NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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Commentary

Are we in for big spending cuts if National wins?

Summary

One of the most important aspects of the Budget got very little attention. It confirmed a continuing fall in government expenditure as a proportion of the size of the economy, from 33.0 percent of GDP in the year to June 2013, down to 29.9 percent in the year to June 2018. Bill English has told party faithful he would like to see it down to 25 or 26 percent.

Core government expenditure will fall in real terms after taking account of population and rising prices (CPI) according to the Budget. Treasury forecasts core crown expenditure falling 1.3 percent in real terms between 2013 and 2018, and it looks even worse when we look at individual services. This would require major changes to services. If National plans to reduce expenditure even further as Bill English has said he wants, the implications for availability of services and the quality of the remaining ones is enormous.

The Government announced an increase in its 'Operating Allowance' for 'new' spending from $1 billion to $1.5 billion, but this is not enough to plug the gaps the forecasts show, let alone allow spending in some desperately needed areas that have been disregarded or put off to another day. The big question for the Election is: what is National intending to do to public services and welfare post-election to meet its own Budget forecasts? But it is also valid to ask: what further cuts is it intending to make if it takes Bill English's target seriously?

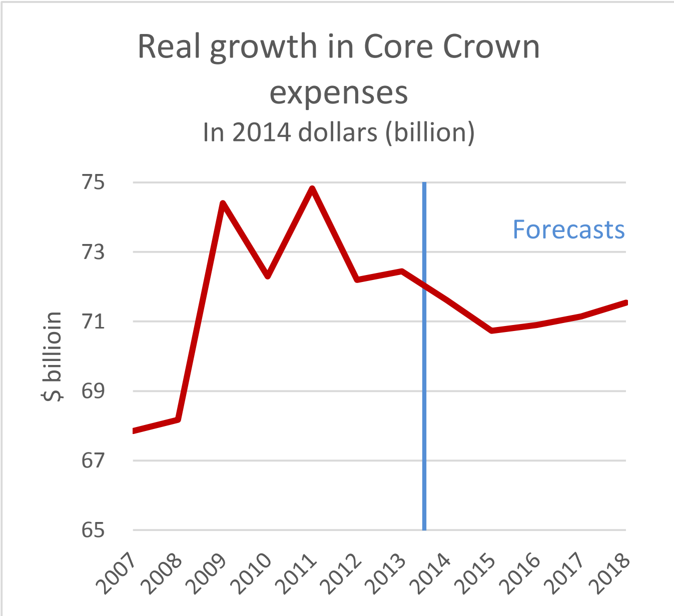
Between 2013 and 2018, Health expenses are forecast to fall 12.3 percent in real terms (after accounting for rising costs and the increasing and aging population), or lose about one dollar in eight of their purchasing power. Treasury's 2013 Budget papers warned such magnitude of reductions required major changes to services.

Forecasts for Education, after taking into account price rises and student numbers, show Early Childhood Education spending falling 6.9 percent in real terms between 2013 and 2018, Primary 7.5 percent, Secondary 3.1 percent and Tertiary 8.7 percent including student loans and allowances (though almost static between 2014 and 2018), and 1.0 percent without them.

Treasury forecasts show Social Welfare excluding New Zealand Superannuation falling 11.9 percent in real terms between 2013 and 2018 or approximately 6.0 percent if forecast beneficiary numbers are achieved (Working for Families is budgeted to fall in real terms by a quarter – 25 percent – between 2010 and 2018), while Other Expenses fall 10.3 percent. Only New Zealand Superannuation, which rises 1.9 percent and Finance Costs, which rise 4.6 percent, go against the general trend.

In the last Bulletin I took a quick look at the implications of falling government expenditure compared to the size of the economy and wrote: "What happens to these looming problems in Budget 2014 needs to be watched". I'm taking up my own challenge.

While the media focus was on the announcement that the books would be “back in surplus” (according to the government’s definition), the small “families package” of about $125 million a year over the next four years (see our Budget report), and the surprise silence on housing (apart from over $80 million to be spent over the next four years simply on administering the more restrictive state and community housing rules) the big story in an election year is what the forecasts imply for the next Government. The Budget confirmed a continuing fall in government expenditure as a proportion of the size of the economy, from 33.0 percent of GDP in the year to June 2013, down to 29.9 percent in the year to June 2018. Bill English has told party faithful he would like to see it down to 25 or 26 percent[1].



In a fast-growing economy, government expenditure falling as a proportion of the economy potentially could still allow at least some additional money to be available to address the growing deficits and imbalances in the economy, society and the environment that I identified last month including high levels of inequality and poverty, climate change, the ageing population, the unbalanced economy, and growing gaps in health and education.

In fact core government* expenditure will fall in real terms after taking account of population and rising prices (CPI) according to the Budget. Treasury forecasts core crown expenditure falling 1.3 percent in real terms between 2013 and 2018, and it looks even worse when we look at individual services. This would require major changes to services. If National plans to reduce expenditure even further as Bill English has said he wants, the implications for availability of services and the quality of the remaining ones is enormous.

The big question for the Election is: what is National intending to do to public services and welfare post-election to meet its own Budget forecasts? But it is also valid to ask: what further cuts is it intending to make if it takes Bill English’s target seriously? It is classic politics (just look across the Tasman) for a newly (re)elected Government to slam a host of unpopular measures through in its first year.

National’s excuse will be “yes, we’re now running a surplus, but we have to meet our debt target”. Behind it is the desire to reduce the ‘size of government’. The alternative, if we wish to maintain the services and social security that government should provide to New Zealanders, is to increase revenue. That could be done by restoring the progressive power of the tax system through higher tax rates on high incomes, increased corporate taxes (including strong measures against tax avoidance and evasion) and taxes on capital income such as a capital gains tax.

