NEW ZEALAND COUNCIL OF TRADE UNIONS
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Comment

Budget 2008 showed that relatively modest tax cuts nevertheless use up a large amount of money. The annual average cost of the tax cuts is $2.7 billion. John Key had been quoted prior to the Budget as saying that National would have bigger tax cuts. Last October I commented in this Bulletin that for the National Party it seemed that no matter what the question is - the answer is always tax cuts. That stance seemed to wilt somewhat within hours of last week's budget. But - a bidding war on tax cuts is still possible – and carries some real risks.

What are some options the National Party could be considering? They are likely to argue that the design of their tax cuts and their approach to economic management will make the economy grow faster than Treasury projections and this will boost government revenue – which will help make their (bigger) tax cuts affordable. In other words we will hear a lot about "enterprise" and "productivity" so that they can base their projections off something other than the Pre-election Fiscal Update which is due one month before the election date. The National Party tax cut design would also perhaps mean a bigger tax cut for those on higher incomes. They are likely to promise something for 2009 given the Government brought forward their planned April 2009 tax cuts to October this year.

They have already said that non-replacement of core public service jobs can save money. There are at least two different versions of this that we have heard from the National Party. One is that they will not increase the size of the core public service. If that is the case then no funds (or very small sums) are released for tax cuts. Another is that they will not replace staff as they leave. This amounts to a real cut in core public service jobs. But the arithmetic here is a real worry. For instance, if we use an example of 1000 public service jobs at $64,000 a year (Statistics NZ measure of average pay in government administration) and left to one side any overheads. That would fund a tax cut for every worker in New Zealand of 58 cents a week. What if 10,000 of the 36,000 core public sector jobs were cut? That would amount to $5.80 a week (or according to the National Party – less than half a block of cheese). OK – add in overheads and the figures rise – but it is still not much of a tax cut in return for a devastating reduction in public service jobs.

In addition, there will be an attempt to take advantage of the very low public debt to free up some funds for tax cuts. This may be hard to detect. Net government debt has fallen from 49 percent of GDP in 1992-1993 to 21 percent in 1999- 2000. It is now only 1% of GDP (and once the NZ Super Fund is added in we end up in positive territory). But the Government will be running significant cash deficits (around $3.5 billion a year) going forward. That means net debt is already expected to rise to 6.2% of GDP by 2012. Gross debt is however forecast to fall even further from 18.2% of GDP in 2007/07 to 16.8% of GDP by 2012. Some commentators have been saying that this Government is funding all capital spending out of operating surpluses. The Government is however still borrowing. For instance in 2009 it intends to issue $3.3 billion in domestic bonds and has to repay $2.7 billion worth of such bonds. The Government has also issued Infrastructure Bonds since February 2007 to build up funds for such projects as the Albany-Puhoi motorway extension. This amounted to $150 million in 2007 and for the 2008/09 year another $341 million of infrastructure bonds has been announced. But the way capital spending has been funded and all these debt to GDP ratios are hard to follow. My concern is that it is relatively easy for the National Party to say that they would keep net debt at prudent levels and rearrange things to find a $billion or two even if it is hard to directly trace the tax cuts to higher debt levels.

I imagine that the National Party will profile a number of other policies as the election year rolls on. But they have said that tax is their top priority and that they will deliver tax cuts that are bigger than what this Government has locked in. A bidding war of this nature is a real threat to public service jobs and prudent fiscal management. However – let's see what National come up with a bit closer to the election as despite constant media pressure they are unlikely to reveal their hand for some considerable time.

There is a view that beneficiaries have missed out in the Budget. In this context, the Child Poverty Action Group report *Left Behind* is compelling reading. It notes that in December 2006 there were 218,985 children in households relying on benefit income. Of these, 78 percent (169,902) were in sole parent households. It quotes a 2004 report which revealed that 46 percent of mothers (including 65 percent of Māori mothers) had been a sole parent (at least for some time) by the time they had reached 50 years of age. And 59 percent of sole parents were not in paid employment at the time they became a sole parent.

