent of New Zealanders aged 15 years and over were 'satisfied' or 'very satisfied' with their lives overall. An estimated 52 percent of New Zealanders had 'more than enough' or 'enough' money to meet their everyday need for things such as accommodation, food, clothing, and other necessities. So 48 percent didn't! People in families without children were more likely to have more than enough or enough money than people in families with children. About 3 in 5 (62 percent) people who lived in couple-without-children families had more than enough or enough money, compared with 50 percent living in couple-with-children families and 28 percent of one-parent-with-children families.

Wages and prices

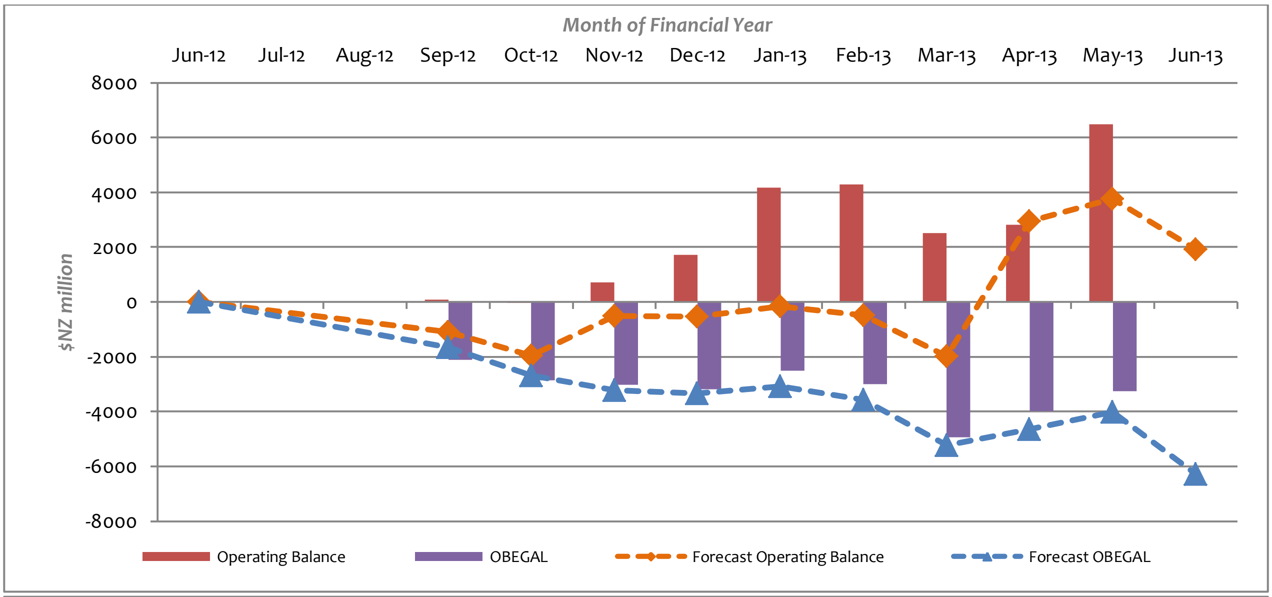


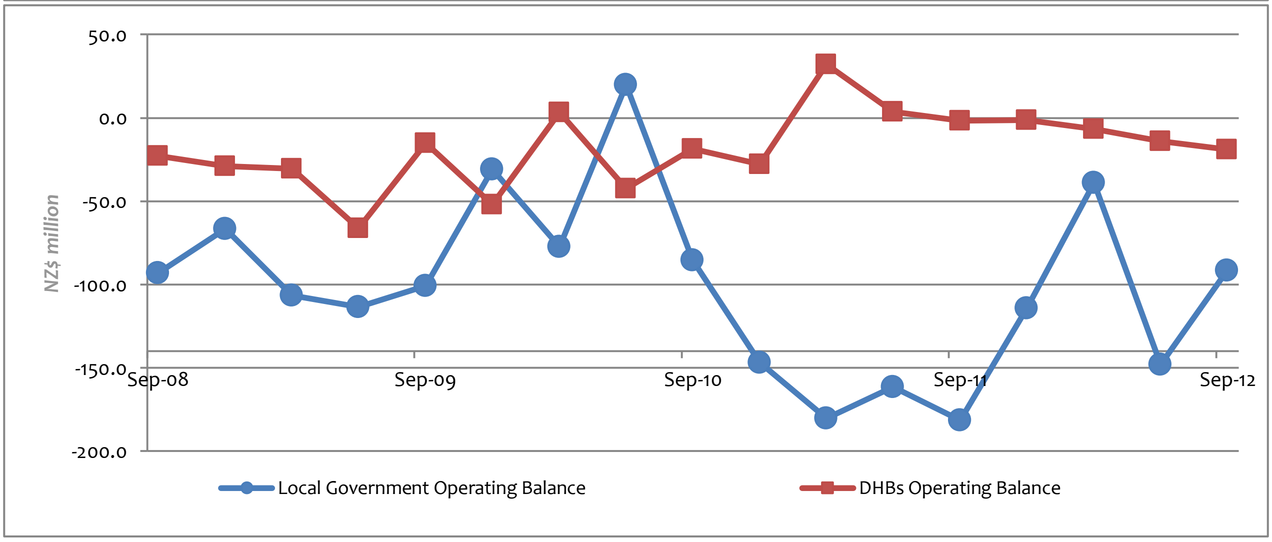
- ★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to June 2013, the same increase as the March quarter. The LCI increased 1.7 percent in the year to June. It increased 0.3 percent in the public sector and 0.4 percent in the private sector in the three months to June. Over the year to June it rose 1.5 percent in the public sector and 1.7 percent in the private sector. For the 55 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.7 percent (the lowest since the March 2001 quarter). The average increase was 3.4 percent.
- ★ The June 2013 Quarterly Employment Survey found the average hourly wage for ordinary-time work was $27.53, up 0.2 percent on the March 2013 quarter and up 2.1 percent over the year. The average ordinary-time wage was $25.51 in the private sector (up 0.4 percent in the quarter and up 2.4 percent in the year) and $34.83 in the public sector (down 1.2 percent in the quarter and up 1.6 percent in the year). Female workers (at $25.44) earned 13.2 percent less than male workers (at $29.32) for ordinary time hourly earnings.
- The Consumer Price Index rose 0.2 percent in the June 2013 quarter compared with the March quarter and increased 0.7 percent for the year to June. For the quarter, the largest contributor to the increase was housing and household utilities which rose 1.1 percent including electricity (rising 2.6 percent) and purchase of new housing (1.7 percent). Insurance rose 2.4 percent, with