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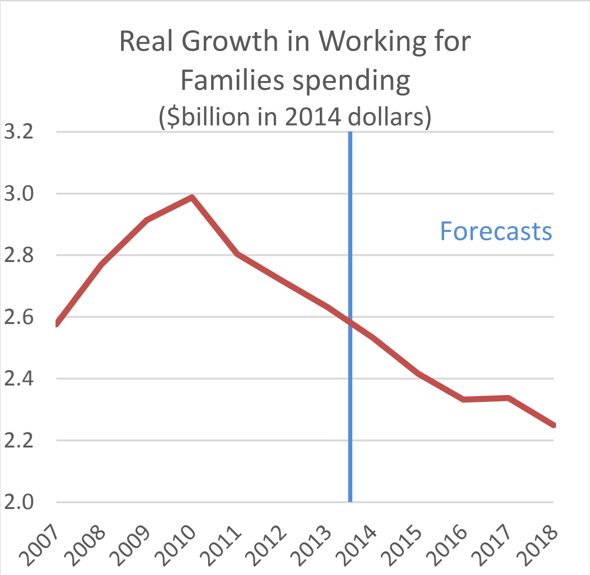
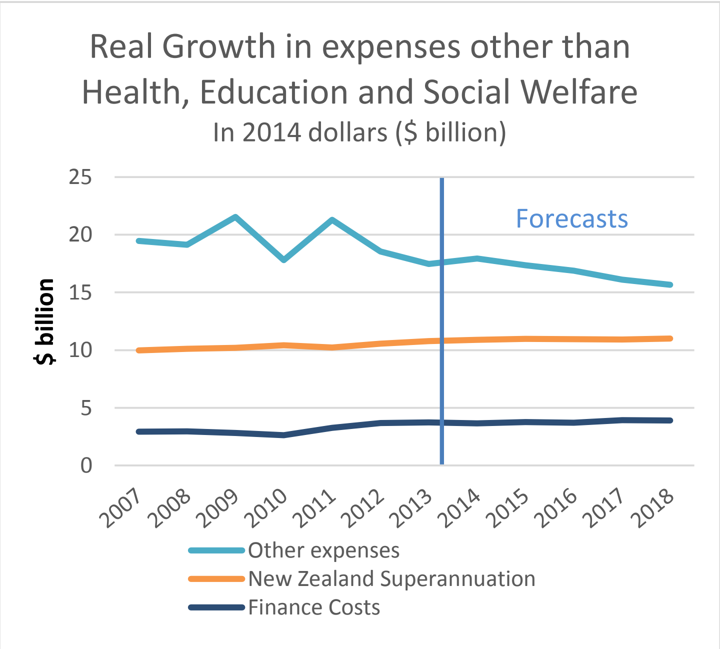
* “Core” government (or the core Crown) is the part of government which contains the main departments and ministries such as health and education and the New Zealand Superannuation Fund, but excludes the state-owned enterprises, Crown entities like ACC and New Zealand On Air, and various other bodies, most of which are funded through the Votes of Core Crown departments and ministries.

Defenders of the reduction of government spending to below 30 percent of GDP can point out that under the Labour-led governments of the 2000s, government expenditure fell to as low as 28.6 percent of GDP in 2004. But several crucial things have changed since then. Firstly there are the hopefully temporary – but for some time still ongoing – effects of the Global Financial Crisis and the Canterbury earthquakes. One is the cost of servicing debt (in the year to June 2014 forecast to cost $3.6 billion). But secondly there are a number of structural changes to government expenditure. They underlie all other expenditure decisions and require either a continuing higher level of government expenditure or savage cuts to them or elsewhere.



Programmes brought in by the Labour-led governments include: Working for Families tax credits ($2.5 billion); greatly increased expenditure on early childhood education ($1.5 billion); Kiwisaver subsidies ($0.8 billion); and interest-free student loans ($0.6 billion); income-related rents ($0.7 billion) and a number of other smaller programmes. In addition, we must look after our aged population including New Zealand Superannuation ($10.9 billion) and the increasing costs of residential care.

Of course governments could cut back those programmes. The current Government has done so in sometimes subtle ways. For example, Working for Families payments fall from $2.79 billion at their peak in the year to June 2010 to a forecast $2.53 billion in 2014 and $2.47 billion in 2018. In real terms this means it will have fallen from $3.0 billion in 2010 to a forecast $2.6 billion in 2014 and $2.2 billion in 2018 in 2014 dollars, taking account of population change – a total fall of 25 percent. This is at a time of stagnating wages and increasing concerns about inequalities and low wages which this is intended to partially compensate for. In part the fall is due to changes made in the 2011 Budget with very little fanfare which were estimated to cut 4 percent of the cost of the scheme over the next eight years, but it is probably also due to changing eligibility which is not being compensated for. IRD statistics show the number of families benefiting from it fell sharply in the year to March 2012 (the latest year statistics are available) from 418,800 to 396,500.



However if National is serious about cutting expenditure and doesn't want to make unpopular moves against these programmes to cut them significantly, it will have to cut elsewhere.

Treasury forecasts using its "Fiscal Strategy Model"[2] show Health, Education, Social Welfare (excluding New Zealand

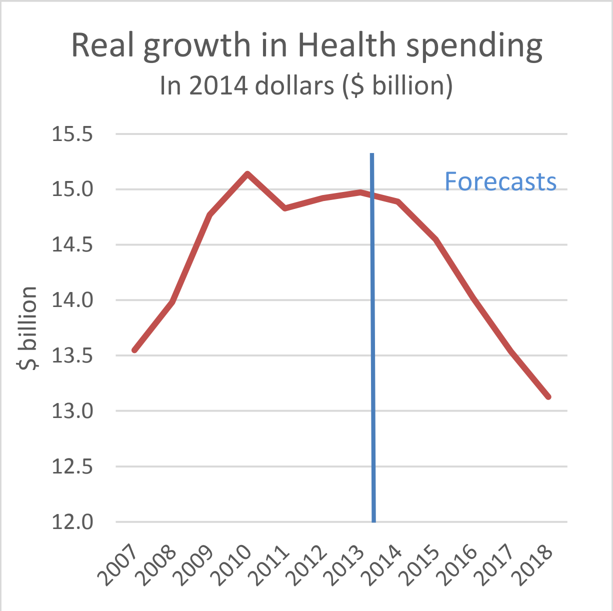
Superannuation) and Other Expenses all falling sharply in real terms – once increasing costs and the population benefiting directly from the services are accounted for – over the next four years. We will look at Health, Education and Social Welfare excluding New Zealand Superannuation in more detail, but Other Expenses (which includes Transport and communications, Economic and industrial services, Kiwisaver, Environment protection, Core government services, Law and Order, Defence, Primary Services, Heritage, Culture and Recreation, Housing and Community Development) fall 10.3 in real terms between 2013 and 2018 percent. Only New Zealand Superannuation, which rises 1.9 percent, and Finance Costs, which rise 4.6 percent, go against the general trend.

The Government announced an increase in its 'Operating Allowance' for 'new' spending to $1.5 billion (from $1 billion) for this and future Budgets, increasing at 2 percent a year. It can use this to moderate the effects of the forecasts below. But it will not be enough even to maintain the current value of spending. I estimate that under current government policy, around 45 percent of the Operating Allowance would be needed for Health alone, about 15 percent for Social Welfare (excluding Superannuation and pensions) even taking into account forecast falls in numbers on the main benefits, over 20 percent for Education and over 40 percent for Other Expenses. Something has to miss out. And if, as this and other Governments like to do, it wants to spend on genuinely new services – and there are sometimes desperate needs in many areas that have been ignored or put off to another day – existing services and welfare will have to be cut to make room.

Note that all values are actuals up to 2013, and are forecasts from 2014 onwards.

Health

Between 2013 and 2018, Health expenses are forecast to fall 12.3 percent in real terms (after accounting for rising costs and the increasing and aging population), or lose about one dollar in eight of their purchasing power.