There is no doubt that the family tax credits and 20 hours free early childhood education are providing significantly improved levels of financial support for sole parent families. The minimum wage has also been increased by over 70 percent since 2000. This Government has a clear policy that supporting people into work and then rewarding them (with $60 a week in the form of an In Work Tax Credit) is a genuine welfare policy when combined with higher Family Tax Credits. But there are problems. CPAG argue that the In Work Tax Credit discriminates against non-working parents. The $60 is actually paid to the caregiver and is only paid when a sole parent is working at least 20 hours a week or a couple is working 30 hours a week. And a sole parent managing to work 20 hours a week is logically harder to do than a couple managing to work 30 hours a week between them. CPAG argue in essence that the unfairness is where a family is on identical income but one family gets $60 extra because they are in paid work. They want the $60 added to the Family Tax Credit for the first child and the In-Work Tax Credit abandoned. This would cost $450 million annually.

There are complexities however. Take a three-child family with income of $69,000 where one person works 30 hours a week for $35,000 and their partner works 25 hours a week for $34,000. They would receive $63 a week in Family Tax Credits and $60 a week for the In Work Tax Credit. If the person working 30 hours a week loses their job, the family loses the $60 In Work Tax Credit. But their Family Tax Credits increase to $196 a week. So the amount the Government is paying actually goes up – but the In Work Tax Credit is removed.

What about other incentives for people to take on paid work when on a benefit? The first $80 a week threshold of additional earnings before benefit abatement kicks in has not been increased since the 1980s. Someone who is unemployed or on a sickness benefit has 92.3 cents out of every dollar earned above $80 a week taken off their benefit. For sole parents it is 52.3 cents unless she (usually) earns above $180 a week in which case it starts abating at 92.3 cents. The $80 would need to be raised to $174 to reinstate it to the value in the mid 1980s. CPAG have asked for it to be lifted to $130. Another issue is the annual adjustment in benefits. NZ Superannuation payments are linked to the net average wage. Benefit increases are based on annual inflation.

This is clearly a complex area – and I am certainly no expert on it. The concern has to be that if the aim is to eliminate child poverty, maybe there are limits to a policy that relies on paid work incentives as a key part of the package? Increasing assistance around Special Needs Grant for food and other essentials or Temporary Additional Support would be welcome – particularly given the increases on food prices. But other options should also be examined such as higher per child payments, rebalancing to some extent between the value of the In Work Tax Credit and Family Tax Credits, and increasing the earnings that can be kept by a beneficiary in some paid employment before it abates against their benefit.

Consensus forecasts[1] published by NZIER in March 2008

March Years percent	**2008**	**2009**	**2010**
GDP	3.0	1.7	2.4
CPI	3.4	3.0	2.8
Wages (QES)	4.1	4.1	3.7
Employment	1.5	0.7	0.9
Unemployment	3.7	4.0	4.3

[1] The consensus is made up of the average of forecasts from NZIER, Berl, ANZ- National Bank, ASB Bank, BNZ Bank, First New Zealand Capital, Deutsche Bank, UBS, Westpac, Reserve Bank of New Zealand and Treasury. They are done every 3 months which means that we sometimes will know actual figures for some of the forecasts.

More recent forecasts are factoring in a slower economy and also predicting higher rates of unemployment and CPI. For instance, Jason Wong of First NZ Capital is predicting quarterly CPI changes of 1.4 per cent in June and 1.3 per cent in September, which would push the annual rate to 4.7 per cent. Other forecasts are for CPI of 3.3 percent by March 2009. The BNZ have picked CPI of 3.8 percent for this calendar year.