dwelling insurance rising 9.9 percent and health insurance 4.3 percent. Petrol prices fell 2.5 percent and motor vehicle prices fell 1.5 percent.

★ The [Food Price Index] rose 0.5 percent in the month of July 2013, following a 2.1 percent rise in June. Food prices rose 0.9 percent in the year to July 2013. Compared with June, fruit and vegetable prices rose 3.0 percent in July. From July 2012, fruit and vegetable prices rose 3.5 percent; meat, poultry, and fish prices rose 1.2 percent and grocery food prices decreased by 0.4 percent.

Public Sector





- According to Treasury's Financial Statements of the Government of New Zealand for the eleven months to 31 May 2013, government tax revenue was up $502 million (0.9 percent) on the revised forecast in the 2013 Budget Economic and Fiscal Update. Corporate tax was $496 million above forecast and "other individuals" tax was $164 million above forecast while GST was $222 million lower than forecast probably reflecting lower consumption than expected. "Strength in equity markets contributed to the positive variances." Core Crown expenses were $96 million or 0.2 percent lower than forecast. The operating balance before gains and losses (OBEGAL) was $763 million (18.9 percent) better than forecast, at a $3.3 billion deficit. The operating balance was $6.5 billion in surplus, $2.7 billion (72.5 percent) higher than forecast, and continuing to be tossed around by unforecast investment gains by the New Zealand Superannuation Fund ($1.2 billion) and a reversal of last month's rare losses by Accident Compensation Corporation (gaining $0.4 billion). "The turn-around of the actuarial loss was a result of an increase in the discount rate during May and highlights the volatility associated with the valuations of the long-term liabilities." Remember that next time a politician claims there is a crisis in ACC's accounts. The Government's net debt was 26.4 percent of GDP or $55.7 billion, which is below its 26.7 percent forecast, revised in the May Budget. The partial privatisation of Mighty River enters the government's books this month. Because the 48.2 percent non-government shareholders are referred to as "non-controlling minority interests", the entire value of the company remains on the government's balance sheet so its net worth appears to rise by the net proceeds from the sale of $1.643 billion despite the loss of share ownership. Privatisation costs attributed to the sale were $17 million in direct costs and $25 million for the estimated cost of the loyalty bonus share scheme rewarding those wealthy enough to buy shares and hold onto them.

- District Health Boards recorded an operating deficit of $18.9m for the September 2012 quarter compared to a deficit of $13.9m for the June 2012 quarter. Total revenue rose to $3.45 billion in September (including $2.92 billion from the Ministry of Health), compared to $3.44 billion in March. Employment costs were $1.28 billion in the three months to September, down from $1.32 billion for the June 2012 quarter, compared to total expenses of $3.47 billion, up from $3.45 billion in the June quarter. Further information is on the Ministry of Health web site.
- Local Government recorded a 1.7 percent rise ($36.1 million) in operating income and a fall ($47.4 million) in operating expenses including a reduction of $1.1 million in employee costs for the March 2013 quarter compared to December 2012. This resulted in an operating surplus of $90.9 million, compared with a revised surplus of $7.4 million in the December quarter, and deficits in all previous quarters back to June 2010, all in seasonally adjusted terms.

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/economicbulletin149.

For further information contact Bill Rosenberg.