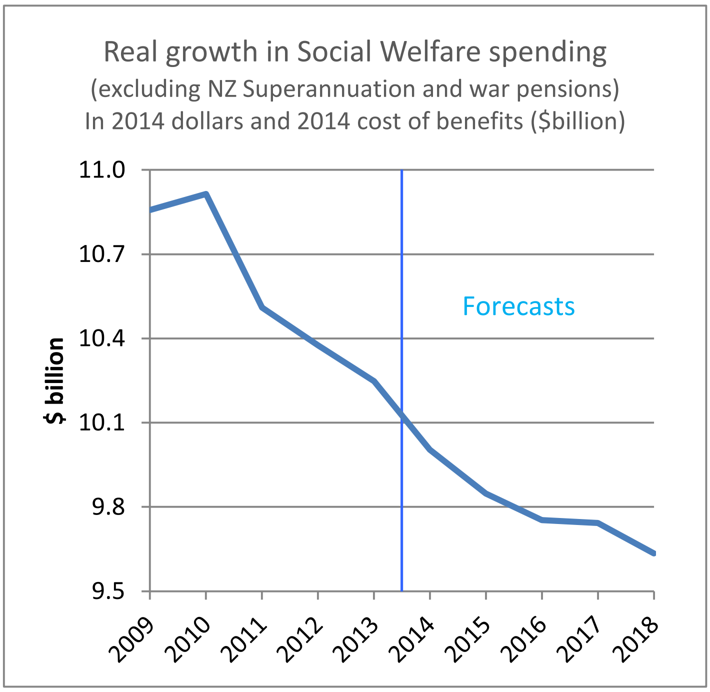
We have regularly analysed Health in Budgets since 2010 and agree that provision for Health is falling, though the precise numbers we calculate are different. A more detailed analysis will be published next week. Treasury's 'real' estimates should be seen as an approximation. The result of reducing resources has been many signs of stress in the health system which are easiest to see in hospitals. However they also result from starving primary and community health care and preventative health programmes (public health) of resources, leading not only to vulnerable people in the community having insufficient help and treatment, but the growth of problems like obesity and diabetes which lead to further costs for the health system. Workers in the health system, and especially very low paid carers working in residential and home care, are suffering as a result of understaffing and pay rises which are in many cases low compared even to the miserly wage increases going to workers in general.

However even more of these stresses will not be enough to achieve the kinds of cuts required in Treasury's forecasts. Treasury warned in the preparation for the 2013 Budget that such large cuts will require major changes to the Health sector. If the next Government does not increase its funding of the sector significantly we can expect much greater change to our health services even than those seen over the last five years. This could include "more targeted services and funding" which implies dropping some services, making some available only to certain groups, or introducing user charges. As one Treasury paper commented:

> Sustainability of the health system is described as requiring service model changes and productivity/efficiency gains over the four year period that are far larger than those achieved to date. Much of DHBs' success in managing costs to date has been through labour cost constraint, more "passive" savings (eg: lower interest costs, Pharmac savings from patent expiry, exchange rate appreciation), and procurement initiatives (eg HBL) rather than through business model changes of the kind the 4YP [Four Year Plan] says will be required in future. Our view is that more ambitious savings options may need to be pursued to reduce risks (eg more targeted services and funding, accelerated implementation of HBL shared service initiatives, faster moves to regional-level service management).[3]

Social Welfare excluding New Zealand Superannuation

Treasury estimates that Social Welfare expenses (excluding New Zealand Superannuation) will fall a huge 11.9 percent in real terms between 2013 and 2018. This is based on population changes and CPI increases. Of course if the proportion of people on benefits falls, as it will do both if the economy improves and because of more aggressive Government policies to get people off the benefit, then the fall in real spending looks somewhat different. Using the numbers of beneficiaries forecast in the Budget[4] I estimate the fall in real terms is still high at approximately 6.0 percent even when falling benefit numbers are taken into account (where benefit numbers are not given I use the population changes that Treasury uses; I also exclude war pensions). That of course accepts the Government's targets for reducing numbers of beneficiaries and its plans for benefits such as income-related rents, paid parental leave and disability assistance. Perhaps the difference between this and the Treasury estimate is an indication of how hard people are being pushed off benefits.



Education

Between 2013 and 2018, Education expenses are forecast to fall 4.7 percent in real terms on Treasury's calculations (after accounting for rising costs and the changes in the 1-24 year old population). However using the data supplied in the Budget on number of student places, we can look at the position of each education sector. The following 'real' funding is the Treasury funding estimates adjusted to take into account rising costs (CPI) and the forecast number of student places in each sector[5]. As for Health, these are only approximations but they give a reasonable indication of the trend. If we wanted to encourage more people into Tertiary education for example, the problems would be even greater.

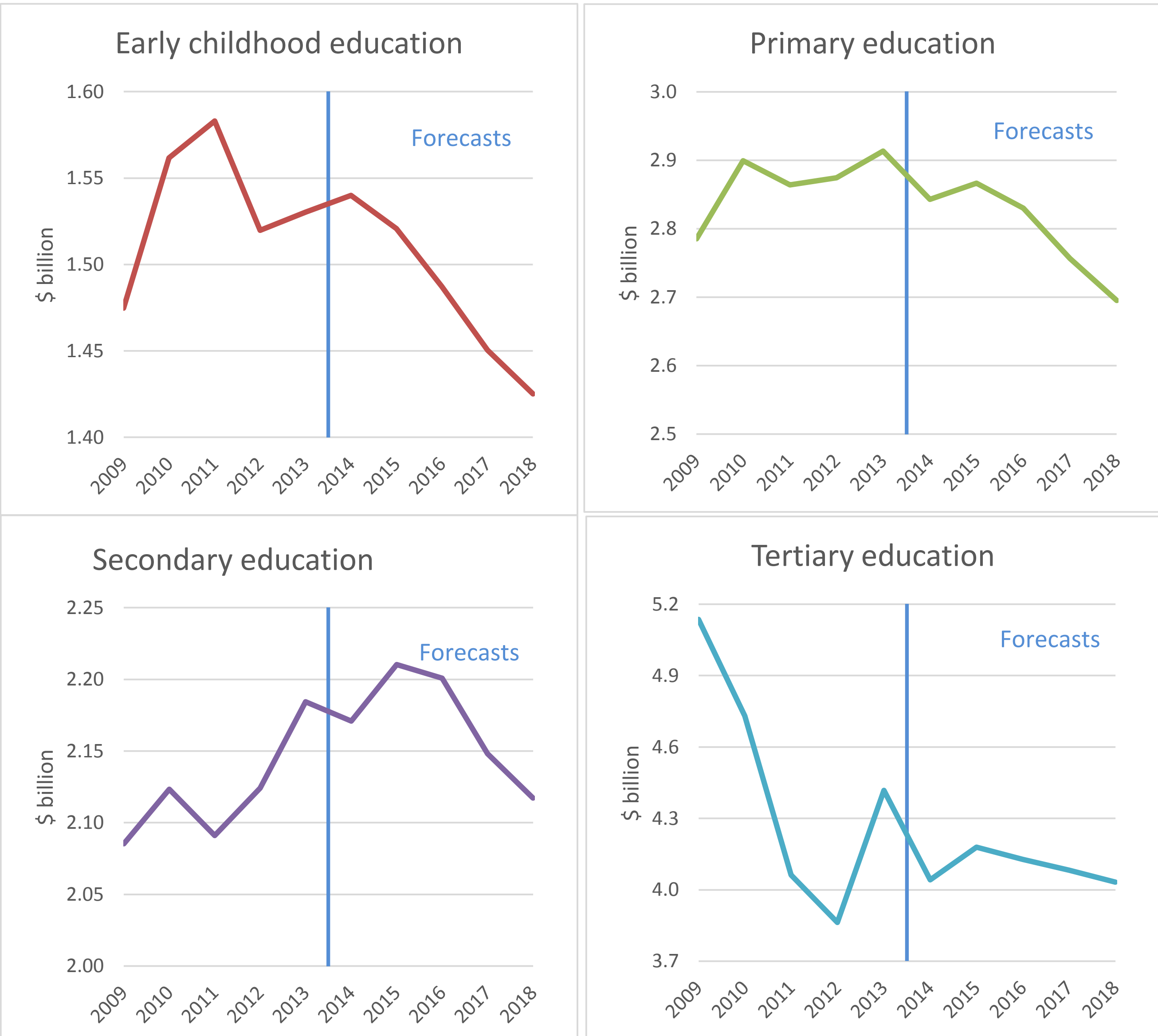
Looking at the change in real funding based on the forecasts between 2013 and 2018, for Early Childhood Education it falls 6.9 percent from $1.53 billion to $1.43 billion (in 2014 dollars). For Primary, funding falls 7.5 percent from $2.91 billion to $2.70 billion in real terms. For Secondary, funding falls 3.1 percent from $2.18 billion to $2.12 billion in real terms.