Economic Snapshot

Consumer prices rose 0.7 percent in the March 2008 quarter, and were up by 3.4 percent annually. The next CPI update is on 15th July 2008. Food prices rose 0.3 percent in April 2008, and increased 6.0 percent over the past 12 months. Unemployment is at 3.6 percent. Māori unemployment is 8.6 percent and Pacific peoples' unemployment is at 8.2 percent, compared with 3.0 percent for European/Pākehā. The minimum wage is $12.00 an hour and $9.60 for new entrants aged 16 or 17 for the first 3 months or 200 hours whichever ends first.[2] Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for March 2008, were up annually by 4.6 percent (4.4 percent in the private sector and 5.4 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $23.63 ($21.96 in the private sector and $30.58 in the public sector). The female rate of pay is $21.94 which is 87.8 percent of the male rate of $24.99. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.4 percent in the March 2008 year (3.5 percent in the private sector and 3.4 percent in the public sector). However for workers who got an increase in the last year, the median increase was 4.0 percent and the average increase was 5.6 percent. The next update of wages data is on 4th August, 2008. Economic activity increased 1.0 percent in the December 2007 quarter, compared with 0.5 percent in the September 2007 quarter. In the 2007 calendar year the economy grew 3.1 percent, up from the 1.5 percent growth recorded in 2006. The next GDP update is on 27th June. The Official Cash Rate (OCR) remains at 8.25 percent.

Employment and Unemployment

A slower economy and more frequent announcements of redundancies are feeding through to unemployment figures. Even though the number of people on unemployment benefit is still around 19,000 or even lower, it is clear that something has changed in the labour market in the last few months. The Quarterly Employment Survey for March quarter 2008 showed that filled jobs decreased by 2.4 percent. However, for the year to March 2008 the number of full time equivalent workers increased by 3.2 percent.

The Household Labour Force Survey showed that unemployment is at 3.6 percent. Māori unemployment is 8.6 percent and Pacific peoples' unemployment is at 8.2 percent, compared with 3.0 percent for European/Pākehā. Employment decreased by 29,000 in the March 2008 quarter but was down by 5,000 since March 2007. The number of unemployed in the March quarter 2008 was up by 4,000 on the previous quarter (not up by 29,000 as some presumed). The number of underemployed

[2] If the worker is however supervising or training other workers the $12 minimum applies.

(those wanting additional hours) fell from 88,500 to 82,500 but the number of jobless (which adds those discouraged from seeking work, or not currently available for work to the number of unemployed) rose from 145,900 in December 2007 to 181,800 in March 2008.

Wages

Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for March 2008, were up annually by 4.6 percent (4.4 percent in the private sector and 5.4 percent in the public sector). The QES showed that the average ordinary time hourly wage is now $23.63 ($21.96 in the private sector and $30.58 in the public sector). The female rate of pay is $21.94 which is 87.8 percent of the male rate of $24.99. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.4 percent in the March 2008 year (3.5 percent in the private sector and 3.4 percent in the public sector). In the March 2008 year, 60 percent of salary and ordinary time wages in the survey sample increased. For those workers who got an increase in the last year, the median increase was 4.0 percent and the average increase was 5.6 percent. However wage increases that started in the March 2008 quarter are at lower figures than across the whole year – a median of 3.9 percent and an average of 4.7 percent. In the March 2008 year the highest wage increases by industry were in mining (5.7 percent), local government administration (5.5 percent) and finance and insurance (5.3 percent).

Meanwhile, a Mercer's Market Issues Survey found that pay movements for same incumbents (the same person in the same role) below management level, saw 'staff' salaries rise 5.8 per cent in the 12 months to March 2008. And apparently we all should be pleased with the Hay Global Pays report which showed that New Zealand was 48th in a ranking of the pay gap between the median senior manager's wage and the average wage of an employee, with senior managers earning 3.3 times the average worker. Australia was 51st with a pay gap of 3.2.

Food Prices

Food prices rose in the year to April 2008 by 6.0 percent. Grocery food prices were up 10.7 percent with higher prices for cheese (up 45.5 percent), fresh milk (up 21.1 percent), bread (up 13.1 percent) and butter (up 86.0 percent).

Oil Prices

Using US dollars, oil was $25/barrel in September 2003, $60 by August 2005, $75 in mid-2006, fell below $60/barrel by the early part of 2007, then rose to $92/barrel by October 2007. On February 29, 2008, oil prices hit $103.05 per barrel, and reached $110.20 on March 12, 2008. The price was $135.09 on May 22, 2008.