In Tertiary, funding falls 8.7 percent from $4.42 billion to $4.03 billion in real terms. However student loans and allowances complicate the picture. Funding appeared to rise sharply in 2013 because of a large write-off of student loans; between 2014 and 2018 it will almost hold its own, falling 0.2 percent. Without student loans and allowances, funding falls 1.0 percent in real terms between 2013 and 2018.

Clearly, these funding falls are recipes for continuing and growing stress, exacerbated for public

Real growth in Education spending

In 2014 dollars and 2014 cost of student places ($billion)



education institutions by increasing money being transferred to the private sector, and in the case of charter schools at a far higher rate per student than public schools with no evidence of better outcomes. As in Health, there are growing wage and salary pressures. It is extraordinary that in a strongly growing economy, more resources are not being invested in education and learners rather than fewer. In Tertiary, it is a continuation of the record of the last five years. A recent report from the Ministry of Education[6] showed falling Tertiary education participation rates – from 12.4 percent in 2008 to 10.3 percent in 2013. While the underlying picture is much more complicated, it is nevertheless remarkable that tertiary participation was not growing strongly during a period of high unemployment.

Perhaps some of Treasury's forecasts will be proved wrong because the Government redirects resources to patch up problems in one sector or another. Unexpected changes in the economy could make things better or worse. But if the present Government keeps to its present, declared policy of reducing spending, the results require major changes to the services and benefits New Zealanders expect of their government.

Bill Rosenberg

Technical note: "Real" dollar amounts that take account of population changes are real dollars (usually based on 2014 dollars using Treasury's estimate of inflation to June 2014) which are adjusted for the relevant population changes so that in effect real per capita costs are compared at 2014 population levels.

Correction: In the April Bulletin, the source of the graph called "Core Crown Revenues and Expenses" was wrongly identified. It should be the Financial Strategy Report of Budget 2013. It has been corrected in the version on our web site at http://union.org.nz/economicbulletin156.

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[1] "Average worker to earn $62K – English", 10 May 2014, http://www.stuff.co.nz/national/politics/10031743/Average-worker-to-earn-62K-English.

[2] See the spreadsheet for the 2014 Budget at http://www.treasury.govt.nz/government/fiscalstrategy/model.

[3] "Four Year Plan – Assessment and recommendation on final four-year plans submitted by Ministers to MoF and MoSS", p.4-5, available at http://www.treasury.govt.nz/downloads/pdfs/b13-info/b13-2564298.pdf.

[4] Beneficiary numbers are on p.120 of the 2014 Budget Economic and Fiscal Update.

[5] The student places and education sector expenses are sourced from p.121 of the 2014 Budget Economic and Fiscal Update. The Early Childhood and Tertiary Education numbers are for calendar years and to match them to the Financial Year (ended June), an average of the two years covered by the Financial Year is used.

[6] "2013 Tertiary Education Enrolments", Ministry of Education, May 2013, available at http://www.educationcounts.govt.nz/publications/80898/146820.

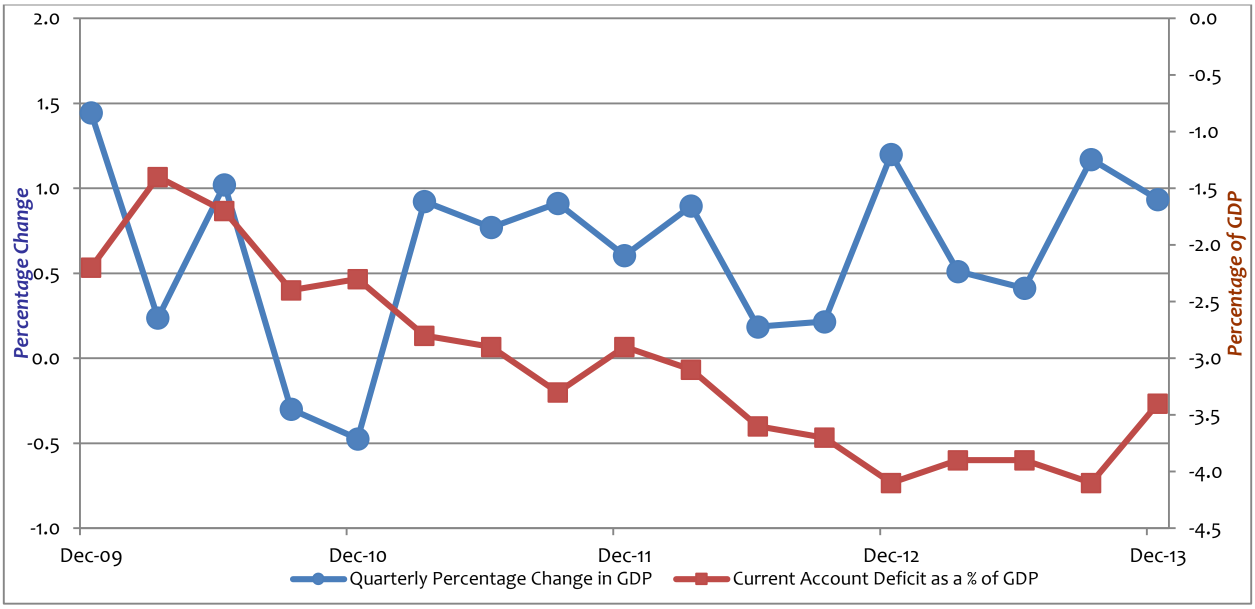
Forecast

- This NZIER forecast was released on 17 March 2014.

Annual Percentage Change (March Year)	**2013-14**	**2014-15**	**2015-16**	**2016-17**
GDP	2.9	3.6	2.8	2.0
CPI	1.5	2.1	2.4	2.4
Private Sector average wage	2.7	3.1	3.4	3.3
Employment	2.7	2.4	1.4	0.8
Unemployment rate	5.9	5.4	5.1	5.2

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

Economy



- Growth in New Zealand's economy continued to increase strongly in the December 2013 quarter, with Gross Domestic Product growing at 0.9 percent, compared to quarterly increases of 1.2 percent in September (revised down from 1.4 percent) 0.4 percent in June and 0.5 percent in March. Growth for the year ended December 2013 was 2.7 percent, only 0.1 percentage point higher than that in the year to September. The December 2013 quarter was 3.1 percent up on the same quarter in 2012 (down from the increase between September quarters of 3.3 percent). The largest quarterly rises by industry were in Mining (up 9.5 percent), Electricity, gas, water, and waste services (up 3.8 percent), and Wholesale Trade (up 3.2 percent). However, there were falls led by Professional, scientific, technical, administration, and support (down 2.1 percent), and Agriculture, forestry, and fishing (down 2.0 percent). Manufacturing rose a healthy 2.1 percent but Construction was surprisingly weak with a 0.4 percent rise. The result was that Primary Industries rose 0.3 percent, Goods producing industries rose 1.8 percent and Service industries rose 0.3 percent. Over the year though (comparing the December quarters), all industries expanded, led by Mining (10.5

percent), Construction (7.6 percent), Health care and social assistance (5.5 percent), Wholesale Trade (3.8 percent), Retail trade and accommodation (3.8 percent), Financial and insurance services (3.7 percent), and Manufacturing (3.4 percent). Agriculture, forestry and fishing rose only 1.9 percent. All most all manufacturing industries expanded production over the year, the only exception being Textile, leather, clothing, and footwear manufacturing which contracted by 8.7 percent. Food, beverage, and tobacco manufacturing rose a relatively weak 1.9 percent (matching agriculture, forestry and fishing which drives much of it) but Wood and paper products manufacturing rose 3.1 percent, Printing 14.5 percent, Petroleum, chemical, polymer, and rubber product manufacturing 4.5 percent, Non-metallic mineral product manufacturing 8.7 percent, Metal product manufacturing 1.3 percent, Transport equipment, machinery and equipment manufacturing 4.9 percent, and Furniture and other manufacturing 11.5 percent. Household consumption expenditure rose a strong 1.3 percent in real terms in the quarter and 3.7 percent in the year. Expenditure on non-durable goods (such as groceries) rose 0.2 percent in real terms during the quarter and rose only 0.9 percent during the year while durables rose a strong 2.6 percent in the quarter and boomed at 8.9 percent over the year. Business investment rose just 0.9 percent in the quarter (though Plant, machinery, and equipment rose 19.7 percent) and despite it growing a strong 9.3 percent in the year, this was less than Treasury forecasts.

- New Zealand recorded a Current Account deficit of $0.8 billion for the December 2013 quarter in seasonally adjusted terms, $1.7 billion less than the September quarter deficit of $2.6 billion. The improvement was driven by a surplus on goods trade of $1.8 billion while the deficit on income and transfers rose to $2.7 billion. For the year to December 2013 the deficit was $7.5 billion or 4.1 percent of GDP compared to a revised $8.2 billion in the year to June. The deficit on income of $9.4 billion was virtually all investment income, outflows of which are steadily rising while inflows are near to static.

- The country's Net International Liabilities were $147.6 billion at the end of December 2013 (66.6 percent of GDP) down from a revised $149.5 billion (69.2 percent GDP) at the end of June, and from the $152.8 billion (72.6 percent GDP) in December 2012. The fall in net liabilities in the quarter was due mainly to rising overseas prices of shares and other securities (worth $2.9 billion) and revaluation of derivatives ($1.0 billion) but also included a net outflow of investment from New Zealand of $0.9 billion. Of the net liabilities, $11.2 billion was owed by the government (equivalent to 5.0 percent of GDP) and $101.3 billion by the banks (46.3 percent of GDP). Total insurance claims owed by overseas reinsurers from all Canterbury earthquakes are estimated at $19.0 billion, and at 31 December 2013, $13.0 billion of these claims had been settled, leaving $5.9 billion outstanding. Without these, net international liabilities would have been $153.5 billion or 69.3 percent of GDP. New Zealand's gross international liabilities were $325.0 billion in December, against $177.5 billion in overseas assets.

- ★ Overseas Merchandise Trade for the month of April saw exports of goods rising 14.0 percent from the previous year while imports rose 5.0 percent, creating a trade surplus for the month of $534 million or 12 percent of exports. In seasonally adjusted terms, exports fell 6.5 percent or $300 million over the month (compared to a 0.9 percent rise the previous month) influenced by rises in exports of Crude oil and Aluminium but more than offset by significant falls in Dairy products, Meat, Mechanical machinery and equipment, Fruit, Seafood and Wine. Seasonally adjusted imports fell 5.0 percent or $217 million, creating a trade surplus of $181 million which is below the $264 million in the previous month. Exports to China rose 51.8 percent in the year to April and fell 6.5 percent to Australia. Our top six export destinations accounted for 61.2 percent of our exports in the year (of which China accounts for 22.8 percent), compared to 60.4 percent in the previous year (China 16.5 percent). Imports from China rose 8.5 percent in the same period, and fell 12.4 percent from Australia. Elaborately transformed manufactured goods have fallen to 11.8 percent of exports from 13.4 percent in the March 2013 quarter, and from 16.0 percent in March 2008.

- ★ The Performance of Manufacturing Index[1] for April 2014 was 55.2, a fall from a revised 58.0 in March and 56.3 in February. The employment sub-index was at 54.5, down from 56.0 in March and 54.6 in February.