Housing and Property

Quotable Value statistics show that the average New Zealand sale price decreased slightly from $388,894 in March to $388,465 in April. This compares with $393,240 for February. The increase in house prices for the April 2008 year was 4.9 percent compared with 6.5 percent for the March 2008 year. Meanwhile REINZ report that monthly sales are down by 45.5

percent at 4,464 compared with 8,194 a year ago. Auckland market sales were down by 52.5 per cent from 2,843 in April 2007 to just 1,350 sales in April 2008. REINZ also report that the national median price was down 1.14 percent from $349,000 in March 2008 (and also that figure in 2007) to $345,000 in April 2008.

KiwiSaver

600,000 people have enrolled to join KiwiSaver. 78,000 joined in April. Latest figures are due out soon but reports are that more are joining.

Overseas Trade

Exports of $3.8 billion for April 2008 were 19.7 percent higher than April 2007. Imports of $4.1 billion were 22.0 percent higher. The monthly trade balance was a deficit of $334 million (8.8 percent of exports). The annual trade deficit was $4.6 billion.

Labour Market Dynamics

Statistics NZ publish information on Linked Employer-Employee Data. It runs about a year behind but is full of interesting information about not just the changing stock of jobs but the flow of people in and out of jobs. It shows for instance that nearly half (45.6 percent) of all filled jobs in the March 2007 year were in firms with 100 or more employees. Firms with less than 10 employees accounted for 20.7 percent of total filled jobs. In the year to March 2007, there was an average quarterly worker turnover rate of 17.1 percent. In that period there was an average of 141,630 jobs created and 130,950 jobs destroyed per quarter at the firm level. But the flow of workers in and out of jobs shows that there were 294,000 instances in the March 2007 quarter when someone started a new job and 263,200 when a worker left a job. Over the year this amounts to a massive 1,224,380 instances when someone started a job and 1,181,670 instances when someone left a job. (Note that because a person may start and leave several jobs in any one year the number of people involved in this flow on an annual basis is smaller than these figures and is estimated to be around 700,000). In the year ended March 2007 there were 336,210 filled jobs in the public sector (we would call this the wider state sector as there are 36,000 jobs in the core public service) and 1,433,550 in the private sector. The state sector accounts for 19.0 percent of all filled jobs.

Retail Sales

In the March 2008 quarter, total retail sales remained unchanged but retail volumes fell 1.2 percent. However supermarket and grocery store sales rose 4.7 percent. But this was not just about a price effect. The increase in grocery sales was driven by a 3.3 percent increase in volumes, combined with a 1.6 percent increase in prices, compared with the December 2007 quarter. There was a 6.9 percent ($147 million) decrease in motor vehicle retailing. Annual sales are up by just 0.8 percent in value and down by 1.3 percent in volume terms.

Migration

In the year ended April 2008, there were 84,000 permanent and long-term arrivals, up 1,600 from the April 2007 year and 79,300 departures, up 8,100.

In the year ended April 2008, there was a net inflow of 7,100 migrants from the United Kingdom, down from 9,900 the previous year. There were also net inflows from India (4,200), the Philippines (3,300), Fiji (2,500), South Africa (2,300), China (1,900), and Germany (1,600) in the April 2008 year. The net outflow to Australia was 30,600 in the April 2008 year, compared with 24,000 in the April 2007 year. This is the highest annual net outflow to Australia since the June 2001 year (31,000). The net outflow to Australia peaked at 31,800 in the May 2001 year, with earlier peaks in the January 1989 year (33,700) and the December 1979 year (33,400).

Low Wage Workers in USA get a big gain from unionism

A recent paper from John Schmitt, Senior Economist at the Centre for Economic and Policy Research in Washington DC, shows that the effect of union membership on wages is highest for low-wage workers. Using US-wide data from 2003 to 2007, they estimate that unionised workers on low pay (10th percentile) get 20.6 percent more than the non-union worker. This compares with a 13.7 percent union advantage for median wage workers and 6.1 percent for high wage workers (90th percentile)[3].

Inflation in Zimbabwe

Not a valid comparison I know but at a time when there is concern about rising inflation in New Zealand (and Australia has hit inflation of 4.2 percent), annual inflation in Zimbabwe reached 355,000 percent in March, with prices doubling roughly once a week.

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[3] They estimate the effects of unionisation at every decile (the 10th, 20th, 30th percentiles and so on through the 90th percentile).