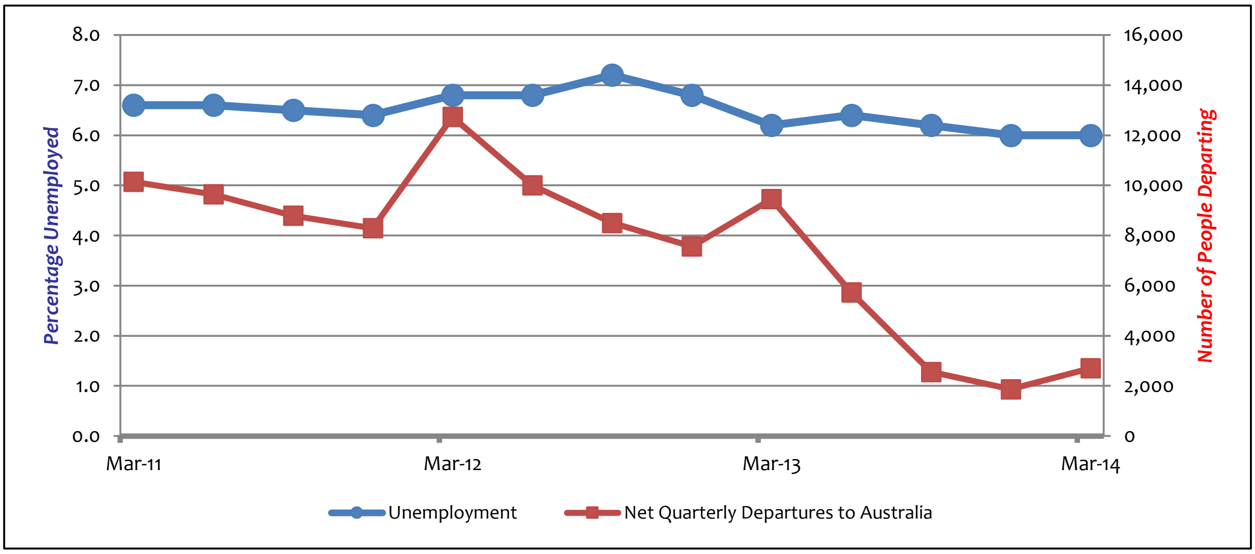
- ★ The Performance of Services Index[1] for April 2014 was 58.9, a rise from 58.5 in March and 52.8 in February. The employment sub-index fell to 53.4 from 54.3 in March and 53.5 in February.

- ★ The Retail Trade Survey for the three months to March 2014 showed retail sales rose 0.7 by volume and by value in the quarter compared with the December 2013 quarter, seasonally adjusted. By volume, the largest positive contributors to the increase were Specialised food, Liquor, Department stores, Hardware, building and garden supplies, Electrical and electronic goods. Pharmaceutical and other store-based retailing, Accommodation, Food and beverage services, and Motor vehicles and parts. Supermarkets and Grocery stores; Furniture, floor coverings, houseware, textiles; and Fuel were the largest negative contributions.

- ○ On 24 April 2014 the Reserve Bank raised the Official Cash Rate (OCR) to 3.00 percent from 2.75 percent at the 13 March announcement. In March, the Bank said that "the OCR will need to rise by about 2 percentage points over the next two years for inflation to settle around target", but this time said "The speed and extent to which the OCR will be raised will depend on economic data and our continuing assessment of emerging inflationary pressures, including the extent to which the high exchange rate leads to lower inflationary pressure". The OCR rise this calendar year may be slower than thought in March, due to the lower than expected rise in the CPI in the March quarter. The next review will be announced on 12 June, which will include a Monetary Policy Statement.

- ★ The REINZ Housing Price Index rose 0.1 percent in the month of April 2014. Auckland rose 2.0 percent to reach a record high, Christchurch rose 4.4 percent, again a new high, and Wellington rose 3.8 percent after a fall the previous month. The index was up 8.5 percent compared to April 2013. For the year, Auckland rose 15.2 percent, Christchurch rose 13.6 percent and Wellington rose 1.0 percent. The national median house price fell $7,750 (1.8 percent) from $440,000 in March to $432,250 in April. It is $41,750 or 10.7 percent higher than a year ago. Auckland accounted for 70 percent of the increase, Canterbury/Westland 15 percent and Waikato/Bay of Plenty 13 percent. The three regions accounted for 88 percent of the increase in median prices. There were 1,151 or 31.6 percent fewer sales under $400,000 compared to April 2013, but a rise of 54 or 14.3 percent in the $1 million plus range and 78 or 6.2 percent fewer in the $600,000 to $999,999 range. Sales under $400,000 accounted for 44.0 percent of sales in April 2014 but 51.4 percent in April 2013.

Employment



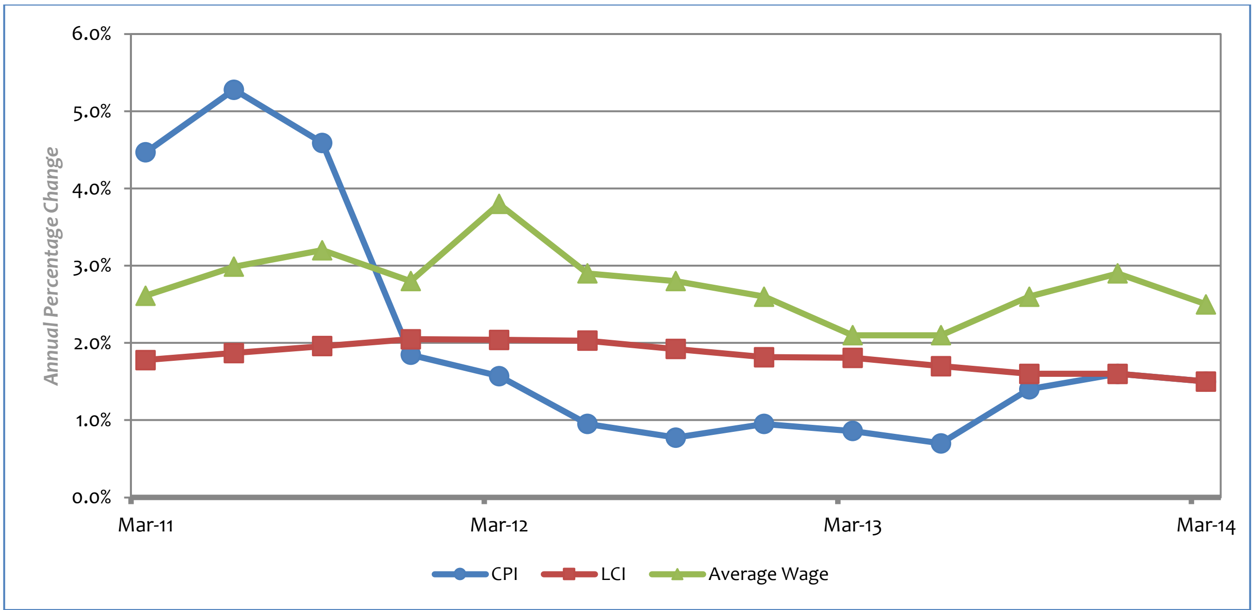
- According to the Household Labour Force Survey the unemployment rate in the March 2014 quarter remained at 6.0 percent, the same as it was in the December 2013 quarter. Seasonally adjusted female unemployment at 6.4 percent was higher than for men (5.6 percent). The unemployment rate in Canterbury was 3.3 percent, down from 4.3 percent in March 2013. There were 147,000 people unemployed and the number of jobless people (which includes those discouraged from seeking employment) was 254,100, 3,000 higher than the 251,400 a year before. There were 95,800 people seeking additional hours, a sharp increase from 83,300 a year previously. Māori unemployment fell from 13.9 percent in March 2013 to 13.2 percent and Pacific unemployment fell from 15.2 percent in March 2013 to 13.0 percent. The labour force participation rate at 69.3 percent is up 0.4 percentage points from the previous quarter and up 1.3 percentage points for the year. There are 38,400 unemployed people who have been out of work for more than 6 months (down from 44,600 in December 2013 and down from 40,900 in March 2013), and as a proportion of the unemployed they have fallen from 26.3 percent to 24.9 percent over the year. Compared to OECD unemployment rates, New Zealand has risen from 12th position in December 2013 to 11th (out of 34 countries).
- Youth unemployment (15-19 year olds) was 21.9 percent, down from 24.3 percent in December 2013 and from 25.0 percent a year before, in seasonally adjusted terms. It was somewhat lower (at 20.2 percent) among those in education than those not (25.0 percent), but most of the 8,000 increase in employment over the year was among people in education who increased by 5,000. The not in employment, education, or training (NEET) rate rose from 8.0 percent in December to 8.8 percent. The unemployment rate among 20-24 year olds was 12.2 percent, up from 11.2 percent in the December 2013 quarter and 10.0 percent a year before, and almost all of the employment increase over a year ago was among those in education. The NEET rate was 14.6 percent, up from 14.4 percent in the previous quarter. There were 75,000 people aged 15-24 years who were not in employment, education, or training (NEET), which is 11.8 percent of people in that age group, up from 11.3 percent in September and down from 12.6 percent a year before.

- From July 2013, 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. At the end of March 2014 there were 121, 953 working age people on the Jobseeker benefit, a fall of 8,272 from 130,225 in December 2013 and a fall of 6,831 from March 2013. Of those at March 2014, 65,908 were classified as 'Work Ready', and 56,045 were classified as 'Health Condition or Disability'. A total of 295,320 were on 'main' benefits, 26,549 fewer than December 2013 and 14,826 fewer than March 2013. It was 39,566 more than in March 2008.

★ Job Vacancies Online showed a seasonally adjusted fall in skilled job vacancies of 4.5 percent in April after a fall of 0.7 percent in March. All job vacancies also fell – by 3.9 percent – in April, after a March rise of 0.7 percent. In the year to April, skilled vacancies increased by 5.7 percent. All vacancies increased by 8.9 percent.

★ International Travel and Migration data showed 8,710 permanent and long-term arrivals to New Zealand in April 2014 and 4,630 departures in seasonally adjusted terms, a net gain of 4,080. There was an actual net gain of 34,366 migrants in the year to April. Net migration to Australia in the year to April was 11,142 departures, with 32,642 departures and 21,500 arrivals. For the month of March, the seasonally adjusted net loss to Australia was 210 (the lowest for this series which began in January 1996), compared to 1,950 a year before.

Wages and prices



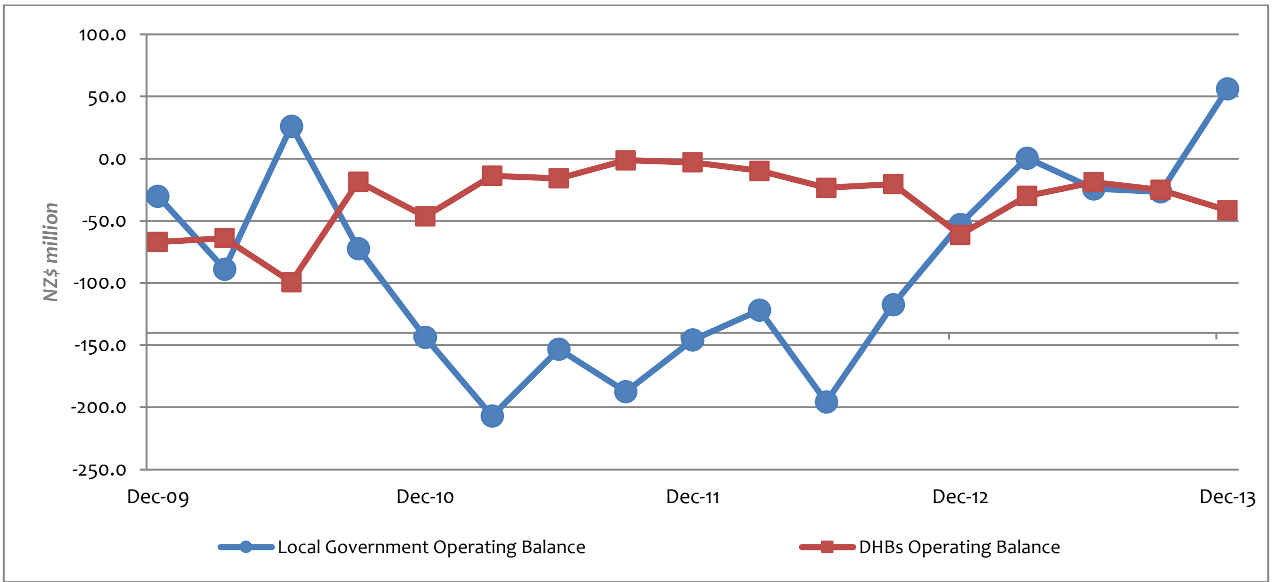
★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.3 percent in the three months to March 2014, down from the 0.5 percent in the December 2013 quarter. The LCI increased 1.5 percent in the year to March. It increased 0.2 percent in the public sector and 0.3 percent in the private sector in the three months to March. Over the year to March it rose 1.2 percent in the public sector and 1.6 percent in the private sector. For the 54 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.3 percent and the average increase was 3.1 percent. The median increase in the public sector was 1.8 percent and in the private sector 2.5 percent.

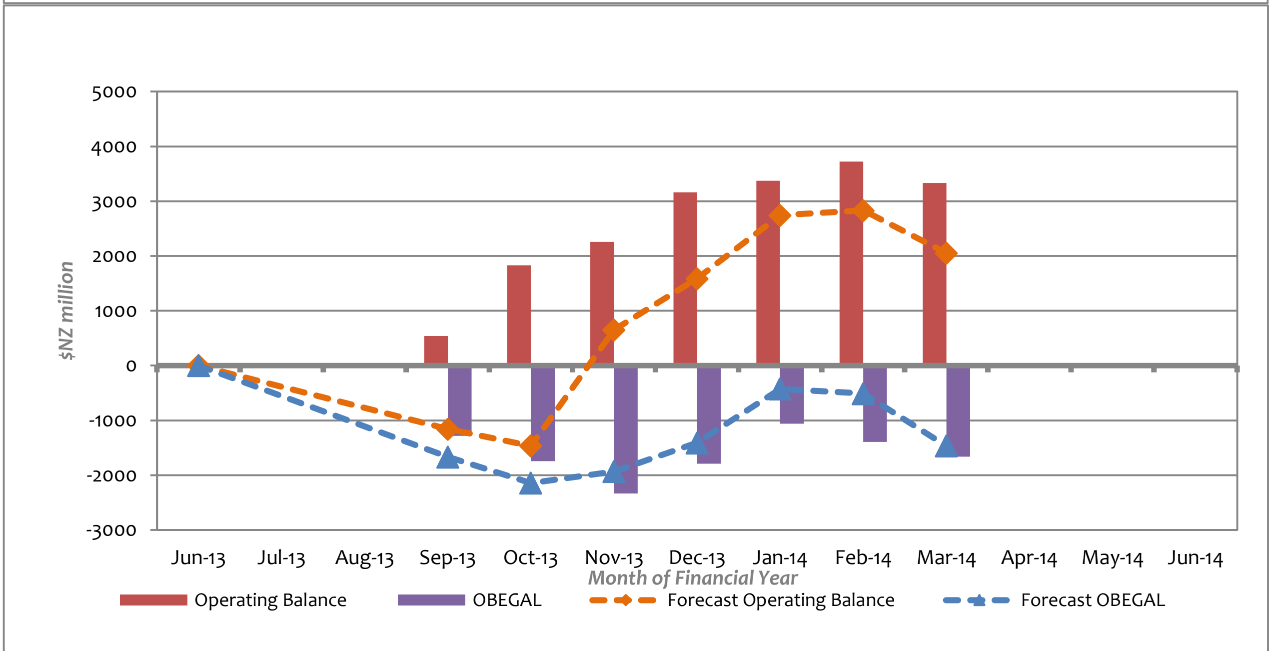
- ★ The Quarterly Employment Survey for the three months to March 2014 found the average hourly wage for ordinary-time work was $28.18, up 0.5 percent on the December 2013 quarter and up 2.5 percent over the year. The average ordinary-time wage was $26.16 in the private sector (up 0.7 percent in the quarter and up 2.9 percent in the year) and $35.86 in the public sector (up 1.7 percent in the quarter and up 1.8 percent in the year). Female workers (at $26.13) earned 12.6 percent less than male workers (at $29.90) for ordinary time hourly earnings.

- The Consumer Price Index rose 0.3 percent in the March 2014 quarter compared with the December 2013 quarter and increased 1.5 percent for the year to December. For the quarter, Cigarettes and Tobacco were the largest influence, rising 10.2 percent as a result of the increase in tax on them in January. Without them, the index would not have risen at all. Over the year, nearly half of the increase came from housing and household utilities which rose 3.3 percent and without which, the CPI would have risen only 0.9 percent. While prices rose by 0.3 percent on average in the three months to March, housing and household utilities rose at over twice the rate at 0.7 percent. The cost of newly built houses rose 1.2 percent, with Auckland and Canterbury leading the rises, and rents rose 0.6 percent, with people in Canterbury facing rises of 1.9 percent in just three months. Maintenance was up 1.2 percent, energy up 0.4 percent, but rates up only 0.1 percent. These rises don't include mortgage interest costs which started to rise again in the quarter, insurance (up 1.7 percent in the quarter and 5.9 percent in the year), nor the rising prices of existing houses faced by first home buyers. Inflation in Canterbury for the year was 2.2 percent compared with 1.4 percent in the rest of the country (though 1.5 percent in Auckland). Housing costs hit particularly hard, rising 5.4 percent for the year compared to 2.7 to 3.3 percent elsewhere.

- ★ The Food Price Index rose by 0.6 percent in the month of April 2014, following a 0.3 percent fall in March. Food prices rose 1.5 percent in the year to April 2014. Compared with March, fruit and vegetable prices rose 0.4 percent; meat, poultry, and fish prices rose 0.9 percent; grocery food prices rose 1.0 percent; non-alcoholic beverages fell 0.8 percent; and restaurant meals and ready-to-eat food rose 0.3 percent.

Public Sector





★ According to Treasury's [Financial Statements of the Government of New Zealand] for the nine months to March 2014, core Crown tax revenue was $829 million or 1.8 percent lower than forecast in the December 2013 Half Year Economic and Fiscal Update (HYEFU), and total core Crown revenue was $743 million or 1.5 percent below forecast. Expenses were $423 million (0.8 percent) below forecast. Net debt at 27.6 percent of GDP ($61.2 billion) was $322 million lower than the forecast $60.9 billion or 27.5 percent of GDP. The Operating Balance before Gains and Losses (OBEGAL) was a $1,664 million deficit, $199 million higher (worse) than forecast. The Operating Balance was a $3,332 million surplus compared to a forecast surplus of $2,055 million. This was mainly due to "continuing strength equity markets" – rising share prices. There were shortfalls across all tax types, including GST ($350 million) of which half relates to earthquake refunds, and the remainder "some weakness in the macroeconomic drivers of GST"; corporate tax ($73 million shortfall) is $300 million lower than last month due to timing issues resolving; PAYE ($220 million) which Treasury thinks is due to timing issues; "other individuals' tax" which is $163 million (4.7 percent) below forecast and expected to remain so; and customs and excise duties which are $97 million below forecast due to a shortfall in expected tobacco excise. Health spending was $81 million lower than forecast mainly because DHB "deficit support" has not been needed.

- ★ District Health Boards recorded combined deficits of $2.2 million for the eight months to March 2014. This is $6.7 million less than the $8.8 million deficit in their plans. The Northern region was $1.3 million ahead of plan with surpluses in all four DHBs and all ahead of plan except for Northland DHB, the Midland region was $4.4 million ahead of plan with a combined surplus of $5.7 million and only Tairawhiti and Taranaki are in deficit and only Tairawhiti is behind plan, Central region was $3.9 million behind plan with only Hawke's Bay and Whanganui ahead of plan and all but Hawke's Bay in deficit led by Capital and Coast with a $14.3 million deficit contributing to a $17.2 million deficit for the region, and the Southern Region was $4.8 million ahead of plan, and $12.9 million of its $12.1 million deficit is from Canterbury, with it, Southern and West Coast DHBs behind plan. The DHB furthest ahead of plan was Nelson Marlborough by $4.9 million, and Capital and Coast was furthest behind, by $3.0 million.

- Local Government recorded a 0.8 percent rise ($17.2 million) in operating income and a 3.2 percent fall in operating expenses (at $65.8 million) including an increase of 0.3 percent ($1.2 million) in employee costs for the December 2013 quarter compared to September. This resulted in an operating surplus of $56.3 million in the December quarter, compared with a deficit of $26.7 million in the September quarter, and deficits in all previous quarters back to June 2010 other than the March 2013 quarter, all in seasonally adjusted terms. Note that the December quarter results are provisional.

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.

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